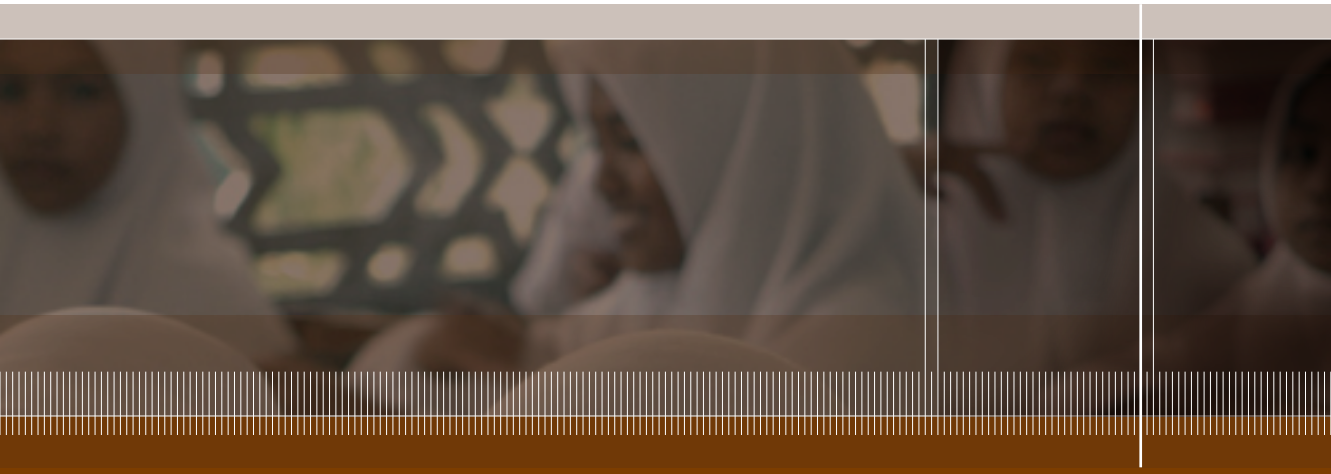


ANNUAL REVIEW OF DEVELOPMENT EFFECTIVENESS 2007



Australian Government

AusAID

Office of Development Effectiveness

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EXECUTIVE SUMMARY

The review of development effectiveness is an annual health check of the Australian aid program. It provides a broad assessment of quality and results, and highlights areas where effectiveness may be strengthened.

The review is produced by the Office of Development Effectiveness (ODE), a freestanding AusAID-based unit that is independent from program management. The review benefits from comments sourced from a range of experts who have been engaged in assessing the effectiveness of international aid. It is an ambitious undertaking, and only one other bilateral donor currently tries to link aid spending to results in this way.

For 2006-07, the review has focused on the work of AusAID, which has accounted for around 90 per cent of the Australian government aid program. This focus takes advantage of a new performance reporting system established within AusAID over the past 12 months. Over coming years, the review will extend to include the experiences of other Australian government agencies delivering aid.

Context

Strong growth across the Asia-Pacific region has led to dramatic reductions in poverty and good progress against the Millennium Development Goals. The World Bank predicts that the number of people living on less than one US dollar a day will fall from 29 per cent in 1990 to 12 per cent in 2015. But most of these gains have been recorded in Asia; progress has been less marked in the economies of the Pacific Islands region. Here, low economic growth and fast-growing populations have seen poverty rising over the decade and a decline in several key social indicators. Underlying tensions flared into violent conflict in four of the region's states during 2006-07.

The Australian aid program in 2006-07

The Australian aid program was worth just under \$3 billion in 2006-07 and is expected to grow significantly in future years. Excluding one-off payments for debt relief, around thirty per cent of Australian aid in 2006-07 went to Papua New Guinea and the Pacific, a similar amount went to East Asia, almost 15 per cent went to South Asia, Africa, Middle East and Central Asia, and almost 12 per cent went in core contributions to multilateral and international organisations such as the World Bank and United Nations agencies. Excluding debt relief again, nearly fifty per cent of all aid spending on partner countries went to so-called fragile states, where governance is weak and the risk of conflict is high. Since aid works best in environments where there is strong governance, it is harder to deliver effective aid programs in such states. Nevertheless, compared with other donors Australia commits the highest proportion of its aid to fragile states, reflecting government policy during the period under review and the proximity of such states.

The effectiveness of Australian aid

Three aspects of program delivery are assessed in the review; activity, program and process.

At the activity level – which includes a wide range of different activities from individual projects through to multi-donor programs of support – the Australian aid program met targets set for achieving objectives. Independent reports confirm achievements in areas from better budgeting and planning to strengthened service delivery. For example, Australian support to the Regional Assistance Mission to Solomon Islands helped to cut tax arrears and debt; support provided through the World Health Organization in Mindanao has contributed to a significant decline in malaria deaths; work in Indonesia has helped significantly to increase access to schooling; and assistance to Papua New Guinea has helped to keep open substantial parts of the Highlands Highway – the country's main economic thoroughfare. In general, however, it is difficult to detect where successful activities have translated into broader improvements in the sectors where the aid program works. This echoes the experience of other donors, who have often found it difficult to demonstrate conclusively the links between well-managed activities and better outcomes for the poor.

It is harder to report on country programs, in part because performance assessment systems are still being developed. A range of different ways of assessing performance were tested in 2006-07. These pointed to fewer program objectives being met than is the case at activity level. Reasons for this seem to include the poor definition of objectives and, on occasion, weak commitment to change on the part of partner governments. ODE completed three country strategy reviews in 2006-07. These reviews found that program management was strong and responsive and that good links had been established between the Australian program and partner governments. Where success was evident, it was often attributed to sustained engagement.

Finally, effectiveness is also influenced by the way in which aid is delivered. ODE's assessment is that several programs are becoming more adept at working in tune with partner government policies and harmonising with other donors, although the systems to capture these shifts in aid delivery are underdeveloped. A significant development over the past year has been the establishment of new ways of working in health and education, involving closer integration between Australian assistance and local policies and practices, and stronger levels of coordination with other donors. The new approaches should lead to greater effectiveness if they strengthen partner government systems by working with them, rather than bypassing them. They should also reduce the transaction costs for governments in working with donors, since participating donors can adopt common approaches. Another important development in Australian aid is the adoption of whole-of-Australian-government approaches. Most notably this is a feature of the Regional Assistance Mission to Solomon Islands and the Enhanced Cooperation Program in PNG. These approaches have achieved good results in areas such as restoring law and order and strengthening economic governance. But there is scope for better coordination of Australian government agencies engaged in the aid program, and sustainability remains a concern.

Strengthening effectiveness

This review identifies five areas where further work may enhance aid effectiveness.

- > *Broadening the ways Australia engages with fragile states* – Although results have been achieved in establishing security and financial stability, sustainable improvements in other areas, particularly health and education services, employment opportunities for young people and political stability, have been harder to achieve. Success in these areas requires the aid program to engage in complicated issues, such as strengthening leadership and building the demand for better governance. It also requires the program to work in more complex ways, including by using partner government financial and management systems. But these are difficult challenges that require long-term engagement, a strengthened understanding of local social and political systems, and a willingness to think ‘outside the box’. They also require managers to be more realistic about what can be achieved and to be more specific about the changes the aid program intends to bring about.
- > *Supporting reform in the larger economies of Asia* – Australia’s capacity to contribute to improvements in Asia’s larger developing economies is governed as much by its ability to work effectively with partner governments and other donors as by the quantity of funds it has available. Common characteristics of effective support programs include access to able and confident technical advisers, working in areas in which partner governments have clear and expressed commitment and developing solutions that are technically appropriate to the country situation.
- > *Enhancing performance orientation* – The aid program undertook important reforms over the past year to strengthen its performance orientation, but it can do more. For example, it can build better ways of assessing consistency with partner government policies and harmonisation with other donors and further strengthen the capacity of partner governments to manage their own spending in ways that deliver better outcomes for their citizens. Here, it is important that the Australian aid program and partner governments have access to reliable information on progress against the Millennium Development Goals.
- > *Getting the most from technical assistance* – The Australian aid program directs a high proportion of its funds to technical assistance, perhaps as much as 50 per cent of program spending. Recent assessments of work in treasuries and ministries of finance in Vanuatu, PNG, East Timor and Solomon Islands demonstrate that technical assistance can have good results using a range of different approaches, from providing advice to filling key in-line positions. But Australian and international research suggests that high levels of technical assistance can sometimes be problematic in fragile states, particularly if it undermines local ownership and initiative, and bypasses local systems. Research also suggests that technical assistance can have limited impact on building local capacities. Further work is needed to ensure that Australia’s investment in technical assistance avoids such pitfalls.

- > *Meeting gender equality commitments* – Many of the world’s leading donors acknowledge that their gender equality policies have not translated into actions that make a difference on the ground. Two factors in particular seem likely to be important to the successful implementation of AusAID’s new gender equality policy. Planners and implementers need to understand how and why gender inequality stands in the way of development, and managers need to report clearly on the results of Australia’s aid activities concerned with gender inequality. Among other things, this means that performance data need to be sex-disaggregated. If these changes are to occur, a clear assessment of the potential impediments to change, both within partner countries and within the Australian program itself, will be necessary.

While these issues are of relevance across the entire aid program, they also point to a series of further studies for the Office of Development Effectiveness itself. These include assessments of how to work more effectively in fragile states, with a particular focus on strengthening service delivery and using technical assistance, and an assessment of how the Australian aid program can enhance its performance in the larger Asian developing economies.

CHAPTER 1: INTRODUCTION

1.1 Background

This is the first Australian Government annual review of development effectiveness. The review is produced by the Office of Development Effectiveness (ODE), a team that is independent from program management. It also benefits from comments provided by a range of international experts on aid effectiveness. Despite being an annual review, the report also touches on aspects of aid program management and implementation from the past three or four years.

The Office of Development Effectiveness

ODE's mission is to be an expert and objective resource reporting on and influencing the effectiveness of the Australian aid program. ODE is a freestanding unit within AusAID, reporting to the Director General and guided by the whole-of-government Development Effectiveness Steering Committee. It is responsible for the publication of an annual review of development effectiveness, evaluating key aspects of the Australian aid program (including country strategies) and building capacity and systems across ODA delivery agencies to regularly monitor, evaluate and report on development assistance. ODE advises on the development of new country strategies across the Australian aid program and helps ensure that programs are designed and implemented effectively.

The review is designed to be an annual health check of the entire Australian aid program. It aims to provide an accessible overview of aid program quality and results and to identify potential problems and areas for further in-depth analysis. This is an ambitious aim for a \$3 billion program that comprises well over a thousand different activities. Indeed, among bilateral donors, only the Netherlands tries to link aid spending to results in this way. In this first review, the scope has been limited to consider mainly the bilateral aid program, which accounts for around two-thirds of total aid. This decision to limit the scope of the review was based on work that has been done to strengthen information about the performance of bilateral programs. As this work on performance information extends to other parts of the aid program, the review will expand to include those findings.

1.2 Assessing aid effectiveness

The current consensus is that aid works best when it is applied to well-governed countries and is highly focused. At the same time, aid can play an important role in stabilising poorly governed countries emerging from conflict. It is important to be realistic about the influence that external aid can have on underlying social and economic constraints to development. Particularly in larger countries, its influence is generally quite limited.

Assessing aid effectiveness is difficult. Ultimately, it is defined in terms of results, such as more children being educated, fewer infants and mothers dying, and more people being lifted out of poverty. But the links between better outcomes and aid interventions are seldom clear, not least because aid is only one part of the development equation. The policies and actions of developing countries themselves are the main drivers of sustainable change, along with external factors such as global economic conditions. Other challenges include the difficulty of determining what would have happened in the absence of aid. Appendix 1 describes in further detail these challenges in assessing aid effectiveness.

The effectiveness of aid is influenced by the way that it is delivered. There is broad international consensus that aid is more effective when it is consistent with partner government systems and policies, where there is coordination between donors, and where there is a focus on results rather than on money spent. These are the basic pillars of the 2005 Paris Declaration on Aid Effectiveness, to which Australia is a signatory.

1.3 Methodology

This review is based on a series of new performance assessment processes developed during 2006-07. Described in more detail in Appendix 2, four reporting measures have been developed: an improved way of assessing the quality of aid activities; annual performance reports by country programs against their objectives; annual performance reports against sectoral and thematic strategies; and independent, in-depth country strategy reviews. In addition to those new reports, the review makes use of activity independent completion reports (ICRs), which have been produced by the program for the past three years.

Independent completion reports

ICRs are AusAID's main evaluation tool. They are conducted for all activities valued over a specified limit (usually \$3 million). The reports are produced by a team of individuals who have not had any past involvement with the activity being reviewed. They report on and rate the efficiency, effectiveness, relevance and sustainability of completed activities. Because they are independent, the results from ICRs are an important counterpoint to ratings generated by program managers. In 2006-07, ICRs were conducted for activities totalling \$266 million.

The Australian aid program is not yet fully covered by these new processes. For instance, the funds channelled through multilateral institutions, such as the World Bank and the United Nations, are not adequately captured. Work planned for 2007-08 will see these areas gradually incorporated. More comprehensive coverage of the activities implemented by other Australian Government departments will be targeted over coming years.

1.4 Review outline

The review is structured in six chapters, the first of which is this introductory chapter. Chapter 2 discusses development progress across the Asia-Pacific region over the past 12 months and assesses that progress against the Millennium Development Goals. Chapter 3 describes the structure of the Australian aid program: where it works, what it works on, and how it delivers the program. Chapter 4 assesses the quality of the individual activities that form the core of Australia's aid program and looks at the effectiveness of programs – a term that defines the range of actions, including individual activities, that represent Australia's total aid effort to a country or region. Chapter 5 identifies five issues arising from the review that point to areas of potential improvement. Finally, Chapter 6 sets out the review's conclusions about the effectiveness of the aid program, identifying the key messages from the exercise. Those conclusions are used to outline a forward work plan for the Office of Development Effectiveness over the next 12 months.

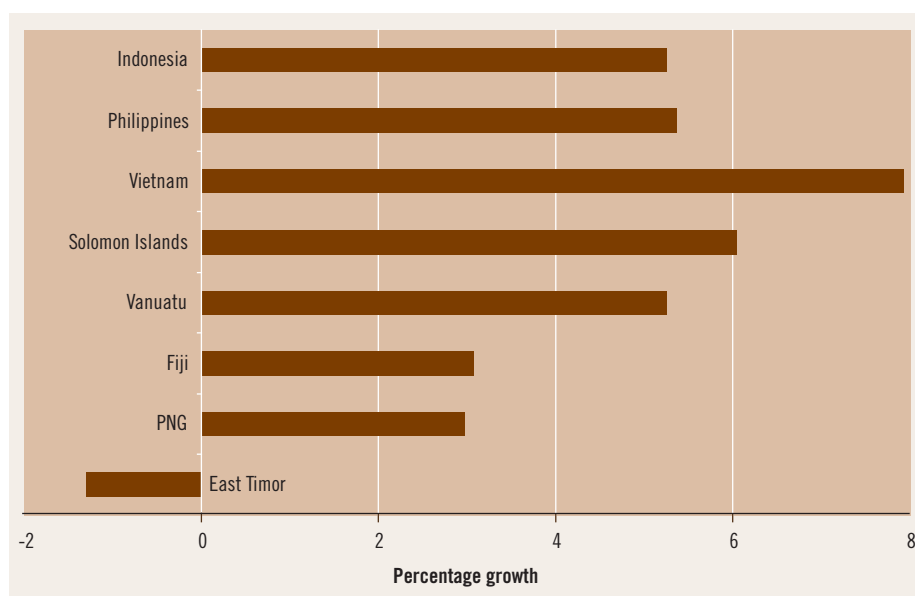
CHAPTER 2: DEVELOPMENT ACROSS THE ASIA-PACIFIC REGION

During the period under review, Australia's overseas aid program was based around four themes: accelerating economic growth; fostering functioning and effective states; investing in people; and promoting regional stability and cooperation. The decision to focus on these areas was based on a comprehensive analysis of the development challenges facing the Asia-Pacific region. This section of the review briefly assesses progress against those themes.

Theme 1: Accelerating economic growth

The world economy expanded by 5.4 per cent in 2006. Economic growth in Asia was higher, with East Asia and South Asia both growing rapidly (IMF 2007a). At the centre of this success story were China and India, with growth of 10 per cent and 8 per cent respectively. The Mekong countries are doing well too: Vietnam, Cambodia and Laos all had growth rates higher than 7.5 per cent in 2006. Indonesia and the Philippines grew at 5.2 per cent and 5.5 per cent, respectively. Although these are strong increases, they are not enough to absorb all those people looking for work. Growth in 2006 builds on solid progress since 2003 (Figure 1).

FIGURE 1. ANNUAL AVERAGE GROWTH, 2003 TO 2006, BY COUNTRY



Source: IMF (2007a) Regional economic outlook: Asia and Pacific. <http://www.imf.org/external/pubs/ft/reo/reorepts.aspx>

The Pacific islands region has not achieved such high rates of growth. Its economies grew by 2.6 per cent in 2006, just above the rate of population growth – a result not very different from historical performance levels (AusAID 2008). Even with the global resources boom, Papua New Guinea (PNG) was unable to grow at more than 2.6 per cent in 2006. Fiji's growth of 3.4 per cent in 2006 will be reversed in 2007 as a result of the coup. Such growth levels are inadequate to reduce poverty and generate jobs.

There are pointers that stronger growth could occur in 2007. Latest PNG government estimates suggest growth could be around 6.2 per cent in 2007, and Solomon Islands looks set to continue growing in the 4 per cent to 5 per cent range. Samoa has averaged 4 per cent growth over the past three years, and Vanuatu's expected growth rate for the next two years is 6 per cent to 8 per cent (AusAID 2008).

The Millennium Development Goals (MDGs) identify eight major challenges facing developing countries to the year 2015. The first goal is to 'eradicate extreme poverty and hunger'. Here, fast growth is having a dramatic impact. The World Bank predicts that the number of people living on less than a dollar a day could be cut by almost two-thirds between 1990 and 2015. Though poverty is falling rapidly in Asia, the region remains poor, with 630 million people living on less than US\$1 a day in 2004, and around 1.8 billion people living on less than US\$2 a day (World Bank 2007).

Poverty in the Pacific, on the other hand, has almost certainly risen over the past decade.¹ In large part, this is due to a significant increase in poverty in PNG, which is home to more than three-quarters of the region's population (Table 1). There, the proportion of people living on less than US\$1 a day increased from 25 per cent in 1996 to almost 40 per cent in 2003 (World Bank 2004). Elsewhere in the Pacific Islands region, economic growth has not been sufficiently strong or sustained to influence poverty levels.

¹ Data on poverty across the Pacific region are weak. PNG, which accounts for around two-thirds of the region's population, undertook a survey in 1996 that showed the proportion of people living on less than US\$1 a day was 24.6 per cent. The World Bank estimated that by 2003 this had risen to 39.1 per cent, or around about 2.5 million people. Although household survey data for the region are thin, GDP per capita figures give some indication of probable poverty trends. Since 1990, real GDP per capita has fallen by 7 per cent to 8 per cent overall in Solomon Islands and Vanuatu. Real income growth has been nearly 50 per cent in Samoa, and around 25 per cent in Fiji and Tonga. In PNG, growth over the period was just 2.9 per cent.

TABLE 1. POVERTY IN THE PACIFIC ISLANDS REGION

Country	Population (million)	Proportion living on less than US\$1 a day (%)	People living on less than US\$1 a day (million)
Papua New Guinea	6.00	39 (2003)	2.50
Fiji	0.92	26 (1996)	0.24
Vanuatu	0.20	26 (1998)	0.05
Samoa	0.21	6 (2002)	0.01
Tonga	0.12	4 (2001)	0.005
Total Pacific	7.45	38	2.80

Sources: Population from GeoHive, Global Statistics on 26/07/07 at <http://www.geohive.com/earth/population1.aspx> (July 2007). Proportion of people living below US\$1 a day from Asian Development Bank at http://www.adb.org/Documents/Books/Key_Indicators/2006/pdf/MDG01.pdf.

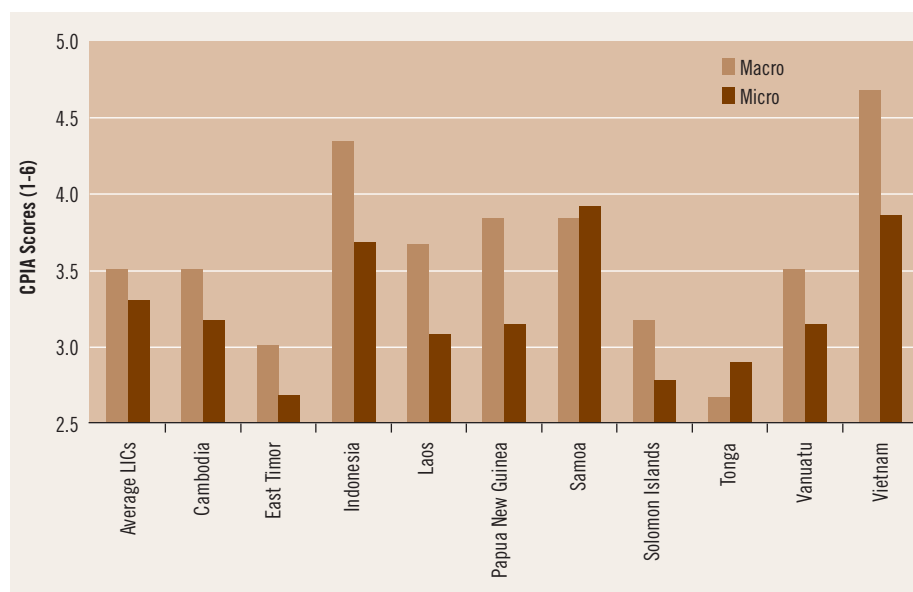
Theme 2: Functioning and effective states

While there is consensus that good governance matters for economic development, and convincing evidence that incomes and infant mortality rates improve with relatively small improvements in governance, measuring progress has always been difficult. In part, this is because the definition of governance can cover so many areas. The most widely accepted international indicators of progress in governance embrace six areas: voice and accountability, political stability, government effectiveness, regulatory quality, rule of law and control of corruption. A 2005 report identifies movements in these areas across several countries. Among those states relevant to the Australian program, only Indonesia exhibited major progress (in voice and accountability). Overall, the authors conclude that

‘...For now we cautiously conclude that we certainly do not have any evidence of any significant improvement in governance worldwide, and if anything the evidence is suggestive of a deterioration, at the very least in key dimensions such as regulatory quality, rule of law, and control of corruption’ (World Bank 2005).

In the Asia-Pacific, there is a significant gap between the quality of macroeconomic policies (fiscal, monetary and debt policies) and microeconomic policies (public sector management and structural policy), as Figure 2 suggests. As discussed later, this suggests that a greater focus on microeconomic issues within economic governance may be needed.

FIGURE 2. QUALITY OF MACROECONOMIC AND MICROECONOMIC POLICIES IN THE ASIA-PACIFIC REGION (CPIA SCORES)



CPIA (World Bank) country policy and institutional assessment; LICs low-income countries

Notes: In CPIA scores, countries are rated on a scale of 1 (low) to 6 (high) on 16 criteria.

Source: World Bank.

Another way of measuring progress in governance is to assess the number of states across the region defined as ‘fragile’, a rudimentary indicator for poor governance.² In its annual country policy and institutional assessment rankings for 2007, the World Bank finds that eight out of 29 fragile states were located in the Asia-Pacific region.

Corruption remains endemic across the region. In 2006, the governance indicators showed Tonga, Cambodia and PNG in the bottom 10 per cent of countries for perceived corruption, and East Timor and Indonesia in the bottom 25 per cent (Kaufmann et. al. 2007). Gender inequality is also stark, with, for example, women representing only 3.5 per cent of members of national parliaments in Pacific Islands countries compared with an average of more than 17 per cent internationally (AusAID 2007e).

Theme 3: Investing in people

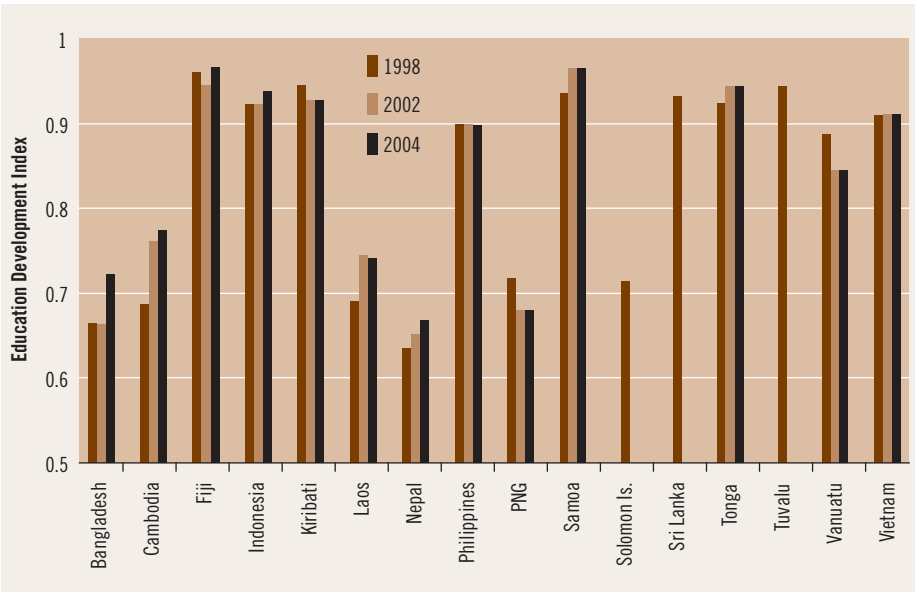
The majority of the eight MDGs focus on progress in health, education and basic water and sanitation. Progress against specific goals is discussed below, but broadly speaking progress has been most significant in South-East Asia, with South Asia (excluding India), PNG and the Pacific Islands faring less well. Data shortfalls make it difficult to track progress at the country

² A fragile state is one in which the government cannot or will not deliver core functions to the majority of its people.

level across individual Pacific Islands. Appendix 3 summarises the degree to which the main states in the region are on target to achieve these goals by 2015.

In relation to Goal 2, achieving universal primary education, East Asia is one of the best performers with regard to universal enrolment. However, a recent report by the World Bank on the Pacific region notes that, despite substantial increases in primary enrolment rates, there is ‘... disappointing performance in literacy and numeracy; growing inequities in access to secondary education; and children with special needs are receiving insufficient attention from governments’ (World Bank 2006a). More broadly, countries in the Asia-Pacific region have made good progress in providing children with a basic education, resulting in substantial increases in literacy across the region (see Figure 3). Indonesia, Samoa and the Philippines have made some of the greatest advances in education, although progress has stalled in recent years. International experience indicates that the last 10 per cent of students are the hardest and most expensive to reach.

FIGURE 3. PROGRESS TOWARDS EDUCATION GOALS, ASIA-PACIFIC REGION, 1998 TO 2004



The Education Development Index is a measure of the progress towards the international Education for All goals, and is a composite indicator based on the net enrolment rate, adult literacy rate, gender parity indices and survival rate to Grade 5.

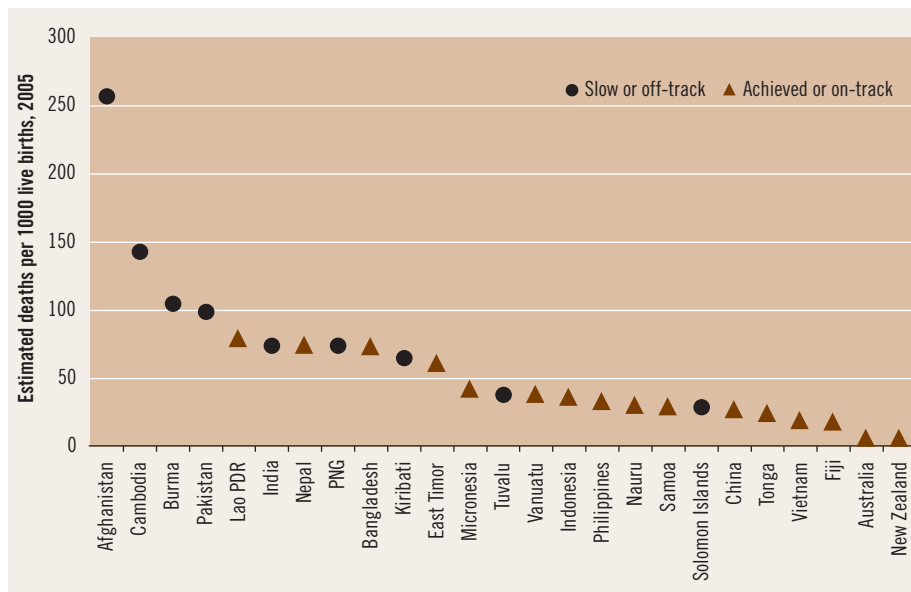
Notes: Data from Burma, East Timor and Nauru are thought to be highly unreliable.

Source: Based on research commissioned by AusAID drawing on UNESCO's 2006 and 2007 Education for all global monitoring report and containing some estimates derived from trend data.

Goal 3 is about promoting gender equality and empowering women. Across the Asia-Pacific region, there has been progress towards equality between men and women, particularly in the areas of health and education. Results are disappointing, however, for women's economic empowerment and leadership aspirations. Beyond formal MDG indicators, early feedback from the ODE Violence Against Women evaluation points to rates of physical and sexual violence against women and girls which are amongst the highest in the world.

With respect to Goal 4, the reduction of child mortality, more children are surviving their first years of life. Nonetheless, in 2004, 10.5 million children died before their fifth birthday and more than a third of these deaths were in the Asia-Pacific region. Several Asia-Pacific countries have high levels of child mortality (see Figure 4).

FIGURE 4. PROGRESS TOWARDS MDG 4: REDUCTION IN THE UNDER-FIVE MORTALITY RATE



Source: Mortality rates from UNICEF State of the world's children 2007; Assessment of MDG progress from ESCAP/UNDP/ADB (2006); The Millennium Development Goals: progress in Asia and the Pacific 2006.

Goal 5 is to improve maternal health, yet more than 250,000 women still die annually of preventable and treatable complications in pregnancy and childbirth across the Asia-Pacific region. Goal 6 is about combating HIV/AIDS, malaria and other diseases. In HIV/AIDS, prevention efforts are proving successful in some places, but deaths and new infections continue to increase. Between 50 000 and 150 000 people in the Pacific region have HIV/AIDS. Three-quarters of these are in PNG, where the epidemic is serious and growing. An estimated 8.6 million people are living with HIV/AIDS in Asia, including 1.1 million in China. The highest national HIV infection levels continue to be found in South-East Asia.

The final country-monitorable goal includes an assessment of access to water and sanitation. Here, substantial progress in Vietnam, Burma and Kiribati stands in contrast to lagging achievements in PNG and Vanuatu.

Theme 4: Promoting regional stability and cooperation

Both Asia and the Pacific experienced pockets of instability during 2006-07, denting business confidence and undermining economic growth. Riots in Solomon Islands and Tonga targeted the business community, the coup in Fiji exacerbated an economic downturn, violence in East Timor saw the destruction of public buildings and the displacement of over 100,000 people, and an increase in separatist activity in Sri Lanka saw tensions escalate and investment decline. In several of these cases, collective regional action helped to stabilise the situation and prevent further damage.

Developments over the year also point to a continued deepening of economic integration across the Asia-Pacific region. Intraregional trade is likely to continue growing, driven by better physical connectivity and the expansion of economies in India and the People's Republic of China. There is growth in the number of free trade agreements. At the second East Asia Summit in January 2007, leaders committed to continued cooperation on key regional issues including poverty eradication, finance, energy, avian influenza, education, and natural disaster mitigation. Furthermore, the Association of South-East Asian Nations worked to accelerate economic integration, including through bringing forward its timetable for creating an ASEAN Economic Community from 2020 to 2015 and developing an ASEAN Economic Community Blueprint.

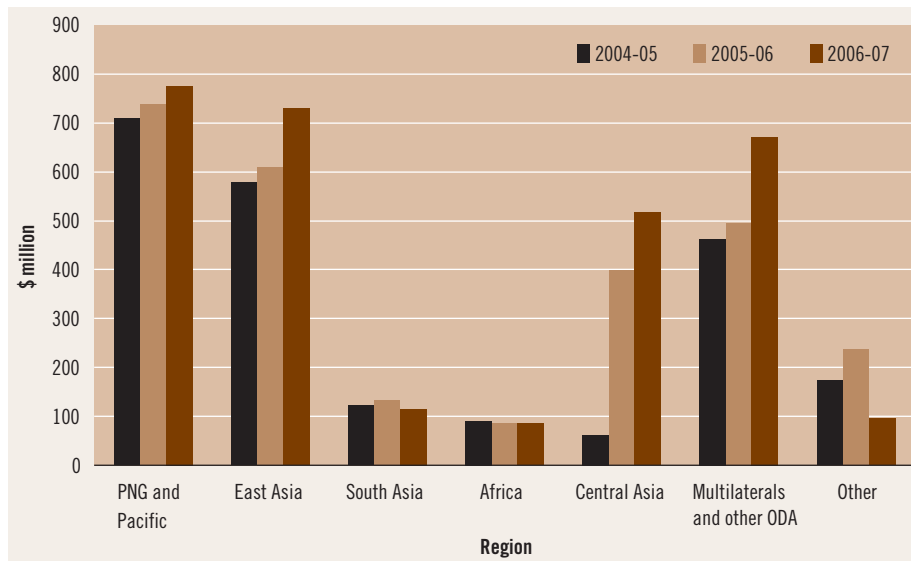
CHAPTER 3: THE AUSTRALIAN AID PROGRAM IN 2006-07

3.1 Geographic focus

Worldwide, total overseas development assistance in 2006 was US\$103.9 billion, or 0.3 per cent of OECD members' combined gross national income. With the majority of donors focused on Africa, other regions might be overlooked as more aid goes to poverty reduction in Africa and the reconstruction of Iraq.

The Australian government's aid program in 2006-07 was worth just under \$3 billion and is expected to grow significantly in future years. Figure 5 shows the geographical breakdown of the total aid program expenditure from 2004-05 to 2006-07.³ It clearly illustrates the importance of the Pacific and East Asia, and the growth in the sums being spent in these regions. It also shows the increasing importance of multilaterals in the Australian program. Excluding one-off payments for debt relief, around thirty per cent of Australian aid in 2006-07 went to Papua New Guinea and the Pacific, a similar amount went to East Asia, almost 15 per cent went to South Asia, Africa, Middle East and Central Asia, and almost 12 per cent went in core contributions to multilateral and international organisations such as the World Bank and United Nations agencies.

FIGURE 5. AUSTRALIAN DEVELOPMENT ASSISTANCE, 2004-05 TO 2006-07

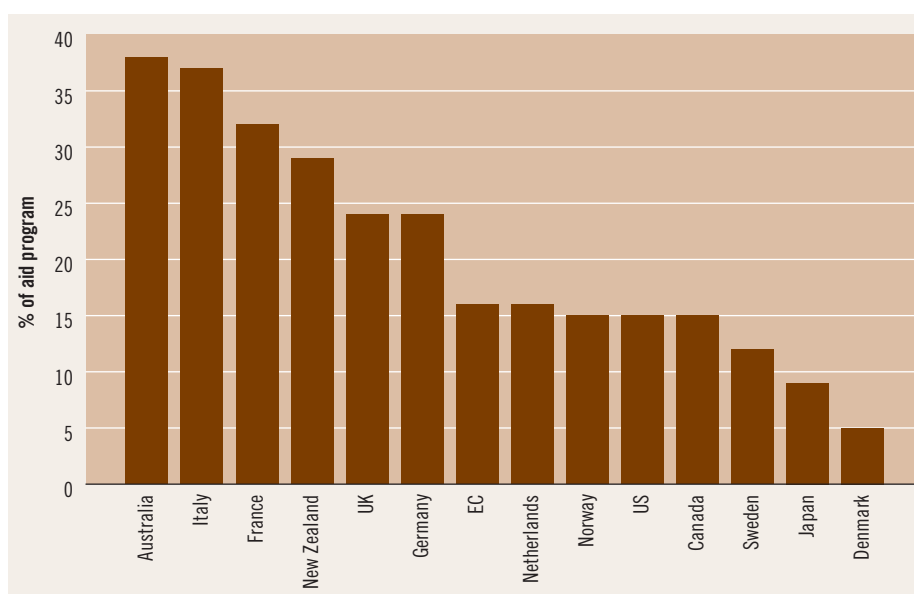


Source: Compiled from AusAID Annual Report 2006-07

3 Figure 5 includes ODA component of Iraq debt relief of \$334 million.

Australia commits more of its aid program to fragile states than does any other bilateral donor (Figure 6). In large part, this is due to Australia's geographical proximity to the so-called arc of instability. It also reflects the Australian government policy framework, which, since 2003, has supported more intensive engagement with the region's fragile states. By definition, fragile states exhibit weak governance. Since aid works best in environments where there is strong governance, it is harder to deliver effective aid programs in such states.

FIGURE 6. AID TO FRAGILE STATES AS A PROPORTION OF TOTAL AID, 2003 TO 2005



Source: OECD/DAC 2007

A further feature of the Australian aid program is its strong focus on small island states. In 2006-07, approximately 15 per cent of the total aid budget was spent in countries inhabited by less than a million people. Moreover, the small (but fast-growing) populations of island states mean that the *absolute* number of poor people living in the Pacific Islands region (including PNG) is low, at 2.8 million (see Table 1). Just as Australia's focus on fragile states is a challenge for the aid program, so working in small island states makes aid delivery more expensive. In the small states of the Pacific region, economies of scale are absent, transport linkages are less advanced, and economic opportunities are more restricted. So the overhead costs of working there are high and the opportunities for sustainable development are restricted.

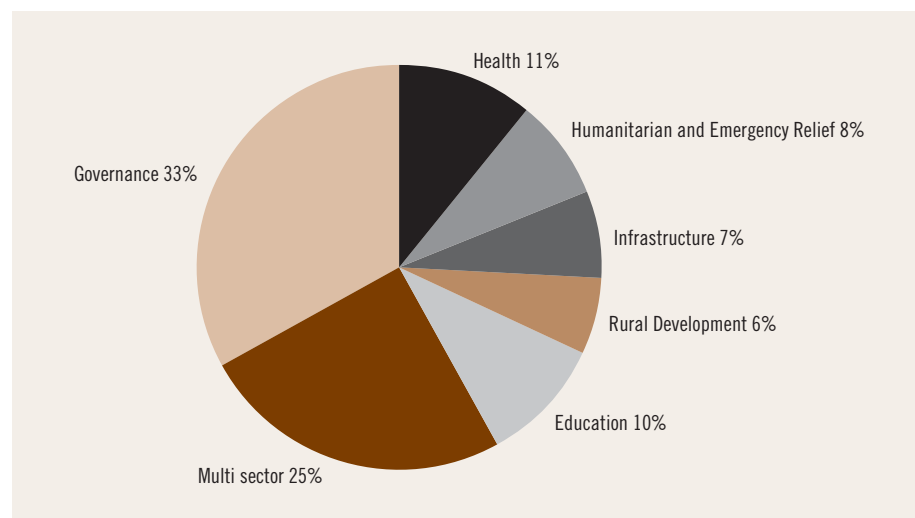
The Australian aid program is also active in large economies across Asia. But even where it is one of the largest bilateral donors, Australian aid is still a tiny proportion of the gross national income in such states. For example, while Australian aid constitutes about 6 per cent of total

gross national product in Vanuatu, PNG and East Timor and more than 40 per cent in Solomon Islands, it represents only 0.15 per cent of GDP in Indonesia and 0.08 per cent of GDP in the Philippines (OECD 2007). In these larger economies, the Australian program must adopt a different approach if aid is to be effective. The challenge in these countries is to influence the much greater sums available from the national budget and from other donors. This is achieved more through ideas and technical expertise than just through sheer size of funding.

3.2 Sector focus

The single largest sector for the Australian aid program is governance (Figure 7). Spending on governance increased from \$26 million in 1998-99 to approximately \$832 million in 2006-07.⁴ This included major spending across the region on strengthening government administration (\$267 million), legal and judicial areas (\$155 million), economic policy (\$109 million), civil society (\$64 million) and public sector financial policy and management (\$70 million).

FIGURE 7. AUSTRALIAN DEVELOPMENT ASSISTANCE, BY SECTOR, 2006-07 (PROVISIONAL)



Note: Excludes Iraq debt relief

Source: AusAID Annual Report 2006-07

4 This expansion reflects in part the broadening scope of the term 'governance'. Initially the term was applied largely to strengthening the capacity and capability of states. Now the meaning has broadened to include issues such as accountability and state-society relations, as well as support to areas such as policing.

Spending on health and education in 2006-07 was broadly consistent with spending in previous years at around \$300 million each. As a proportion of the total program, health and education expenditure combined has typically represented up to around 20 per cent. Health and education programs, however, are planning for substantial increases in funding over the next four years (an additional \$1.125 billion).

Spending on sectors that directly generate economic growth, particularly rural development and infrastructure, fell away over the past three years. Funding for rural development and infrastructure fell from around 20 per cent of Australia's aid program in 2004-05 to around 13 per cent in 2006-07. The 2007-08 Budget began the process of reversing this decline, with a new \$505.8 million 'infrastructure for growth' program.

3.3 How the program is delivered

There is a growing consensus among donors that the way in which aid is delivered has a significant impact on its effectiveness.

Australia has traditionally relied on largely Australian technical expertise to deliver its aid program. Such expertise is supplied as part of a standalone project, or directly to a partner government by either an adviser or an in-line official. Around half of total aid program spending is accounted for by this kind of activity.

While consultancy companies based in Australia remain the most important source of technical expertise, the way that these individuals are recruited and supervised in the weaker states is changing, with more being managed by partner governments.

There has also been a change in the role of some technical assistance. The Australian program is now more inclined to place individuals in line positions with partner governments, which involves performing the duties of a local public servant, usually at quite senior levels.

The Australian aid program, which used to be dominated by standalone, Australian-managed projects, is now more varied, particularly in terms of integration with partner government systems. In Indonesia, for example, around \$57 million is being channelled through government systems to support education policy. The program is also more likely to be involved in activities that engage multiple donors.

Australian Government departments other than AusAID now play a more active role in the program. While their share of spending is likely to remain at around 12 per cent, there has been a change in the degree to which those departments are engaged in planning and delivering the program.⁵ Federal departments such as Treasury and Prime Minister and Cabinet have begun to work with AusAID to develop new country strategies. In some cases, federal departments second their own staff to the region to work in advisory and in-line capacities with partner governments.

5 A surge from 2004-05 to 2006-07 saw other departments increase their proportion of the aid program, but this increase was largely caused by one-off debt write-offs.

A final change in program delivery is the decentralisation of management from Canberra to the field, and the strengthening of field offices through the recruitment of advisers and other development specialists. At the start of 2004, 60 of AusAID's Canberra-based staff were posted overseas. By August 2007, this number had risen to 114. Complementing this increase has been a boost in the local recruitment of staff at Posts. At the start of 2004, there were 250 such staff. By August 2007, this number had increased to 348.

CHAPTER 4: THE EFFECTIVENESS OF AUSTRALIAN AID

In this chapter, ODE considers evidence collected over the past year on the effectiveness of the Australian aid program. The first two sections look at information on the quality of the individual activities that make up the total aid program and assess the quality of those activities by sector. The third section looks at the effectiveness of individual country programs. Note that the effectiveness of a country program cannot be gauged simply by adding up the scores of its component activities – programs typically aim to influence higher-level changes and reforms (Appendix 1 explores this in further depth). The fourth section looks at whether Australian aid is delivered in ways that are regarded as being good practice. Finally, the fifth section briefly examines Australia's participation in multilateral contributions and the Australian Scholarships program

4.1 The quality of individual aid activities

The term 'activity' describes the individual components – such as projects, multi-donor sector-support programs, and even technical advisers – that are the basic building blocks of the Australian aid program. An activity generally has its own budget, and a set of explicit objectives. Larger activities will often have their own management team.

How is the effectiveness of activities assessed?

Activity quality is assessed through a new quality reporting system (QRS) and an upgraded independent completion report (ICR) process. QRS ratings are based on self-assessments by activity managers, which are verified by line managers and subjected to occasional peer review. Some feedback on activity quality is also provided by new annual sector performance reports, which in 2006-07 covered health, education, economic governance and gender.

Quality reporting system

The new quality reporting system (QRS) provides activity-level reporting at all stages of the activity cycle: at entry, during implementation and at completion. The QRS rates several quality principles, notably the extent to which objectives are likely to be, are being, or have been met; sustainability; and the adequacy of monitoring and evaluation systems. Progress in addressing key policy commitments is also recorded, including those made to promote gender equality and combat corruption in partner countries. Work has just begun on assessing quality at entry and analysis of this stage will appear in future reports. New work on assessing activities under implementation began in 2006-07. As noted elsewhere in this review, quality at completion is assessed through the preparation of independent completion reports.

The QRS rates activities on a six-point scale from very poor to very high quality. Activities rated four or higher are considered satisfactory. This includes activities that are of adequate quality but need improvement. Activities rated below adequate (three or less) are considered unsatisfactory. In 2006-07, 315 activities, representing 64 per cent of the aid program by value, were rated by the QRS process. This covered a total expenditure of \$1.22 billion. In 2007-08, coverage is expected to increase.

What do the results show?

A basic measure of effectiveness is the degree to which activity objectives are likely to be met. According to the QRS, a total of 89 per cent of activities currently in implementation were considered to be on track to meet their objectives (Table 2). Implementation progress (the degree to which planned tasks are on target) rates at 87 per cent. Progress is less satisfactory with respect to sustainability, which rates at 77 per cent, and monitoring and evaluation, which was at 60 per cent.

TABLE 2. QUALITY AT IMPLEMENTATION SCORES FROM QUALITY REPORTING SYSTEM, 2006-07

Quality ratings		Achieving objectives (%)	Implementation progress (%)	Monitoring and evaluation (%)	Sustainability (%)
Very high quality	(6)	4	10	3	2
Good quality	(5)	46	39	20	22
Adequate quality, some work to improve needed	(4)	38	36	36	52
Total satisfactory (4, 5, 6)		89	87	60	77
Less than adequate quality	(3)	8	11	28	17
Poor quality	(2)	1	2	10	5
Very poor quality	(1)	0	0	1	0

Note: Percentages are rounded.

Source: AusAID Quality Reporting System, 2007

The major concerns arising from these ratings are clearly around the quality of monitoring and evaluation and, to a lesser degree, sustainability. Issues around monitoring and evaluation were raised in a recent ICR on the Asia Regional Cooperation to Prevent People Trafficking Project:

“Weak monitoring systems limited AusAID’s capacity to showcase achievements with credible evidence; limited its capacity to monitor project direction and performance; and limited its ability to ensure that project lessons and issues were fed into the design process of the follow-on project ...”

The problem is common to all donors. The World Bank, in its most recent annual review of development effectiveness, finds that ‘... despite considerable emphasis on monitoring and evaluation systems in Bank-supported HIV/AIDS programs, projects are frequently launched without baseline data that are critical to program design’ (World Bank 2006b). The roots of this problem are hard to pin down. It is not as simple as a failure to invest; most activities include significant efforts on monitoring. The problem appears to be a mismatch between the information collected by implementers and the information needs of managers. In large part, this is caused by a lack of clarity and precision around the objectives of Australian activities; if it is unclear what changes an activity is designed to bring about, how can managers track progress?

Sustainability has long been a concern of the Australian program. Internal AusAID reports dating back several years have commented on low scores against sustainability.⁶ Scores for 2006-07 suggest that the program may be getting better at addressing sustainability.⁷ Certainly, there is evidence of a more realistic assessment of what constitutes “sustainability” in the context of weak states, and improved performance in relation to factors that affect sustainability, like counterpart ownership and involvement, financial affordability and realistic timelines.

With the exception of the monitoring and evaluation score, the QRS ratings exceed AusAID’s corporate target of 75 per cent of activities being rated satisfactory or higher. How plausible is this? Three possible sources of bias need to be considered. First, quality at implementation scores are higher than the equivalent scores derived from recent independent completion reports.⁸ ICRs rate program activities on completion, while program managers rate activities during implementation. It is therefore possible that program managers are over optimistic about how successful their activities will be. In effect, this is a form of self-assessment bias. A second possible source of bias is that the QRS does not rate the relevance of activities. Marginally relevant activities can therefore be treated as having weight equal to those of

⁶ See for example AusAID’s 2002 rapid review of project quality in implementation (AusAID, 2003)

⁷ The methodologies for assessing sustainability have changed significantly over the past five years, so direct comparison of scores is not feasible. Nonetheless, in 2002 only around 40 percent of sustainability indicators were rated as satisfactory or above for activities under implementation.

⁸ Note, however, that there were only nine ICRs undertaken during 2006-07 which rated activities, and these reports adopted different approaches to rating activities. Nevertheless, of the nine activities rated in 2006-07, 78 per cent were rated as having successfully achieved objectives.

highly relevant ones.⁹ A final source of potential bias occurs when objectives are imprecise. A vague objective such as building capacity can be considered on track even when only minor improvements have been achieved. It is the view of the ODE that each of these factors influences quality scores and therefore a score of 89 per cent is likely to be an overestimate. Indeed, as these potential sources of bias are addressed over the next two to three years, it is likely that overall quality scores will fall. This could in fact be useful; it would not only indicate increasing confidence about the true levels of satisfaction but also highlight areas where management attention is needed. At present, a quality score of around 90 per cent gives the impression that little needs to be improved.

4.2 Activity quality by sector

The QRS also generates information that can be used to assess activity quality by sector and country. This review will analyse the information by sector only, because of the small sample size (see Table 3 overleaf). The following section looks at whether these ratings are supported by other evidence, particularly that emerging from independent completion reports.

Education

Despite data showing that around 96 per cent of education activities are rated satisfactory or higher, the sector has the highest proportion of activities that could be improved. Nonetheless, good results have been achieved across the sector. The annual performance report for education notes that, in Indonesia, 380 schools, including 46 Islamic schools, were built, creating an additional 66 960 new school places. In Kiribati, seven junior secondary schools were built, creating around 4000 new school places. In PNG, with funding from AusAID, the reform of the school curriculum was recently completed and relevant learning materials were distributed to all elementary, primary and lower secondary schools, benefiting more than one million students. In the Philippines, almost 9000 teachers in English, mathematics and science were trained.

Rural development

Rural development scored lowest of the sectors, with 78 per cent of activities deemed satisfactory. This evidence is confirmed in independent completion reports. On the positive side, a cocoa rehabilitation project in Bougainville led to output growing from 4500 tonnes in 2000-01 to 15 000 tonnes in 2004-05. Despite the fact that the project coincided with a significant increase in world cocoa prices, the independent review found that the Australian

9 For example, if the core problem constraining the quality of education is the low pay of teachers, an activity to distribute more textbooks may not be particularly relevant, but can be successfully implemented with relative ease. A rating system that fails to differentiate between a program that takes on a tough objective, such as increasing teachers' pay, can give a distorted reading of the success of a program. Managers in such circumstances could have little incentive to take on the tougher issues if the performance assessment system cannot reward them for doing so, or at least reflect the difference between relevant and marginally relevant activities.

activity explained a high proportion of the increase. An independent assessment of support for the national agricultural research system in PNG notes the impact on the costs of staple crops, such as sweet potato, banana and yam, as a result of Australian support. And an Australian Centre for Agricultural Research (ACIAR) impact assessment identifies ‘potential benefits’ from its bilateral research support that are worth three times more than the individual projects cost, with ‘substantially demonstrated benefits’ producing a benefit–cost ratio of 1.31 (ACIAR 2005). Less clear have been the results of rural work in the Asia program. Australia’s Vietnam program review noted limited agricultural productivity gains, despite this being a core focus of the program. ODE’s rapid assessment of the Philippines program identified little impact on livelihoods from a range of rural development activities. On the other hand, a project in Cambodia that aims to boost rice production has improved yields (by 25 per cent) and incomes (by 35 per cent) for 80 000 Cambodian farmers, with this number likely to increase to 200 000 farmers by 2010.

TABLE 3. QUALITY AT IMPLEMENTATION SCORES, 2006-07, BY KEY SECTOR

Sector	Achieving objectives (%)	Implementation progress (%)	Monitoring and evaluation (%)	Sustainability (%)	Activities monitored (no.)	Expenditure on monitored activities (\$ m)
Education	96	96	69	88	27	166
Environment and rural development	81	79	70	72	43	147
Rural development only	78	75	67	67	36	79
Governance	91	87	58	68	103	341
Economic governance only	87	84	65	81	31	103
Health	84	84	61	78	49	168
Humanitarian	92	80	44	79	25	66
Infrastructure	94	94	65	94	17	90
Scholarships	94	100	65	90	35	150
Multilateral	100	90	50	90	10	28
Other ^a	83	67	50	83	6	69
Total program	89	87	60	77	315	1 225

a NGOs, volunteers, Community Support Program, AIPRD Aceh Research Program.

Source: AusAID Quality Reporting System, 2007.

Economic governance

Around 87 per cent of economic governance activities were rated satisfactory in the QRS. The latest annual review of the Regional Assistance Mission to Solomon Islands points out several achievements. Tax arrears dropped from 50.7 per cent of annual tax collected in 2004 to 36.5 per cent in 2006, and debt declined from 100 per cent of gross domestic product in June 2006 to 63 per cent in June 2007, as a result of Australian assistance. An independent review indicates that the Ministry of Planning and Finance Capacity Building Project in East Timor significantly improved budgetary planning. An independent review of a 10-year institutional strengthening project with the Vanuatu Ministry of Finance and Economic Management quotes a government official as remarking: 'There is now a respect for the rule of law on financial management ... the project helped to teach people to respect the system'. In PNG, Australia's Enhanced Cooperation Program has helped to clear a backlog of 12 000 unassessed tax returns and to revoke 400 trust funds, which have often been used to circumvent budget and expenditure control. In Indonesia, economic management support increased taxation receipts from large taxpayers, improved bond management, and improved supervision of the government-owned banking sector. Australian aid has also helped in auctions of 3G radio spectrum bands, which will bring in around \$600 million over the next decade. Australian support has also encouraged microeconomic reforms in Indonesia.

Health and HIV/AIDS

According to the QRS, around 84 per cent of health activities are on target to meet objectives. The sector also has a relatively high proportion of activities rating as either 'good quality' or 'very good quality'. Examples of some of these high-scoring activities include the Australian-supported WHO malaria control program in Mindanao, which has contributed to an estimated 37 per cent decline in malaria deaths since 2004, and a measles immunisation campaign conducted in the Pacific, with Australia assisting in achieving 90 per cent coverage for measles in Vanuatu and 95 per cent coverage of children aged between six months and six years in Fiji. In eastern Indonesia, strengthening the delivery of health services for maternal and child health contributed to increases in antenatal and postnatal visits, births assisted by skilled personnel, acceptance of family planning and community awareness of how to make pregnancy safer.

Infrastructure

Around 94 per cent of infrastructure activities are considered to be well implemented and on track to meet objectives. Throughout the region, better roads and ports are essential to unlocking productive potential. In Indonesia, the reconstruction of tsunami-damaged infrastructure has been a key focus of early assistance under the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD). With assistance from Australia, the PNG Government has significantly improved its infrastructure policy, improved the transparency of resource utilisation and increased the size of the budget for road maintenance – essential steps for improving the quality of the road network. Around 340 kilometres of the Highlands Highway (the main economic thoroughfare) were maintained with Australian

funds in 2006, together with around 600 kilometres of the Bougainville road network. A recent evaluation supports the claim that assistance provided in Bougainville for economic infrastructure over the past 10 years has been instrumental in supporting post-conflict economic growth and stability.

Gender

Independent completion reports systematically assess the degree to which gender inequality objectives have been factored into activity implementation. Here, figures suggest that 92 per cent of activities are deemed satisfactory. However, this may give an unrealistic picture, since the ratings reflect whether activities have considered gender equality, not whether specific gender-related objectives have been met.

4.3 Country program effectiveness

A typical country program is complex and comprises individual aid activities, analytical work, policy dialogue with the recipient country, and activities designed to influence other donors. These different tools are used to deliver objectives that are typically set at higher levels than objectives for activities. They are, therefore, inherently more challenging than their activity-level equivalents.

How is program effectiveness assessed?

Achieving and demonstrating effectiveness at the program level is a more difficult test for Australian aid (as other donors have also found). Since it depends on a complex interplay of factors, it requires more than just aggregating the scores of individual activities – programs typically aim to influence higher level changes and reforms (Appendix 1 explores this in further depth). In the past, attempts to monitor program-level effectiveness were not well organised. This has changed over the past eighteen months, with the establishment of two new processes: annual performance reports, which assess progress against program objectives during their implementation, and the requirement that country strategies be subject to an explicit review prior to the development of a new strategy (see also Appendix 2).

What do the results say?

For 2006-07, seven trial annual performance reports were undertaken by country programs,¹⁰ together with three independent ODE country strategy reviews and three reviews by program areas. These trial approaches used a number of different methods, and covered only a subset of aid activities. They cannot therefore be used to develop firm conclusions on total aid program effectiveness. Nonetheless, some preliminary assessments can be ventured.

10 Seven country programs undertook annual performance reports (Fiji, Indonesia, Philippines, Vietnam, Vanuatu, Papua New Guinea and Solomon Islands).

There are indications that the proportion of objectives likely to be met for programs is smaller than it is for activities. Based on the seven annual performance reports, around a quarter of objectives were considered to require urgent attention.¹¹ Similarly, the small sample of country strategy reviews undertaken in 2006-07 rated one-quarter of objectives as not met. This disparity between activity and program performance is common for other donors, too. The World Bank's latest annual review highlights a significant disparity in some sectors between the success of projects and their impacts. Bank operations in the rural sector and public sector governance achieved satisfactory impact at the sector level in less than half of the countries reviewed, even though the majority of projects were rated as satisfactorily achieving their objectives (World Bank 2006b).

One possible reason for this relatively lower level of achievement at the program level is that objectives are often poorly defined. The internal Africa strategy review finds that

"... not only are the objectives unrealistic for such a small aid program, they have created a situation in which it is difficult to measure progress against them and essentially have set the program up to fail."

The internal country strategy review for Cambodia states that

"... the strategy and results framework was probably overambitious, with the scale of the program insufficient to make an impact across all the (equal) priority areas identified in the strategy, especially where interventions are delivered as small one-off projects, no matter how effectively."

Another factor that may account for weaker performance at the program level is the strength of commitment on the part of the partner government to change. Although evidence is scant at this stage, there are two areas where this is demonstrated. The Cambodia review attributed a difference between the relatively high degree of success at the activity level and the comparatively small impact in the law and justice sector to a lack of partner government commitment to reform, as well as to poor coordination between key donors. The East Timor review reached a similar conclusion.

Weak connectivity between Australian aid activities can also lead to weak program-level performance. The Philippines country strategy review notes that programming decisions were not driven by the country strategy and the program therefore engaged across too many areas (AusAID 2007h).

11 This figure is inflated by the high proportion of Fiji objectives thrown off track by the December 2006 coup.

ODE's independent country strategy reviews

ODE completed three country strategy reviews in 2006-07. As different approaches were tried for each to test a range of potential approaches, direct comparison between the ratings of the three countries is not feasible.

The Philippines review found that the country program had performed 'moderately well' against its three stated objectives. It found that program management was strong and responsive, but noted inconsistent engagement with the Philippines Government on policy issues. The review also remarked on a lack of focus, which was thought to have reduced the program's capacity to make a difference. Performance information was also found to be lacking.

The Indonesia review described the response of the Australian aid program to a series of tumultuous events as 'outstanding'. Out of four broad strategy objectives across the program, the review found that three had been substantially achieved or were on track to do so, and one was partially achieved. While there was a significant improvement in the quality of partnerships between Australian and Indonesian government agencies, there were also opportunities to provide greater coherence to Australia's whole-of-government effort. Weak performance information was again an issue, although the review team considered that this had not led to a significant deterioration in quality.

In East Timor, the review faced a challenge stemming from the absence of a formal agreed country strategy. Performance was judged against three strategic objectives. The program achieved one objective, partially achieved another, and did not achieve a third. It had several successful activities, particularly in economic governance, but did not pay sufficient attention to service delivery, and did not use its knowledge of the security sector to its fullest possible effect.

There is confirmation, too, of the factors that lie behind good performance at the program level. Sustained, well-informed policy engagement has resulted in good program-level outcomes in economic and financial management. The Indonesia review found that strategic objectives in economic management and growth were substantially achieved, noting increased tax collections from large taxpayers, better government bond management and better supervision of the government-owned banking sector. Economic management and budget planning were also successful in East Timor, on the back of a longstanding and well-informed engagement dating back to 2001 (AusAID 2007a). A success has been Australia's contribution to improved quality and access to basic education in Mindanao. Other examples of the value of sustained engagement include Australian support to eradicate foot-and-mouth disease and reduce malaria rates in the Agusan del Sur region of the Philippines (AusAID 2007h). A summary of the main features of effective program-level performance is shown below.

Factors explaining good program-level performance

A number of lessons can be drawn from the first series of ODE's country strategy reviews for ways to improve effectiveness at the program level.

- > Strategies need clear objectives that are supported by indicators and relevant performance information to enable monitoring at the strategy and program level.
- > Objectives should be realistic and informed by critical analysis of the likelihood of success, in particular the reform efforts of partner governments, the programs of other donors, and other exogenous factors. This would include a clearer analysis of risks, including political risks.
- > Strategies should look beyond activity-level interventions and mobilise the broader suite of interactions, including policy dialogue, donor partnerships and broader Australian government engagement to achieve objectives.
- > Skills need to be developed to support policy development.
- > Long-term commitments lead to development results. Key successes in all countries were commonly due to sustained engagement, strong partnerships, continuity of advisers and good access to required sectoral expertise.

Source: ODE, derived from three country strategy reviews undertaken in 2006-07

4.4 How aid is delivered

The way that aid is delivered has a major influence on its effectiveness. Increasingly, donors recognise that aid that is aligned with government policies, and has strong local ownership, has a better chance of being effective and sustainable. When donors work together to adopt common approaches and limit contradictory approaches, aid works even better. And when both donors and recipients establish common procedures to assess the results of aid spending, rather than just the amount of it, managers can direct resources to things that work. These areas are the focus of this section.

In principle, it should be a simple task to assess whether any aid program adopts the approaches to aid delivery that are recognised internationally as being 'effective'. In practice, this has proved to be challenging, for Australia and for other donors. The Australian aid program faces a number of practical difficulties, with data-quality issues arising in particular from inconsistent data entry. This means that AusAID's management system cannot yet generate reliable information on the way that Australian aid is delivered. Internationally, problems have been encountered in capturing information on aid delivery across multiple countries. In essence, the problem is that different approaches are appropriate in different countries. While it may generally be considered that providing support through a partner country's budget is an appropriate method in well-performing, high-capacity states, this is not necessarily true of fragile states.

A significant development over the past year has been the establishment of new ways of working in health (particularly in PNG and Solomon Islands) and education (in PNG, Vanuatu and East Timor). These new approaches involve closer integration between Australian assistance and local policies and practices, and stronger levels of coordination with other donors. The new approaches promise greater effectiveness because they strengthen partner government systems by working with them, rather than bypassing them. They also reduce transaction costs of working with donors, since participating donors can adopt common approaches.

In terms of adopting partner government systems and policies, the preliminary monitoring exercise of the Paris Declaration found that all donors needed to make better use of partners' national budgets to align their programs with country priorities, and to reduce the transaction costs of delivering and managing aid (OECD 2006).¹² There is evidence, however, that the Australian program is changing. For example, in Vietnam, just 5 per cent of Australian aid was channelled through government systems in 2005; this will reach more than 50 per cent in 2007-08. The Indonesia–Australia Basic Education Program adopts, with appropriate oversight, procurement systems, procedures and mechanisms that are identical to those used by the Indonesian Government in its existing community-driven school construction program. In PNG, the interim phase of the Transport Sector Support Program procurement processes are conducted in accordance with the PNG Government *Good procurement manual*.

Improvements are also evident in the degree of harmonisation of the program with other donors. A recent internal assessment of the quality of harmonisation between AusAID, the World Bank and the Asian Development Bank highlighted the significant progress that has taken place over the past two years. In Indonesia, Australia is playing a leading coordinating role with donors in water and sanitation, maternal and child health, HIV/AIDS, avian influenza and education. AusAID staff participate actively in the Philippines Development Forum, the key coordination grouping of donors and the Philippines Government. Australia is also involved in sector approaches throughout the region. In Indonesia, attempts to strengthen alignment are reflected in the high number (21) of joint donor missions in 2006-07.

A key development in the processes used to implement Australian aid is the adoption of whole-of-Australian-government approaches. Most notably this is a feature of the Regional Assistance Mission to Solomon Islands and the Enhanced Cooperation Program in PNG. These approaches have achieved results in areas such as restoration of law and order and strengthening economic governance. But the challenges inherent in the approach are significant. Across the world, many donor governments have struggled with establishing a coherent cross-agency approach. Institutional rivalries and different organisational cultures make 'joined up' government complicated. Australia is generally considered to be among the leaders in the donor community in doing this well.

12 The recent monitoring exercise for the Paris Declaration encountered a range of difficulties in applying a common methodology across such a diverse range of donors and recipients. One example was the attempt to monitor the degree to which partner government systems were used in donor programs. This penalises countries, such as Australia, that funnel much of their aid through third parties, such as UNICEF, simply because the funds are not directly channelled through a partner government's budget.

But there remains scope to do better. In particular, there is scope for better coordination of Australian government agencies at the country program level. The Indonesia country strategy review describes the challenge, noting that, between 2003–04 and 2005–06, 21 Australian government entities undertook 165 different activities worth a total of \$92 million. The review notes a ‘widespread concern that in sum Australian aid engagement was too broad and needed greater coherence’ (AusAID 2007g). The East Timor review notes the need for ‘further improvements to whole-of-government consultation and decision-making mechanisms’ (AusAID 2007a). In Canberra, there remain opportunities to strengthen linkages between policy bodies.

4.5 Other areas of the aid program

In this first annual review of development effectiveness, reliable information is not available on some significant non-country programs, including funding to multilateral organisations such as the United Nations, and the Australian Development Scholarships Program. In 2006–07, Australia provided core contributions to multilateral and international agencies valued at around \$315 million.¹³ The scholarships program is currently scheduled to spend \$1.4 billion between 2006 and 2011. Early work has nevertheless revealed a number of common issues.

In the case of multilateral contributions, the aid policy framework states that “the Government will be more proactive in leveraging the multilaterals to focus on issues of core interest to Australia” (AusAID 2006). To date, however, there is insufficient analysis about how multilaterals can further Australia’s priority objectives, and which multilateral organisations are best placed to do this. In terms of funding, there is no clear position on the merits of core and non-core funding and the circumstances in which one might be preferable over the other. In the case of scholarships, at a basic level there is uncertainty about what objectives to use when judging effectiveness, given the long-term nature of many of the anticipated benefits. A number of country programs have sponsored periodic tracer studies to track what has happened to scholars following their training but to date there has been no systematic approach to assessing post-award effects.

13 Note that this figure excludes funds allocated to multilateral and international agencies by bilateral and regional programs.

A tracer study for Australian Development Scholarships in Vietnam

A study undertaken for Australia's Vietnam program looked at the success of Australian Development Scholarships (ADS) in that country between 1998 and 2005. Nearly 25 per cent of graduates from this period were either living overseas or untraceable. The vast majority of respondents (95 per cent) were employed and 41 per cent occupied management positions within their organisations.

Almost 50 per cent of the respondents had been promoted at least once since their return and nearly 40 per cent of these attributed their promotion 'to a great extent' to the skills and knowledge gained from their Australian university studies. More than 50 per cent of the respondents believed that their ADS-funded study had 'to a great extent' opened up new career paths for them. Sixty-one per cent of workplace supervisors interviewed said that ADS graduate employees were 'to a great extent' contributing to organisational change and playing a leadership role.

CHAPTER 5: STRENGTHENING AID EFFECTIVENESS

Preceding chapters have described the performance of regional economies, the structure of the Australian aid program and evidence concerning its effectiveness. Drawing on these chapters, five issues have been identified that, in the view of the ODE, have the potential to enhance the effectiveness of Australian aid. This chapter addresses those issues, which involve working more effectively in fragile states and the larger Asian economies, enhancing performance orientation, using technical assistance effectively and advancing gender equality.

5.1 Broadening the ways Australia engages with fragile states

Around half of Australia's bilateral aid spending takes place in countries that are defined as fragile states, several of which are in the Pacific region. Yet progress across these states is mixed. The question is whether this points to opportunities to improve the way that Australian aid is delivered in fragile states. ODE is of the view that it does.

Australia has achieved good results in recent years with programs establishing security and financial stability in fragile states. Examples here include work in East Timor, PNG, Solomon Islands and Vanuatu. But it has been harder to bring about improvements in other areas, including the quality and availability of health and education services, employment opportunities for young people, and political stability.

The reality is that success in fragile states requires the aid program to engage in a complicated range of issues, often in new and innovative ways.¹⁴ These include, for example, working with communities to build their capacity to demand better services, strengthening established partner government systems by using them, building leadership quality, and encouraging better performance by governments through the use of compacts and incentive payments.

But these are difficult areas in which to work. They often require long-term engagement. One of the key features of a successful program of Australian support to Vanuatu's Ministry of Finance was the sustained engagement of a few high-grade technical advisers. They also require a strong understanding of local social and political systems, and of the drivers of change within those systems. And they call for a willingness to think 'outside the box'. For example, improving the quality and availability of health services may be better achieved by helping governments to subcontract alternative service providers such as NGOs rather than by increasing the quality of government health staff.

¹⁴ Tried and tested routes out of poverty often do not apply in fragile states (Collier 2007). Expanded international trade can be curtailed because established low-cost Asian producers captured the market first. Capital tends to flee rather than to be attracted to these countries. The same is true of the well educated.

It is also important that managers be realistic about what can be achieved, and that they specify clearly the changes their programs are designed to support. Without this sort of clarity, it is hard for managers to gain an understanding of what works in fragile states, and why. Often it is unclear precisely what a program is trying to achieve, usually because objectives are set at such high levels. Often, performance reporting notes whether high-level objectives have been met, but provides little additional information on how the Australian program contributed. A related issue is that programs have underinvested in evaluations, particularly those that explore the real outcomes and impacts of Australian aid. This is particularly problematic in fragile states, where there is a strong possibility that donor contributions may have an effect more through slowing a rate of decline than by accelerating an improvement.

With respect to the sector focus of Australian aid to fragile states, there may be opportunities to build new areas of focus into the program. In economic governance, additional effort is justified on microeconomic reforms and budget implementation, building on existing success in macroeconomic stabilisation and budget planning (AusAID 2007b).¹⁵ Similarly, in health and education, recent sector performance reports in health and education note that work on policy development and budget management has generally not influenced the delivery of services themselves (AusAID 2007f, c). But attempts to supply services directly often achieve good results that fall away once projects are complete. Assistance needs to be informed by a more complete understanding of the entire service delivery system – from setting policy, central and decentralised management, delivery at the point of service, down to the achievement of outcomes. Managers also need to ensure that an appropriate balance exists between the sorts of activities which will generate medium to long-term improvements, and those that may generate more immediate outcomes. Given the importance of technical assistance as a way of addressing weaknesses in the service delivery systems of partner governments, work is also needed to ensure that this is appropriate and effective.

5.2 Supporting reform in the larger economies of Asia

Just as working in fragile states demands that the aid program be aware of the factors that undermine effectiveness in weak environments, so a solid understanding of aid's potential impact in larger, less aid-dependent states is essential to Australia's program in Indonesia, the Philippines and Vietnam. In such countries, Australia's capacity to support improvements is governed less by the quantity of funds it has available and more by its ability to work effectively with partner government and other donors at central agency level, and to replicate its successful activities.

¹⁵ Evidence of this comes from the East Timor review, which contrasts Australia's contribution to budget management with exceptionally weak execution, and from Solomon Islands, where the IMF notes that 'budget preparation is improving, but public financial management could be strengthened' (IMF, 2007b).

An example at the central agency level is a US\$5 million Australian project in Vietnam that helped to establish an effective national system for monitoring and evaluating official development assistance. The activity completion report notes that the new system has been adopted by other donors working in Vietnam and by the Ministry of Planning and Investment itself.¹⁶ This project plausibly led to an annual increase in aid disbursements worth several times the original project. An example of replicating activity-level successes is that several years of effective Australian work on basic education in Mindanao are now being used as the basis for engaging with the government on education policy.

The key characteristics of these effective activities include able and confident technical advisers, equipped with a clear mandate to engage at the policy level, working in areas in which partner governments have clear and expressed commitment, developing solutions that are highly appropriate to the country situation.¹⁷ It is also important that activity designers plan explicitly from an early stage to engage in policy dialogue, and that a greater investment is made in capacity to undertake policy dialogue with partner countries. This means that programs must have access to respected, authoritative and persuasive technical advisers working in high-priority areas.

5.3 Performance orientation

The aid program has undertaken some important reforms over the past year to strengthen its performance orientation. The ODE has been established to assess performance independently, and the new Operations Policy and Management Unit has been created to oversee the management side of developing better systems for monitoring performance. Business practices are being streamlined to create a clearer set of rules for planning, implementing and reporting on spending. Country strategies are being upgraded to focus on results and to reflect the broader Australian government aid effort. A simple new performance assessment framework has been developed to clarify information requirements and structure management reporting on performance.

Nevertheless, significant challenges remain:

- > The objectives of Australian aid initiatives need to be framed more clearly and realistically.
- > The quantity and quality of data on performance needs to improve.
- > More work needs to be done to strengthen the performance orientation of partner governments – perhaps the most significant constraint to achieving stronger results across the developing world.

¹⁶ The project contributed to the formulation of the chapter on monitoring and evaluation both in the Government of Vietnam's Decree 131/2006/ND-CP and in the Circular of the Ministry of Planning and Investment providing guidance to Decree 131.

¹⁷ The Indonesia country strategy review notes that Australian government agencies that provided 'substandard support' to partner agencies, including inappropriate IT investments, had little influence on policy (AusAID 2007g).

- > Systems for capturing accurately the degree to which programs align with partner government policies and harmonise with other donors are still to be developed.
- > AusAID needs to engage more effectively with other Australian government departments to encourage a consistent approach to assessing performance.

5.4 Getting the most from technical assistance

The Australian aid program directs a high proportion of its funds to ‘technical assistance’ (TA).¹⁸ Precise figures cannot yet be generated by the Australian program, but estimates by the seven country programs that undertook an annual performance report in 2007 suggest that technical assistance accounts for around 50 per cent of program spending. This is around twice as much as the unweighted average of such spending by other donors.

Such high levels can create problems, particularly in fragile states. An independent completion report of a multimillion-dollar health program in PNG notes that:

“... the high volume of support personnel and the enthusiasm they have brought 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.”

A recent review of economic technical assistance in the Pacific region found that ‘country officials, mainly at a high level, were overburdened with visits by staff of international and bilateral agencies and their consultants on TA assignments’.¹⁹

A second challenge concerns the effectiveness of technical assistance as a means of building capacity. This has been a contentious issue in the donor community for many years. In 1993, Edward Jaycox, a vice president of the World Bank remarked that ‘the use of expatriate resident technical assistance by aid donors is a systematic destructive force that is undermining the development of capacity’. In 2006, the United Kingdom Department for International Development (DFID) conducted an evaluation of its technical assistance to economic management in sub-Saharan Africa. It found that ‘... the overall impact on capacity development to date has been limited and significant concerns about sustainability remain’ (DFID 2006).

¹⁸ The term ‘technical assistance’ covers activities that transfer knowledge and skills. It usually applies to training and advice. It is helpful to distinguish between TA personnel who develop capacity or provide advice and those who perform tasks in lieu of locally available personnel. A separate category of TA personnel who manage or supervise budgets and/or perform more general project management functions can also be considered. A possible additional category of TA personnel is the sector expert working for a donor or technical agency.

¹⁹ See the prefeasibility study for the establishment of accountable and independent macroeconomic and microeconomic technical assistance presented at the Forum Economic Ministers Meeting in 2007 by Professor Ron Duncan.

A final challenge lies in the costs of conventional technical assistance. While precise comparisons are difficult because individuals providing technical assistance have different levels of skill and experience and do different jobs, AusAID's economic governance performance report gives an example, in PNG, of a 17 per cent cost premium of a mid-level Australian public servant working as a deployee (under the PNG Enhanced Cooperation Program) relative to a mid-level commercial consultant (under the PNG Advisory Support Facility). The argument here is not that it is important always to go for the least-cost solution but that costs as well as benefits should be taken into account when choosing between technical assistance options. (AusAID 2007b).

Considerable work has already been done by the Australian aid program and the broader donor community on responding to these challenges. A number of conclusions follow from this work:

- > Better coordination and information sharing is needed among donors who provide the bulk of technical assistance to the Pacific region.
- > Partner government systems need to be used more consistently in preparing and managing technical assistance assignments.
- > Technical assistance should be demand driven and guided by partner government priorities and policies.
- > Alternatives exist to conventional high-cost sources of technical assistance, including by funding the direct hiring of expatriate advisers by partner governments and by supplementing the salaries of high-calibre local staff.
- > Not all technical assistance is directed at capacity building. It can be helpful to distinguish between personnel who develop capacity or provide advice, and those who perform tasks in lieu of locally available personnel.
- > Strengthened monitoring and evaluation of the outcomes of technical assistance is required.
- > Where technical assistance has a capacity-building function, it is important to set expectations for capacity-building activities with partner governments and to establish where sound capacity already exists to avoid unwittingly undermining this.

ODE will track progress in implementing these recommendations in 2007-08, including through conducting evaluations that cover the issue of technical assistance.

5.5 Meeting gender equality commitments

To meet the Government's commitment to advance gender equality, AusAID launched a new gender policy in March 2007 (AusAID 2007d). The new policy clearly points out the links between gender equality and social and economic development: gender inequalities reduce the effectiveness of health and education interventions, they decrease labour productivity, and they help to entrench poverty. Given that the development community is peppered with such good intentions, why will the 2007 policy stand any better chance of being implemented

than previous AusAID policies or those of DFID, the World Bank or Oxfam, all of which have pointed out that their good intentions have not translated into actions that make a difference on the ground?

Two factors may be important in the case of the Australian program. The first is about education. Gender inequality stands in the way of just about every objective that faces the Australian aid program. Planners and implementers of the aid program should be given training and institutional support to understand how and why, and what to do about it. The second is about accountability. This should assess clearly the gender equality results of Australia's aid activities. Among other things, gender equality priorities need to be identified and measured and performance data need to be sex-disaggregated (AusAID 2007e). ODE will undertake further work over the year to assess progress against the changes anticipated in the new gender policy and to help identify any impediments to change.

CHAPTER 6: CONCLUSIONS

This first annual review of development effectiveness draws its conclusions from a new and, as yet, incomplete series of performance reports, including a more credible and critical quality reporting system and the first trials of new independent country strategy reviews, annual country performance reports and annual sector performance reports.²⁰ Despite continued data shortfalls, it is clear that the program is establishing a strengthened performance orientation.

These strengthened processes paint a mixed picture of the aid program in 2006-07. Activities continue to be well managed and largely on target to achieve their objectives. If independent completion reports are taken as a baseline, around 80 per cent of activities perform at a satisfactory or better level. If the new QRS system is used as a baseline, the figure is closer to 90 per cent. This more than meets the targets that the aid program has set itself.

Improvements are certainly possible, particularly in strengthening information on how activities are tracking and in enhancing sustainability. Improvements in the way that success is assessed could well see the high scores registered by managers come down from their current levels. This would be a healthy development if it reflected greater certainty about the results and if easy-to-achieve but less relevant activities could be refocused during the process.

It is harder to arrive at conclusions about whether these largely well-managed activities are contributing towards significant improvements in the sectors where they operate. A significant challenge is that program objectives are often not sufficiently clear and realistic to allow sound judgments to be made. Also, systems for assessing performance at the program level are not yet sufficiently developed to generate reliable feedback. Nonetheless, based on the limited information available in 2006-07, around three-quarters of program-level objectives are likely to be met. A more definitive assessment than this should be possible in future years when a greater number of country strategy reviews have been undertaken, and when the review process has been adapted to allow comparisons between reviews.

Likewise, improvements are necessary in systems for assessing the way that the Australian program is being delivered. Anecdotal information suggests that the Australian program has moved to become more consistent with good international practice, particularly with respect to alignment with the policies and systems of partner governments.

Below the aggregate level, this annual review has identified five opportunities to further strengthen effectiveness across the Australian aid program:

- > In fragile states, improvements should be possible from strengthening knowledge about local social and political systems, by being prepared to undertake sustained programs of engagement, and by thinking 'outside the box'. Programs also need to be more precise and realistic in specifying their objectives.

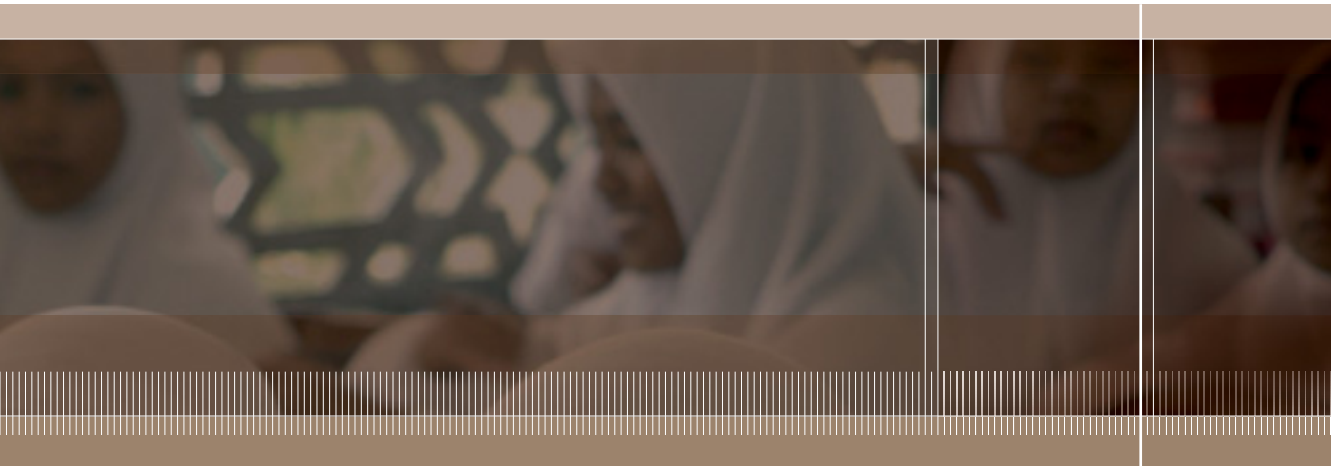
20 New systems are currently being developed for capturing the performance of scholarship and multilateral programs, for example.

- > Programs in the larger Asian economies need to address more systematically the issue of working with partner governments and replicating successful activities.
- > Performance orientation can be strengthened by extending improvements to partner governments, clearly specifying the risks to quality from scaling up, and working with other Australian government agencies to establish a consistent approach to performance assessment across the aid program.
- > The significance of technical assistance as a way of delivering Australian aid means it is important to ensure that it is used in the right way and for the right activities.
- > Commitments to reduce gender inequality will require a clear assessment of the potential impediments to change, both within partner countries and within the Australian program itself.

For the Office of Development Effectiveness, the 2007 annual review points to a forward work program that demands analysis in a range of areas:

- > the effectiveness of Australia's technical assistance and its contribution to improving performance in fragile states
- > the structure of health and education service delivery and the degree to which it can influence the capacity of fragile states to meet the MDGs
- > the capacity of the Australian aid program to enhance its performance in the large Asia economies
- > the ways that Australian aid is delivered and the consistency of these approaches with good international practice
- > the effectiveness of AusAID's performance assessment systems, including independent completion reports.

APPENDICES



APPENDIX 1: CHALLENGES IN ASSESSING THE EFFECTIVENESS OF AUSTRALIAN AID

‘Is Australian aid effective?’ is a fundamental question not only for Parliament and the public, who expect taxpayers’ money to be used wisely, but also for managers who are seeking to improve the effectiveness of the aid program. Answering this question is difficult because of longstanding measurement challenges faced by all aid agencies, such as the definition of effectiveness; attribution and lag issues; problems of aggregation; and the reality that aid programs often operate in environments characterised by weak data collection and analysis capacity. Furthermore, recent trends in the way aid agencies approach their work are exacerbating these challenges.

Nor is it a question that can be answered once and for all. Even though most recent evidence suggests that countries usually benefit from aid, it is not always effective. While aid can contribute positively to economic growth in recipient countries, no simple set of policies ensures that it will, so the question about its effectiveness needs to be routinely asked.

This appendix discusses the measurement challenges faced by the Australian aid program. The discussion is organised in sections that address four key issues that underpin the bigger question posed above. The final section provides some thoughts on the implications of these challenges for how we assess Australian aid in the future.

Defining objectives

Effectiveness can be defined simply as the extent to which a development intervention’s objectives were achieved, or are expected to be achieved. In practice, development agencies have tended to expand the concept to include the relevance of those objectives and sustainability of the achievements. However, a major challenge for managers of the aid program is to set objectives that provide an appropriate basis for judging effectiveness. There are three basic options: measure outputs, measure process or measure outcomes.

In the past, the focus was on whether individual projects delivered their intended outputs; for example, whether the intended numbers of teachers were trained or roads were upgraded as targeted. The advantage of defining effectiveness in these terms is twofold. First, outputs tend to be readily measurable and assessing whether they have been achieved is relatively straightforward. Second, it is much easier to relate outputs directly to the efforts of the aid program, so they provide a clear measure of the program’s performance. The major disadvantage of this approach, however, is that outputs by themselves are of limited interest. They are means rather than ends, and the intended effects are not guaranteed.

The same limitations apply to more recent efforts to assess aid effectiveness through better measures of process, or how aid is delivered. Based on the results of aid effectiveness research carried out since the late 1990s, there has been growing interest in how aid is managed and delivered and the scope to increase effectiveness through better processes. In short, the question is to what extent does the management of aid programs adhere to predefined characteristics associated with effective aid. This process-based approach is typified by the 2005 Paris Declaration on Aid Effectiveness, which set out a number of commitments to guide aid delivery, including greater use of government systems to deliver aid and greater cooperation between donors to streamline their approaches. But the aid effectiveness literature also has implications for where aid is spent. Although not uncontentious, development agencies have generally accepted the finding that, dollar for dollar, aid is more effective in reducing poverty if spent in countries that have both larger numbers of poor people and better quality policies and institutions.

Process-based measures of effectiveness have similar advantages to output-focused measures but also the drawbacks. In addition, a number of other factors limit the value of process measures as proxies of the effectiveness of Australian aid: simple application of the Paris Declaration commitments in fragile state settings is not straightforward; it has proved difficult in practice to establish robust and practical measures to track adherence to the commitments; and there are limits on the extent that donors will apply purely technocratic solutions to aid allocation decisions.

In contrast to process and output measures, there is far greater interest in whether the intended outcomes occurred; for example, whether improved roads led to higher rural incomes. This focus on outcomes is exemplified by the popularity of international and national development targets, such as the Millennium Development Goals.

The advantage of defining objectives at this high level is that they reflect what aid is in the end trying to support and so provide key measures of ultimate success. The disadvantage, however, is that they represent long-term goals that are influenced by many factors other than Australian aid, including domestic policies, the work of other donors, trade, conflict, migration, private finance, and exogenous shocks. Australian aid may make a significant but nevertheless small contribution to these objectives, and negative contributions from any one of the other factors may result in the objective being missed. A recent World Bank review highlighted this problem when it found for a number of sectors significant disparity between the rate of success at the project level and the impact of World Bank operations on the sector. So, while ultimately of great interest, national development outcomes are in most cases inappropriate for assessing the effectiveness of Australian aid funds.

This suggests that to arrive at a definition of effectiveness that is meaningful to both the wider public and to managers, objectives must address outcomes rather than outputs or process, but these outcomes must be at an intermediate level, reflecting more realistically the influence of aid. This is discussed further in the conclusions offered at the end of this appendix.

Determining Australia's contribution

To address this issue we essentially need to know what would have been different without Australian support. This raises two related questions: how the outcomes achieved can be attributed to the efforts of the Australian aid program and how fungible is the Australian aid being assessed.

The challenge in answering the first of these questions is compounded by two factors. First, the movement from outputs to outcomes as the basis for setting objectives, while more meaningful for stakeholders, introduces some complications. There is always the possibility that successful outcomes may not in fact have been influenced by Australian assistance, but equally that poor outcomes may have been significantly worse in the absence of Australian aid. Second the trend for aid agencies to work in greater partnership with government and other donors on genuinely shared programs can mean it is neither feasible nor desirable to attempt to isolate Australia's contribution within a jointly funded and implemented program.

In practice, greater partnership does not present a problem; partners can agree on a model of shared accountability and the success (or otherwise) can be shared as well. The bigger challenge is in identifying the influence of Australian aid (or combined aid effort) compared with the many other factors influencing the observed outcomes. Good impact evaluations can solve the attribution problem by using rigorous social science methods to identify statistically the contribution of aid while controlling for other influencing variables. These approaches have helped to demonstrate definitively the value of certain interventions, particularly in the social (health and education) and agricultural sectors. However, in practice, the scope to apply these methods more widely is limited by the strict data quality demands imposed and the cost and time required to conduct such research.

'Fungibility' refers to the extent to which the funds provided by the Australian aid program substitute for spending that the recipient government would otherwise have undertaken – in practice, allowing the government to spend the resources freed up by aid monies on other aspects of its public expenditure program. This in turn affects how we define what would have happened without Australian support and hence how we value the support provided. In cases where the aid provided is completely fungible, the appropriate measure against which to assess its impact is that item of public expenditure that the aid enabled, rather than the activity that aid nominally funded. Certainly, the prospect of fungibility has implications for how we assess effectiveness, but there is still debate within the wider aid effectiveness literature about the fungibility of different forms of aid. Nevertheless, the possibility of aid funds being fungible should be considered when examining effectiveness.

Finally, although this appendix specifically considers the effectiveness of the Australian aid program, one observation relating to the effect of aid in aggregate is worth mentioning. Research by the International Monetary Fund indicates that aid may reduce the competitiveness

of the export sectors in recipient countries and thus discourage diversification into labour-intensive export industries and retard economic growth. So, while the different interventions supported by Australian aid in a particular country may be effective, aid at an aggregate level may be less so.

Aggregating results

The aid program is characterised by diversity in the objectives it pursues, in the countries and sectors where it operates, and in the approaches it uses. In the absence of a common unit of measure, the different outcomes and effects achieved cannot be easily aggregated to arrive at an overall assessment of effectiveness. While the ultimate aim of aid is poverty reduction, this has significant shortcomings as a measure of the effectiveness of Australian aid. A more intermediate measure, such as short-term growth, is only partially useful given that much aid – such as emergency assistance, health and education support – is directed at people's welfare and will not impact directly on growth in the short term.

One solution that aid agencies have used is to score or rate their different interventions against achievement of their objectives. By reducing results to a common scale, this solves the problem of aggregating very different achievements. But the simplicity of this approach is somewhat illusory given that it is still a major challenge to distinguish between the relative significance of different achievements. Scores or ratings are also of limited interest to external partners and the public.

Although aid programs have always struggled with the measurement problems posed by the diversity of their effort, this has been exacerbated by recent trends, driven largely by the effectiveness agenda. The consensus, at least among donors, about the importance of policies and institutions in shaping countries' economic development prospects has seen an expansion of activities in areas of focus such as policy influence, governance and institutional reform. Similarly, the emphasis on partnership and harmonisation has encouraged a shift from a project-based approach to program-based models, including sector-wide assistance and general budget support. Finally, the recognition that aid is but a small part of the solution has encouraged aid agencies to embrace the broader concept of development effectiveness compared with aid effectiveness and engage more directly in areas that were previously viewed as non-aid issues – such as trade, conflict and migration.

However, methods to assess effectiveness in these new areas and the effectiveness of the new approaches are poorly developed compared with assessment techniques for traditional, project-based models of service delivery. Consequently, and paradoxically, changes in aid management and focus designed to increase effectiveness are making the job of measuring effectiveness harder.

Obtaining the data

The discussion so far has focused on technical challenges, but the practical constraints affecting measurement are in many ways more binding. The Australian aid program operates in countries where reliable data about many basic aspects of society, the economy and the workings of the public sector are often absent. To some extent, donors have contributed to this problem themselves in the past by failing to establish baselines and build evaluation strategies into new areas of support within their programs.

Up to a point, this problem can be fixed by simply allocating the necessary funds. However, a balance needs to be struck between the short-term needs of the aid program to demonstrate effectiveness and the long-term needs of partner countries to build their capacity to evaluate public expenditure and social and economic performance. This implies that expectations need to be realistic about what is achievable in the short term, given the trade-offs between practicality, rigour and cost effectiveness in different country settings.

Conclusions

To overcome the challenges involved in assessing the effectiveness of Australian aid, the Australian aid program should:

- > set consistently realistic objectives addressing intermediate outcomes that Australian aid is expected to influence
- > understand performance at multiple levels, including outputs, objectives and development outcomes (sectoral and national)
- > make a greater effort to identify the causal linkages between performance at the different levels
- > increase the consistency of measurement approaches used within sectors across countries supported by the aid program
- > develop improved methods of assessing the performance of the aid program not only in its relatively new areas of focus, such as institutional development and policy reform, but also in its broader engagement with non-aid issues such as trade, migration, technology and research
- > make a more concerted effort to build monitoring and evaluation capacity in partner countries as part of wider efforts to achieve the longer term aim of increasing the performance orientation of service delivery in these countries.

APPENDIX 2: NEW AND STRENGTHENED PERFORMANCE ASSESSMENT PROCESSES

The Australian aid program is undertaking a range of new and improved approaches to strengthen its performance orientation. A range of new and improved approaches is being developed to respond to this commitment.

A first step has been to assess the strengths and weaknesses of existing approaches. At the individual activity level, a review concluded that established self-rating systems had low levels of ownership among staff. There was some scepticism about the system's results and a lack of clarity about how and when the ratings should be applied. A review of independent activity completion reports found significant levels of non-compliance and, again, a lack of clarity about when such reviews were necessary. At country and regional program levels, the issues were different. Country strategies needed to be more strategic, identifying more clearly the priorities and the basis for selecting those priorities. A more systematic process for assessing whether program objectives had been met was also required.

This feedback was used to develop and strengthen performance assessment across the Australian aid program at both activity and program levels. At program level, a minimum set of questions were asked against which achievement was monitored across the Australian aid program, namely:

- > What are the results of Australia's aid program?
- > What is the quality of Australia's aid interventions?
- > Are policy commitments being met?

The questions were designed to give program managers better information about performance, and to provide Parliament and the wider public with information on results achieved with Australian aid funds.

These questions were used as the basis for two new types of annual performance report, one for country and regional programs and one for thematic and sector programs.

Annual performance reports will ultimately be prepared for each country and regional program. Their purpose is to report on performance and encourage reflection on whether strategies remain appropriate. The reports are prepared by the programs themselves but must be clear about the basis of their judgments (for example, independent reviews and evaluations are an important source of information). In 2006-07, reports were peer-reviewed by ODE and a panel of experts to ensure consistency and rigour. Reports are prepared at the end of each financial year, although some of the steps in their preparation, such as discussion with counterparts in partner governments, can be timed to tie in with reporting timetables in partner countries. In 2006-07, seven country programs produced trial reports: Fiji, Vanuatu, Philippines, Papua New Guinea, Indonesia, Vietnam and Solomon Islands.

Annual performance reports are also prepared by lead advisers in the main sector and thematic areas. Their purpose is to record progress against sector policy objectives (including regional progress on the MDGs) and to identify cross-regional lessons and issues. As with annual performance reports for country and regional programs, sector reports are peer-reviewed by panels that include external experts, and are based on a range of different sources of information, including internal and independent sources. In 2006-07, trial reports were prepared for four sectors: economic governance, health, education and gender.

A new system for reporting on the quality of aid activities was implemented during 2006-07. The new quality reporting system (QRS) assesses quality at entry, during implementation and at completion. It rates activities against five core quality principles:

- > clearly stated objectives that contribute to higher level objectives in the program strategy
- > effective measurement of progress towards meeting objectives
- > continual risk management
- > sustainability, taking account of partner government systems, stakeholder ownership and phase-out
- > sound technical analysis and continuous learning.

The rating is done by program managers themselves but must be signed off by senior managers. A level of contestability is present through verification of a sample of scores by advisers and other staff independent from the program in which the activities are being rated.

Independent completion reports (ICRs) have for the past three years been AusAID's main source of independent advice on the performance of completed activities. Guidelines on the use of independent completion reports were updated in 2007, clarifying the rules governing when such reports should be prepared.

How different parts of the performance agenda fit together

The table below summarises the different reporting stages and objectives of the Australian aid program. The performance assessment framework is the overarching document. It summarises the main dimensions of performance required by managers and against which they will be asked to report. Each country strategy also prepares a country strategy performance framework. This describes how each program will measure progress against objectives, quality, capabilities and compliance with policy commitments. Annual performance reports reflect on country strategy objectives.

TABLE 4. HOW PERFORMANCE TOOLS FIT TOGETHER

Performance tool	Role
Country strategy performance framework	Defines objectives and how progress will be assessed for each country strategy, including which stakeholders will be consulted and which sources of information will be used.
Annual performance reports – country and regional strategies	Describes the performance of the program over the year, using information and approaches defined in the country strategy performance framework.
Annual performance reports – sectors and themes	Summarises main performance issues for each sector. Information is drawn from country strategy performance frameworks but the report addresses cross-country issues.
Quality reporting system (QRS)	Scores each aid activity according to a set of common quality criteria at three different stages – entry, implementation and completion.
Evaluation reports	Include independent completion reports (ICRs), program-commissioned evaluations and ODE-managed major evaluations.
Country strategy reviews	Undertaken prior to the preparation of a new country strategy. Document performance against the explicit objectives set in country strategies and note lessons to be addressed in new strategies.
Annual review of development effectiveness (ARDE)	Reports to Parliament and the public on the effectiveness of Australia's aid program. Information is drawn from annual performance reports, independent evaluations and other sources.

Progress during 2006-07

The new performance assessment system was applied across much of the Australian aid program in 2006-07. A review of this first year of operation has been undertaken revealing a number of strengths:

- > Despite the resource intensity involved in preparing annual performance reports, managers reported strong support for the processes, noting the usefulness of the generated data for their decision making.
- > The processes encouraged managers to identify information gaps in their programs. The PNG program, for instance, will be exploring in depth the question of public sector reform and the structural blockages to improvement.
- > Some managers were able to identify areas where effectiveness could be improved through better targeting. In Vanuatu, for example, a program to support the quality of secondary education will now focus more on ensuring that the primary system produces high calibre graduates.

At the same time, further work can be undertaken to strengthen the reliability of information generated by the new systems:

- > The ratings recorded in the quality at implementation process seem to be unrealistically high, with an 89 per cent overall satisfaction level. Likely reasons for these high ratings include over optimism on the part of program managers and bias from imprecise objectives (see Chapter 4). The challenge for 2007-08 is to address these and other sources of bias. Potential solutions include a greater level of contestability of scores, including through the spot checking of a sample of total assessments by the Office of Development Effectiveness.
- > The availability of independent information on which managers can base judgments about program performance can be increased. More investment is needed in independent evaluation to answer with authority some of the more pressing performance questions in 2007-08.
- > For country programs, it can be difficult to arrive at a clear judgment about whether objectives have been met, or are likely to be met, because objectives are often framed in broad and unrealistic terms. More achievable and measurable objectives are being articulated in new and updated country strategies.
- > Streamline performance information requirements to focus on critical data needs.
- > In 2006-07, the new performance assessment system was applied only to a portion of the aid program managed by AusAID. More than 10 per cent of the program is managed outside AusAID, so effort is required to extend the system to other government departments with responsibility for delivering the aid program, as well as to broaden coverage within the AusAID managed program, for example to report on the performance of multilateral programs.

A performance assessment and evaluation policy encapsulates these learnings from the performance assessment system over 2006-07. As this policy is rolled out over the coming years, the quality of the information base upon which the annual review of development effectiveness is built will improve.

APPENDIX 3: PROGRESS AGAINST THE MILLENNIUM DEVELOPMENT GOALS IN THE ASIA-PACIFIC REGION

Goal	1		2			3			4		6			7							
	\$1/day poverty	Underweight children	Primary enrolment	Reaching grade 5	Primary completion rate	Gender primary	Gender secondary	Gender tertiary	Under 5 mortality	Infant mortality	HIV prevalence	TB prevalence rate	TB death rate	Forest cover	Protected area	CO2 emissions	ODP CFC consumption	Water urban	Water rural	Sanitation urban	Sanitation rural
Afghanistan	–	▲	–	–	–	●	●	–	●	●	▲	▲	▲	●	▲	▲	▲	▲	▲	▲	▲
Bangladesh	●	●	▲	●	●	▲	▲	●	▲	●	▲	▲	▲	●	▲	●	●	●	●	●	●
Cambodia	–	●	▲	●	▲	▲	●	●	●	●	▲	▲	▲	●	▲	▲	▲	–	–	–	–
China	▲	▲	–	–	–	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	●	▲	●	●	●	●
Fiji	–	–	▲	▲	▲	▲	▲	–	▲	▲	▲	▲	▲	▲	▲	●	▲	–	–	●	●
Indonesia	▲	●	▲	●	▲	▲	▲	●	▲	▲	▲	▲	▲	●	▲	●	▲	●	●	●	●
Kiribati	–	–	▲	●	▲	▲	▲	–	●	●	–	▲	▲	▲	▲	●	▲	●	▲	▲	●
Lao PDR	●	●	▲	●	●	▲	●	▲	▲	▲	▲	▲	▲	●	▲	●	●	–	–	–	–
Myanmar	–	●	●	▲	▲	▲	▲	–	●	●	▲	▲	▲	●	▲	●	▲	●	▲	▲	▲
Nepal	▲	–	▲	▲	●	▲	▲	●	▲	●	▲	▲	▲	●	▲	●	▲	▲	▲	●	●
Pakistan	●	●	●	–	–	●	●	▲	●	●	▲	▲	▲	●	▲	●	▲	▲	▲	▲	▲
Papua New Guinea	–	–	–	●	●	●	▲	–	●	●	●	▲	▲	●	▲	▲	▲	●	●	●	●
Philippines	●	●	●	●	▲	▲	▲	▲	▲	▲	▲	▲	▲	●	▲	●	▲	●	●	▲	●
Samoa	–	–	▲	–	▲	▲	▲	–	▲	▲	–	▲	▲	▲	▲	●	▲	●	●	▲	▲
Solomon Islands	–	–	–	–	–	▲	▲	–	▲	▲	–	▲	▲	●	▲	▲	▲	–	–	▲	–
East Timor	–	–	–	–	–	–	–	–	▲	▲	–	▲	▲	●	▲	–	–	–	–	–	–
Tonga	–	–	▲	–	▲	▲	▲	▲	▲	▲	–	▲	▲	▲	▲	●	▲	▲	▲	▲	▲
Vanuatu	–	–	▲	●	●	▲	●	–	▲	●	–	▲	▲	▲	▲	▲	▲	●	●	–	–
Vietnam	–	▲	●	▲	●	●	▲	●	▲	▲	●	▲	▲	▲	▲	●	▲	▲	▲	▲	▲

● Slow or off-track; ▲ Achieved or on-track; – Lack of data.

Source: Adapted from ESCAP/UNDP/ADB (2007) The Millennium Development Goals: progress in Asia and the Pacific 2007. Millennium Development Goal 5 – improving maternal health is not captured in this annex due to a lack of trend data for this indicator in the Asia-Pacific region. For further information on MDG5 and data constraints, see pages 6 and 13 of the above report (ESCAP/UNDP/ADB 2007).

ABBREVIATIONS AND ACRONYMS

ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
ADS	Australian Development Scholarship
AIPRD	Australia–Indonesia Partnership for Reconstruction and Development
ASEAN	Association of South-East Asian Nations
CPIA	Country Policy and Institutional Assessment (World Bank)
DFID	Department for International Development (United Kingdom)
GDP	gross domestic product
ICR	independent completion report
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NGO	non-government organisation
ODA	Overseas Development Assistance
ODE	Office of Development Effectiveness
OECD	Organisation for Economic Co-operation and Development
PNG	Papua New Guinea
QRS	quality reporting system
TA	technical assistance
WHO	World Health Organization

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