AUSTRALIA

Development Assistance Committee (DAC)

PEER REVIEW

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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The Peer Review Process

The DAC conducts periodic reviews of the individual development co-operation efforts of DAC members. The policies and programmes of each member are critically examined approximately once every four or five years. Five members are examined annually. The OECD's Development Co-operation Directorate provides analytical support and is responsible for developing and maintaining the conceptual framework within which the Peer Reviews are undertaken.

The Peer Review is prepared by a team, consisting of representatives of the Secretariat working with officials from two DAC members who are designated as "examiners". The country under review provides a memorandum setting out the main developments in its policies and programmes. Then the Secretariat and the examiners visit the capital to interview officials, parliamentarians, as well as civil society and NGO representatives of the donor country to obtain a first-hand insight into current issues surrounding the development co-operation efforts of the member concerned. Field visits assess how members are implementing the major DAC policies, principles and concerns, and review operations in recipient countries, particularly with regard to poverty reduction, sustainability, gender equality and other aspects of participatory development, and local aid co-ordination.

The Secretariat then prepares a draft report on the member's development co-operation which is the basis for the DAC review meeting at the OECD. At this meeting senior officials from the member under review respond to questions formulated by the Secretariat in association with the examiners.

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Ireland and Portugal for the Peer Review on 4 December 2008.

In order to achieve its aims the OECD has set up a number of specialised committees. One of these is the **Development Assistance Committee**, whose members have agreed to secure an expansion of aggregate volume of resources made available to developing countries and to improve their effectiveness. To this end, members periodically review together both the amount and the nature of their contributions to aid programmes, bilateral and multilateral, and consult each other on all other relevant aspects of their development assistance policies.

The members of the Development Assistance Committee are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities.

LIST OF ACRONYMS

ACEDP	Australia-China Environmental Development Programme
ACFID	Australian Council for International Development
ADB	Asian Development Bank
AFP	Australian Federal Police
AIP	Australia-Indonesia Partnership
AIPRD	Australia-Indonesia Partnership for Reconstruction and Development
ALNAP	Active Learning Network for Accountability and Performance
ANCP	AusAID-NGO Co-operation Programme
ARDE	Annual review of development effectiveness
AusAID	Australian Agency for International Development
CSO	Civil society organisation
DAC	Development Assistance Committee
DESC	Development Effectiveness Steering Committee
DEWHA	Department of the Environment, Water, Heritage and the Arts
DRR	Disaster risk reduction
DSF	Decentralisation Support Facility
EU	European Union
GFG	Governance for Growth programme
GHD	Good humanitarian donorship
GNI	Gross national income
GPF	Government Partnership Fund
HAPI	Humanitarian Accountability Partnership
HES	Humanitarian and Emergency Section (AusAID)
IDA	International Development Association
LDCs	Least developed countries
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MOPAN	Multilateral Organisations Performance Assessment Network
NGOs	Non-government organisations
NZAID	New Zealand Agency for International Development
ODA	Official development assistance
ODE	Office of Development Effectiveness
OECD	Organisation for Economic Cooperation and Development
PAA	Priorities and action agenda
RAMSI	Regional Assistance Mission to Solomon Islands
UN	United Nations
UNDP	United Nations Development Programme

Signs used:

AUD	Australian Dollar
USD	United States dollars
( )	Secretariat estimate in whole or part
-	(Nil)
0.0	Negligible
..	Not available
…	Not available separately, but included in total
n.a.	Not applicable

Slight discrepancies in totals are due to rounding.

Exchange rates (AUD per USD) were:

2005	2006	2007
1.3128	1.3279	1.1952

Australia's Aid at a Glance

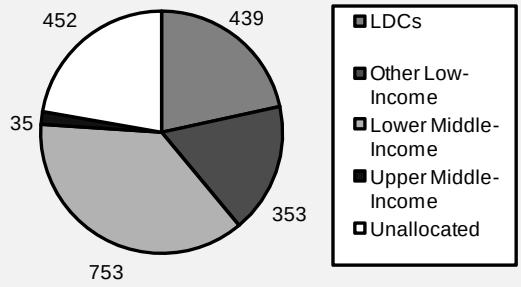
AUSTRALIA

Gross Bilateral ODA, 2006-07 average, unless otherwise shown

Net ODA	2006	2007	Change 2006/07
Current (USD m)	2 123	2 669	25.7%
Constant (2006 USD m)	2 123	2 317	9.1%
In Australian Dollars (million)	2 819	3 189	13.1%
ODA/GNI	0.30%	0.32%	
Bilateral share	85%	85%	

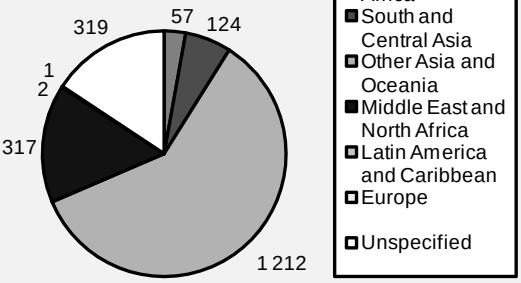
By Income Group (USD m)

Clockwise from top

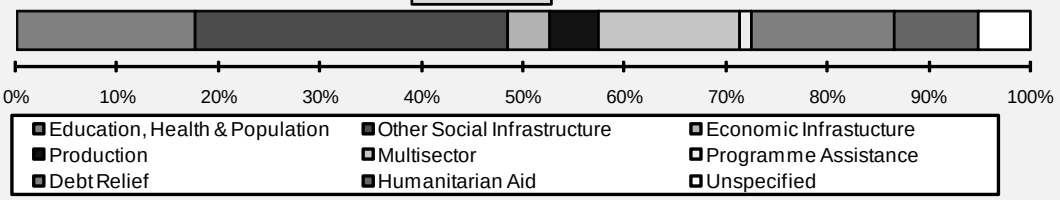


Top Ten Recipients of Gross ODA	
1 Indonesia	288
2 Iraq	288
3 Papua New Guinea	262
4 Solomon Islands	174
5 Timor-Leste	65
6 Philippines	60
7 Viet Nam	56
8 China	41
9 Afghanistan	36
10 Cambodia	30

By Region (USD m)



By Sector



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THE DAC's MAIN FINDINGS AND RECOMMENDATIONS

Overall framework for development co-operation

Legal and political orientations

Renewing the emphasis on development aid and prioritising poverty reduction

Being mostly surrounded by developing countries, Australia has special responsibilities and specific challenges. Although poverty levels have fallen, most countries in the region are confronting serious difficulties in achieving the Millennium Development Goals (MDGs). Several are in the midst of major governance upheavals ranging from consolidation of fragile democracies to civil strife and open conflict. Development gains may also be weakened by growing environmental threats. Australia has strengthened its response to these challenges at the policy, institutional and delivery levels since the last peer review in 2004. A White Paper, *Australian Aid: Promoting Growth and Stability*, was developed in 2006 and provided a comprehensive plan for Australia's aid programme over the medium term. The White Paper – and the consultative process leading up to it – has helped provide momentum for reforming the aid programme, in parallel with significant scaling-up in aid volume.

The government elected in November 2007 is giving a higher profile to development co-operation, as illustrated by the newly re-instated position of a Parliamentary Secretary for International Development Assistance, under the leadership of the Minister for Foreign Affairs. It is promoting poverty reduction as the core objective of Australia's development co-operation programme. The Prime Minister has also reinforced the government's commitment to the MDGs. There is already a stronger emphasis on the MDGs in the aid budget and work is underway to provide the analytical and methodological tools needed to embed the MDGs in new country and regional strategies. Other policy orientations include a strengthened emphasis on multilateralism, a reaffirmed commitment to assisting neighbouring countries in the Asia and Pacific regions, and a decision to engage further with Africa. These new orientations mean that the 2006 White Paper no longer reflects Australia's policy development assistance framework, though it remains an important resource for strategic decision-making. A new overarching statement guiding the aid programme would therefore be welcome.

Adjusting to a unique external context

Approximately 50% of Australian aid is delivered to states in fragile situations in Asia and the Pacific. This reflects the moral imperative resulting from Australia's geographic location as well as its economic and security interests. Australia has strengthened its analytical foundation for engaging in these situations and developed a

multifaceted, flexible approach involving stronger investments in nation building, developing leadership capacity, working in partnership with civil society and enhancing emergency management capacity in partner countries. A challenge for Australia's engagement in fragile contexts is to maintain the focus on ownership and alignment, even when short-term considerations favour more hands-on approaches, especially in conflict situations. In addition, where Australia is the main donor and often has a leadership role, as in the Solomon Islands, it is crucial that it continues to work closely with other donors to engage them in the dialogue with partner country governments. The DAC welcomes Australia's continuous engagement in states in fragile situations and appreciates Australia sharing its particular experience with other members.

Gender equality and women's empowerment are well integrated into the programme, backed by strong leadership from senior management and appropriate resources. However, despite growing environmental concerns across the region, environment does not seem as well integrated. A renewed emphasis has been put on environment since 2007 and a new environment and development assistance policy has been developed. While signalling a significant increase in Australia's environment-related support in the Asia and Pacific regions, the policy intends to guide a portfolio of activities that directly targets environmental challenges and to support a stronger commitment to environmental management across all sectors of development. Significant initiatives were recently taken to address several aspects of global environmental challenges. The Australian Agency for International Development (AusAID) should build on these opportunities to more systematically consider environmental threats and opportunities throughout the aid programme.

Communicating and widening public and political support

While public and political support for development aid has increased, Australia must sustain its efforts to widen this support, especially as increasing aid volumes will require a strong constituency. Bearing this in mind, AusAID should consider increasing its communication resources when planning its new communication strategy. This would enable it to capitalise on opportunities outside the agency to advance its development education agenda. In particular, working more with NGOs to raise public awareness would be beneficial given the public credibility of NGOs. AusAID should also make the public and politicians more aware of the new aid effectiveness approach to delivering aid.

Promoting policy coherence for development

Implementing an effective whole-of-government approach

Development issues have become increasingly interlinked with broader Australian, regional and international policy priorities. These include regional security, trade, economic integration, the trans-boundary threats posed by communicable diseases, counter-terrorism, illicit drugs and organised crime. Australia's rigorous approach to whole-of-government policy-making facilitates policy coherence for development (PCD), with positive results in areas like trade and migration, two crucial issues for Pacific Island countries. It also instils coherence within the aid programme.

The Department of Prime Minister and Cabinet leads the whole-of-government approach. AusAID provides advice on development considerations in Australia's foreign and domestic policies through a range of interdepartmental committees and working

groups across government. In addition, a number of mechanisms, including the Development Effectiveness Steering Committee (DESC) and nine strategic partnership agreements between AusAID and other Australian departments, help ensure the coherence of the Australian development co-operation programme at both strategic and operational levels.

Strengthening AusAID's role in the whole-of-government approach to PCD

AusAID's higher government profile results from the ability of senior management to engage more with the government and the broader Australian community on development issues. This approach, which also involves field offices, is backed by good internal analytical capacity, acquired through hiring experts, developing internal knowledge management and linking further with research institutes and universities. AusAID should pursue its efforts in order to support the Parliamentary Secretary's positions within government and to ensure that policy coherence is implemented in partner countries. This means that stakeholders from all ministries must internalise Australia's overarching development objectives and principles.

Recommendations

- The DAC commends Australia for its reinforced strategic focus on poverty reduction and the MDGs and its continuous engagement in states in fragile situations. Australia could benefit from including these commitments in a political statement clarifying its strategic development assistance framework over the medium to long-term.
- The DAC appreciates Australia's extensive engagement in states in fragile situations and encourages it to continue to share with other members its particular experience in these contexts.
- Australia has made considerable efforts in integrating gender equality into its aid programme. It should continue to share its good practice with other donors. At the same time, Australia is invited to build on its experience in this area to integrate environmental concerns as effectively throughout its programme.
- AusAID needs to strengthen its communication efforts to ensure sustained public and political support for the expanding development programme, and to raise awareness of the implications of applying the aid effectiveness principles, in particular the new modalities for delivering aid.
- Building on its significant progress, Australia is encouraged to continue to develop internal and external capacities to further enhance policy coherence for development as part of its whole-of-government approach.

Aid volume, channels and allocations

Increasing aid volumes

Australia's aid volume started to increase significantly in 2004, following years of quasi-stagnation in real terms. Australia's net ODA amounted to USD 2.67 billion in 2007, representing 0.32% of its gross national income (GNI). The government committed

in 2007 to an ODA/GNI ratio of 0.5% by 2015/16 and is taking steps to achieve this objective, with ratios of 0.32% planned in 2008/09, 0.35% in 2009/10, 0.37% in 2010/11 and 0.38% in 2011/12. Achieving the 0.5% ODA/GNI target in 2015 will imply a programme more than double its current size. The DAC would welcome Australia continuing its efforts towards the 0.7% UN target once it has achieved the 0.5% target.

Australia will need to manage the rapid increase of its aid volume carefully to avoid undermining its strategic focus and to maintain complementarity while continuing to work constructively with other donors, in a context where capacity of partner countries to absorb aid can be limited. Australia is aware of the latter issue and is planning appropriately to assess prospects for scaling-up in each country programme. In doing so, Australia will need to take care that the new Pacific Partnerships launched in 2008 are clearly defined in the context of collaboration with other donors. Likewise, the DAC welcomes Australia's announcement that it will channel more aid through multilateral organisations.

Expanding the geographic and sector focus

The Australian bilateral programme focuses on the Asia and Pacific regions, which received 76% of its bilateral aid volume in 2006. This focus is consistent with the government's stronger emphasis on the MDGs, since many countries in the Pacific are performing poorly in this respect. It also fits with the international donor commitment to the division of labour, as few donors have long-term aid programmes in this region. Australia also plans to enhance its bilateral engagement in Africa to help achieve the MDGs in this region. This is a welcome decision since Australian aid to Africa, and specifically to least developed countries (LDCs) has been limited. In engaging bilaterally in such countries, Australia is aware of the risk of adding to the administrative burden of partner countries that already deal with a large number of donors. The DAC therefore supports Australia's plan to co-operate closely with other donors and whenever possible to rely on delegated co-operation arrangements when engaging in a new country.

Australia's strong commitment to governance programmes is reflected in its aid allocations to this sector. The government also plans to increase funds to sectors directly linked to the MDGs, in line with its policy orientation. Given its emphasis on economic growth for poverty reduction, Australia should also reverse the decline of funds allocated to the economic and productive sectors. While the rapid increase in Australian aid may allow new government priorities to be introduced into the programme, Australia will need to be careful to avoid excessive dispersion within partner countries. The two peer review field visits to Indonesia and Vanuatu revealed that AusAID is a highly dynamic organisation working in an increasing number of sectors and trying to be responsive to the needs of partner governments. The downside of this positive attitude may be an attempt to do too much, leading to a loss of focus and/or dissipation of energy, thereby ultimately weakening impact.

Engaging further with other actors and the multilaterals

Since 2004, the percentage of ODA allocated through NGOs has remained stable, at 5%. However, the 2007/08 and 2008/09 budgets both plan to increase the funds allocated to or through NGOs. Considering Australian NGOs' high credibility within the public, and the scaling-up of the development assistance programme, AusAID should continue increasing the amount of aid channelled through civil society organisations. This could

help to strengthen the Australian aid programme in Africa, where many Australian NGOs are actively engaged.

The share of ODA channelled through multilateral organisations is relatively low compared to other DAC members (14% in 2007). The main multilateral recipients of Australian ODA are the World Bank and the Asian Development Bank. Australia and New Zealand have committed to work more with both these organisations in the Pacific through a Quadrilateral Co-operation Agenda. Australia is also active in supporting global initiatives in the health sector. The Australian Government plans to increase its multilateral engagement, in particular through a new initiative, the *United Nations Partnership for the MDGs*. This should allow Australia to develop further strategic linkages between its bilateral and its multilateral engagement. It could also use its stronger position within multilateral organisations to maintain attention on the Pacific region.

Recommendations

- It is important that Australia maintains its primary focus on Asia and the Pacific region, the latter of which lags behind in achieving the MDGs. At the same time, the DAC welcomes Australia's increased focus on Africa, and in particular African LDCs. It encourages Australia to reflect on the best way of managing this geographic expansion, keeping in mind that the Accra Agenda for Action calls for reducing costly fragmentation of aid. Australia should take the opportunities to work through delegated co-operation arrangements or multilateral organisations as well as to rely more on NGOs when engaging in a new country.
- The DAC appreciates the particular context of small states in which Australia operates. Bearing this in mind, as the size of its aid programme grows, Australia should maintain a strategic sector focus at country level in order to promote coherence of efforts within the sectors which Australia supports.
- Increasing the share of aid going through multilateral organisations is appropriate given Australia's growing programme. This should give AusAID the opportunity to develop further strategic linkages between its bilateral programme and its multilateral engagement.

Organisation and management

AusAID's anchoring role within the whole-of-government approach

Australia's aid strategy aims to include all the departments and agencies involved in delivering the aid programme via a whole-of-government approach, both at headquarters and in the field. While other government agencies are increasingly involved in development policy and programme delivery, 85% of Australia's ODA is delivered through AusAID, an autonomous agency within the Department for Foreign Affairs and Trade. AusAID's mandate is to: i) serve the minister and government by formulating development policy and advice, and engaging with Australian stakeholders; ii) achieve lasting development results through the design and delivery of high quality programmes; and iii) maintain policy, technical and corporate capability through investing in people and systems. AusAID's anchor role is crucial to ensure that the aid programme meets key

development and effectiveness principles. This role should be maintained as the volume of aid increases.

A broad reform agenda

The *AusAID 2010 Director General's Blueprint* was issued in 2007 to provide a broad institutional picture of how AusAID should function to enable it to deliver increasing amounts of aid effectively by 2010. It has been instrumental in setting the directions and giving the impetus for the organisation to adapt. *AusAID 2010* describes AusAID's operation as driven by two elements: (i) *a strong centre* that sets strategic direction for the agency; oversees, equips and supports overseas offices for effective programme delivery; and manages risk; and (ii) *strong country and regionally-based teams* managing implementation of a substantial programme through more diverse and complex delivery mechanisms in partnership with governments, donors and other stakeholders. AusAID has set up an integrated management structure around three main operational functions: programme delivery, programme enabling and corporate enabling, backed by upgraded information technology systems.

A well-advanced devolution process

AusAID 2010 gave further impetus to AusAID's devolution process which is now well-advanced, supported by a clear vision, a detailed transition plan and appropriate resources. The incremental approach adopted by AusAID has enabled it to learn from experience as it deepens the devolution and extends it to new countries. Field offices' capacity has been considerably strengthened and a clear corporate framework, including governance, operation and knowledge-sharing, has been set up. Close links have been established at country level between corporate and programme functions. The devolution process appears to be successful, with a clear demarcation of roles between Canberra and country posts, clear lines of accountability and decentralised programmes coherent with the overall strategy of AusAID and its corporate framework. However, with two regional hubs in Bangkok and Suva set up at the end of 2007 to support smaller offices, AusAID needs to ensure clear relationships and lines of accountability among Canberra, the regional and country offices.

Strengthened emphasis on results orientation and knowledge management

AusAID is committed to becoming a results-based and learning organisation in a devolved environment. It is thus improving its corporate business processes and performance monitoring systems to ensure consistent programme delivery and corporate management across all of its operations. A strategic planning framework has been set up, with divisional and branch business plans stemming from it. Detailed instructions, guidelines and tools are being developed on all aspects of programme delivery, with a dedicated intranet site keeping staff informed of corporate business rules and processes. Performance reporting processes have been brought together into one coherent system. This system ensures that assessments are transparent and can be contested. Overall, it brings a stronger focus on quality of activities and is used as a key management tool both at headquarters and in the field. In putting in place its new reporting system, AusAID still faces challenges in balancing accountability, management and learning requirements. The review of the performance assessment and evaluation policy planned for the end of 2008

will be an opportunity to streamline systems and practices and assess the capacity required.

AusAID also puts a specific emphasis on managing knowledge and evaluating effectiveness. In 2007, it set up thematic groups and networks which improve access to information and skills and help new staff become effective rapidly. A first *AusAID Development Research Strategy 2008-10* was launched in January 2008, which also illustrates AusAID's aim to use knowledge to guide the programme for increased impact on poverty reduction. Finally, Australia took the innovative step of setting up the Office of Development Effectiveness (ODE) in April 2006. ODE monitors the quality and evaluates the impact of the Australian aid programme. It seeks to report on the effectiveness of Australian aid and identify areas where effectiveness could be improved. Its position as a free-standing unit reporting directly to AusAID's Director-General enables it to address critical issues and improve transparency. Its reports, which are available on the Internet, provide frank assessments, including progress made and remaining challenges for the aid programme. The impact of this initiative should be shared widely with other donors.

Addressing human resource challenges

AusAID established a new, reinforced human resource branch in 2006. It has been instrumental in setting up a more professional, integrated approach to all aspects of human resources policies and strategies. AusAID staff numbers, positions and profiles have evolved in the last four years to respond to the challenges of managing an expanding and devolved aid programme. AusAID has approximately 1 100 staff, an increase of nearly 50% in four years. Half of the staff is located overseas, compared to 40% in 2004. AusAID staff comprises 700 Australians and 400 locally-recruited staff. As with other DAC members, finding the right mix of people and creating an appropriate balance between different categories and positions remains a continuous challenge. Roles and positions of locally recruited staff have evolved positively and they are now offered more attractive terms and conditions in terms of flexibility, retention and inter-post mobility. This should better enable Australia to retain qualified local staff and maintain continuity in the devolved programme. Almost all Australian-based staff comprises Australian public servants, but AusAID increasingly contracts a number of people to fulfil its need for expertise and flexibility. AusAID also favours secondments as a way to gain expertise. Retaining younger staff and reducing staff turnover will be crucial for developing expertise and building sustained relationships with partners in Australia and abroad. AusAID should develop a specific policy to attract and retain capable, experienced staff with suitable skills, including for staff working in states in fragile situations. The workforce planning process underway in AusAID since mid-2008 is a positive step in this direction. AusAID also needs to consider the risks accompanying high internal staff mobility, especially when combined with high staff turnover. In Indonesia this was seen by most of AusAID's partners as a constraint for developing constructive relationships. AusAID might consider offering longer-term postings than its current "2 + 1 optional year" policy, while remaining flexible, particularly offering exceptions for hardship posts.

Working further through NGOs and other partners

The development of the White Paper opened up a new process of engagement with NGOs and other partners. This is likely to continue with the Australian government

committed to strengthening and widening the range of players engaged with the aid programme, including NGOs, the Australian private sector, Australian state and local government as well as other Australian communities, such as volunteers, universities and professional bodies. The DAC encourages AusAID to set up a new framework to engage in a more collaborative way with key NGOs. This should include: i) developing a strategic approach to allow AusAID to make better use of NGOs; ii) establishing a forum on development policy with high level political engagement; and iii) reinforcing partnership mechanisms by capitalising on the new strategic partnership agreements which AusAID plans to develop with key NGOs by June 2009.

Recommendations

- The DAC encourages Australia to maintain AusAID's status and role as responsible for the aid programme within the whole-of-government approach. This will help ensure that all stakeholders involved in the aid programme share the same development vision.
- As the regional offices develop, AusAID will need to clarify further their role and responsibilities in relation to the country offices and Canberra in the devolved system.
- AusAID should build on its workforce planning process to develop a policy for attracting and retaining personnel with the needed skills. This will allow it to maintain the right level of staff with the appropriate skills mix to deliver a broader programme in line with the Paris principles on aid effectiveness.
- The DAC appreciates Australia engaging further with NGOs and other partners like the Australian private sector and universities, focusing on complementarity of development efforts. Australia should consider developing a strategic framework for engaging with civil society partners and in particular with NGOs, covering both policy consultations and partnership mechanisms, so as to expand further their contribution to programme delivery, policy dialogue and in building community support for aid.

Practices for better impact

Implementing aid effectively

Australia is strongly committed to making its aid programme more effective, as illustrated by the creation of ODE, the decision to untie aid in April 2006 and the Parliamentary Secretary's participation in the Accra High Level Forum on Aid Effectiveness in September 2008. Efforts to make the aid programme more effective are outlined in *AusAID 2010.* New policies clearly indicate that key effectiveness principles are being implemented, in particular: i) an increased focus on partnerships, as illustrated by the Pacific Partnerships for Development initiative launched in 2008; ii) strengthened alignment of Australian country strategies with partner government priorities; iii) stronger engagement through partner government systems; iv) active engagement in donor co-ordination and increased collaboration with other donors – particularly in the Asia and Pacific regions; v) stronger results-orientation; and vi) efforts to increase mutual accountability for achieving development results through improving both Australian and

partner government's performance monitoring tools. The new Pacific Partnerships also aim to enhance mutual accountability through a stronger focus on data and statistics and regular, joint evidence-based reviews. Finally, Australia is also committed to assessing progress, using greater transparency to increase credibility, as illustrated by the presentation to parliament of the ODE *2007 Annual Review of Development Effectiveness* in March 2008.

The *2008 DAC Survey on Monitoring the Paris Declaration* paints a mixed picture of Australia's efforts on aid effectiveness. The country performed well in areas like joint donor approaches and aid untying, but had weaker results in its use of partner country systems, the share of aid flows channelled through partner country budgets and its reliance on parallel project units. Australia emphasises the particular challenges associated with implementing and monitoring the Paris Declaration principles in small island states with poor administrative capacity and states in fragile situation, which are major recipients of its ODA. Taking this into account, AusAID has developed a pragmatic approach combining principles which must be applied systematically and modalities that can be adjusted to the specific partner country context. This allows Australia to adapt the aid programme to each context and responds to the need for accountability to maintain high-level political and public support in Australia. While it is understandable that AusAID needs to adapt the way it engages in the aid effectiveness agenda to its specific context, it is important that the Paris commitments remain a focus of the overall programme. As a way to disseminate further the aid effectiveness principles, AusAID has begun to share extensively the Accra Agenda for Action amongst its staff and across government.

Australia is developing whole-of-government country strategies to drive the planning and implementation of its aid. AusAID is aware that it will need to enhance whole-of-government engagement in strategy development, results-orientation and performance reporting in order to achieve real, sustainable development gains. This also requires a shared understanding of the aid effectiveness principles among Australian government stakeholders. Other challenges ahead include ensuring a country-driven approach to the regional programmes in the Pacific; continuing to improve aid predictability by addressing budget mechanism constraints so as to provide timely information on multi-year budget allocations to partner governments; and engaging further in programme-based approaches, as called for in the Accra Agenda for Action. AusAID should annually track progress on the latter and could consider setting intermediate targets for achieving this. Finally, Australia should also build on its experience of partnerships with other donors to provide evidence of their impact on transaction costs and identify good practice. This would not only be useful for the Australian programme, but also for other donors as the importance of an effective division of labour to avoid fragmentation and reduce transaction costs becomes increasingly obvious.

Learning from experience on priority topics

Mainstreaming capacity development

Australia is developing a strategic approach to mainstreaming capacity development into the aid programme, backed with appropriate analytical work and resources. AusAID treats capacity development as both an objective and a process, with implications for the way programmes are designed and delivered. In particular, ensuring ownership and developing leadership capabilities are crucial to capacity development efforts.

Understanding local context is also critical since it permits locally owned reform agendas and their champions to be identified. Australia relies on various tools to support capacity development, the most important being technical assistance and scholarships. Australia also develops programmes specifically focused on building capacity.

AusAID could take further stock of what it has learned through its analytical work and practice, including assessing the impact of its overall approach to capacity development. As well as being for its own benefit, this might help Australia share further its good practice from country-level capacity development experiences within the donor community. AusAID is increasingly aware that, depending on roles and positions, technical assistance can either undermine or build local capacity. Since 2004, it has tried to define more clearly when in-line positions are needed and how to evolve these towards advisory positions. Australia has also made efforts to strengthen the involvement of partner governments in the design and recruitment of technical assistance. These efforts are welcome and should be pursued to ensure technical assistance is effective in building capacity. For the same purpose, Australia should also consider how to include further scholarship programmes in country programmes to link them more closely to capacity development.

Evolving governance, accountability and anti-corruption approach

Governance became a prominent focus of Australian aid in the early 2000s, and the approach has since evolved considerably. Having started with a major focus on law and justice in order to build stability and prosperity, a stronger emphasis emerged on building the capacity of public institutions to foster functioning and effective states. The emphasis is now on: i) building demand for governance to reinforce public accountability; and ii) the conditions for improved delivery of basic social services as a means of attaining the MDGs. Economic governance is another rising element of Australia's approach to governance. Given this significant evolution, Australia is encouraged to develop a policy framework on governance synthesising its different components and delivery modalities into a single policy. Such a framework would guide the aid programme and ensure consistency across stakeholders. It should build on AusAID's analytical work and the second ODE annual sector performance report on governance.

Australia is highly involved in anti-corruption efforts. Its 2007 anti-corruption for development policy sets three main objectives: i) building constituencies for anti-corruption; ii) reducing opportunities for corruption; and iii) changing incentives for corrupt behaviour. AusAID has developed an incremental approach to implementing the policy, starting with a pilot initiative in six countries assessing approaches to anti-corruption and developing guidance for mainstreaming anti-corruption. An interdepartmental Committee on Corruption ensures a consistent approach across government.

Recommendations

- AusAID should extend knowledge across government of the Paris Declaration and the Accra Agenda for Action. It should also build incentives into the whole-of-government approach for applying these commitments. It should continue to increase the share of its aid provided as programme-based approaches, including working through government systems, and track its progress towards achieving this.

- AusAID is encouraged to learn from its experience delivering its aid programme through joint arrangements and to disseminate good practice as a way to promote a better division of labour among donors.
- The DAC invites Australia to assess the impact of its overall approach to capacity development and continue to reflect on how to build greater, sustainable capacity.
- The DAC encourages Australia to share further with the donor community its analytical work and experience on capacity development and governance in various contexts. Like other donors, Australia could also play a more active role in forging international consensus on key definitions and streamlining multi-partner engagement in capacity development at both global and local levels, especially in the context of the DAC capacity development work.
- Australia is encouraged to draw on its significant experience and broad analytical work to develop a policy framework on governance.

Humanitarian action

Australia is a key humanitarian donor and has often led international responses in the Asia and the Pacific regions. Countries in these regions are prone to a range of natural disasters and conflict-related humanitarian crises, but other international actors tend to be under-represented here. DAC figures show that Australian bilateral humanitarian aid in 2005/06 amounted to USD 191 million, accounting for 9% of total Australian ODA. Funding for humanitarian action has shown an upward trend over the past five years and is projected to increase further under the new government.

Australia has defined its approach through its *Humanitarian Action Policy* (2005), which commits it to allocating assistance on the basis of humanitarian need. It takes a phased approach to funding decisions, basing initial funding on available estimates which are then refined as more complete assessments can be made of both humanitarian need and available capacity. In addition to funding according to need, Australia uses a number of funding modalities which enhance the predictability, flexibility, and speed of its responses, in line with the good humanitarian donorship (GHD) principles. AusAID is dedicating significant human and financial resources to embed disaster risk reduction within its development programming. However, senior level leadership will continue to be needed to champion this issue across AusAID.

AusAID is the lead agency within government for humanitarian action. AusAID's Humanitarian and Emergencies Section, comprising 20 Canberra-based officers, is being reorganised to allow it to engage more systematically on policy without staff resources being diverted towards operational requirements of major crises. It is taking important steps to strengthen its ability to engage in global policy debates, sharing key regional lessons at the global level. One humanitarian advisor position within the emergency section should be dedicated to support country programmes, take the lead on issues of quality and link into international good practice, and enhance learning across programmes through a thematic network. Humanitarian action involves a range of Government actors using established whole-of-Government mechanisms. The Emergency Response Standard Operating Procedures lay out the roles of and relationships among different parts of government. The working relationship with the Australian Defence Forces in particular is practical and effective.

Australia is committed to learning both internally and among its external partners. Much of the current reorganisation of the emergency section reflects lessons learned from previous evaluations, in particular the external evaluation of Australia's response to the 2004 Indian Ocean tsunami.

Recommendations

- AusAID's planned review of the Humanitarian Action Policy is timely, and it will be critical to incorporate emerging themes, including the impacts of climate change. To reap the benefits of the policy, Australia should set out a clear plan of action alongside the review on how it will continue to put the policy into practice.
- The process of developing a disaster risk reduction policy is an important opportunity for AusAID to make the case for investing in risk reduction as part of all development programming, as well as to leverage greater engagement in transitional programming after natural disasters or conflict. This policy should be underpinned by an implementation plan with specific targets.
- A dedicated humanitarian advisor position within AusAID's Humanitarian and Emergencies Section would be valuable to provide technical support on humanitarian issues and convene technical discussions across AusAID and internationally. AusAID should also review whether it has sufficient capacity in Canberra and overseas through its representation in New York, Geneva and Rome to engage effectively on humanitarian policy debates.

SECRETARIAT REPORT

Chapter 1

Strategic Orientations

Strategic foundations of Australia's development co-operation

A high profile aid programme in a unique external context

Substantial, positive changes have taken place in the Australian aid programme since the last peer review in 2004, reflecting a significant evolution in the development co-operation agenda, both at the international and national levels. The pledges made in 2000 in New York for the Millennium Development Goals (MDGs), at Monterrey in 2002 for development finance, and at Paris in 2005 for aid effectiveness represent international commitments which all aid players are striving to achieve. As one of the DAC member countries most surrounded by developing countries, including a number of fragile states, Australia has special responsibilities and specific challenges. Although poverty levels have fallen, most countries in the region are confronting serious difficulties in achieving the MDGs. Australia's Pacific Island neighbours, for example, are grappling with the inter-woven challenges of remoteness from global markets, narrowly-based economies and small dispersed populations with limited skills (see Annex E). Several are in the midst of major governance upheavals ranging from consolidation of fragile democracies to civil strife and open conflict, all of which undermine national development objectives. Furthermore, the impacts of climate change (including rising sea levels), deforestation and environmental degradation are growing across the region, threatening to detract from hard-won gains in the socio-economic development of Australia's neighbours.

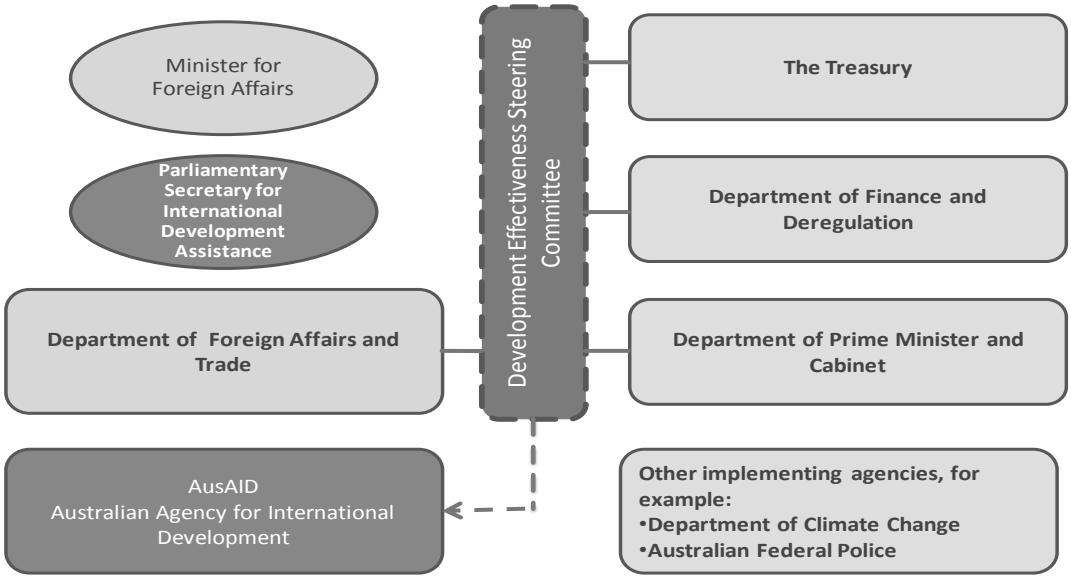
Australia has strengthened its response to these challenges at the policy, institutional and delivery levels. A White Paper, *Australian Aid: Promoting Growth and Stability*, was developed in 2006 to provide a comprehensive plan for Australia's aid programme over the next ten years (AusAID, 2006a). The White Paper – and the consultative process leading to it – has helped provide momentum for reforming the aid programme, in parallel with significant scaling up in aid volume. Positive steps have also been taken to increase the effectiveness of Australian development co-operation, as illustrated by the decisions to untie aid and to create the Office of Development Effectiveness (ODE) in April 2006 to monitor the quality and evaluate the impact of the aid programme.

The government elected in November 2007 gave an additional impetus to this agenda, while continuing to pursue the reform processes already underway. The newly re-instated position of a Parliamentary Secretary for International Development Assistance under the leadership of the Minister for Foreign Affairs illustrates the higher profile of development co-operation on the political agenda of the new government. The Prime Minister has taken an active interest in the aid programme. He has promoted poverty reduction as the core objective of Australia's development co-operation programme, as well as reiterating the Australian Government's commitment to the MDGs, including at the United Nations High Level Event on the MDGs in September 2008, where he announced new commitments to maternal and child health, malaria eradication and education. The pre-election commitment to increase official development assistance (ODA) to up to 0.5% of gross national income (GNI) by 2015 has also been reiterated by the Prime Minister. This is complemented by a strengthened emphasis on multilateralism, which is seen as fundamental to international efforts to combat climate change and to co-ordinate humanitarian responses to natural disasters and conflict, and as a complementary means to deliver an aid programme which is increasing in volume. The Prime Minister has also re-affirmed Australia's commitment to assisting neighbouring countries in Asia and the Pacific regions. In Port Moresby in March 2008 he announced a new framework for developing enhanced Pacific Partnerships for Development (see Chapter 5), based on mutual respect and mutual responsibility (Rudd, 2008a). As part of the international efforts towards achieving the MDGs, the government also took a policy decision to engage further in development terms with Africa in the coming years. This will mean an increase in the percentage of the aid budget going to Africa (McMullan, 2008a).

An integrated institutional system in a whole-of-government approach

Over 85% of Australia's ODA is delivered through a single agency, the Australian Agency for International Development (AusAID), an autonomous agency within the portfolio of the Minister for Foreign Affairs. *AusAID 2010 Director General's Blueprint* (AusAID, 2007a) provides an articulated institutional framework. It gives guidance on the changes required to orientate the aid programme to the government's vision for development co-operation and enable it to deliver increasing amounts of aid in an effective way. Other government agencies are increasingly involved in development policy and programme delivery (Figure 1). Australia's rigorous approach to whole-of-government policy-making instils coherence within the aid programme. However, at an operational level, AusAID faces the constant challenge of collaborating with different departments with various agendas while ensuring that the vision of development assistance is internalised at field level (Chapters 2, 4, 5).

Figure 1. The Australian development co-operation system



Strategic framework

Poverty reduction upfront

The 2006 White Paper defines the overarching objective of Australia's aid programme as "to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest" (AusAID, 2006a). In re-casting the objective statement, the White Paper has helpfully responded to concerns raised during the 2004 Peer Review consultations that the previous statement might distort the intended poverty reduction focus of the Australian aid programme in favour of Australian national interests. Key orientations of the aid programme are:

i) To accelerate economic growth: reflecting the OECD's view on the importance of promoting pro-poor growth, Australia emphasises that sustainable and inclusive economic growth is an essential factor in reducing poverty on a large scale and is critical to achieving many of the MDGs.

ii) To foster functioning and effective states, with a focus on political governance, including building demand for better governance and supporting an integrated approach to law and justice reform.

iii) To invest in people through support to health and education programmes and tackling major diseases.

iv) To promote regional stability and co-operation, which include: a) the regional response to trans-boundary threats; b) promoting regional integration; and c) promoting regional governance in the Pacific.

The government has reinforced the focus on poverty reduction and the MDGs in the aid programme. Australia has joined the MDG *Call to Action* and plans to increase the volume of aid going to sectors influencing MDG outcomes, especially health, education, infrastructure (including transport and water supply and sanitation), and rural

development and environment. The budget for the Australian aid programme (2008/09) already illustrates this strengthened emphasis on the MDGs. Work is underway to provide the analysis to support its implementation with dedicated expert support. This will, *inter alia*, include a significant scaling-up of assistance to people with disabilities (Smith, 2008a). Most sector strategies are being revised to ensure that they are aligned with the MDGs; new strategies, such as for disability (Box 1), are also being prepared. Seminars are organised for AusAID and other departments as part of the whole-of-government approach in order to increase understanding of the MDGs and embed them in new country and regional strategies. Reporting guidelines already put more emphasis on the MDGs and, in particular, efforts are being made to improve the data collection in the Pacific Island states. AusAID is aware that it needs to do more to anchor poverty reduction in the aid programme, for instance through further reflection on pro-poor growth, and is purposefully engaging in this. Its interaction with other donors to benefit from their experience is welcome and will complement its own analytical work.

Box 1. Preparing a disability strategy

AusAID has set up a Disability Task force in response to the government's 2008/09 budget commitment to provide AUD 45 million over two years to address avoidable blindness and develop a comprehensive disability strategy to guide Australia's aid programme. Development of the strategy involved consultations with key regional and Australian stakeholders, including people with disability, their representatives, families, communities, service providers and government.

The strategy will be launched in late 2008. It takes a targeted and sequenced approach and will scale up over time as Australia's aid programme's capacity and knowledge grows. Implementation of the strategy will be guided by the UN Convention on the Rights of Persons with Disabilities.The primary outcome is to support people with disability to improve the quality of their lives by promoting and improving access to the same opportunities for participation, contribution, decision making, and social and economic wellbeing as others. Initial activities will include support for partner governments' efforts towards disability-inclusive development, improved access to education and to infrastructure for people with disability across the aid programme, and capacity development of Disabled Peoples' Organisations. Reducing preventable impairments was also identified as a priority. Two enabling outcomes will support implementation: strengthening AusAID's capacity to promote, manage and monitor disability as a central aspect of the aid programme and working strategically with partners to build robust data and to strengthen knowledge management.

With the change of government, the White Paper no longer constitutes Australia's development assistance framework, even though it is seen as an important resource by the Australian government. While there is some continuity, for instance the priority focus on the Asia-Pacific region, new priorities are emerging in line with the stronger emphasis given to the MDGs, and also as a result of current issues such as climate change and the food crisis. An overarching statement by the government to guide the aid programme over the medium to long term would therefore be welcome. It would be helpful in supporting AusAID's current efforts to develop the strategic framework for Australian aid. It would also help AusAID to communicate these new orientations, especially the MDGs, to the public.

Governance: a key sector, especially in fragile states

Stronger links are being established between governance and poverty reduction. Accordingly, Australia remains firmly committed to supporting measures to improve the quality of governance in partner countries, with a particular focus on strengthening state

capability, accountability and responsiveness to citizens. Support to governance includes strengthening economic management, building public sector capacity at national and sub-national levels, strengthening law and justice systems, supporting democratic elections and supporting national integrity systems. A rigorous and broad approach to combating corruption, including supply-side corruption, has been adopted and emphasis is growing on encouraging effective leadership and building demand for better governance (Chapter 6). In the coming years, actions for fostering functioning and effective states will include a stronger emphasis on the conditions for improving basic social services delivery, in line with the renewed focus on the MDGs. Efforts have already been taken to re-orient the programme in this direction, and these were witnessed by the review team in Indonesia and Vanuatu (Annexes D and E). It would be helpful if the government would finalise the planned AusAID strategy which defines its governance objectives, including their economic dimension.

With the Asia and Pacific regions remaining Australia's priority focus, a high percentage of aid is delivered in fragile states. This reflects the moral imperative resulting from Australia's geographic location, as well as its economic and security interests. The review team welcomes this continuous engagement, which is challenging at a time when the Australian government is stressing the need for aid that is demonstrably well-spent and effective. Australia has strengthened its foundation for engaging in fragile states through greater conflict and fragility analysis, backed by expanded research and evaluation capacities. It is translating these analytical foundations into practice through stronger investments in nation building, developing leadership capacity, partnering with civil society and building enhanced emergency management capacity in partner countries. Australia has developed a multifaceted, flexible approach involving many stakeholders, both from Australia as part of the whole of government approach, and in partner countries through extended support to civil society organisations. The review team appreciates Australia sharing its particular experience in fragile states with other members. Examples include its involvement in the DAC work on evaluating conflict prevention and peace-building activities in Sri Lanka and the meeting on whole-of-government approaches to public financial management in fragile states co-organised by Australia and France in March 2008. Australia also makes use of OECD material, for instance disseminating the *OECD/DAC Handbook on Security Sector Reform* to the Australian Federal Police, AusAID and Defence, and using it as a reference to design programmes – such as the Timor-Leste police programme. AusAID could look for more feedback from its country offices on the application of these tools at programme and activity levels.

A challenge for Australia's support in fragile states is to maintain the long-term focus on ownership and alignment, despite the fact that short-term considerations may favour more hands-on approaches, especially in conflict situations. Where Australia is the main donor and often has a leadership role, as in the Solomon Islands, it is crucial that it works closely with other donors and engages with them in dialogue with partner country governments. It will therefore be important to ensure that the new Pacific Partnerships (see Box 10) do not hamper collaboration with other donors by promoting exclusive bilateral relationships.

Building on good practice to integrate cross-cutting issues into the programme

Gender equality and women's empowerment are well integrated into the programme, backed by strong leadership from senior management and appropriate resources. AusAID's 2007 policy *Gender Equality in Australia's Aid Programme – Why and How*

(AusAID, 2007c) outlines approaches for increasing gender equality and provides samples of outcomes and results in this respect. This experience was shared to the benefit of the DAC members at a DAC Gendernet meeting in July 2008 (Box 2).

Box 2. Good practice in integrating gender equality and women's empowerment

Australia has made strong progress on gender equality over the last years. The 2006 White Paper promoted gender equality to one of the three overarching principles of Australia's programme. Thus gender equality is now a "consideration that will apply across all aspects of the strategic framework". A new policy, *Gender Equality in Australia's Aid Programme – Why and How,* was launched in March 2007 and gave initial priority to ensuring gender equality is fully integrated into country and regional programmes (AusAID, 2007c). This policy is being updated so that it closely aligns with the new government's focus on MDGs, pro-poor growth and inclusive development. Dedicated resources have been strengthened. The gender equality thematic group has been confirmed as one of the 14 thematic groups, and has gender focal points both at headquarters and in the field. A senior gender co-ordinator and a gender advisor have been appointed. They work with a gender policy and co-ordination unit totalling five staff members and with a budget of AUD 2 million for 2007/08 (and AUD 2.15 million in 2008-09).

The focus of the gender equality group has been on institutionalising the policy and building capacity to implement it. It has developed new gender equality guidelines as well as a training programme, and has been working with country programmes as they develop country strategies to ensure the integration of gender equality. Missions to provide support and technical advice were organised in a number of countries like Indonesia and Vanuatu. Country programmes in Papua New Guinea, Indonesia and the Philippines are developing gender action plans for implementing the gender equality policy in programmes.

Requirements for gender equality reporting have been integrated into annual quality and performance reporting to increase programme managers' direct accountability for gender equality. In doing so, programme managers can build on the sample gender equality results included as an annex to the policy. These list sample outcomes and results for each of the four standard aid programme themes (accelerating economic growth; fostering functioning and effective states; investing in people; and promoting regional stability and cooperation). These are grouped according to the four dimensions of gender equality presented in the policy: access, decision-making, rights and capacity-building.

Forty-five per cent of Australian sector-allocable aid includes gender equality as a significant or principal objective. There are important differences between programmes, however, with the percentage varying from 86% (Philippines) to 30% (Indonesia). Australia is aware that there is still scope for progress and is committed to tackling remaining obstacles, whether external (for instance, sex disaggregated data are not available in some countries) or internal. It conducts evaluations and research to learn from experience and upgrade expertise. An example is the 2008 evaluation of programmes to address violence against women in Melanesia and East Timor, conducted by the Office of Development Effectiveness (ODE), which will support the new AusAID focus on action in this area. A first report of gender equality in Australia's aid programme was published in February 2008. This is intended to be bi-annual and will help monitor progress.

Environment does not seem as well integrated and does not benefit from the same level of dedicated resources. The 2006 White Paper included environment as a sub-component of the first strategic focus area "Accelerating economic growth". A renewed emphasis has been put on environment since May 2007 and an environment and development assistance policy was published in August 2007 (AusAID, 2007b). While signalling a significant increase in Australia's environment-related support in the Asia and Pacific regions, the strategy intends to guide a portfolio of activities that directly targets environmental challenges and to support a stronger commitment to environmental management across all sectors of development. This integrated approach is too recent to be fully translated into practice and, so far, the project approach remains dominant, with new initiatives taken to address several aspects of global environmental challenges. In

particular, in line with pre-election commitments, a new climate change adaptation initiative is being developed with a budget of AUD 150 million over three years. It aims to meet high-priority climate adaptation needs in vulnerable countries in the Asia and Pacific regions. This initiative is in addition to an AUD 200 million, five year international forest carbon initiative as well as existing climate change partnerships, adaptation programmes in the Pacific and multilateral engagement. While this is commendable, mainstreaming of environment remains limited to the infrastructure sector. Environmental threats and opportunities could be more systematically analysed and considered throughout the aid programme, as was noted by the review team in Canberra and in Vanuatu (Annex E). Australia could make more use of national disaster risk management systems to this end. Work is currently underway to define the strategic framework guiding environment and climate change-related policy engagement and to strengthen integration of environment in the aid programme. This will include a review of AusAID's 2003 *Environmental Management Guide for Australia's Aid Programme* (AusAID, 2003). In doing so, AusAID will benefit from the on-going performance assessment of its environment-related aid programme. AusAID should ensure that it implements plans to use the substantial increase in the staffing budget of its Sustainable Development Group (30% increase for 2008/09) as well as its environment and natural resource management thematic network to deepen the integrated approach called for in the 2007 strategy. It should also use its new training programme on sustainable development as intended, as an opportunity to disseminate the integrated approach.

Engaging effectively with partners

The 2006 White Paper emphasised the need for effective aid. It defined four strategies: i) strengthening the performance orientation of the aid programme; ii) combating corruption; iii) enhancing Australia's engagement in the Asia-Pacific region; and iv) working in partnership with regional governments and other donors. Untying Australian aid is also a way to improve efficiency and competitiveness; the untying of the aid programme, announced in the White Paper, came into effect in April 2006. The government confirms that scaling up of aid goes along with a commitment to ensuring that an expanded development assistance programme contributes to better development impacts. In particular, development assistance will be linked to performance in ten countries in 2008/09. Meanwhile the partnership dimension will be reinforced through the new Pacific Partnerships (Chapter 5).

Public awareness

Status of public support

AusAID regularly conducts research on public support for development aid. The last survey was in 2005 (AusAID, 2005). It shows increasing support from the general public, from 72% of respondents in 1992 to 84% in 1998 and 91% in 2005. It also shows an increased community preference for long-term rather than emergency aid. The impact of the December 2004 tsunami has been huge, leading to an unprecedented mobilisation of public donations. This partly explains the results of the 2005 survey, especially as it indicates a large increase in the number of Australians personally contributing to overseas aid – from 50% in 2001 to 75% in 2005. This had lasting effects, and for the first time development co-operation was high on the agenda during the political campaign for the 2007 elections. However, the 2005 survey indicates that more could be done to increase public knowledge of, and support to, the overall programme. While there is a greater

belief in the effectiveness of Australian aid, non-government aid is perceived to be more effective than government aid: in 2005, 71% of respondents (compared to 53% in 2001) believed Australian government aid to be effective; 76% (compared to 63% in 2001) believed non-government aid to be effective; and, although six in ten Australians claimed to have heard of the name "AusAID", few (6%) could nominate it spontaneously as the name of the Australian Government's overseas aid agency. This may result from Australia's willingness to promote the reputation of the government's international development programme as a whole, rather than specifically the "AusAID" programme. However, Australia may want to consider whether projecting a corporate image of AusAID may help catalyse greater public support for the overseas aid programme.

Development issues are high on the political agenda, as is their current support from a few parliamentarians. However, efforts must be sustained to widen this support, especially as scaling-up aid will require a strong public and political constituency.

Communicating and building public awareness

In response to this challenge, AusAID is increasing its attention to communication, including increasing its budget (from AUD 3 million in 2006/07, to AUD 5 million in 2007/08 and AUD 6 million in 2008/09). AusAID has a dedicated communication section in the Parliamentary and Communication Branch. It covers development education, publications, news and campaigns media, AusAID branding as well as speeches and internal communication. Nineteen staff members are working on communication, including one Australian communication officer posted to Port Moresby (Papua New Guinea) and locally-engaged staff in 6 posts. Objectives are three-fold: i) building awareness and understanding of, and support for, international development assistance; ii) building and maintaining the reputation of the Australian government's international development programme as effective and accountable; and iii) optimising communications by working in partnership with other government departments, businesses, and not-for-profit organisations. Key messages focus on the effectiveness of the programme; Australia's commitment to support countries in the region as they strive to achieve the MDGs; the special responsibility of Australia towards these countries; partnership, long-term engagement, transparency and accountability. Key activities include:

- An AUD 1 million global education programme to increase awareness of development issues among primary and secondary school students through training and curriculum materials.
- "Relief in Sight", a widely disseminated exhibition about the government humanitarian response to disaster situations: more than 20% of the population have been reached through media.

Although increasing, the resources available to the communication section do not enable it to capitalise on opportunities outside the agency to advance its development education agenda. AusAID could rely more on other stakeholders, for example through co-financing NGOs' development education activities. Working more with NGOs to raise public awareness would be beneficial given their credibility amongst the public. AusAID should also focus its communication more on the aid effectiveness agenda to make the public and politicians more aware of the new ways of delivering aid. The scaling-up of the programme might require a greater level of effort to keep the Australian public informed of the results achieved by the programme. Bearing this in mind, AusAID should

consider increasing the resources allocated to communication when planning its new communication strategy.

Future considerations

- The review team welcomes the fact that the new development policy reinforces the overarching goal of poverty reduction and commitment to the MDGs. Australia would benefit from a political statement clarifying the strategic development assistance framework for Australia over the medium to long-term.
- The review team encourages Australia to remain engaged in fragile states and appreciates Australia sharing its multifaceted approach and particular experience in these contexts with other DAC members.
- Australia is congratulated for its work on gender equality. It is invited to continue to share its good practice with other DAC members and to build on its experience in this area to promote similarly well-integrated approach to environment throughout its aid programme.
- AusAID needs to strengthen its efforts to ensure sustained public and political support to the expanding development programme, taking into account the new modalities for delivering aid.

Chapter 2

Policy Coherence

Political leadership

Australia promotes a whole-of-government approach to policy development, recognising that development policies cannot work in isolation to reduce poverty and achieve sustainable development in partner countries. Accelerating progress on poverty reduction requires mutually supportive policies across a wide range of political, economic, social and environmental portfolios including foreign affairs, trade, agriculture, migration, climate change, anti-corruption, justice and security. The 2004 Peer Review described the Australian whole-of-government approach as both an opportunity and a challenge to advance the development perspective within the domestic agenda in a way that is poverty-focused, developmentally sustainable and owned by partner countries. The DAC encouraged AusAID to continue to play a pro-active role in wider government decision-making on development-related issues.

Development issues have become increasingly interlinked with broader Australian, regional and international policy priorities. These include regional security, trade, economic integration, the trans-boundary threats posed by HIV/AIDS and other communicable diseases, counter-terrorism, illicit drugs and organised crime. Policy coherence for development is also promoted for domestic reasons, because Australia's domestic policy interests are felt to be inextricably bound up with foreign and security interests, of which development issues are a part (Rudd, 2008). Development policy and programming need to take into account both these domestic priorities and the interests of developing countries.

Four years later, the peer review team notes that Australia's whole-of-government approach is facilitating the design of coherent approaches for development, with positive results in areas like trade and migration,[1] two crucial issues for Pacific Island countries. Australia has also developed a broad, consistent approach to anti-corruption (Chapter 6). With respect to trade, Australia has granted duty and quota free access for all products from least developed countries (LDCs) since 2003 and it is increasing its commitment to aid for trade, from approximately AUD 154 million in 2006/07 to around AUD 325 million a year over the next three years. This includes assistance for improving customs and quarantine services and reducing border barriers to trade. Migration is a key, complex issue in the Pacific region and Australia is developing a more inclusive, holistic approach, bringing together the different departments involved, including AusAID. Australia is

1. The Commitment to Development Index 2007, produced by the Centre for Global Development, ranks Australia fifth (out of 21 countries). Australia's high score is driven by its leading role in peacekeeping efforts, low trade barriers and relatively open migration policies.

looking for win-win situations, drawing on experience from other countries, in particular the seasonal labour scheme developed by New Zealand for temporary migrants from the Pacific Island states.[2]

Experience shows that, despite progress, it is a continuous challenge to ensure coherence through a whole-of-government approach involving various ministries with different agendas. This proves to be especially difficult in partner countries where different ministries implement their own policies. The level of understanding of policy coherence for development still varies among ministries. Improving coherence requires that Australia's development vision is internalised by stakeholders from all ministries (in Australia and overseas) and calls for intensified efforts by AusAID to help deepen a shared understanding of Australia's overarching development objectives. The visits to Indonesia and Vanuatu suggest that there is scope for further co-ordination among officers from the various Australian departments working in partner countries (Annexes E and F). Fragile states offer the most complex challenge to whole-of-government approaches to development and Australia has gained considerable experience in this area, which it is encouraged to share with other donors (Box 3).

Box 3. Policy coherence and whole-of-government approach in fragile states

The interdependence of political, security, economic and social spheres demands exceptional efforts in policy coherence from international actors in fragile states. In 2005, AusAID established a whole-of-government Fragile States Unit. Its aim is to advise the Australian Government by drawing on combined expertise on the development, security, and stability dimensions of Australia's work with fragile states. This is done through the exchange of staff (during 2007-08 an adviser from the Australian Federal Police worked within the AusAID Fragile States Unit with a replacement due to begin in November 2008 while one AusAID staff member will shortly begin a secondment with the AFP) and through learning from both internal and external experiences. For instance, in May 2008 the AFP adviser and two colleagues from AusAID and Defence presented a summary of the recent conference on *Whole of Government Approaches on Security Sector Reform (SSR)* held in The Hague in April 2008 to a select group of Canberra-based stakeholders from AusAID, AFP, Defence, the Department of Foreign Affairs and Trade and the Department of Prime Minister and Cabinet. All of these office-holders work on East Timor, Afghanistan or Solomon Islands country programmes and/or in SSR-related thematic areas.

Making use of the wide range of expertise available throughout the government enables Australia to develop more comprehensive and effective responses to the significant development challenges faced by fragile states. Particular programmes, such as the Enhanced Co-operation Program in Papua New Guinea and the Regional Assistance Mission to Solomon Islands (RAMSI), have provided important lessons about the benefits of such deployments, as well as the risks to be managed in order to ensure effective and sustainable development gains. For example, building on lessons learned from the previous phase, Australia recently agreed with the government of Papua New Guinea that the next phase of support under the Enhanced Co-operation Programme would have an increased focus on capacity development and complementary longer-term twinning relationships between key agencies. The programme will operate under new joint management structures and assistance and will be integrated with existing joint Australia-Papua New Guinea government sector co-ordination mechanisms, so that all Australian government assistance will be co-ordinated at the sector level.

2. In August 2008, Australia launched a three-year seasonal worker pilot scheme involving 2 500 workers from five countries in the Pacific. These workers will work for up to seven months a year in the Australian horticulture industry with wages and conditions of Australian standards. The government decided to undertake this pilot as a development scheme that would see Pacific Islanders benefiting from the experience and training received through the pilot scheme, as well as from the remittances sent home, in addition to benefits accruing to Australian farmers and consumers.

Organisational arrangements for policy coherence of development and aid

The Department of Prime Minister and Cabinet leads the whole-of-government approach. AusAID provides advice on development considerations in Australia's foreign and domestic policies through a range of interdepartmental committees and working groups across government, along both country and thematic lines. AusAID's position in the whole-of-government system seems stronger than four years ago. As an example, AusAID attends, when relevant, meetings of the Secretaries' Committee on National Security and the Strategic Policy Co-ordination Group, which support whole-of-government interaction on strategic and security issues. It is regularly involved in discussions on law and justice, border security, trans-boundary issues and the economic agenda.

The elevated position of development assistance in the political agenda is exemplified through the re-instatement of the position of the Parliamentary Secretary for International Development Assistance. This gives the opportunity to further raise AusAID's profile in government discussions. However, the Parliamentary Secretary position sits outside Cabinet and therefore a strong working partnership with Cabinet colleagues – notably the Minister for Foreign Affairs – is critical to ensure that development perspectives are appropriately reflected in inter-ministerial decisions.

In addition, there are a number of formal and informal mechanisms, both at headquarters and in the field, focused on ensuring coherence of the Australian development co-operation programme at strategic and operational levels:

- At a strategic level, the Development Effectiveness Steering Committee (DESC) is a key whole-of-government mechanism for ensuring the coherence and effectiveness of the aid programme. It was an important outcome of the 2006 White Paper and was established to strengthen inter-departmental dialogue and co-ordination on development issues. The DESC is chaired by AusAID's Director-General and consists of senior representatives from the Department of the Prime Minister and Cabinet, Departments of Finance and Deregulation, Foreign Affairs and Trade, and the Treasury. The DESC's mandate is to advise government on major country and regional strategies and on budget proposals and strategy. The DESC played a central role in the development of the last two development budgets, including commenting on ODA-eligible proposals with an emphasis on policy coherence, quality and development effectiveness.
- Over the last four years, AusAID has been building strong links with Australian Government agencies involved in the development assistance programme. The number of strategic partnership agreements has risen from three to nine, and have been made with the Treasury; Department of Finance and Deregulation; Attorney General's Department; Department of Agriculture, Forestry and Fisheries; Department of Environment and Water Resources; Department of Health and Ageing; Australian Federal Police; Australian Electoral Commission and the Australian Public Service Commission. Agreements with the Australian Broadcasting Corporation and the Department of Defence are being finalised. These agreements outline shared strategic goals and co-operation arrangements, based on partnership principles, as well as respective skills, attributes and strengths (Box 4). They are subject to annual high-level review, which provides a forum for reaffirming shared interests and discussing performance in implementation. These partnerships help ensure effective co-ordination of joint

initiatives and allow the aid programme to benefit from the expertise of other departments in areas as diverse as economic policy, public financial management, environment, and law and justice.

- These inter-departmental links are reinforced by staff secondment. Two AusAID staff members are seconded respectively to the Department of the Prime Minister and Cabinet and to the Australian Federal Police (see above). One will also be appointed to the Australian Department of Defence and the newly established Asia-Pacific Civil-Military Centre of Excellence, while one AFP staff member has been seconded to AusAID.

These mechanisms allow for good co-ordination in aid policy and delivery. The whole-of-government approach also provides the opportunity for development perspectives to be considered when developing other policies – although it is unclear whether development is given sufficient weight. The added value of Australia's approach in building policy coherence for development lies in the culture of consultation and information sharing that they promote. This plays a critical role in building a confident relationship between different government departments. Overall, the pragmatic, systemic whole-of-government approach seems beneficial to ensuring policy coherence for development.

Box 4. Strategic partnership agreement between AusAID and the Department for Environment, Water, Heritage and the Arts

A partnership agreement was signed on 5 July 2007 between AusAID and the Department of the Environment, Water, Heritage and the Arts (DEWHA).It is designed to strengthen co-operation between DEWHA and AusAID in developing a whole-of-government approach to development co-operation in the Asia-Pacific region. This partnership recognises the responsibility of DEWHA to protect the environment, water resources and heritage, and AusAID's mandate to assist developing countries to reduce poverty and achieve sustainable development. The partnership agreement identifies shared strategic priorities and establishes co-ordination arrangements.

This partnership has helped facilitate the AusAID Australia-China Environmental Development Programme (ACEDP). DEWHA has joined AusAID in becoming a core programme partner for the ACEDP. The ACEDP is a five-year Australian Government initiative to support and improve policy development in China in environmental protection and natural resources management. Initially the focus will be on water resources and river basin management. The ACEDP will facilitate engagement between Australian and Chinese government agencies, institutions and individuals engaged in national environmental policy development and implementation, through high-level policy dialogue, capacity-building and collaboration on specific activities.

Building capacity to reinforce policy coherence for development

AusAID's higher government profile results from the deliberate willingness of senior management to engage more with the government and the broader Australian community on development issues. *AusAID 2010 Director General's Blueprint* (AusAID, 2007a) explicitly states that members of the Canberra-based team will be accountable for:

…i) managing day-to-day relationships with the Minister and other government partners, with responsibility for ensuring productive and close whole-of-government relations; ii) taking a strong advocacy, representational and networking role across the breadth of Australian stakeholders, including engaging with think tanks, academia, non-government organisations, knowledgeable individuals, private sector and the broader Australian community, with the aim of leading the Australian debate on development

issues in the region. A core responsibility of Canberra-based staff will be ensuring that bilateral and regional development strategies are developed and implemented as a single framework for whole-of-government efforts (AusAID, 2007a).

The field level can provide useful input into overall government thinking on policy coherence for development. One example was the High Commission in Vanuatu sharing with Canberra, as part of the reflection on migration policy, New Zealand's experience with the seasonal labour scheme.

This effort is also backed by a strengthened internal analytical capacity, which was called for by the last peer review. AusAID has started to build staff capacity using strengthened training programmes and thematic networks (Chapter 4). The *Australian Development Research Strategy 2008-10*, launched by AusAID in January 2008, will be an opportunity to help build a stronger evidence base for policy and programmes (AusAID, 2008a). As a complement, AusAID will need to continue to build linkages with research institutes and universities to further support the Parliamentary Secretary's positions within government.

In terms of monitoring, it is interesting to note that the ODE monitors the quality and evaluates the impact of all Australian government aid interventions, not only AusAID's interventions. However, so far reporting is limited to ODA-eligible actions. This role should be pursued and possibly extended so that the monitoring process covers whole-of-government interventions.

Future consideration

- Australia is encouraged to continue to develop and build on internal and external capacities to further enhance policy coherence for development as part of its whole-of-government approach.

Chapter 3

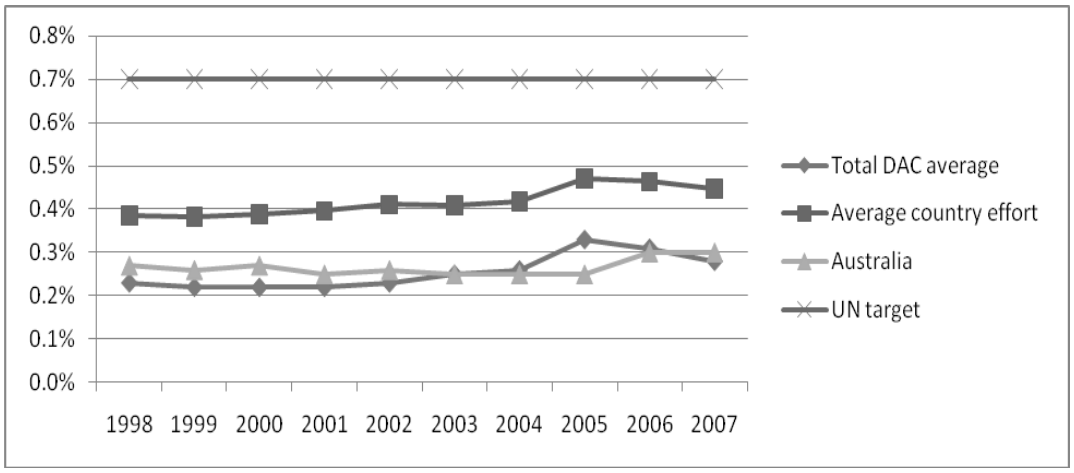
ODA Volume, Channels and Allocation

Overall official development assistance

Australia's net ODA amounted to USD 2.67 billion in 2007, an increase of 9.1% over 2006 and 33% over 2005 in real terms. The Australian aid volume started to increase significantly in 2004, following years of quasi stagnation in real terms (Table B1, Annex B). In 2007, Australia ranked 12th out of 22 DAC members for the volume of net ODA it granted.

The ODA/GNI ratio has improved significantly over the last four years, rising from 0.25% in 2004 to 0.30% in 2006 and 0.32% in 2007. This reverses the declining trend registered since the 1990s and places Australia in 15th place among DAC members[3] (Figure 2). While the share of debt relief in the Australian ODA portfolio has been weak so far, representing 1% of gross disbursements, it rose to 13% in 2006 as a result of the Paris Club agreement on Iraq. This partly explains the sharp increase of aid volume aid noted in 2006.

Figure 2. Australian ODA/GNI trend, 1998-2007



The government has made a commitment to reach an ODA/GNI target of 0.5% by 2015/16 and is taking steps to achieve this objective. This is a positive development. The

3 . In 2007, the total DAC average was 0.28% and average country effort (unweighted average) was 0.45%.

2008/09 budget brings the total amount of ODA to AUD 3.7 billion, corresponding to an ODA/GNI ratio of 0.32%. The budget is also setting up a clear and phased approach for the next three years, planning a further increase of the ratio to 0.35% in 2009/10, 0.37% in 2010/11 and 0.38% in 2011/12. Australia should consider continuing its efforts towards the 0.7% United Nations target once it has achieved the 0.5% target.

The achievement of the 0.5% ODA/GNI target in 2015 is likely to translate into a programme more than double the current ODA estimates. This rapid increase in aid volume will be challenging for a number of reasons. Firstly, Australia will need to manage the scaling-up process carefully in order to ensure high quality, effective aid, in a context where absorptive capacity of partner countries can be limited. The choice of aid channels, modalities and instruments will need to be considered through this lens. Equally, Australia should continue to work constructively with other donors in the Pacific (Chapter 5). Another challenge will be to maintain the strategic focus of Australian aid and avoid fragmenting the aid programme. The peer review team therefore welcomes Australia's announcement that it will channel more aid through multilateral organisations, including the United Nations. Multilateral engagement and, for the bilateral programme, delegated co-operation, can be particularly efficient when engaging in new countries. Australia is aware of these issues and ODE is conducting analytical work to prepare for this, learning from other donors' experience and international studies. On this basis, ODE recommends developing a systematic approach to assessing prospects for scaling up in each country programmes (ODE, 2008b). Finally, AusAID will also need to continue to adjust its own structure and capacity to be able to deliver the increased aid programme effectively.

Bilateral ODA

In 2007, 86% of the Australian programme was disbursed bilaterally; this percentage is well above the DAC average of 76% (Table B2, Annex B). The share of bilateral aid has steadily increased over the last decade. Australian bilateral assistance is usually delivered in grant form, with the exception of the AUD 1 billion Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) programme, half of which is delivered using soft loans. This was an exceptional measure, and the Australian aid programme will remain mostly delivered through grants in the coming years.

Geographic allocation

The Australian development co-operation programme focuses on the Asia and Pacific regions, which are central to Australian foreign policy given their proximity (Figure 3). Australia has deep political, economic, security and people-to-people links with its neighbours and shares with them a common interest in promoting regional stability and prosperity. The amount of aid allocated to these regions increased in real terms from 2004 to 2006 from USD 979 million to USD 1 175 million, although their share in the bilateral aid programme has decreased from 90% to 76% over the same period. To a large extent this relative decrease was caused by the debt relief provided to Iraq in 2006. Within these regions, the largest share of bilateral ODA goes to Far East Asia and Oceania. In 2006, these regions received respectively 38% and 31% of the total bilateral ODA allocable by region (Table B3, Annex B). The government's stronger emphasis on the MDGs, as well the international donor commitment to the division of labour, should maintain Australia's focus on these regions. Many countries there are performing poorly with respect to the

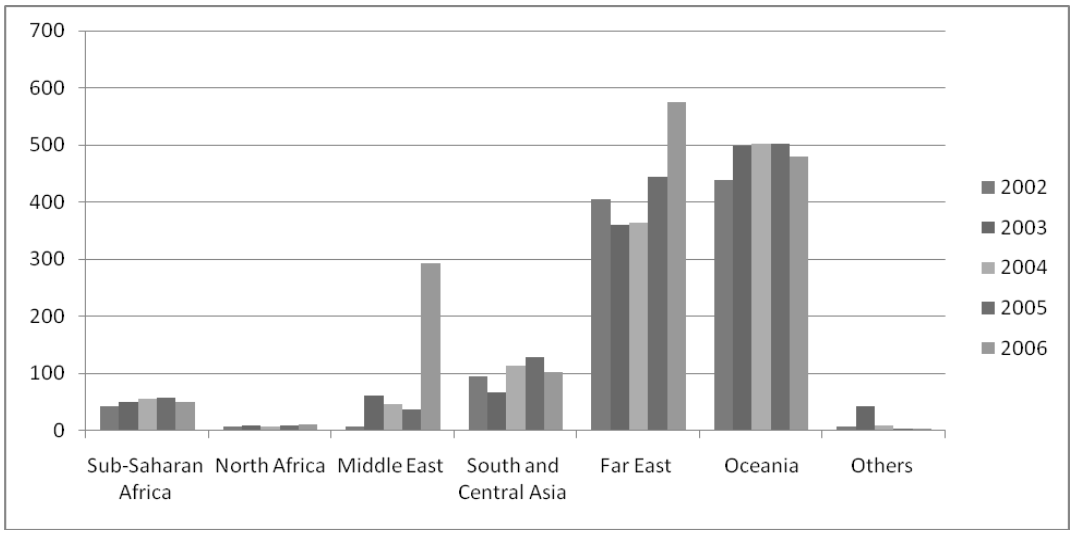
MDGs and few donors have long-term aid programmes. The new Pacific Partnerships for Development initiative launched in 2008 by the Prime Minister is consistent with this approach (see Chapter 5). There will be an overall increase in funding allocated to Papua New Guinea (PNG) and the Pacific region from 2008/09 which will support implementation of the Partnerships as well as other priority initiatives.

Australian bilateral aid is highly concentrated, with the percentage of aid going to the top 20 recipient countries rising from 90% in 2000-04 to 95% in 2005-06. Indonesia is the main recipient country, receiving 20% of bilateral aid in 2005-06, followed by PNG (19%) (Table B4, Annex B). These two countries have been Australia's main partner countries over the last decade. The Indonesia programme has increased significantly since the December 2004 Indian Ocean tsunami, with the AUD 1 billion AIPRD programme announcing a reinforced, long-term commitment that has been further confirmed with the new Australia-Indonesia Partnership country strategy for 2008-2013. Australia also has a long-term commitment in Viet Nam, which has consistently been among the first five recipient countries over the last decade.

Australia is becoming more engaged in the Middle East region (in particular Afghanistan, Iraq and the Palestinian Administered Areas). The share of bilateral aid going to this region increased from 4% of bilateral ODA in 2004 to 19% in 2006 (Table B3, Annex B). The significant increase of aid going to these countries is to a large extent explained by Australia's debt relief to Iraq. Under the Paris Club agreement, in 2004 Australia forgave 80% of Iraqi debt (amounting to AUD 1.1 billion), 60% of which has been already forgiven and the remaining 20% will be forgiven at the end of 2008. Furthermore, from 2003 to 2008, Australia also committed AUD 195 million for humanitarian and reconstruction assistance in Iraq; the 2008/09 budget will allocate an additional AUD 140 million over three years for the same purpose.

Figure 3. Australia's bilateral ODA by region, 2002 to 2006

Constant 2006 USD million



Source: DAC/OECD.

With the MDGs becoming a major focus of the government's development assistance policy, Australia plans not only to support their achievement in Asia and the Pacific, but

also to pursue them at a global level, in particular in African countries where the challenge is great. So far Australian aid has been focused mostly on lower middle income countries (54% of bilateral aid in 2006), with only 20% of bilateral aid going to least developed countries (LDCs) in 2006.[4] As announced by the Parliamentary Secretary in a recent speech on the *Future Directions for Australian Assistance to Africa*, the Australian government plans to enhance its engagement in Africa with increasing amounts of aid in the coming years (McMullan, 2008a) and Australia is currently preparing a whole-of-government strategy to guide engagement in Africa across foreign, development, trade and other policy areas. Until now, Australian ODA to Africa has been limited (4% of the bilateral programme in 2006) and delivered mainly through Australian NGOs and multilateral organisations. In increasing its bilateral programme, Australia is aware of the risk of being a small player adding to the administrative burden placed on partner countries that already deal with a large number of donors. It is, therefore, planning to co-operate closely with other donors and whenever possible deliver the development programme jointly, which is a positive step. Improving the division of labour among donors and avoiding fragmentation and high transaction costs are imperatives of the 2008 Accra Agenda for Action.

Sector allocation

The Australian aid programme is mainly focused on "social infrastructure and services", which received 50% of the total bilateral ODA in 2005-06, well above the DAC average of 33% (Table B.5, Annex B). This focus has been constant over the last decade, but the allocation of funds among components of this sector has changed significantly. Funds allocated to education decreased sharply, from 22% between 1995 and 1999, down to 7% in 2005-06 (and 2% for basic education). In parallel, the percentage of aid allocated to health increased from 5% to 9% and the support to "governance and civil society" activities sharply increased from 7% to 23%. This latter percentage is well above the DAC average of 9%. The strong commitment to the governance sector is partly explained by the specific environment in which Australia operates (Box 5). It is consistent with the policy orientations of the 2006 White Paper, which stresses "fostering functioning and effective states" as a major focus of the development programme (MFA, 2006). The 2008/09 budget allocates 22% of the development assistance programme to governance, confirming Australia's strong engagement in this sector. The 2008/09 budget also increases the funds allocated to sectors directly linked to MDG outcomes, such as health, education, infrastructure (including transport and water supply and sanitation), and rural development and environment, in line with the stronger policy focus on supporting achievement of the MDGs (Chapter 1).

4. This means that 0.06% of its GNI is allocated to LDCs, far below the UN goal of 0.15%.

Box 5. A challenging operating environment

Many of Australia's neighbouring countries are in fragile situations, characterised by weak government, a high risk of conflict and political instability. Australia commits approximately 50% of its aid programme to these countries (ODE, 2007). Another 15% of the aid programme is allocated to small island states in the Pacific, which suffer from weak capacity and face several economic challenges linked to their remoteness from international markets, lack of resources and the small size of their domestic markets. A strong focus on governance in these countries seems appropriate to reinforce their capacity and enable them to restore peace, maintain law and justice, efficiently deliver basic social services and strengthen the economic environment while reinforcing accountability and responsiveness to their citizens.

Support to "economic infrastructure and services" and to the "production" sectors has decreased significantly over the last decade, from 14% and 7% respectively in 1995-99 to 4% and 5% in 2005-06. This may change in the coming years, in line with the emphasis given by the 2006 White Paper, and reaffirmed by the new government, on the importance of economic growth for poverty reduction. The 2007/08 budget allocates AUD 506 million over four years to new infrastructure for growth and other funds for initiatives sustaining rural and enterprise development. As noted by the *2007Annual Review of Development Effectiveness* (ODE, 2008a), this new commitment is positive, marking the beginning of a reversal of the decline in Australia's engagement in this sector.

The percentage of resources disbursed for humanitarian aid have risen over the last decade, from 4% in 1995-96 (USD 38 million) to 12% (USD 193 million) in 2005-06. This increase reflects in particular the massive Australian response to the 2004 Indian Ocean tsunami (Annex C).

The 2008/09 budget allocates funds to new areas corresponding to the electoral commitments of the new Australian government: i) addressing climate change impacts by strengthening adaptation efforts in the region; ii) eliminating avoidable blindness as part of a broader policy on disability in development; and iii) improving access to clean water and sanitation. The rapid increase of the Australian aid volume may allow new government priorities to be introduced into the programme. At the same time, Australia will need to be careful to avoid too much dispersion within partner countries. The two field visits revealed that AusAID is a highly dynamic organisation working in an increasing number of sectors and trying to be flexible and responsive to the needs expressed by partner governments. At country level, there may be a danger of attempting to do too many things, leading to a loss of focus and/or dissipation of energy, thereby ultimately weakening impact. For instance, the programme in Vanuatu already covers a broad range of sectors and comprises a large number of projects and initiatives (over 30) for the size of the programme. While its pragmatic, responsive approach is appreciated by its partners, the AusAID office could risk losing focus and reducing its impact if it was to engage in new sectors (Annex E).

Assistance through NGOs

Since 2004, the percentage of ODA allocated through NGOs has remained stable, at 5%. This percentage is still below the DAC median (Table B.1, Annex B). It is positive that the 2007/08 and 2008/09 budgets both plan to increase the funds allocated through NGOs (Chapter 4).

More than three-quarters (76%) of Australian NGO funds come from private donations, which amounted to AUD 725 million in 2006. The remaining amounts were provided by multilateral donors and other Australian agencies (14%), and AusAID (10%). The large amount of private funds raised by Australian NGOs illustrates the public interest in development issues and the high credibility of Australian NGOs. Considering this, and the scaling up of the development assistance programme, AusAID should continue increasing the amount of official assistance channelled through Australian NGOs. This could help to strengthen the Australian aid programme in Africa, where many Australian NGOs are actively engaged.

Multilateral ODA

The share of ODA channelled through multilateral organisations is relatively low, decreasing from 18% in 2004 to 14% in 2007. It is now well below the DAC average of 24%. The previous peer review recommended that Australia reflect on the steady decline in the relative share of multilateral aid in its programme, taking a strategic view on the future balance between bilateral and multilateral channels. It is positive that the Australian Government now plans to increase its multilateral engagement, in particular with the United Nations. Australia recognises that supporting multilateral organisations allows for participation in development activities that cannot operate at bilateral level. Multilateral organisations can also complement bilateral efforts in providing expertise, knowledge and high level research. They are a channel through which Australia can broaden its geographical focus. Australia could also use a stronger position within multilateral organisations to maintain their attention on the Asia-Pacific region where there is a limited community of bilateral donors.

A strong partnership with multilateral banks in the Pacific

The World Bank is the largest recipient of Australian multilateral ODA (9% of total gross ODA), followed by the Asian Development Bank. Australia is the third largest donor to the Asian Development Fund (ADF) and a medium-sized donor in the International Development Association (IDA). In the last negotiation for the IDA-15 replenishment, Australia committed AUD 583 million over nine years, representing a significant increase of its share in the IDA. Besides the core contribution to these organisations and in line with its geographical focus on the Pacific region, Australia is supporting multilateral development bank activities in the region by co-financing specific projects and programmes. Furthermore, Australia, the World Bank, the Asian Development Bank and New Zealand have made a commitment to work more together in the Pacific through the Quadrilateral Co-operation Agenda.

A renewed engagement with the United Nations

The total amount of Australian funds channelled through the United Nations has significantly decreased in the last few years, from USD 52 million in 2004 to USD 38 million in 2006. As mentioned above, a renewed engagement with the UN system is one of the pillars of the new government's foreign policy. In particular the 2008/09 budget announced an important new initiative called *United Nations Partnership for the Millennium Development Goals*, through which AUD 200 million will be allocated over four years as core funding to seven UN agencies considered to be vital for achieving the

MDGs.[5] The budget emphasises the importance of providing multi-year core contributions to these organisations, as a way to ensure greater stability and improve their performance.

Active support to global funds in the health sector

At the international level, Australia is active in supporting emerging global initiatives in the health sector. It has signed the International Health Partnership to harmonise donor efforts and align them to partner countries' own health plans. It participates in the Global Fund to Fight AIDS, Tuberculosis and Malaria, to which it has committed AUD 210 million over seven years. Australia holds a position on the board, shared with the United Kingdom, and uses this position to ensure attention is given to the needs of the Asia-Pacific region. Its contribution of USD 20 million over four years to the Global Alliance on Vaccination and Immunisation (GAVI) made Australia the eighth largest government donor to this programme in 2007.

Effective multilateral aid

With the prospect of increasing the share of aid going through multilateral organisations, Australia is concerned with the need to ensure that these organisations operate effectively. Thus Australia has recently asked to become a member of the Multilateral Organisations Performance Assessment Network (MOPAN).

Future considerations

- It is important that Australia maintains its primary focus on Asia and the Pacific regions, the latter of which lags behind in achieving the MDGs. At the same time, the review team welcomes Australia's increased focus on Africa, and in particular African LDCs. It encourages Australia to reflect on the best way of managing this geographic expansion, keeping in mind the Accra Agenda for Action. Australia should take the opportunities to work through delegated co-operation arrangements or multilateral organisations as well as to rely more on NGOs when engaging in a new country.
- The DAC appreciates the particular context of small states in which Australia operates. As the volume of its aid programme increases, Australia will need to assess prospects for scaling up in each country programme, taking account of the absorptive capacity of partner countries and the involvement of other donors. In doing so, it should keep in mind the need for maintaining a strategic sector focus at country level in order to promote coherence of efforts within the sectors which Australia supports.
- As Australia increases the share of aid going through multilateral organisations, it should develop further strategic linkages between its bilateral programme and its multilateral engagement.

5. These are: the United Nation Children's Fund, World Health Organization, United Nations Population Fund, United Nations Development Fund for Women, United Nations Development Program, United Nations Office for the Co-ordination of Humanitarian Affairs, and the Joint United Nations Program on HIV/AIDS.

Chapter 4

Organisation and management

Organisation

Strengthening AusAID's anchoring role within the whole-of-government approach

The Minister for Foreign Affairs has overall responsibility for development policy and operations. In addition, a dedicated Parliamentary Secretary for International Development Assistance position was re-established in December 2007, with broad responsibilities across all development issues. AusAID advises the government on development policy and manages the Australian development co-operation programme. AusAID is an administratively autonomous agency within the Department for Foreign Affairs and Trade. Responsibility for financial and personnel management resides with a Director General who is a member of the Department of Foreign Affairs and Trade's executive structure. He reports directly to the Minister for Foreign Affairs and the Parliamentary Secretary for International Development Assistance. Parliament, particularly the Joint Standing Committee on Foreign Affairs, Trade and Defence, is involved in the aid programme through its oversight functions.

Australia's aid strategy aims to include all the departments and agencies involved in delivering the aid programme via a whole-of-government approach, both at headquarters and in the field. In Canberra, three key entities ensure this whole-of-government approach in designing the orientations and budget of the aid programme: the Budget Cabinet Committee, the National Security Committee and the Development Effectiveness Steering Committee (DESC). A strong integration of Australia's various activities is also promoted in partner countries. Most of AusAID's 31 country offices share premises with other government agencies in embassies and high commissions. Development co-operation strategies bring together all the Australian stakeholders and all ODA-eligible funds are reported on by AusAID, even if they are spent by another department. This gives AusAID an anchor role which is crucial to ensure that the aid programme is meeting key development and effectiveness principles. In practice, however, this lead role can be difficult to exercise, with other powerful, sometimes numerous,[6] Australian departments having their own vision and being less aware of development needs and aid effectiveness principles (Chapter 5). This may become more challenging in a growing aid programme. It is therefore important that AusAID maintains its anchor position within the whole-of-government approach to development co-operation. The peer review team considers it important that the status and role of AusAID as the agency responsible for the aid programme within the whole-of-government approach be maintained.

6. In Indonesia, 17 Australian departments are involved in delivering the aid programme.

An agenda for reforming AusAID

Over the last four years, AusAID has developed purposefully to adjust its organisational structure and management processes to enable it to deliver increasing amounts of aid in an effective way. In February 2007, the *AusAID 2010 Director General's Blueprint* (AusAID 2007a) was issued, which provides a broad institutional picture of how AusAID should function to achieve this by 2010. It has been instrumental in setting the directions and giving the impetus for the organisation to adapt. The blueprint (known as *AusAID 2010*) establishes three key outcomes for which AusAID is responsible: i) serving the minister and government by formulating development policy and advice, and engaging with Australian stakeholders; ii) achieving lasting development results through the design and delivery of high quality programmes; and iii) maintaining policy, technical and corporate capability through investing in people and systems. The document describes how AusAID will staff, organise and govern itself to deliver these responsibilities (Box 6).

Box 6. Reforming the system: *AusAID 2010 Director's General Blueprint*

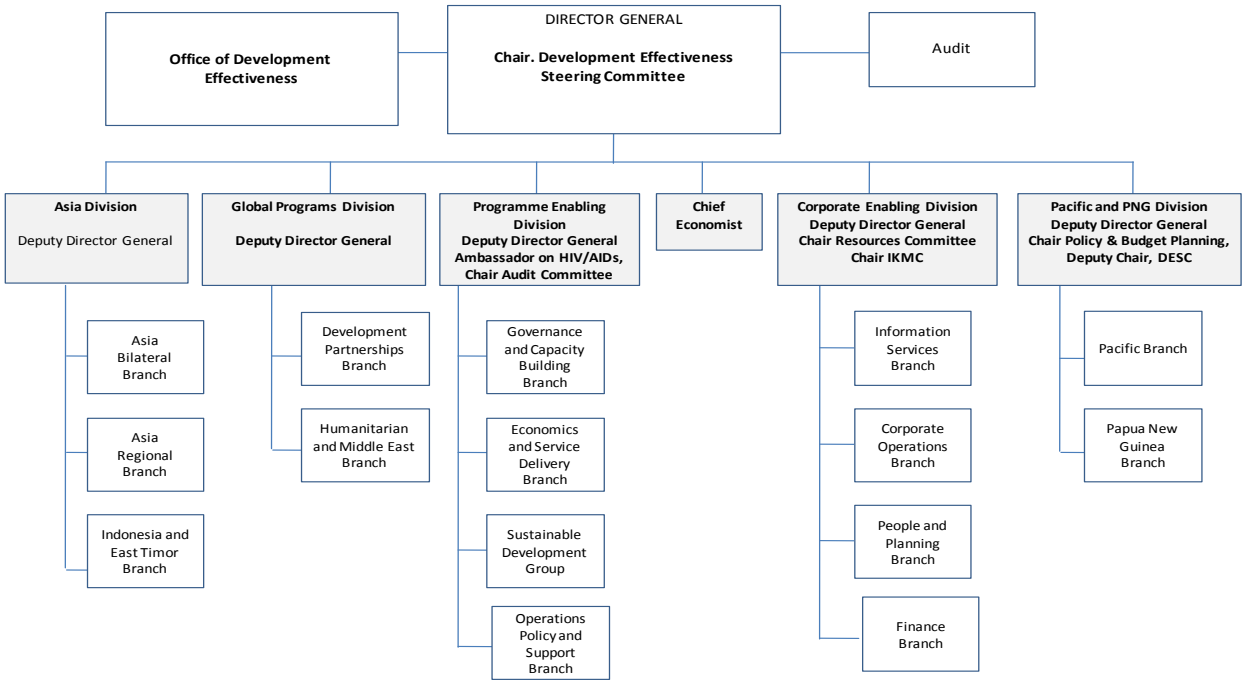
The blueprint describes AusAID's operation as driven by two elements: (i) *a strong centre* that sets strategic direction for the agency; oversees, equips and supports overseas offices for effective programme delivery; and manages risk; and (ii) *strong country and regionally-based teams* managing implementation of a diverse and substantial programme through more diverse and complex delivery mechanisms in partnership with governments, donors and other stakeholders. In addition to providing overall agency direction and management, staff based in Australia will focus principally on: i) engaging with Australian stakeholders (particularly ministerial, whole-of-government and constituency relationships); ii) ensuring quality assurance; and iii) equipping the overseas operations to deliver effective programmes by providing quality corporate and programme support. The document also states that AusAID will have three main operational functions: programme delivery, programme enabling and corporate enabling (described below).

Although it does not contain specific, measurable indicators and targets, the blueprint has been a central document in guiding the reform of AusAID's institutional structure and management processes.

AusAID's institutional framework

AusAID has set up an integrated management structure around the three main operational functions described in *AusAID 2010*. These relate to programme delivery, programme enabling and corporate enabling (Figure 4).

Figure 4. AusAID's organisational chart



i) *Programme delivery functions*: these cover the design and implementation of country programmes, and group country posts and staff in Canberra under an Asia division and a Pacific and Papua New Guinea division. There are also two regional offices in Bangkok and Suva. Country posts are accountable for programme design, implementation and management; in-country dialogue; local stakeholder relationships; monitoring and performance assessment; and working in partnership with Canberra staff to ensure information flows on all aspects of the programme. Canberra-based programme staff ensure that development strategies are developed and implemented as a single framework for whole-of-government development efforts. They are also accountable for managing day-to-day relationships with the minister and other government partners; taking a strong advocacy, representational and networking role across the breadth of Australian stakeholders; conducting research and outreach; participating in major in-country design and monitoring exercises; and taking a mandatory role in review and evaluation.

ii) *Programme enabling functions*: these aim to support a high quality aid programme and have three components: i) the technical and thematic groups, placed under the Programme Enabling Division; ii) the Office of Development Effectiveness (ODE), which reports directly to the Director-General, and iii) institutional partnerships, within the Global Programs Division.

iii) *Corporate enabling functions*: these ensure clear guidance on standards and procedures for overseas based staff as well as ongoing learning and development opportunities for all staff. They are grouped under the Corporate Enabling Division and include public affairs, finance, human resources, administrative services, property, security, and information and communication systems.

A number of *governance committees* assist the AusAID Director-General and provide strategic oversight of both programme and corporate performance. Beside the DESC, the Executive Committee, composed of the Director-General and five Deputy-Director

Generals, has a key role in setting the agency's overall policy direction and development agenda; monitoring global development thinking; managing and overseeing critical corporate relationships; and providing strategic oversight of both programme and corporate performance. The Executive Committee is supported by sub-committees dedicated to development co-operation policy and programme strategies, resources, information and knowledge management, placements and audit.

A devolved system

Devolution is well-advanced, supported by a clear vision, a broad and detailed transition plan divided into specific projects, and appropriate, dedicated resources. While AusAID began decentralising the management of its aid programme in 2001 on a case-by-case basis, *AusAID 2010* gave further impetus to the process. The People and Planning Branch has been strengthened and is now the focal point for implementing AusAID's deployment overseas. Today, field offices' capacity, described as limited in the 2004 Peer Review, has been considerably strengthened and a clear corporate framework, including governance, operation and knowledge-sharing, has been set up.

The devolution process appears to be successful, with a clear demarcation of roles between Canberra and country posts; clear lines of accountability, including for financial delegation;[7] and decentralised programmes coherent with the overall strategy of AusAID and its corporate framework. The peer review team saw evidence of this in both Indonesia and Vanuatu (Annexes D and E). Decentralisation has contributed to AusAID's effectiveness. In both Indonesia and Vanuatu, it helps strengthen the partnership by bringing more people/capacity to the field, thereby empowering staff and allowing for more flexibility in the way aid is delivered.

The incremental approach adopted by AusAID has enabled it to learn from experience as it deepens the devolution and extends it to new countries. In particular, it has learned that linking together corporate and programme functions at country level has done much to ensure the success of AusAID's operations. Thus AusAID intends to adopt a consistent approach across its programme and has started posting people from the corporate division to field offices, as is the case now in Indonesia. It plans to have more systematically overseas-based dedicated financial, human resources and contracts experts for country and regional programmes who will report to their head of programmes but also to their functional heads in Canberra.

As part of the devolution process, two regional hubs in Bangkok and Suva were set up at the end of 2007 to support smaller offices. This calls for clearer relationships and lines of accountability between Canberra, the regional and country offices. For instance, AusAID's office in Vanuatu receives corporate support from the regional hub in Suva and reports to the Minister Counsellor Pacific on programme management issues. However, it still needs approval from Canberra for corporate support issues. AusAID should therefore clarify the advisory role played by the Corporate Support Unit based in Suva and its implications for country offices.

7. The country office has financial authority up to AUD 3 million, above which financial delegation reverts to Canberra and the Deputy Director General (up to AUD 10 million) and thereafter to the Director General.

Managing for results: a reinforced corporate management system

AusAID is committed to becoming a results-based and learning organisation in a devolved environment. To do so, it is strengthening its corporate business processes in order to closely link business plans and performance reports to AusAID's key deliverables. AusAID puts a specific emphasis on performance reporting systems, learning mechanisms and effectiveness assessments, with a reinforced focus on quality of aid delivery.

Strengthening corporate business processes in a devolved system

Over the last two years, AusAID has developed new business processes to ensure a consistent approach to key aspects of programme delivery and corporate management across all of its operations. A strategic planning framework, the *Agency Business Plan 2006-2010*, has been set up, with divisional and branch business plans deriving from it. A key objective is to align management information reports and individual accountabilities, so that they share priorities and have a common baseline for monitoring performance. To this end, each unit has to develop its own annual business plan and staff performance plans; and performance measurement processes are being revised in order to link individual performance more directly to business unit priorities and corporate goals.

Detailed instructions, guidelines and tools are being developed on all aspects of programme delivery, from the design phase to completion and evaluation. A dedicated intranet site on rules and tools keeps the staff informed on all these corporate business rules and processes. AusAID has also upgraded its information technology systems to improve communication with Canberra and between the country posts. This includes expanded videoconferencing facilities and web-based sharing of seminars.

Assessing performance

In 2007 AusAID developed a new *Performance Assessment and Evaluation Policy* (AusAID, 2007d). This new policy aims to provide the agency's executive with comprehensive performance information against key objectives. Performance information generated can help to inform resource allocation decisions. At field level, it aims to help managers and partners to be more results-oriented and to improve quality by collecting reliable performance information.

Performance reporting processes have now been brought together into one coherent system. This system emphasises transparency, contestability, alignment and harmonisation as common principles and brings a stronger focus on quality of activities. It includes:

i) An annual performance report on each country programme and on major sectors and global programmes that tracks progress against strategy and policy-level objectives.

ii) A quality reporting system at activity level, which tracks an activity's quality at the start, during implementation and at completion, against a set of common quality principles (Box 7).

iii) Evaluations, often conducted independently, which provide in-depth assessments of programmes, activities and themes. At minimum, all monitored activities are subject to independent review at completion to assess quality, effectiveness and impact.

Country and sector performance reports are conducted in a participatory way and their results are publicly available. To support implementation, a Performance and Quality Network has been established by AusAID Operations Policy Management Unit together with ODE, with representation from bilateral, regional and global programme staff in Canberra and overseas.

Box 7. Australian aid quality principles

All aid activities are expected to:

1. Achieve clearly stated objectives that contribute to higher level objectives in the programme strategy.
2. Effectively measure progress towards meeting objectives.
3. Continually manage risks.
4. Appropriately address sustainability, taking account of partner government systems, stakeholder ownership and phase-out.
5. Be based on sound technical analysis and continuous learning.

AusAID sees the performance reporting process as a core function of good programme management. In both Indonesia and Vanuatu, it was indeed seen as a key management tool at the office level and in Vanuatu, the performance update report has helped reshape the programme. In putting in place its new reporting system, AusAID still faces challenges in balancing accountability, management and learning requirements. In particular, in the short term, adjusting to the use of the new performance measurement mechanisms may put heavy demands on staff. Efforts are also needed to strengthen the links between activity and programme-level performance measurement and reporting. This calls for defining precisely the objectives, intended results, indicators and targets in new programmes. Another challenge will be to increase links with, and use of, partner government performance tools in line with the aid effectiveness agenda (Chapter 5). The review of the performance assessment and evaluation policy planned for the end of 2008 will be an opportunity to streamline systems and practices and assess the capacity required. Finally, in the medium-term, AusAID should consider evaluating its sector policies, given the strong emphasis put on developing these policies. This might be one objective for ODE in the coming years.

Managing information and knowledge

Since 2007, a strong emphasis has been put on thematic knowledge management through the development of thematic groups and networks supported by thematic knowledge services. Thematic groups bring together advisors and programme managers to provide integrated sources of advice and oversight for the programme. These groups are the hubs of 14 thematic networks[8] involving overseas-based and Canberra staff. Participation is mandatory for all staff working in the relevant thematic areas. Networks meet on a regular basis and communicate regularly through email and intranet sites. Preliminary findings show that these networks allow better access to information and

8. Governance and anti-corruption, law and justice, fragile states and peace-building, civil society, gender, economics, education, health, HIV/AIDS, environment and water, infrastructure, rural development, performance and quality, and humanitarian, emergencies and risk reduction.

skills and help new staff become effective rapidly. Another significant development is the stronger focus on research which arose from the White Paper and led to the first *AusAID Development Research Strategy 2008-10* (AusAID, 2008a) launched in January 2008. This illustrates AusAID's aim to use knowledge to guide the programme for increased impact on poverty reduction. Through its research strategy, AusAID aims at scaling up and diversifying its research investment, making stronger connections between research and policy, and stronger relationships with research institutions in Australia and overseas.

Evaluating effectiveness

The Office of Development Effectiveness (ODE) was established in April 2006, reporting directly to AusAID's Director-General (Figure 4). The Office monitors the quality and evaluates the impact of the Australian government aid programme. It seeks to report on the effectiveness of Australian aid and identify areas where effectiveness could be improved. One of ODE's key achievements in 2007 was to complete the first annual review of development effectiveness (Chapter 5). ODE also developed a performance assessment framework for country and thematic programmes and tested it in seven countries. This exercise has led to AusAID's new performance and evaluation policy. ODE also produces quarterly updates on development effectiveness based on international and domestic reports as well as conducting high level thematic evaluations. One example of such an evaluation is the report on *Approaches to Anti-corruption through the Australian Aid Program – Lessons from Papua New Guinea, Indonesia and the Solomon Islands* (ODE, 2007).

In 2008/09, ODE plans to: i) prepare the second annual review of development effectiveness; ii) monitor the implementation of the new performance and evaluation policy; iii) carry out or commission a number of high level thematic and country strategy evaluations, and enhance evaluation practice across the programme; iv) support the development of whole-of-government country strategies; and v) engage on the international effectiveness agenda and forge links with key international and bilateral actors in the area of evaluation. ODE has been working closely with AusAID's Operations Policy and Support Branch on the design and implementation of quality and performance reporting systems and other activity design and implementation processes that influence effectiveness. ODE's role is evolving: with the new performance reporting system now in place, it focuses more on providing evidence-based analytical and policy guidance. The Operations Policy Management Unit provides support and guidance to country offices to implement the performance assessment and evaluation policy. It will be important to clarify the respective mandates of ODE and the Operations Policy Management Unit to agency staff. The performance and quality network could be used for this.

Australia has been innovative in setting up ODE. Its position as a free-standing unit reporting directly to AusAID's Director-General is positive and helps address critical issues and improve transparency. Reports from ODE, which are publicly available on the Internet, provide frank assessments, including progress made and remaining challenges for the Australia's aid programme. The impact of this initiative should be shared widely with other donors.

The challenge of human resources

AusAID staff numbers, positions and profiles have evolved in the last four years to respond to the challenges of managing efficiently an expanding and devolved aid programme. AusAID has approximately 1 100 staff, an increase of nearly 50% in four years. Half of the staff is located overseas, compared to 40% in 2004. This trend is set to continue, since AusAID plans to have approximately 60% of its staff located in low-middle income countries in the Asia-Pacific region by 2010 (AusAID, 2007a). AusAID staff comprises 700 Australians (A-based staff) and 400 locally-recruited staff (O-based staff). While this represents a stable balance between these two components, a higher proportion (23%) of Australian staff is now located in the field than in 2004 (13%). However, a significant number of staff (540) remains in Canberra to maintain the strong headquarters required by the whole-of-government approach. Almost all A-based staff comprises Australian public servants, but AusAID increasingly contracts a number of people under a variety of arrangements to respond to the need for expertise and flexibility. In particular, the number of advisors under contract rose from 17 in 2004 to 32 in 2008. AusAID also favours secondments as a way to gain expertise. Nine AusAID employees are currently seconded to other national or international organisations, and five employees from other organisations are seconded to AusAID.

The number of locally-recruited staff has increased by 40% since 2004. They represent 71% of AusAID staff posted in the field. With AusAID recognising that O-based staff are crucial to the success of country programmes, their role and position has evolved, as recommended in the last peer review. The new title of "overseas-based staff" in the place of the previous "Programme Support Unit staff" illustrates this change. O-based staff are considered as employees, not contractors, and can be promoted to higher positions, especially programme managers and technical specialists. Guidelines for the management of overseas-based staff were issued in February 2008. They usefully give a standard approach to O-based staff conditions of service and propose more attractive terms and conditions in terms of flexibility, retention and inter-post mobility. This should better enable Australia to retain qualified O-based staff and maintain continuity in the devolved programme.

The AusAID staff skills mix has also evolved, with teams of both generalists and specialists in the field. In both Indonesia and Vanuatu, the peer review team saw AusAID's staff engaging constructively with partners, demonstrating appropriate expertise and sound understanding of local contexts (Annexes D and E). As with other DAC members, finding the right mix of people and creating an appropriate balance between different categories and positions remain a continuous challenge. AusAID is aware of a number of more specific challenges ahead. One particular challenge is the loss of corporate knowledge as more experienced AusAID staff retire from the workforce, a trend that may increase over the next ten years given AusAID's age profile. Staff retention, and investing in knowledge management, become all the more important in this context. With unemployment rates in Australia at their lowest since the sixties as well as the problem of attracting people to Canberra, AusAID continues to experience a high level of turnover (12% annually) - although lower than other departments (18%) - and has lost competent staff. In addition to the expense of frequent recruitment, such rapid turnover may undermine the agency's capacity to develop expertise and to build relationships with its partners in Australia and abroad. Attracting and retaining capable, experienced staff with suitable skills, including working in the field, and especially in fragile states, will be crucial in the coming years and developing a specific policy should

be prioritised to achieve this. The workforce planning process underway in AusAID since mid-2008 is a positive step in this direction.

AusAID also needs to be aware of the risks accompanying high internal staff mobility, especially when combined with high staff turnover. In Indonesia this was seen by most of AusAID's partners as a constraint for developing constructive relationships. With AusAID starting to provide nine months' language training to some language-designated positions at posts, it might consider offering longer-term postings than its current "2 + 1 optional year" policy. In doing so, it would be important to remain flexible, particularly offering exceptions for hardship posts. AusAID could also review the pros and cons of facilitating further geographic continuity in individual career paths by increasing, for instance, the opportunities for staff to work in the same geographic area, either at headquarters or in the field.

AusAID seems well equipped to address these challenges with a new, reinforced, human resource branch (People and Planning Branch) with specialised staff. It was established in 2006 and has been instrumental in setting up a more professional, integrated approach to all aspects of human resources policies and strategies, including staff management, learning and development, as well as corporate planning and reform. For instance, it has developed a co-ordinated approach to all training across the agency, with three sets of core learning requirements – for new starters, new managers, and posted officers – with systematic focus on business processes. A stronger effort has also been made to improve performance management, with performance plans completed by each staff member and reviewed annually.

Working further through NGOs and other partners

The development of the White Paper opened up a new process of engagement with NGOs and other partners. This is likely to continue, with the Australian government committed to strengthening and widening the range of players engaged with the aid programme. These include NGOs, the Australian private sector, Australian state and local government as well as other Australian communities, such as volunteers (300 in 2008), universities and professional bodies.

NGOs were actively involved in developing the White Paper. However, up to now, there has been no policy framework for engaging with NGOs and their role in the aid programme is limited. With regard to implementation, the share of ODA going through NGOs, although increasing, is weak compared to the DAC average (see Section 3.3). At the policy level, AusAID's guidelines recommend consulting with NGOs when designing policy documents and new country strategies, but with the previous National Advisory Council no longer active, there is no formal mechanism to do so.[9] It is positive that a formal mechanism is under development.

Australia recognises that national NGOs have extensive experience, capacity and linkages with partner organisations and communities in developing countries and that there is a need to further expand their contribution to programme delivery, policy dialogue and in building community support for international development. The peer

9. A committee for development co-operation meets three to four times a year to deal with administrative and financial issues linked to the accreditation process and the AusAID-NGO Co-operation Programme (ANCP – see Box 8). Terms of reference for this committee are being revised and may allow it to cover explicitly policy issues.

review team encourages AusAID to set up a new framework to engage in a more collaborative way with key NGOs. This should include:

i) Developing a strategic approach, which would allow AusAID to make better use of NGOs' expertise and specificity as civil society actors. This could usefully include an approach to civil society organisations in partner countries, linking with AusAID's renewed approach to governance (Chapter 6).

ii) Establishing a forum on development policy with high level political engagement.

iii) Reinforcing partnership mechanisms. A positive sign is that AusAID plans to develop new strategic partnership agreements with key NGOs by June 2009. In preparing these, it should take into account the limitations of the existing mechanisms – the absence of multi-year funding on the one hand, and the risk of excluding new, small NGOs on the other (Box 8).

Box 8. Funding mechanisms for Australian NGOs

NGOs must be accredited by AusAID to be eligible for AusAID funding. The accreditation process is jointly managed by AusAID and ACFID, the national NGO umbrella. Accredited Australian NGOs can access AusAID funding through two main schemes: i) the AusAID-NGO Co-operation Programme (ANCP), which provides single year contributions in support of community-funded programmes implemented by Australian NGOs; and ii) the co-operation agreements, which enable country and humanitarian programmes to partner with selected fully accredited NGOs to deliver objectives of the AusAID country and sectoral strategy. These agreements are five to six year-contracts managed through a bidding process. Ten exist so far, including a Periodic Funding Agreement for Disaster Risk Management (see Annex C). An example is the Viet Nam-Australia NGO Co-operation Agreement 2005-10, which is implemented by five Australian NGOs with a budget of AUD 20 million. These mechanisms raise two issues: the lack of access to multi-year funding through the ANCP and the difficulties facing new, small NGOs trying to become accredited.

Future considerations

- AusAID is the anchor agency for the Australian aid programme. As the aid budget increases, it is important that AusAID maintains this key anchoring role within the whole-of-government approach, in close relation with the Parliamentary Secretary for International Development Assistance. This will help ensure that all departments and agencies involved in delivering the aid programme share the same development vision.
- As regional offices develop, AusAID will need to clarify further their role and responsibilities in relation to the country offices and Canberra in the devolved system.
- AusAID is congratulated for improving quality and effectiveness through results-based management systems. It is encouraged to continue its efforts to strengthen and streamline the performance assessment framework to find the right balance between management, learning and accountability needs, and capacity.
- AusAID should build on its workforce planning process to develop a policy to address the challenge of attracting and retaining personnel with the requisite skills. This will allow it to maintain the right level of staff with the appropriate skills mix to deliver a broader programme in a devolved environment.

- The DAC appreciates Australia engaging further with NGOs and other partners like the Australian private sector and universities, focusing on complementarity of development efforts. Australia should consider developing a strategic framework for engaging with civil society partners and in particular with NGOs, covering both policy consultations and partnership mechanisms, so as to further expand their contribution to programme delivery, policy dialogue and in building community support for international development.

Chapter 5

Aid Effectiveness

Political commitment and overall approach to aid effectiveness

A strong commitment to increasing the effectiveness of the aid programme

Australia is strongly committed to making its aid programme more effective, as illustrated by the creation of the Office of Development Effectiveness (ODE). This commitment was reaffirmed by the Minister for Foreign Affairs and the Parliamentary Secretary for International Development Assistance when jointly presenting the 2008/09 budget in May 2008 (Smith, 2008a). Australia supports the Paris Declaration as a helpful approach to strengthening aid delivery and its high-level commitment to it was illustrated by the Parliamentary Secretary's participation in the High Level Forum on Aid Effectiveness held in September 2008 in Accra.

Efforts to increase the effectiveness of the aid programme are outlined in *AusAID 2010* (AusAID, 2007a), although AusAID has no specific action plan for implementing the Paris Declaration. *AusAID 2010* is slightly different from an action plan for the Paris commitments, and understanding of the aid effectiveness agenda still varies across the agency. However, new policies, guidelines and reporting tools are being developed which clearly indicate an increased focus on the partnership dimension, stronger engagement through partner government systems, increased collaboration with other donors – particularly in the Asia and the Pacific regions – and stronger results-orientation. Australia is also committed to assessing progress, using greater transparency to accelerate implementation and increase credibility. This is illustrated by the publication and presentation to parliament of the *2007 Annual Review of Development Effectiveness* (ARDE) in March 2008 (ODE, 2008a and see Box 11).

AusAID has participated in the 2006 and 2008 monitoring surveys of the Paris Declaration and the international evaluation on progress in implementing the Paris Declaration. While calling for further refinement of some of the Paris indicators, AusAID is using the findings from the monitoring process to inform the development and implementation of systems for measuring progress against key principles. These include the share of aid delivered through partner government systems and the extent of donor harmonisation effort. The *2008 Survey on Monitoring the Paris Declaration* paints a mixed picture of Australia's efforts on aid effectiveness (OECD, 2008b). Australia is performing well and has made good progress on joint country analysis and missions, as well as on untied aid. However, it could make further progress in the use of countries' financial management and procurement systems; share of aid flows in budget; use of common procedures *e.g.* programme-based approaches; predictable aid; co-ordinated

support to capacity development; and in reducing the number of parallel project implementation units.

Taking account of specific contexts

Australia emphasises the particular challenges associated with implementing and monitoring the Paris Declaration principles in the small island states and states in fragile situations, which are major recipients of its ODA. Taking this into account, AusAID has developed a pragmatic approach combining principles which must be applied systematically and modalities that can be adjusted to the specific partner country context (Box 9).

Box 9. AusAID's pragmatic approach to the aid effectiveness principles

Approaches which must be systematically applied:

i) Fostering country ownership through a broad and deep involvement of country stakeholders; limiting the weight of foreign experts in defining priorities.

ii) Sharing strategies, starting with the partner government's development plan and ideally ensuring these are costed and budgeted taking account of all funding sources.

iii) Ensuring inclusive donor co-ordination and teamwork, including sound joint analysis and identification of clear roles.

iv) Strengthening and moving towards the use of country systems, with regard to public financial management and monitoring and evaluation.

Approaches which can be adjusted depending on context:

i) Capacity-building, taking into account existing capacity and considering how to supplement it with additional skills and experts.

ii) Using country expenditure systems, depending on country fiduciary risks.

iii) Using country monitoring systems, depending on the quality of national monitoring systems

iv) Mixing aid modalities or delivery mechanisms, but moving progressively towards use of country systems.

v) Working with partners in joint activities.

The high proportion of its aid disbursed in states in fragile situations and/or in small island states with poor administrative capacity explains Australia's pragmatic approach to aid effectiveness. This allows Australia to deliver the aid programme flexibly to match each context and responds to the need for accountability to maintain high-level political and public support in Australia. For instance, AusAID has faced strong domestic opposition to the use of general budget support in fragile contexts. It therefore tries to find ways to engage in programme approaches in these contexts by putting in place safeguard mechanisms. One example is the basic education sector in Indonesia (Box 17, Annex D). Here the major part of the AUD 335 million programme is delivered through the Indonesian Treasury, but control mechanisms have been put in place in previously identified weak and high-risk points of the process, such as procurement. In particular, given the weak capacity of the Ministry of Religious Affairs, the Islamic schools sub-component is implemented via a managing contractor reporting to the Ministry of Religious Affairs. While it is understandable that AusAID needs to adapt the way it

engages in the aid effectiveness agenda to its specific context, including adjusting the mix of aid modalities, it is important for the Paris commitments to remain a focus of the overall programme. To this end, AusAID should continue to share extensively the Accra Action Agenda and use it to disseminate further the aid effectiveness principles within the agency and also across government.

Aid effectiveness and the whole-of-government approach

Australia is developing whole-of-government strategies to drive the planning and implementation of its aid. Since 2006, it has begun reviewing and upgrading its country strategies to ensure that ODA-eligible activities are contributing to agreed priorities. This whole-of-government approach takes various forms. These range from small, few-person placements – *e.g.* Nauru, where Australian Treasury and Finance officials are assisting the government with planning, budgeting and economic reform – to large-scale missions involving many experts from several government departments. Also, the Australian-led Regional Assistance Mission to the Solomon Islands (RAMSI) involves close co-operation between AusAID and Australia's Department of Foreign Affairs and Trade, the Australian Federal Police, Department of Treasury, and the Department of Finance and Deregulation. A specific challenge is to get all the departments involved in delivering the aid programme to own the strategy as well as the new aid modalities attached to it so that it leads to real, sustainable development gains. The peer review team found in Indonesia and Vanuatu (Annexes D and E) that there is scope for improvement. In particular, approaches to capacity development, results-based management and reporting are not yet owned and implemented by all Australian government stakeholders in Vanuatu. It is indeed important for Australia to ensure that the programme is delivered against key principles and take appropriate measures to do so. This has been done in Vanuatu, where AusAID is co-managing the police force capacity-building project with the Australian Federal Police. As the lead agency in delivering the aid programme, AusAID should closely monitor projects delivered by other departments/agencies in order to ensure that the overall objectives of Australian development co-operation are met.

AusAID is aware of the challenges of the whole-of-government approach. In early 2008 it mandated ODE to conduct a rapid review of engagement by other government departments in country strategy development and performance reporting. The review highlighted the lack of ownership of country strategies by other Australian government partners and the lack of common reporting systems. Its recommendations aim to streamline and enhance whole-of-government engagement in strategy development and performance reporting. This could be usefully complemented by a strategy to disseminate further the key development principles of the aid effectiveness agenda. The planned opening up of thematic networks to civil servants from all departments/agencies will be a good way to share information and upgrade skills. AusAID should consider the need for a network dedicated to the aid effectiveness principles and commitments, open to all the Australian stakeholders involved in the aid programme, to disseminate lessons and good practice in this area.

Implementing the Paris Declaration

Country ownership: a strengthened approach to partnership

Over the last four years, Australia has strengthened its attention to partnerships in its relationship with recipient countries, as illustrated by the Pacific Partnerships for Development initiative launched in 2008 (Box 10). Country strategies are aligned to partner government priorities and developed following a participatory approach, confirmed by the peer review team in both Indonesia and Vanuatu. These strategies are driven by partner country ownership and leadership. For instance this is clearly stated as a guiding principle in the Australia-Papua New Guinea 2006-10 development co-operation strategy:

[the] new strategy will reflect a genuine partnership between Papua New Guinea and Australia, which is driven by Papua New Guinea ownership and leadership and has a strong emphasis on sustainability and capacity building. The strategy will respond to the key recommendations identified by the 2004 Joint Aid Review, and will be aligned with and informed by the following key policies and the principles of aid effectiveness.

While bilateral programmes are aligned to partner countries' priorities, several regional programmes remain supply-driven. Most of the regional programmes are not designed in-country and their implementation is perceived by national partners as imposed and without connection to other national programmes. This is the case, in particular, for the health sector. AusAID could build on the country-driven approach taken by its Pacific Land Programme to make sure that regional programmes respond to national needs.

Australia is increasing its aid predictability with longer-term programmes – up to ten years in the case of the Governance for Growth programme (2006-2017) and the Legal Sector Strengthening Project (2000-2011) in Vanuatu. Such programmes go beyond country strategies, which cover a five-year period. No indicative funding envelope is yet attached to country strategies, even though indications are given to partner countries on the overall estimated budget attached to the strategy. This allows flexibility in delivering the programme, as was seen in Indonesia (Annex D). However, lack of clear, predictable donor inflows does not help partner country's budgeting.[10] Australia should do more to provide timely information on medium-term forward expenditure as well as on annual commitments. Progress has been made in this direction, with the annual budgeting process now allowing the commitment of funding for the next three years. However, funds administered by AusAID are still allocated annually by the Minister of Foreign Affairs to bilateral, regional and global programmes. AusAID will need to consider how to address these constraints to be able to provide timely information on budget allocations to partner governments, in line with commitments in the Accra Agenda for Action.

10. This was not seen as a problem by Indonesia as ODA is a small share of its overall budget – and the government liked the flexible funds – but this may be more challenging in the Pacific Island states where Australian aid represents a large share of the national budget (*e.g.* 27% in Vanuatu).

Box 10. Pacific Partnerships for Development

In Port Moresby in March 2008, the Prime Minister launched a new Pacific Partnerships for Development initiative (Rudd, 2008a). These partnerships will provide a new framework for Australia and Pacific island nations to commit jointly to achieving shared goals linked to the MDGs. Underlying principles are mutual respect – acknowledging the importance of Pacific island countries' leadership and ownership – and mutual responsibility. These are underlined by an increased and longer-term aid commitment from Australia and commitments by the Pacific island nations to improve governance, to increase investment in economic infrastructure and to achieve better outcomes in health and education. The first partnership agreements were signed with Papua New Guinea and Samoa on 20 August 2008. In implementing these partnerships, Australia will need to make sure that they do not undermine co-operation with other donors by leading to an exclusive bilateral dialogue with partner countries.

Alignment: working more through government systems

AusAID 2010 gives a clear indication that the aid programme should be increasingly delivered through government systems. It announces a:

> …further marked reduction in the number of people/dollars spent working on the programme through traditional Australian managing contractor arrangements. The dependence on managing contractor-delivered, technical assistance-oriented, stand-alone projects will have decreased markedly. There will be a significant expansion of sector and thematic programmes, working through partner government development strategies and financial systems and in concert with groups of donors (AusAID, 2007a).

AusAID is gradually adjusting its delivery modalities to engage more through partner government systems. However, AusAID does not have targets for the use of different instruments, and budgets are not allocated according to instruments, but only by country strategy. Country offices can select, from a wide range of modalities, the mix of aid instruments appropriate to the local context and partners' needs and capacity. AusAID headquarters provides advice and guidance on aid modalities – including fiduciary diagnostic tools – to inform country team decisions. An "aid modalities" adviser has recently been appointed to assist with this work. Sector budget support is used in environments where budget processes are robust, like in Viet Nam.[11] Where government capacity is weak and fiduciary risks are high, Australia still favours the project approach, but increasingly engages in sector approaches with tailored mechanisms set up to limit risks, as in Samoa (health sector) or in Papua New Guinea (law and justice, health, education and HIV/AIDS sectors). This can include pooling of funds with other donors which are seen as beneficial to increase ownership, capacity and sustainability with lower transaction costs.[12] Australia also likes to retain some funds outside pooled arrangements to enable a faster and more flexible response and to engage easily with specific partners, like NGOs.

AusAID's pragmatic approach allows innovative engagement, as was seen in Indonesia and Vanuatu. However, the peer review team found in these two countries that

11. Australia prefers supporting sector approaches rather than providing general budget support, given the fiduciary risk associated with the latter.

12. In fragile situations, AusAID can also provide funds through another donor with a robust fiduciary system.

Australia's approach still has a broadly "project" character, even though there have been moves towards programmes. On-going efforts will be needed to enable AusAID to deliver 66% of its aid as programme-based approaches, as is stated in the Accra Agenda for Action. AusAID should annually track progress in this direction and should consider setting intermediate targets to reach this commitment.

Australia is increasingly aware of the need to build capacity and is taking steps to mainstream this dimension within its aid programme. AusAID is also reviewing its approach to technical assistance to ensure it contributes to capacity development (Chapter 6).

It is estimated that 20 to 25% of ODA is delivered through development assistance contractors (commonly named "managing contractors"). These private companies manage and deliver technical assistance as part of the aid programme, and are contracted via a competitive bidding process. Most of these companies are members of International Development Contractors (IDC), whose charter implies a code of conduct specifying values and ethical principles for delivering the aid programme. In line with the engagement to work more through government systems, AusAID will rely less on this modality in the coming years. This should not prevent AusAID from making use of the expertise of these development professionals at a strategic level, taking account of the wide experience they have gained in working for Australia as well as for other bilateral donors. The dialogue existing with managing contractors at field level helps country posts to keep in contact with reality on the ground; this in turn helps inform AusAID in its policy dialogue with national authorities.

A positive step is that Australia untied its overseas aid programme in April 2006, going beyond the 2001 DAC recommendation. As a consequence, AusAID removed the previous eligibility criteria restrictions and allowed organisations to bid for Australian aid programme contracts regardless of their country of origin.[13] The peer review team encourages AusAID to set up follow-up mechanisms to strengthen capacity of contractors from partner countries and to assess the impact of the untying policy in the medium term.

Harmonisation and division of labour

Australia is actively engaged in donor co-ordination mechanisms and takes a lead role in sectors where it can add value. This is more frequent in the Pacific region, where Australia is often the main donor. AusAID has a good dialogue with partners, sustained by its participatory approach to the preparation of the country strategy, and widely shares evaluations and mid-term assessments of its aid programme. In Indonesia and Vanuatu, other donors see Australia as a transparent and constructive donor.

Few bilateral donors have long-term co-operation programmes in the Pacific region. Joint approaches and common arrangements are therefore most advanced with New Zealand on the one hand, and with the World Bank and the Asian Development Bank (ADB) on the other. Australia has a long history of working closely with New Zealand and a number of harmonised and delegated co-operation arrangements are in place. For instance, in the Cook Islands, Australia contributes funds annually to the New Zealand Agency for International Development (NZAID) for implementation and management of

13. One exception to the untying principle is tenders for Australia-Indonesia partnership for reconstruction and development (IPRD) contracts, where government policy dictates that tendering is restricted to Australian, New Zealand and Indonesian suppliers.

the programme. A tripartite arrangement between the three nations spells out the objectives of the harmonised programme, which aims to improve development outcomes and reduce the administrative burden for the Cook Islands. In Samoa, Australia and New Zealand developed a joint strategy in 2006. It involves deepened joint analytical work, extensive consultation, joint missions between AusAID and NZAID, and an agreed division of labour, with either one or the other leading on each sector. The relationship between this strategy and the Pacific Partnership could be made clear. A Quadrilateral Co-operation Agenda has been set up between AusAID, New Zealand, the World Bank and the Asian Development Bank to improve the quality and effectiveness of co-operation in Papua New Guinea and the Pacific region, making use of the comparative advantages of each organisation. AusAID is moving towards engaging more with other donors, and partnership arrangements are already in existence with other donors, such as the European Union, Germany, the United Kingdom and Japan. They aim at promoting mutually supportive development co-operation policies and approaches in a range of specified areas, such as the fisheries sector in the Pacific.

Given that it plans to extend these partnerships, Australia should build on its experience to date to provide evidence of their impact on transaction costs and to identify good practice. This could be useful for promoting joint arrangements with other donors in the Asia region, where such approaches are less frequent. It would also be useful for the Pacific, where there is a risk of increased volumes of aid creating competition between donors, given the limited capacity of partner countries to absorb aid. Documenting the impact of joint arrangements and highlighting good practice will also be helpful for the other DAC donors, as the importance of the division of labour to avoid fragmentation and reduce transaction costs becomes increasingly obvious under the Accra Agenda for Action.[14] In this respect, the peer review team supports AusAID's approach to favour multilateral programmes and delegated co-operation with bilateral partners when extending its geographic focus to new areas, in particular in Africa.

Managing for results and increasing accountability

As shown in Chapter 4, AusAID has made great strides over the last four years towards results-based management, establishing new performance reporting systems, creating ODE, and publishing the annual review of development effectiveness (Box 11). A challenge now is to get this approach fully adopted in whole-of-government programmes. An ODE review of two of the biggest of these programmes shows that monitoring and reporting are weak (ODE, 2008b). An effort is needed to make other government departments more aware of the requisites in terms of results-orientation and quality, so that they adopt performance reporting systems for their components of aid programmes.

AusAID also supports its partner countries to improve data collection for results-based decision-making, particularly in the Pacific where data availability is poor. In this region, Australia is working with its partners to develop regional approaches to upgrading statistical collection systems.

14. The review could also emphasise the need for building sustainability, as diplomatic rather than development purposes tend to drive some donor behaviour in the numerous Pacific Island States, resulting in unsustainable, stand-alone projects.

Like other donors, Australia faces difficulty in defining and measuring progress against the Paris principle on mutual accountability, as highlighted in a recent note published by ODE, *Mutual Accountability: Orphan Principle of the Paris Declaration* (ODE, 2008c). AusAID is committed to exploring how to turn this into practice, recognising that accountability is crucial to demonstrate that aid is effective and well spent. As an example, Australia has developed strong anti-corruption mechanisms addressing both the demand and supply sides in order to fight Australian public scepticism (Chapter 6). On the ground, AusAID tries to increase mutual accountability for achieving development results through both improving its own performance monitoring tools and supporting improvements in the performance monitoring of partner governments. For instance AusAID has supported the Government of Viet Nam to develop a national ODA monitoring system; this is starting to inform ODA allocation decisions. In addition, the new Pacific Partnerships aim at enhancing mutual accountability for improved results through a stronger focus on data and statistics and regular, joint evidence-based reviews of progress against the partnerships' commitments.

Box 11. Annual Review of Development Effectiveness (ARDE)

The publication and tabling in parliament by the Minister for Foreign Affairs on 20 March 2008 of the 2007 ARDE (ODE, 2008a) represents a strong commitment by Australia to greater credibility and transparency in assessing the effectiveness of Australian aid. This annual reporting process offers an important opportunity to engage key stakeholders, both domestic and international, in efforts to strengthen the effectiveness of the development assistance programme and to build support for Australian aid based on widespread confidence that it is achieving results.

The ARDE is intended to be an opportunity for learning and defining future action as well as a reflection on performance. The 2007 ARDE identified a number of opportunities to improve the effectiveness of the Australian development assistance programme, many of which will assist to focus and advance ongoing efforts as well as identifying opportunities for new work. For example, ODE will explore further key themes in two major thematic evaluations in 2008 and a recent senior management meeting, chaired by AusAID's Director General, focused management attention on ongoing challenges to improving performance monitoring.

Key findings from the 2007 ARDE include:

- At the activity level, over 75% of activities are on track to meet their objectives and a range of achievements have been documented.
- At the programme level, further development in performance assessment systems are needed to ensure clear, measurable objectives are set and progress against those objectives monitored and reported.
- At the process level, Australian aid is increasingly being delivered in line with the core elements of the Paris Declaration, however the systems required to capture these shifts (increased harmonisation and alignment) are under-developed.

Future considerations

- Australia should continue increasing the share of aid provided as programme-based approaches, including working through government systems, as called for by the Accra Agenda for Action.
- AusAID should consider how to extend knowledge of the Paris Declaration and the Accra Agenda for Action across the government and the public, and build in incentives for applying the principles and commitments in the whole-of-government approach.
- AusAUD is encouraged to learn from its experience delivering its aid programme through joint arrangements and to disseminate good practice in this area as a way to promote greater division of labour among donors.
- Australia is congratulated for its aid untying policy. It is invited to assess the impact of this policy change as an input to the overall donor effort to further untie aid.

Chapter 6

Special Topics

For the 2007-2008 biennium, the DAC has decided that all peer reviews should cover two special topics. The first, capacity development, is obligatory for all peer reviews. The second can be one of two options, and Australia has chosen governance, accountability and anti-corruption.

Capacity development

AusAID analytical approach to capacity development

Australia is increasingly aware of the need to build capacity in partner countries and is developing a strategic approach aiming at mainstreaming capacity development into the aid programme. It defines capacity development[15] as "the process of developing competencies and capabilities in individuals, groups, organisations, sectors or countries, which will lead to sustained and self-generating performance improvement". This definition, which is in line with the OECD's definition, sees capacity development as a broad effort going beyond strengthening individuals' capabilities and covering three levels – individual, organisational and institutional. AusAID treats capacity development as both an objective and a process, with implications for the way programmes are designed and delivered. In particular, ensuring ownership and developing leadership capabilities are crucial to capacity development efforts. Understanding local context is also critical since it permits locally owned reform agendas and their champions to be identified.

AusAID conducts, or participates in, a number of analytical studies to see how capacity development is mainstreamed and draws lessons from current experiences. While a strong focus has been given to the positioning of technical assistance in different contexts (see below), AusAID has also recently co-funded wider research on capacity development. Examples are the DAC capacity change and performance study and the ADB-led study on capacity development in Pacific-Pacific Choices. Another example is the study on *Public Sector Capacity Development in Papua New Guinea and the Pacific*, which was endorsed by the 13 Australian government agencies involved in Papua New Guinea and Pacific Island countries. It provides a set of principles for effective capacity development emerging from international experiences and from Australia's work in the region. Key principles are: i) understanding and responding to country context; ii) favouring long-term partnership; iii) fostering country leadership; and iv) ensuring that local capacity is not eroded by external assistance.

15. AusAID makes no practical distinction between "capacity development" and "capacity-building".

AusAID dedicates appropriate resources to support its engagement in capacity development. A Governance and Capacity Development Branch has been set up with a Senior Capacity Development Advisor and dedicated staff. In addition, in 2006 AusAID created an external capacity development panel composed of seven international experts and seven Australian experts. This panel provides advice for designing programmes, conducting research, developing training and carrying out evaluations. Finally, the designs of Australian programmes in Papua New Guinea, East Timor, Vanuatu and the Solomon Islands have specified long term in-country positions for capacity development specialists as part of the implementing teams in order to provide support to all actors on capacity development approaches. A dedicated intranet site has been created, which provides updates on international research, practical guides and tools on capacity development.

As Australian and international thinking is evolving on this complex issue, AusAID could take further stock of what it has learned through its analytical work and practice, taking into account the various modalities it uses to support capacity development. This might also help Australia in sharing further its good practice from country-level capacity development experiences within the donor community.

Translating policy into implementation in the field

Various tools supporting capacity development

Capacity development is increasingly seen as a cross-cutting issue to be integrated from the design to the evaluation phases, and Australia relies on various tools to support this goal. The most important is technical assistance, which represents up to 50% of the aid programme according to the *Annual Review of Development Effectiveness 2007* (ODE, 2008a). Technical assistance is provided both through AusAID contractors and Australian officers placed in partner institutions as part of the whole-of-government approach. Scholarships are another important, long-standing tool in Australian aid. In training students from developing countries, scholarships aim to facilitate their contribution to the economic and social advancement of their country, which is crucial in many Pacific island states lacking capacity. For greater impact, Australia could link scholarships more closely with its support to capacity development (Box 12). AusAID is also developing twinning programmes between Australian agencies and partner countries' institutions. This has been extensively developed in Papua New Guinea, with nine such arrangements between national agencies and Australian agencies, additional twinning between hospitals, an ombudsman twinning programme and various public sector programmes that provide learning opportunities. Another example is the Government Partnership Fund (GPF), developed in Indonesia, which has had a positive impact on capacity development (Annex D). AusAID also increasingly places Australian officers in partner country institutions. This is the case, for instance, in Vanuatu with the Governance for Growth programme co-located in the Prime Minister's office; and in Papua New Guinea, where AusAID has co-located officers with one national level department (Department of Provincial and Local Government Affairs), four provincial administrations and in the Autonomous Bougainville Government. AusAID also provides training and supports South-South co-operation mechanisms. Finally, Australia develops programmes specifically focused on building capacity. For instance, in Papua New Guinea, a programme aims at strengthening public financial management capacity and procurement systems.

Box 12. A significant scholarship programme

A large share of Australian aid is delivered through scholarships. The 2006/07 budget allocates AUD 1.4 billion over five years to the government's Australian Scholarships initiative. Different scholarship schemes co-exist, the largest being the Australian Development Scholarships programme, which benefits annually up to 1 000 students in tertiary and higher education. A more recent programme is the Australian Leadership Awards which focuses on building leadership capacities. Besides their academic course of study, students will also attend a Leadership Development Programme to develop their capacity to take leadership roles in their communities, businesses and governments. Through these programmes, approximately 2 500 scholarships will be provided between 2008 and 2011.

Challenges in applying the tools

It would be useful for AusAID to review the impact of its overall approach to capacity development, including scholarships, co-location and technical assistance. In particular, as was noted in Indonesia, the scholarship programme, with its various schemes piloted by different departments, appears disconnected from the rest of the aid programme. Its impact on capacity development is not documented, although scholarships have been provided for many years. The scholarship programme could be further embedded in country programmes so that it contributes in a systematic way to the overall objective of capacity development. Australia will benefit from assessing the impact of this programme and documenting its contribution to capacity development. The planned review of the effectiveness of the overall Australian scholarship programme is a positive move in this direction.

Co-located programmes, where Australian officers work within the partner government system, should also be reviewed. While co-location may be an efficient way to ensure ownership and build local capacity, as was seen in Vanuatu (Annex E), it requires clear demarcations of roles as well as clear lines of responsibility. Finally, Australia should consider how to engage more systematically with other donors to develop, together with partner countries, joint support to capacity development as called for in the Accra Agenda for Action.

Given the importance of technical assistance in its aid programme, this form of support – and its relation to capacity development – has been extensively analysed by AusAID in the last few years. This responds to the recommendation in the 2004 Peer Review that Australia carefully analyse the impact of its external technical assistance against ownership and capacity-building objectives (Annex A). AusAID is increasingly aware that, depending on roles and positions, technical assistance can either undermine or build local capacity. While most Australian technical assistants are in advisory positions, a few are in line positions, depending on context and preferences expressed by the partner government. For instance, in Tonga Australia has placed an Australian Customs Officer as the head of Tonga's customs service to co-ordinate and revitalise the service and address security issues. Since 2004, AusAID has been trying to define more clearly when in-line positions are needed and how to evolve them towards advisory positions. In particular, in 2006 AusAID developed a *Staged Capacity Building Model* as a tool to help Australian advisors gradually move from a "hands on" approach to technical assistance (TA) to an indirect approach with experts in advisory positions (AusAID, 2006b). The model describes four capacity development stages, assuming that capacity development is a process in which the role of the advisor(s) will change over time as counterpart staff develop competencies, systems and process are improved, and other obstacles to capacity

are addressed. More recently, AusAID commissioned, together with Danida and BMZ, a study to contribute to the discussion on aid effectiveness and capacity development in the deployment of technical assistance (ECDPM, 2007). The research was based on three country studies in Mozambique, the Solomon Islands and Viet Nam. The Solomon Islands report provides useful lessons from the RAMSI programme (Box 13).

Box 13. Lessons from the RAMSI programme in the Solomon Islands

A joint evaluation of the provision of technical assistance personnel was commissioned by Danida, BMZ and AusAID. The research, conducted by the European Centre for Development Policy Management, includes an assessment of the Regional Assistance Mission to Solomon Islands (RAMSI) programme. RAMSI is a partnership between the Government of the Solomon Islands and 15 countries of the Pacific region, one of which is Australia. It includes support to increase security, strengthen the law and justice sector, promote economic growth, and improve service delivery and government accountability. This programme is implemented mainly through technical assistance, delivered through a whole-of-government approach. Australian, New Zealand and Fijian government officers occupy in-line positions or advisory roles, and contractors have taken on advisory roles. One of the issues emerging from the evaluation is the need to take sustainability into consideration. The evaluation points out that many activities have been carried out with a direct approach, in which the donor country essentially controls and designs the intervention, with a limited role played by the Government of the Solomon Islands. The study suggests that if RAMSI wants to pursue sustainability and to move from a stabilisation phase to capacity-building, the strategy should change and a more indirect approach should be adopted with the partner government playing a more important role.

AusAID also synthesised lessons from its support to the law and justice sector in Papua New Guinea in the report *Papua New Guinea – Law and Justice Sector – Approaches to Capacity Building* (AusAID, 2008b). Analysing the balance between developing capacity and achieving results, the document presents the relative advantages of in-line and advisory personnel. It includes a synthesis table presenting situations where each position might be most appropriate (Box 14) and aims to help guide decisions in designing new programmes.

Box 14. Situations where in-line and advisory personnel might be most appropriate

In-line	Advisory
Where the initiative for change comes from the government: government must agree with direction of policy change	Position is designed to seek out opportunities for change
Critical vacancy exists with technical requirements not available in the country	Government and agency have a vision and development agenda and want support for implementation
Has been a history of poor national managers, with positions highly politicised and/or subject to corruption and government needs time and space to rebuild from within	A national country change agent identifies windows of opportunity for change
Expatriates provide international legitimacy	An expatriate can help put together support for change to complement national pocket of energy
Expatriates can resist pressure (such as for unacceptable use of funds) in a way that a national could not	Donors are able to respond quickly to take advantage of windows of opportunity
Supports core functions of government which are necessary to restore operations after crisis or prolonged period of deterioration	A clear need exists for a capacity development plan or activities that a national cannot carry out
Need for strong principles of allegiances, confidentiality and probity as embedded in public servants	Opportunities exist for a programme to strengthen the capacity of the public service, such as the value system.

Source : AusAID, 2008b, *Papua New Guinea – Law and Justice Sector – Approaches to Capacity Building*, January 2008 adapted from ECDPM *Discussion Paper* N° 76 2007, *Provision of Technical Assistance Personnel in the Solomon Islands. What can we learn from the RAMSI experience?*

Australia has also made efforts at country level to strengthen the involvement of partner governments. As illustrated in the two field visits, AusAID's technical assistance is increasingly demand-driven, guided by partner government priorities and with appropriate involvement from national counterparts in the recruitment process. Technical assistants demonstrate a deep understanding of the local context. AusAID has developed a six-day training course, *Making a Difference*, to increase the attention of technical assistants and counterparts on capacity development. In particular, participants assess their own current capacity-building effectiveness and acquire, through sharing and practice, a better understanding of capacity development and a stronger knowledge of tools to support it.

These efforts are welcome and should be pursued, as emphasised in the *2007 Annual Review of Development Effectiveness* (ODE, 2008a). This review acknowledges that a high level of technical assistance can create problems, particularly in fragile states. It refers in particular to an independent completion report of a health programme in Papua New Guinea, quoting:

The big volume of support personnel …. has resulted, at national level, in a perception that …. there has been too much technical assistance, resulting in at best duplication of effort, and at worst, suppression of activity and adverse consequences for ownership and optimism.

The review provides a number of recommendations to ensure technical assistance is effective in building capacity. It is positive that AusAID is considering re-adjusting its approach to technical assistance in terms of numbers, roles and positions. AusAID should continue to pursue its reflection on how technical assistance should be positioned (advisory or line position) and used (implementers or facilitators of change) in order to avoid substitution, to build national capacity and ensure that its long-term activities build in sustainability as an end point. This exercise should continue to include all the Australian stakeholders (departments, agencies, managing contractors) to make sure that the objectives of building capacity and ensuring sustainability in the long term are internalised by all actors.

Governance, accountability and anti-corruption

A prominent focus in the aid programme

Governance became a prominent focus of Australian aid in the early 2000s. According to the *Annual Review of Development Effectiveness*, spending on governance increased from AUD 26 million in 1998/99 to approximately AUD 832 million in 2006/07 (ODE, 2008a). It represented up to 33% of the aid programme in 2004/05. This prominence will continue in the coming years, although at a lower level, with the 2008/09 budget allocating approximately 22% of the aid programme to governance.

The importance of governance in the Australian aid programme is also reflected in AusAID's structure, which includes a branch dedicated to Governance and Capacity Building within the Programme Enabling Division. This branch has three units: governance and anti-corruption; demand for better governance; and fragile states. AusAID has also created a thematic network on governance and anti-corruption in order to share knowledge and provide AusAID staff with access to the international debate on these issues. Around 100 staff participate in the network, which uses various tools,

especially an intranet website and a newsletter. Seminars and discussion groups are also organised by the network.

An evolving approach to governance

In the first half of the 2000s, Australia's increased engagement in supporting governance mostly driven by its involvement in strengthening the law and justice sector. The share of the governance tranche spent on law and justice increased from 10% to 41% between 2002/03 and 2004/05. Despite this focus deriving from the need to build secure, stable states in the Asia and Pacific regions, the 2002 policy framework *Australian Aid: Investing in growth, stability and prosperity* was already proposing a broader scope for action around five key pillars: i) improved economic and financial management; ii) strengthened law and justice; iii) increased public sector effectiveness; iv) development of civil society; and v) strengthened democratic systems (AusAID, 2002).

The 2006 White Paper reaffirmed the importance of governance, naming "fostering functioning and effective states" as one of the four pillars of the Australian aid programme. In doing so, it emphasises the need to build the capacity of public institutions for achieving long-term, sustainable economic growth and reducing poverty. This remains a key challenge in a number of Australia's partner countries which are in fragile situations or which lack capacity.

Going beyond formal governance to building demand for better governance and accountability

Australia's government explicitly links governance and poverty reduction. In doing so, it outlines two additional orientations in support to governance. Firstly, the need to build the capacity of both public institutions and civil society organisations to reinforce public accountability, and, secondly, the need to strengthen the capacity of public institutions to deliver basic social services effectively as a means to attain the MDGs. In the presentation of the 2008/09 budget for the aid programme, the Minister for Foreign Affairs stated that:

> …good governance allows citizens and communities to share the benefits of economic growth, stability and development. Good governance also supports the delivery of basic services such as health and education by focusing the resources and capabilities of the state on meeting the needs of its citizens. Governance has a broader scope than simply government and the institutions of state – it involves a strong and representative civil society and media, and an active and informed citizenry (Smith, 2008a).

In the coming years, setting the conditions for improved delivery of basic services and building demand for governance are likely to feature more prominently within Australian support to governance. To prepare for this, in 2007 AusAID developed a new approach on *Building Demand for Better Governance* as well as a guidance note for implementing this approach *(*AusAID, 2007e). This approach focuses on "increasing the ability of citizens to participate in decisions that affect their lives, to influence and act on how development challenges are met and to hold governments or other institutions to account". It supports initiatives in three areas: i) civic education; ii) government accountability, including civil society strengthening and community-driven development; and iii) leadership. Following this approach, Australia, in addition to its continuing support to strengthening government institutions, starts working more with civil society

organisations – including customary organisations – and the media to build their capacity, including in terms of leadership. For instance, in Vanuatu, AusAID extended its capacity development support to the Council of Chiefs and the Council of Churches to help build domestic demand for governance. In Indonesia, AusAID implements a programme focused on strengthening civil society organisations to increase their participation in local decision-making processes and improve their capacity for keeping public institutions accountable (Box 15). Figures from the 2007/08 budget show a significant increase of the share of aid going to civil society in the support of governance, rising from 8% in 2006/07 to 22% (plus 3% allocated to improved democratic processes) in 2008/09.

Box 15. Building demand for better governance: the Access Project in Indonesia

The Australian Community Development and Civil Society Strengthening Scheme is a five-year programme which aims to improve the quality of life of poor communities in eight districts in eastern Indonesia. More specifically, the programme provides support to the most marginalised members of communities, in particular women and the poor, to enable them to participate in the decision-making process at local level. The review team has seen positive impacts of the project on women, who have gained a voice in their villages. For example, men acknowledged in one village that water management worked better with women in charge.

This project has a particular focus on building capacity so as to help the communities to become agents of their own development. In particular, it aims to: i) enhance the ability and skills of NGO and civil society organisation (CSO) staff to support local community empowerment; ii) implement community-based projects as a tool for disadvantage groups to gain experience with all aspects of managing village-based development programmes; and iii) develop participatory community plans that enable better targeting of poverty alleviation programmes.

While engaging more with non-state actors, Australia is also increasingly working with authorities at the sub-national level, combining support for public administration with support to address constraints to the delivery of basic services. Such programmes exist in Indonesia and in Papua New Guinea, two countries where local administrations lack capacities to deliver social services effectively.

A strong engagement in anti-corruption

Anti-corruption is explicitly linked with support to governance, as illustrated by the Governance and Anti-corruption Unit being placed within AusAID's Governance and Capacity Building Branch (Figure 4). As emphasised in the 2006 White Paper, Australia sees corruption as a major obstacle to broad-based reform, economic growth and poverty reduction. Through its aid programme, it aims to "assist developing countries bring about a sustainable reduction in corrupt behaviour for the purpose of improving economic and social development". A policy document, Tackling Corruption for Growth and Development (AusAID, 2007f), was developed in 2007 in collaboration with a wide range of Australian government agencies and external stakeholders. It provides the framework for planning, resourcing and reviewing anti-corruption activities on a country and regional basis. Three main objectives are pursued:

1. Building constituencies for anti-corruption, which includes efforts to collect and disseminate information to increase awareness about the high cost of corruption.
2. Reducing opportunities for corruption, with efforts to increase transparency and accountability by improving budget processes, public financial management and procurement systems, and developing clear legislative and regulatory systems.

3. Changing incentives for corrupt behaviour, which includes both negative incentives (such as increasing controls and prosecutions) and positive incentives (such as developing a professional merit-based public service).

AusAID has developed an incremental approach to implementing the policy, starting with a pilot Anti-corruption for Development initiative targeted in six countries. This implies developing specific anti-corruption plans as well as mainstreaming anti-corruption as a cross-cutting issue in the programme. Meanwhile, the ODE has conducted an assessment of *Approaches to Anti-Corruption through the Australian Aid Program*, which identifies lessons from Australia's work in Papua New Guinea, Indonesia and the Solomon Islands (ODE, 2007). A managers' guide to mainstreaming anti-corruption into activities has also been developed, which will help country offices formulate the anti-corruption plans and include anti-corruption objectives in their initiatives. An Interdepartmental Committee on Corruption has been set up to ensure a consistent approach to anti-corruption across the government (Box 16).

Box 16. Anti-corruption and a whole-of-government approach

A number of Australian agencies are involved in the anti-corruption sector, working under a whole-of-government approach. In particular, the Australian Federal Police is working to address fraud and corruption in the region and is active together with the Attorney-General's Department in building capacity to prevent money laundering. The Treasury and the Department of Finance and Deregulation are supporting the efforts of partner countries in improving their financial management systems.

An Interdepartmental Committee on Corruption has been created, bringing together all the Australian departments and agencies working in this sector in order to improve policy coherence. The committee is led by the Attorney-General's Department and includes AusAID.

Australia is also strongly engaged in combating supply-side corruption with a zero tolerance attitude towards fraud. At an international level, Australia has ratified the United Nations Convention Against Corruption and the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Australia is a partner of Transparency International and it also supports emerging initiatives such as the Extractive Industries Transparency Initiative and the Global Integrity Alliance. Australia is involved in regional activities against corruption like the ADB-OECD Anti-corruption Initiative. At the national level several mechanisms are in place to prevent supply-side corruption in the delivery of Australian aid.

In partner countries, Australia supports existing national anti-corruption policies or, whenever necessary, supports the development of national plans. Australia is particularly active in this area in Indonesia, where it is developing an anti-corruption plan which will support the Indonesia's National Action Plan for the Eradication of Corruption 2004-2009. AusAID Indonesia also supports a number of initiatives, such as the Indonesia-Australia Legal Development Facility, whose main objective is to strengthen the capacity of Indonesian government and civil society institutions to promote legal reform and the protection of human rights. Other programmes that do not have an explicit anti-corruption objective, like the Technical Assistance Management Facility, involve many activities with a positive impact on fighting corruption, as noted in the evaluation conducted by ODE. AusAID increasingly mainstreams the approach to anti-corruption when designing its new programmes. For instance, when designing the basic education programme in Indonesia, AusAID has created a mechanism allowing local communities to monitor the provision of public services and has set up systems for complaints (Box 17, Annex D).

Towards a renewed focus on economic governance

Economic governance is an important element of Australia's overall governance approach, with a strong focus on fiscal and financial management. The first annual sector performance report produced by AusAID focuses exclusively on economic governance (AusAID, 2008c). It identifies three major programme objectives: i) improving government fiscal and financial management; ii) improving private sector development; and iii) improving economic governance through the use of performance-based approaches. Technical assistance is the major tool used by Australia in this area, as illustrated in Indonesia by the Australia Technical Assistance Management Facility for Economic Governance (Annex D). Support to economic governance is increasing within the Australian aid programme, with the share of the governance funds allocated to it rising from 13% in 2006/07 to 21% in 2008/09.

Need for a policy framework

As demonstrated above, there has been a significant evolution in the way Australia approaches governance over the last five years. However, this has not been accompanied by a strategic paper covering the overall approach to governance. It would be useful to develop a policy framework on governance, reflecting Australia's new orientations and guiding the aid programme in this key, complex sector for Australian aid. This would facilitate coherence in the approaches of the various Australian departments and agencies involved in governance programmes. AusAID has started analytical work to prepare for this, which is positive. The second annual sector performance report for governance, due for publication in December 2008, should also give useful information to help prepare the framework.

Such a framework will also be helpful to communicate with the Australian public. Building governance and reducing corruption is increasingly seen by Australia as essential for the scaling up process and for implementing the Paris Declaration and the Accra Agenda for Action, which call for working increasingly through partner government systems.

Future considerations

- Australia is encouraged to draw on its significant experience and broad analytical work to develop a policy framework on governance. This framework will synthesise the different components of governance and delivery modalities into a single policy guiding the aid programme and ensuring a consistent approach within the departments and agencies involved.
- The peer review team encourages Australia to share further with the donor community its analytical work and experience on capacity development and governance in various contexts. Like other donors, Australia could also play a more active role in forging international consensus on key definitions and streamlining multi-partner engagement in capacity development at both global and local levels, especially in the context of the DAC capacity development work.
- Australia would benefit from evaluating the impact of its various approaches to capacity development. AusAID and the other departments and agencies involved in the aid programme should continue to reflect upon the role and position of technical assistance, with the view to building capacity and ensuring sustainability in the long term.

- AusAID should use the planned assessment of the scholarship programmes as an opportunity to make sure that they are embedded in country programmes and contribute in a systematic way to the overall objective of capacity building.

Annex A

Progress since the 2004 DAC Peer Review Recommendations

Key issues	Recommendations 2004	Achievements since 2004
Strategic foundations and new orientations	• Reinforce Australia's statement of poverty reduction as the overarching objective of the aid programme	• 2006 White Paper and government statements place poverty reduction and the MDGs upfront
	• Ensure consistency of objectives within the whole-of-government approach, including poverty reduction, governance and security	• Australia's rigorous approach to whole-of-government policy-making facilitates coherence within the aid programme, although ensuring internalisation of the development vision remains challenging
	• Assess the impact of governance programmes in terms of poverty reduction, capacity building and ownership to maximise the potential of integrated approaches to poverty reduction	• Strong efforts made to assess impact of governance programmes on poverty reduction, sustainable development and capacity development
	• Bring Australia's experience in fragile states to support good practice by the donor community	• Active involvement in the OECD/DAC working groups and contributions to international events and mechanisms led by international organisations
ODA volume, channels and allocations	• Increase the ODA/GNI ratio and announce targets for meeting the UN 0.7% commitment.	• Government is committed to attain 0.5% by 2015/16
	• Take a strategic view of the future medium-term balance between bilateral and multilateral channels.	• The share of multilateral aid decreased from 2004 to 2008. The government announced in 2008 a stronger multilateral engagement in the coming years
	• Improve the quality of multilateral assessment framework and share results with other donors.	• AusAID so far relies mainly on agencies' reporting systems. It has recently requested membership of the MOPAN
Policy coherence	• AusAID to build its analytical capacity to influence the whole-of-government agenda	• Development is higher in the political agenda with the reinstated position of the Parliamentary Secretary and a strengthened profile of AusAID backed by strategic partnership agreements and reinforced analytical capacity
	• Develop whole-of-government strategy on policy coherence to reconcile security and development agenda and ensure prominence of poverty reduction	• Although no formal strategy exists, the DESC created in 2007 provides the mechanism to strengthen inter-departmental dialogue and ensure coherence
Aid management and implementation	• Deepen and broaden devolution, clarifying the respective roles of Canberra and the posts and increasing delegation to field offices with adequate support	• Devolution is progressing well, supported by adequate resources and strengthened corporate support. While roles are clear between Canberra and the field offices, links with newly created regional offices need to be clarified

Key issues	Recommendations 2004	Achievements since 2004
	• Look at ways to ensure the specialist skills are used efficiently and effectively and that internal capacity continues to be aligned with programme needs	• Development of 13 thematic networks help integrate and share technical skills. The number of technical advisors has increased to respond to the need for expertise and flexibility and the role of principal advisors has been defined
	• Establish a direct accountability line between ORE and the Office of the Director-General	• ODE was established in 2006 to assess the aid programme and reports directly to the AusAID Director-General
	• Analyse and assess impact on the role of external technical assistance and managing contractors against partnership and ownership principles	• Technical assistance remains a key tool for Australian aid and AusAID is making efforts to assess impact and find an adequate role and position for TA depending on contexts
	• Review contracting and financial management systems to support the move toward programme approach as well as ownership and capacity building	• AusAID is committed to working more through government systems and is gradually adjusting its delivery modalities to this end. However, AusAID does not have targets in terms of instruments and does not track progress in moving towards programme-based approaches
Humanitarian aid	• Share Australian experience for international learning	• Australia supports learning initiatives within the humanitarian community, including ALNAP, HAPI and the Tsunami Evaluation coalition
	• Increase support for humanitarian action	• Funding for humanitarian aid has increased over the past five years
	• Affirm the primary position of civilian organisations in delivering humanita-rian action and ensure implementation of the principles of neutrality and impartiality enshrined in its policy	• Mutual awareness between civilian and military actors has improved significantly. Australia should ensure that this is captured in policy and guidance within its civilian and military institutions, particularly in continuing to emphasise the primacy of civilian leadership

Annex B

OECD/DAC Standard Suite of Tables

Table B.1. Total financial flows

USD million at current prices and exchange rates

Net disbursements

Australia	1992-96	1997-2001	2002	2003	2004	2005	2006
Total official flows	**1 255**	**1 281**	**1 020**	**1 299**	**1 496**	**1 755**	**2 431**
Official development assistance	**1 066**	**973**	**989**	**1 219**	**1 460**	**1 680**	**2 123**
Bilateral	811	735	774	975	1 191	1 449	1 796
Multilateral	254	238	215	244	270	231	327
Other official flows	**189**	**309**	**31**	**80**	**35**	**74**	**308**
Bilateral	158	250	- 35	- 6	- 79	- 91	190
Multilateral	31	58	66	86	114	165	118
Net Private Grants	**73**	**144**	**248**	**336**	**489**	**825**	**615**
Private flows at market terms	**712**	**- 673**	**- 433**	**1 374**	**482**	**2 786**	**6 074**
Bilateral: *of which*	712	- 673	- 433	1 374	482	2 786	6 074
Direct investment	393	- 800	- 103	239	506	1 588	4 968
Export credits	-	-	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	**2 039**	**752**	**834**	**3 009**	**2 466**	**5 366**	**9 120**
for reference:							
ODA (at constant 2006 USD million)	*1 507*	*1 511*	*1 605*	*1 610*	*1 638*	*1 743*	*2 123*
ODA (as a % of GNI)	*0.33*	*0.26*	*0.26*	*0.25*	*0.25*	*0.25*	*0.30*
Total flows (as a % of GNI) (a)	*0.63*	*0.20*	*0.22*	*0.61*	*0.41*	*0.79*	*1.27*
ODA to and channelled through NGOs							
- In USD million	42	28	57	54	71	90	97
- In percentage of total net ODA	*4*	*2*	*6*	*4*	*5*	*5*	*5*
- Median DAC percentage of total net ODA	*5*	*7*	*8*	*8*	*8*	*9*	*6*

a. To countries eligible for ODA.

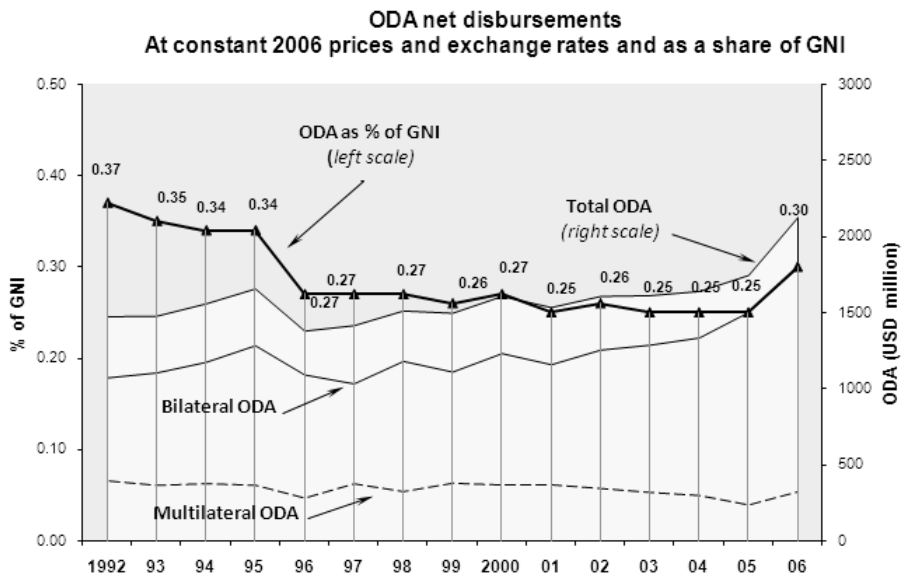
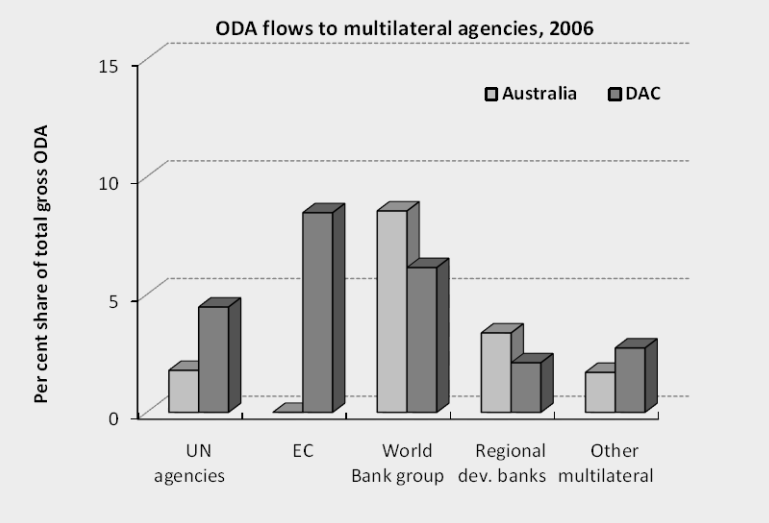


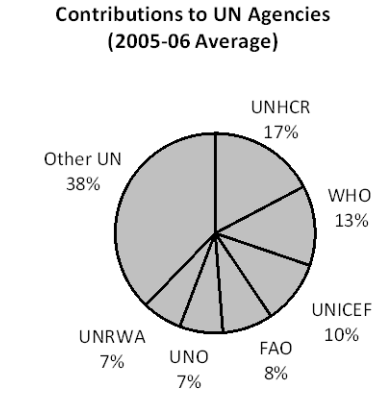
Table B.2. ODA by main categories

Australia	Constant 2006 USD million					Per cent share of gross disbursements					Total DAC
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2006%
Gross Bilateral ODA	**1 256**	**1 288**	**1 336**	**1 503**	**1 796**	**78**	**80**	**82**	**86**	**85**	**76**
Grants	***1 256***	***1 288***	***1 336***	***1 503***	***1 773***	***78***	***80***	***82***	***86***	***84***	**68**
Project and programme aid	141	114	94	107	174	9	7	6	6	8	15
Technical co-operation	688	739	776	768	860	43	46	47	44	40	19
Developmental food aid	52	26	45	57	3	3	2	3	3	0	1
Humanitarian aid	153	143	126	201	191	10	9	8	12	9	6
Action relating to debt	7	9	14	21	277	0	1	1	1	13	17
Administrative costs	72	73	73	79	78	5	5	4	5	4	4
Other grants	142	184	208	271	191	9	11	13	16	9	6
Non-grant bilateral ODA	-	-	-	-	***23***	-	-	-	-	***1***	***8***
New development lending	-	-	-	-	23	-	-	-	-	1	6
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	1
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	1
Gross Multilateral ODA	**349**	**323**	**302**	**240**	**327**	**22**	**20**	**18**	**14**	**15**	**24**
UN agencies	95	70	52	64	38	6	4	3	4	2	4
EC	-	-	-	-	-	-	-	-	-	-	8
World Bank group	118	120	98	118	182	7	7	6	7	9	6
Regional development banks (a)	86	91	83	29	72	5	6	5	2	3	2
Other multilateral	51	41	69	29	36	3	3	4	2	2	3
Total gross ODA	**1 605**	**1 610**	**1 638**	**1 743**	**2 123**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	-	-	-	-	-						
Total net ODA	**1 605**	**1 610**	**1 638**	**1 743**	**2 123**						
For reference:											
Associated financing (b)	-	-	-	-	-						
Net debt relief	*7*	*9*	*14*	*21*	*277*						
Imputed student cost	-	-	-	-	-						
Refugees in donor countries	*7*	*41*	*61*	*78*	*0*						

a Excluding EBRD.

b. ODA grants and loans in associated financing packages.





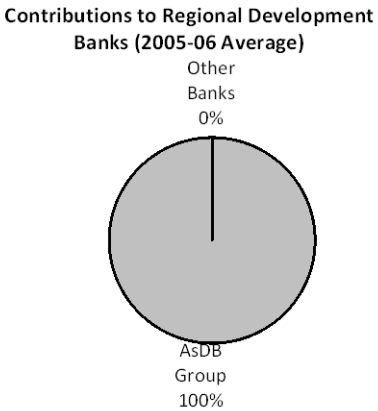
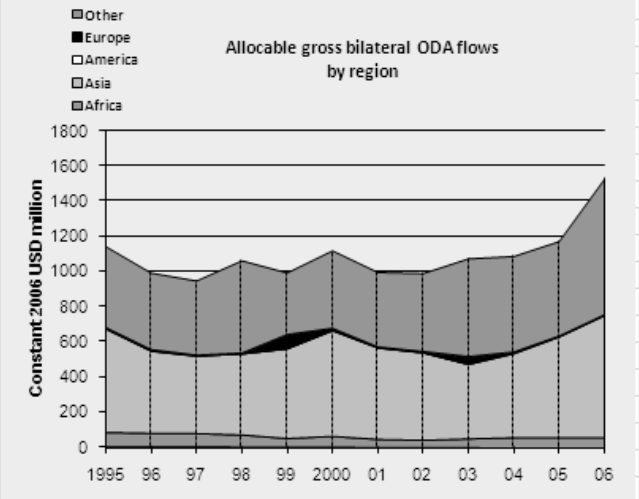
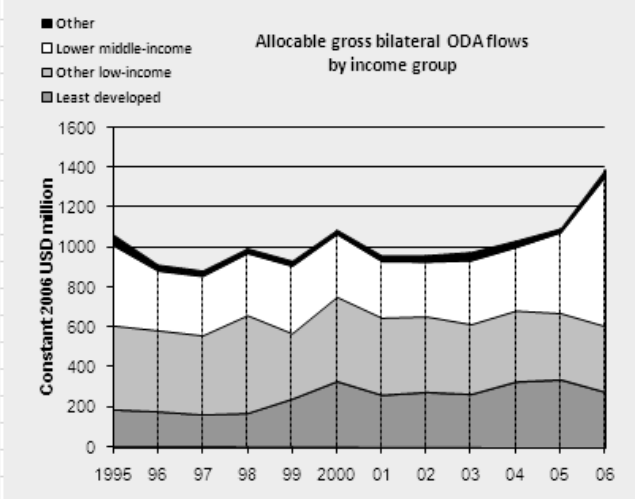


Table B.3. Bilateral ODA allocable by region and income group

Gross disbursements

Australia	Constant 2006 USD million					Per cent share					Total DAC
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006	2006%
Africa	47	55	62	63	62	5	5	6	5	4	**47**
Sub-Saharan Africa	41	48	55	56	49	4	4	5	5	3	**42**
North Africa	5	7	6	7	10	1	1	1	1	1	**4**
Asia	499	425	478	574	695	50	39	44	49	45	**24**
South and Central Asia	94	65	113	128	102	9	6	10	11	7	**11**
Far East	405	359	364	444	575	41	33	33	38	38	**12**
America	1	2	6	2	2	0	0	1	0	0	**9**
North and Central America	0	0	4	0	1	0	0	0	0	0	**4**
South America	0	2	2	2	1	0	0	0	0	0	**4**
Middle East	6	60	44	36	292	1	6	4	3	19	**14**
Oceania	438	498	501	502	480	44	46	46	43	31	**1**
Europe	4	40	1	0	0	0	4	0	0	0	**5**
Total bilateral allocable by region	**994**	**1 079**	**1 092**	**1 176**	**1 532**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	281	270	333	343	281	29	28	32	31	20	**26**
Other low-income	380	352	357	334	332	39	36	34	30	24	**30**
Lower middle-income	272	317	315	402	746	28	32	30	37	54	**39**
Upper middle-income	30	39	31	18	34	3	4	3	2	2	**5**
More advanced developing countries	0	-	-	-	-	0	-	-	-	-	-
Total bilateral allocable by income	**963**	**979**	**1 035**	**1 097**	**1 393**	**100**	**100**	**100**	**100**	**100**	**100**
For reference:											
Total bilateral	1 256	1 288	1 336	1 503	1 796	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated by region	*262*	*209*	*244*	*327*	*264*	*21*	*16*	*18*	*22*	*15*	***15***
of which: Unallocated by income	*293*	*309*	*300*	*406*	*403*	*23*	*24*	*22*	*27*	*22*	***21***





1. Each region includes regional amounts which cannot be allocated by sub-region. The sum of the sub-regional amounts may therefore fall short of the regional total.

Table B.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

Australia	1995-99			Memo:		2000-04			Memo:		2005-06			Memo:
	Current USD million	Constant 2006 USD mn.	Per cent share	*DAC countries' median*		Current USD million	Constant 2006 USD mn.	Per cent share	*DAC countries' median*		Current USD million	Constant 2006 USD mn.	Per cent share	*DAC countries' median*
Papua New Guinea	223	316	33		Papua New Guinea	198	288	28		Indonesia	248	251	20	
Indonesia	84	118	12		Indonesia	79	114	11		Papua New Guinea	238	242	19	
Philippines	46	64	7		Solomon Islands	45	59	6		Iraq	150	150	12	
Viet Nam	42	59	6		Timor-Leste	44	68	6		Solomon Islands	145	147	12	
China	33	47	5		Viet Nam	40	58	6		Viet Nam	50	51	4	
Top 5 recipients	**428**	**604**	**63**	**33**	**Top 5 recipients**	**405**	**587**	**58**	**33**	**Top 5 recipients**	**829**	**841**	**68**	**48**
Cambodia	23	33	3		Philippines	33	49	5		Philippines	48	48	4	
Thailand	17	24	2		China	31	45	4		Timor-Leste	42	43	3	
Timor-Leste	14	22	2		Cambodia	22	32	3		China	35	35	3	
Bangladesh	14	19	2		Bangladesh	19	28	3		Sri Lanka	33	34	3	
India	13	18	2		Iraq	14	18	2		Cambodia	31	31	3	
Top 10 recipients	**509**	**720**	**75**	**53**	**Top 10 recipients**	**524**	**758**	**75**	**51**	**Top 10 recipients**	**1 018**	**1 033**	**83**	**62**
Fiji	13	18	2		Vanuatu	13	18	2		Pakistan	23	24	2	
Laos	12	16	2		Fiji	11	16	2		Fiji	21	22	2	
Vanuatu	10	14	2		Laos	11	16	2		Vanuatu	20	21	2	
Serbia	9	13	1		Thailand	11	16	2		Afghanistan	19	19	2	
Egypt	9	12	1		Afghanistan	10	14	1		Samoa	13	13	1	
Top 15 recipients	**561**	**794**	**83**	**65**	**Top 15 recipients**	**580**	**839**	**83**	**64**	**Top 15 recipients**	**1 114**	**1 131**	**91**	**73**
Samoa	8	12	1		India	10	15	1		Bangladesh	12	12	1	
Mozambique	8	12	1		Nauru	10	14	1		Nauru	12	12	1	
Solomon Islands	8	11	1		Samoa	9	13	1		Sudan	12	12	1	
Tonga	7	10	1		Sri Lanka	8	11	1		Laos	12	12	1	
Sri Lanka	7	10	1		South Africa	7	10	1		Myanmar	9	9	1	
Top 20 recipients	**600**	**849**	**88**	**74**	**Top 20 recipients**	**623**	**901**	**90**	**73**	**Top 20 recipients**	**1 170**	**1 188**	**95**	**80**
Total (101 recipients)	**679**	**960**	**100**		**Total (66 recipients)**	**695**	**1 006**	**100**		**Total (97 recipients)**	**1 225**	**1 245**	**100**	
Unallocated	131	185			Unallocated	177	249			Unallocated	398	405		
Total bilateral gross	**810**	**1 144**			**Total bilateral gross**	**871**	**1 254**			**Total bilateral gross**	**1 623**	**1 650**		

Table B.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursements - Two-year averages

Australia	1995-99		2000-04		2005-06		2005-06
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	**404**	**46**	**418**	**48**	**804**	**50**	**33**
Education	188	22	87	10	117	7	7
of which: basic education	23	3	32	4	33	2	2
Health	47	5	73	8	147	9	4
of which: basic health	28	3	48	6	104	6	3
Population & reproductive health	24	3	24	3	43	3	4
Water supply & sanitation	33	4	23	3	20	1	4
Government & civil society	59	7	158	18	378	23	9
of which: Conflict, peace & security	-	-	-	-	20	1	2
Other social infrastructure & services	52	6	51	6	98	6	4
Economic infrastructure & services	**124**	**14**	**56**	**6**	**58**	**4**	**11**
Transport & storage	76	9	44	5	36	2	5
Communications	21	2	2	0	3	0	0
Energy	19	2	3	0	5	0	4
Banking & financial services	2	0	6	1	4	0	1
Business & other services	6	1	2	0	10	1	1
Production sectors	**60**	**7**	**65**	**7**	**89**	**5**	**5**
Agriculture, forestry & fishing	48	6	58	7	76	5	3
Industry, mining & construction	8	1	3	0	7	0	1
Trade & tourism	4	0	4	0	6	0	1
Other	0	0	0	0	0	0	0
Multisector	**68**	**8**	**120**	**14**	**169**	**10**	**6**
Commodity and programme aid	**108**	**12**	**38**	**4**	**31**	**2**	**3**
Action relating to debt	**8**	**1**	**8**	**1**	**149**	**9**	**25**
Humantarian aid	**38**	**4**	**88**	**10**	**193**	**12**	**8**
Administrative costs of donors	**48**	**5**	**52**	**6**	**77**	**5**	**4**
Aid to NGOs (core support)	**3**	**0**	**2**	**0**	**11**	**1**	**3**
Refugees in donor countries	**11**	**1**	**20**	**2**	**38**	**2**	**2**
Total bilateral allocable	**872**	**100**	**866**	**100**	**1 617**	**100**	**100**
For reference:							
Total bilateral	*878*	*78*	*871*	*79*	*1 623*	*85*	*77*
of which: Unallocated	*7*	*1*	*5*	*0*	*6*	*0*	*2*
Total multilateral	*247*	*22*	*234*	*21*	*279*	*15*	*23*
Total ODA	***1 125***	***100***	***1 105***	***100***	***1 902***	***100***	***100***

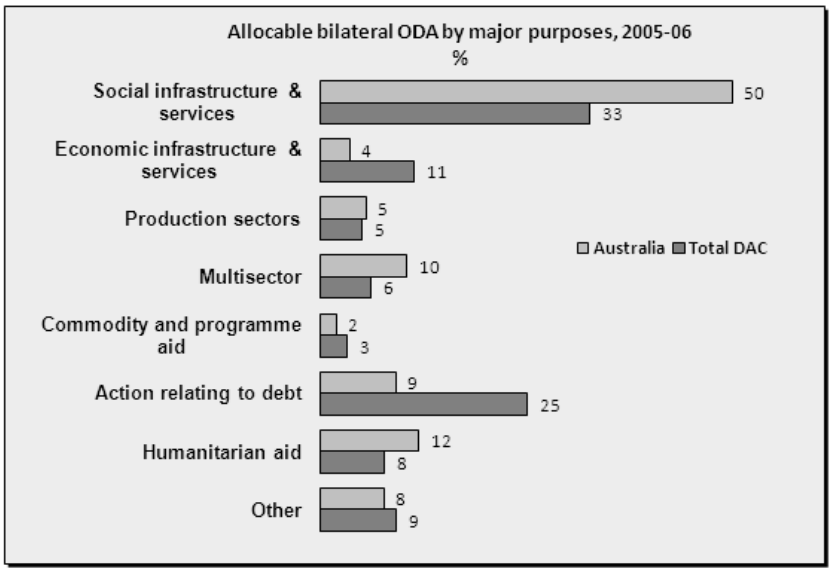


Table B.6. Comparative aid performance

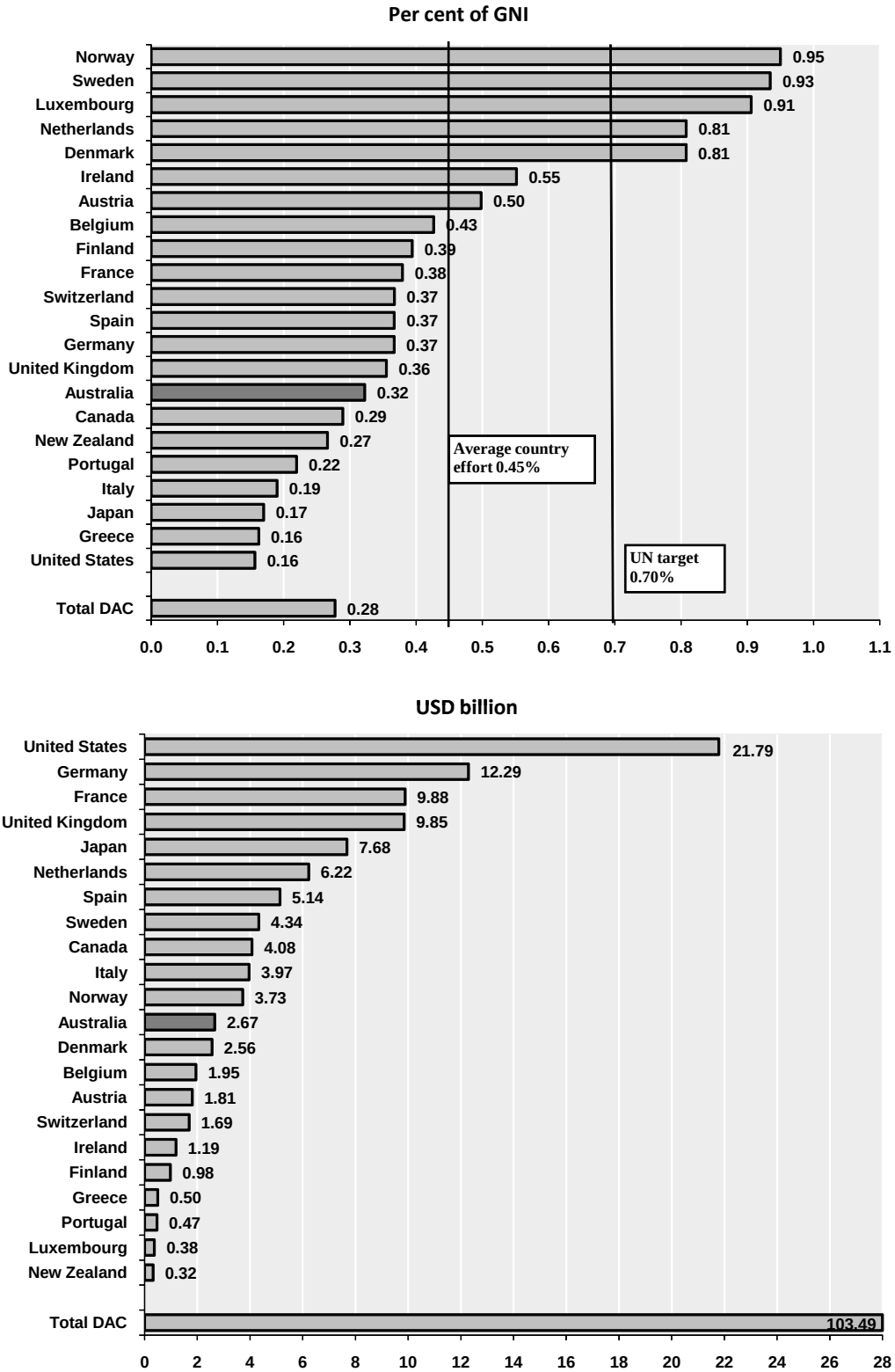
Net disbursements

	Official development assistance 2006		2000-01 to 05-06 Ave. annual % change in real terms	Grant element of ODA (commitments) 2006	Share of multilateral aid 2006				ODA to LDCs Bilateral and through multilateral agencies 2006	
					% of ODA		% of GNI			
	USD million	% of GNI		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNI
Australia	2 123	0.30	4.3	99.8	15.4		0.05		21.3	0.06
Austria	1 498	0.47	13.9	100.0	27.1	11.4	0.13	0.05	16.8	0.08
Belgium	1 978	0.50	9.0	99.4	31.4	11.5	0.16	0.06	36.9	0.18
Canada	3 684	0.29	9.3	100.0	31.3		0.09		33.8	0.10
Denmark	2 236	0.80	-3.1	100.0	34.5	24.8	0.28	0.20	39.3	0.31
Finland	834	0.40	9.8	100.0	45.5	27.1	0.18	0.11	35.5	0.14
France	10 601	0.47	10.4	94.7	25.3	7.0	0.12	0.03	24.8	0.12
Germany	10 435	0.36	7.2	95.6	32.6	12.0	0.12	0.04	25.3	0.09
Greece	424	0.17	3.2	100.0	55.4	16.7	0.10	0.03	24.2	0.04
Ireland	1 022	0.54	15.5	100.0	38.1	26.2	0.21	0.14	51.3	0.28
Italy	3 641	0.20	13.1	100.0	45.0	8.9	0.09	0.02	21.7	0.04
Japan	11 187	0.25	2.1	89.6	34.6		0.09		29.9	0.07
Luxembourg	291	0.89	5.0	100.0	29.5	21.2	0.26	0.19	42.5	0.38
Netherlands	5 452	0.81	1.7	100.0	21.5	13.5	0.17	0.11	25.6	0.21
New Zealand	259	0.27	6.3	100.0	21.6		0.06		28.6	0.08
Norway	2 954	0.89	5.6	100.0	25.6		0.23		38.2	0.34
Portugal	396	0.21	-2.1	100.0	46.7	15.3	0.10	0.03	60.6	0.13
Spain	3 814	0.32	6.7	94.5	45.1	22.8	0.14	0.07	20.1	0.06
Sweden	3 955	1.02	8.4	100.0	27.9	21.7	0.29	0.22	29.1	0.30
Switzerland	1 646	0.39	6.2	100.0	23.8		0.09		27.5	0.11
United Kingdom	12 459	0.51	12.6	100.0	30.0	17.5	0.15	0.09	30.7	0.16
United States	23 532	0.18	16.4	100.0	10.1		0.02		27.3	0.05
Total DAC	104 421	0.31	8.8	97.5	26.3	16.8	0.08	0.05	28.2	0.09
Memo: Average country effort		0.46								

Notes:

a. Excluding debt reorganisation.
b. Including EC.
c. Excluding EC.
.. Data not available.

Graph B.1. Net ODA from DAC countries in 2007



Annex C

Assessment of Australia's Humanitarian Action

This annex assesses Australia's humanitarian action in accordance with the *Assessment Framework for Coverage of Humanitarian Action in DAC Peer Reviews.* Based on the principles of good humanitarian donorship (GHD), it covers the following areas: 1) humanitarian policies; 2) principles for funding humanitarian action; 3) promoting standards and enhancing implementation; 4) learning and accountability; and 5) future considerations.

Humanitarian policies

The role and location of humanitarian action in the ODA system

Australia is a key humanitarian donor in the Asia and Pacific regions, which are prone to a range of natural disasters as well as humanitarian crises as a result of conflict. Many of these disasters and crises are minor in global terms – with some notable exceptions, for example, the 2004 Indian Ocean tsunami – but are nonetheless significant for small states with limited capacities and resources, particularly those in the Pacific. Australia has often assumed responsibility for leading international responses in Asia and the Pacific, whereas in other parts of the world the international community often looks to the United Nations or Red Cross movement. Australia's humanitarian action is characterised by an appropriate balance between ensuring deployable capacity for major crises and working through partners and at international policy level. The 2004 Indian Ocean tsunami prompted a massive Australian response and also led to moves to strengthen Australia's approach to future crises.

AusAID leads on humanitarian action within a robust whole-of-government approach which includes the Australian Defence Forces, Departments of Defence, Foreign Affairs and others. AusAID's Humanitarian and Emergency Section (HES) takes the lead on major crisis responses, while supporting country programmes with both funding and technical advice in dealing with smaller crises. It also provides support for disaster risk reduction initiatives, working through a network of humanitarian focal points in Canberra and overseas.

Strategic approach

Australia's strategic approach is set out in its comprehensive *Humanitarian Action Policy* (2005) which emphasises its alignment with the principles of good humanitarian donorship (GHD). The overall goal is to "protect lives, alleviate suffering, maintain human dignity and assist recovery". The policy addresses the need for effective response, prevention, preparedness and risk reduction.

The planned review of the *Humanitarian Action Policy* is timely and will need to reflect changes in the international policy environment. It will also be an opportunity to incorporate emerging priorities such as the environment and effects of climate change, and a renewed focus on the multilateral system. AusAID should also ensure an action plan is developed setting out how the policy will be implemented, with indicators and benchmarks.

Australia's humanitarian expenditure is focused on the Asia and Pacific regions, although it does fund activities elsewhere, notably in Afghanistan and Iraq. The new government commitment to increasing expenditure in Africa presents opportunities for Australia to contribute further to meeting the significant humanitarian need there, particularly in the many chronic conflicts causing loss of life and displacement. In developing a new framework for engaging in Africa, Australia should ensure that humanitarian action is maintained as an objective, with greater emphasis on protection issues, and that humanitarian action is clearly linked to development assistance.

Commitment to good humanitarian donorship

The *Humanitarian Action Policy* explicitly builds on GHD in terms of principles and practice, and Australia has been a member of the GHD initiative since its outset. Australia needs to ensure that it defines what these principles mean in the Australian policy context in order to translate them all into actionable strategies. It also needs to ensure that Canberra is effectively linked to international policy discussions through strong working relationships with its representation in New York and Geneva, from where its engagement with GHD is led.

Linking relief, recovery and development

AusAID's integration of humanitarian action into country programmes lends itself to good links between development and humanitarian programming, but this is not always implemented consistently. While the flexibility of AusAID funding modalities is a strength, more needs to be done to apply innovative funding approaches consistently across all programmes. Such approaches should also be shared more widely across the Australian government and with other DAC members grappling with the challenge of bridging the gap between relief and development.

Disaster risk reduction

Disaster risk reduction (DRR) has been a policy focus since the publication of the *Humanitarian Action Policy*. Further efforts are needed to build on progress to embed this approach within all development programming at policy and country level, and avoid it being sidelined as solely a humanitarian issue, since many of Australia's programme countries are vulnerable to a wide range of disasters. This will require continued championing at a senior level of AusAID, supported by the development of the planned new DRR policy. Australia should continue to use the opportunities created by disasters to leverage interest from national governments and country programmes in planning for future disasters, and support DRR as a worthwhile investment in reducing future vulnerability.

Response, recovery and reconstruction after natural disasters

Australia has considerable experience in supporting recovery after natural disasters, notably in Aceh after the 2004 Indian Ocean tsunami. AusAID has demonstrated a comparative advantage as a donor in being able to use funding relatively flexibly to respond to changing priorities, plug gaps and pursue opportunities that arise. A new facility was set up in October 2008 to accelerate Australia's response to international disaster. It consists of a warehouse containing essential emergency relief supplies which will be managed jointly by AusAID and three Australian NGOs.

Protracted crises, post-conflict reconstruction and fragile states

Australia's proximity to many states in varying degrees of fragility, such as East Timor, Papua New Guinea and the Solomon Islands, as well as its involvement in Iraq and Afghanistan, have provided many opportunities for it to develop innovative modalities for effective engagement. These include working with contractors, through community groups and local authorities, and using a range of tools, from technical assistance to funding. This is in the context that AusAID considers all its development programming should be considered through the lens of conflict and fragile states. Australia should continue to engage energetically with international discourse on such approaches, including through the DAC.

Principles on funding humanitarian action

Aid volumes and channels

According to DAC figures, Australian bilateral humanitarian aid in 2006 amounted to USD 191 million, accounting for 9% of total Australian ODA. Since an increasing share of Australia's humanitarian action is unearmarked multilateral contributions, this understates its total contribution. Its level of funding puts it in the league of smaller medium-sized donors; as its overall ODA grows it is important that the funding for humanitarian action – which is also expected to grow – keeps pace with ODA growth.

According to AusAID, actual expenditure on humanitarian action in the 2007/08 budget year was AUD 298.4 million (USD 249 million), broken down as in Table C.1.

Table C.1 Australia's 2007/08 spending on humanitarian action

Recipient	Funding/AUD million
Core funding to UN and Red Cross	51.0
UN Central Emergency Response Fund (covers 2 calendar years)	20.0
Humanitarian and Emergency Response	212.4
International Refugee Fund	15.0
Total	**298.4**

Source: AusAID

Funding for humanitarian action has shown an upward trend over the past five years. The 2008/09 budget estimate for humanitarian, emergency and refugee programmes is

AUD 319.6 million, which would represent a 64% increase on the 2006/07 expenditure and 7% on 2007/08. These figures do not include spending on disaster risk reduction activities through country development programming – it would be useful to track this expenditure centrally.

Allocation/programming frameworks

Australia is committed to allocating its assistance on the basis of humanitarian need. It takes a phased approach to funding decisions, basing initial funding on available estimates which are then refined as more complete assessments can be made of both humanitarian need and available capacity. Australia should consider whether it could work with other donors to develop specific guiding frameworks and triggers for response to improve consistency and objectivity.

Funding modalities

In addition to funding according to need, Australia has pursued a number of funding modalities which enhance the predictability, flexibility and speed of its responses, in line with GHD:

Standby funding

Australia has standby arrangements with the non-governmental organisation RedR (which manages a roster of trained emergency specialists) and the Australian Red Cross for standby emergency personnel. Australia has also pre-positioned funds with the Red Cross in Indonesia to enable rapid response to natural disasters. Australia should look at opportunities to share and replicate this approach in other country programmes where trusted partners with appropriate capacity can be identified. This will complement the Periodic Funding Agreements with key NGOs (see section on Civil society partnerships below).

Core funding

Within the projected budget increase for humanitarian action, core multilateral funding is projected to increase from 24% to 25%, reflecting the new government's greater commitment to multilaterals. This percentage demonstrates a significant investment in the multilateral system which should be supported by processes to strengthen the system, such as continued active participation on executive boards and other governance mechanisms. Australia currently chairs the Humanitarian Liaison Working Group of donors and agencies in New York and is expected to take over the chair of the Office for the Co-ordination of Humanitarian Affairs Donor Support Group in 2009.

Pooled funding and earmarking

AusAID aims to earmark funding to organisations by sector, giving funded agencies flexibility on how they programme the funding within that sector. There is also flexibility over re-allocating funding to other sectors should priority needs change.

In line with its GHD commitments, Australia has also contributed consistently to the pooled donor fund managed by the UN – the Central Emergency Response Fund (CERF).

In 2006/07, and again in 2007/08, Australia contributed AUD 10 million to the fund. Australia should consider whether an increased contribution would be appropriate as part of its growing multilateral budget, while also making the argument across government that not all Australian funding needs direct visibility.

Sectoral issues

AusAID's Humanitarian and Emergency Section (HES) manages an International Refugee Fund, worth AUD 15 million annually. Since 2002 the fund has disbursed AUD 90 million to assist those displaced by conflict or natural disasters. HES perceives the fund to have had a useful impact, with a competitive bidding process encouraging high quality proposals. However, the current external review will be necessary to confirm its impacts and ensure it is in tune with the current policy environment, including GHD.

AusAID has actively engaged with the emerging but under-resourced issue of sexual and reproductive health in emergencies through its multi-year funding to the regional SPRINT training initiative.[16] This should be continued.

Promoting standards and enhancing implementation

Civil society partnerships

HES consults regularly with the Australian Council for International Development (ACFID), which has a specific Humanitarian Co-ordinator position, and the relationship is seen as constructive by both ACFID and HES. AusAID has special Periodic Funding Agreements with six NGO partners with the capacity to respond rapidly to crises. These pre-accredited NGOs can apply for funding through simplified fast-track procedures in the event of rapid onset crises. HES should explore if there are further opportunities for engaging with NGO partners for discussing both thematic and crisis-specific issues.

Staffing, organisation and management

HES is an expanding team comprising 20 officers in Canberra organised into emergency response operations, humanitarian (policy, advocacy, protracted situation programmes), disaster risk reduction, food aid, civil-military engagement, programme engagement and humanitarian policy and review. The latter is part of a process of reorganisation to enable HES to engage more systematically on policy without staff being diverted to deal with major crises. It is taking important steps to strengthen its ability to engage in global policy debates, sharing key regional lessons at the global level. In doing this, AusAID should ensure it has sufficient capacity to co-ordinate policy engagement and provide consistent influence among relevant missions in New York, Geneva and Rome. It should also ensure these missions are fully involved in shaping the humanitarian agenda in Canberra.

HES provides well-regarded technical support to country programmes in designing plans and specific responses. While the expertise is available from among existing HES staff, greater consistency of support could be given by a dedicated humanitarian advisor

16 . The Sexual and Reproductive Health Programme in Crisis and Post-Crisis Situations in East, South-East Asia and the Pacific (PRINT) is an AusAID initiative co-ordinated by the international Planned Parenthood Federation.

within HES specifically tasked with supporting programmes and participating in international policy discussions.

Speed of response

Following experience gained from the Indian Ocean tsunami, Australia has strengthened its ability to respond quickly to rapid onset crises. The creation of the Humanitarian Co-ordinator position within AusAID at Assistant Director-General level has created clarity over leadership on humanitarian response. Systems such as the Emergency Response Standard Operating Procedures (SOPs) and a growing Rapid Response Team roster underpin a strong capacity to deploy teams into the field to undertake assessment and programming tasks in major crises. AusAID in Indonesia has developed its own in-country response capacity with detailed rosters, systems and plans; Australia should consider where this could be replicated in other programmes.

Co-ordination within government

Humanitarian action involves a range of government actors; similar mechanisms to those used in other aspects of AusAID's work ensure an effective whole-of-government approach in responding to crises. The Emergency Response Standard Operating Procedures lay out the roles and relationships of different parts of government. The working relationship with the Australian Defence Forces in particular is practical and effective, ensuring good co-ordination of logistical and other inputs to major crises, through for example, the exchange of liaison officers.

Cross-cutting issues

Gender

Gender appears to be integrated into AusAID humanitarian programming. There is a gender focal point, funding to specific projects such as GenCAP (Gender Standby Capacity for UN agencies) and specific requirements for programme design and proposal submission. However, continued support and training will be important from the Gender Unit. AusAID has been active in generating support across government for the implementation of UN Security Council Resolution 1325 on Women, Peace and Security (2000). Australia should develop an action plan for its own implementation of the resolution.

Protection of civilians

AusAID has a number of approaches to meeting the protection needs – safety and security - of those affected by humanitarian crises to complement the provision of material assistance. These include the aim of addressing protection as a cross-cutting issue in all its programming, as well as practical steps such as training protection officers to be deployed to UN agencies – for example to Myanmar in the wake of Cyclone Nargis in 2008. Greater efforts could be made to ensure consistent understanding of the role of protection and ways to incorporate it in programming across the Australian Government and with operational partners. It may also be appropriate to shift the balance of effort more towards operational approaches while maintaining engagement on a policy level.

Civil-military issues

Australia is actively strengthening the relationships between civilian and military actors in humanitarian action both within and outside the country. Mutual understanding has improved significantly and there are continued initiatives which will be important to pursue in order to sustain a process of institutionalising approaches consistent with international best practice. Examples of positive aspects include the response to the Solomon Islands tsunami in 2007, as well as the joint training and policy development conducted with regional ASEAN militaries. This will crystallise in the new Asia-Pacific Regional Centre for Civil-Military Co-operation to be opened in Australia in 2008. Australia should ensure that the progress it has made is captured in policy and guidance within its civilian and military institutions, particularly in continuing to emphasise the primacy of civilian leadership.

Learning and accountability

Australia is committed to learning initiatives both internally and among its external partners. AusAID supports learning initiatives within the humanitarian community, including the Active Learning Network for Accountability and Performance (ALNAP) and the Humanitarian Accountability Partnership (HAPI).

Internally, much of the current reorganisation of HES reflects lessons learned from previous evaluations, in particular the external evaluation of Australia's response to the 2004 Indian Ocean tsunami. This highlights, for example, the need to clarify management structures, separate operations from strategy, strengthen operational procedures, and improve monitoring and evaluation.

Australia, in common with many donors, is still involved in the Tsunami Evaluation Coalition which reviewed the response to the Indian Ocean tsunami. In conjunction with the ODE and the Operations Policy Management Unit, HES should use its engagement with international initiatives and networks to strengthen its frameworks for ongoing monitoring and evaluation of programmes, both to improve programme quality and learn lessons. Greater engagement by ODE will be welcome to support HES in developing performance and monitoring frameworks that, by the nature of humanitarian action, may need to be different from those used elsewhere in AusAID. The planned thematic review of humanitarian action by ODE is timely.

Future considerations

- Australia is committed to a leadership role in humanitarian preparedness and response in its highly disaster-prone region and is re-orienting its structures within AusAID and the wider government to reflect international good practice in this area. The planned review of the *Humanitarian Action Policy* (2005) is timely, and it will be critical to incorporate emerging themes, including the impacts of climate change. To reap the benefits of the policy, Australia should, alongside the review, set out a clear plan of action for how it will continue to put the policy into practice.

- Providing technical support on humanitarian issues and convening technical discussions across AusAID is essential for Australia to become a better humanitarian donor. A dedicated humanitarian advisor position within HES would be valuable to support country programmes, take the lead on issues of quality and link into international good practice and enhance learning across programmes through a thematic network. AusAID should also review whether it has

sufficient capacity in Canberra and overseas to engage effectively on humanitarian policy debates through its representation in New York, Geneva and Rome.

- AusAID is dedicating significant human and financial resources to embed disaster risk reduction within its development programming. However, senior level leadership will continue to be needed to champion this issue across AusAID. The process of developing a disaster risk reduction policy will be an important opportunity to make the case for investing in risk reduction as part of all development programming, as well as to leverage greater engagement in transitional programming after natural disasters or conflict. This policy should be underpinned by an implementation plan with specific targets.

Annex D

Field Visit to Indonesia

As part of the peer review of Australia, a team including representatives of Ireland and Portugal and the OECD DAC Secretariat visited Indonesia from 7 to 11 June 2008. The team met with Australian development co-operation officials in Indonesia and their main partners (national and local governments, bilateral and multilateral donors, research institutes and civil society organisations). The team also visited post-tsunami reconstruction programmes in Aceh and development programmes in South Sulawesi. This annex summarises the team's observations on the Australian development co-operation programme in Indonesia.

Indonesia's development context

Indonesia is the largest archipelago state in the world, with a total of 17 508 islands, 6 000 of which are inhabited, and a surface area of 1.8 million sq km. It has borders with Timor-Leste, Malaysia, Papua New Guinea, the Philippines, Australia and Singapore. Indonesia is the most populous Muslim-majority nation with 235 million inhabitants, of whom approximately 124 million live on the island of Java.

Indonesia is a republic with a presidential system. It has a national government and a cascading hierarchy of provincial, district, sub-district and village administrations. The process of democratisation started in 1999 when Indonesia held its first democratic election following the resignation of President Suharto. A major process of decentralisation has been put in place since 2001. Responsibility for delivering public services has been shifted from the central government to district and municipal authorities. A necessary and positive process, decentralisation nevertheless poses significant problems to local administrations who lack capacities. Moreover, as one of the most disaster-prone countries in the world, Indonesia has been struck by a series of devastating natural disasters in recent years, including the Indian Ocean tsunami in 2004 and earthquakes in western Sumatra in 2005 and central Java in 2006. It has also been susceptible to periodic outbreaks of communal, separatist and religious-based violence, which have undermined national and local development objectives and diverted crucial resources to the security sector.

Indonesia ranks 107 out of 177 in the United Nation's Human Development Index, with an average life expectancy at birth of 69.7 years and an adult literacy rate of 90.4%. From 1976 to 1996, the government succeeded in rapidly reducing poverty from 40.1% of the population to 17.6%. However, the financial crisis of the late 1990s saw poverty increase dramatically again, reaching a peak of 23.4% in 1999. Today, poverty is again back to pre-crisis levels with 17% of the population living below the poverty line. Strong economic inequality persists among the population. Poverty is concentrated in rural and remote areas with the eastern provinces of Indonesia lagging behind the rest of the country.

Indonesia's *National Poverty Reduction Strategy* is integrated into the *Medium Term Development Plan Document 2004-2009*, which presents the development priorities of the Government of Indonesia (GoI). The poverty reduction strategy is focused on four main areas: macroeconomic stability, fulfillment of basic rights, gender equality, and acceleration of regional development. As a middle income country, where aid represents a tiny share of the national budget, Indonesia's relationships with its donor partners are different to countries with a high reliance on aid (LDCs). Indonesia is the largest ASEAN economy, although it is facing huge challenges (poverty, governance/corruption, terrorism, disaster vulnerability). Being a neighbouring country, Australia has a national interest in developing a strong partnership with Indonesia defined by close, long-term engagement. Australia's commitment to promoting stability in the region and its focus on security further increased after the Bali bombing in 2002 and Australian Embassy bombing in 2004.

Australia's presence in Indonesia: strategic orientations

Indonesia is the largest recipient country of Australian overseas aid. Previously primarily focused in the poorer provinces of eastern Indonesia, the programme evolved rapidly in terms of volume and geographic spread after the tsunami, when AUD 1 billion was allocated through the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) programme. This also resulted from the recent scaling-up of Australia's aid. In the last three years, the total amount of ODA net disbursement almost tripled from USD 119 million in 2004 to USD 310 million in 2006 (Table D.1.). The AIPRD programme represented a radical change and signalled the beginning of a broader and deeper commitment to the country. It not only assisted reconstruction of the Aceh region, but also financed large-scale development programmes in other parts of the country. For the first time Australia has provided soft loans, representing half of AIPRD's AUD 1 billion allocation. The previous *Indonesia Country Programme Strategy 2003-06* and the more recent AIPRD were merged in 2006 and renamed the Australia Indonesia Partnership. This situation was formalised under the new country strategy for 2008-13 that provides a consolidated single framework for the Australian aid programme. The *Australia-Indonesia Partnership Country Strategy 2008-13* (AIP) represents AusAID's positive and strong commitment to long-term engagement in Indonesia. The Australian Prime Minister's visit to Indonesia in June 2008, to launch the strategy with the Indonesian government, underlines this commitment.

Table D.1. Australian ODA: total net disbursements, 1997-2006

2006 USD millions, constant prices

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Indonesia	105	116	110	117	104	115	114	119	191	310

Source: AusAID Jakarta

The AIP strategy is based on the following main pillars: i) sustainable growth and economic management; ii) investing in people (health and education); iii) democracy, justice and good governance; and iv) safety and peace. Each of these pillars has related outcomes (Table D.2.).

Table D.2. Australia Indonesia Partnership Country Strategy

Strategic pillars	Outcomes
1. Sustainable growth and economic management	1.1 Improved natural resource management and response to climate change 1.2 Improved economic policy and strengthened economic management at the central level 1.3 Reduced constraints to infrastructure and productivity growth
2. Investing in people	2.1 Better health access and systems 2.2 Improved education quality, access and governance
3. Democracy, justice and good governance	3.1 Strengthened capacity, accountability and responsiveness of legal, democratic and oversight institutions and processes 3.2 Improved local government and public financial management, responding to local demand
4. Safety and peace	4.1 Improved responses to humanitarian needs, emergencies and vulnerability to disasters 4.2 Improved capacity to ensure transport safety and security and to counter threats from transnational crime.

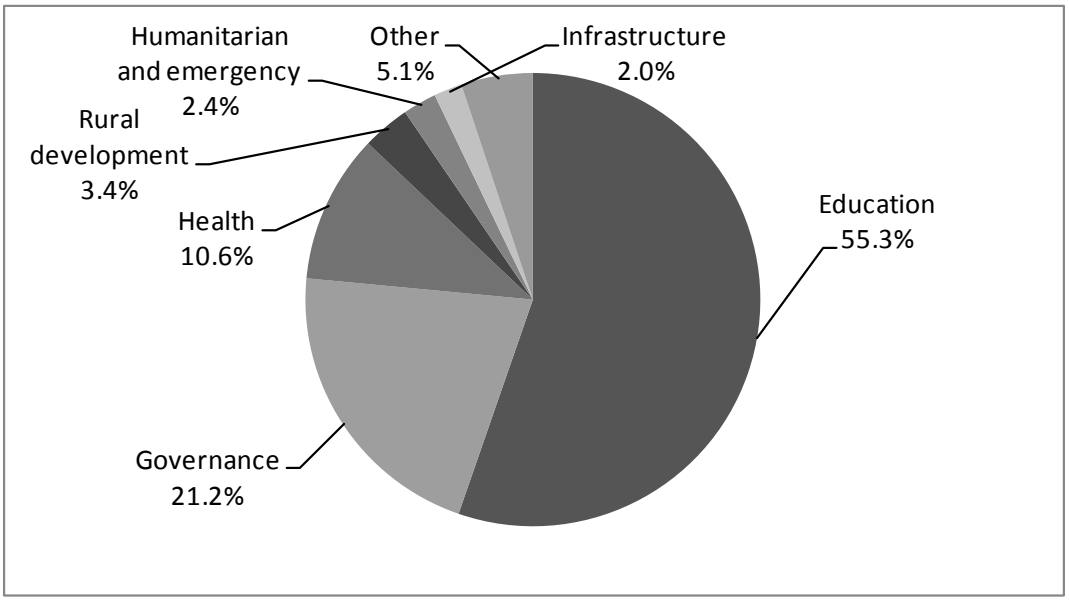
Source: AusAID Jakarta

Four principles for implementing the AIP are highlighted: partnership, gender equality, combating corruption and performance. Australia is indeed committed to working in partnership with the government of Indonesia. The strategy is aligned to the government priorities included in the *2004-09 Medium Term Development Plan*. A mid-term review of the AIP will be undertaken once the new *Indonesian Medium Term Development Plan for 2010-14* is approved, to ensure that Australia's support remains aligned to government priorities. The AIP also emphasises the intention to shift from a project approach to a greater use of Indonesia's own systems. Gender equality is recognised in the new strategy as a priority theme and the team observed a strong gender-sensitive approach in the programme. The cross-cutting issue of anti-corruption is also a high priority, with an Anti-Corruption for Development Plan prepared to further mainstream anti-corruption across the aid programme. Finally, the performance dimension emphasises the willingness of Australia to adopt a more result-based approach, with the aim of increasing aid effectiveness.

The country strategy focuses on five priority provinces, selected because of their high level of poverty and low development indicators compared to the rest of the country. This geographic focus is consistent with AusAID's poverty reduction commitment. In the context of decentralisation, AusAID recognises that working not only at the national level, but also at the district and sub-district levels, is crucial to improve public service delivery and reduce poverty. For instance, two major Australian-funded projects in the health sector work in close collaboration with district governments in the two provinces with the highest rates of maternal and child mortality.

With expenditures in education and health representing two-thirds of the Australian aid programme in 2006/07, the MDGs drive Australian assistance in Indonesia. Education is by far the most important sector for intervention and represents 55% of the programme (Figure D.1). Australia's approach in this sector is outlined in its *Indonesia Education Program Strategy 2007-2012*, and aims to increase coherence and alignment with GoI priorities. Australia's main goal is to assist the government to implement its strategy for basic education. Scholarship programmes represent another major component of Australian support, amounting to 19% of the total expenditure in 2006/07. Governance is Australia's second largest sector of involvement (21%), followed by health (11%). With Australia also involved in infrastructure, rural development and other areas, there is a danger of losing focus and/or dissipating energy. AusAID should remain focused on the key sectors.

Figure D.1. Estimated AusAID expenditure in Indonesia 2006/07, by sector



1. Based on end of financial year forecasts from 12 June 2007.

Source: Indonesia Annual Program Performance Update 2006-07, AusAID, Canberra.

Delivery mechanisms and aid effectiveness agenda

Working more through government systems

AusAID took a participatory approach to designing the country strategy for 2008-2013 (the AIP). It held extensive consultations in Canberra and in Indonesia, with key stakeholders in the government as well as in civil society organisations. The AIP is aligned to Indonesia's Poverty Reduction Strategy. There is no budget envelope attached to the country strategy. Although this may undermine aid predictability, it was seen as a way to maintain flexibility in the programme. Predictability is aided by the use of programmes lasting up to five years, as well as the long term nature of the AIP partnership agreement. When launching the new country strategy, the Australian Prime Minister announced that Australia will provide up to AUD 2.5 billion in development assistance to Indonesia over the next five years. Australia may nevertheless want to reflect on the need for an indicative funding envelope to accompany the country strategy to further improve aid predictability.

AusAID is flexible and adopts pragmatic and innovative approaches to better adapt to local circumstances and needs. The new strategy represents a substantial shift from project approaches to more engagement through government systems. Although the share of Australia's aid delivered through budget support is still limited, increasing amounts of funding relating to infrastructure programmes (schools and roads) are channelled through the government system. In particular, the intention is to channel through government systems the entire AUD 300 million loan funds for building roads. The process will be phased in, giving due attention to risk assessment. Risks will be reduced by investing in anti-corruption activities and supporting initiatives to increase transparency and accountability of government systems. AusAID is also aware that decentralisation and the

budget process pose both challenges and opportunities in this respect and that working through government systems implies a strong effort in building capacity. Two examples illustrate AusAID's move in this direction. The first is the Government Partnership Fund, which focuses on building capacity in a whole-of-government approach. The second is Australia's support to the education sector through government systems (Box 17).

Box 17. Building capacity: the 2005-10 Government Partnerships Fund (GPF) and the Basic Education Programme

The AUD 50 million Government Partnerships Fund represents the Australia's whole-of-government approach to its partnership with Indonesia. It involves 13 Australian Federal Government departments and agencies that have established partnerships with 16 Indonesian counterpart agencies. The programme aims to build Indonesia's economic and financial governance and public sector management capabilities. It is designed, planned and implemented jointly by Australia and Indonesia. A wide range of activities have been implemented with the purpose of exchanging skills, knowledge and expertise among Australian and Indonesian agencies. They include: i) provision of training for Indonesia's staff in either Indonesia or Australia; ii) provision of technical assistance for institutional strengthening and capacity building; iii) secondments for Indonesian staff in Australian counterpart organisations; iv) Australian secondments in Indonesian counterpart organisations; and iv) applied policy research.

The Australia Indonesia Basic Education Programme illustrates the shift away from a traditional project approach, being the first major Australian programme driven by the GoI and using government systems. This AUD 355 million initiative aims to improve equitable access to higher quality and better governed basic education services, especially in targeted disadvantaged areas in Indonesia. It includes an infrastructure component, under which 2 000 schools will be built, including 500 Islamic schools, as well as a capacity building component focusing on improving the quality of the education system and improving the way in which education facilities are governed. The programme is being delivered substantially through the Indonesian Treasury to school construction committees. Mechanisms of control have been put in place in previously identified weaker points of the process, especially in areas presenting higher risk in procurement, to ensure aid is delivered effectively. Taking into account the weak capacity of the Ministry of Religious Affairs, a specific system has been put in place to deliver the Islamic schools sub-component with a managing contractor reporting to the Ministry of Religious Affairs. Strengthened reporting systems have also been developed and the principle of an external audit covering both financial and operational aspects has been agreed with the government. Local communities are involved in planning, managing and monitoring the school constructions. This involvement strongly increases accountability and transparency, thereby reducing the risk of corruption. The project seems efficient in strengthening government systems. A next step could be to set up a multi-donor trust fund managed by the GoI, which could ultimately lead to a sector-wide approach in the education sector.

The review team noted that AusAID is gradually adjusting its delivery methods and leveraging better use of government budget through targeted funding and/or technical assistance. An empirical approach is favoured. For instance, in Aceh, the AusAID health team chose to base itself within the provincial health office, but not to place money through the budget. The programme found that working this way enabled the partnership to focus on the programme objectives while enabling the rapid mobilisation of resources that would have been delayed using budget systems. While this made sense in humanitarian assistance programmes in Aceh where speed was of the essence, it is crucial to keep capacity building as the long-term objective and to ensure that AusAID's long-term activities have sustainability as an end goal. Specifically, given the high share of technical assistance in programme spending,[17] AusAID could reflect whether technical

[17]. Up to 27% of the programme's spending, and 46% if scholarships are included, according to the annual programme performance update.

assistants are being used as implementers or facilitators of change. Scholarships are another way to build capacity. The team couldn't see to what extent the huge scholarship programme is strategically linked to the rest of the programme. There is a need for a more strategic approach to this important component of the programme to maximise its contribution to capacity development.

AusAID is among the leading humanitarian donors in Indonesia. It has learnt a number of lessons from the 2004 Indian Ocean tsunami and 2006 Yogyakarta earthquake, allowing it to improve its systems and capacities. These include creating standard operating procedures and a standby roster of trained personnel (see previous annex). The Indonesia programme provides many good examples of how AusAID has put good humanitarian donorship into practice (*e.g.* prepositioning of funds with the Red Cross, focusing on responding according to need). AusAID is also committed to finding ways to put disaster preparedness and disaster risk reduction into practice through a range of partners and within its own programmes.

Co-ordinating with other donors and stakeholders

While co-ordination instruments have been relatively weak so far, the Indonesian Ministry of National Planning is developing, with AusAID's support, a co-ordination mechanism in line with the Paris Declaration. One of the instruments used by the ministry to ensure alignment and harmonisation among donors is the "Blue Book". It contains a list of projects/programmes from which the donors can choose. AusAID takes a leading role within the donor community in education, water and sanitation, maternal and child health, HIV/AIDS and avian influenza.

AusAID has a good dialogue with partners, even if it is sometimes rather unstructured. It is actively engaged with other donors in development programmes, for example its support to decentralisation. During the decentralisation process the government quickly transferred funds and responsibilities for service delivery to local governments which often lacked the necessary capacities to perform their duties. Several donors have provided their support to the government to carry out this process (Box 18). AusAID also regularly conducts joint missions and analytical work with other donors.

AusAID Indonesia's approach to civil society organisations (CSOs) has proved to be successful. CSOs report an open and satisfactory dialogue with AusAID, emphasising its flexibility and openness to support innovative initiatives. AusAID supports a wide variety of organisations including international research organisations, international and national NGOs, and local CSOs.

Box 18. Decentralisation Support Facility (DSF)

DSF is a multi-donor facility involving nine donors: Asian Development Bank, AusAID, CIDA (Canada), UK Department for International Development, GTZ (Germany), the Netherlands official development agency, the United Nations Development Program, USAID and the World Bank. The aim of DSF is to support the Indonesian Government in the process of decentralisation. Through this programme, the government is able to co-ordinate the technical support for decentralisation coming from the donor community. The programme is delivered through a multi-partner facility, which has been financed by the DSF Partners' Fund administrated by the World Bank. Many activities are implemented within this programme to strengthen local government and communities and build the necessary capacity to improve public service delivery in the new decentralised context.

The team visited the Decentralisation Support Facility for Eastern Indonesia, a regional office closely aligned with DSF in Jakarta. A successful example of its activities is the Public Expenditure Analysis and Capacity Enhancement Programme. This programme provides support to local governments in financial management, through training and technical assistance, with the aim of improving their way of working, accountability and transparency. In this way the programme facilitates the engagement of international donors with local governments.

Organisation and management

The process of devolution within AusAID is at an advanced stage, with the country office fully responsible for matters related to programme implementation, policy engagement with the GoI, donor harmonisation, the whole-of-government approach at country level, monitoring and reporting. The decentralisation of financial authority is also well advanced and the budget is managed in Jakarta. The Minister Counsellor has financial authority for sums up to AUD 3 million, above which financial delegation reverts to Canberra to the Deputy Director General (up to AUD 10 million) and thereafter to the Director General. A formal process has evolved to support the decentralisation; this involves a weekly telephone call and video conference to connect Jakarta with Canberra and the other country aid programmes. Devolution seems to strengthen the partnership with Indonesia by bringing more people/capacity to the field, thereby empowering staff and allowing for more flexibility in the way aid is delivered.

AusAID staff numbers in Indonesia increased as the programme expanded after the tsunami. From 2005 to 2008 Australian-based staff increased from 8 to 29, and local staff increased from 30 to 95. In addition, the programme is employing 12 advisors on a contract basis, who are international specialists providing technical expertise. The increasing employment of local staff as an alternative to Australian-based staff follows the recommendation included in the Director General's blueprint for 2010 (AusAID, 2007a). Local staff can access management positions and the work structure offers them opportunities for promotion. The team got a positive, energetic feeling from AusAID staff, who seem to be engaging constructively in a complex context. AusAID has strong knowledge and sound understanding of Indonesia (including its constraints), as evidenced by the recruitment of local and international contractors and an attitude of an equal partnership.

As is standard in AusAID, posted contracts for Australian-based staff are of two plus one year duration. Even if most staff choose to stay three years, turnover seems high. In a context like Indonesia, where personal relations are important, this may be an obstacle for

the success of the aid programme. The team wonders how the programme will acquire and retain sufficient capacity as it scales up with this limited length of posting for expatriates.

It is commendable that Australia tries to implement a whole-of-government approach, bringing 17 departments together under an integrated single strategy. This should help ensure that the aid programme is delivered in a consistent way and should facilitate Australian co-ordination with the international donor community. However, the team got the impression that co-ordination could be strengthened and that Australia's overarching ODA objectives could be further internalised by some departments. Ensuring this internalisation needs to be a continuous effort. It is therefore important that AusAID remains the anchor agency for the development aid programme within this whole-of-government approach.

The programme is moving towards a results-based approach with the introduction of the performance assessment framework. AusAID Indonesia has adopted a rigorous approach in developing its annual reporting process. Transforming the country strategy objectives and priorities into measurable outputs is a challenge, especially as the lack of data at local level makes it difficult to select suitable indicators to measure performance. While the annual reporting process is seen as a useful management tool, the performance framework seems to be a heavy process that may need to be simplified.

Annex E

Field visit to Vanuatu

As part of the peer review of Australia, a team of examiners visited Vanuatu from 23 to 25 June 2008 to review the Australian aid programme. The team met with staff from the Australian High Commission and AusAID and their various partners: government officials in ministries, representatives of ni-Vanuatu civil society organisations, and multilateral and bilateral donor organisations. This annex is an account of the visit, and combines the team's observations with a literature review on the situation in Vanuatu**.**

The development context in Vanuatu

As a small and remote island state with a highly dispersed population of 215 000, Vanuatu faces specific development challenges. In particular, it cannot realise economies of scale in manufacturing or agriculture, while its remoteness from international markets results in high costs for both imports and exports. Despite strong economic growth in recent years (7.2% in 2006 and an estimated 6.5% in 2007), led by foreign investment in tourism and land development, the formal employment rate remains under 15%. There are marked pockets of exclusion and many rural communities still live primarily from subsistence agriculture. Rural-urban drift, especially of young unemployed men, continues apace leading to law and order problems. Vanuatu's island geography and scattered population make the costs of providing infrastructure and public services particularly high. Vanuatu ranked 120 out of 177 countries on the UNDP's 2005 human development index. While Vanuatu may achieve universal primary education by 2015, quality of education and high drop-out rates beyond Year 6 are major concerns. According to UN data, 20% of Vanuatu's population remains without any access to health services. The island is also vulnerable to a wide range of natural disasters, including earthquakes and cyclones.

Since independence in 1980, state building has been an on-going process; the administration is critically dependent on a few key individuals and the capacity to formulate and implement coherent development policy is weak. While Vanuatu has experienced political instability, it has not had the breakdown in the rule of law seen in other parts of Melanesia (*e.g* the Solomon Islands, Papua New Guinea). Stable leadership over the last few years has provided a window of opportunity to pursue reform. In 2003 the government developed a first *Priorities and Action Agenda* (PAA) to address the medium-term development challenges. It was updated in 2006 to cover 2006-2015 and provides a large set of policy objectives, priorities and performance indicators. However, these are not sequenced or prioritised, and there is no systematic approach to monitoring progress. The government of Vanuatu is highly dependent on aid, which is equivalent to half of the national budget. Australia is the largest donor, followed by the United States, New Zealand, the European Union, China and France. Vanuatu is looking increasingly to regional approaches and mechanisms to tackle its economic vulnerability.

Australia and Vanuatu have a close relationship. Australia is Vanuatu's biggest partner in terms of trade, investment (tourism) and development co-operation. With an

estimated 2 000 Australians living in Vanuatu, Australia has the largest expatriate community. Australia also promotes stability and development of the Pacific as strategic interests, which it aims to achieve through greater regional prosperity and reduced trans-boundary threats.

Australian aid programme

An increasing volume of aid

Total Australian aid to Vanuatu in 2007/08 is estimated at AUD 44 million, representing 27% of the Government of Vanuatu's 2008 budget. The amount will increase in 2008/09 to reach AUD 51.8 million, a sharp increase over 2004/05, when total Australian aid to Vanuatu was AUD 30.9 million.

The total aid programme to Vanuatu comprises the bilateral programme managed by the AusAID office in Port Vila and the regional programme managed through the AusAID regional office based in Suva. The bilateral component represents 72% to 75% of the total programme and is increasing sharply (AUD 32 million in 2007/08 and AUD 37.4 million in 2008/09, compared to AUD 20 million in 2004/05).

Strategic orientations: a strong focus on governance

The 2005-10 Australia-Vanuatu Joint Development Co-operation Strategy was developed jointly with the Government of Vanuatu and is guided by the 2003 PAA. The strategy aims at supporting long-term stability achieved through accelerated development, including broad-based growth and improved welfare of the general population. It focuses on governance, service delivery and equitable economic growth, with three strategic objectives and related outcomes defined as follows (Table E.1):

Table E.1. Australia-Vanuatu Joint Development Co-operation Strategy 2005-10

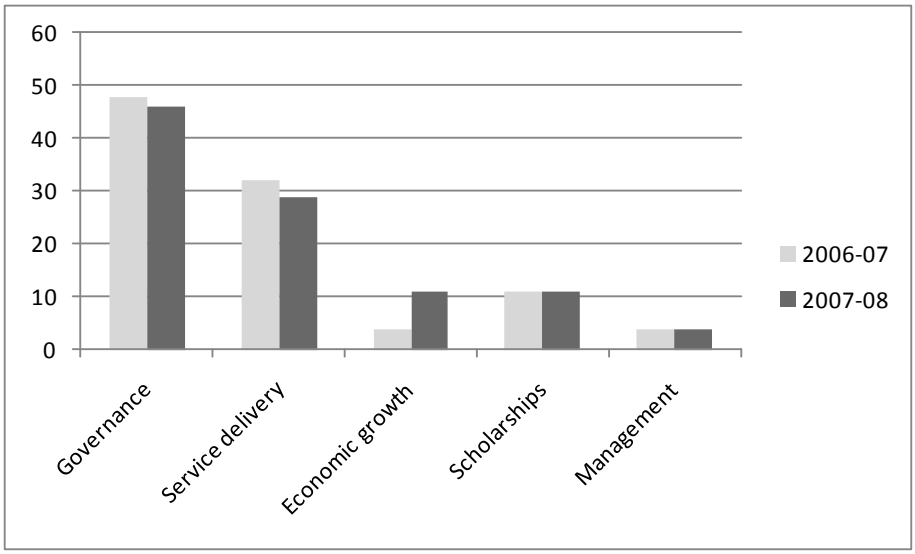
Strategic objectives	Programme outcomes
1. Improved governance through strengthening the stability and reach of key institutions	1.1. Improved financial management and accountability through continued public sector reform 1.2. More effective legal institutions/improved police services 1.3. Stronger links between central, line and provincial systems
2. Improved service delivery to populations in greatest hardship	2.1. Greater targeting by key service delivery agencies in rural communities and informal settlements in urban areas 2.2. Stronger partnerships between NGOs, Council of Chiefs, Council of Churches, women's and other CSOs and government in service delivery in rural communities and informal settlements in urban areas
3. Raised productive capacity of ni-Vanuatu, particularly women and young people.	3.1. Expanded rural productivity providing income generation, particularly for women and young people 3.2. Strengthened tourism sector providing employment opportunities particularly for young people 3.3. Stronger enabling environment for private sector development

Source: AusAID Port Vila

In implementing the strategy to date, a strong emphasis has been placed on governance (46% of the bilateral programme), and particularly on law and justice, while service delivery and economic growth have received relatively less attention (Figure E.1). However, the emphasis on security and stability is becoming less dominant and Australia is moving towards a stronger focus on the MDGs in line with the new Australian government priorities. The 2007 mid-term review of the Australian programme calls for a strengthened focus on the MDGs in health (through better targeting of the populations experiencing greatest hardships) and primary education (so far directed to secondary and technical education) to support government efforts. New programmes (*e.g.* Governance for Growth Programme 2006-17; and the Kastom governance partnerships) are more focused on improving service delivery and raising productive capacity.

Gender equality is widely mainstreamed in the programme. In addition to projects targeting women (Vanuatu Women's Centre, Pacific Women in Private Sector Development, initiatives to end violence against women), gender equality is integrated in most of the key programmes in sectors as diverse as education, police and support to growth. This results from consistent efforts supported by dedicated resources, with two gender focal points working closely with AusAID's gender thematic group and external expertise. Australia is also widely engaged in fighting corruption through a whole-of-government approach. The White Paper has driven the higher profile of these two areas in the programme. However the picture is mixed regarding the environment: although environmental issues are tackled in specific regional initiatives or may be included in bilateral activities (road infrastructure), the review team found that there was scope to further mainstream this dimension within the bilateral programme.

Figure E.1. Implementing the strategy: expenditure by sector



Source: AusAID, Port Vila

Avoiding dispersion

Under its three main objectives, the programme covers a broad range of sectors with a large number of projects and initiatives (around 30). With a rapid increase in the volume of aid and the need to take into account new Australian government priorities (*e.g.* water and sanitation, disabilities), it may be tempting to broaden the range of sectors and activities. AusAID's responsiveness to needs and requests by the government of Vanuatu may also carry the risk of dispersion. However, scattered projects may lower the effectiveness and impact of Australia's efforts. AusAID Vanuatu could reflect on the need to be more focused with fewer but bigger programmes, taking into account other donors' activities and the absorptive capacity of the Vanuatu administration. This exercise should include the regional office, given the substantial regional engagement in Vanuatu in terms of volume and sectors/activities.

More broadly, while both bilateral and regional programmes will continue to evolve, a challenge will be to keep strong linkages between the two programmes in terms of content and approaches. This will be needed in particular in the health sector, where links between the two levels of engagement seem weak at present. The new position of the Minister Counsellor in the Suva Regional office, responsible for both bilateral and regional programmes, should help to ensure this consistency.

Implementation and aid effectiveness

A flexible and responsive donor

AusAID Vanuatu is flexible and responsive in the way it implements the aid programme. The strategy provides a broad framework in which it defines and, if needed, adjusts its activities to better respond to the situation. An example is the inclusion of a new component in AusAID's infrastructure support to respond to a government request to fund a shortfall in the Millennium Challenge Corporation -funded road maintenance programme. AusAID Vanuatu also selects the best way to implement the programme from a wide range of approaches, taking account of the needs and capacity of its partners. This pragmatic approach is highly appreciated by all government and donor partners and is appropriate in Vanuatu's evolving situation.

Flexibility may, however, undermine predictability. Although no indicative funding envelope is attached to the co-operation strategy, Australian aid is relatively predictable with up to ten-year programmes, *e.g.* the Governance for Growth Programme (2006-2017) and the Legal Sector Strengthening Project (2000-11). Continuing to increase aid predictability is crucial given the high dependency of Vanuatu's national budget on aid volumes. This also calls for increased attention to building sustainable development programmes that minimise recurrent costs to the government.

Engaging proactively with government and other donors

Australia has an open and direct dialogue with all its partners (government, donors, CSOs) and adopts an inclusive and transparent approach. It is seen as an active and constructive partner in the donor community. AusAID has a leading role in key sectors like public financial management and education, in a context where donor co-ordination by the government remains relatively weak (Box 19). Australian programmes are widely known by partners and evaluation and performance assessment exercises are conducted in

a participatory way. However, joint programmes remain scarce and mainly involve AusAID and NZAID (*e.g.* a joint funding arrangement in education, closely integrated work in the land sector).

Box 19. Co-ordination framework in Vanuatu

Only a few donors are active in Vanuatu: Asian Development Bank, Australia, China, EC, France, JICA (Japan), NZAID, UNDP, US (MCA) and the World Bank. A number of them have only small programmes with no permanent representation. However, there is still a need for co-ordination, with for instance 109 projects in the education sector alone between 2002 and 2007. Government leadership is weak due to limited capacity, and responsibility for aid co-ordination is divided between the Prime Minister's office and Ministry of Foreign Affairs. In this context, co-ordination arrangements vary depending on sectors and are to a large extent led by donors.

Co-ordination among donors and the government is strong in the education sector, with the Education Partners Group supporting the emerging sector-wide approach. This group has been active since 2006 with a code of conduct based on the Paris Declaration principles and monthly meetings allowing for co-ordination and harmonisation of the programmes. Co-ordination is also effective in the public financial management sector, with a group comprising representatives from the Ministry of Finance, the EC, Australia, NZAID, ADB and AusAID.

No formal mechanisms exist in other sectors. A couple of donor meetings took place to prepare for a sector-wide approach in the health sector, but without substantial results. However, co-ordination occurs on a project basis in different areas (rural transport infrastructure, land, radio, etc). In particular, AusAID and NZAID co-ordinate their programmes very closely, as illustrated by a monthly meeting to co-ordinate their engagement in the law and justice sector.

Making more use of government systems to build capacity

Australia's programme is aligned to government priorities. Until recently, it has been delivered mostly through projects implemented by Australian managing contractors or other mechanisms outside the government. However, AusAID is starting to rely less on managing contractors and work more through government systems. The share of the bilateral programme spent via national systems increased from 10% in 2006/07 to 17% in 2007/08. One example is the joint funding arrangement for the Vanuatu *Education Support Action Plan 2008*, signed in June 2008 by AusAID and NZAID, which represents the first step toward a sector-wide approach in the education sector. Another example is the co-located Governance for Growth Programme (Box 20). In its programmes and approaches, Australia is putting stronger emphasis on building the capacity of government departments. Examples are the Vanuatu Police Force Capacity Building Project and the Vanuatu Legal Sector Strengthening Programme, implemented respectively by the Australian Federal Police and the NSW Attorney-General's Department. More recently, AusAID has extended its capacity development support to civil society organisations (Council of Chiefs, Council of Churches) as a way to help build domestic demand for governance.

Box 20. The Governance for Growth (GFG) Programme 2006-2017

This 10-year programme aims to help the government of Vanuatu tackle obstacles to growth and service delivery through a number of reforms to support key policy directions of the government. These include the introduction of competition into the telecommunication sector, strengthened regulation of utilities (power, water) and strengthened public financial management capacity to improve the delivery of services.

The programme is led by AusAID's staff, co-located within the Prime Minister's compound. The intention is to support government-driven initiatives. It has proved successful in supporting a number of reforms strongly owned by the government (for instance the liberalisation of the telecommunication sector). Government counterparts consider that support provided through GFG is quicker and more efficient than the previous project managed through external technical assistance. Government partners also appreciate the easier access to GFG staff given their location within the ministry. Co-location also appears effective in building the capacity of government counterparts, through a daily, close working relationship and systematic knowledge sharing. The programme also allows AusAID to have a deep knowledge of how the system functions and where it is possible to rely on domestic procedures. It therefore helps to increase the share of Australian aid going through government systems.

Clear demarcations of roles as well as clear lines of responsibility are crucial in this co-location system in order to ensure ownership and capacity building. This requires a commitment to mutual accountability on the part of both the government of Vanuatu and AusAID.

AusAID Vanuatu should continue to reflect upon its high reliance on international technical assistance, which represents approximately 40% of the aid programme. It should also consider how this technical assistance from AusAID and other Australian departments and agencies is positioned. In the legal and health sectors, technical assistance appears to be more focused on direct, in-line support than on skills transfer and institutional development. The net outcome is that the durability of reform processes may be undermined. In contexts of weak capacity like Vanuatu, Australian technical assistance should aim to balance the competing imperatives, on the one hand, of providing in-line support that ensures state institutions are at least functional, while, on the other hand, ensuring individual and institutional capacities for transparent service delivery are fostered. Australia is aware of this challenge: the 2007 annual programme performance update of the Vanuatu country programme states that the Legal Sector Strengthening Project "has maintained a functioning government legal service, through provision of expatriate lawyers who have worked in advisory and in-line roles. However capacity building achievements are limited".

Scholarships represent 11% to 12% of the aid budget and are awarded through three different schemes: the Australian Development Scholarships, the Regional Development Scholarships and the Australian Leadership Awards. Despite their importance, scholarships are not closely connected with the aid programme and their impact is not documented. While being responsive to government needs, Australia could promote a more systematic approach linking scholarships and capacity development. It could build on the increased integration of AusAID's support within the scholarship unit of the ministry of education to do so.

Most of AusAID's regional projects, which deal with issues of common interest to the Pacific Island states, are not designed in-country and their implementation is perceived by local authorities to be imposed without connection to other national programmes. This is the case in particular in the health sector. It could be useful for the AusAID Regional office in Suva to build on the country-driven approach taken by its Pacific land

programme to ensure that regional initiatives are not supply-driven and that they respond to government needs.

Organisation and management

Building a challenging whole-of-government approach

The Australian aid strategy includes in a whole-of-government approach the departments and agencies involved in delivering the aid programme, including the Australian Federal Police (AFP) and NSW Attorney General's Department. While this provides consistency in Australia's approach, clear demarcation of roles, and respect for each agency's and programme's mandate, are crucial to ensure confident dialogue with the partner government. For instance, Australia has been careful to clearly differentiate the mandate and activities of the AFP Senior Liaison Officer in the High Commission, whose role is to fight transnational crime on behalf of Australia, and the role of AFP in co-managing with AusAID the Vanuatu Police Force Capacity Building Project. In addition to formal mechanisms, informal communication provides a good basis for co-ordination between the different departments and agencies. However, a challenge remains for AusAID to manage the participation of a broader range of departments in the aid programme and in particular to make sure that the objective of building capacity and ensuring sustainability in the long term are internalised by all Australian stakeholders. As the lead agency in delivering the aid programme, AusAID's office should continue to closely monitor projects delivered by other departments/agencies to ensure that the overall objectives of the Australian development co-operation are met.

An efficient, devolved AusAID office

Devolution of AusAID is well advanced in Vanuatu and seems to strengthen the partnership with Vanuatu. There is a clear demarcation of roles between Canberra, Suva and Port Vila and clear lines of accountability, including in terms of financial delegation. The AusAID office receives appropriate support from Canberra on a day-to-day basis and its delegated work is facilitated by strengthened processes and management tools. One issue remains the weak quality of video-conference communication, which so far does not allow staff in Vanuatu to participate in management meetings. In coming months, as the regional unit develops, AusAID will need to clarify the advisory role played by the Corporate Support Unit based in Suva and its implications. One reason is that AusAID Vanuatu, while reporting to the Minister Counsellor Pacific on programme management issues, needs approval from Canberra on corporate support issues (contractual arrangements, internal financial management, human resources).

The number of AusAID staff has evolved as the programme has expanded and amounts to 17, including 3 A-based staff (plus one for the GFG programme). Roles and responsibilities are clearly defined and locally-engaged staff can access management positions. AusAID staff engage constructively with partners, and have a good knowledge of the country context. Staff have access to appropriate training and actively participate in thematic networks, which are seen as useful.

AusAID Vanuatu is able to build on a number of tools to manage and, if needed, re-orient the programme for better impact on poverty reduction. These tools include: i) studies and surveys it commissions (like the *Drivers of Change* study); ii) the annual

performance assessment framework and mid-term review process;[18] iii) programme evaluations and; iv) AusAID thematic networks. Evaluations and performance assessment are conducted in a participatory way and include contestability mechanisms. They are seen as a useful management tool. Further streamlining of the process will help conduct the next cycle in the absence of external support. The office should also more precisely define the objectives, intended results, indicators and targets when designing new programmes.

On the whole, the programme is coherent with the overall strategy of AusAID and its corporate framework, as is reflected in the rapid evolution of the bilateral programme, the move towards stronger alignment to government systems and the devolved management organisation.

18. A mid-term review was done in 2008 to update the strategy in the light of the 2006-15 PAA and the new agenda for development partnerships in the Pacific developed by the Australian government (see Box 10, Annex D).

Description of Key Terms

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information.[19]

ASSOCIATED FINANCING: The combination of official development assistance, whether grants or loans, with other official or private funds to form finance packages.

AVERAGE COUNTRY EFFORT: The unweighted average ODA/GNI ratio of DAC members, *i.e*. the average of the ratios themselves, not the ratio of total ODA to total GNI (cf. ODA/GNI ratio).

DAC (DEVELOPMENT ASSISTANCE COMMITTEE): The committee of the OECD which deals with development co-operation matters. A description of its aims and a list of its members are given at the front of this volume.

DAC LIST OF ODA RECIPIENTS: The DAC uses a List of ODA Recipients which it revises every three years. From 1 January 2005, the List is presented in the following categories (the word "countries" includes territories):

LDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LDC, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LDC group.

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNI USD 825 or less in 2004 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 826 and USD 3 255 in 2004. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNI per capita (Atlas basis) between USD 3 256 and USD 10 065 in 2004.

DEBT REORGANISATION (ALSO RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, or rescheduling or refinancing.

DIRECT INVESTMENT: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC List of ODA Recipients. In practice it is recorded as the change in the net worth of a subsidiary in a recipient country to the parent company, as shown in the books of the latter.

DISBURSEMENT: The release of funds to, or the purchase of goods or services for a recipient; by extension, the amount thus spent. Disbursements may be recorded **gross** (the total amount disbursed over a given accounting period) or **net** (the gross amount less any repayments of loan principal or recoveries of grants received during the same period).

19. For a full description of these terms, see the *Development Co-operation Report 2007*, Volume 9, No. 1.

EXPORT CREDITS: Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.

GRANTS: Transfers made in cash, goods or services for which no repayment is required.

GRANT ELEMENT: Reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to the first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. This rate was selected as a proxy for the marginal efficiency of domestic investment, *i.e.* as an indication of the opportunity cost to the donor of making the funds available. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100% for a grant; and it lies between these two limits for a loan at less than 10% interest.

LOANS: Transfers for which repayment is required. Data on net loan flows include deductions for repayments of principal (but not payment of interest) on earlier loans.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): Grants or loans to countries and territories on the DAC List of ODA Recipients and multilateral agencies active that are undertaken by the official sector; with the promotion of economic development and welfare as the main objective; at concessional financial terms (if a loan, having a grant element of at least 25%).

ODA/GNI RATIO: To compare members' ODA efforts, it is useful to show them as a share of gross national income (GNI). "Total DAC" ODA/GNI is the sum of members' ODA divided by the sum of the GNI, *i.e*. the weighted ODA/GNI ratio of DAC members (*cf.* Average country effort).

OTHER OFFICIAL FLOWS (OOF): Developmentally relevant transactions by the official sector with countries on the DAC List of ODA Recipients which do not meet the conditions for eligibility as official development assistance.

TECHNICAL CO-OPERATION: Includes both a) grants to nationals of aid recipient countries receiving education or training at home or abroad, and b) payments to consultants, advisers and similar personnel as well as teachers and administrators serving in recipient countries.

TIED AID: Official grants or loans where procurement of the goods or services involved is limited to the donor country or to a group of countries which does not include substantially all aid recipient countries.

VOLUME (real terms): The flow data are expressed in United States dollars (USD). To give a truer idea of the volume of flows over time, some data are presented in constant prices and exchange rates, with a reference year specified. This means that adjustment has been made to cover both inflation in the donor's currency between the year in question and the reference year, and changes in the exchange rate between that currency and the United States dollar over the same period.

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