

Part 4

MANAGING FOR EFFECTIVENESS





Chapter 13: STRATEGY FOR THE AID PROGRAM

A. INTRODUCTION

The components of good aid management are common to most other areas of government administration: clear direction, strong leadership, good systems and well-equipped, highly-motivated staff.

An effective aid program requires good management across the board, from the budget process and coordination across government, to the way individual aid activities are delivered in developing countries.

The following four chapters look at these management issues, starting at the macro level and then burrowing into the way individual activities are handled.

B. FOUR-YEAR STRATEGY FOR THE AID PROGRAM

i) Policy Clarity

The need for greater strategic clarity was identified as a key requirement for aid effectiveness in the assessment of the current program in Chapter 3. This will become vitally important if the program is to be scaled up effectively to 2015–16.

The Review Panel proposes the adoption of a Four-Year Strategy. This would provide clarity at the highest government level on:

- the aid program's unifying vision and top-level objectives, for all Official Development Assistance (ODA) and across all agencies (not just AusAID)
- the aid program's position in Australia's broader interests internationally, regionally and bilaterally
- the aid program's strategic directions and priorities through to 2015–16, including geographical distribution, sector priorities and flagships
- the steps required to achieve an effective program of 0.5 per cent of Gross National Income (GNI) by 2015–16
- the results expected over a four-year period.

The Strategy would give Australia's aid administrators certainty and predictability to plan the doubling of Australia's aid and guide the choices they face.

It would provide a basis for Parliament and taxpayers to hold government and its agencies to account for the major public investment being made on their behalf.

It would give Australia's development partners, including developing country governments, civil society and other donors clear information about the plans and priorities for Australian aid.

ii) Coordinating the Strategy

The Strategy requires the highest level of government agreement. It should be brought to Cabinet by the Minister for Foreign Affairs, as the minister responsible for the aid program.

It should be subject to normal processes, with Cabinet resolving any differences that cannot be resolved at ministerial or official level. Differing views are not a bad thing in this. Healthy debate is one of the best guarantees of an effective aid program. It is a complex and difficult program to get right, and no one agency or minister will have all the answers.

The Strategy's preparation should be coordinated by AusAID across whole-of-government. This could be done under the auspices of the Development Effectiveness Steering Committee (DESC), which would elevate the importance of aid as a whole-of-government issue for relevant departments.

The Review Panel suggests this Review should provide the basis for the first Four-Year Strategy, 2012–13 to 2015–16. The issues and trade-offs discussed in this Review would need to be grappled with and difficult decisions made. This is also a healthy and necessary process. The aid program will be much stronger in the end for having been thought, and argued, through.

iii) Funding Clarity

The Four-Year Strategy should provide high-level guidance on funding, which should be used to create a budget for 2012–13 and forward estimates to 2015–16.

The Strategy should commit to increasing the ODA/GNI ratio each year through to meeting the commitment of 0.5 per cent target in 2015–16.

The funding guidance provided by Cabinet in the Four-Year Strategy should be consistent with the principles discussed in this Report. This should include the geographical order of allocations using the methodology outlined in Chapter 7.

On sectors, Cabinet could indicate sector priorities based on recommendations of the Minister for Foreign Affairs. The Strategy should also highlight sector flagship initiatives and other areas where firm funding commitments have been entered into, such as climate change. This would be for guidance to be taken into account in the formulation of country programs and the determining factor would be what makes sense at the country level. The argument for putting country planning in the driver's seat means sector allocations should be the consequence of country planning, not the foundation of it.

The Strategy should also include:

- indicative targets for funding across other Australian government agencies that deliver ODA
- indicative core funding to multilateral organisations and NGOs
- fixed funding allocations to cover contingencies based on principles outlined below
- increased departmental spending to effectively manage the increased aid budget.

If the Four-Year Strategy were approved by, say, August 2011, there could then be a process through to November 2011 where country-level application of the strategy is considered. There are four important points.

- This is not about starting country plans again. On the contrary, it will be important to have continuity. The starting points will be the existing country strategies. It is just that these will be looked at again in light of the Cabinet guidance on the Four-Year Strategy.
- Since many areas will be getting an increase, country managers should think very seriously, and be empowered to consult with partners in country, about how their existing plans will need to be adjusted to conform to the Four-Year Strategy, and also (critically) the extent to which they could sensibly scale up to 2015–16. The mindset should be one of realism combined with a sense of opportunity, not only to expand but also to consolidate.
- This process must certainly involve joint consideration by representatives of the various Australian agencies operating on the ground in a particular country. The coordinating responsibility would be with AusAID. Again, the process need not be laborious, but it should be structured and systematic.
- Country managers would provide advice to Canberra in a short, standard template. Consistent with one of the strong themes of the Review it would be important to make this advice simple and streamlined.

On this basis, a comprehensive and firm budget proposal could be put forward by early 2012, in time for the 2012–13 budget.

Further comments on the nature of the budget are below.

iv) Annual Review and Update

There should be an annual review of progress, considered by Cabinet. The Four-Year Strategy and the associated budget are designed to provide certainty, with change coming from flexible adjustments to the program and continuous improvements in how it is implemented.

Once the Four-Year Strategy has been set, there should only be a return to fundamentals if there has been some significant change, either in the results of the aid program, international circumstances or conditions within Australia. The annual review would be, in large measure, directed to ensuring that Australian aid is sustained; that we are on track and are staying the course.

But it would also, of course, be an opportunity to address the inherent uncertainties of economic development and developing countries' political, economic and social circumstances.

More specifically, the annual review would have the following purposes.

First, it will review progress over the previous year. In Chapter 16 of this Report, the Review Panel proposes rigorous but streamlined processes for monitoring and assessment of aid effectiveness, including an annual assessment. This would be a crucial input into the annual review to Cabinet of the Four-Year Strategy.

Second, the Review Panel proposes that the appropriation of money each year in the budget should be dependent on predetermined hurdles being met. The Review Panel sees it as a crucial protection for the taxpayer, the government, the agencies responsible for the aid program, and ultimately Australia's partners, that the ramp up in the aid program does not proceed regardless of problems that may occur. The annual review would be the occasion for the government to make its judgment about whether hurdles have been met.

The Review Panel stresses that this should not involve a return to ‘ground zero’ on policy and budget settings in the Four-Year Strategy:

- If annual management hurdles have been met, and there have been no dramatic changes in the international or domestic environment, then the Four-Year Strategy and associated budget framework should remain unchanged.
- If hurdles have not been met, and these put the effectiveness of the scale-up at risk, the Review Panel recommends Cabinet discuss options. These could include delaying increases in aid funding or reducing the administrative burden of delivering aid by using more core funding to effective multilateral organisations.

Third, the annual review will provide ministers with the systematic opportunity to consider the Four-Year Strategy and budget trajectory in light of major changes in the international or domestic environment.

Fourth, the review process will feed into the annual budget process (indeed it should be coincident with it) and inform decisions about the annual allocation of funds set aside for contingency. It would also see if any changes should be made to the Four-Year Strategy. But again, this would not be a return to fundamentals. In the absence of significant change, the mindset should be that the budget for each year will be as specified in the forward estimates.

Based on the review, the update would reflect any required changes in the aid program’s allocations, would allocate funds previously set aside as contingency, and would extend forward the outer year estimates.

The annual review and update process would be coordinated by the Minister for Foreign Affairs. At the bureaucratic level, AusAID would lead the process with heavy engagement by DESC.

v) Relationship to the Budget Process

A Four-Year Strategy would coincide with the budget period. That is, it would cover the budget appropriation for the first year and the forward estimates for the succeeding three years.

Ideally, Cabinet would consider the Strategy/annual review and budget in one single, coherent exercise each year.

In establishing the first Four-Year Strategy, however, a multi-step process may be unavoidable. The government may wish to consider the following.

First, the Four-Year Strategy for the period 2012–13 to 2015–16 would be considered by Cabinet. The Cabinet-endorsed Strategy would include a vision and high-level objectives, geographic distribution of funding, identification of sector flagships, an indication of the funding distribution between different government agencies, strategies for transparency and public engagement, a trajectory for scaling up to 2015–16, and a high-level plan, with hurdles, for moving to 0.5 per cent of GNI.

Second, the aid program’s budget would be formulated in accordance with this strategic guidance. Most importantly, during this step, Cabinet’s guidance on geographic allocations would be shaped and moulded into actual budget allocations. The top-down guidance would be combined with the bottom-up reality check. This would ensure the ultimate budget for each

region/country was practicable for those administering the program and, especially, that the trajectory of the aid program could be achieved without reducing effectiveness.

This stage of the process need not be long and laborious. Nor would regions/countries need to go back to square one or formulate completely fresh plans. It is more a matter of making sure that proposed funding allocations make sense and that the first crucial Four-Year Strategy and budget are as solid as possible. The budget will, in this way, have been properly shaped by strategic guidance from the Cabinet and practical guidance from the practitioners.

Third, funding would be considered and agreed in the budget process for 2012–2013 and appropriated normally.

At the same time, it is not for the Review Panel to be prescriptive about these government processes and the government will have its own wishes.

Whatever the process, the Review Panel's point is that the new system's first budget should be solidly informed by both the top-down guidance from ministers and the bottom-up perspective of practitioners.

C. FOUR-YEARLY REVIEWS OF THE AID PROGRAM

The Review Panel recommends instituting a regular four-yearly independent review of the aid program.

The next review would occur in 2015–16 and in every subsequent fourth year. It would look at results achieved, or not achieved, under the existing Four-Year Strategy and, more importantly, it would look ahead. It would try to keep Australia's Four-Year Strategies ahead of the curve. The outcomes of the review would inform the next Four-Year Strategy.

This would be a deeper and more extensive exercise than the annual assessments, which should be relatively quick and easy. Even so, the existing Four-Year Strategy would establish a strong basis for developing the next Four-Year Strategy. The review need not, therefore, be a 'root and branch' review, but a comprehensive stocktake.

It would undoubtedly involve significant consultation with stakeholders, and some well-targeted independent research. It would be overseen by an independent Review Panel.

D. BUDGET PROCESS

i) Current Budget Process

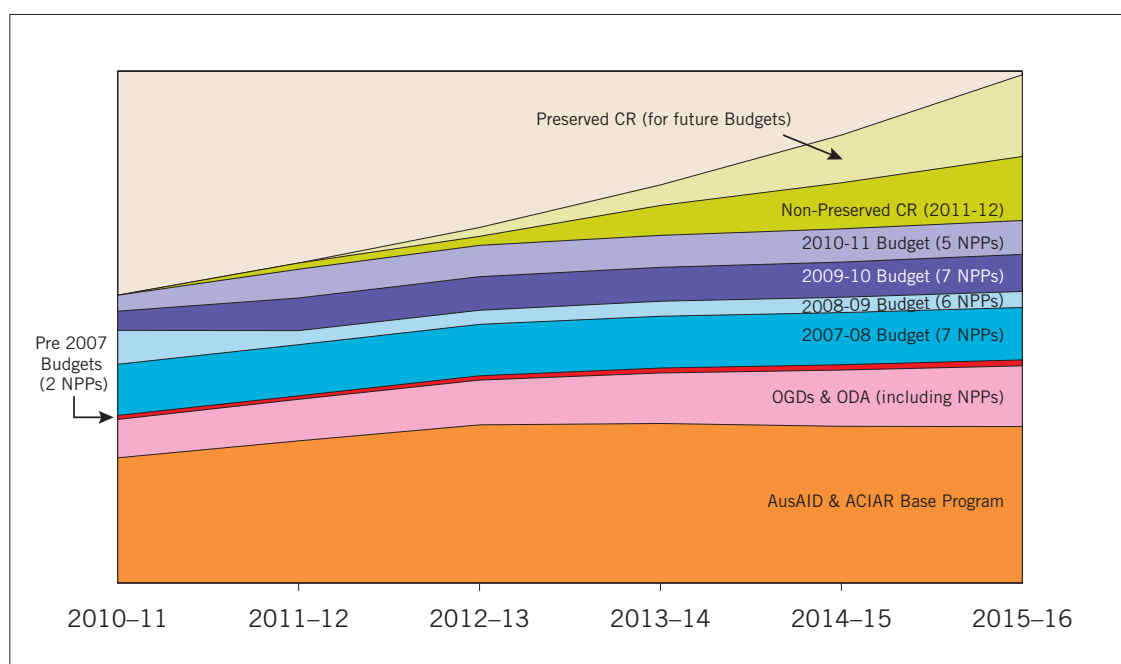
The current budget process has several problems. Indeed, it manages to be both excessively cumbersome and insufficiently rigorous:

- it does not give government a whole-of-ODA view
- it is too complex and creates unnecessary administrative headaches
- it does not give enough long-term funding certainty for planning and involves too many last-minute funding decisions

- it undermines country-based models of determining priorities
- it involves too much scrutiny of ‘new’ money and not enough scrutiny of the overall budget
- it contains excessive contingency amounts, which would not be needed if the budget had a firm strategic basis.

If the aid budget for the period through to 2015–16 were structured as the aid budget is structured now, it would be highly complex, as illustrated in Figure 13.1.

Figure 13.1: Existing Structure of the Aid Budget



The different layers in this structure are governed by many processes, with varying flexibility and scrutiny.

The ‘base’ part of the budget (shaded in yellow in Figure 13.1) is flexible and can be allocated to any program considered a priority by the Minister for Foreign Affairs. This part of the budget is not subject to any consideration in the annual budget process.

Allocations made to government departments other than AusAID for ODA-eligible activities are shaded in pink in Figure 13.1. There is currently an annual discussion by the DESC to prioritise new ODA-eligible proposals by departments other than AusAID and the Foreign Minister takes a whole-of-ODA submission to the Expenditure Review Committee of Cabinet. But under the current process, there remains the opportunity for individual departments to bring forward ODA-eligible activities that are not referenced in the Foreign Minister’s submission.

The blue and purple shaded areas in Figure 13.1 show past new policy proposals (NPPs). NPPs are a regular feature of the budget process for government departments. They involve funds being allocated for specific proposals. Some NPPs cease after a specified period. Others continue indefinitely (known as ongoing NPPs). Funds allocated to both specific and ongoing NPPs must be spent on what they were allocated for.

AusAID currently manages 27 ongoing NPPs. If this current process continues, this number would grow. To an extent, the aid budget has grown through the accumulation of NPPs rather than a holistic strategy and priorities.

The NPP process has not worked well for the aid budget over recent years. There are several reasons for this:

- NPPs have been allocated by sector. This has undermined country-level determination of priorities. Country programs have been pressured to spend money on NPP sectors, even if they do not fit country circumstances.
- NPPs have been allocated in small chunks. This has meant country programs have to manage many small buckets of money.
- NPPs have been allocated for quite specific purposes. This gives little flexibility to adjust for inevitable changes in priorities that occur when dealing with developing countries' circumstances over time.

Even leaving these specific problems aside, the NPP process does not work well for the aid budget. It leads to heavy scrutiny of new money flowing through NPPs, while no attention is paid to old money, freed up when programs funded from the base come to an end. This distinction between old and new money in the NPP process makes no sense in an aid budget. The NPP process also leads to ODA-eligible ideas from various government departments being considered in isolation. Again, this makes no sense when considering the strategic importance of having a whole-of-ODA budget.

Rigor and effectiveness in the multi-billion dollar aid program will not be delivered by annual ministerial scrutiny of small NPPs, but by ministers ensuring that the total effort conforms to a clear strategy.

The green shaded areas in Figure 13.1 relate to the contingency reserve, money that is yet to be allocated. Like NPPs, the contingency reserve is a normal part of the entire budget process.

Under the current process, part of the contingency reserve is allocated through the annual budget process in the form of NPPs. That is, as a new year approaches, NPPs are developed to deploy contingency money for that year. In this way, the contingency is progressively pulled forward, as it were, and converted into actual spending. This is the non-preserved contingency reserve.

However, in each budget year, a specific amount of the contingency reserve (generally between two and five per cent of the budget) is set aside for unforeseen events. The allocation of this needs Cabinet approval. As the year goes on, the money typically will not have been spent in full, but it must be spent in that year. As a result, decisions on how to spend this part of the budget are often made late in the financial year. Making such last-minute decisions on how to allocate aid is a major risk to effectiveness. It is bad practice.

Moreover, three and four years out from the current budget year, the ODA contingency reserve becomes very large. Under current arrangements, 15 per cent of the anticipated ODA level in four years time is unallocated. These levels of unallocated funds are well in excess of what is required to account for uncertainty. Holding back decisions on allocation of these funds undermines the good long-term planning needed for effectiveness.

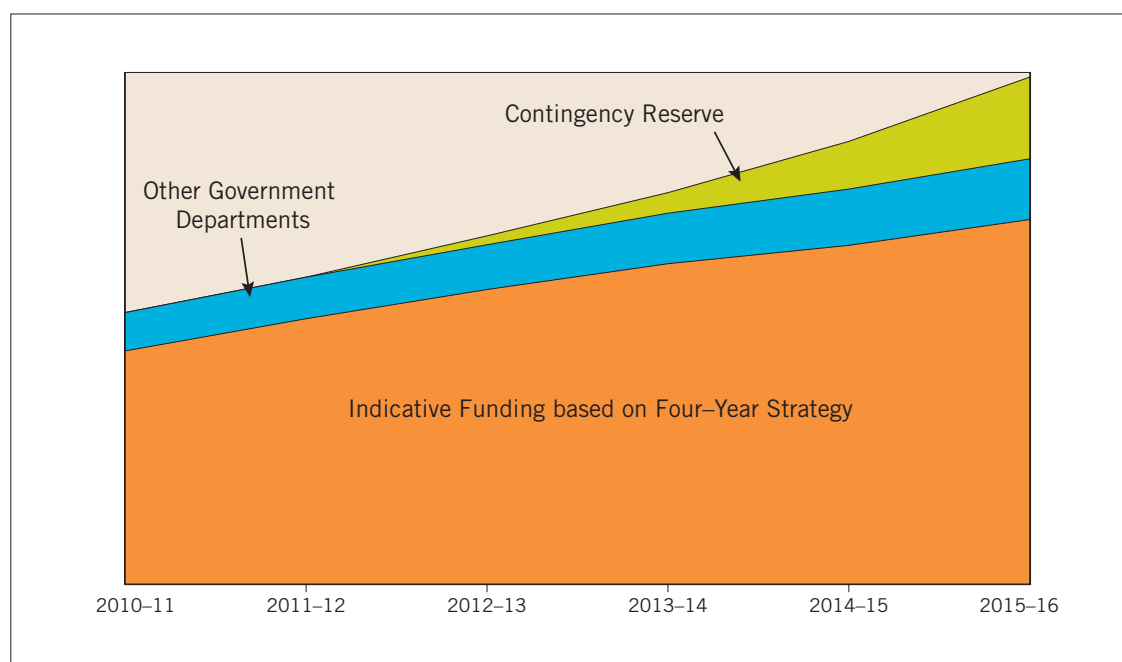
Some budget reforms are already under way or under consideration:

- NPPs in the 2011–12 Budget will be allocated by geographic region rather than by sector. This will reduce distortions at the country level.
- Discussions are also under way about ending all old NPPs and rolling this funding into AusAID’s base appropriation.
- These would be welcome steps, but the Review Panel believes more fundamental changes are needed.

ii) Proposed New Budget Process

The Review Panel sees major effectiveness benefits in overhauling the budget process. The budget structure proposed by the Review Panel is outlined in Figure 13.2.

Figure 13.2: Proposed Structure of the Aid Budget



Other government department ODA is hard to predict. The forward estimates given in this graph are for illustrative purposes only.

Under the proposed process there would be the following major changes.

First, AusAID would receive funds in accordance with the budget allocations based on the Four-Year Strategy. A one-off process would see existing NPPs cease and the funds rolled into AusAID’s overall appropriation. In effect, this would see the blue, purple and orange parts of Figure 13.1 rolled into one allocation. The Review Panel recommends that there be no new NPPs. Instead, funds would be allocated to AusAID activities according to the priorities outlined in the Four-Year Strategy and its annual updates. The same applies to agencies other than AusAID.

Second, the contingency reserve should be allocated in the budget process at the start of each year rather than in a rush at the end. On an annual basis, the contingency reserve would thus be appropriated to departments in accordance with the Four-Year Strategy and its annual updates.

This can be done while still preserving flexibility to adjust for unexpected circumstances throughout the year because the necessary flexibility already exists in the AusAID budget in a fund known as ‘mandated flexibility’. Mandated flexibility covers the three different contingency forms that can arise in a year:

- risk (which might not have been anticipated and might need attention, but not urgently)
- natural disasters and other humanitarian crises
- emerging or changed priorities that inevitably arise.

If, however, the government felt that it was essential to retain some contingency over and above the mandated flexibility provision, the Review Panel would recommend that the bulk, say 75 per cent, should be allocated before the beginning of the financial year in question, with the remainder required to be allocated at mid year, so as to get rid of the end of year rush.

The Review Panel is uneasy about the idea that the allocation of contingency might be done through the NPP process, for three reasons:

- This risks drawing public servants and ministers back into a mindset of considering only the NPP, rather than the allocation of contingency in its total strategic context. A fundamental theme of the Review is consolidation rather than fragmentation, and there is a danger in the NPP process of a mindset, which leads to fragmentation over time.
- Such an approach also virtually ensures two processes when a rational and less burdensome approach would dictate one. Strategy, annual assessment of strategy (including the judgment of whether hurdles have been met) and budget should be done in one hit. The proposed allocation of contingency before the beginning of the financial year would very desirably be the subject of one considered piece of advice to ministers across all of ODA and as part of the same submission as the annual assessment to Cabinet.
- In addition, the aid budget is different in principle from one which should grow through the accretion of NPPs. This is because there is already a target for 2015–16 which the government desires to reach. The fundamental process should be one of planning back from that target, not simply moving forward incrementally. For this fundamental reason, a different process is warranted.

Third, the amount set aside in the future year contingency reserve would be reduced. Rather than holding large slabs of money back, it should be allocated to the priorities in the Four-Year Strategy. So a smaller amount is left unallocated in future years (the green area is much smaller in Figure 13.2 than in Figure 13.1).

These reforms will significantly enhance aid effectiveness by simultaneously increasing rigor, accountability and ministerial oversight, and administrative simplicity for those who implement the aid program:

- The aid budget would be considered holistically, rather than as small parts. The entire budget would be subject to scrutiny, rather than just new money coming from NPPs and the contingency reserve.

- The distortions and high management costs associated with managing the budget in small chunks would be removed.
- The new process would create a better balance between a predictable budget (enabling long-term programs and projects to be planned and executed with more confidence) and flexibility to adjust to unexpected events and changed circumstances.

E. AID LEGISLATION

The United Kingdom and Canadian aid programs are founded on legislation. The content differs, but, taken together, the main elements are outlined below:

- Conceptual framework. Specifying what constitutes ODA and why it may be given.
- Types of aid. Authorising grants, loans and investments.
- Whole-of-government. Providing an umbrella for activities of all agencies, including a joint report to Parliament.
- Transparency. Defining the information to be made public.
- Target setting. Specifying 0.7 per cent of GNI (in the case of the proposed new legislation in the United Kingdom).

In favour of legislation, it would give the program a solid, predictable and non-partisan base by engaging the Parliament, across the political spectrum. It would demonstrate a commitment to consultation and public engagement. It would build confidence that there would be ongoing transparency. It would underline the status and importance of the aid program. It would give a powerful impetus for coherence across government.

Specific legislation to govern the aid program is not essential in Australia. The matters referred to above can be embodied in government policy, including statements and reports to the Parliament. The actual appropriation of funds takes place under the usual government and parliamentary powers and processes.

The Review Panel's view is that aid effectiveness can be achieved without legislation. There are many more important factors. Yet the existence of aid legislation in other comparable countries is a useful reminder that there is a legislative option. If Australia continues to settle for a policy rather than legislative basis for its aid program, this must include clear objectives and commitments to public and parliamentary consultation and transparency.

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 assessment 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 New Policy Proposals, as at present.

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

Chapter 14: IMPROVING GOVERNANCE, LEADERSHIP AND MANAGEMENT

A. INTRODUCTION

This chapter examines issues related to the aid program's governance, leadership and management. While AusAID is central to this, the chapter also emphasizes the crucial importance of a more coordinated approach across the large number of agencies delivering aid.

B. DEPARTMENTAL AND MINISTERIAL ARRANGEMENTS

i) Ongoing Ministerial Leadership

The role of the Minister for Foreign Affairs and other ministers responsible for overseeing Official Development Assistance (ODA) expenditure has always been important to the effectiveness of the aid program.

With the growing aid budget and greater engagement in the program from many arms of government, the leadership role of ministers, particularly the Minister for Foreign Affairs, will be indispensable.

The aid program has always been prone to a strong focus on announcements by ministers and, to a lesser degree, Prime Ministers. Announcements are especially prevalent during ministerial visits to developing countries and when particular development challenges are subject to high levels of media attention.

To a certain extent, this is both inevitable and appropriate. For example, when a major natural disaster strikes, the public will expect to know what the government is doing to respond. Nevertheless, a heavy focus on announcements carries two risks. The first is that it can lead to fragmentation, through decisions being driven by immediate concerns instead of overall development priorities. The second is that a focus on announcements can divert attention from delivering results that improve development outcomes.

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 aid program.

This would provide the right incentives to those delivering the program and help reduce the pressure to find new announcements, which can lead to fragmentation. From a national interest perspective, highlighting the impact of the existing program will have as much resonance with stakeholders as announcing proposed new activities.

In addition to a greater focus on results in day-to-day decision making, the Minister for Foreign Affairs will need to play a leadership role in the development and implementation of the Four-Year Strategy. The Minister will need to have ownership over the major direction of the Strategy, both to argue the case in Cabinet and to oversee the implementation of necessary reforms.

This will require significant ministerial attention to the development and implementation of the Strategy. It will also require ministerial support for AusAID to be given the necessary resources to implement the reforms needed.

ii) Ministerial Arrangements

During consultations and in public submissions, many suggested the appointment of a minister responsible solely for the aid program. Several Organisation for Economic Cooperation and Development (OECD) countries, including the United Kingdom, Germany and most Nordic countries, have dedicated aid or development ministers. Australia also had this arrangement between 1993 and 1996, when Gordon Bilney was appointed Minister for Development Cooperation and Pacific Island Affairs.

The Review Panel understands the merits of the case for a dedicated aid minister. There would be more time devoted to ministerial oversight and management of the aid program, ministerial views would be injected into key documents like country strategies, and there would be greater ministerial engagement with stakeholders both in Australia and in developing countries. In terms of day-to-day management of the program, all these things would be positive.

The Review Panel considers that this would be desirable, subject to one proviso, namely, that the minister be in Cabinet.

A minister sitting outside Cabinet would carry less weight in whole-of-government considerations. Australia's foreign aid, especially as it increases rapidly, will be an important part of the mix in Australia's relationships with other countries. It is desirable that the minister responsible for foreign aid be involved in Cabinet to highlight the aid program alongside defence, migration, trade or other policy. Moreover, the minister responsible for aid needs to be able to contribute to discussion of these other arms of Australian policy because they will influence Australia's success in developing countries.

If there were not to be a dedicated minister for aid in the Cabinet, then the Review Panel believes the aid program should remain with an existing Cabinet minister. A number of OECD countries, including Belgium, Denmark, Finland, Ireland, Italy, Japan, Korea, Norway, Portugal and Spain, combine the trade and development portfolios. In New Zealand, foreign affairs and development are linked. In Australia's case, the Review Panel considers that the Minister for Foreign Affairs is most logically placed to retain responsibility.

One relatively simple measure the Review Panel would recommend to increase the ministerial profile of aid in government would be to add 'International Development' to the title of the Minister for Foreign Affairs. This would be a gesture rather than a substantial change, but it would not be a trivial gesture. The title, Minister for Foreign Affairs and International Development, would help remind all stakeholders, including those around the Cabinet table, that the Minister has responsibility to bring the development perspective into considerations of international policy issues.

It would also demonstrate to Parliament, NGOs, business and other stakeholders that the government is placing more importance on the effective administration of the aid program as it increases to 0.5 per cent of Gross National Income (GNI).

It would send a positive signal to overseas partners too.

iii) Departmental Arrangements

Many public submissions suggested that AusAID be elevated to the status of a department.

AusAID was elevated to the status of an Executive Agency in July 2010. Essentially, this gave AusAID the same status as departments, with the Director General of AusAID reporting directly to the Minister for Foreign Affairs. From a formal institutional perspective, there are no benefits to AusAID derived from an elevation to departmental status.

The question then turns to whether an elevation in institutional status would provide AusAID with increased clout within government due to changed perceptions. This is not a trivial issue. This report proposes that AusAID lead the preparation of a Four-Year Strategy for the aid program, annual reviews of the program and a whole-of-ODA approach to the measurement and reporting of aid effectiveness. All these measures will require greater whole-of-government engagement and clout than is currently the case.

There are very few executive agencies, in fact only five others, and most are considerably smaller than AusAID. This reinforces the question of whether perception problems are generated by AusAID's current institutional status.

There are three feasible institutional arrangements for AusAID:

- AusAID remains an Executive Agency: this has the attraction of simplicity. AusAID faces a big agenda over the next five years, and given there are no formal benefits arising from a change in status, this option avoids the hassle of institutional change on top of other challenges.
- AusAID becomes a statutory authority: this would elevate AusAID's status within government to that of a range of larger agencies such as Customs. This option would require legislation, significantly increasing Parliamentary and public attention to the aid program.
- AusAID becomes a department: this would further elevate AusAID's status within government, potentially providing slightly greater clout in the task of coordinating ODA across departments. This may face some bureaucratic hurdles, as the creation of new government departments is rare. More importantly, this option increases the risk that AusAID would be assigned a junior minister outside Cabinet. Although it would be theoretically possible for the Minister for Foreign Affairs to retain responsibility for AusAID if it were made a department, there are very few cases where a senior Cabinet minister has had two departments.

In considering the appropriate institutional status of AusAID, the Review Panel's primary concern is to ensure that the minister responsible for the aid program retain a seat at the Cabinet table. For this reason, consideration should be given to AusAID becoming a department only if the Prime Minister agreed to its minister being in the Cabinet.

The option of a statutory authority is worth further consideration. The associated legislation would provide an opportunity for a high profile launch of new management initiatives, such as

the Four-Year Strategies, greater transparency and annual performance reporting. But the government would have to consider the arguments for and against providing the program with legislative backing.

In the final analysis, AusAID's success in coordinating aid policy and programming across government will hinge on its professionalism, policy capacity and understanding of broader government agendas. These factors will be more important than any formal bureaucratic status in determining whether AusAID, on a day-to-day basis, can fulfil the required policy and coordination role.

The issue deserves consideration and should be kept open as the aid program grows in coming years. It is not a make or break issue for the effectiveness of the program at this stage.

C. THE WHOLE-OF-GOVERNMENT PERSPECTIVE

i) Multiple Organisations

The aid program is by no means restricted to AusAID, although AusAID is central and should have a leading role in coordination and formulation of overall strategy.

At a federal level, the following 55 government departments and agencies were involved in delivering ODA in 2009–10:

- Australian Centre for International Agricultural Research
- Australian Quarantine and Inspection Service
- Department of Agriculture, Fisheries and Forestry
- Australian Transaction Reports and Analysis Centre
- Attorney-General's Department
- Australian Customs and Border Protection Service
- Federal Court of Australia
- Australian Communications and Media Authority
- Australian Federal Police
- Australian Bureau of Statistics
- Department of Climate Change and Energy Efficiency
- Department of Broadband, Communications and the Digital Economy
- Department of Defence
- Department of Education, Employment and Workplace Relations
- Department of Environment, Water, Heritage and the Arts
- Bureau of Meteorology
- Great Barrier Reef Marine Park Authority
- National Library of Australia
- National Museum of Australia

- Parks Australia
- Office for Women
- National Archives of Australia
- Department of Families, Housing, Community Services and Indigenous Affairs
- Department of Finance and Deregulation
- Department of Foreign Affairs and Trade
- Austrade
- Australian Safeguards and Non-Proliferation Office
- Australian Sports Anti-Doping Authority
- Australian Sports Commission
- Food Standards Australia New Zealand
- Department of Health and Ageing
- Department of Immigration and Citizenship
- Department of Resources, Energy and Tourism
- Department of Infrastructure and Transport
- Australian Transport Safety Bureau
- Reserve Bank of Australia
- The Treasury
- Australian Institute of Marine Science
- The Commonwealth Scientific and Industrial Research Organisation
- Intellectual Property Australia
- National Health and Medical Research Council
- National Measurement Institute
- Airservices Australia
- Australian Maritime Safety Authority
- Civil Aviation Safety Authority
- Australian Nuclear Science and Technology Organisation
- Geoscience Australia
- Global Carbon Capture and Storage Institute
- National Offshore Petroleum Safety Authority
- Tourism Australia
- Australian Competition and Consumer Commission
- Australian Government Actuary
- Australian Prudential Regulation Authority
- Australian Taxation Office
- Productivity Commission

A further 37 state government departments and agencies were involved in delivering ODA.

This extensive list highlights two issues. First, the program is fortunate to be able to draw on an enormous breadth of skills across government, far in excess of anything that AusAID could develop in-house. Such engagement by government departments is a strength and a perfectly legitimate use of ODA. Second, there is a risk of fragmentation of effort by the Australian government and an obvious challenge in coordinating ODA efforts across this broad range of departments and agencies.

ii) Benefits

In the time available to the Review Panel it was unable to undertake a thorough evaluation of government departments and agencies involved in the delivery of the aid program other than AusAID. It had to rely to a large extent on self-evaluations by departments and agencies submitted to the panel.

The links government agencies have established with other countries under the aid program, particularly in the Asia-Pacific region, are impressive in their number, variety and, to varying degrees, seriousness of effort. The range of subjects extends from agricultural research, fisheries management, quarantine, sports development and civil aviation safety, through to policing and fighting money laundering, to policy advice in fields like economic management and law and justice.

In a number of cases, Australia has been a leader, for example through the creation of the Australian Federal Police (AFP) International Deployment Group, the world's first deployable civilian policing ability.

This situation poses significant benefits and challenges.

As a benefit, what stands out is that Australian agencies have, for the most part, a very practical agenda for collaboration, which helps developing countries and supports Australia's own interests.

The value of this can be looked at from four perspectives.

First, the best programs are directed towards development, not merely flag flying or relationship building. It is true that the poverty reduction connection is generally long-range, via the encouragement of pro-poor economic growth and good governance and the transfer of specialised skills, but the connection is there.

Second, from the foreign policy viewpoint of enhancing Australia's links and building networks across a range of specialised fields, the diversity of Australia's aid is good. It often builds connections between Australia and other countries at the highest level of professional expertise.

Third, from a management perspective, this pluralism of the program is a far better model in terms of value for money than building in-house capabilities in AusAID. Indeed, in many cases, the fields are so specialised that this would be impossible.

The fourth perspective is that of the Australian public. The interests of the Australian people are protected and advanced in very practical ways within the region, such as effective quarantine, civil aviation safety and law enforcement collaboration. For example, the Department of

Agriculture, Fisheries and Forestry (DAFF) points out that the Australian Fumigation Accreditation Scheme “has improved the standard of fumigations performed by developing country trading partners, helping to mitigate Australia’s quarantine risk and improve the clearance of cargo into Australia”.

It has not been adequately communicated to the public that the Australian aid program encompasses such an agenda. The failure to capture and communicate the overall picture should be corrected if the program is to achieve the public consensus which the Review Panel believes is needed.

That said, there is an obvious tension between the benefits of this diverse and often relatively small-scale aid, and the disadvantages of fragmentation. This is discussed later.

iii) Challenges

Turning to the challenges, Australian agencies have identified constraints to aid effectiveness both in partner countries and within Australia.

a) Recipient Countries

In partner countries, the list is an unsurprising one: limited capacity, unsatisfactory policy settings, lack of adequate connections between government, private sector and civil society, inadequate government coordination, local political and cultural sensitivities, barriers to particular initiatives achieving sustainability, inadequate funding in counterpart agencies from other countries, staff turnover, and inefficient internal processes.

As far as the Review Panel is aware, no agency sees these as other than the normal challenges to effective aid delivery, nor would they argue that, for these reasons, the effort should be discontinued. For instance, one agency, in commenting on the country in which it is working, refers to “the sheer size and inertia of the bureaucratic system and its deeply entrenched corruption, collusion and nepotism... coupled with a cultural reluctance to establish and maintain an effective enforcement regime”, but notes correctly that Australian interests leave no option but to continue to put in the maximum effort.

b) Coordination

Turning to the Australian side of the equation, it is worth noting that, although many agencies are involved in the aid program, it has been put to the Review Panel that the opportunities for government agencies other than AusAID to deliver aid are limited and ad hoc.

The Attorney-General’s Department (AGD) argues that other government agencies have demonstrated experience and expertise in specialised areas, which are of direct relevance to the aid program, but that this expertise is not routinely drawn upon. These comments are echoed by the Department of Resources, Energy and Tourism, which says that aid programs specific to these sectors have not been fully explored despite extensive Australian experience and expertise.

Australia’s principal challenge is to create the culture and the mechanisms for a unified, inclusive effort.

It would be wrong, however, to paint a picture of individual agencies pursuing their particular activities with little thought of the need for coordination with others.

AusAID has 13 strategic partnerships agreements in place with other government agencies: the Treasury, Department of Finance and Deregulation, Department of Defence, Commonwealth Scientific and Industrial Research Organisation, Australian Federal Police (AFP), AGD, Australian National Audit Office, Australian Public Service Commission, Department of Climate Change and Energy Efficiency, Department of Sustainability, Environment, Water, Population and Communities, Department of Health and Ageing and the Australian Broadcasting Corporation.

These agreements identify areas where AusAID and each agency share overlapping interests and outline means to promote collaboration. For example AusAID's agreement with the Department of Defence outlines responsibilities both for the delivery of the aid program and to coordinate policies around disaster response, maritime security, transnational security issues and engaging in fragile states.

The agreements also outline means to increased coordination and dialogue through senior-level meetings, generally at head of agency level, to set priorities and ensure effective coordination of activities. For partners such as AFP, Department of Defence and the Treasury, these meetings take place at least once a year.

There are also other examples of linkages across government. The Government Partnership Fund, under the Australia-Indonesia program, is a whole-of-government program involving 11 Australian government agencies. The recognition of the need for coordination led to the creation of Australia's Framework for Law and Justice Engagement with the Pacific and the reinvigoration of the Pacific Law and Justice Steering Group. This last framework is an example of a coordination mechanism to enhance information sharing between government agencies, and between government agencies and the private and non-government sectors.

So sensible coordination does happen. At the same time, comments made to the Review Panel suggest that coordination should be improved.

For example, although Australian interventions in fragile states such as East Timor, Solomon Islands and Afghanistan have been highly professional, multifaceted engagements, this is an area where the AFP, a key agency, would like to see closer alignment with AusAID and greater integration of a whole-of-government approach across agencies in planning, budget and implementation:

“There is more work to be done across this security-development nexus space to synchronise more effectively the programs of AusAID and other government development programs (e.g. the Defence Cooperation Program, AFP policing program, AGD rule of law program).”

These comments are important because it is not a peripheral objective, either in terms of the wellbeing of partner countries or the importance for Australia, that its neighbours enjoy security and the rule of law.

The Department of Foreign Affairs and Trade believes there is a greater need for its 'aid for trade' program, which is designed to help developing countries participate more effectively in international trade, to be recognised as having a legitimate role in the aid program.

To take another example, the Australian Transaction Reports and Analysis Centre (AUSTRAC) provides anti-money laundering and counterterrorism financing assistance to developing

countries. The Centre believes its efforts would benefit from enhanced coordination with Australian agencies. It proposes an operational group to discuss the details and issues in implementing programs, which would help to identify areas for practical collaboration among agencies and encourage a whole-of-government approach.

Understandably, coordination in-country is closer than in Canberra because people from different agencies are more or less together on the ground and are able to function as a team. Members of the Review Panel have seen excellent examples of such teamwork. The capacity of Australians from different areas of government to work together is a strength of the program.

This analysis suggests coordination is closer in delivery than on policy development and program design, and this is where most agency comments focus. AGD speaks for a number of agencies when it says that:

“Australia’s aid program could be improved through greater involvement of whole-of-government partners in policy and priority setting, as well as program and activity delivery.”

c) Monitoring and Measurement

Another challenge is adequate control of funds.

Other agencies face the same challenge as AusAID – ensuring that funds are used appropriately. Delivery through partner government systems can have advantages, but it amplifies the importance of transparency and monitoring. At the other end of the spectrum, DAFF assesses that where its financial systems and operating procedures are used, there is virtually no fund leakage. As the Department notes, however, this approach may not be consistent with the spirit of the Paris Declaration. This tension is inevitable and applies across the program.

All agencies involved in the aid program also face the challenge of measuring effectiveness.

The review of the Indonesia Transport Safety Assistance Package found that monitoring and evaluation arrangements were inadequate for an initiative of this magnitude. The Civil Aviation Safety Authority notes that it is difficult to accurately assess the success of aid efforts to improve safety systems in other countries.

It is not, of course, alone in this.

Where there are international standards in specialised areas, Australian agencies seem more comfortable because there is an adequate basis for measurement – for example, in some of the work of DAFF. AGD notes that there is a robust debate in international circles about the need to improve the tools for evaluating effectiveness in the area of law and justice assistance.

Generally speaking, Australian government agencies need to do more to measure the results of their aid activities, including using independent assessment. It is important that the same performance, management and reporting tools be used across the Australian aid program, regardless of the implementing agency. Chapter 16 makes a number of recommendations in this regard.

d) Funding Issues

In Chapter 13, improvements in the budget process are discussed. There are several other issues concerning the funding of aid by Australian government agencies.

An interesting aspect of this is what counts as ODA. This can become ambiguous outside the core business of AusAID and into the specialised areas of other agencies. For example, Australia's Asia-Pacific Civil-Military Centre of Excellence notes that the civil-military distinction is not directly compatible with ODA definitions. Equipment provided to civil authorities is ODA, while similar equipment provided to a nation's military is not, even though the purpose (for example humanitarian assistance and management) may be the same.

This is not a major problem; nor is it one Australia can resolve. Australia must obviously subscribe to the international definitions.

More significantly, a number of agencies share AusAID's experience that short funding periods work against effective long-term planning and completion of aid projects.

Comments by the Department of Resources, Energy and Tourism illustrate this point. This Department believes there is scope for more extensive development cooperation. The mining industries of other countries and Australia's interests would benefit, for example, from a mining centre of excellence in a partner country. This would clearly require a deeper partnership with AusAID and longer-term funding predictability.

Such views from other agencies reinforce the Review Panel's recommendations in favour of a whole-of-government strategy and budgetary reform.

iv) Coherence Versus Fragmentation

Australia should not deny itself or developing country partners the benefits of assistance in a wide range of specialised areas, led by the specialised agencies. But this should always be informed by the requirements not to operate at less than critical mass (which is simply a recipe for wasting money or sub-optimal outcomes) and not create administrative inefficiencies and headaches for either Australia or its partners.

So it is important to avoid the negatives. But it is also important to maximise the positives. There is under-utilised capacity in the Australian aid program to achieve greater effectiveness with the aid dollar if a more systematic effort were made to find and exploit the synergies between what different agencies are doing.

This applies, for example, in relation to governance, where there are obvious synergies between promotion of democratic institutions, support for civil society, improved gender balance, building of economic policy capability, financial management improvement and development of law and justice system – a space in which a number of agencies (including AusAID, the Treasury, the Department of Finance and Deregulation, AGD and AFP) operate.

Australia is not unique in having insufficient coordination of ODA across government. Many donors struggle with this issue. In fact, the 2008 OECD DAC Peer Review of Australia and evidence collected during the Review Panel's discussions with other donors suggest Australia's current coordination system is already better than most donors'.

The Review Panel does not favour an over-engineered process of coordination. Clearly coordination does not mean collaboration between every agency on every subject; nor does it mean complicated and ultimately stifling coordination requirements for the vetting and approval of projects, their design and implementation. The aid program will be most effective if agencies are able to get on with the job, work with partners in a responsive way and innovate in their specialist areas.

But there is a strong case for enhancing coordination in the following ways.

a) Strategy

This concerns the development of an overall concept and plan for the Australian aid program, and the comprehensive periodic review of it.

The proposed Four-Year Strategy would provide ministers with the opportunity to determine how best to deploy the full range of Australian government agency assets to achieve results in the aid program. This need not be a 'root and branch' review. It may be that it would result in no significant change because the government assesses the deployment to be about right, including the balance of effort and funding between AusAID and other government agencies. But clearly the aid activities of other government agencies have increased through a process that is largely ad hoc and incremental, and there is merit in a regular stocktake and adjustments as necessary.

It is worth spending some time on this before the scale-up of the aid program goes further. All government departments and agencies should provide input into annual reporting on the common three-tier evaluation framework for measuring effectiveness discussed in Chapter 16.

b) Policy Development

In developing the Four-Year Strategies, AusAID would take the lead, but other agencies would be consulted and engaged. They would have an opportunity to contribute to overall strategy and high-level policy.

In addition, it should be standard operating practice for agencies to coordinate on new policy development that overlaps agency boundaries. An example is provided above in the security/policing/law and justice area.

Such coordination would also be useful for management policies, for example, policies towards the scaling up of partnerships with multilateral organisations, NGOs and business.

c) Clusters

The idea here would be to create interagency groups, by sector or by region/country, to meet periodically to exchange information and ensure greater coherence in their approach.

The Review Panel certainly does not suggest the creation of interagency committees that simply meet as a matter of form. A committee would have to be genuinely useful. This is an issue that the Development Effectiveness Steering Committee (DESC) could examine.

The concept could have particular merit in the context of laying a solid foundation in the first year or two of expansion of the aid program.

All relevant government departments and agencies should be involved in the preparation of whole-of-ODA country strategies and in reporting results against those strategies.

All government departments and agencies should give advance notice to the senior aid official in-country of any intention to deliver an ODA-eligible activity.

d) Situation-Specific Coordination

This would involve the creation of interagency groups to coordinate efforts in particular situations. This already occurs in relation to humanitarian relief operations, but would be more widely applicable. Such a group was created, for example, to help coordinate the government's Kokoda Track activities.

e) Operational Coordination

This kind of coordination involves closely-related agencies designing common programs and working together to implement them. The comments by AUSTRAC above provide an example.

A small unit in AusAID should be established as a one-stop help desk for any government department or agency seeking guidance on how to improve the effectiveness of its planning, implementation or evaluation of ODA-eligible activities.

v) Cross Government Coordination

DESC is charged with overseeing the overall effectiveness of the aid program. At the moment it spends the bulk of its energy considering proposals for new aid activities from government departments and agencies apart from AusAID.

The Review Panel sees opportunities to extend the mandate, and possibly the membership of the DESC, to more strategically drive coordination of effort across government. This would include close engagement in the development and implementation of the Four-Year Strategy and oversight of whole-of-ODA annual performance reporting. If the DESC were to have a greater focus on substantive aid and development issues, and oversight of whole-of-government effectiveness, rather than simply budget and process, then it is worth considering the addition to DESC of the proposed independent chair of the evaluation committee (see Chapter 15).

Coordination and coherence of government policy need to extend beyond aid. Many of the government's international policies, including in the areas of trade, investment, migration, defence, foreign affairs, the environment and climate change, have a significant impact on developing countries.

As discussed in Chapter 4, many of these issues will be of growing importance to the development prospects of countries in the region. AusAID does not have responsibility for government policy in such areas, but as the agency responsible for development policy, it has an important role to provide the development perspective on relevant policy positions.

The development perspective will not, and should not, always prevail. But the development voice should be heard, and where appropriate, factored in. DESC should play a role in identifying policy issues across government where the development perspective is desirable.

D. AUSAID LEADERSHIP, ORGANISATIONAL CULTURE AND MANAGEMENT

i) The Challenge of Change

To fulfil its role, AusAID needs clear and decisive leadership, a culture geared towards delivering results and learning from experience, good systems and data that support decision-making, and skilled staff.

Making the transition to an effective aid program at 0.5 per cent of GNI can only be done with a significant program of organisational change. Everybody needs to understand the vision and the game plan, and staff need to be continuously informed and properly consulted. AusAID's staff representatives – like management – see the newly created Consultative Forum as a valuable mechanism, and the Review Panel agrees.

The 'steps to 2015' diagram outlined in the final chapter of this Report gives prominence to the importance of continuing corporate reform in AusAID. This is included as one of the hurdles which should be assessed each year in order to track the progress needed to effectively deliver a program of 0.5 per cent of GNI by 2015–16. Without their being met, as argued elsewhere in this Report, the trajectory of increase and/or the way the aid increase is disbursed would need to be reconsidered by the government.

ii) Strengths

Fortunately, change is under way.

Chapter 3 discussed some of the reform measures under way in AusAID to shift from an agency geared toward project delivery, to a large agency geared towards policy, learning and managing relationships. The Review Panel strongly supports these changes, and AusAID management will need continued focus to ensure AusAID is equipped to play the lead role in overseeing an effective scale-up of the aid program.

AusAID staff are generally highly motivated and capable. The organisation has shown flexibility in responding to a range of new challenges over the past few years, such as rapidly increasing the program in a difficult and dangerous environment in Afghanistan.

Box 14.1: AusAID Staff in Afghanistan

The role of AusAID in Afghanistan is integral to Australia's whole-of-government efforts, and sees AusAID staff working in a difficult and dangerous environment. AusAID staff in the Uruzgan Provincial Reconstruction Team live and work alongside the Australian Defence Force (ADF), including regularly travelling outside the secure military base at Tarin Kowt and spending periods of time at forward-operating bases. They encounter and are exposed to hazards on a regular basis. Staff in Kabul and Kandahar are also regularly exposed to risks, such as indirect rocket fire or attacks against major installations.

Staff live and work in very basic conditions in a harsh environment. Access to corporate services such as IT is poor, staff often share accommodation and living facilities, and there is very little freedom of movement. Ongoing insecurity, coupled with the very weak capacity of the Afghan government at national and provincial levels, constitute a difficult environment for delivering Australia's program of assistance.

AusAID is a classic case of an organisation whose effectiveness depends on achieving the right balance between central authority and devolution to country posts. It would be impossible for Australia to conduct an effective aid program if the command, control and communication system was not right.

Fortunately, this does not seem to be a significant problem with the administration of AusAID. The major thrust towards decentralisation of program management over the past decade has worked well, as is clear from the Indonesia study.

There are many examples across the agency where programs and relationships are well managed and are on a strong footing. The AusAID culture has also evolved to be far more focused on serving broader government interests and engaging in policy discussions across government. AusAID has invested heavily in quality assurance systems, many of which are working well.

iii) Difficulties

Nonetheless, AusAID faces a range of ongoing corporate difficulties. Senior AusAID managers have been frank in identifying some of these to the Review Panel.

Some of these relate to the lack of strategic clarity and problems in the budget process that should be addressed by the measures proposed earlier in this chapter. But others sit more firmly in AusAID's control and these are outlined below:

- Human resources. Workforce issues remain a key challenge for AusAID, as was identified in the 2009 Australian National Audit Office report. This report highlighted internal turnover, mixed skill levels and experience, inadequate sectoral expertise to meet demand from growing geographic programs, and shortfalls in workforce planning as critical obstacles to effective management of the aid program in the future. This is a serious situation, needing rectification if the program is to be further expanded effectively.
- Learning and development. This includes insufficient training of staff in skills required for postings, such as language and program delivery.
- Paperwork, reports and process. Often too much documentation hampers decision-making and actions, and takes up staff time.
- Risk management and accountability. This includes the need to entrench throughout the organisation clear and well-understood systems for managing risks, and also the need for a clear articulation of AusAID's appetite for/aversion to risk.
- In-house versus outsourcing. In the opinion of the Review Panel there can be a valuable role for outsourcing in a program of the scale, reach and complexity of the Australian aid program. It is a means of accessing capabilities and knowledge without having to build them in-house. But, as in any business, outsourcing is to be approached with care and with thought.

iv) Management Challenges

AusAID senior management is already moving on a number of these challenges.

A new Workforce Plan and Learning and Development Strategy were launched in April 2011 to roll out new processes to address human resource and learning and development needs.

A comprehensive business process reform exercise is under way to streamline paperwork. Developing a more sophisticated approach to risk management is on the agenda of the new Program Effectiveness and Performance Division.

The Review Panel believes these reforms are headed in the right direction and does not wish to attempt to micromanage the AusAID corporate reform process.

Nevertheless, it is appropriate to provide a perspective on the most pressing corporate reforms.

The Review Panel recommends AusAID senior management give attention to the points outlined below.

a) Staffing

The Workforce Plan identifies key challenges to strengthening the workforce, including the following: a young and at times inexperienced workforce, the need for greater capability in policy work, better learning and personal development, improved people management, enhanced leadership, better handling of overseas-based staff roles and responsibilities, and more efficient use of staff resources.

Perhaps the most consistent feedback the Review Panel received was that AusAID's effectiveness was undermined by rapid staff turnover. For example, JTA International in its submission described the impact of staff turnover upon the building and maintaining of relationships in the Pacific, and stated that such rapid turn over "is an obstacle to continuity of relationships, nuanced contextual understandings and steady progress". This is a perennial problem, which has been highlighted by various reviews over the last two decades.

The ANAO Report identified high staff turnover as a "long-running problem for AusAID" and one which has "compromised the quality of AusAID's program management". The ANAO found that only 49 per cent of Australian Public Sector (APS) staff remained in the same section throughout 2008 (ANAO 2009:,48-49).

Recently, management imposed a requirement that all staff stay in position for at least two years. Measures such as the increased number of staff posted overseas will help, as will AusAID's recent decision to increase the minimum length of most postings from two to three years. However, such requirements will have little influence if underlying causes are not addressed. The only real solution is an end to the fragmentation of the aid program and an expansion of staffing resources.

b) Gender

A point which deserves particular attention is the low number and proportion of women in AusAID senior management. Around 60 per cent of the total AusAID workforce is women. Women, however, comprise just 28 per cent of the senior management, compared to the APS average of 37 per cent, and fill just one of the 12 positions at SES Band 2 and above. With the

emphasis on gender as a fundamental cross-cutting issue in the Australian aid program, AusAID needs to apply the same emphasis in its own management.

c) Specialist Streams

The Review Panel supports the initiatives in the Workforce Plan to encourage greater staff specialisation, including moves to establish formal specialist streams.

While people should be free to move in and out of these specialist streams, they would provide a clear career path for staff wanting to specialise.

Specialist streams should be headed by a Senior Executive Service officer or Principal Adviser. Specialist recruitment and learning and development programs should be encouraged within these streams.

As noted in Chapters 9–11, AusAID will need to recruit and develop staff with expertise in engaging with and influencing a range of partners.

The principle is correct; the difficulty of implementation should not be underestimated. It will require strong leadership and persistent effort.

d) Developing a Learning and Knowledge Culture

This will require a strong commitment by management to professional development.

AusAID should consider developing a new two-week intensive course on development and aid for new staff.

AusAID could work with the Australian Public Service Commission on tailoring courses for new staff without public sector backgrounds.

Training for staff going on overseas postings should be intensified, including through a greater focus on language training.

The various volunteer programs should be encouraged to develop more opportunities for public sector placements in developing countries in the region for Australian graduates (along the lines of the Overseas Development Institute Fellowship Program in the United Kingdom) as these would provide an invaluable grounding for a career in AusAID or elsewhere in aid. AusAID could consider a program for inexperienced staff along the lines of the Australian Youth Ambassadors Program, where interested AusAID staff work for a few months in in-line positions in developing countries.

The peer review process for new aid initiatives should be reinvigorated, with strong support from senior management, to promote rigorous analysis and contestability, and learning across the agency.

Again, it is worth noting the potential of the Workforce Plan to deliver useful results provided it is robustly implemented. The plan aims to deepen two kinds of development capabilities. The first involves the ability to deliver aid results in-country, through skilled management of complicated aid programs. The second involves more in-depth and specific skills and experience, particularly in areas such as economics, education, health, infrastructure and monitoring and evaluation. The plan also aims to give AusAID access to geographical knowledge – including language – for example in relation to the Pacific and Indonesia.

e) Ensuring Paperwork is Reduced and Informs Decision–Making

AusAID's systems should be examined and streamlined to limit unnecessary paperwork and ensure clear links between all paperwork and decision–making processes.

Greater clarity around the strategic direction of the aid program, the budget process and the evaluation process should help streamline this paperwork.

AusAID's new performance division has been tasked by the Director General with streamlining processes and reducing paperwork, which the Review Panel strongly supports.

Chapter 16 includes comment on streamlining the reporting involved in monitoring and evaluation.

f) Greater Capacity for Implementation

Especially given its relatively young and inexperienced workforce, AusAID should consider ways of promoting more consistent approaches to program and relationship management among country teams.

It is important that there be experienced officers able to provide support in the design and implementation of activities to staff at post.

g) Clear Risk Management Systems

AusAID needs to get the balance right between managing various forms of risk, including the risk of development ineffectiveness.

Balancing these risks should be a priority for senior management. The process that has been initiated by AusAID management to improve the agency's overall approach to strategic risk management will be vital. Given the importance of this issue it is addressed separately in the next chapter.

h) Greater Attention to New Ways of Doing Business

The Study of AusAID's Approach to Assessing Multilateral Effectiveness (the Multilateral Study) commissioned by the Review Panel identified that AusAID's resources and systems have not kept pace with the scale–up of funding and engagement with multilateral organisations over the past five years. The same is true with other partnerships.

Although important and welcome steps have been taken by the Director General and the agency in recent years, greater senior management attention and resourcing are needed to making the most of partnerships.

On the related question of outsourcing, AusAID needs to build its core capabilities while being open to the possibility of outsourcing matters which are not core. The demarcation is, therefore, important.

In essence, the Review Panel sees AusAID's core business as being the Australian government's principal source of knowledge about what constitutes good aid policy in a changing international environment, and to provide good aid program design and good implementation. It cannot outsource its core knowledge and capacity to think.

v) Investing for Success

In 2010–11 AusAID’s departmental appropriation (for administrative costs) is \$250 million, which is 5.8 per cent of ODA. This is a large increase from the previous year, partly reflecting real growth and partly a change in accounting rules. Absent the change in accounting rules, the figure would have been 3.8 per cent. The 2009 OECD DAC average for administrative costs was 4.4 per cent, but there is large variation across donors and international comparisons are extremely difficult due to differences in definition.

AusAID’s total staff numbers have grown by 40 per cent since 2007, against growth in the budget of 70 per cent. Certainly, attention to economies needs to be maintained and a number of the Review’s recommendations should promote internal efficiency. For AusAID to effectively manage the expansion of the program will require improved productivity – consolidation, focus, skills, learning, process redesign and continuous improvement.

At the same time, the organisation is under stress and is not adequately positioned at this stage to implement the planned expansion of the aid program. AusAID will need to be adequately resourced – and, in particular, adequately staffed – to meet the challenge. Otherwise the scale-up is risky and will almost certainly be accompanied by a decline in effectiveness and a proliferation of administrative problems in coming years.

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 aid 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, streamlining business processes and reducing paperwork.

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

Chapter 15: MANAGING RISK

A. INTRODUCTION

An effective aid program which achieves value for money requires sound systems for managing risk.

Risk – both financial risk and operational risk – is inevitable in an aid program. The criterion of good management here is not to wring all risk out of the system, or even try to do so, but to form sound and conscious judgments about what level and kinds of risks are acceptable, to manage them effectively and to learn from experience.

There are a number of different kinds of risk, discussed below.

B. EXISTING POLICY AND SYSTEMS

AusAID's risk management policy contains guidance for risk identification and management.

The policy recognises that “effective risk management...requires AusAID personnel to make informed decisions about managing identified risks and harnessing potential opportunities”. The policy sets out the points below:

- The context of risk in AusAID given that the agency “is working in an environment of considerable complexity, change and challenge”.
- The three levels of risk within AusAID: risks to AusAID as a whole, to the performance of specific business units and programs, and to the development and implementation of new policies, programs and activities.
- The importance of considering and weighing the level of risks involved in particular programs, strategies and methods of delivery, and the potential opportunities and benefits that can be achieved.

Formal risk management plans are required to cover most AusAID activities, as outlined below:

- Posts. Every Post is required to prepare an annual fraud and risk management plan.
- Country strategies. These documents are prepared every three to five years in consultation with other Australian government agencies.
- Program units. All program units, both in Canberra and at post, prepare a detailed strategic plan on an annual basis. This identifies potential risks and details proposed management responses to mitigate them.
- Activities over \$500,000. All new initiatives, activities or procurement processes with a value over \$500,000 must have a risk management plan that includes addressing the implementation risks.
- AusAID as an agency. AusAID prepares a corporate strategic risk management plan every three years. It identifies the risks to AusAID as a whole and what actions may affect the achievement of AusAID's outcomes and its reputation.

Where no formal requirement exists, AusAID staff must determine whether to undertake a formal risk assessment of particular activities or tasks.

Risks are monitored and reported on by quarterly reports on the status of very high and high risks. All risks are required to have close management oversight by Branch and Division Heads and to be reported on as a part of their Quarterly Business Unit Reviews.

AusAID's risk management guide provides guidance to AusAID staff. It identifies the following key steps for staff in preparing risk management strategies:

- communicate and consult with internal and external stakeholders
- assess the operating environment and internal and external context
- identify the risks to develop a comprehensive understanding of the events that will prevent AusAID from achieving its objectives
- analyse the risks – the likelihood, the consequences if they occur, and AusAID's existing risk controls
- evaluate the risks – assess the likelihood and consequences of identified risks
- treat the risks – what additional strategies can be implemented to reduce the likelihood of the risk occurring or mitigate the consequences if the risk did occur
- document, monitor and review the risk management strategy.

All this clearly demonstrates commitment to understanding and managing risk within AusAID. The Review Panel's concern is that the risk management system be widely communicated and well understood within the organisation as the aid program grows.

C. RISK OF FRAUD

From time to time there has been a particular focus on whether the aid program is adequately managing the risk of fraud and corruption.

i) Incidence of Fraud

There has been fraud within the Australian aid program, but the incidence appears to be very low.

AusAID is currently investigating 175 cases of suspected or detected fraud in 26 countries, dating back to 2004, with total potential losses of \$3.413 million (as at December 2010).

While all fraud is serious, these 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. The estimated potential losses as a consequence of fraud in 2009–10 equated to just 0.028 per cent of \$3.046 billion in aid funds appropriated to AusAID.

AusAID has so far recovered \$833,882 of the misappropriated funds in the 175 cases and expects to make further recoveries as investigations continue.

In 33 cases, there is no potential loss to AusAID because the fraud was prevented, or because AusAID has already recovered the funds involved. In 62 cases, the potential loss to AusAID in each case is less than \$10,000. Many other active cases, upon full investigation, may be found not to involve fraud, but may be the result of accounting discrepancies, poor record keeping or vexatious allegations.

The cases occurred in 26 countries, most in countries with the largest Australian aid programs: 71 cases occurred in PNG, 31 in Indonesia, 20 in the Philippines and 19 in Solomon Islands. The potential loss from these cases represents between 0.014 and 0.055 per cent of the four country programs' expenditure since 2004–05.

The cases are spread across a number of different areas of the program, such as bilateral and multilateral elements, small activity schemes, or partnerships with NGOs.

More than one-third of the total potential loss was incurred in a single incident in 2006, when the Eritrean government failed to account for some \$1.2 million worth of food and equipment funded by Australia. This was part of a larger \$31 million stockpile of World Food Program assistance that remains unaccounted for.

The cases currently under investigation typically relate to the following types of alleged, suspected or detected fraud:

- falsification of documentation relating to small grants applications and acquittals
- alteration of payee and payment amount/s on cheques
- collusion among tenderers and falsification of quotes submitted in tender processes
- theft of vehicles, laptops, project materials etc.
- falsification of qualifications relating to scholarship applications.

A number of the ongoing cases are expected to result in the prosecution of offenders. Thus far two offenders have been prosecuted, both in Solomon Islands. Two AusAID staff have been disciplined or had their employment terminated as a result of fraud investigations.

ii) Trends

Table 15.1 below compares the number of new fraud cases reported over the past four financial years.

Table 15.1: Alleged, Detected or Suspected AusAID Fraud Cases by Year, Amount of Potential Loss and as a Percentage of Appropriation

Year	Reported Allegations	Cases that Proceeded to be Classified as Involving Suspected or Detected Fraud	Potential / Actual Loss to AusAID (\$)*	Amount Appropriated to AusAID (\$)	Loss as a Percentage of Appropriation
2007–08	53	36	107,340	2.8 billion	0.004%
2008–09	70	55	1,809,053	3.2 billion	0.056%
2009–10	87	68	853,054	3.0 billion	0.028%
2010–11	72**	69**	390,457	4.1 billion	0.010%
Total	282	228	3,159,904	13.1 billion	0.024%

* Potential loss is the amount still outstanding after recoveries and prevented losses.

** 1 July 2010 to 14 January 2011 only

While there has been an increase in the number of new cases of alleged, suspected or detected fraud reported to AusAID in recent years, the potential fraud loss as a proportion of AusAID's appropriation is reasonably consistent.

There are likely to be two main reasons for this. The first relates to the increase in the size of the aid program. It has doubled in size over the past five years.

The second is the increased awareness of fraud by AusAID staff and partners of the aid program, and heightened emphasis on detection and reporting requirements. In particular, AusAID has intensified the training that it delivers to organisations involved in implementing the aid program. In other words, the detection and reporting systems have improved.

iii) Fraud is Inevitable

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. There can be no doubt that these environments are very different from Australia's own. Governance arrangements are often weak, local law enforcement is under-resourced and focused on more important priorities, and attitudes towards accountability and transparency can be very different to those in Australia.

The top nine recipients of Australian aid are all ranked in the bottom 50 per cent of 178 countries on Transparency International's 2010 Corruption Perception Index. Four of these nine recipients are ranked in the bottom 25 per cent. Of the top 15 recipients of Australian aid, three (Iraq, Burma and Afghanistan) are seen as having the most corrupt public sectors in the world, ranking 175th and equal 176th respectively.

Given these realities, some level of fraud is inevitable. What matters is the robustness of the Australian government's approach to preventing, detecting and rapidly responding to fraud. It is important to stress that robust, fiduciary risk-management should not be equated to zero risk.

iv) Comparison with Other Donors and Agencies

There is no common approach among donors to fraud reporting. Some international donors, such as Denmark, do not report on their active fraud cases. The only published information is on cases that have been investigated and concluded. Other donors, such as Germany, do not even record the incidence of fraud. AusAID's recent release of information on active cases of suspected, detected and alleged fraud may well place the Australian program ahead of its peers. It is to be noted however, that this was prompted by a Freedom of Information request, whereas – in line with the Review Panel's belief in the need for maximum transparency (Chapter 17) – it should henceforth happen as a matter of course.

The level of fraud in Australia's program appears lower than many comparable agencies. The European Court of Auditors found that for 2009, the material error rate in the accuracy of financial transaction records for EuropeAid, the agency responsible for administering the European Union's aid program, was between two and five per cent.

The Australian Health Insurance Commission (Medicare) has estimated its experience of fraud through non-compliance to be less than one per cent of its expenditure. An Australian National Audit Office (ANAO) audit reported that in 2009–10, customer debts identified by Centrelink through fraud investigations accounted for \$113.4 million (0.13 per cent) of its expenditure that year. AusAID's figure of identified potential losses through fraud in 2009–10 was just 0.028 per cent.

v) Fraud Management Systems

How much comfort can be taken from these figures depends upon the quality of the fraud management systems operating within AusAID and other relevant government agencies.

AusAID has a Fraud Control Policy which:

- outlines AusAID's approach to the principles of fraud
- outlines AusAID's response to suspected incidents of fraud against the Commonwealth
- describes the roles and responsibilities of AusAID personnel in averting incidents of fraud
- outlines reporting requirements.

A number of systems seek to control the incidence of fraud:

- AusAID's Fraud Control Plan: This is the main strategic and operational plan for the management of the risk of fraud (updated every two years). It complies with the Australian Government's mandatory Fraud Control Guidelines.
- Post Fraud and Risk Management Plan: Every overseas post is required to establish and annually update a fraud and risk management plan to facilitate the identification and management of the risk of fraud.
- Selection of partners: Financial risk assessments and other analysis are required in every AusAID program to minimise the risk of fraud through the careful selection of contractors, NGOs and other government agencies with responsibilities for implementing the program. The Review Panel shares the opinion of the Independent Chair of AusAID's Audit Committee that this threshold due diligence is crucial to the effectiveness of fraud control.

- NGOs and contractors: All AusAID contracts with NGOs and service providers including commercial contractors and tertiary institutions include provisions for the detection and immediate reporting of suspected fraud (such as inconsistencies in payments or storage of physical assets). The requirements for the contractor to report suspected fraud survive beyond the life of the contract. There are also due diligence checks as to whether a partner appears on certain fraud blacklists. In addition, AusAID, through its annual audit program, reviews the specific fraud control mechanisms of partner NGOs, contractor firms and tertiary institutions to ensure they comply with fraud reporting and risk management requirements. Major contractors have committed to disclose the results of other donors' audits of them. Many contractors are publicly listed companies and subject to additional domestic regulations to control fraud.
- Multilateral organisations: Australia is on the governance boards of all major multilateral organisations of which it is a member. Australia's engagement with their control systems and ability to exert influence vary. For example in the World Bank, the current Australian Executive Director is chair of the Audit Committee. As proposed elsewhere in this Report, the Review Panel believes enhanced Australian funding for multilateral organisations should go hand-in-hand with enhanced engagement and influence.
- Partner government systems: Special assessments are made of the risk of fraud when aid funds are spent through partner government systems. These include detailed assessments of both the procurement and financial management systems in the overseas government. These assessments also make recommendations for steps that Australia can take to minimise fraud or corruption risk. The Director General is required to endorse these assessments before partner systems can be used.

In addition to reducing the risk of fraud at the project level, the aid program targets a significant part of the budget to assisting countries and communities to develop and implement governance and accountability reforms. This includes strengthening partner governments' budgeting, procurement and financial management systems as well as direct strengthening of national audit functions.

- AusAID internal audit section: The audit section undertakes several types of audit as agreed by the AusAID Audit Committee. There are audits of IT systems, overseas posts and management functions. AusAID has recently strengthened its audit function. It has created new positions of Chief Auditor, Director of Fraud Control and Director Risk Management, and has appointed an independent Chair and financial statements expert to AusAID's Audit Committee.¹⁵
- Auditor General annual reports and other ANAO audits: The ANAO conducts the annual financial statement audit of AusAID and targeted performance audits. In November 2009 it published a performance audit titled *AusAID's Management of the Expanding Australian Aid Program*. This report made six recommendations, all of which AusAID agreed with and has implemented. The ANAO is currently finalising a performance audit titled *AusAID's Management of Tertiary Training Assistance*.

¹⁵ The independent Chair of the AusAID Audit Committee is somebody with extensive knowledge and experience in the field, Oliver Winder PSM, who also chairs the audit committees of other major, complex agencies, namely Centrelink and the Department of Health and Ageing.

- Staff training: Fraud control training is a two-hour session that all staff are required to complete at least once (staff are encouraged to attend a refresher course every two or three years).

A survey conducted in 2008 in the development of the 2009–11 AusAID Fraud Control Plan identified that staff attendance at fraud control training was not high and identified the need to intensify the fraud control training program.

In 2010, 278 staff members attended 22 fraud control training sessions held in Canberra (7), Port Moresby (5), Honiara (3), Dili (2), Hanoi (2), Manila (2) and Port Vila (1). In completing the course evaluation forms, almost all the participants either 'agreed' or 'strongly agreed' with the statement: 'overall the program was of good quality'.

- Partner training: Specific training on fraud control and reporting is provided to NGOs, contractors and bilateral partners. Fraud training materials developed by AusAID are also made available to NGOs, contractors and bilateral partners to assist them with their own in-house training. In 2010, partner training sessions were held in Port Moresby, Honiara, Dili, Hanoi and Manila.
- Procurement review: AusAID's current procurement review will consider how to improve internal reporting on the integrity of partners. This will allow program managers to better assess the risk of fraud before entering into contracts.
- Reporting requirements: Any case of alleged, suspected or detected fraud, including suspected instances of bribery of foreign public officials, must be reported immediately to AusAID's Fraud Control Section. Prosecution of offenders for fraud cases is considered in each case. AusAID also pursues the recovery of proceeds of fraudulent activity and considers the application of appropriate civil, administrative or disciplinary penalties.

vi) Assessment

In summary, the Review Panel assesses that there is a serious and systematic approach within AusAID to fraud management, including the following key elements:

- Policy. There is a solid base document at the heart of the system in the form of the fraud policy.
- Plans. Policy is translated into agency-wide fraud control plan and country program plans.
- Due diligence. This involves careful selection of partners, including NGOs and contractors.
- Caution with recipient governments. Particular care is taken before using partner government systems.
- Scrutiny. This includes assessment of every program, and internal and external audit.
- Resourcing and awareness. This includes not only the management and staff specifically directed towards fraud control, but training of all staff about its importance.

In forming its conclusions the Review Panel has not only taken stock of these fraud management systems, but been taken through case studies in order to better understand how they function in practice. It has also benefited from discussion with the Chair of AusAID's Audit Committee.

Regarding the use of **partner government systems**, the schools program in Indonesia provides a useful example of how the systems work in practice. Salient points are as follows:

- A careful and deliberate decision was made as to whether Indonesian government systems could be used in terms of financial risk. Australia not only made its own assessment but drew upon that of the World Bank, which already had extensive experience in school building in Indonesia.
- This threshold decision also correctly took into account that the outcome could be achieved faster, at lower cost and with greater community oversight than if Australia undertook the program directly using a managing contractor.
- To make the threshold judgment on other aspects of the program, such as training, AusAID drew on European Union (EU) and World Bank Assessments, and, finding that these did not provide sufficient detail, contracted its own expert.
- There was no blanket decision by Australia that any Indonesian government agency system could be used. The decision was specifically for the Ministry of National Education and use of another government system was indeed specifically rejected by AusAID. In other words the threshold decision was discriminating and careful.
- The design of the program including the financial management aspects was subject to the peer review process.
- Australian funds were granted under agreements with the Indonesian government that contained audit and reporting requirements. The financial procedures manual used within the Indonesian system was worked on and signed off by AusAID. Procedures were put in place to check that funds flowed through the government channels to the bank accounts of community construction committees. The funds were released in tranches.
- Field monitoring, audit, complaint procedures and community training were put in place to check that funds were appropriately used for the schools construction.
- In the final analysis, also, the unit cost of school building is well known and the output achieved from Australian funding was therefore able to be checked against this benchmark.

Regarding aid delivered through **managing contractors** (that is, companies contracted directly by AusAID), the checks and balances against fraud are rigorous and in line with those in any major commercial transaction. These include standard contract fraud control provisions and AusAID's right to audit. Audits are undertaken, both in case of suspected problems and randomly. The approach seems clearly to be thorough and professional.

AusAID also has a very clearly stated position that any firm listed by the World Bank as being ineligible to bid for World Bank financed projects, because it has been found to engage in corrupt or fraudulent practices, is also ineligible to bid for AusAID work. No other bilateral donor has as strong a position on this issue. With the recent negotiation of a cross-debarment agreement between the five major Multilateral Development Banks (World Bank, Asian Development Bank, Inter American Development Bank, African Development Bank and the European Bank for Reconstruction and Development), the reach of AusAID's policy on this has been significantly extended.

In addition, it is worth noting the protection which exists from donor governments and multilateral organisations sharing information on concerns in relation to contractors. This is not

merely theoretical – it happens in practice – and major contractors are aware of it. AusAID's recent negotiation of a Memorandum of Understanding with the Integrity Vice Presidency of the World Bank is designed to facilitate information exchange on investigations and issues of mutual interest.

NGOs fall into two categories, accredited and non-accredited.

In the case of accredited NGOs, there is a rigorous system of checking their financial management and other processes as a condition of accreditation, and obligations to report any detection of misuse of funds. This is backed up by audit.

In the case of non-accredited NGOs, the financial arrangements governing work done for AusAID are akin to normal commercial arrangements, with the usual contractual and audit requirements.

In the case of earmarked funding, an additional check is that the Australian government can verify whether the specified output has been delivered to the quality commensurate with the funds provided.

Checking is harder on the flow of funding from an NGO to its own suppliers in developing countries, although AusAID does check that financial controls cascade down. The Review Panel understands that Australian experience has been that NGOs are generally conscientious in controlling funds and reporting cases of misuse which they detect. In addition to their obligation to do so, they are clearly conscious of the reputational risk of not doing so.

NGOs also take seriously their own Australian Council for International Development Code of Conduct and it is noteworthy that they have, at their own initiative, recently strengthened the compliance provisions. Likewise, AusAID has strengthened its agreements with NGOs to whom funding is provided.

The Review Panel has therefore found that AusAID is very alert to the dangers of fraud and corruption. Risk of fraud is also low in other government departments as they largely implement aid programs through their own departmental systems. Officials operating in-country are knowledgeable about the local circumstances and consult frequently with other donors. Rightly, they do not see guarding against fraud and corruption as peripheral to their work, but a consideration that needs to be built into policies and programs at the outset.

Considerations of fraud and corruption influence the choice of mechanism by which aid is delivered. As discussed in Chapters 9 to 11, Australian agencies have available a portfolio of such mechanisms. There is a good understanding that some of these are inherently more fraud and corruption proof than others. For example, Australia's directly delivering a project or program using its own contractors is, as a general rule, likely to be safer than providing budget support.

It is important to recognise that, because of this, Australian agencies also pay particular attention to being able to monitor how money is used and how it flows before entering into any new commitment. In short, the issue is taken seriously and addressed practically, as it must be. Reported fraud is low not because of lax systems, but because the program has been able to successfully control the extent of fraud.

It is very important that the Australian aid program be alert to the dangers of fraud and corruption, because they certainly have the potential to erode the kind of public consensus the Review Panel believes is necessary for a sustainable and effective aid program.

The Review Panel considers that three areas will be of crucial importance as the program grows:

- the rigor of the threshold assessment about the modes of delivery to be used for each particular activity, and in particular the assessment of partner government systems
- in-country checks on use of money, particularly in remote and complex locations
- staff training backed up by financial management support as required.

D. COST RISKS

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

A new Adviser Remuneration Framework has been put in place, which applies to all commercially-contracted advisers funded by AusAID. The framework has been benchmarked against other major donors and the Australian labour market. A similar review is under way for advisers engaged through other government departments.

In the opinion of the Review Panel, bearing down on the remuneration of technical assistance experts is important but needs to be approached with care. As discussed in Chapter 11, Indonesia is an example where provision of world class technical assistance is extremely important and high rates may need to be paid.

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

Recommendations from the review are expected to seek improvements in a range of areas affected by current arrangements for managing procurement and agreements. This includes increasing skills of AusAID staff in procurement and grant management, improving cost benchmarking at the activity design phase and expanding the information sought on potential implementing partners before contracts are entered into.

Sound, market-based procurement practices with contestability wherever possible are a key to ensuring that the taxpayer gets value for money in the aid program. The Review Panel therefore strongly welcomes the use of international competitive bidding.

E. RISKS TO DEVELOPMENT EFFECTIVENESS

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.

In Chapter 3, it was noted that AusAID's performance management system indicates that 17 per cent of projects are at risk of not delivering their objectives.

The 2010 Review of the PNG–Australia Development Cooperation Treaty noted that technical assistance constituted up to half of the Australian aid program, but found that “formal evaluations and other feedback suggest much technical assistance has had little impact in key areas” and that “the evidence suggests that much technical assistance has simply made little difference.” (Independent Review Team 2010)

Australia has acted on the problem of the limited impact of advisory support, not only in PNG but more broadly. AusAID recently completed a review of Australian–funded advisers with its partner governments and has identified up to 257 positions to be phased out in two years, the majority in East Timor and PNG. The review has also put in place measures to guide AusAID staff when selecting advisers to ensure the most effective response.

This is to be commended. However, the risk of development ineffectiveness is not confined to any one aid modality or region. In its travels to Uruzgan, Afghanistan, the Review Panel was told that the focus of Australian aid had shifted from ‘vertical infrastructure’ (schools) to ‘horizontal infrastructure’ (roads) because a large number of schools had been built with aid funds, but not used.

Reducing the risk of development ineffectiveness goes to the heart of the aid effectiveness challenge, which the Review Panel has been asked to advise on. The recommendations of this Report are made precisely with this objective in mind. There are, however, four points specifically relating to risk management.

The first is that not every project should be expected to succeed. Clearly not. Development is a risky business and aid often has the highest returns when it is used to innovate. A number of submissions suggested AusAID was too risk averse and this meant it could miss out on opportunities to improve effectiveness. The submission from the ChildFund took this view:

“Current arrangements for the management of risk should be reviewed to ensure that they do not create overly cautious and conservative programming. The current results framework approach, likewise, should be reviewed to ensure that it does not preclude the kinds of creative design, and qualitative monitoring and evaluation tools which often lead to the most effective and accountable programs, most accountable to aid beneficiaries and the public.”

The Risk Management Policy encourages AusAID staff to identify and harness potential opportunities. But this point should be given greater weight. The policy should discuss the scope for greater innovation. As Patrick Robinson said in his submission to the Review, “high–risk strategies can be justified if the potential rewards of success are great enough”.

It is also important to note that an innovative culture will only work if there is also a strong results orientation, so that good innovations are scaled up and ineffectual ones discarded.

Second, 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. In particular, overly–restrictive rules around the use of and accounting for funds increase transaction costs to the extent that development effectiveness is threatened (if the funds are not used because of the hassle factor). This is more than a hypothetical risk.

It was a key finding of the ANAO 2009 review of AusAID's management of the program. ANAO found that:

“AusAID's cautious approach to fund provision, while minimising the risk of corruption, has sometimes prevented resources getting to where they are most needed. Where efforts have been made to allocate resources to service delivery, the imposition of complicated financial management controls has often restricted the use of those funds for the intended purpose.” (2009: 102)

Third, in managing various risks, greater weight should be given to strategies that attempt to leverage recipient government expenditure. If aid is mixed with government spending, it might be more subject to fraud. But the dialogue and negotiations around this mixing might also tighten up government systems. This will reduce overall fraud. Given that government funding normally dwarfs the aid spend, this positive impact might outweigh any heightened risk of aid fraud and produce bigger development returns.

This too is more than a hypothetical. Of course, leverage cannot be taken for granted, but the Review notes that the multi-donor budget support in Afghanistan, to which Australia contributes, results in external scrutiny of the entire Afghan budget, not just the aid-funded part. The Review Panel has already noted in Chapter 11 the positive experience from working through government systems in Indonesia. On the issue of systemic impact, the Independent Completion Report on the Australia-Indonesia Basic Education Project (AIBEP) notes that:

“Working through Government of Indonesia systems has been highlighted as a key design feature of AIBEP... Existing.... [Indonesian] government departments are seen to have benefited from improved monitoring and quality assurance developed within AIBEP” (AusAID 2010b: 25).

Fourth, fungibility is a risk to development effectiveness if aid displaces government expenditure, which is then used for less productive ends. This can especially be a problem in aid-dependent economies. Fungibility can undermine support for the aid program, especially if the recipient government is seen to be misusing its own resources. Fungibility is difficult to measure and control, but a number of measures can be taken based on the principle of mutual accountability. These include agreements on co-financing, and steps to improve public expenditure management.

Overall, the aim must be to manage rather than avoid risks. During the Review Panel's visit, the United States Agency for International Development (USAID) explained they were moving from a 'risk averse' to 'risk management' approach, particularly in relation to working through partner government systems.

To summarise, the Review Panel has several recommendations to manage development effectiveness risk:

- The development of a culture that is focused on results, but accepts the possibility of failure and rewards innovation. Being up-front about this, and prepared to argue the case when failures occur, is an important part of reinforcing the message that not all aid can or should be expected to succeed.
- The recognition of possible trade-offs between minimising the risk of fraud and that of development ineffectiveness. If fraud risks have been contained at the expense of putting

development effectiveness at doubt, then a new approach is needed. Innovation may reveal alternative approaches that trade slightly increased risks of fraud for greater development effectiveness.

- The need to give greater weight to leverage as a risk management technique for the aid program. Where possible, use of the aid program to influence government spending carries with it high returns and should be encouraged. This will require more working through government systems, which the Review Panel recommends be increased (Chapter 11).
- Attention to the problems of fungibility, which, when a concern, can best be addressed through agreements based on mutual accountability.

F. REPUTATIONAL RISK

The final risk to the aid program is reputational. Fraud or failure to obtain value for money (including failing to secure development outcomes) will all harm the reputation of the program. But simply working in countries with governments that are corrupt and incompetent can also damage its reputation. The Australian public will, correctly, not be comfortable should Australia provide aid to governments that misuse their own resources or which are extravagant.

Even if aid is effective, the argument will still be made that it is inappropriate for Australia to provide, say, basic health and education services to the poor in a particular country when the government of that country should be doing so rather than wasting its own resources.

In response, the aid program can certainly attempt to improve governance and encourage reform, for example, by making aid conditional on necessary policy actions or reforms. This is often done by working with other donors. However, it is important to be realistic about the often limited scope of any aid program to influence the overall level of governance in a country.

The more important mitigating measure will simply be the ability of the aid program to demonstrate results. It is important that a sense of realism be maintained about what aid can achieve. But if aid can be shown to benefit people in need, wherever they are, this will help sustain public support and provide a strong argument for the continuation of aid, even in contexts where overall governance is poor. The proposed objective of the aid program to help poor people, rather than countries or governments, should help drive home the message that if aid can be made to work in poor governance environments then that is of tremendous value as it is typically in these countries where the poorest live.

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 aid 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.

Chapter 16: MANAGING FOR RESULTS

A. INTRODUCTION

The Australian government and the Australian people need to know how successful the aid program is at reducing poverty. Performance management and evaluation are important for three reasons:

- **Accountability:** to demonstrate to stakeholders in partner countries and Australia whether or not effective results have been achieved, and the extent of value for money.
- **Management:** to give managers real-time information about how activities are doing so they can make informed decisions.
- **Learning:** to identify what is working and what is not, build on success and ensure mistakes are not repeated.

The measurement of aid effectiveness is unquestionably harder than in many businesses. The aid program is not producing hamburgers or widgets. In the first place, the product is not standardised, but highly varied according to the purpose.

In the second, the delivery mechanism is not standardised. A wide range of different approaches are adopted depending upon circumstances.

Third, whereas all businesses can calculate their financial outcomes, and relatively easily calculate the satisfaction of their customers, the definition, quantification and data collection on outcomes are all problematic for an aid program.

It can be difficult to measure:

- fraud (where aid funds are misused)
- poor efficiency (where aid is given but at too high a cost)
- lack of development impact (where aid is given, but outcomes are not achieved or sustained)
- fungibility (where aid funds free up recipient government resources to be spent on other things).

Poor governance is often the underlying cause of risk, but the quality of governance is something donors have little influence over. Improvements in governance can also be intangible and are difficult to assess, especially in the short term.

If anything, measuring the effectiveness of aid is becoming more challenging. Many donors, including AusAID, are working through partnerships more. This makes sense, but it also makes measuring success harder.

There is a balance to be struck between doing and measuring. But, as aid budgets grow, the public and partners will demand greater accountability and evidence of results.

AusAID has been reporting on the effectiveness of the aid program for years. At times, rhetoric has exceeded reality. But over the past five years, AusAID has invested heavily in performance management and has increased the focus on results.

This chapter looks at what has been done in the past five years to better measure success, and considers what has and has not worked. It then looks at what needs to be improved as the aid program scales up. Recommendations are informed by international trends, lessons and innovations.

Importantly, the overall aim is to strengthen and streamline the current system, rather than add new layers or more bureaucracy. Simple, rigorous systems that are widely understood and practised will be of greater value than complex systems understood by a few, and likely to be misused, if used at all.

B. PERFORMANCE MANAGEMENT AND EVALUATION

AusAID's key aid effectiveness reporting tool is the Performance Management and Evaluation Policy, last updated in 2009. It has two core components: a self-rating of project and program performance, and independent evaluation. The Office of Development Effectiveness (ODE) also plays an important performance reporting role.

i) Rating the Performance of Projects and Country Programs

AusAID managers are responsible for tracking the quality and effectiveness of all projects and programs.

Mandatory requirements apply for programs worth more than \$3 million at particular stages during the life of the activity, including at the design and implementation stages.

The performance of each program is assessed against eight criteria: relevance, effectiveness, efficiency, impact (where feasible), sustainability, monitoring and evaluation, analysis and learning, and gender equality. The first five criteria are based on the Organisation for Economic Cooperation and Development's Development Assistance Committee (OECD DAC) criteria for evaluating programs and projects, and the last three are (to its credit) unique to AusAID. Managers rate projects themselves, though at design these are subject to independent input and review.

Every program is given a score against each of the criteria from one to six, ranging from 'very high quality' (6) to 'less than adequate quality' (3) to 'very low quality' (1). At the design phase, programs must score a five rating or, if lower, identify actions to raise the rating to five in order to be eligible to proceed to implementation. During implementation, programs that receive lower ratings must identify measures to improve results.

The individual assessments are not made public, but they are reported at the aggregate level. The number of assessments completed at the initial stage is only one-third, but tends to increase as the program progresses so that 97 per cent are subject to regular assessment.

These assessments also help inform overall country assessments in the Annual Program Performance Reports. Objectives for each major country program are reported to be either fully achieved, partially achieved, or not achieved (known as the ‘traffic light’ system). Management responses to improve program performance are outlined where necessary.

The assessments are made by the senior official responsible for each country program, but are subject to quality control by senior AusAID management. These assessments are made public (though often after long time periods).

Major thematic sectors in AusAID do self-assessments in Annual Thematic Performance Reports. These are subject to quality control by senior AusAID management and are also made public.

This system is also the basis for AusAID’s overall performance reporting. Both the Annual Report (released each September) and the Annual Review of Development Effectiveness (ARDE) are based on these self-rating systems at the country, sector and project level. For example, the two most important targets in the Annual Report are that all major programs have:

- 75 per cent or more activities with a satisfactory or higher rating
- 75 per cent or more strategic objectives partially or fully achieved.

Actual ratings achieved are discussed in Chapter 3.

The Australian National Audit Office (ANAO) and OECD DAC have positively assessed AusAID’s self-rating system with its easy-to-understand ‘traffic light’ and one to six rating systems. It puts AusAID at the forefront of bilateral donors.

This reporting system aims to help AusAID’s management identify what is and is not working, and what needs special attention. Feedback and reports received by the Review Panel suggest the system is having the desired impact.

The simplicity of the system also has downsides. Aggregated reporting can sometimes conceal achievements and failures and the definition of ‘success’ used to make assessments of country program or projects can be ill-defined, unrealistic or lack ambition.

The Review Panel received feedback that the performance system was onerous and lengthy for staff. Another limitation was the focus of the system on AusAID bilateral programs.

ii) Independent Evaluations

AusAID’s Independent Completion Reports and Independent Progress Reports are another key part of its Performance Management and Evaluation Policy.

Under current guidelines, a report must be completed for an activity every four years, either during its implementation (a progress report) or at completion (a completion report). Reports are required for projects above \$3 million and are meant to be made public. They are independent in that they are done by individuals not involved in the project. Typically, but not always, they are written by non-AusAID staff.

By international standards, this policy is thorough. For example, at the World Bank, independent completion reports are done only for a sample of projects.

But a study of AusAID evaluation reports commissioned by the Review Panel found that implementation of AusAID's evaluation policy is patchy:

- Of 547 projects that should have had a completion or progress report in 2006–10, only 170 were recorded as having been done.
- Of the 170, only 118 could be found.
- About 26 per cent of the completion and progress reports were assessed to be too low quality to publish.
- Only about 20 have been published on the AusAID website.

Clearly, the policy is not being fully followed. Other problems were also evident. None of the 118 completion or progress reports reviewed provided an unsatisfactory rating. This raises questions of credibility. In comparison, 20 per cent of World Bank projects are rated unsatisfactory by its independent evaluation group.

There is also a structural issue with the policy: AusAID program managers must approve the publication of an independent report. This risks conflicts of interest and long delays in publication. The low rate of publication suggests these problems may be occurring.

Independent completion reports, when done and published, can be very useful. For example, the completion report on the first phase of the Indonesia Basic Education Project is in the public domain and helped to inform recent public debate about the second phase of the project (AusAID 2010b). In contrast, several useful completion reports have recently been done for the PNG program, but only one has been released.

Given the problems described above, it is not surprising that the Review Panel has seen little evidence that these reports inform and improve aid delivery.

iii) The Office of Development Effectiveness (ODE)

ODE sits in AusAID and reports directly to the Director General. It produces the ARDE, which is tabled by the Minister for Foreign Affairs in Parliament, as well as a number of thematic and country evaluations.

Annual reports on development effectiveness were pivotal to the creation of the ODE in the 2006 White Paper. It lay at the heart of efforts to improve effectiveness as the aid budget increased.

ODE and its ARDE have no doubt been 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.

The ARDE was intended to link to the budget cycle, yet only three such reports have been produced in a five-year period, and with increasing delay. The 2008–09 ARDE was finished at the start of 2010, but not issued until December 2010.

The ARDEs provide a commentary on aspects of the aid program, including its performance management and reporting system, with some direct and some muted criticisms.

There is ambiguity around the role of the ODE, especially in regard to the ARDE. The ODE sits within AusAID, yet is expected to provide an independent commentary.

The ARDE to some extent duplicates the AusAID Annual Report, the longest section of which (pages 15–176 for the 2009–10 Report) is a ‘report on performance’ (ODE 2010).

Other work done by ODE is useful, but the initial focus on country evaluations has been lost. Only two country evaluations have been published since the ODE was created in 2006.

The ODE played an important role in establishing the current performance management and reporting systems discussed above, and plays an ongoing, useful role as an ‘internal think tank’ within AusAID on issues of aid effectiveness.

C. EXTERNAL SYSTEMS OF REVIEW

AusAID, and to some extent the broader aid program, is also subject to a variety of external performance reviews: ANAO reports, peer reviews by the OECD DAC, parliamentary oversight and government-commissioned reviews.

i) ANAO Reports

Traditionally, the ANAO has audited AusAID every two years, with reports in 1996, 1998, 1999, 2002, 2003, 2005, 2009, and one planned for publication this year.

A 2007 audit focused on the overseas deployment of the AFP. This is a rare example of evaluation of aid by departments other than AusAID.

Since 2010, the ANAO has committed to do annual performance evaluations of AusAID.

These audits provide important external scrutiny of how well government policy has been implemented, but not of government policy itself. Thus, the 2009 report says nothing about the aid budget being fragmented despite this being one of the most important issues facing the aid program.

ii) Peer Reviews by the OECD DAC

Members of the OECD DAC have their aid programs peer reviewed by other members every four years. These peer reviews give a useful big-picture perspective on Australia’s performance.

Assessments can be gentle, as donors take it in turn to review each other. For example, the 2008 DAC Peer Review gives a more positive view of the aid program’s capacity-building efforts than the independent PNG–Australia Development Cooperation Treaty Review of 2010.

iii) Parliamentary Oversight

Senate Estimates hearings are a regular forum for parliamentary questioning of AusAID and, at least in principle, other government departments that deliver ODA.

There have been very few parliamentary inquiries into aid. There are often inquiries that examine particular regions and include aid as part of their examination (for example, the recent inquiry into Australia’s relations with the Pacific and the ongoing inquiry into Australia’s relations with Africa).

iv) Government-Commissioned Reviews

Reviews of the overall aid program have been infrequent: the Jackson Review (1983), the Simons Review (1997), the Core Group Report (2005), and the current Independent Review of Aid Effectiveness (2011).

There have been external reviews of parts of the program (for example the review of the PNG program in 2010 and the *Power to the People* review of democratic governance in 2009).

These reviews have played a useful role, but they have probably been too infrequent.

D. INTERNATIONAL INNOVATIONS

Innovation in other donors' measurement and reporting of effectiveness can be grouped under two main headings.

i) Results Frameworks

Increasingly, aid agencies are trying to use results frameworks to assess their overall performance. These frameworks rely on clearly-defined objectives and success indicators so that potential biases introduced by self-rating are, if not eliminated, at least contained.

The four-tiered Asian Development Bank (ADB) model is probably the best example of this approach. Its top tier reports against the overall development performance of partner countries, the middle tier on the ADB's contribution, and the two lowest tiers on the ADB's inputs under effectiveness and efficiency headings. The annual report, which ADB management produces against the pre-agreed targets, is easily understood and welcomed by shareholders and recipients alike.

A similar approach has now been adopted by the World Bank.

ii) Independent Evaluation

The other key trend is a move to independent evaluation. Multilateral organisations have strengthened their independent evaluations. Rather than reporting to the president, independent evaluation bodies are increasingly reporting to the board of shareholders. The ADB and World Bank follow this approach.

Bilateral donors have traditionally shied away from independent evaluation, but some are now embracing it. Sweden has established an independent evaluation body, while the United Kingdom and Germany have announced plans to do so. The United States has long had an Office of Inspector General.

This push among some bilateral donors to do independent monitoring and evaluation is quite new. It is unclear whether it will continue in the political environment that bilateral donors inhabit. In Sweden, which has the most extensive experience, the independent office has had limited success, though there were clear design problems in this case.

E. DIRECTIONS FOR REFORM

The Review Panel believes Australia should build on what works and take the reforms of the last five years further.

As noted earlier, AusAID has made a lot of improvements to its results management and reporting system. The Performance Management and Evaluation Policy is sound. The Review Panel wants to see it strengthened rather than replaced.

The Review Panel's proposals are based on the reform directions set out below:

- Reduce the compliance burden. There should be fewer reports, fewer systems and less duplication. The overall aim should be less but better. There is currently too much measurement and not enough learning.
- Lift compliance. A system with limited compliance undermines confidence in the aid delivery system as a whole. Reducing the burden of compliance helps.
- The self-rating system works well; the independent evaluation system does not. Both components are important and both need to work.
- More reports should be published in a timely manner. This is consistent with the Review Panel's call for greater transparency of the aid program.
- Improve evaluations. If evaluations are of poor quality, and many appear to be, they will not be published and will certainly not be used.
- Apply the effectiveness reporting system to all ODA. Currently, the systems that AusAID uses are not generally used by other government departments responsible for ODA expenditure.
- The reporting system needs to cover core funding arrangements. Core funding for NGOs and multilateral organisations will expand as the aid program grows.
- Remove ambiguity around the role of the ODE. ODE sits at the heart of existing measurement and reporting arrangements. It has an extremely important role to play, but has been given an impossible task. A clearer and narrowed mandate will allow its potential to be fully realised.

F. PROPOSALS FOR PERFORMANCE MEASUREMENT AND REPORTING

The Review Panel assumes the ANAO will continue regular audits of the aid program and the OECD DAC's four-year peer reviews will continue.

In Chapter 17, the Review Panel suggests Parliament consider establishing a committee or sub-committee on aid. This is a way to increase awareness and engagement rather than oversight.

i) Apply a Single set of Measurement and Reporting Rules Across Government

At present, other Australian government departments, with the exception of the Australian Federal Police (AFP), 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 for ODA funds and activities.

This would mean they would follow the same self-assessment processes at the project level, they would participate in the country-level annual assessments, and, from time to time, their projects would also be subject to independent evaluation by ODE.

AusAID and other government agencies should adopt a single and consistent approach to measuring effectiveness of ODA expenditure. If agencies wish to measure in other ways, it should be supplementary, for their own purposes and not a substitute.

The three-tier results framework system, proposed later in this section, should be used for whatever assessments AusAID or other agencies feel they need (and they should be kept to a minimum). This includes country reports, thematic reports and division and branch reports.

A danger to avoid is reporting for the sake of reporting. The system will not work if it is regarded as being of no real benefit. Managers must understand that reports should be short, clear and rigorous. The system must be easily understood, practical and useful to those administering the aid program and those to whom they are accountable.

The Review Panel suggests the Development Effectiveness Steering Committee (DESC) should give high priority to the development of this streamlined and consistent whole-of-government system for measuring effectiveness. DESC should also ensure the system is effectively communicated to those who must use it.

ii) Streamline and Extend the Self-Rating System

The self-rating system, which is widely supported, should continue, but with two changes.

First, it needs to be streamlined and its administrative burden reduced. The burden is high in part because the aid program is too fragmented. But the Review Panel also received a lot of feedback that the current system is too bulky and time-consuming. Poor compliance with the requirement to have quality ratings at entry suggests that managers do not find this useful. Quality ratings at design are not undertaken by the World Bank and may not be needed by AusAID.

Second, more analysis of project ratings should be undertaken. Results should be reported, not only in aggregate, but also by region and over time. Explanations should be sought for trends and patterns, so that lessons can be learnt about which projects (and where) work better and why. Averages should be tracked, as the aim should be not only to have fewer unsatisfactory projects, but to make good projects better.

This analysis could be used, for example, to examine how different partners are performing across the aid program.

iii) Produce an Annual Assessment of Aid 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.

As detailed below, this assessment would use the proposed three-tier framework to provide an overall evaluation of the entire ODA program at a strategic level. It would include a summary scorecard supported by reports on the effectiveness of major country and other programs.

The Minister for Foreign Affairs should be the coordinator of this assessment. AusAID, on the Minister's behalf, would coordinate with the various agencies. The DESC would drive this process at the officials level.

The assessment would be a self assessment of progress, but it would be made public and subject to full scrutiny from Parliament, the Auditor General, civil society and so on.

This annual assessment could be included as a part of AusAID's Annual Report. The Annual Report's second chapter is already a long report on the performance of the Australian aid system, with reference to the entire aid program, not only AusAID programs; this assessment could replace that chapter. Use of the Annual Report would be consistent with the Review Panel's aim to avoid duplication. It would also entrench the practice. Even if it is not practical to include the assessment as part of the Annual Report, the work done for the one should be a major input for the other.

This annual assessment would replace the ARDE, which would be discontinued.

iv) Adopt a Three-Tier Reporting System

There is currently no satisfactory aggregate framework by which the results of Australia's aid program can be effectively managed and communicated. Earlier in this chapter, the Review Panel commended the approach pioneered by the ADB for reporting of aggregate results. An Australian approach could be built along these lines with three tiers:

Tier 1: progress against development goals

Tier 2: the contribution of Australian aid

Tier 3: operational and organisational effectiveness.

A simple 'traffic light' rating system would rate performance against indicators in each tiers: green would indicate good progress, amber mixed, and red poor progress.

This approach would provide the framework for the annual assessment of aid effectiveness. The assessment would be in the form of a summary scorecard (an example of which is given below) with supporting text and data.

At the highest (first tier) level, the summary scorecard would provide an assessment of global progress towards the Millennium Development Goals (MDGs).

The second tier would provide an assessment of the contribution of Australian aid using the four themes of the organising framework proposed in Chapter 8.

The third tier would include an assessment of performance at the operational and organisational level. The summary scorecard provides examples of the sorts of criteria against which performance would be reported, such as partnerships, aid quality, staff development, transparency and evaluation, and financial management.

Table 16.1: Australian Whole-of-ODA Summary Scorecard

AUSTRALIAN WHOLE-OF-ODA SUMMARY SCORECARD	
	Rating (green/amber/red)
Level 1: Progress Towards Development Goals	
<i>Objective: To achieve the MDGs</i>	
Poverty and human development outcomes	
Other development outcomes	
Level 2: The Contribution of Australian Aid	
<i>Objective: The fundamental objective of Australian aid is helping 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.</i>	
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	
Level 3: Operational and Organisational Effectiveness	
<i>Objective: To manage our resources so as to maximise value for money.</i>	
Partnerships	
Aid quality	
Staff development	
Transparency and evaluation	
Financial management	

The summary scorecard would be supported by background analysis and text. This would provide the data and judgments which justify the ratings given. The supporting text would provide analysis, as discussed earlier, in relation to trends and patterns, so that lessons can be learnt and remedial actions taken.

In the third tier, for example, aid quality ratings would be based on the average project rating under the Quality Reporting System (QRS) and the average project size (as a measure of aid fragmentation). Staff development ratings would be based, in part, on the average time staff are in position.

The annual assessment would also include scorecards for major programs. A scorecard should be prepared for the same grouping of countries and regions used in this report. Each country and/or region would report against the three tiers: how the country/region is progressing relative

to the MDGs, the contribution of the aid program to each of the four themes of the organising framework, and how the country/region program is tracking in the key areas of operational and organisational effectiveness. Scorecards would also be produced for key partnerships. These should be separate scorecards for multilaterals, NGOs and humanitarian assistance.

Other government departments would contribute to the relevant program scorecard, each of which should be a whole-of-ODA assessment.

As recommended earlier, the three-tier system would be used not only for the annual assessment but across the aid program for reporting purposes. For example, it would also be used for sectoral programs and operational areas, and by other government departments in relation to their use of ODA. In each case, the report would be in the form of a summary scorecard and supporting text and data.

As noted earlier, a key risk for the aid program as it expands is the proliferation of different systems of measuring and reporting. What is needed is a system that can be quickly and easily understood by those responsible for measuring and reporting, and which presents information in a standard and user-friendly format. The three-tier approach meets these requirements.

The Annual Program Performance Reports and the Annual Thematic Performance Reports currently being produced by AusAID would continue with the scorecard format.

This system would not require changes to how country program strategies are prepared. However, country strategy reporting would need to be in the scorecard format. Comparisons could then be made and reporting would be streamlined and simplified.

Aside from a consistent base for monitoring and evaluation, the three-tier approach is also realistic and practical. It recognises that measuring aid effectiveness is neither easy nor perfect. It is hard to disentangle the impact of aid from other factors that influence development. A good approach to monitoring has several different dimensions. For example, the difficulty of measuring how much of a country's success can legitimately be attributed to Australian activity, is partially overcome by measuring improvement in the aid program's organisational effectiveness. In this way, a reasonably reliable overall picture can be created.

G. PROPOSALS FOR EVALUATION

While AusAID's self-rating system has taken great strides in recent years, the evaluation system, though equally important, is not working well, and requires an overhaul.

i) Undertake Fewer, but Higher Quality Independent Evaluations and Publish them all

The compliance burden of the current system is too high. The number of projects that require an independent evaluation should be reduced.

Every substantial project should have a completion report of some form or another. This should be a management responsibility, and it would be a management decision as to whether these reports were done independently or not.

A smaller number of projects, themes and country programs should be chosen for mandatory independent evaluation.

The aim should be to do about 10–20 of these independent evaluations every year. Maintaining an annual independent evaluation plan, implementing it and ensuring quality and publication would be the responsibility of ODE.

Centralising quality control in this way is critical to improve report quality. This will help AusAID feel more comfortable about publishing them. The current system is decentralised, leading to variable quality.

Under the new system, as described below, ODE would have to vouch for the quality of the evaluation, even if not endorsing the contents. ODE could also sign off on evaluation teams and ensure the quality of consultants eligible to be contracted to write evaluation reports.

ii) Sharpen the Focus of ODE and Increase its Independence

ODE needs to maintain its focus on aid effectiveness, but give more emphasis to evaluation. It would have four main responsibilities.

First, it would be responsible for the independent evaluations program: from creating an annual evaluation plan, to carrying out evaluations, controlling quality, to publication and distribution.

Second, it would quality assure the new ODA effectiveness reporting system described above, and make suggestions for improvement.

Third, each year it would publish a synthesis of the evaluations conducted, the lessons learned and its assessment of the ODA effectiveness reporting system.

Fourth, it would foster a culture of aid evaluation and effectiveness within the aid program.

The importance of learning from experience and absorbing lessons into new programs was highlighted in a submission by BaKTI–Yayasan Bursa Pengetahuan Kawasan Timur Indonesia (the Eastern Indonesia Knowledge Exchange):

“There are so many development initiatives, funded by various donor organisations and governments at a national and local level, in eastern Indonesia. Based on our observation, often a new project will use similar approaches as a previous project did, working on the same issue, with similar objectives and community targets. This repetition happens not because the previous program was successful in achieving its objectives and delivering benefits to the community, but more because of the unavailability of information on previous projects and inadequate consultation with local stakeholders. Unsurprisingly, often the ‘repeated’ project fails and achieves similar results.”

To improve learning, ODE would share lessons from complete evaluations and encourage evaluations of ongoing projects. ODE would help AusAID staff build evaluations into project design. It is now recognised that evaluations are not effective if initiated purely after the fact; effective evaluations build on pre-existing baselines and control groups, and collect data throughout an activity. ODE would continue its ‘internal think tank’ role, promoting discussion and learning on aid effectiveness issues.

Other tasks now allocated to ODE would be given to other parts of AusAID, such as servicing the DESC.

To recognise this new role, the Review Panel recommends that ODE be renamed the Office of Aid Effectiveness.

Many submissions recommended ODE have more independence, which would be in line with international trends. The argument made by AID/WATCH in their submission was representative of many:

“The Office of Development Effectiveness is the government body responsible for monitoring the quality and evaluating the impact of Australian aid. However, the ODE is answerable to the Director of AusAID, rather than the parliament. This undermines the ODE’s ability to voice a genuine critique of Australia’s aid program... By contrast, the United Kingdom government has committed to establishing an Independent Commission for Aid Impact, which ‘will be totally independent from government’, ‘will report directly to Parliament’ and ‘will have completely separate decision-making powers, staff and location from the Department for International Development.’ The Commission’s ‘reports will be published on their website directly with no interference from government’. AID/WATCH believes that the Office of Development Effectiveness should be made into an independent body separate from AusAID, following the example of the United Kingdom’s Independent Commission on Aid Impact.”

The Review Panel does not agree with ODE being taken out of AusAID. A disconnected evaluation agency is one with little influence.

But increased independence is important, especially given AusAID’s long-term support of independent evaluation. External consultants should not be asked to compile an independent report only to have their evaluation subject to management clearance.

Evaluations need to be contested (by program areas and others) but should ultimately reflect the independent and informed views of the experts who write them. A more independent ODE will be able to control the quality of evaluations without negotiating content.

Therefore, the Review Panel recommends current reporting arrangements for ODE remain. But just as AusAID has put in place an Independent Audit Committee (with several external members including the Chair), so it should put in place a small Independent Evaluation Committee (including both AusAID staff and several external members, including the Chair).¹⁶

Positioning ODE so that it sits administratively within AusAID, but is responsible to an expert panel for evaluations and quality assurance, would cement the independent status of its evaluations.

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. Importantly, the Committee would not act as a censor for independent evaluations. It would vouch, not necessarily for every recommendation in each evaluation, but for its overall quality. The Committee would also guide ODE’s forward evaluation plan.

¹⁶ Note this is similar to the recommendation of the Simons Review of 1997.

H. STREAMLINING

The net effect of the Review Panel's proposals is streamlining.

There will be the additional requirement for an annual Cabinet submission to consider progress against the Four-Year Strategy. But it is obviously necessary to have such a Strategy, and to review it periodically across the whole of government. This is a small price to pay for the government and the public to have confidence that the growth in aid is organised and under control.

Ministers and officials will be able to deal in one single, coherent exercise with an assessment of aid effectiveness, a judgement of progress against the Four-Year Strategy (including whether hurdles have been met), the need for adjustments if necessary, and the allocation of contingency to determine the budget for the coming year.

The same assessment of aid effectiveness which forms part of the internal advice to Cabinet will also be made public, as the scorecard report to the Australian community, partners, stakeholders and the Parliament. It will therefore serve a dual purpose as the fundamental annual document of public accountability.

The Review Panel recognises that individual Annual Reports of agencies are required to be structured in accordance with each agency's budget. However, the Review Panel believes that the whole-of-government aid effectiveness review will break the back of this task for AusAID. It will not be necessary to duplicate commentary and analysis.

The scorecards which are prepared for countries to underpin the annual scorecard for the aid program as a whole will double as the basic monitoring document for those countries. They will not need to do any separate annual review.

Instead of the approximately 100 project and program evaluations which are now mandated, there will be only 10 to 20 well targeted and high quality evaluations, and an easily prepared annual synopsis. Again, these will be made public and therefore serve a dual purpose in terms of accountability and transparency.

The adoption of a simple but powerful three-tier approach to evaluation of aid effectiveness will, as it is picked up by and used through AusAID and other agencies, make it a good deal easier for government to come to a judgement on the effectiveness of all ODA expenditure.

As regards any other concerns about layers of reporting and accountability, the Review Panel notes that the ANAO and the Parliament will – and should – under any system do what they believe necessary to scrutinise the aid program. The adoption of the Review Panel's proposed system should make effective scrutiny easier and less burdensome all round.

I. EMBEDDING A PERFORMANCE ORIENTATION INTO PROGRAMS AND PROJECTS

Managing for results is not only about measuring effectiveness, but also about having robust and contestable planning and design processes. AusAID's design processes start with country strategies, which include country situation analysis, an overall partnership strategy, and more detailed delivery strategies. These provide a good basis for subsequent performance reporting.

The design process for individual activities is built around a number of mandatory quality assurance steps, such as peer review, including by external experts. These processes represent international best practice. The main challenge is to embed these processes through the aid program and ensure high compliance.

More could be done to embed a performance orientation into individual projects. Under an output-based aid approach, for example, projects disburse funds only if the outputs are delivered. Under incentive-based projects, funds are disbursed only if agreed conditions are met. Some agencies are starting to pilot 'cash-on-delivery' aid in which governments will be paid on the basis of, say, the additional number of children they enrol in school each year. The design of such projects automatically ensures that, if funds are disbursed, results are achieved.

With the increased focus on results, such types of interventions are getting increased attention. For example, Richard Curtain in his submission to the Review argued in relation to some Pacific countries that:

“Development assistance in the form of a payment for literacy results at the end of primary school and end of high school would be a highly effective way of addressing a major development goal...”

Of course, results-based approaches are not panaceas. In some cases, tangible results are very difficult to measure; in others, there is not enough certainty to link performance to payments. But they should be further explored.

AusAID has started to embrace these results-based types of interventions. Australia has joined the Global Partnership for Output-Based Aid, and is supporting a very successful intervention in Indonesia where companies are paid for every household they connect to the water mains (see Chapter 8). Similar interventions are under consideration in other countries.

Australia has also adopted incentive-based funds, especially in the Pacific, where additional funds are released on the basis of agreed policy reforms. A full evaluation of these is yet to be undertaken, but the initial experience could be described as mixed, but promising.

The Review Panel recommends that, as part of a general orientation towards performance and results, results-based aid modalities receive growing attention and emphasis.

As a possible example of the potential of this approach, it could be applied to the chronic problem of severe gender inequality in the Pacific. For instance, a challenge could be put to individuals, community groups, the private sector or even nations to come up with the best new ideas on how to reduce gender inequality and/or to show the biggest improvements in gender equality. The corresponding commitment from Australia would be to fund these ideas, and

reward the improvements. This could lead to breakthroughs in an area which is critical for development and poverty reduction, but which has so far proved resistant to progress. This is an idea worth further consideration.

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.

Chapter 17: ENHANCING TRANSPARENCY, SCRUTINY AND COMMUNITY ENGAGEMENT

A. INTRODUCTION

Transparency, scrutiny and informed debate are critical to improving effectiveness and value for money. Australian taxpayers have a right to see exactly how and where aid money is being spent, just as citizens in poor countries do. This helps them hold AusAID and recipient governments to account for using money wisely.

The Review Panel believes Australia's aid program has made significant strides in this area, but there is still room for improvement. This chapter discusses how Australia can better communicate and provide greater transparency on its aid activities and spending.

But this is not sufficient. There also needs to be consideration of how to give the Australian community a greater sense of ownership of, and engagement with, the program. Achieving an aid program that is effective and sustainable requires national consensus. This does not mean that there should not be vigorous debate about the program; on the contrary, this is one of the best guarantees of long-term quality. However, it is important that the debate be well-informed.

Transparency, scrutiny and public engagement are not, therefore, nice-to-have optional add-ons to the aid program; they are part of its foundation.

B. TRANSPARENCY

The Report has discussed how Australia could lead more on some carefully-selected focal points or 'flagships' of the aid program. Another area where the program could demonstrate leadership is transparency.

It is important to note the aid program has taken significant strides towards greater transparency in recent years. Australia already rates well compared to other bilateral donors on some measures of transparency. The Quality of Official Development Assistance Assessment, developed by the Centre for Global Development, ranks Australia as the best bilateral donor in its commitment to transparency and learning.

Some of the work done by Office of Development Effectiveness (ODE) shows the aid program is willing to be more self-critical of its development efforts than it was five years ago.

Australia is also a founding member of the International Aid Transparency Initiative (IATI), a joint effort of 18 donors and 19 partner countries to promote common standards for greater transparency. Australia has agreed to a global standard and is developing an implementation plan for the IATI.

Box 17.1: International Aid Transparency Initiative and Setting a Global Standard

On 9 February 2011, at a meeting of the IATI Steering Committee, a global standard was agreed to make project information, budgets, expenditure, conditions and results more public. The standard includes common definitions, requires donors to make this information available on their websites, and links this information to a central registry in a common format. This should make it possible for partner countries to better coordinate their plans and activities. It should also make it possible to reconcile data from a variety of sources, reducing inconsistencies, double counting and missing data.

Nonetheless, there is room for greater transparency. As noted in the 2009 Australian National Audit Office (ANAO) Report, most country strategies were not publicly available. (Since January 2011 the strategies have been available on the website). The Annual Program Performance Reviews that assess the effectiveness of major country programs have often been released up to 18 months after the time period the review focuses on. The vast majority of Independent Completion Reports for program activities have not been publicly released.

World Vision Australia summed up the development benefits of increased transparency in its submission to the Review:

“World Vision believes that a more open and transparent aid program is probably the single biggest step that can be taken to improve the effectiveness of AusAID’s programs: it will increase the range and quality of voices feeding into aid program design and implementation, it will allow more rapid learning from experience, quicker corrections to implementation problems and fraud, and will improve the relevance and sustainability of activities by including the voice of project communities.”

Transparency leads to more informed discussion and debate, which leads to a more effective aid program. In developing countries, partner governments, civil society groups and other donors will have easier access to information about what AusAID is trying to achieve and how well it is performing. In Australia, Australian NGOs, academics and other stakeholders will be able to better analyse and provide more informed commentary about the strengths and weaknesses of the program. Transparency will help them make suggestions on how to improve it.

The Review Panel recommends the program adopt a ‘warts and all’ approach to transparency. This is important in maintaining Australian taxpayers’ confidence in a growing aid program. It also means AusAID staff, contractors and partners need to produce better quality products since the work they produce will become publicly available.

The Review Panel believes AusAID should be a leader in openness of information. That is, it should publicly and promptly release all information, unless there is a specific and compelling reason not to do so. Obviously there would be exceptions for documents that are classified for national security, Cabinet processes or commercial-in-confidence reasons. But public release should be the rule, not the exception, for all the agencies involved in giving Australian aid.

Transparency is about releasing data as well as documents. As other donors are now starting to do, up-to-date data about what the aid program is spending in which countries and sectors, and with which partners should be easily accessible from the AusAID website. This will provide greater opportunity for feedback both from within Australia and, importantly, from recipient countries.

Data can only be released if and when it is collected. Given the growing importance of partnerships within the aid program, more needs to be done to collect and aggregate data on the mode of delivery – whether it is through contractors, multilateral organisations, NGOs or partner governments.

Finally, Australia's aid projects should themselves be models of transparency and communicate, especially at the local level, to communities about spending commitments and intended outputs.

i) Transparency Charter

One option for greater transparency would be for the government to adopt a Transparency Charter. This charter would list the documents and data the government pledges to release within specified timeframes.

Box 17.2: The United Kingdom Aid Transparency Guarantee

The United Kingdom Aid Transparency Guarantee was launched on 3 June 2010. It commits the Department for International Development (DFID) to publish detailed information in a way that is comprehensive, accessible, comparable, accurate and timely. The guarantee aims to make United Kingdom aid completely transparent to citizens in the United Kingdom and partner countries.

The guarantee states that DFID will:

- publish detailed information about all new projects and programs on its website, in a common standard with other donors
- publish in a comprehensive, accessible, comparable, accurate and timely manner
- publish in English and with summary information in major local languages, in a way that is accessible to citizens of countries where DFID works
- allow anyone to reuse DFID's information, including through the creation of new applications that make it easier to see where aid is being spent
- provide opportunities for those directly affected by projects to provide feedback on the performance of projects.

Greater transparency would, of course, increase the amount information available about what is not working in the aid program. Negative stories about the program are inevitable, but more transparency means the successes would be more accessible too.

The Review Panel heard from several politicians who stated they could counter negative press stories when talking to their constituents if they had more information on the impact Australia's aid had on poverty.

The Review Panel believes a more transparent approach could, over time, help generate a more sophisticated and balanced public debate about Australia's aid program.

That debate needs to include: the activities not only of AusAID, but also of other government agencies like the Australian Federal Police and Australian Defence Force; the work of Australian and overseas NGOs and community groups; UN agencies like United Nations Children's Fund (UNICEF), United Nations Development Program and the World Food Program; and other agencies such as the World Bank and Asian Development Bank.

Ultimately, public support will hinge on whether the aid program is able to demonstrate results. The Review Panel believes more transparency is essential to demonstrate credible results to all stakeholders, especially the Australian public.

C. PARLIAMENTARY ENGAGEMENT

Parliamentarians are a critical audience for the aid program and important contributors. The Review Panel has been impressed by the well-informed views and suggestions from Parliamentarians. Their interest in the subject and unique role representing public views are, of course, already respected by managers of the aid program. But the information flow to Parliamentarians and dialogue with them could improve. This would benefit both public accountability and the quality of the program.

Several parliamentary groups currently look at development issues: the UN Parliamentary Association, the UNICEF Parliamentary Association, the Parliamentary Friends of the Millennium Development Goals (MDGs), the Joint Standing Committee on Foreign Affairs, Defence and Trade, and Senate Estimates Committees. There are ties between these groups and AusAID, but there is scope to strengthen these.

A way to strengthen parliamentary engagement would be to establish a parliamentary committee or sub-committee on aid and development. This could either be a sub-committee of the Joint Standing Committee on Foreign Affairs, Defence and Trade or separate. This would be a matter for Parliament to decide. During consultations, several Parliamentarians expressed interest in and support for this idea.

D. PUBLIC ENGAGEMENT AND DEBATE

Chapter 5 discussed how the aid program is anchored in Australia's national character.

The aid program never will, and never should, be above criticism. There is no contradiction between this and the aspiration that the program be a source of national pride for Australians.

This is not just rhetoric. The government's aid program, together with private donations to NGOs, is Australia's most direct and tangible contribution to poverty reduction in developing countries. It is legitimate to aspire to Australians having pride in the aid program.

To help build a sense of national pride, greater effort should be placed on highlighting how many Australians already participate, to varying degrees, in overseas development activities. The \$800 million Australians donate each year to Australian NGOs' international activities is evidence of this participation and interest, as are the 1,200 Australians who volunteer their time and skills each year to work in developing countries on government-funded volunteer programs.

Box 17.3: Australians' Charitable Nature

According to the World Giving Index, Australia and New Zealand are the most charitable countries in the world. Launched by the Charities Aid Foundation in 2010, the index is based on a global survey that measures three charitable behaviours: donating money to an organisation, volunteering time to an organisation and helping a stranger. Australasia is also the region with the highest scores for giving money and volunteering time, and the second highest scores for helping a stranger, following North America.

i) Grants for Small Development Activities

The Review Panel sees room for the aid program to respond to this community interest more actively through a new grants scheme for community-based organisations. As Australia for UNHCR said in its submission:

“By broadening the Australian government's level of engagement with civil society in Australia, we submit that public support will be increased for the government's aid objectives and Australia will maximise aid and development outcomes.”

There is currently no mechanism under the aid program to fund the development-related activities of community groups, such as Rotary Clubs or Girl Guides units. These groups often do not have the capacity or inclination to go through the rigorous accreditation process required to secure ongoing funding.

This gap was highlighted in the submission from the Victorian Local Governance Association:

“I am certain that members of the panel are aware of the program initially promoted by the Local Government Association in Victoria and supported by many city councils in both Victoria and NSW. There are now more than 30 friends groups in Victoria alone who raise funds, visit East Timor, and manage projects in many districts of Timor-Leste. My own group was created with the help of the City of Kingston in Victoria in 2002 ... despite the support provided to the Friendship relationships at the local government, and to a limited extent, the state government level (particularly in the case of Victoria), there has been little concrete support available for this important initiative from the Commonwealth Government, apart from contributions to the funding of some conferences.”

The Review Panel recommends that the gap in support for such initiatives be filled by a program that could give grants of a maximum of \$20,000 for small development activities. On a pilot basis, a total provision of \$1 million could be made in the first instance.

To be eligible, community groups would need to have a local partner in a developing country. They would need to pass a basic due diligence test and provide referees. The scheme would be oriented towards smaller groups rather than major NGOs.

A small grants scheme supporting activities overseas obviously contains risks that would need to be managed and comes with administrative costs. The management arrangements of such a scheme would require careful thought. One option would be to contract out the management of the scheme to a contractor or NGO, with funding decisions made by an independent board. A model for effectively functioning small grants programs of this kind could be the various councils established by the government to promote cultural relations with countries such as Indonesia, China and India.

ii) Schools

The Review Panel considers that there would be particular merit in identifying ways of reaching out to children in schools to engage their interest in the situation of developing countries and the role of the aid program. The means of doing this could range from the development of curriculum material with aid and development themes through to distribution of factual information through new media.

This is an area in which the government could perhaps work with NGOs such as Caritas, who are already active in this field (discussed in Box 17.4), and other groups seeking to promote Australia's links with the Asia-Pacific region.

Box 17.4: Development Education – the Caritas Approach

Caritas Australia is the official aid and development agency of the Catholic Church. Its activities include not only overseas aid work, but also development education here in Australia. Caritas works with the Catholic Education Offices, who manage the majority of Australian Catholic schools, to educate their students on international development.

The Caritas development education program includes:

Resource development: Caritas produces educational resources for students, including printed materials, DVDs, and online multi-media resources. These assist educators to integrate international development into the school curriculum.

Professional development: Caritas Global Education Advisors conducted more than 40 professional development sessions for educators and community groups during 2009–10, with over 1,700 people participating.

'Just Leadership Days': students ranging from Years 5 and 11 from Catholic schools come together to explore, discuss and act upon issues of human development, human rights, poverty and injustice. The students are then provided with a 'toolkit' of information and ideas to share amongst their school communities.

Immersion programs: Caritas teachers and educators visit Caritas partners in developing countries to experience development in action.

Project Compassion: Caritas' annual Lenten Project Compassion campaign showcases stories of successful development. It encourages an informed approach to fundraising for development projects by telling stories and integrating awareness raising activities for entire school and parish communities.

iii) Promoting Informed Public Debate

The Australian public has a right to know their aid program is making a difference to people's lives. The size of the program is a legitimate point of public debate. The recent Queensland floods resulted in media attention to the size of the aid program and public commentary regarding whether 'charity begins at home'.

Interestingly, fewer than one per cent of the submissions received by the Review called for a cut in the aid program. But the Review Panel would not doubt that the view expressed by Trevor Hudson is indicative of a wider sentiment. Mr Hudson was one of those to call for a temporary cut in the aid program:

"I would also like to see our overseas aid temporarily cut by an amount equal to the recent flood damage in Australia so that we don't need to have a flood levy."

The Reverend Leanne Baker put the contrary view in her submission:

"Despite the recent devastation our own nation has experienced, we must not let our own misfortune impact on the ongoing, relentless misfortune of those who are less powerful and in the grip of poverty."

Such debates regarding relative priorities are both inevitable and appropriate. The government has a role to play in ensuring this public debate is as informed as possible.

Good communication is an important way to make sure debate is informed, but communication should not be confused with advocacy. The government will help inform public debate by providing timely and balanced information about the effectiveness of the program. As noted by Cardno in its submission to the Review:

"Importantly, the Australian aid program needs to engage the Australian public to a greater extent on what the aid program does and on what Australia's development priorities are. The Australian taxpayer expects to be able to identify where our money is going, on what it is being spent, and what results from our contributions."

iv) Embrace New Media to Improve Communications

In order to promote public debate, the Review Panel recommends the aid program fully embrace new media and other innovative technology to clearly communicate the impact of the program.

The AusAID website is clearly a critical source of information. The quality and timeliness of website information have improved dramatically in recent years. Nevertheless, further

investment is required to ensure information is kept up-to-date. The website should have links to projects funded by Official Development Assistance (ODA) and delivered by other government agencies, NGOs and multilateral organisations.

The website should also include interactive technology that enables easy access to information about the progress of the program and its activities. Documents released under the recommended Transparency Charter should also be easily accessible online.

This Review has used blogs and found them to be a good way to exchange information and gather views. A permanent blog on the aid program, run by either AusAID or a trusted partner, would be a good investment in public communication.

It is worth reiterating that public communication and public engagement are not peripheral add-ons to the aid program. They are an investment in a solid, long-term foundation for it, all the more important as the program is poised for unprecedented growth.

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.