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***Submission to the  
Independent Review  
of Aid Effectiveness***

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Micah Challenge Australia

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January 2011

## **Executive Summary**

Micah Challenge is a global movement of Christian aid and development agencies, churches, groups and individuals, which aims to deepen people's engagement with the poor and to reduce poverty as an integral expression of Christian faith.

In Australia, approximately fifty development agencies and church denominations are members of the Micah Challenge coalition. More than 113,000 Australians have signed the Micah Call, a personal commitment to fighting poverty and injustice.

Micah Challenge draws on the experience and research of our coalition members to make this submission. As outlined in detail below, we encourage the Independent Review in the formulation of its recommendations to:

- I.Ensure that poverty-reduction and the achievement of the Millennium Development Goals are identified as the central and overarching purpose of the Australian aid program;
- II.Ensure that the recommendations of the Review are predicated on continued growth in the Australian aid budget to at least 0.5% GNI by 2015/16, and provide the framework for a sustainable growth path to 0.7%, if not by 2015/16 then as quickly as possible;
- III.Ensure that the scale-up of the aid budget includes significant growth in resources directed toward building the development capacity and systems of AusAID, and funding directed through multilateral and NGO channels;
- IV.Ensure that the geographical spread of the aid program is primarily determined by need. It is expected that this should lead to growth in absolute terms across the entire geographic portfolio, but with a proportional re-weighting toward greater efforts in South Asia, Africa and through multilaterals;
- V.Ensure that existing commitments to direct 0.15% of GNI to the least-developed countries are met, and that aid to middle-income countries seeks to prioritise the poorest communities and population groups in those countries;
- VI.Ensure that the sectoral spread of the aid program is weighted toward areas where unmet need is high, and Australia's potential contribution is great. This would include a heightened focus on health and agriculture and rural development, along with the existing focus on education;
- VII.Ensure that Australia takes a lead in addressing the challenge of climate change and providing adequate funding for mitigation and adaptation in developing countries, while capping the diversion of ODA to climate change issues;
- VIII.Ensure that community education in Australia is an increasingly significant part of AusAID's mandate and is accompanied by greater efforts to improve the accountability and transparency of the Australian aid program; and
- IX.Ensure that the Australian aid program adopts and models international best-practice in strengthening civil society participation in the design, monitoring, and evaluation of all projects.

## **1) Poverty Reduction and the Millennium Development Goals as Strategic Framework**

The overarching purpose of the Australian aid program should be to address the global challenge of poverty and its causes. International statistics on global hunger (estimated at 925 million in 2010<sup>1</sup>), preventable child deaths (estimated at 8.1 million in 2009<sup>2</sup>), and lack of access to improved sanitation (2.6 billion in 2008<sup>3</sup>), underscore the significant humanitarian challenges that should guide the Australian program's continued growth.

The adoption of the Millennium Development Goals (MDGs) as the central organising framework for Australia's aid program in 2007 was an important step toward ensuring a poverty reduction focus within the aid program. As the primary international poverty-reduction framework agreed by both developed and developing nations, the MDGs should remain at the heart of the Australian aid program as it continues to expand. The MDGs, along with a broad poverty-reduction focus that incorporates a focus on inequality within developing countries and the needs of the most vulnerable including people with disabilities, should guide the priorities, structure, design, and evaluation of the aid program.

## **2) Aid Quantity & Scale-Up**

### **a. Overall Size of Program**

#### *i. Continued Growth Toward 0.5% Commitment*

The current bipartisan commitment to direct 0.5% of GNI to ODA by 2015/16 represents important and long-needed growth in the aid program. Any recommendations to result from this Review should be founded on and enable the program's continued growth toward 0.5% and beyond. The discussion and recommendations of this submission are predicated on continued growth of the aid budget to a minimum of 0.5% GNI by 2015/16.

#### *ii. Outline a Timetable and Build Capacity for Future ODA Growth to 0.7% of GNI*

While the current growth in the Australian aid program toward a target of 0.5% of GNI by 2015 is to be welcomed, this figure still sits below the internationally agreed benchmark of 0.7% of GNI.

A report published by Micah Challenge Australia in 2010 indicates that the likely impact of a further increase in ODA to the 0.7% target would have strong poverty-reduction impacts. The report outlines the potential impacts of lifting aid to 0.7% by the 2015/16 fiscal year. It conservatively estimates that:

- An additional 1 million instances of child stunting would be prevented;
- An additional 4 million children would receive access to basic education while the quality of education would be improved for an additional 25 million children;

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<sup>1</sup> Food and Agriculture Organization of the United Nations (September 2010).

<sup>2</sup> United Nations Inter-agency Group for Child Mortality Estimation (2010).

<sup>3</sup> United Nations, *The Millennium Development Goals Report 2010*, p.61.

- An additional 130,000 child deaths would be prevented each year;
- An additional 6,000 maternal deaths would be prevented each year;
- An additional 85,000 deaths associated with HIV & AIDS, TB, and malaria would be prevented each year; and
- An additional 510,000 people would be provided with access to clean water and sanitation each year.<sup>4</sup>

Given the likelihood that these significant poverty-reducing outcomes may be achieved with a higher rate of growth and Australia's obligations as a good international citizen, the Independent Review should be informed by the 0.7% target as well as the existing 0.5% commitment. Specifically, recommendations on the future structure and delivery of Australian aid should anticipate and provide advice on a timetable to build capacity for and deliver future growth to the 0.7% benchmark, if not by 2015/16 then as quickly as possible.

#### **b. Scale-up of Program**

##### *i. Increase AusAID capacity and systems*

The significant growth in the Australian development assistance program that has been experienced over the past five years and the further growth projected by 2015/16 necessitates a commensurate investment in AusAID's capacity and systems in order to ensure pro-poor outcomes.

Historically the AusAID departmental expenditure budget has been low by international standards at around 3.5% of the overall ODA budget. Given the important function of AusAID in managing and ensuring the effectiveness of the program, the projected increase outlined in the 2010/11 budget is welcomed. The Independent Review should consider outlining a target level of administration spending as the program continues to expand. Based on comparisons with the most effective bilateral programs internationally it is suggested that this should be around 5% of the program's overall expenditure.

In examining the structure and accountability of AusAID, the benefits associated with establishing AusAID as a separate department with its own cabinet-level minister and a clear poverty-reduction mandate should also be examined by the Independent Review.

##### *ii. Increase Funding through Multilateral Channels*

The current proportion of Australian aid dispersed through multilateral channels is low by both historical and comparative standards. Between 2000 and 2010, the proportion of funds directed through

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<sup>4</sup> Rationale for indications of likely additional benefits is provided in Micah Challenge Australia (2010), *The World We Want to See: A Roadmap for Australia's Overseas Aid Contribution by 2015-16*, pp14-15.

multilateral institutions declined from 23% to 12%.<sup>5</sup> This compares to the average amongst OECD donors of 31%.<sup>6</sup>

The delivery of aid through multilateral instruments has significant benefits both to Australia and partner countries. Support for effective multilateral agencies can increase the predictability and coordination of aid, and reduce the transaction costs and administrative burden for partner countries. For Australia, an increase in funds channelled through multilateral agencies would ensure effective absorption of the additional funding capacity with minimal additional administrative burden.

Moreover, many multilateral instruments are presently underfunded. A key example is the recent round of replenishment commitments to the highly-effective Global Fund to Fight AIDS, TB and Malaria. The commitments received failed to reach the target required for further expansion, and was even below the level required to sustain existing programs. Australia's commitment to date has been below our 'fair share' and could be easily expanded, thereby resulting in significant poverty reduction outcomes for the poor.

The Review should consider a significant increase in the proportion of Australian aid delivered through core support for effective multilaterals. In the next 3-5 years significant funding increases through multilaterals could justify increases to somewhere in the range of 25-30% of total development assistance spending. This growth should occur through multilateral institutions with proven effectiveness in achieving poverty reduction outcomes, and adequate mechanisms for ensuring that the voices of developing countries and poor communities are heard in institutional and project decision-making processes.

Over the medium to long term analysis may be undertaken to ascertain whether there is evidence-based justification for a redistribution of some of this increase in funding back to bilateral and NGO channels. This shift should only occur if these mechanisms are found to be more effective in producing poverty reduction outcomes.

### *iii. Increase Funding through NGO Channels*

Non-government organisations – both those based in Australia and in partner countries – have particular strengths in maintaining a strong grass-roots presence in developing countries and ensuring the delivery of programs to the poorest communities. The Australian aid program has traditionally provided low levels of development assistance through NGO channels relative to comparable bilateral programs internationally. The Review should consider accelerating the rate of growth in funds dispersed through NGOs to bring the overall proportion into line with other bilateral donors at around 10%.

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<sup>5</sup> *Australia's International Development Assistance Budget: A Good International Citizen* (May 2010), p59.

<sup>6</sup> Stephen Howes & Matthew Morris (Oct 2010), *Aid Open Paper: Patterns & Trends in Australian Aid*, p3.

*iv. Paris and Accra Agreements*

The future direction of the aid program should continue to be directed by the principles of the Paris Declaration and Accra Accord. Specifically, this should include greater use of effective multilateral channels where there is appropriate developing country representation as discussed above, an increase in the share of bilateral aid provided through general budget support, and a move toward increased average project size. However, these reforms should be accompanied by mutually-agreed outcomes-based conditions that allow for considerable flexibility but ensure that aid delivered is effectively targeted at poverty reduction.

Importantly, the Paris/Accra emphasis on ownership by developing countries and mutual accountability of development assistance should be given increased prominence within the Australian program.

**3) Aid Effectiveness**

**a. Geographic Distribution**

The Australian development assistance program has historically been heavily focussed on our immediate region with major programs in PNG, Indonesia, the Pacific, Southeast Asia, and East Asia. While regional considerations should continue to be a significant driver of the geographical strategy adopted by the aid program, this should also be balanced with a focus on areas of greatest need. Overall, this should lead to continued absolute increases in Australian funding to the Pacific, PNG, and East Asia but with greater proportionate increases in the allocations to South Asia, Africa, and global multilateral instruments.

In the Pacific region, Australia has special responsibilities as a close neighbour and the major bilateral donor. However, in absolute terms the number of poor people in these countries is very small, current levels of ODA per capita are high, and there are questions about further absorptive capacity. For these reasons, current levels of assistance to the Pacific should be maintained or slightly increased in absolute terms, but the proportion of funding directed to the region should decline.

Very large numbers of poverty-affected households continue to exist amidst the growing economies of Australia's Southeast Asian neighbours. In particular, Indonesia, Philippines and Myanmar have high absolute levels of poverty and low levels of ODA per capita. The Australian aid program should work with partner governments to build their capacity to develop effective monitoring and statistical analysis systems. These efforts should seek to ensure that programs are designed with a particular emphasis on addressing inequality and ensuring that the benefits of development assistance are directed towards the poorest communities and population groups. Other Southeast Asian partner countries including PNG, Cambodia, and Vietnam have higher levels of aid per capita but have significant poverty-affected populations. Growth should continue in these countries but at a more moderate level.

The recent growth in the level of assistance provided to Africa is in line with an overall emphasis on poverty reduction. The greatest challenges to the achievement of the MDGs continue to exist on the African continent. Expansion of this program should be continued. The current strategy of working

primarily in partnership with multilateral and NGO partners, along with limited programs in areas acknowledged to align with unique capacities and strengths of the Australian program, including agriculture and health, should be continued.

If the Australian aid program is to be focussed on the reduction of poverty with an emphasis on our own region, significant attention needs to be directed toward our Indian Ocean neighbours in South Asia. Despite significant economic growth among some sections of South Asian society, particularly in India, the number of people continuing to live in poverty and the depth of poverty is amongst the worst in the world. To date Australia's aid program in South Asia has been small representing approximately 4% of the total aid budget. There is an acknowledged danger of spreading Australian contributions too thinly and increasing administrative burden for recipient nations. Therefore the Review should consider the option of a major expansion of the South Asian program to around 15% of the development assistance budget, with a focus on large scale proven strategies.

#### **b. Focus on Least Developed Countries and Small Island Countries**

Micah Challenge affirms the commitment by Foreign Minister Rudd to move Australia's development assistance program toward the internationally agreed benchmark of providing 0.15% of GNI as development assistance to the least-developed countries. This commitment is in line with the MDG target 8b, and should be maintained in the context of any new directions to emerge from this review.

However, increasingly large numbers of the world's poorest people are located within middle-income countries, including three-quarters of those living on less than \$1.25 a day.<sup>7</sup> As such, along with efforts to target Australia's development assistance to least-developed countries, the program should also prioritise supporting and building the capacity of partner governments to address chronic poverty and inequality in middle-income countries such as Indonesia, Philippines, Vietnam, and India.

#### **c. Sectoral Focus**

Once again, the Review should make recommendations on future sectoral allocations on the basis of the potential for greatest impact on reducing poverty and achieving the Millennium Development Goals. The priority should be sectors where there exists significant underfunded need, and Australian expertise and experience has the greatest potential to make a significant positive contribution.

As outlined below, this prioritisation of sectors should lead to the elevation of health as a second 'flagship' priority of the aid program alongside the existing focus on education. It should also lead to a significant increase in program spending on rural development and agriculture.

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<sup>7</sup> A. Sumner, Institute of Development Studies (2010).

*i. Education*

The current Australian emphasis on education is consistent with a poverty reduction focus framed in terms of the MDGs. The currently outlined policy of moving to a 20% sectoral allocation for education should be retained over the next five years.

*ii. Health*

In addition to this ongoing focus on education, health should be elevated as a second ‘flagship’ sector of the Australian aid program. The achievement of the health-related MDGs by 2015 – particularly MDGs 4 & 5 covering child and maternal health respectively – is currently off-track. The most recent international figures suggest that 8.1 million children still die before the age of 5,<sup>8</sup> and 358,000 women still die in childbirth.<sup>9</sup> Despite recent international attention with the launch of the UN Secretary-General's Global Strategy for Women's and Children's Health, there remains insufficient attention and investment in this sector. Moreover, health is an area of considerable Australian expertise both within the aid program itself, and more broadly in public health and medical research expertise within the country.

The growth of the aid program should include acceleration in the rate of growth in the health budget to at least 20% of the overall budget. Within this figure the current allocation to maternal and child health of approximately 40% should be maintained. Growth to these levels would see Australia's contribution to health approximately match our fair share of the total global burden.

*iii. Rural Development and Agriculture*

Given the global underinvestment, the potential for pro-poor outcomes, and the unique expertise located within Australia, contributions to the rural development and agriculture sector should increase significantly from their current levels of around 6% to a 2015/16 target of at least 12%.

*iv. Water and Sanitation*

Given the high levels of unmet need in relation to water (1 in 8 globally lack safe water) and sanitation (2 in 5 lack adequate sanitation), the sectoral allocation to water and sanitation should increase to represent approximately 5% of the total program. This growth in water and sanitation programs should be part of a commitment to direct more and predictable resources to water, sanitation, and hygiene over the long-term. In line with the recommendations of WaterAid Australia, expenditure on water and sanitation should be reported separately, and at least half of the overall water and sanitation budget should be allocated to sanitation programs. Programs should focus on basic services in countries that are most likely to miss achieving the water and sanitation targets, with an emphasis on building capacity within these countries.

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<sup>8</sup> United Nations Inter-agency Group for Child Mortality Estimation (2010).

<sup>9</sup> WHO, UNICEF, ENFPA, and World Bank, *Trends in Maternal Mortality: 1990-2008* (2008).

#### v. Governance

Governance as a discreet area of expenditure should be a lower priority in future budget allocations. While absolute levels of funding will continue to grow with the overall growth of the budget, the percentage allocation should decline to approximately 15%.

The reason for this redistribution is twofold. First, while there may be considerable evidence to suggest that the presence of good governance is significantly positive for poverty reduction, such efforts need to be well targeted and have historically often been poorly directed. There have also been problems with the indicators used to measure the effectiveness of governance programs. Often good governance programs have been measured in terms of policies implemented and the number of government officials trained. An example of this can be seen in the World Bank and UN Office of Drugs and Crime Stolen Asset Recovery (StAR) Initiative launched in 2007 to assist developing countries and financial centres prevent the laundering of the proceeds of corruption and to facilitate a more systematic and timely return of stolen assets. In November 2010, the StAR Initiative reported that its progress had been to train 500 officials in over 40 countries. Six countries have been assisted in freezing assets, five are working on legal assistance in on-going cases and two have asked StAR to act as an honest broker.<sup>10</sup> Reporting these indicators alone provides very little ability to demonstrate lasting and concrete impacts on poverty reduction through increases in good governance. By contrast, expenditure in other sectoral areas such as health, education, and rural development may be linked to interventions with proven outcomes for the poor.

Second, development research increasingly points to the reality that alongside national and international efforts, bottom-up, society-focused initiatives that include the provision of quality public services for the poor are also highly significant in promoting good governance.<sup>11</sup> For this reason, priorities for designated governance spending should be adjusted so as to ensure an approximately equal balance between 'top-down' and 'bottom-up' initiatives. These bottom-up initiatives should include a strong focus on civil society strengthening. Moreover, the relative decline in discreet governance spending should be accompanied by an increased recognition of the cross-cutting governance components of spending in other sectoral areas, for example educational and health systems.

#### **4) Overcoming threats to Poverty Reduction and Achieving the MDGs**

##### **a. Climate Change**

It is well documented that the poor are the most vulnerable to climate change due to their heavier reliance on agriculture, less developed infrastructure, geographical location, and limited capacity to

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<sup>10</sup> World Bank and UNODC, Stolen Asset Recovery Initiative Update, November 2010.

<sup>11</sup> Cf. Department for International Development (2010), *The Politics of Poverty: Elites, Citizens and States*, Chap. 7. This report is the result of a ten-year major research collaboration between the Department for International Development, CRISE (Oxford University), Crisis States Research Centre (LSE), Centre for the Future State (IDS) and Centre on Citizenship, Accountability and Participation (IDS).

adapt. Unmitigated climate change has the potential to wipe out the MDG development gains of recent decades, while the climate change that is already occurring, and will accelerate even if global temperatures are contained significantly, compromises the world's ability to achieve the MDGs.

The potentially catastrophic effects of unmitigated climate change on the world's poor should serve as motivation for Australia to carefully consider the interplay between our aid program and our response to climate change.

Australia should take a leadership position on reducing global carbon emissions as opposed to the current approach which is to do no more and no less than other nations. This is despite the fact that assessments of the impact of climate change, such as the Garnaut Review, point to Australia being more severely impacted than other developed countries.

Micah Challenge also believes it imperative that Australia assist developing countries to engage in climate change mitigation and adaptation. Integral to this is the provision of climate financing. The Copenhagen Accord envisaged short term financing needs of US \$30 billion for 2010-2012 and foreshadowed funding increasing to US \$100 billion a year by 2020. In the longer term climate financing could come from a variety of sources – government grants, private flows, sale of carbon permits, and other innovative sources such as a financial transactions tax.

Australia has met its initial commitment to fast track financing through contributions from the ODA budget. While Australia should continue to provide its fair share in the global effort to address climate change, this funding needs to be new and additional to the international aid target of 0.7% which was established prior to discussion of climate financing. We recognise that there are not always clear lines of delineation between development issues and climate change issues, so suggest at the very least that there should be a cap on the amount of ODA spending that can be diverted to climate change issues.

## **5) The Importance of Community Education, Accountability and Transparency**

Micah Challenge in Australia has both an advocacy function and an education function. Over the last five years we have seen the enormous benefits of community education initiatives as more and more Christians in Australia have become engaged in the issues confronting poor people in the developing world.

As Australia's aid program continues to grow and expand, so too must efforts to engage Australians in understanding where our aid money is being spent and why, as well as the enormous benefits that our aid is having on the lives of people and communities. Education breeds accountability and transparency, therefore a commitment to community education must be a core part of Australia's aid program going forward.

Accordingly, AusAID should review its reporting to ensure they provide up to date information about funding commitments that is both easy to find and also in a format that is accessible to the majority of Australians.

The establishment of the Office of Development Effectiveness was a welcome development in ensuring greater levels of transparency and accountability around the Australian aid program's effectiveness. In order to ensure the ODE is able to fulfil this function effectively, the Independent Review should look to opportunities to increase its mandate, authority and resources. To this end, the ODE should be enabled to:

- Publish a comprehensive review of development effectiveness on an annual basis;
- Publish major sector reviews at least bi-annually;
- Publish mid-term reviews of country program strategies;
- Incorporate civil society input from affected communities in all evaluations so as to improve downward accountability; and
- Ensure that ODE evaluations are incorporated in all aid planning.

## **6) Civil Society Participation**

Through this review the Australian aid program should seek to implement and model best practise processes with regard to encouraging civil society participation in all of the programs Australia funds.

In their 2010 report 'Corruption and Its Discontents' Tearfund in the UK assessed the impact of corruption on people living in poverty. The research involved extensive participation from individuals and communities in developing countries. The report concluded that strengthening civil society involvement in governance initiatives is an essential counterpart to strengthening state involvement in governance.

One of the key recommendations the report outlined regarding ways that donors could help combat corruption in the design and delivery of their projects was for donor development policy to 'place greater emphasis on actions designed to strengthen the capability of citizens to hold their government to account.'<sup>12</sup>

Micah Challenge Australia believes that civil society participation from local communities should be promoted, monitored and evaluated as an essential component of the design and delivery of any Australian funded development project.

## **7) Conclusion**

The concern of the Micah Challenge coalition is for this Review to enable Australia to make an increasingly effective contribution to the global effort to reduce poverty.

We welcome any further discussion or clarification regarding our submission.

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<sup>12</sup> Tearfund UK (2010), *Corruption and its Discontents; Assessing the impact of corruption on people living in poverty*, pp 3, 6.