

FOREWORD

The Development Assistance Committee (DAC) conducts periodic reviews to improve the individual and collective development co-operation efforts of DAC Members. The policies and efforts of individual Members are critically examined approximately once every three years. Some six programmes are examined annually.

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

Putting all this information and analysis together, the Secretariat prepares a draft report on the Member's development co-operation which is the basis for the DAC review meeting. At this meeting senior officials from the Member under review discuss a series of questions posed in a brief document: "Main Issues for the Review". These questions are formulated by the Secretariat in association with the examiners. The main discussion points and operational policy recommendations emerging from the review meeting are set out in the Summary and Conclusions section of the publication.

This publication contains the Summary and Conclusions as agreed by the Committee following its review on 3 December 1999 in Paris, and the Report prepared by the Secretariat in association with the examiners, representing Germany and Japan, on the development co-operation policies and efforts of Australia. The report is published on the authority of the Secretary-General of the OECD.

Jean-Claude Faure
DAC Chairman

ACRONYMS

ABS	Australian Bureau of Statistics
ACFOA	Australian Council for Overseas Aid
ACIAR	Australian Centre for International Agricultural Research
ADS	Australian Development Scholarship
AESOP	Australian Executive Service Overseas Programme
AIDA	Australia Indonesia Development Area
ANAO	Australian National Audit Office
ANCP	AusAID-NGO Co-operation Programme
APEC	Asia-Pacific Economic Co-operation
AsDB	Asian Development Bank
AsDF	Asian Development Fund
ASEAN	Association of South-East Asian Nations
ASTP	Australian System of Tariff Preferences
AUD	Australian dollar
AusAID	Australian Agency for International Development
AVI	Australia Volunteers International
CFTC	Commonwealth Fund for Technical Co-operation
CRS	Creditor Reporting System
DAC	Development Assistance Committee
DFAT	Department of Foreign Affairs and Trade
DIFF	Development Import Finance Facility
EBRD	European Bank for Reconstruction and Development
EFIC	Export Finance and Insurance Corporation
GEF	Global Environment Facility
GNP	Gross national product
GSP	General System of Preferences
HES	Humanitarian and emergency relief
HIPC	Heavily-indebted poor country
IDA	International Development Association
IMF	International Monetary Fund
INTERFET	International Force East Timor
IPPF	International Planned Parenthood Federation
MAF	Multilateral Assessment Framework
NGOs	Non-governmental organisations

ODA	Official development assistance
PALMS	Paulian Association Lay Missionary Service
PASU	Programme Administrative Support Unit
PIA	Performance Information and Assessment Section
QAG	Quality Assurance Group
SMERU	Social Monitoring and Early Response Unit
SPARTECA	South Pacific Regional Trade and Economic Co-operation Agreement
SPC	South Pacific Commission
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
USD	United States dollar
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

Exchange rates (AUD per USD) were:

1993	1994	1995	1996	1997	1998
1.473	1.369	1.350	1.277	1.347	1.592

Signs used:

()	Secretariat estimate in whole or part
-	Nil
0.0	Negligible
..	Not available
...	Not available separately but included in total
n.a.	Not applicable
P	Provisional

Slight discrepancies in totals are due to rounding

Australia's aid at a glance

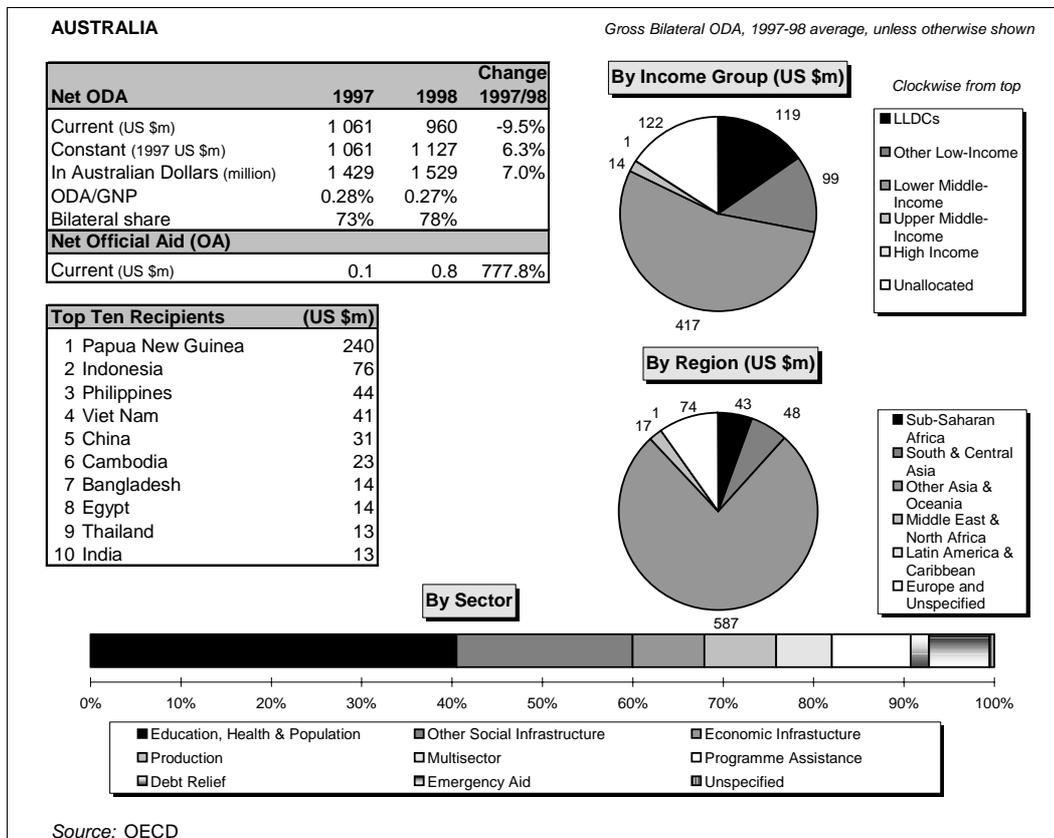


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SUMMARY AND CONCLUSIONS

Basis of Australia's aid programme

With its geographical location, Australia's security and economic progress are probably more closely linked to the fortunes of a particular set of developing countries than is the case for most other Member countries in the Development Assistance Committee (DAC). Promoting prosperity and stability in the Asia-Pacific region is at the forefront of Australia's foreign policy, as demonstrated by its continuing response to problems linked to the Asian financial crisis and events in East Timor at the end of 1999.

With a strong policy framework, consistent with the orientations agreed upon by the DAC in *Shaping the 21st Century: The Contribution of Development Co-operation* (1996), Australia's development co-operation programme is contributing substantially towards achieving Australia's national and foreign policy objectives. There exists in Australia the requisite level of political and popular support to enable it to fulfil its strategic role. However, expressed as a share of its expanding gross national product (GNP), Australia's official development assistance (ODA) has fallen to its lowest level ever. Based on the ambitions Australia rightly sets for its aid programme, Australia should increase its ODA and move closer towards the 0.7% ODA/GNP target set in its present aid policy statement.

Australia's White Paper on foreign and trade policy, *In the National Interest* (1997), recognised development co-operation as a strand of external policy - alongside foreign, trade, defence and immigration policies - and the importance of an integrated approach to policy making. Australia has accomplished a great deal in integrating development co-operation into external policy. Some improvement may still be possible, however, for example government guarantees for investments in developing countries are not currently benefiting from the policy advice of the development agency, despite its reservoir of expertise on key issues in developing countries and the important, sometimes decisive, impact such investments can have on the economies of these countries.

An independent review of Australia's overseas aid programme, conducted in 1996 by the Simons Committee, resulted in a detailed report entitled *One Clear Objective: poverty reduction through sustainable development* (1997). The government's subsequent policy statement, *Better Aid for a Better Future* (1997), included a response to each of the committee's recommendations. This policy review process was well prepared and transparent, a model for a national review of development co-operation.

The Australian Agency for International Development (AusAID) is responsible for the management of the development co-operation programme and administers most ODA. The Simons Committee recommended, and the government agreed, that management of the aid programme by a single organisation ensured its coherence and integrity, and should be re-affirmed. AusAID's *1998-2000 Corporate Plan* defined AusAID's core business as "advising on development issues and delivering Australia's development co-operation programme with excellence". Following reforms in the Australian Public Service, the government now "purchases" two specific outputs from AusAID

- policy advice and programme management - at agreed prices for the 1999/2000 financial year of 9.9 million Australian dollars (AUD) [approximately 6.5 million United States dollars (USD)] and AUD 53.7 million (about USD 35.0 million), respectively.

Australia's aid policy statement: *Better Aid for a Better Future*

Better Aid for a Better Future set as an over-riding objective for the aid programme to “advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development”. The policy reconfirmed Australia's support for the United Nations (UN) target for ODA of 0.7% of GNP, with the proviso that Australia will “endeavour to maintain [its] aid at the highest level, consistent with the needs of partner countries and [Australia's] own economic circumstances and capacity to assist”. To guide policy formulation and programme implementation in the future, the policy set out:

- **Six key principles:**
 - partnerships (including country strategies);
 - responsiveness to urgent needs and development trends;
 - practical;
 - targeted;
 - incorporating an Australian identity; and
 - outward looking.

- **Five priority sectors** for concentration:
 - health;
 - education;
 - agriculture and rural development;
 - infrastructure; and
 - governance (cited as a priority for the first time).

- **Two critical cross-cutting issues:**
 - gender equality; and
 - environment.

The policy recognised that Australia's bilateral aid is concentrated in the Asia-Pacific region and that this should continue, with Papua New Guinea, the Pacific and East Asia as high priorities and selective concentration on development needs in South Asia, Africa and the Middle East. So that the programme remains identifiably Australian, only firms registered with the Australian Securities Commission or with a head office in Australia or New Zealand can be engaged to manage projects. The policy acknowledged that non-governmental organisations (NGOs) play a vital role and recommended that AusAID develop a formal statement of policy principles and objectives for its co-operation with NGOs.

Australia is to continue to support a range of international organisations - some multilateral development banks; UN development agencies and funds, in particular international environment, agriculture and health agencies; Commonwealth organisations; and regional organisations, particularly in the Asia-Pacific region - but will adopt a strategic approach to their performance assessment. Decisions on support will take account of each agency's efficiency, effectiveness and the extent to

which its mandate contributes to meeting Australia's aid objectives. The Multilateral Assessment Framework has been developed for this purpose.

Improving the quality of the aid programme was given renewed emphasis in *Better Aid for a Better Future*. As a result, AusAID is adopting a more rigorous, outcomes-oriented approach to programme planning, implementation and evaluation. To advise the Minister for Foreign Affairs and to provide a forum for discussion of aid and development issues with community representatives, an Aid Advisory Council has been established.

Aid volume

As a share of GNP, Australia's ODA has been on a declining trend since 1975 when it peaked at 0.65%. Australia's ODA amounted to USD 960 million in 1998, or 0.27% of GNP. Australia's gross domestic product grew by 4.5% in real terms in the 1998/99 financial year. The OECD's latest Economic Survey assesses that the Australian economy has entered its ninth year of expansion and that the sustainability of that expansion is underpinned by a number of positive factors. Noting this, and conscious of the great development needs that still exist in partner countries in the Asia-Pacific region, the DAC encouraged Australia to increase its ODA/GNP ratio. AusAID estimates that current budget allocations for aid, combined with additional funding for urgent development needs in the region, imply that the ODA/GNP ratio should rise by at least 0.01% in 1999.

Australia's approach to the development partnership strategy

Poverty reduction

AusAID's approach to poverty reduction emphasises investment in human capital and protecting the most vulnerable groups in society. Following the Asian financial crisis, AusAID is giving a high profile to governance issues across a wide front. Australia's policies in gender equality and environment are well-articulated and these issues are being integrated into programmes and projects in support of other objectives. Health and education programmes are progressively being re-oriented towards the primary and basic levels. In 1997-98, 11% of Australia's bilateral ODA was directed to basic social services. While the number of students from developing countries receiving scholarships for tertiary studies in Australia is on the decline, expenditure on this part of the programme has exceeded 10% of total ODA in recent years and requires substantial administrative support from AusAID, although administrative reforms have reduced costs since the last DAC peer review.

AusAID's country assistance strategies are critical for determining the nature of its bilateral assistance as programming decisions derive from them. The sectoral breakdown of aid expenditures results from country programming decisions and are not determined in advance in the budget process. Partly for this reason, Australia has not adhered to the "Copenhagen 20/20 Initiative" which calls on donors to target 20% of their total ODA, and recipient countries 20% of their spending, on basic social services.

The Simons Committee recommended devising an overall poverty reduction policy framework, and a plan for implementing it. While the government accepted this recommendation in principle, it sees individual country assistance strategies as the framework for addressing how bilateral programmes will contribute to reducing poverty. As for most other DAC Members, making poverty reduction the overarching goal requires considerable adjustment of approaches and capacities. The effectiveness of country strategies and of present analytical tools and implementation arrangements designed to

contribute to poverty reduction needs to be reviewed and monitored against clearly identified indicators of output, outcome and impact.

Partnership

AusAID is working to strengthen development partnerships. Its country strategies are developed in consultation with partner countries and dialogue with partners occurs frequently, including with civil society. AusAID supports and participates in aid co-ordination mechanisms, where possible hosted by partner countries. Aid activities are generally monitored and evaluated, if possible, jointly with representatives from recipient countries.

One third of Australia's bilateral ODA is tied. Four-fifths of bilateral ODA is goods and services supplied from Australia. AusAID must, therefore, reconcile the principle of promoting the Australian identity in the programme with partnership, the need to build local ownership and local capacity, cost-efficiency and maximising development impact. AusAID operations in the field encourage partners to take on greater leadership, where partners are capable of doing so. Aid may be provided through local systems and processes, if it can be done effectively and with adequate safeguards on accountability. Similarly, NGOs in developing countries can be supported directly. At the same time, with the emphasis on Australian identity and the high ratio of Australian procurement, there was a question as to whether Australian aid encourages partnership sufficiently and whether it optimises the integration of talent and know-how from within developing countries into the development process. Australia provided the DAC with a series of examples of its efforts to promote partnership and participation in its aid relationships.

Another crucial aspect of partnership involves designing projects and programmes appropriately for sustainability and cost recovery, thus including a donor exit strategy. These are difficult problems for donors requiring locally adaptable designs and a search for workable local solutions. Whether these issues are being adequately addressed is another question. Indications, both on the design contracting side, where some contractors feel insufficient time and resources are available for this work, or in health and education projects, where cost recovery or sustainability are at times given only light treatment, suggest that this is an area AusAID needs to consider.

At another level, a recent AusAID report questioned whether many of Australia's aid partners have the revenue or policy base to maintain a basic level of infrastructure. Partnership involves working on these basic issues of economic and administrative capacity.

Gender equality

Australia is among the leaders in the DAC in devoting time and resources to gender equality policies and corresponding implementation tools. AusAID's *Guide to Gender and Development* provides impressive coverage of the institutional requirements needed for mainstreaming gender equality, as shown by the fact that other DAC Members have used AusAID's Guide as a basis for their institutional development. AusAID has not yet fully integrated the gender dimension into all aspects of its operations, however. In 1998/99, 23% of total expenditures funded projects which include gender as a primary objective or which have mainstreamed gender dimensions. There may consequently remain some scope for the gender content of activities to be reinforced beyond dialogue on gender equality towards a more explicit day-to-day use of gender analysis in projects, policies and reports. The Simons Committee recommended conducting regular gender audits of the aid programme. Such an audit was conducted in 1999.

Environmental sustainability

AusAID addresses the environment in both the design and implementation of projects, where the environmental impact is taken into consideration in accordance with legislative requirements, and by targeted activities such as sustainable resource management, urban environmental management and sustainable energy and by participating in global initiatives. The Asian financial crisis helped sharpen AusAID's focus in the environmental area, in particular through an AusAID-commissioned study by an Australian academic of the environmental impacts of the crisis in this region. This report raised awareness and should improve understanding of the importance of environmental management, bio-diversity and natural resource management in the region.

Good governance

Australia sees good governance - "the effective management of a country's social and economic resources in a manner that is open, transparent, accountable and equitable" - as a prerequisite for aid effectiveness. As a response to the Asian financial crisis, Australia has adopted a wide interpretation of activities in governance, including economic policy, public sector management, human rights and the legal sector, and has a large portfolio of projects. These can be sensitive areas for AusAID and a challenge for the programme, as the experience in Indonesia is demonstrating.

Respect for human rights has a special place in Australia's foreign policy. Australia tries to apply the approach of supporting practical efforts which can make a difference, such as through establishing and strengthening human rights institutions and encouraging discussions about human rights issues. As an expression of this approach, Australia has created the Centre for Democratic Institutions which, through training courses and workshops for parliamentarians, judges, electoral officials, ombudsmen and journalists, is supporting democratic processes in the Asia-Pacific region.

Conflict, peace and development

AusAID has experience in complex, long-standing conflict situations close to home. The island of Bougainville in Papua New Guinea was unstable for a decade. The status of East Timor has been controversial since 1975; Australia now leads the UN-sponsored peacekeeping efforts there. Both Bougainville and East Timor are high priorities for AusAID. Australia is the largest bilateral donor in both cases, underlining the important role of development co-operation. In Bougainville, Australia is contributing to reconstruction through its support for the re-establishment of basic services and infrastructure, such as schools, health posts and roads.

Australia's approach in conflict situations has been patient and persistent. Along with its own experience and capabilities in conflict resolution, AusAID has drawn on other resources, such as the Australian Defence Force, Australian police forces, the Australian Electoral Commission, NGOs and actions in co-ordination with other donors and international organisations.

Policy coherence

Australia's mechanisms for checking and enhancing the coherence of its policies impacting on developing countries are comparatively strong and well-functioning. The need for such coherence has been endorsed as Australian government policy. *In the National Interest* stated that an integrated approach "applies not only to domestic and international policies, but also to the various strands of

external policy, especially foreign, trade, defence, immigration and development co-operation policies.” Policy coherence seems to have been enhanced by the grouping of development co-operation, foreign affairs and trade policy within the same ministerial portfolio since 1996.

AusAID operates in co-operation with the Department of Foreign Affairs and Trade (DFAT). Other departments and agencies also contribute to the aid programme or provide core funding to multilateral agencies, including the Treasury; the Australian Centre for International Agricultural Research (ACIAR); Environment Australia; Agriculture, Forests and Fisheries Australia; the Australian Defence Force; the Department of Health and Aged Care; and the Australian Electoral Commission. Through such mechanisms as inter-departmental committees and the circulation of documents for comment, AusAID liaises with these other bodies to ensure a “whole-of-government” approach to issues. To enhance this approach, an explicit effort to articulate the interlinkages and complementarities between the various strands of external policy could help to generate public understanding of the role of aid.

The Export Finance and Insurance Corporation (EFIC) provides Australian exporters and investors with a range of insurance, guarantee and financing products. EFIC’s operations are fully guaranteed by the Australian government. A large proportion of these operations involve activities in developing countries in the Asia-Pacific region. EFIC is an autonomous government-owned corporation, now under the oversight of the Minister for Trade. The coherence of Australia’s policies would be improved if AusAID, where it has relevant development experience, were invited to provide consultative guidance to EFIC when government guarantees for investments in development countries are considered.

Australia provides substantial technical assistance and training to help countries develop legal and regulatory frameworks that promote trade and investment flows, including assistance to meet environmental, health and food safety requirements, to improve economic governance and for infrastructure needed to promote effective participation in the global economy. Australia played its part in the international response to the financial crisis in Asia, including convening a meeting in Sydney in March 1999 which contributed to firming up international support. Australia has also provided development assistance to respond to the crisis as well as loans on commercial terms to Indonesia, Korea and Thailand and support for international rescue packages led by the International Monetary Fund (IMF).

Support for debt reduction initiatives

As of March 1999, developing countries owed an estimated AUD 4 billion (about USD 2.2 billion) in sovereign debts to Australia. Although Australia has a grants-only aid programme, mixed-credits were previously extended as part of the now discontinued Development Import Finance Facility (DIFF).

Australia’s official view is that while debt relief is not a substitute for development assistance, the initiative developed by the World Bank and IMF for heavily-indebted poor countries (HIPC) is the most credible way to provide debt relief. Australia contributed USD 19 million (AUD 31 million) to the initiative in June 1998 by re-allocating funds already on deposit at the World Bank and IMF. The Treasurer announced in September 1999 that Australia would support the proposed enhancements to the HIPC initiative and committed an extra AUD 35 million (approximately USD 19 million). This latter commitment will be funded from supplementary allocations to the aid budget over several years.

Improving programme quality: organisational changes

AusAID has gone through a series of substantial changes recently to respond to the double challenge of improving the quality of the aid programme while moving to a results-based management culture and switching from cash to accrual accounting systems. To up-grade staff capacity, manuals and guidelines have been revised and training packages developed. A challenge which continues for AusAID is managing aid in a context where staff mobility is high and there are many evolving guidelines and systems. This point was raised in a performance audit conducted by the Australian National Audit Office (ANAO) in 1996.

AusAID's current organisational structure was adopted in January 1998. The bringing together of reinforced sectoral advisory, contracting and quality assurance functions in the Programme Quality Group was an important innovation resulting from the Simons Committee's review. New systems and processes for quality control, performance information and results-based evaluation have also been instituted. The Simons Committee recommended establishing an independent "Office of Evaluation", headed by a statutory officer, but this was not accepted by the government since statutory, independent performance assessment and accountability checks will continue to be made by the ANAO.

AusAID's Corporate Plan 1998-2000 linked the agency's priorities to the government's objectives and defined the agency's ten "Key Result Areas", which relate to the management of the programme, its five priority sectors, its two cross-cutting issues and some of its key principles. The cornerstone of this work is the Performance Information and Assessment Section (PIA), which undertakes real-time evaluations of activities at country and regional levels, with results fed back into programme design and implementation. Performance information collected will be scrutinised and verified, internally by PIA and by external audits, conducted by contractors and the ANAO.

The delivery of much of AusAID's programme is outsourced and so improving the quality of the performance of external agents is critical. To do this, AusAID is introducing performance-based contracting and exploring ways of improving the selection of contractors, management of the contracting process and dispute settlement. Similar reforms have been introduced for NGO schemes.

In Papua New Guinea, Australia's largest bilateral partner, budget support has been gradually phased out and replaced with jointly programmed aid. AusAID can point to some important achievements that have already occurred during the transition period in the areas of health, education and infrastructure. A new development co-operation treaty has been negotiated which will take effect from 1 July 2000. Through the new Incentive Fund, a growing share of Australia's aid will be allocated according to performance criteria and disbursed through a range of public and private sector organisations as well as through national government agencies. This should result in increased competition for funds, enhanced effectiveness and improved service delivery.

In their design, AusAID's new systems and processes place Australia at the top end of management practices in DAC Member aid agencies. The challenge for AusAID is to ensure that these systems and processes are adopted by its management and staff. Translating these approaches into developmentally effective results will also require flexibility and local ownership.

Assessing programme quality and performance

Evaluations of some aspects of Australia's ODA are thoroughly done and well documented while little evaluation material is available on the impact of some substantial parts of the programme, such as large infrastructure projects, tertiary scholarships, and, in the past, budget support to Papua New Guinea.

AusAID is moving from using *ex post* evaluations as their prime vehicle for providing feedback to a focus on assisted self-evaluations to guide adjustments during all the project cycle. Inevitably, there is a need to ensure that all those involved in self-evaluation understand the process, have ready access to expert guidance and have sufficient time to ensure the system works. Management needs to support this process by using the system wisely and consistently in its decision making.

For each activity in its country and regional programmes, AusAID prepares an Activity Monitoring Brief, which is both a monitoring and reporting tool. These Briefs are stored in a database known as the Activity Management System. While these two management tools have existed and evolved for several years, their value and use have expanded with AusAID's increased focus on quality and the Australian government's introduction of accrual accounting and results-based management.

To receive funding from the aid programme, Australian NGOs must adhere to a Code of Conduct, demonstrate continued support from the Australian community - as indicated by public donations of at least AUD 30 000 annually - and maintain their accreditation with AusAID. AusAID worked closely with NGOs and ACFOA to prepare the new Code of Conduct. It defines standards of governance, management, financial control and reporting with which NGOs must comply and identifies mechanisms to ensure accountability in the use of public monies. The accreditation of NGOs is determined jointly by AusAID and NGO representatives, for renewable periods of five years. Many NGOs are finding that adherence to the Code of Conduct and AusAID's accreditation process are helping them improve their own performance and management of development activities

To assess the relevance, effectiveness and efficiency of multilateral agencies receiving annual core funding, and so determine what Australia's relations and eventual support for them should be, AusAID has developed the Multilateral Assessment Framework (MAF). The Framework has two components:

- Annual assessments.
- In-depth reviews, which are less frequent.

AusAID appreciates that the Framework should not duplicate other donors' assessments and should be an open and consultative process which will lead to improving the performance of multilateral agencies. Multilateral development banks will not be included in the assessment process at this stage.

During the 1998/99 pilot year, 27 annual assessments were completed. A review of the pilot year is being undertaken. Staff mobility is an issue for AusAID to the extent that it hinders the building up of capacity to manage the assessment process.

In the in-depth reviews, priority will be given to: international organisations receiving significant contributions from Australia; those for which there are significant information gaps; or those for which there are significant disparities in performance. AusAID will continue to explore opportunities to conduct in-depth reviews together with other donors as appropriate. A first in-depth review involved the Commonwealth Fund for Technical Co-operation (CFTC) and a field review of the United Nations Children's Fund (UNICEF) is underway.

Public opinion and development education

A joint AusAID/ACFOA public opinion survey conducted in 1998 found that 84% of Australians support foreign aid and are motivated by humanitarian concerns, but that support is fragile as understanding of issues is generally weak. Previous analyses showed similarly that while support was broad it was not deep, and there was a lack of knowledge in the public about the official aid programme. Consequently, Australian authorities have been making concerted and imaginative efforts, with substantial political support, to educate the public about the aid programme. The range of activities have included outreach seminars, conducted by the Parliamentary Secretary to the Minister for Foreign Affairs, where over 5 000 former aid volunteers have been presented with Certificates of Appreciation and where information is provided about the aid programme and business opportunities through the aid programme. NGOs have been mobilised to inform their members about the official aid programme.

Given the relatively strong favourable opinion for development aid and the effort being made to educate and inform the public, the issue is how can the favourable current of opinion and understanding be transformed into stronger effective support for the overseas aid programme, and for higher levels of ODA.

Summary of main recommendations

Drawing together these various elements, the DAC recommends that Australia:

- Increase its ODA/GNP ratio.
- Continue the re-orientation of bilateral assistance for health and education towards the primary and basic levels.
- Monitor the extent to which country strategies are playing an effective role in poverty reduction and whether present strategic orientations, analytical frameworks and implementation arrangements require adjusting, including in their gender equality dimensions.
- Strive to maximise the use of developing countries' own resources and systems in the implementation and management of projects and programmes.
- Ensure that long-term financial viability is built into project and programme design.
- Work to increase the proportion of development activities which include gender equality as a primary objective or which have mainstreamed gender dimensions.
- Help generate public understanding of the role of aid by articulating the interlinkages and complementarities between the various strands of its external policy.
- Consider AusAID being invited, where it has relevant development experience, to provide consultative guidance to EFIC when government guarantees for investments in developing countries are considered.
- Examine ways of improving the management of aid by fostering staff continuity.

- Share with other interested donors experience of systems and processes developed for assessing programme quality.
- Follow through on the innovative efforts of promoting public awareness through development education activities.

CHAPTER 1

MAIN POLICY ORIENTATIONS

Overview and policy basis for Australia's aid programme

With its geographical location, Australia's security, well-being and economic progress are closely linked to the fortunes of a particular set of developing countries, probably to a greater extent and more immediately than is the case for most other Member countries in the OECD's Development Assistance Committee (DAC). Promoting prosperity and stability in the Asia-Pacific region is at the forefront of Australia's foreign policy.

Australia's development co-operation programme is contributing substantially towards achieving Australia's national and foreign policy objectives. This peer review shows that there exists in Australia the requisite level of political and popular support to enable it to fulfil its strategic role. However, based on need, comparative international standards and the ambitions Australia rightly sets for its aid programme, Australia's official development assistance (ODA), expressed as a share of its growing gross national product (GNP), has fallen to its lowest level ever.

The reshaping of Australia's foreign and trade policy and its link with development co-operation

Australia's foreign and trade policy was carefully reviewed by the Liberal/National Party coalition government which came to office in 1996. This culminated in the release of a White Paper in 1997, *In the National Interest*¹, whose central thrust is "[i]n all that it does in the field of foreign and trade policy, the government will apply [the] basic test of [Australia's] national interest", i.e. "the security of the Australian nation and the jobs and standard of living of the Australian people". *In the National Interest* recognised that "Australia's development co-operation programme not only gives effect to humanitarian objectives, it makes a major contribution to advancing Australia's foreign and trade policy interests.... Some countries in East Asia will graduate from aid recipient status, but development co-operation will remain a significant element in Australia's relations with others, including the countries of Indochina, Papua New Guinea and the Pacific islands."

The White Paper both acknowledged development co-operation as a strand of external policy - alongside foreign, trade, defence and immigration policies - as well as the importance of an integrated approach to policy making. Australia has accomplished a great deal in integrating development co-operation into external policy. Some improvement may still be possible, however, for example government guarantees for investments in developing countries are not currently benefiting from the policy advice of the development agency.

1 . Available from the Internet at: <http://www.dfat.gov.au/ini/wp.html>

Reshaping of Australia's development co-operation programme

In parallel to the preparation of the White Paper, an independent review of the overseas aid programme was conducted by the Simons Committee, resulting in the release in 1997 of a detailed and comprehensive report entitled *One Clear Objective: poverty reduction through sustainable development*². Based on it, the government produced a policy statement in November 1997, *Better Aid for a Better Future*³, which included the "Government's Response to the Committee of Review of Australia's Overseas Aid Programme", a point-by-point discussion and statement of the government's position on each of the Simons Committee's 79 recommendations.

This entire review process was carefully prepared at each stage with full transparency. On a comparative DAC basis, it was a model for a national review of development co-operation policies. The end product has certainly strengthened Australia's development co-operation policy framework, consistent with the orientations agreed upon by DAC Members in 1996 in *Shaping the 21st Century: The Contribution of Development Co-operation*.

Australia's aid policy statement: Better Aid for a Better Future

Better Aid for a Better Future dealt with the growing concern that a variety of competing short-term interests, including commercial interests, had become a burden on the aid programme to the detriment of development effectiveness. It set an over-riding objective for the aid programme, consistent with the course set in the White Paper, "to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development". Like all other government activities, the aid programme is expected to play its part in creating a prosperous and stable future for Australia.

To guide policy formulation and programme implementation in the future, the new policy set out:

- **Six key principles:**
 - partnerships (including country strategies);
 - responsiveness to urgent needs and development trends;
 - practical;
 - targeted;
 - incorporating an Australian identity; and
 - outward looking.

- **Five priority sectors** for concentration:
 - health;
 - education;
 - agriculture and rural development;
 - infrastructure; and
 - governance (cited as a priority for the first time).

2 . Available from the Internet at: <http://www.aisaid.gov.au/publications/aidrev/simons02.html>

3 . Available from the Internet at: <http://www.aisaid.gov.au/publications/aidrev/response/content.html>

- Two critical **cross-cutting issues**:
 - gender equality; and
 - environment.

The policy recognised that Australia's bilateral aid is mainly concentrated in the Asia-Pacific region and that this should continue. So that the programme remains identifiably Australian, only firms registered with the Australian Securities Commission or which have a head office in Australia or New Zealand can be engaged to manage Australian aid projects. The policy acknowledged that non-governmental organisations (NGOs) play a vital role, including through fostering links between Australian community organisations and peoples of developing countries.

Australia is to continue to support a range of international organisations - some multilateral development banks; United Nations (UN) development agencies and funds, in particular international environment, agriculture and health agencies; Commonwealth organisations; and regional organisations, particularly in the Asia-Pacific region - but will adopt a more strategic approach to their performance assessment. Decisions on support will take account of each agency's efficiency and effectiveness and the extent to which its mandate contributes to meeting Australia's aid objective. The Multilateral Assessment Framework has been developed for this purpose.

Australia's aid programme is in the form of grants only. The Simons Committee recommended creating a new, untied soft-loan scheme with a clear development focus. *Better Aid for a Better Future* stated that any new soft-loan scheme would not be an imitation of the Development Import Finance Facility (DIFF), the mixed-credit scheme abandoned in 1996. In any case, because of funding limitations, a soft-loan scheme could not be accommodated presently and its creation in the future would depend on aid budget outcomes.

Significant current features of Australia's aid programme

Several significant elements in Australia's aid programme should be highlighted:

- **Policy coherence.** Australia's mechanisms for checking and enhancing the coherence of its policies impacting on developing countries are comparatively strong and well-functioning.
- **Asian financial crisis.** Australia played its part in the international response to the financial crisis in Asia, including convening an international meeting (Sydney, March 1999) which contributed to firming up international support. Australia has also provided bilateral and multi-bilateral assistance to respond to the crisis, as well as loans on commercial terms to Indonesia, Korea and Thailand.
- **Quality assurance.** The Australian Agency for International Development (AusAID) has been partially reorganised to strengthen its sectoral advisory, contracting and quality assurance functions. New systems for quality control, performance information and results-based evaluation have been instituted.
- **NGO Code of Conduct.** AusAID worked closely with NGOs and their national co-ordinating body, the Australian Council for Overseas Aid (ACFOA), to establish ACFOA's new Code of Conduct for NGOs which defines standards of governance,

management, financial control and reporting with which NGOs must comply and identifies mechanisms to ensure accountability in the use of public monies.

- **Multilateral Assessment Framework.** AusAID has developed an analytical framework for assessing the relevance, efficiency and effectiveness of multilateral agencies to assist in giving greater attention to performance issues in Australia's engagement with multilateral agencies.
- **Papua New Guinea.** Budget support to Papua New Guinea has been gradually phased out and a new development co-operation treaty negotiated. Through the new Incentive Fund, a small but growing share of Australia's aid will be allocated on a competitive basis and disbursed through a range of public and private sector organisations as well as through national government agencies. This should result in increased effectiveness and improved service delivery.

At the same time, and aside from the issue of the ODA/GNP ratio, some other aspects of Australia's programme may require further examination:

- **Poverty reduction.** The Simons Committee recommended devising an overall poverty reduction policy framework, and a plan for implementing it. While the government accepted this recommendation in principle, it sees individual country assistance strategies as the framework for addressing how the programme will contribute to reducing poverty. The effectiveness of present analytical tools and implementation arrangements needs to be reviewed and monitored, and AusAID advises that it is doing so.
- **Australian identity and partnership.** One third of Australia's bilateral ODA is tied. Four-fifths of bilateral ODA is goods and services supplied from Australia. The principle of promoting the Australian identity in the programme must be balanced with the need for greater partnerships, cost efficiency and development impact. In NGO schemes, this balance is achieved by also directly supporting NGOs in developing countries.
- **Scholarships for tertiary studies in Australia.** Although the number of scholarship holders is on the decline, expenditures on this part of the programme have exceeded 10% of total ODA in recent years and still requires substantial administrative support from AusAID, although administrative reforms have reduced costs since the last DAC peer review in 1996.
- **Staff mobility.** A challenge for AusAID is managing aid in a context where staff mobility is high and there is a multiplicity of evolving guidelines and systems. This point was emphasised in a performance audit conducted by the Australian National Audit Office (ANAO) in 1996.
- **Evaluation.** Evaluations of some aspects of Australia's ODA are thoroughly done and well documented while little evaluation material is available on the impact of some substantial parts of the programme, such as large infrastructure projects, tertiary scholarships and, in the past, budget support to Papua New Guinea.

Aid volume

As a share of GNP, Australia's ODA has been on a declining trend since 1975 when it peaked at 0.65%. In 1998, Australia's ODA amounted to 960 million United States dollars (USD), or 0.27% of GNP. Against a background of continuing robust economic growth, AusAID estimates that current budget allocations for aid, combined with additional funding for urgent development needs in the region, imply that the ODA/GNP ratio should rise by at least 0.01% in 1999.

In *Shaping the 21st Century: The Contribution of Development Co-operation*, DAC Members committed themselves to "generating substantial resources for development co-operation to back the efforts of countries and people to help themselves". In *Better Aid for a Better Future*, Australia reconfirmed its continuing support for the UN's target for ODA as a share of GNP of 0.7%, with the proviso that Australia will "endeavour to maintain [its] aid at the highest level, consistent with the needs of partner countries and [Australia's] own economic circumstances and capacity to assist". In the case of Australia, the direct and immediate ways that development assistance can contribute to its own national interest should introduce an extra dimension into considerations of what might be a sufficient or appropriate level of aid.

Following through on Australia's stated policy, a substantially higher level of Australian ODA would be expected and Australia should increase its ODA/GNP ratio. Recent changes of policy or government in some countries, such as Papua New Guinea, the Solomon Islands and Vanuatu as well as in East Asia, point to more propitious circumstances for development, even if the situation still remains somewhat precarious. Australia's economic circumstances - an expanding economy and relative budgetary stability - provide a strong base for increased aid allocations. Importantly, Australia is in a position to use additional ODA resources constructively, since AusAID's administrative systems and processes have been reviewed and strengthened, including through improving programme quality and ensuring a greater focus on results. In addition, an enormous effort has occurred, for the public and politicians, to assure transparency and confidence in the programme.

Australia's approach to the development partnership strategy

On a policy level, reducing poverty is now a more central focus of Australia's aid programme as *Better Aid for a Better Future* placed poverty reduction within the programme's over-riding objective. Moreover, a focus on partnerships is the first of Australia's six key principles. Field visits to Indonesia and Papua New Guinea in preparation for this review witnessed that AusAID is working to put into practice lessons learned about how best to pursue these policy orientations.

Australia's approach to poverty reduction emphasises investment in human capital and protecting the most vulnerable groups in society. Efforts are occurring to re-orient progressively health and education programmes towards the primary and basic levels, which is a welcome trend in support of the poverty reduction and other goals set for 2015. Following the experience of the Asian financial crisis, AusAID is giving a higher profile to governance issues across a wide front as a key component of the programme. Australia's policies in gender equality and environment are well-articulated and increasingly these issues are being integrated into programmes and projects in the field, in support of other objectives.

Putting partnerships into practice

AusAID is working to strengthen development partnerships. Its aid is generally guided by country strategies developed in consultation with partner countries, consistent with their broader development objectives. Dialogue with partners occurs frequently, including with civil society. For major recipients, programme directions and performance are discussed at annual high-level meetings, supplemented by project co-ordination meetings hosted in-country. AusAID supports and participates in aid co-ordination mechanisms hosted by partner countries. Aid activities are generally monitored and evaluated jointly with representatives from recipient countries.

Australia aims to build local ownership and capacity through its aid programme although this must be accommodated within the Australian government's policy of using Australian contractors to deliver its aid, including its technical assistance, in part to ensure that it remains identifiably Australian. AusAID is working on the issue of reconciling reliance on Australian managing contractors, as the dominant mode of aid delivery, with partnership and the need to build local capacity. Within the constraints of its overall policies, AusAID operations in the field encourage partners to take on greater leadership, where partners are capable of doing so, and Australian aid may be provided through local systems and processes, if it can be done effectively and with adequate safeguards on accountability. Similarly, NGOs in developing countries can be supported directly. At the same time, with the emphasis on Australian identity and the high ratio of Australian procurement, there was a question as to whether Australian aid encourages partnership sufficiently and whether it optimises the integration of talent and know-how from within developing countries into the development process. AusAID is able to provide a range of examples of its efforts to promote partnership and participation in its aid relationships.

Two aspects of management contracting relate to sustainable local capacity building. First, there is the design and management of the overall contract itself, which the Australian managing contractor must do (planning, hiring, mobilising, reporting and fulfilling the administrative aspects of the contract) and second, management of the substantive activities of the project itself (working with participants, training, building and animating project activities).

Partnership appears to be well considered and promoted with respect to the latter aspects, although working with counterparts within the context of local conditions is a continual challenge. The field visit to Papua New Guinea pointed out the extreme difficulty encountered there of high turnover of local counterparts. Nonetheless, a strong effort is made to involve counterparts.

Whether local counterparts are sufficiently involved in the management of the overall contract itself is an unanswered question, although there are indications that local contractors are being involved as sub-contractors. Since overall management is equally part of sustainable local capacity building, this is an area which may require further consideration. Maximising the use of resources and systems within developing countries in the implementation and management of projects and programmes, ultimately with more involvement of managing contractors from partner countries, is an objective to keep in mind.

An additional concern is that AusAID's management structure remains centralised with field posts having programme monitoring and development roles. This may be a problem for promoting development partnerships.

Another crucial aspect of partnership involves designing projects and programmes appropriately for sustainability and cost recovery, thus including an exit strategy by the donor. The Simons Committee called for "graduation strategies". These are difficult problems for all donors which may call for

downscaling designs and searching for simple, local solutions. This can take extra effort, particularly in the appraisal and design phase. Whether AusAID has given sufficient attention to these issues is another question. Indications, both on the design contracting side where some contractors feel insufficient time and resources are available for this type of work, or in health and education projects, for example, where cost recovery or sustainability are sometimes given only light treatment, suggest that this is an area AusAID needs to consider in its next generation of projects and programmes. A recent AusAID report⁴ questioned whether many of Australia's aid partners have the revenue base to maintain a basic level of infrastructure and whether those that do have the policy base to address maintenance issues adequately. Ensuring that long-term financial viability is built into project and programme design is consequently an issue which Australia needs to address on a more systematic basis. Partnership involves working on these basic issues of economic and administrative capacity.

Untied budget support, in principle, promotes local responsibility and ownership. Australia has a substantial and noteworthy experience with this instrument through its budget support to Papua New Guinea. However, following many years of disappointing results, Australia progressively replaced this with programmed aid (discrete projects and programmes). This experience provides lessons for other donors.

The procurement of goods is untied in Australia's aid programme and AusAID estimates that 37% of services provided in 1997 were tied to Australian service providers. Australia supports proposals for untying aid to least-developed countries, with the exception of food aid and free-standing technical assistance.

Poverty reduction

AusAID's individual country assistance strategies have a critical role in determining the nature of Australia's bilateral assistance as programming decisions are made on the basis of these strategies which address partner governments' priority needs. The sectoral breakdown of Australia's aid expenditures is consequently the result of country programming decisions, not determined in advance as part of the budget process or policy objectives. Partly for this reason, Australia has not adhered to the "Copenhagen 20/20 Initiative", which calls on donors to target 20% of their total ODA, and recipients 20% of their spending, on basic social services. It also has consequences for the poverty reduction focus of the programme. While AusAID has adopted poverty reduction as a priority for the aid programme, the government did not, however, accept the Simons Committee's recommendation to devise an overall poverty reduction policy framework, and a plan for implementing it, preferring to use country strategies to address how the programme will contribute to poverty reduction in each partner country.

As for most other DAC Members, making poverty reduction the overarching goal requires considerable adjustment of approaches and capacities. An unresolved question is whether country strategies, at present, are effectively devised to maximise poverty reduction. Less than two years after the issuance of *Better Aid for a Better Future*, it may be premature to examine this issue in depth. However, the extent to which country strategies are playing an effective role in implementing the poverty reduction objective and whether analytical tools or implementation arrangements need adjusting are issues AusAID should examine.

4. See AusAID, *Asset Maintenance: The Impact of the Underfinancing of Recurrent Costs*, Quality Assurance Series No. 13, May 1999. Available from the Internet at: <http://www.ausaid.gov.au/publications/eval.html>

In the absence of an overall poverty reduction strategy, AusAID's approach can be inferred. It appears to be based on the assumption that because its priority sectors and cross-cutting areas are important for reducing poverty, operating in each sector contributes to overall poverty reduction and, to reinforce and focus these efforts, AusAID has developed a series of specific policy documents⁵. There is a broad logic in this approach, but it may not lead to maximising poverty reduction impact. Recent DAC work on poverty reduction points to the importance of aid agencies having a clear poverty reduction focus and cautions agencies that pursuing multiple objectives may inadvertently "crowd out" poverty reduction efforts.

In the case of Australia, its bilateral ODA is currently not all targeted on those activities and sectors most likely to improve the economic well-being of the poor (see Box 1 on next page). Australia has shown itself able to respond to changing needs in developing countries by adjusting its level of support, for example by winding down its programme in Malaysia and stepping up activities in Cambodia, Laos and Viet Nam. Some additional adjusting could be considered, in particular the need to focus aid on good-performing poor countries.

On another plane, AusAID's approach to poverty reduction places emphasis on gender equality, describing women as "more likely to be poor", which is important as far as it goes. However, a broader analysis of the economic impact and distribution benefits of projects would help to sharpen the focus on poverty reduction.

AusAID's approach to poverty reduction also places a strong emphasis on economic growth as a necessary condition. But growth itself is not sufficient if patterns of growth are not "pro-poor". More analysis may be needed within Australia's main partner countries of which interventions have the optimum impact on economic growth and of the distributional aspects of that growth. Areas which could be addressed include development of the rural economy, livelihood creation in non-farm rural businesses and increasing access of poorer groups to basic social services.

In its response to needs created following the Asian financial crisis, Australia has worked to mitigate social impacts by supporting social safety net programmes put in place in a number of countries.

Education

Education and training, a vital building block for development and poverty reduction, has been a major focus of Australian aid since the inception of the programme. Selective assistance for institutional strengthening, distance education and higher education are now priorities for Australian ODA.

5 . AusAID's policy statements for priority sectors and cross-cutting areas are: *Education and Training in Australia's Aid Programme* (August 1996) (<http://www.ausaid.gov.au/publications/educpub.html>), *Health in Australia's Aid Programme* (December 1998) (<http://www.ausaid.gov.au/publications/health.html>) and *Gender and Development: Australia's Aid Commitment* (March 1997) (<http://www.ausaid.gov.au/publications/gender.html>). The Minister for Foreign Affairs made a key speech on governance entitled *Promoting Good Governance and Human Rights through the Aid Programme* on 27 August 1997 (available from the Internet at: <http://www.ausaid.gov.au/publications/speech.html>).

Box 1. Poverty reduction orientation of Australia's bilateral aid

Achieving the ambitious but realisable goals of the development partnership strategy will require DAC Members to target their aid on countries with the highest rates of poverty and to give priority to those activities and sectors most likely to improve the economic well-being of the poor, such as gender equality, good governance and support for basic social services - basic education, basic and reproductive health and safe water supply. Data in the DAC's Creditor Reporting System (CRS) can provide an indication of a donor's bilateral poverty reduction orientations, when reporting is of sufficiently high quality.

To gauge the focus of a donor's programme on countries with high rates of poverty, the OECD Secretariat has placed developing countries in five groups, based on their distance from the international goals for poverty reduction, universal primary education and reduced infant mortality. The first group contains countries furthest from the goals while countries in the fifth group are approaching or have already attained the goals set for 2015.

In 1997-98, 7% of Australia's bilateral ODA was directed to the first group of countries, a group which contains one of Australia's ten largest recipients - Cambodia. Half of Australia's main partner countries - Papua New Guinea, Indonesia, Viet Nam, Bangladesh and India - fall into the second group of countries, as do two of Australia's Pacific island partners - Vanuatu and the Solomon Islands. Almost 66% of Australia's bilateral ODA was directed to this group. The third group of countries received 15% of Australian bilateral ODA and includes its four other main partner countries - the Philippines, China, Egypt and Thailand. Australia provided little aid to the last two groups. Thus, Australia provided nearly 90% of its bilateral aid to countries in the three groups of countries furthest from the 2015 goals, with by far the most going to the second group.

An examination of the primary purpose codes of Australia's bilateral ODA shows that 11% was directed to basic social services in 1997-98, while another 50% was directed to other, non-basic, social services, such as tertiary education. In terms of the five groups of countries, only a small share of bilateral ODA was directed to basic social services in each case: 6% of bilateral ODA to the first group; 13% to the second group; and 4% to the third group.

This analysis suggests that Australia's bilateral aid, mostly directed to the Asia-Pacific region, results in substantial assistance to many countries still distant from the 2015 goals. The programme could conceivably have a stronger poverty reduction focus by shifting proportionally more aid to those good-performing countries which are comparatively further from the 2015 goals, as would allocating proportionally more aid within country programmes to support for basic education, basic and reproductive health and safe water supply.

Scholarships for tertiary-level study in Australia [now through the Australian Development Scholarship (ADS) programme] have been a major and long-standing component of Australia's aid programme. During most of the 1980s, the number of AusAID-supported students in Australia was less than 2 000 each year, but this number jumped to over 6 000 in 1991 before falling again to 3 425 (1 911 males and 1 514 females) on 31 March 1999 (including 672 people from Indonesia, 517 from Viet Nam and 336 from Papua New Guinea). Expenditures for scholarships in Australia fell to 139 million Australian dollars (AUD) in 1998/99, 9% of total expenditures.

Given the substantial resources provided for scholarships, it would seem appropriate to conduct some follow-up surveys of former scholarship holders to determine how this investment has contributed to the development of the beneficiary countries and selected institutions and how their careers have

evolved. AusAID advises that tracer studies have been undertaken in many countries and a major education sector review was conducted in early 1999, although results from these have not been published. A recent comprehensive audit by the ANAO⁶ of the management of the scholarship scheme concluded that current arrangements represent a substantial improvement on those that existed for previous scholarship schemes, noting that scholarship assistance is now better integrated into country programmes. The ANAO found there was still scope for improvement in the management of the scheme by: developing performance indicators and enhancing reporting; improving monitoring, including the impact from students discontinuing their studies or not returning home; improving the analysis of partners' human resource development needs and targeting awards to meet these; and strengthening contract management.

In the area of education, *Better Aid for a Better Future* called for a change in emphasis with a particular focus on basic and technical education and AusAID's policies give particular attention to the educational needs of women and girls. However, planned budget allocations for 1999/2000 are still tilted towards higher and secondary education, projected to receive over 50% of the education sector funding (higher education scholarships 43%; projects 5%; and secondary education 5%) as opposed to basic education, planned to receive 30%. These figures are estimates based on activities approved and AusAID advises that the focus on basic education will become more pronounced as new activities are approved. There is, therefore, a definite trend to de-emphasise higher and secondary education and this trend towards more assistance for basic education, particularly the special effort for women and girls, is welcome and should continue. These trends should, over time, be reflected more strongly in budget allocations and in education planning, which is increasingly taking into account gender inequalities in partner countries. AusAID is also prepared to support sector-wide approaches and increase co-operation with other donors in selected countries.

AusAID's direct expenditures on education in 1998/99 are estimated at AUD 259 million, 18% of total expenditures, complemented by AUD 41 million of indirect support.

Health

Better Aid for a Better Future called for simple, cost-effective methods of prevention and treatment, with a concentration on helping those most in need, particularly women and children. The emphasis should be on primary health care and disease prevention. The new budget presentation drops the terminology "primary health care" in favour of "basic health care", but includes "infrastructure" (presumably infrastructure for basic health care).

Based on the field visits and discussions with sector specialists, it appears that AusAID has revamped the programme away from a tendency towards curative hospital-based programmes towards primary health care and AIDS prevention, better adapted to a poverty oriented approach. This is in line with the analysis of the Simons Committee. The greater attention being given to family planning and reproductive health care on the basis of a voluntary and non-coercive policy, the importance of which was also well analysed by the Simons Committee, is welcome and should continue.

AusAID's direct expenditures on health in 1998/99 are estimated at AUD 110 million, 7% of total expenditures, complemented by AUD 50 million of indirect support.

6. See *Management of the Australian Development Scholarships Scheme* (Audit Report No. 15, 1999-2000), available from the Internet at: <http://www.anao.gov.au/rpts00.html>

Gender equality

Australia is among the leaders in the DAC in devoting time and resources to develop gender equality policies and the operational tools needed to implement these. Guiding questions on gender are examined at key points in the activity cycle, beginning with tailored briefings for missions before project identification and design phases. A gender specialist appraises project designs and all project teams are assessed for their community and gender skills.

AusAID's *Guide to Gender and Development*⁷ provides useful, reader-friendly instructions for AusAID staff and contractors at key checkpoints in the activity cycle. General gender questions are complemented by specific questions, prepared on the basis of lessons learnt, in relation to 11 sectors: agriculture, economic reporting, education, environment, health and population, humanitarian assistance, human rights, infrastructure, institutional strengthening, micro-enterprise development and training. This guide constitutes an impressive coverage of the institutional requirements needed for mainstreaming gender equality, as demonstrated by some other DAC Members having used AusAID's Guide as a basis for their own institutional development.

At the same time, and like many other DAC Members, AusAID has not yet fully integrated the gender dimension into all aspects of its operations. AusAID's expenditures in 1998/99 for projects which include gender equality as a primary objective or which have mainstreamed gender dimensions are estimated at AUD 340 million, 23% of total expenditures. There may consequently remain some scope for the gender content of activities to be reinforced beyond dialogue on gender equality towards a more explicit day-to-day use of gender analysis in projects, policies and reports. As an example, nutrition, health and education are the pillars of child survival and this was outlined in a recent report commissioned by AusAID⁸ on the impact of the Asian financial crisis on children. However, the framework for this survey does not include distinguishing between differing impacts on girls and boys. Consequently, the gender dimension for children is not taken up substantially in the report.

Australia has developed and uses gender indicators and the increased availability and accuracy of gender-disaggregated data is being used to focus programme formulation. In some countries, such as Fiji or Papua New Guinea, where violence against women is a recognised development and human rights problem, AusAID has supported strategies to address the problem through judicial and law enforcement reform, community awareness and law-and-order projects. Education for girls and women is an important theme that is being strengthened throughout the programme. Australia's scholarship schemes are pro-actively managed to promote gender balance. This kind of approach appears to have proved effective and demonstrates AusAID's intention to pursue gender equality in practical ways.

The Simons Committee recommended conducting regular gender audits of the aid programme. Such an audit was conducted in 1999 and AusAID advises that its preparation has been of significant benefit to the AusAID programme. The report was developed over a six-month period in close consultation with all programme areas, a process which in itself has assisted with mainstreaming gender. AusAID has not published the report on its gender audit, which is regrettable given the interest and use it may also have for other donors.

7 . Available from the Internet at: <http://www.ausaid.gov.au/publications/gender.html>

8 . See *Impact of the Asia crisis on children: Issues for social safety nets*, August 1999, available from the Internet at: <http://www.ausaid.gov.au/publications/latest.html>

Environmental sustainability

AusAID addresses the environment in both the design and implementation of projects, where the environmental impact is taken into consideration in accordance with legislative requirements, and by targeted activities such as sustainable resource management, urban environmental management and sustainable energy. The Asian financial crisis helped sharpen AusAID's focus in this area, in particular through an AusAID-commissioned study by an Australian academic⁹ of the environmental impacts of the crisis in this region. This report is not only raising awareness, but will help, through a better understanding of the importance of environmental management, bio-diversity and natural resource management, to guide aid programmes in the region. AusAID will sharpen its work in the environment in 1999/2000 by analysing its environmental portfolio, updating its environmental assessment guidelines¹⁰ and enhancing the provision of technical advice for country and regional programmes.

AusAID's direct expenditures in support of the environment in 1998/99 are estimated at AUD 51 million, 3% of total expenditures, complemented by AUD 142 million of indirect support.

Good governance

Australia sees good governance, "the effective management of a country's social and economic resources in a manner that is open, transparent, accountable and equitable", as a prerequisite for aid effectiveness. To be effective, governance must be "responsive to people's needs" and "enable all people to contribute to and benefit from development". As a response to the Asian financial crisis, Australia has adopted a wide interpretation of activities that fall into the governance area and groups its large portfolio of projects under three main areas:

- **Economic policy**, particularly economic policy formulation and public sector financial management.
- **Public sector management**, particularly good management practices in key economic policy and planning ministries and the decentralisation of service delivery, where this would improve accountability and the quality of services.
- **Human rights and the legal sector**, including support for civil and political rights, free and fair electoral procedures, media development, peace initiatives and reforms to legal systems.

Some of these are sensitive areas for donors to work in and constitute a challenge for the AusAID programme, particularly in countries where Australia has long-standing, multi-faceted and complex relationships and where efforts to create a favourable enabling environment for development may be interpreted as interference in domestic affairs. Improving governance will also entail tackling problems linked to corruption, which has undermined development in several countries in Australia's region.

9. See Peter Dauvergne, *The environment in times of crisis: Asia and donors after the 1997 financial crisis*, April 1999, available from the Internet at: <http://www.ausaid.gov.au/publications/enviro.html>

10. The current guidelines, *Environmental Assessment Guidelines for Australia's Aid Programme*, October 1996, are available from the Internet at: <http://www.ausaid.gov.au/publications/enviro.html>

Respect for human rights has a special place in Australia's foreign policy, because it is frequently a matter of lively concern to the Australian public and because promoting human rights is accepted as underpinning Australia's longer-term security and economic interests. Australia generally tries to apply the approach of supporting practical efforts which can make a difference on the ground, such as through development assistance, establishing and strengthening human rights institutions and encouraging discussions about human rights issues. As one expression of this approach, Australia has created the Centre for Democratic Institutions at the Australian National University which, through training courses and workshops for parliamentarians, judges, electoral officials, ombudsmen and journalists, is supporting democratic processes in the Asia-Pacific region. Australian authorities recognise that support for human rights can create difficulties in some of Australia's important bilateral relationships and consciously try to manage the opportunities and constraints in ways that combine realism and principle.

Human rights activities are funded through a variety of mechanisms, one of which is the Human Rights Fund. This fund complements other bilateral, regional and NGO programmes and is co-managed with the Department of Foreign Affairs and Trade (DFAT). Its funding for 1999/2000 is AUD 1 million.

Australia and China conduct a formal and regular dialogue on human rights, underpinned by practical assistance. At the first human rights dialogue, both governments agreed to initiate the Human Rights Technical Assistance programme. The programme is designed to address human rights matters in China in an open and constructive way and to achieve practical outcomes that improve the lives of individuals. At the third formal session of the human rights dialogue, a range of activities were identified that build on earlier awareness-raising projects, but with a greater focus on developing practical strategies to promote human rights. These include projects that focus on legal institutions, women and minority rights, and civil society.

AusAID's direct expenditures to improve governance in 1998/99 are estimated at AUD 135 million, 9% of total expenditures, complemented by AUD 124 million of indirect support.

Conflict, peace and development

Australia has experience in complex, long-standing conflict situations close to home. The island of Bougainville in Papua New Guinea has seen instability for most of the last decade. The official status of East Timor has been controversial since it was annexed by the Indonesian army in 1975 and violence and conflict broke out following the ballot conducted in 1999 on the future of East Timor. Both Bougainville and East Timor are high priorities for the Australian aid programme. Australia is the largest bilateral donor in both cases.

In Bougainville, Australia provided financial support for the reconciliation talks, brokered by New Zealand in 1997, through which peace has been established. Consolidating the peace process by providing an identifiable peace dividend is one of the main objectives of AusAID's programme in Papua New Guinea. Australia is contributing through support for reconstruction and the re-establishment of basic services and infrastructure, such as schools, health posts and roads.

In the aftermath of the ballot conducted in East Timor, Australia has been making a leading contribution to peace keeping and reconstruction efforts under the auspices of the United Nations, including through the deployment of up to 4 500 troops as part of an international force.

Australia's approach in situations of conflict has been patient and persistent. Along with its own experience and capabilities in conflict resolution, AusAID has also drawn upon other resources, including the Australian Defence Force, Australian police forces, the Australian Electoral Commission and relief and humanitarian NGOs. Australia acts in co-ordination with other donors and international organisations and supports international initiatives.

Humanitarian aid

There has been considerable need for humanitarian relief and emergency assistance in Australia's region in recent years, following droughts in Indonesia and Papua New Guinea, forest fires in Indonesia, volcanic eruptions and a tidal wave in Papua New Guinea and cyclone damage to some Pacific islands. Australia has provided a safe haven to refugees from East Timor while also contributing to international assistance efforts in other parts of the world, such as in Central America (Hurricane Mitch), and in Kosovo, including temporary asylum to ethnic Albanians. The budget for emergency and humanitarian programmes was trebled to AUD 34 million in 1998/99, due to increased pressures from natural disasters.

Australia's total humanitarian support in response to the crisis in East Timor is the country's largest contribution to an international humanitarian crisis, with Australia committing over AUD 70 million in the latter part of 1999. Activities identified for funding include: support for United Nations agencies, NGOs and the International Committee of the Red Cross; logistical support to humanitarian operations; support for displaced people in West Timor; the provision of shelter, agricultural and transport assistance prior to the onset of the wet season; and basic education and health programmes. Australia is also supporting longer-term reconstruction and development programmes and funding the United Nations Transitional Authority for East Timor (UNTAET), which will oversee East Timor's preparations for independence.

Improving programme quality

The Simons Committee stressed the need for AusAID to improve the quality of Australia's aid programme, recommending that "[t]he effectiveness of Australian aid should be judged against development outcomes with a higher level of aggregation and degree of sophistication than is involved in separately evaluating the impacts of specific projects." In *Better Aid for a Better Future*, the government accepted this recommendation but cautioned that the ability of the aid programme to achieve quantifiable development outcomes at higher levels of aggregation is affected by exogenous factors within the partner country and so beyond the control of AusAID.

Recent reforms to management practices across the Australian Public Service, aimed at sharpening government departments' and agencies' focus on outputs and outcomes, are also contributing to the building up of a results-oriented culture in AusAID.

AusAID has taken up the challenge both to improve the quality of the aid programme and to demonstrate that improvement by introducing an array of new systems and processes to strengthen management and administration of the aid programme. To facilitate appraisal of the quality of the aid programme, AusAID has developed a definition of quality - "a measure of excellence in aid delivery and outcomes" and adopted four attributes for setting quality standards and assessing activity performance: having appropriate objectives and design; achieving objectives; being managed in a professional manner; and having sustainable outcomes. Country and regional programme activities are given a quality rating in terms of each of these attributes.

At the institutional level, the cornerstone of AusAID's efforts was the formation in 1998 of the Performance Information and Assessment Section (PIA). PIA has a broad range of responsibilities but focuses primarily on improving the quality of country and regional programmes. Its responsibilities include: incorporating best practice into the design and delivery of projects; incorporating lessons from evaluation studies into the analysis of activity designs; contributing to reviews of systems and procedures as these affect programme quality; providing feedback and valuable lessons to desks, overseas missions and sector advisors; enhancing operational guidelines and strengthening staff training. PIA also undertakes real-time evaluations of current activities, with results being fed back into programme design and implementation. Within PIA, a Quality Assurance Group (QAG) has been established, based on a World Bank model. The QAG undertakes assessment of activity quality through a panel process, drawing on programme managers and specialist staff members from across AusAID.

Other institutional changes to improve programme quality include:

- Establishing three executive committees to assist AusAID senior management: the Programme Strategies Committee; the Programme Quality Committee; and the Corporate Change and Development Committee.
- Establishing the Programme Quality Group incorporating technical services, programme quality assurance and contractor performance functions.
- Separating AusAID's quality assurance and advising functions from programme delivery.
- Establishing advisory groups for AusAID's priority sectors and cross-cutting areas with both AusAID representatives and specialists from the private sector.
- Upgrading AusAID's management and reporting systems to improve their focus on efficiency and to enable monitoring and reporting on quality against objectives.
- Establishing, as recommended by the Simons Committee, an Aid Advisory Council to advise the Minister for Foreign Affairs and provide a forum for discussion of aid and development issues with representatives from the Australian community. The Council is chaired by the minister and comprises 12 members from academia, business, regional organisations and NGOs, together with three *ex officio* members from ACFOA, DFAT and AusAID.

AusAID's efforts to improve the quality of the aid programme are also focusing on the design of aid activities, quality assurance during project preparation and systems for compiling performance information (see Chapter 3 for further details):

- For country and regional programmes, the Activity Monitoring Brief.
- For multilateral assistance, the Multilateral Assessment Framework.
- For NGO and volunteer schemes, self-reporting confirmed by assessments made during the accreditation process, field monitoring and evaluations.

Performance information collected will be scrutinised and verified, internally by PIA and by external audits, conducted by contractors and the ANAO.

*AusAID's Corporate Plan 1998-2000*¹¹, which links the agency's priorities to the government's objectives, defined ten "Key Result Areas" for the agency relating to the management of the programme and its five priority sectors, two cross-cutting issues and some of its key principles. These are:

- Build and maintain effective partnerships with developing countries and international organisations and NGOs that advance Australia's national interest.
- Manage effectively the delivery of Australia's aid programme.
- Improve agriculture and rural development.
- Increase access to and the quality of education and training.
- Promote effective governance in partner countries.
- Improve the health of people in partner countries.
- Help ensure vital infrastructure is available for people in partner countries.
- Deliver prompt, appropriate and effective humanitarian and emergency assistance.
- Maximise environmental sustainability in partner countries.
- Promote equal opportunities for women and men as participants and beneficiaries of development.

AusAID's bilateral activities with partner countries concentrate on these Key Result Areas, which are also used to guide Australia's support to NGOs and multilateral agencies. To allow more systematic reporting of results achieved, quantitative and qualitative information on activities, against the ten Key Result Areas, will be aggregated and published to programme, sector and agency levels. Reporting on outcomes will become more frequent and transparent while traditional evaluation and reviews will place a stronger emphasis on performance information, performance measurement and quality assurance by focusing more on development impact, sustainability of outcomes and the feeding back of lessons learnt.

The delivery of much of AusAID's programme is outsourced or channelled through NGOs and so improving the quality of the performance of external agents is critical if the quality of the overall programme is to improve. To do this, AusAID is introducing performance-based contracting, which places greater emphasis on project output delivery, and exploring ways of improving the selection of contractors, management of the contracting process and dispute settlement. Similar reforms have been introduced for NGO schemes.

AusAID has consequently gone through a series of radical changes in recent years to respond to the double challenge of improving the quality of the aid programme while at the same time moving, like other government departments and agencies, to adopt a results-based management culture and switch from cash to accrual accounting systems. Helping AusAID staff and managers adjust to these changes

11. Available from the Internet at: <http://www.aid.gov.au/corplan/>

has been necessary and to up-grade the capacity of its staff, manuals and guidelines have been revised and training packages developed.

In their design, AusAID's new systems and processes place Australia at the top end of management practices in DAC Member aid agencies. Nevertheless, the process has just started and partial adjustments are likely to be necessary. The challenge that remains for AusAID is to ensure that these systems and processes are adopted by its management and staff. Translating these approaches into developmentally effective results will also require flexibility and local ownership. While it is still too soon to judge AusAID's improved systems, this will be an area the DAC will be interested in following up on during its next peer review of Australia.

Aid channels: bilateral aid, multilateral assistance and non-governmental organisations (NGOs)

Australia places particular importance on its bilateral relations. *In the National Interest* described them as "the basic building block for effective regional and global strategies" and prioritised Australia's bilateral relationships. Asia-Pacific is the region of highest foreign and trade policy priority with Australia's most substantial interests being with the region's three major powers - the United States, Japan and China - and with its largest neighbour - Indonesia. Significant Australian interests are also engaged in Australia's relationships with Korea, the other ASEAN States, New Zealand and Papua New Guinea. While Australia's bilateral development assistance works to reinforce its foreign and trade policy objectives, these countries are not all developing countries and so this list does not correspond to the priority countries for Australia's bilateral aid programme. *Better Aid for a Better Future* gave a more precise indication of the geographic priorities for the programme, stating that Australia's concentration on Asia-Pacific will continue with Papua New Guinea, the Pacific and East Asia as high priorities. Australia will also continue to concentrate selectively on development needs in South Asia, Africa and the Middle East.

In the National Interest found that this focus on bilateral relations leads to the adoption of a selective approach to the multilateral agenda and a concentration on those multilateral issues where Australia's national interests are engaged. *In the National Interest* continued "Australia must be realistic about what multilateral institutions such as the United Nations system can deliver. International organisations can only accomplish what their member states enable them to accomplish." For Australia, multilateral agencies complement its bilateral aid programme as they extend the reach and efficiency of its bilateral assistance, have a neutrality which allows greater scope for policy dialogue, can co-ordinate donors' efforts and can address global problems that require concerted effort.

In recent years, Australia's multilateral contributions have represented around one quarter of total ODA. On a comparative DAC basis, this is towards the lower end of the scale. Australia does not have a target level for its multilateral contributions. The Simons Committee found there was "no particular logic in an indicative target being set now. However, burden sharing considerations, combined with concern to see a viable multilateral aid system sustained, would indicate that current levels of around 20-25% of the overall programme should at least be maintained." *Better Aid for a Better Future* reaffirmed that "Australia should continue to provide significant support to multilateral development agencies".

Better Aid for a Better Future acknowledged the vital role that NGOs play in development and in the Australian aid programme, describing their strengths as:

- Mobilising public support and voluntary contributions.

- Having strong links with community groups in developing countries.
- Working in areas where government-to-government aid is not possible.
- Having particular expertise in providing assistance to meet people's basic needs, especially in emergency situations where quick and flexible responses are needed.

Nonetheless, on a comparative DAC basis, Australia provides a relatively small share of its ODA through NGOs - expenditures in 1998/99 for all NGO programmes amounted to AUD 103 million, 7% of total expenditures.

The Simons Committee recommended that AusAID “develop a formal statement of policy principles and objectives for the agency’s co-operation with NGOs”. Such a statement was released in August 1999¹² and presented two aims for the government’s work with NGOs: achieving quality aid outcomes and extending the reach of the aid programme. The statement also noted that NGOs can “give aspects of the Australian aid programme a strong Australian identity”.

Support for debt reduction initiatives

As of March 1999, developing countries owed an estimated AUD 4 billion in sovereign debts to Australia. Although Australia has a grants-only aid programme, loans were previously extended with export credits under the now discontinued DIFF scheme.

The Australian government supports the heavily-indebted poor countries (HIPC) initiative developed by the World Bank and the IMF, even though it does not meet Australia’s national interest criterion, as most of these countries are not located in Australia’s region. Four of the 41 heavily-indebted poor countries had sovereign debts to Australia: Viet Nam (AUD 67.6 million); Ethiopia, the only HIPC with a project funded under the former DIFF scheme (AUD 15.3 million); Nicaragua (AUD 5.7 million); and Laos (AUD 0.6 million).

Australia’s official view is that while debt relief is not a substitute for development assistance, the HIPC initiative is the most credible way to provide debt relief. At a public seminar on World Debt, organised by the Parliamentary Joint Standing Committee on Foreign Affairs, Defence and Trade, the Parliamentary Secretary to the Minister for Foreign Affairs explained that the government’s priority is “to ensure that [debt] relief given is sustainable and not counter productive. Debt write-offs, without appropriate conditions attached, can send the wrong signals to poor countries managing their economies well and, in a sustainable fashion, could encourage the further accumulation of unsustainable debts and may discourage creditors from providing future assistance.”

Australia contributed USD 19 million (AUD 30.5 million) to the HIPC initiative in June 1998. These funds were provided from money already on deposit at the World Bank and the IMF - USD 5.5 million (AUD 8.7 million) in surplus funds held at the World Bank’s Interest Subsidy Fund and USD 13.7 million (AUD 21.8 million) held at the IMF’s Special Contingency Account. Australia supported the recent review of the HIPC process and supported proposals to deepen, broaden and speed up debt relief. For Australia, an important part of the review was how to strengthen the link between debt relief and poverty reduction. The Australian Treasurer announced at the IMF/World Bank annual meetings in September 1999 that Australia gave its full support to the proposed

12 . See *Working with Australian NGOs: An Australian Aid Programme Policy Paper* available from the Internet at: <http://www.ausaid.gov.au/publications/ngopub.html>

enhancements to the HIPC initiative and was committing an extra AUD 35 million in support. The Treasurer also endorsed the proposal for the IMF to meet its costs through revaluing its gold holdings, rather than selling its gold on the open market. This latter commitment will be funded from supplementary allocations to the aid budget over several years.

Australia has also participated in multilateral efforts to reschedule debt through the Paris Club. In general, if Australia has any eligible loans to countries treated by the Paris Club, it is obliged to reschedule on the same terms as other creditors. Australia rarely holds eligible loans but has participated in Paris Club reschedulings for Egypt (forgiving debt of AUD 195 million), Nicaragua and, most recently, Russia. Australia also participated in a multilateral rescheduling of Indonesian debt in 1998 and has provided bilateral debt relief, rescheduling loans to Cuba, the Solomon Islands and Viet Nam and contributing AUD 5 million to clear Viet Nam's arrears to the IMF and AUD 2.5 million to clear those of Cambodia.

CHAPTER 2

POLICY COHERENCE AND BROADER RELATIONS WITH DEVELOPING COUNTRIES

Policy coherence as national policy and in practice

Australia acknowledges the importance of coherent national policies for achieving strategic objectives. *In the National Interest* described the adoption of an integrated “whole-of-nation” approach as essential for achieving the government’s goals. Such an approach means that policy decisions take account of the linkages between domestic and international policy and requires the government to bring an understanding of the linkages across ministerial portfolios to the policy-making process. It also requires good communication among officials working on related issues in different departments and agencies. When presenting *Better Aid for a Better Future* to Parliament, the Minister for Foreign Affairs pointed out that there is no choice between dealing with domestic problems or providing overseas assistance as “the promotion of sustainable development overseas and the pursuit of Australia’s long-term national interest are inextricably linked”. The need for coherence in national policies impacting on developing countries has consequently been endorsed as Australian government policy.

In the National Interest states that an integrated approach “applies not only to domestic and international policies, but also to the various strands of external policy, especially foreign, trade, defence, immigration and development co-operation policies.” To enhance this approach, an explicit effort to articulate the interlinkages and complementarities between the various strands of external policy could help to generate public understanding of the role of aid.

Reflecting the especially immediate and direct importance of development co-operation for Australia, the aid dimension receives due consideration on a wide range of issues. The mechanisms for coherence and consultation across government departments and agencies are comparatively strong and well-functioning. Policy coherence seems to have been enhanced by the grouping of development co-operation, foreign affairs and trade policy within the same ministerial portfolio since 1996.

AusAID, which plays the central role in Australia’s aid efforts, operates in co-operation with DFAT. A range of other departments and agencies contribute to the aid programme or provide core funding to multilateral agencies, including the Treasury; the Australian Centre for International Agricultural Research (ACIAR); Environment Australia; Agriculture, Forests and Fisheries Australia; the Australian Defence Force; the Department of Health and Aged Care; and the Australian Electoral Commission. Through such mechanisms as inter-departmental committees and the circulation of important documents for input and comment, AusAID liaises with these other bodies to ensure a “whole-of-government” approach is adopted.

The Export Finance and Insurance Corporation (EFIC) provides Australian exporters and investors with a range of insurance, guarantee and financing products not normally provided by the private financial sector or where capacity is not available for particular high-risk markets. EFIC is an

autonomous government-owned corporation, now under the oversight of the Minister for Trade. A large proportion of EFIC's operations, which are fully guaranteed by the Australian government, involve activities in developing countries in the Asia-Pacific region. Given the important, sometimes decisive, impact that such investments can have on the economies of these countries, the coherence of Australia's policies would be improved if AusAID, where it has relevant development experience, were invited to provide consultative guidance to EFIC when government guarantees for investments in developing countries are considered.

The role of civil society

Effective policy coherence requires a place in decision-making processes for consultations and input from a broad range of interests in civil society. The Australian government has committed itself to improving channels of communication with those whose interests are affected by international negotiations and agreements. While pointing out that the Federal government is ultimately responsible for decisions about Australia's international commitments, *In the National Interest* acknowledged that achieving foreign policy goals "will require communication and consultation on policies and priorities among Commonwealth, State and Territory governments, the private sector and NGOs", since policies will only be sustainable if they have the support of Australian public opinion.

There are several recent examples of an opening up of foreign policy matters to a broader constituency in Australian society. The Simons Committee received 250 submissions for its review and held discussions with many individuals, representatives of State and Commonwealth government departments, businesses, tertiary and research institutions and NGOs. Three ministerial advisory committees have been formed - the Foreign Affairs Council, the Trade Policy Advisory Council and the Aid Advisory Council - to present views from civil society on topical issues and to provide ministers with expert advice. The Australian government has also expanded the treaty-making process to ensure greater consultation with civil society on the costs and benefits of international agreements to which the government proposes to accede.

Issues related to aid and Australia's relations with developing countries are considered by Committees of Parliament. In recent years, the Joint Standing Committee on Foreign Affairs, Defence and Trade has considered Australia's regional dialogue on human rights, its trade relationship with India and its relations with Southern Africa and Thailand. It has also held public seminars on the Asian financial crisis, the Simons Committee's review and Papua New Guinea. The Committee is currently holding an inquiry on Bougainville and held a public seminar on World Debt in August 1999. The Senate's Foreign Affairs, Defence and Trade References Committee recently conducted an inquiry on East Timor and released an interim report on 30 September 1999. AusAID and DFAT prepared a joint submission for this inquiry.

Promoting the liberalisation of trade and investment

As a large exporter of agricultural products, minerals and fuels, Australia's trade policy objectives often coincide with those of many developing countries. Furthermore, developing countries are important markets for Australia's exports of primary products. An expansion in exports to third countries of manufactured goods from developing countries could have an up-stream effect of increasing demand for some of Australia's primary product exports.

Promoting the liberalisation of trade and investment is a basic tenet of Australia's foreign and trade policy. Australia pursues its objectives by supporting moves towards rules-based and equitable

systems for governing international trade. Any advances Australia achieves on these fronts can also potentially be of benefit to developing countries. While the liberalisation of trade in agriculture has long been an area of particular concern, due to its importance for the Australian economy, AusAID needs to ensure that Australia is also actively promoting trade liberalisation in areas important for developing countries but of less direct benefit for the Australian economy, such as textiles, clothing and footwear.

Australia's strategies for promoting its foreign and trade policy objectives include "coalition building", the putting together of issues-based groups of countries to pursue a shared objective. An example was the setting up of an informal group of like-minded, mainly developing, countries at the World Trade Organization (WTO) headquarters to promote a new round of trade negotiations to cover agricultural trade. Another example is the "Cairns Group" of agricultural exporting nations (see Box 2).

Box 2. The Cairns Group

The formation of the Cairns Group, in 1986, resulted from an Australian initiative. The Group currently comprises three developed countries (Australia, Canada and New Zealand) and 12 middle- and high-income developing countries (Argentina, Brazil, Chile, Colombia, Fiji, Indonesia, Malaysia, Paraguay, the Philippines, South Africa, Thailand and Uruguay). The Australian Minister for Trade chairs the annual Ministerial meetings.¹³

It was, in part, through the efforts of the Cairns Group that a framework for reform in trade in farm products was established in the Uruguay Round and agriculture was, for the first time, subject to trade liberalising rules (as set out in the WTO Agreement on Agriculture). Since the conclusion of the Uruguay Round, the Group has continued to push for fair trade in agricultural exports.

The Group delivered a strong message at its 19th Ministerial meeting in Buenos Aires in August 1999, reaffirming its objective for trade in agriculture to be placed "on the same footing with trade in other products", pointing out that it is "unacceptable ... that the most efficient agricultural producers are penalised while barriers to non-agricultural trade are eliminated or reduced to a minimum" and stressing that "for much of the developing world, agriculture is the key for growth and employment, but high levels of protection and subsidies in some industrialised countries block the development process and must be stopped".

In another effort to promote a new round of multilateral trade negotiations, the Minister for Trade launched a report in May 1999, *Global Trade Reform: Maintaining Momentum*¹⁴, which found that for both developed and developing countries alike, there are compelling reasons to launch a new round.

Helping developing countries participate in the global economy

Structural weaknesses remain in many developing countries which hamper their fuller participation in the global economy. In recognition of this, Australia provides development assistance aimed at strengthening developing countries' capacity to identify and manage the potential economic and social impacts of trade and investment liberalisation, and to identify new sources of revenue and market opportunities. This assistance comprises a portfolio of direct, trade-related activities, as well as more

13. Further information on the Cairns Group is available from the Department of Foreign Affairs and Trade's Internet site at: http://www.dfat.gov.au/trade/negotiations/cairns_group/index.html

14. Available from the Internet at: http://www.dfat.gov.au/trade/opening_doors/index.html

general development programmes which have an indirect impact through improving economic governance.

Australia will provide some AUD 50 million in 1999/2000 for technical assistance and training to help countries develop legal and regulatory frameworks that promote trade and investment flows, including assistance to meet environmental, health and food safety requirements. Australia is supporting several countries' accession to the WTO and assisting WTO Members to implement Agreements and participate in WTO processes, including by funding attendance at meetings. Other activities are assistance for trade policy training and contributions to the Commonwealth Trade and Investment Access Facility. Australia is supporting the Asia-Pacific Economic Co-operation (APEC) Support Programme - which focuses on strengthening intellectual property rights, aligning national and international standards, improving quarantine controls and improving communications and information flows - as well as the development of an APEC Professional Services Directory, to facilitate access by APEC countries to professional services markets. In collaboration with Member countries of the Association of South-East Asian Nations (ASEAN), Australia has developed the Skills Recognition Directory for Professional Occupations that disseminates information on the requirements for entry to professional practice in the region.

Australia's support for activities to improve economic governance include AUD 46 million in 1999/2000 for economic management and private sector development projects and AUD 50 million for human and institutional capacity building projects in key public sector bodies. Another AUD 189 million has been budgeted for infrastructure investments needed to help developing countries participate more effectively in the global economy. In addition, nearly 1 000 students from developing countries are in Australia studying economics, business and administration. Improving economic governance is a major focus of Australia's response to the Asian financial crisis (see Box 3 on next page).

Australia's trading pattern with developing countries

Compared to many other DAC countries, a large and increasing share of Australia's trade has been with developing countries - 35.9% of its exports in 1997 (up from 30.8% in 1994) and 23.2% of its imports (up from 18.7%) (see Table 1). Australia's total two-way trade with developing countries amounted to 7.47% of its GNP in 1994 and rose to 9.74% in 1997. Australia's trade surplus with developing countries has also expanded, from USD 5.3 billion in 1994 (1.64% of GNP) to USD 8.2 billion in 1997 (2.16% of GNP).

Australia's trade performance depends crucially on countries in Asia. Excluding Japan - Australia's largest trading partner - from calculations, Asian countries took approximately two-fifths of Australia's exports in 1997 and supplied more than one quarter of its imports. In contrast, sub-Saharan African countries took 1.7% of Australia's exports and supplied 0.8% of imports. This trade was mostly with South Africa.

Box 3. Australia's response to the Asian financial crisis

The Australian government saw the Asian financial crisis as a systemic challenge and a test to the region. Australia is trying not only to palliate the surface financial problems, but to diagnose and help treat root governance and transparency issues destined to influence the region in the future. Australia has played its part in responding to the crisis including, during the early stages (late 1997 and 1998), committing financial assistance on commercial terms as part of the international financing packages sponsored by the International Monetary Fund (IMF) to Indonesia, Korea and Thailand¹⁵, in addition to providing food aid and humanitarian assistance, export credit guarantees and technical assistance on economic governance.

At the 1998 APEC Leaders' Meeting, Australia pledged a three-year AUD 50 million package to enhance economic governance in crisis-affected economies. This package draws on and complements bilateral and regional resources from the aid programme. Within APEC, Australia commissioned a survey¹⁶ in 1998 by an Australian economic research firm of on-going and possible future economic governance capacity building co-operation activities in Indonesia, Korea, Malaysia, the Philippines, Thailand and Viet Nam. The survey found that information flows, transparency, the quality of economic analysis and the strengthening of early-warning systems were common concerns. It also found that financial and corporate sector governance were two areas where intensive activities were both underway and where regional co-operation was seen as valuable. In 1999, the Australian government sponsored a further study for APEC of the impact of the crisis on children in Indonesia, the Philippines and Thailand (cited above). This report found that while most children had remained in school and continued to receive health services, there had been a shift in demand from private to public service providers, with a consequential increase in pressure on government staff and budgets.

Australia organised an international meeting on development co-operation responses to the crisis in Sydney (March 1999), attended by representatives of 29 countries and 9 multilateral agencies¹⁷. It was the first meeting at this level to consider the range of economic and social aspects of the crisis. Australia's proposal was adopted to establish an Asian Recovery Information Centre, to address the need for better access to and exchange of information on crisis impacts and responses.

As part of the aid programme, an Asia Crisis Fund was established in 1998/99. Its cumulative funding to 1999/2000 is AUD 18 million. The fund assists countries most affected by the crisis to restore growth, protect social investment and ensure appropriate social safety nets. In each bilateral and multilateral programme in the region, Australia has considered the impact of the crisis and, in many of these programmes, responses have been built into AusAID's work. Responding to the crisis, and particularly to the needs in Indonesia, continued to be a priority in the 1999/2000 aid budget.

15 . As part of the IMF-sponsored second tier support arrangements, Australia committed USD 1 billion each to Indonesia, Korea and Thailand. These commitments are being drawn down as required. As of October 1999, USD 862 million has been provided to Thailand as a currency swap and a USD 330 million loan has been provided to Korea. Discussions continue with Indonesia on the release of the first tranche of a USD 300 million loan.

16 . See Centre for International Economics, *APEC economic governance capacity building survey*, October 1998, available from the Internet at: <http://www.ausaid.gov.au/apec/>

17 . Further information on the *Meeting on Development Co-operation: Responding to the Asia Crisis* is available from the Internet at: <http://www.ausaid.gov.au/mdc-rac/index.html>

Table 1. Australia's merchandise trade with developing countries, 1997

	USD million			<i>For ref.: Net ODA</i>	Per cent	
	Exports	Imports	Trade surplus (+)		Exports	Imports
Developing countries by income group						
Least-developed countries	570	112	+459	126	0.9	0.2
Other low-income countries	5 080	4 708	+372	107	8.1	7.6
Lower middle-income countries	7 752	4 088	+3 365	400	12.3	6.6
Upper middle-income countries	3 857	3 182	+676	16	6.1	5.1
High-income countries	5 264	2 242	+3 022	1	8.4	3.6
Total developing countries	22 523	14 331	+8 193	1 061	35.9	23.2
All other countries	40 291	47 502	-7 211	<i>n.a.</i>	64.1	76.8
Total	62 815	61 832	+982	<i>n.a.</i>	100.0	100.0

Source: OECD.

Among developing countries, Australia's main trading partners are:

- **Korea.** Exports worth USD 5 017 million in 1997 (including gold, coal, iron ore and aluminium) and imports worth USD 2 199 million (including gold, passenger motor vehicles, telecommunications equipment, ships and computers).
- **China.** Exports worth USD 2 951 million in 1997 (including iron ore, wool, copper ores and crustaceans) and imports worth USD 3 513 million (including clothing, toys, games and sporting goods and footwear).
- **Indonesia.** Exports worth USD 2 516 million in 1997 (including cotton, crude petroleum and aluminium) and imports worth USD 1 680 million (including crude petroleum, gold and jewellery).
- **Malaysia.** Exports of USD 1 752 million in 1997 (including milk and cream, aluminium, copper and wool) and imports worth USD 1 557 million (including computers, telecommunications equipment, integrated circuits, crude petroleum and furniture)

Chinese Taipei and Singapore, which are no longer eligible for ODA, are two other large trading partners.

Australia's trade pattern has changed somewhat in the wake of the Asian financial crisis. Although Australia's imports from crisis-affected countries have continued to increase, its exports have declined and Australia is now running a trade deficit with Indonesia and Malaysia. Nonetheless, owing in part to the importance of primary products from Australia for these countries and their effort to trade their way out of economic difficulties, the fall in exports is not as much as initially anticipated.

Australia's tariff regime

Australia has been lowering its tariff rates over the last decade, which has opened up the Australian market to exporters from both developed and developing countries. In addition, two groups of developing countries - least-developed countries and countries in the Pacific (including Papua New Guinea) - have special access to the Australian market. Through one or both of these schemes, 11 of Australia's 20 largest ODA recipients in 1997-98 receive privileged access to the Australian market. Nonetheless, non-tariff barriers, such as quarantine restrictions, can still be an obstacle for importers.

For most of the century, Australia has protected domestic industries by erecting high tariff barriers to restrict imports. In 1988, Australia reversed this policy and in 1991 announced a programme of tariff reductions which led to the fall of all tariffs - other than those on passenger motor vehicles and on textiles, clothing and footwear - to a maximum of 5% on 1 July 1996. Australia is now a comparatively open market, with 44% of tariff lines having a zero tariff rate.

In spite of these general tariff reductions, Australia's textiles, clothing and footwear industries continue to receive relatively high tariff protection. Tariff levels are nonetheless declining. "Peak" tariffs for clothing and finished textiles will decline from 31% in 1998 to 25% on 1 January 2000, and will remain at that level until 2005. The government plans to reduce the peak tariff to 17.5% on 1 January 2005. Similarly, tariffs on other textile, clothing and footwear products will decline from their present range of between 5% and 22% to between 5% and 10% by 2005. Tariffs on passenger motor vehicles are scheduled to fall to 15% in 2000 and to 10% in 2005.¹⁸

Under the Australian System of Tariff Preferences (ASTP), goods imported from least-developed countries receive a five percentage point margin of preference where the general tariff is 5% or higher. Where the general tariff is already less than 5%, goods are imported tariff free. The ASTP now applies to all products, which is not the case with many other donors' General System of Preferences (GSP) Schemes. Nonetheless, only 0.2% of Australia's imports in 1997 originated in least-developed countries, as compared to 0.1% in 1988.

Trade between Australia, New Zealand and developing countries in the Pacific is governed by the South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA). This agreement provides developing countries with duty-free and unrestricted access to the Australian and New Zealand markets for all products - with certain exceptions including passenger motor vehicles and textiles, clothing and footwear - on a non-reciprocal basis. Some Pacific countries, such as Fiji, have welcomed and exploited the opportunities created through the Agreement. At his address at the 50th Anniversary Conference of the South Pacific Commission (SPC) in 1997, the President of Fiji noted that "I have always stressed that quite the best aid the major countries can provide for our island territories is the provision of markets for our fruit and vegetables and other island produce, and the opportunity to trade on fair and viable terms. The SPARTECA Agreement, despite difficulties, is an example of such an opening." In 1997, 1.6% of Australia's imports originated in developing countries in the Pacific, up from 0.6% in 1988.

18 . See WTO (1998), TPRM Australia.

Australia has also initiated and supported specific measures to encourage imports from developing countries, such as running seminars on how to access the Australian market and providing funds for pest surveys to evaluate compliance with quarantine regulations (needed to confirm claims of area freedom). Australia also funds the South Pacific Trade Commission in Sydney, which promotes trade and investment between South Pacific Forum island countries and Australia by providing technical and financial assistance as well as advice to partner governments and the private sector.

CHAPTER 3

ORGANISATIONAL STRUCTURES AND IMPLEMENTATION OF THE PROGRAMME

Australia's aid programme is divided into five sub-programmes: country and regional, global, corporate services (all AusAID), ACIAR and other government department expenditure (see Chart 1). Most funding is channelled through country and regional and global sub-programmes, each of which is further broken down into components - single and multi-country elements.

Country and regional programmes

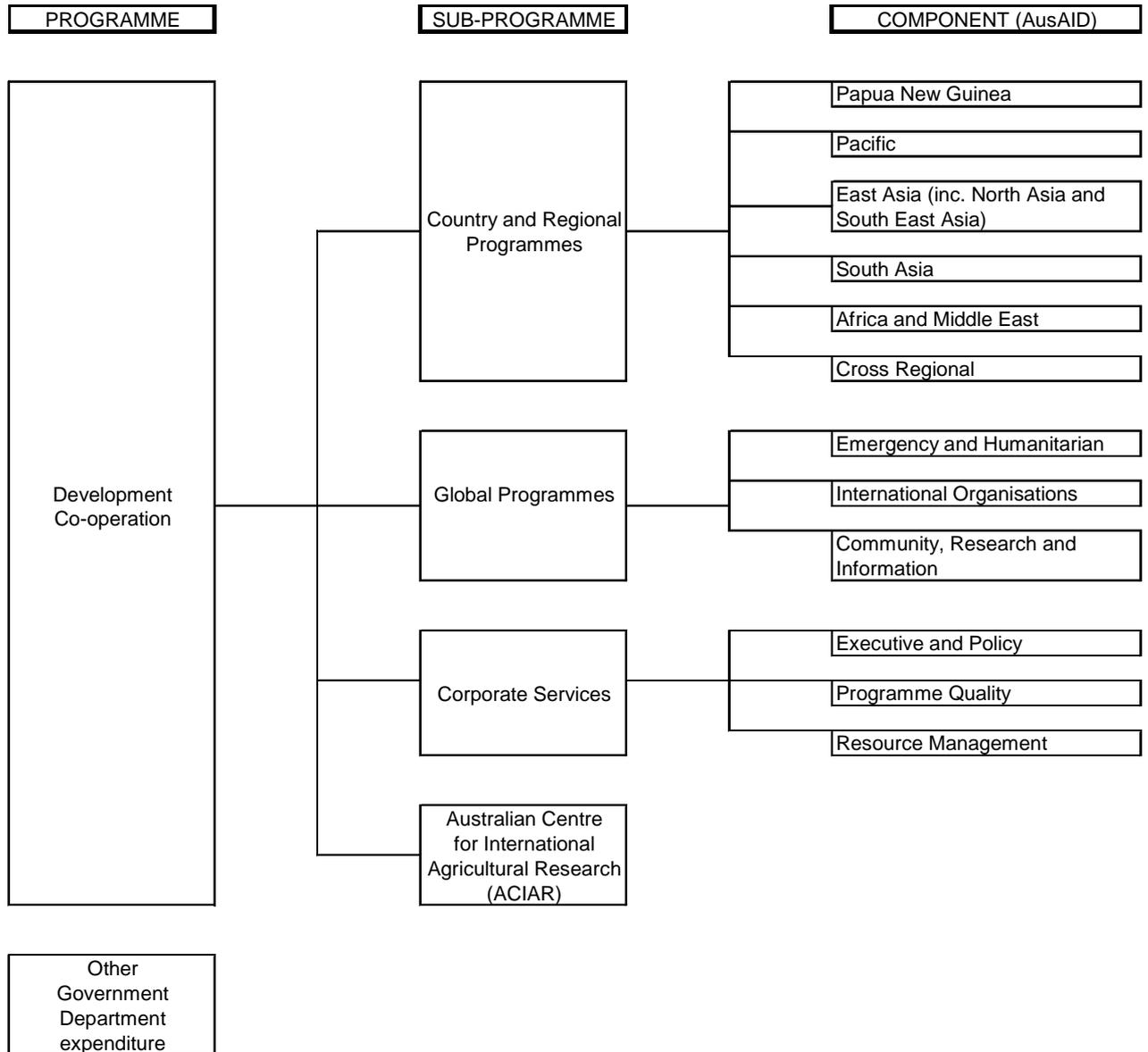
Papua New Guinea

Papua New Guinea gained independence in 1975 and Australia's bilateral programme began in the same year, initially in the form of substantial untied budget support. Australia's ODA to Papua New Guinea has been declining since 1975, but Australia has nonetheless provided more than USD 8 billion in ODA over the last 25 years (in constant 1997 prices), over 40% of its total ODA and more than three-quarters of the ODA received by Papua New Guinea from all donors. Papua New Guinea received ODA from Australia of USD 228 million in 1997, over one quarter of Australia's bilateral aid and one fifth of its total ODA.

In response to concerns about its effectiveness, budget support was progressively phased out during the 1990s and has now been replaced with jointly programmed aid (i.e. discrete project and programme activities). The lack of effectiveness of budget support may have been due to Papua New Guinea receiving this aid when not engaged in an internationally-agreed and backed macro-economic stability package and because accompanying administrative and structural reforms were not being undertaken (decentralisation of government functions commenced with the new Organic Law introduced in 1994). AusAID can point to some important achievements that have already occurred with jointly programmed aid in the areas of health (eradication of polio and a decline in child mortality), education (building of classrooms, training of teachers and provision of books leading to increased primary school attendance) and infrastructure (1 400 km of roads and 70 bridges built or repaired over the last four years).

Since 1989, Australia's aid has mostly been provided under a treaty, a comparatively rare arrangement. The treaty is jointly reviewed every three years. Following the 1995 review, annual high-level consultations to set policy directions began and performance benchmarks were introduced to monitor progress in achieving reform objectives. Activities outside the treaty have included responses to natural disasters and short-term financing to shore up the economy. Most recently, Australia announced its intention to extend a renewable 90-day USD 80 million financing facility to enable the government to retire some of its debt.

Chart 1. Australian aid programme structure



Source: AusAID.

AusAID's current programme is guided by a country strategy paper and has four main objectives:

- **Strengthening governance** including support for economic management, capacity building of Papua New Guinean service delivery agencies, promoting the rule of law and strengthening civil participation.
- **Improving social indicators** by expanding primary health care and education facilities, especially to poor rural communities, strengthening Papua New Guinea's emergency response capacities and promoting gender equality.
- **Building prospects for sustainable economic growth** by assisting in the construction and maintenance of infrastructure vital for development, increasing agricultural productivity and encouraging the sustainable use of natural resources.
- **Consolidating the peace process in Bougainville** by providing an identifiable peace dividend.

Budget allocations in 1999/2000 are divided between activities in infrastructure (32%), education (26%), health (13%), governance (19%) and renewable natural resources (7%).

As part of the 1998 review of the development co-operation treaty, the two governments agreed on a new treaty to take effect from 1 July 2000, with the following principles to guide the programme:

- **Benchmarks.** The benchmarking system will continue and be sharpened, consistent with the IMF and World Bank's economic reform programme and linked to the level and composition of the aid programme.
- **Contestability.** Through a new Incentive Fund, a small but growing portion of the programme will be devoted to rewarding and encouraging good performance by institutions, both inside and outside the Papua New Guinea government. Initially, AUD 15 million will be set aside for the fund, and this will be increased annually. Funds not awarded annually will lapse, providing a strong incentive to generate feasible proposals.
- **Indicative annual planning level.** A maximum indicative annual planning figure for the programme for the period 1 July 2000 to 30 June 2003 of AUD 300 million was established.
- **Targeting.** Funds will be directed, where appropriate, to Papua New Guinea agencies to meet agreed service delivery targets.
- **Participation.** The level of participation in the aid programme by Papua New Guinea agencies, companies and individuals will increase.

An assessment of the Australian aid programme, based on a field visit to Papua New Guinea, is presented in Box 4 (on next page).

Box 4. Australia's development co-operation programme in Papua New Guinea

Papua New Guinea is a challenging development case which deserves more attention from the international community. AusAID definitely appears to be working intensively on the key development problems facing Papua New Guinea and has an impressive field apparatus to carry it out, backed up by strong support in headquarters. Australian officials believe the transition to programmed aid has improved the impact of Australia's aid, increased accountability and transparency, facilitated policy dialogue on specific sectors and important economic issues and encouraged Papua New Guinea government agencies to take on increased responsibility for contracting and managing activities. AusAID works hard to foster the involvement of Papua New Guinea partners and to promote a stronger sense of local ownership, thus improving chances for sustainability of projects and programmes.

Australia can claim some successes in this difficult development environment. Reaching agreement to move to programmed aid was undoubtedly a constructive step. Second, the new treaty and the introduction of contestability aimed at providing an incentive to raise the standards of performance appears to be a further constructive step. Third, in the area of disaster relief, AusAID has been at the forefront in mounting operations to save lives, relieve suffering and reconstruct following such disasters. Fourth, Australia's support for the peace process in Bougainville has been important. Fifth, AusAID has played a major role in key sectors in Papua New Guinea - infrastructure, education, health, law and justice, renewable natural resources and governance - which are the building blocks for future development.

Nonetheless, in retrospect, some aspects of the first "generation" of projects raise questions. Was too much effort put into higher education at the expense of support for broader-based primary and secondary education systems? Was health sector aid oriented too much towards curative medicine - hospitals and medical equipment of doubtful sustainability - instead of broad-based primary health care? Finally, disparities in opportunity and wealth inequality can potentially create tensions which can lead to conflict. Could more have been done to analyse and address these distributional issues?

Given the magnitude and importance of AusAID's programme in Papua New Guinea, little evaluation material has been published. In particular, there seems to be no information available on what the effect of 25 years of untied budget support has been. AusAID points out that programmed aid is in its early days and that several major projects or sectors will be evaluated at appropriate intervals in the future.

In contrast, AusAID's projects are the subject of comprehensive internal mid-term and end-of-phase reviews, which are prepared with the participation of representatives from Papua New Guinea. AusAID seems to consider that these course-correcting reviews are of greater value than *ex post* evaluations as the guidance contained in them is available quickly during project implementation and is applicable more readily.

The AusAID office in Port Moresby maintains a Country Portfolio Risk Assessment and Monitoring Plan which categorises activities as high, medium or low risk. Currently, there are around 125 different line items in the plan. Against the background of concerns about the level of performance of Australia's aid programme in Papua New Guinea in the past, this monitoring plan will play a critical role in improving the effectiveness of the programme in the future.

continued

Despite the strong office staffing of AusAID in Papua New Guinea, the number of discrete activities being undertaken is striking. Even though AusAID's traditional mode of implementation - Australian managing contractors - provides a relatively strong assurance that the details of project and programme management will be well covered, this delivery mode still requires monitoring and oversight. Similarly, while activities are increasingly being channelled through Papua New Guinea government systems, in many cases those systems are fragile and uncertain, which again suggests the need for close monitoring and oversight. A concern consequently exists that the overall programme lacks strategic selectivity and might have too many discrete management units and activities to look after. Consideration should be given to finding ways of reducing the number of discrete activities and the span of control, thus allowing AusAID more time to focus on strategic issues. With the new treaty in place, it might be possible to think in terms of larger management units, identifying more areas to contract out and continuing to channel activities through government systems, to the extent they can be absorbed (an important caveat).

Another area of concern is whether sufficient attention is being paid to cost recovery and recurrent costs in the design of the present generation of projects. It is worth keeping in mind when designing projects and programmes that donor support is meant to be temporary and the objective is to encourage development of systems and institutions that will continue. Sometimes, inexpensive locally-built facilities requiring low maintenance can be more sustainable than expensive facilities relying on imported materials. The gradual move towards sector approaches in Papua New Guinea, initially in the health sector, is providing an opportunity to consider and address sustainability issues. Given the effort AusAID is making to improve standards of performance, it would seem that this issue could be given more consideration as new projects and programmes are taken up for design and eventual financing.

Pacific islands

Aid to Pacific island countries is an important focus for Australia's programme. It is a region where Australia is one of the leading donors, along with Japan and New Zealand, providing over USD 80 million per year in recent years. Expenditures in 1998/99 amounted to AUD 121 million, 8% of total ODA. Australia's ODA is concentrated in Fiji, Kiribati, Samoa, the Solomon Islands, Tonga, Tuvalu and Vanuatu, with limited assistance to other countries and territories linked to former colonial administrations.

These island countries have common problems - remoteness, limited natural resources, small size, susceptibility to natural disasters, shortages of trained personnel and low economic growth compared to population growth, although their entire population is low - around 2.5 million. On the other hand, the key development indicators for the region (literacy, infant mortality and life expectancy) are generally better than in other developing regions. Australia recognises that some of the less economically viable atoll states cannot realistically gain independence from aid. Australia's long-term objective is to help Pacific island countries achieve the maximum possible degree of self-reliance.

In 1998, AusAID prepared a *Pacific Islands Development Strategy (1999-2001)*¹⁹ aimed at better governance, sustained growth, greater capacity, better service delivery and environmental integrity. Support for the region's multilateral agencies and the University of the South Pacific is part of the strategy.

19 . Available from the Internet at: <http://www.ausaid.gov.au/country/spac.html>

Funding for regional organisations has been stable in recent years while funding for multi-country projects has been reduced to accommodate the Policy and Management Reform Fund, which provides additional funding, on a competitive basis, for economic and public sector management projects. For 1998/99, this is funded at about USD 8 million or roughly 10% of ODA for Pacific island countries. By introducing contestability, this fund enables Australia to support economic and public sector reform initiatives in a flexible and competitive way.

Tertiary scholarships have been integrated into country planning for the region. Thus, Australia's aid activities have increasingly been brought within the scope of joint aid planning with these partner countries. Sector investment programmes, where Australia and the partner government agree on broad sectoral objectives and jointly manage the allocation of funds in pursuit of those objectives, are planned to be piloted in one or more of the smaller island states.

Some assistance from AusAID global programmes, such as volunteer programmes, is provided to Pacific island countries. With the establishment of the Australian Youth Ambassadors for Development Programme in 1998, the number of volunteers in the region is forecast to increase sharply in 1998/99, from 410 to about 600.

East Asia

The Asian financial crisis was the most significant concern in the region, eroding development gains and requiring years for recovery. AusAID's regional and bilateral programmes are continuing within that context. In addition to the Asia Crisis Fund, Australia supports a number of other regional activities (ASEAN-Australian Economic Co-operation Programme; South-East Asian Regional Programme; APEC Support Programme; Mekong Basin Sub-regional Programme, Singapore-Australia Third-Country Training Programme; and Private Sector Linkages Programme, between developing country market-oriented organisations and Australia). Total expenditures in 1998/99 amounted to AUD 323 million, 22% of total ODA.

Indonesia is the main recipient in this region (almost one third of Australian ODA to East Asia) and the second largest recipient of Australian aid. The Asian financial crisis forced Indonesia and the donor community to concentrate resources on addressing the immediate effects of the crisis. In this context, Australia and Indonesia agreed on a shorter-term, flexible strategy for the period October 1998 to December 1999, but with an eye to returning to sustainable growth and development and, therefore, a more medium-term programme, from 2000 on. The primary focus in the short-term is basic constraints to development, such as the immediate problem of food security, employment creation and other social safety net concerns. Activities are concentrated in areas of greatest need. Those directed at strengthening governance are primarily aimed at the government/policy making level and occur mainly in Jakarta-based institutions. Consistent with the Australia Indonesia Development Area (AIDA) initiative, the geographic focus of the programme's interventions to protect and build the platform for the resumption of long-term growth continues to be on eastern Indonesia, in particular the provinces of West Tenggara, East Nusa Tenggara and East Timor. These provinces are the third or fourth poorest provinces in Indonesia. A stronger emphasis on governance is the programme's principal response to the crisis in terms of longer-term development interventions and will provide a binding focus across all sectors. An assessment of the Australian aid programme, based on a field visit to Indonesia, is presented in Box 5 (on next page).

Box 5. Australia's development co-operation programme in Indonesia

From a broad perspective, the following assessment of Australia's aid programme in Indonesia can be made:

- It is closely linked to the Indonesian development strategy and is focused on pertinent objectives, poor provinces and strategic directions.
- It has responded quickly, effectively and in a flexible way to the economic crisis, through a challenging focus on the sensitive area of governance and support for social safety nets, without losing the long-term perspective and sustainability focus. Nevertheless, it remains a programme in transition.
- It has been very well co-ordinated and agreed upon with other major donors. AusAID has played a complementary but quite important role supporting some strategic and well-targeted programmes and projects selectively.
- It incorporates some important lessons learnt from previous activities, in particular in the areas of health, HIV/AIDS and STD prevention and care, as well as rural water supply. The latter has allowed Australia to have an impact beyond the specific project level, and - in co-ordination with the United Nations Development Programme (UNDP) and the World Bank - to influence national policy development in other East Asian and Pacific island countries.
- It has been relatively successful in incorporating the experience and know-how of Australian contractors, in particular in the more technical areas of co-operation.
- But, it has also recognised that interventions emphasising local ownership and participation are likely to be the most successful in terms of ensuring maximum benefits and sustainability of outcomes.
- It is well administered and monitored through AusAID's local representation, with a number of qualified field staff.

At the same time, there are a number of issues that need to be discussed in the perspective of a new medium-term country strategy to be prepared soon:

- *Strategic selectivity:* As Indonesia moves progressively towards renewed economic growth, the present country programme could appear to be unfocused and dispersed. The operational link between short-term responses to the crisis and more traditional, medium- and long-term oriented activities should be further enhanced. For instance, the "Back-to-School" campaign and monitoring of the short-term programme of scholarships and block grants to schools could be linked with a strategy of increasing AusAID short-term focus on basic education. The links and institutional knowledge acquired through AusAID involvement in the Back-to-School campaign and scholarships and grants programme will assist in developing a longer-term project in the basic education sector. Another example of support for crisis-related activities, which is directly linked to AusAID medium- and longer-term activities is the funding of the Social Monitoring and Early Response Unit (SMERU). Data and links through SMERU with Indonesian civil society could be drawn on heavily in the development of a civil governance strategy for Indonesia.

continued

- *Poverty focus*: the country strategy lacks measurable operational targets and indicators for monitoring poverty reduction at the country, sector and programme/project levels.
- *Local ownership and partnership*: AusAID's contractor system, while ensuring a good level of accountability and control, may also indirectly contribute to continuing institutional weaknesses within Indonesia.
- *Delegation of responsibilities to AusAID's local representation* in Jakarta has worked well on monitoring programme implementation and liaison with development partners. A recent review of the Programme Administrative Support Unit (PASU) in Indonesia recognised that its functions had changed, resulting in more responsibility for reporting on aid issues relating to the social and economic crisis and governance problems and managing the programme and project response. Nevertheless, know-how and experience of local staff could be used more efficiently and further enhanced through training activities.
- A number of *Indonesian NGOs* have demonstrated, at the grassroots and micro levels, that they can play a complementary but highly effective role in enhancing service delivery mechanisms.

In East Timor, Australia had been involved with programmes amounting to an estimated USD 35 million up to mid 1999, providing assistance in many key areas - water supply and sanitation, rural development, a tuberculosis programme, scholarships and vocational training. Australia helped to prepare for the ballot in September 1999 when the East Timorese voted for independence from Indonesia and is currently playing a leading role in humanitarian assistance to East Timor. The government has indicated that funding for East Timor will not be at the expense of other aid programmes. A temporary tax levy is to be introduced in Australia to fund additional expenditures for East Timor.

Other main partners in East Asia, in descending order by aid levels, are Viet Nam, the Philippines, China, Cambodia, Thailand, Laos, Malaysia and Mongolia. Australia has played an important role in these countries. For instance, Australia was the first Western aid donor to resume full bilateral aid relations with Viet Nam following the 1991 Paris Peace Accords on Cambodia and, in recent years, has been among the top five donors. This is a rapidly growing programme in education and training, infrastructure (e.g. My Thuan Bridge and flood control), health, NGO activities and emergency aid. Australia sponsored a programme, in co-operation with the United Kingdom, to combat dengue fever, for which there is no vaccine, by introducing an organism which feeds on the larvae of dengue-carrying mosquitoes. This approach wiped out dengue mosquitoes in one commune and is being extended to others.

In the Philippines, Australia is working in similar sectors and more intensively in environment (urban environmental planning) and agriculture, with geographic concentration in the southern Philippines, particularly Mindanao. In China, Australian aid projects mainly assist in poverty reduction in remote inland provinces, untouched by development, in contrast to the booming coastal economic zones. In addition to education and training, and environment, Australia is funding projects to demonstrate the viability of voluntary family planning integrated into maternal and child health delivery systems. The nature of Australia's aid partnership has changed dramatically as China was previously the largest beneficiary of mixed credits from the discontinued DIFF scheme.

South Asia

South Asia, with 40% of its population below the poverty line, low indicators in literacy and high malnutrition, is a large and comparatively poor region. AusAID's *Strategy for South Asia (1999-2002)* focuses the programme on four priority areas: peace and human rights, including reducing child labour; reducing HIV/AIDS; capacity strengthening of governments to deliver services; and natural resource management and rural development in selected areas. The geographic focus in each country will be tightened. Although not listed as a priority area, there will be considerable attention paid to girls' education, particularly in Bangladesh, India and Pakistan.

AusAID is active, as a relatively small donor, in seven South Asian countries: Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka (Sri Lanka and Maldives stand out in this group, with their higher social indicators). In 1998/99, this region received AUD 89 million, 6% of total ODA with a significant proportion, about one fourth, being food aid (mainly in Bangladesh and Sri Lanka). The strategy proposes moving to a greater focus on food security through gradual reduction in bilateral food aid levels. The strategy also includes a risk management assessment (political, management, security, lack of counterpart funding commitment and poor recipient government capacity risks) and a performance monitoring framework.

Africa

In 1995, AusAID carried out a review, entitled *Australian Aid to Africa: A New Framework*, which provided background for developing AusAID's programme in the region. The geographic focus of Australia's bilateral programme in Africa is being concentrated on three countries, South Africa, Mozambique and limited activities in Zimbabwe. Some aid is provided to other East African countries. NGO regional programmes have been increased and there will be a new NGO programme on food security in 1999/2000. Other elements of the programme include tertiary scholarships, good governance, human rights, public administration and civil society. Total funding in 1998/99 was AUD 36 million, 2% of total ODA.

Australia and South Africa co-operate on international issues, particularly those affecting the Indian Ocean, trade, human rights, nuclear disarmament and environment. The aid programme is primarily in human resource development, capacity building and institutional strengthening, basic needs (encompassing broadly education, adult literacy, AIDS, micro-enterprise, housing and a small activities scheme) and NGO projects. In Mozambique, Australia supports democratic reform, good governance and capacity building in addition to providing humanitarian relief when needed. Most of the programme is devoted to education and training, refugee and relief assistance, often through NGOs. In Zimbabwe, the programme concentrates on education and training, health, agriculture and micro-enterprise development.

Assuring quality: the Activity Monitoring Brief

For each activity in its country and regional programmes, AusAID prepares an Activity Monitoring Brief which is stored in a database known as the Activity Management System. While these two management tools have existed and evolved for several years, their value and use have expanded with AusAID's increased focus on quality and the Australian government's introduction of accrual accounting and results-based management.

The Activity Monitoring Brief is both a monitoring and reporting tool. Its main purpose has been to present information on project performance, including problems, issues and recommendations for further action. Following recent revisions, the briefs can be used to indicate activity performance against objectives and quality. As part of the brief, an Activity Quality Rating is derived from responses, using a five-point scale, to each of AusAID's four quality attributes (see Chapter 1). This rating incorporates judgements of the partner agency, the Australian managing contractor and about the activity's sustainability. Ratings can be aggregated to assess and report on programme quality, sectoral performance and the overall quality of the portfolio.

For each activity, a primary and secondary code is recorded, using the DAC's five-digit purpose codes. By computer mapping these codes to AusAID's ten Key Result Areas, the system automatically generates aggregate data by "Significant Outputs". The intention is to compile data on Significant Outputs by programme and by sector, as a major input into AusAID's annual performance reporting. For each activity, entering information for gender and environment markers is mandatory.

AusAID's transition from *ex post* evaluations as the prime vehicle for providing feedback to a focus on assisted self-evaluations to guide adjustments during all the project cycle is at the leading edge of approaches among DAC Members. Inevitably, as with all devolved systems, there is a need to ensure that all those involved in self-evaluation understand the process, have ready access to expert guidance and have sufficient time to ensure the system works. Management needs to support this process by using the system wisely and consistently in its decision making.

Non-governmental organisations

Aid through non-governmental organisations

The principle role for NGOs in the aid programme is as service deliverers. There are various funding channels for NGOs, with programmes divided between those applicable to Australian NGOs (AUD 81 million in 1997/98) and those applicable to international NGOs and NGOs in developing countries or "indigenous" NGOs (AUD 21 million in 1997/98). AusAID does not provide core funding to NGOs but will support administrative and implementation costs related to projects supported. AusAID provides core funding to ACFOA for a range of services, such as training NGO counterparts.

The main funding windows for Australian NGOs are for humanitarian and emergency relief (HES) activities (AUD 26.8 million in 1997/98), country programme windows (AUD 21.2 million), the AusAID-NGO Co-operation Programme (ANCP) which provides a subsidy for NGOs' own development activities (AUD 19.4 million) and volunteer programmes (AUD 11.3 million). Although 93 Australian NGOs received AusAID funding in 1997/98, that funding was concentrated in six organisations which, collectively, received nearly two-thirds of all funds: World Vision (the largest recipient of ANCP and HES funds), Australian Volunteers International (AVI) (the largest recipient of funding for volunteers), Community Aid Abroad, CARE, United Nations Children's Fund (UNICEF) and Australian Red Cross (the largest recipient of funding from country programme windows). Twenty-five NGOs received less than AUD 20 000.

Australian NGOs may also bid for commercial contracts tendered by AusAID. In 1997/98, NGOs were successful in tendering for contracts to a total value of AUD 67 million.

Consultations between AusAID and the NGO community occur at several levels. The Committee for Development Co-ordination (CDC) is an advisory body comprised of representatives from NGOs and AusAID. An informal group made up of the Director-General of AusAID, the heads of the 11 largest NGOs and ACFOA meets regularly to discuss issues. Input from NGOs is also sought, for example on the new policy statement and when country strategies are being prepared.

The main schemes for non-Australian NGOs are country programme windows (AUD 15.1 million in 1997/98) and humanitarian and emergency relief activities (AUD 4 million). Through country programmes, AUD 1.6 million was provided as core support to the International Planned Parenthood Federation (IPPF) while the remaining funds supported 119 projects in 22 partner countries. The HER funds were provided to the International Committee of the Red Cross.

Volunteer programmes

Providing volunteers is an aspect of the programme that dates back to 1963 when the first group of 11 volunteers went to Papua New Guinea and the Solomon Islands. The programme has grown since, and while the bulk of the funding (about 80% or about USD 8.4 million in 1997/98) comes from AusAID, funding comes from other sources, too, such as donations, sponsors and legacies.

In 1997/98, 493 male and 463 female volunteers worked in 44 countries in Asia, Africa, the Pacific and Latin America, sponsored by AVI, Australian Executive Service Overseas Programme (AESOP), Interserve and the Paulian Association Lay Missionary Service (PALMS). Most worked in education and training (almost 40%) but others worked in psychology, economics, social sciences, natural sciences, agriculture, engineering, health and business administration/communications. Some were involved in education on landmines. About half of these volunteers were assigned to positions with government organisations and most of the others were with NGOs. A few worked with church, semi-government or media organisations, international organisations or educational institutions. Volunteers ranged in age from 21 to 73 years and in some cases couples or family groups went on assignment.

The volunteer programme was given a boost in 1998 when the Minister for Foreign Affairs announced the creation of the Youth Ambassadors for Development Programme, with an AUD 10 million two-year commitment to place up to 500 young Australians in short-term placements in the Asia-Pacific region. This initiative was welcomed by the volunteer community.

Assuring quality: NGO accreditation and accountability

AusAID has developed some interesting responses to the challenge of how to facilitate and harness the energies and engagement of civil society, while simultaneously managing accountability for the use of public funds and stimulating higher degrees of professionalism and added value by civil society organisations. In recent years, AusAID and the NGO community have made considerable progress in implementing a range of reforms in the wake of a series of reviews of NGO schemes (see Box 6 on next page). The number of NGO funding schemes has been reduced from 34 to 12.

Box 6. Review and evaluation of official funding for NGOs

Australia's official funding for NGOs has gone through a remarkable series of reviews and evaluations during the 1990s despite the comparatively modest share of the aid programme that it represents. There are few other examples in the DAC of a component of a Member's aid programme coming under such close and protracted scrutiny. This represents an interesting example of public scrutiny for other DAC Members.

During 1994 and 1995, the Industry Commission carried out a review of Charitable Organisations in Australia and published a report²⁰ which found that, in many respects, the accountability requirements for development NGOs receiving funding from AusAID were more satisfactory than for NGOs as a whole. However, while accountability standards were highly developed for some of AusAID's NGO funding windows, standards were inconsistent across the different programmes.

AusAID commissioned a review, in 1995, of the effectiveness of expenditures on activities implemented by Australian NGOs. The review recommended that AusAID seek to co-operate with NGOs on a cost-sharing basis, reduce the number of NGO programmes administered by country desks and strengthen accountability mechanisms, including by requiring NGOs receiving government funding to adhere to a code of practice.

In 1996, the Australian National Audit Office carried out a performance audit to review AusAID's management of funding to NGOs. The audit, published as *Accounting for Aid: The Management of Funding to Non-government Organisations* (Audit Report No. 5, 1996-97)²¹, found that "AusAID's regime for the management of funding to NGOs was generally of a high standard. Aspects of the management framework are at the leading edge of international best practice." However, it also found that improvements could be made in the application of this regime, with some deficiencies being "sufficiently widespread to be considered systemic. These weaknesses have a common base in the multiplicity of guidelines to be applied in an organisation that has high staff mobility." The ANAO recommended rationalising funding mechanisms, standardising and reducing guidelines, including performance indicators and performance information in future NGO grant schemes, improving contract monitoring and providing specialised training to AusAID and NGO counterparts.

The Simons Committee review in 1997 found that "[a]lthough a wide range of special programmes has evolved to support the work of NGOs, there has been no cohesive policy statement outlining the role of NGOs in the official programme, or the objectives for government support." The Committee recommended that AusAID develop a formal statement of policy principles and objectives for its co-operation with NGOs. The committee concluded that proposals for wider application of cost-sharing arrangements should not be adopted.

The ANAO conducted a follow-up audit, in 1998, to assess the extent of implementation of recommendations of its 1996 performance audit. The conclusion, published in *Accounting for Aid: The Management of Funding to Non-government Organisations - Follow Up Audit* (Audit Report No. 18, 1998-99)²², was that AusAID had made considerable progress in implementing reforms, but implementation was not complete and in some areas had been inconsistent across the agency. This had affected AusAID's capacity to administer NGO schemes efficiently and to report on achievements and outcomes. The ANAO made further recommendations designed to refine or complete existing reforms.

20 . Available from the Internet at: <http://www.indcom.gov.au/inquiry/45charit/index.html>

21 . Available from the Internet at: http://www.anao.gov.au/rptsfull_97/audrpt05/contents.html

22 . Available from the Internet at: <http://www.anao.gov.au/rpts99.html>

Critical to this reform process has been the development of a new Code of Conduct²³ which sets out standards of governance, management and financial control to which signatories are bound and identifies mechanisms for ensuring accountability in the use of public monies. Importantly, and in contrast to the previous Code of Ethics, the Code of Conduct includes a common financial reporting format to be used for annual reports as well as a Complaints and Compliance process which can, ultimately, lead to an NGO losing its accreditation. The Code of Conduct was developed jointly by government and NGO representatives but was finalised by ACFOA. To date, 120 NGOs have acceded to the Code of Conduct.

To receive funding from the aid programme, Australian NGOs must adhere to the Code of Conduct, demonstrate continued support from the Australian community - as indicated by public donations of at least AUD 30 000 annually - and maintain their accreditation with AusAID.

Accreditation is determined jointly by AusAID and NGO representatives on the basis of published criteria²⁴. Successful NGOs are granted Base or Full Accreditation for a period of five years and sign an umbrella contract with AusAID which defines responsibilities in a clear and legally-enforceable manner. Individual projects of Base Accredited NGOs are approved by a panel while Fully Accredited NGOs have greater autonomy, submitting an annual programme of activities and supplying a mid-year up-date on progress achieved. NGOs unsuccessful in gaining accreditation can re-apply after two years.

During the five-year period, accredited NGOs must supply AusAID with timely narrative and financial reports on any AusAID-funded activities and are expected to notify AusAID of any difficulties encountered. In addition, NGOs should supply their annual report and audited financial statements. NGOs with Full Accreditation have the capacity to design, appraise, implement, monitor and evaluate development programmes in a systematic and timely way. All accredited NGOs can be the subject of AusAID audits, spot-checks or cluster evaluations. At the end of the five-year period, an NGO's accreditation will be reviewed. Some 30 NGOs have received Full Accreditation and another 23 Base Accreditation. So far, the accreditation process has focussed on inputs and management systems but in future improved performance information will enable outcomes to be included and the process should be extended to cover performance in the field.

After an inevitable period of teething problems, many NGOs are finding that adherence to the Code of Conduct and AusAID's accreditation process is helping them improve their own performance and management of development activities. The smaller NGOs, however, have found the transition more difficult. One concern NGOs have is that increased pressures to achieve results within fixed time-frames may be counter productive and could discourage institutional learning. NGOs are also concerned that such contracting methods may lead to a mechanistic approach and could jeopardise the financial viability of smaller organisations. Finally, some Australian NGOs see an inconsistency as increasing amounts of funding are going to international and indigenous NGOs that do not have to go through the same rigorous accreditation process and so do not have the same demands placed on them.

23 . See *ACFOA Code of Conduct for Non Government Development Organisations* available from the Internet at: <http://www.on-the-stone.com/acfoa/about/conduct.htm>

24 . Information on funding opportunities through the aid programme for Australian NGOs and the criteria for their accreditation are published in *AusAID's NGO Package of Information*, available from the Internet at: <http://www.usaid.gov.au/publications/ngo/ngopi.html>

Multilateral assistance

Australia's multilateral development assistance

Australia's multilateral ODA totalled AUD 403 million in 1997/98, comprising contributions to:

- **Multilateral development banks:** mainly the World Bank group (AUD 133 million) and the Asian Development Bank (AsDB) (AUD 110 million). Australia has considered and rejected joining the African Development Bank. Australia is also a member of the European Bank for Reconstruction and Development (EBRD), contributions to which are recorded as official aid.
- **UN development and humanitarian agencies** (AUD 81 million), of which AUD 54 million to the World Food Programme (WFP), AUD 7 million to the UN Development Programme (UNDP) and AUD 5 million to UNICEF.
- **Emergency and refugee organisations** (AUD 17 million), of which AUD 14 million to the UN High Commissioner for Refugees (UNHCR).
- **International health and population programmes** (AUD 16 million), including AUD 12 million to a range of international health programmes, of which AUD 6 million to World Health Organization (WHO) programmes. Australia is collaborating with the WHO in its efforts to improve efficiency.
- **Commonwealth organisations** (AUD 9 million), including AUD 7 million to the Commonwealth Fund for Technical Co-operation (CFTC). Although its contributions have been declining in pound sterling terms, Australia remains the third largest donor to Commonwealth organisations.
- **International environment programmes** (AUD 14 million), principally the Global Environment Facility (GEF) (AUD 9 million) and the Montreal Protocol Multilateral Fund (AUD 5 million).
- **International agricultural research programmes** (AUD 9 million).
- **Asia/Pacific regional organisations** (AUD 14 million), including the South Pacific Forum Secretariat (AUD 4 million). In 1999, Australia provided approximately one third of total contributions to the South Pacific Commission, South Pacific Forum Secretariat, the South Pacific Applied Geoscience Commission and the Forum Fisheries Agency.

In total, Australia provided core and voluntary contributions to 79 funds and agencies in 1996/97. In line with the adoption of a more strategic approach to the funding of multilateral institutions, Australia has reduced the number of agencies it supports. The Simons Committee recommended that AusAID progressively narrow the focus of its support to multilateral agencies. The government responded that it had already "reduced the number of international agencies supported through the aid programme" and that the "scope for further narrowing of this support is now limited".

AusAID commissioned a review, in 1997, to describe and compare the evaluation and monitoring capacities of the World Bank, AsDB, UNDP, UNHCR and WFP. The review report²⁵ indicated the degree to which AusAID can rely on each organisation's self-assessments of performance to account for the effective use of Australian ODA. The review concluded that the World Bank, AsDB and UNDP were conducting effective evaluations and report accurately on their own performance, albeit primarily at the central level in the case of the UNDP. It found that field-based operations of the UNDP, UNHCR and WFP had not been subjected to rigorous, in-depth evaluations to assess their developmental impact and sustainability. The review concluded that Australia may need to monitor more closely and/or evaluate UNHCR and WFP projects and programmes to assess performance. The preliminary findings of the review were provided to each organisation and their comments included in the final report.

Multilateral development banks

More than half of Australia's multilateral ODA is channelled through the World Bank and AsDB. As at 30 June 1998, Australia had contributed AUD 1.7 billion (in nominal terms) to the World Bank's International Development Association (IDA), 1.3% of total contributions and subscriptions. As at 31 December 1998, Australia held AUD 4.25 billion in shares in the AsDB, representing nearly 6% of total capital subscriptions. In addition, Australia had nearly AUD 2.9 billion in outstanding commitments. Australia is the fifth largest contributor to the AsDB.

AusAID works in association with DFAT and the Treasury on Australia's involvement in multilateral development banks. The Treasurer is Australia's governor at the World Bank and the AsDB while the Alternate Governor is the Parliamentary Secretary to the Minister for Foreign Affairs. Australia's Executive Director often, though not always, comes from the Treasury (in theory, the position can be filled by a suitably qualified public servant from any department or agency). AusAID provides most of Australia's funding to development banks and leads Australia's delegations for IDA and Asian Development Fund (AsDF) negotiations.

During negotiations for the replenishment of funds for IDA 12, Australia was expected to contribute 1.46% of funds, its "burden sharing" level, but instead committed AUD 275 million, AUD 6.84 million more than anticipated. Australia also agreed to accelerate encashments of these commitments. From Australia's perspective, two important issues for IDA 12 are that Pacific island nations maintain access to IDA concessional loans and that Indonesia be reinstated as an eligible borrower for credits in the social development area.

The AsDB's eighth Asian Development Fund (AsDF VIII) will come into force on 1 January 2001. Negotiations on its replenishment have started with an Australian co-chair representing donors. Australia has a comprehensive set of objectives for AsDF VIII, including: giving primacy to economic growth as a catalyst for reducing poverty; producing a coherent policy document on reducing poverty; setting allocations according to performance, in particular governance; encouraging contributions from new donors; and ensuring that the needs of the Pacific are addressed. A particular concern of Australia is that the AsDB's graduation process should take account of the vulnerability of Pacific islands.

25 . See *Review of the Evaluation Capacities of Multilateral Organisations*, Evaluation No. 11, May 1998, available from the Internet at: <http://www.ausaid.gov.au/publications/eval.html>

Each year, the Treasury prepares reports for Parliament on Australia's participation in the World Bank and AsDB, its attitude towards current policy issues and the two banks' efficiency and effectiveness.²⁶ Australia believes both banks have made good progress in implementing the recommendations of the Multilateral Development Bank Task Force. Furthermore, Australia welcomed the overall improvement in the World Bank's project performance but nonetheless stressed that results reported remain of concern: around 60% of operations result in only modest or less institutional development and only half achieve long-term sustainability. Regarding its portfolio, Australia finds the number of projects classified "at risk" is at an unacceptably high level. In the case of the AsDB, Australia finds it still needs to do more in such areas as measuring poverty and the impact of poverty reduction efforts, improving the strategic focus of the Board of Directors, implementing improvements in efficiency and developing high-level performance indicators that allow a comparative assessment of development impact.

Although figures on contributions and procurement vary from year to year, Australia is clearly a net beneficiary from its membership in development banks. Australia's contributions to the World Bank amounted to AUD 133 million in 1997/98, while procurement payments to Australian firms totalled AUD 329 million (of which an estimated AUD 267 million in procurement payments under adjustment lending). Australia's contributions and subscriptions to the AsDB in 1997/98 totalled AUD 110 million. In 1997/98, Australia's procurement with the AsDB - including goods, related services, civil works, consulting services under loans and technical assistance operations - reached AUD 419 million.

Australia's association with multilateral development banks also extends to cofinancing projects. In May 1999, AusAID was cofinancing 48 projects with the World Bank (to a value of AUD 173 million) and ten with the AsDB (AUD 89 million). Approximately two-thirds of these projects were located in Asia, 12% in Pacific islands and 8% in Papua New Guinea. In accordance with the DAC Statistical Directives, these activities are not classified as multilateral ODA but included in statistics on bilateral aid.

Assuring Quality: Multilateral Assessment Framework

The Simons' Committee recommended that Australia's support for multilateral agencies be based on a clear strategy giving careful consideration, on a case-by-case basis, to the agencies relevance, effectiveness and efficiency. The government accepted this recommendation and announced in *Better Aid for a Better Future* that "consistent with a more targeted aid programme, and to ensure that Australia's funds do, in fact, take advantage of the strengths of multilaterals, the government is taking a more strategic approach to their funding." To ensure that this policy is effectively followed, AusAID has developed the Multilateral Assessment Framework as a tool for assessing the performance of multilateral agencies receiving annual core funding of at least AUD 200 000. The framework has two components:

- annual assessments; and
- in-depth reviews, which are less frequent.

The primary purpose of the framework is to build a more systematic and complete knowledge base of multilateral organisations' operations and achievements and, ultimately, improve accountability to

26 . Copies of *Australia and the Asian Development Bank, 1997-98* and *Australia and the World Bank, 1997-98* are available from the Treasury's Internet site: <http://www.treasury.gov.au/> The Treasury also prepares an annual report relating to Australia's participation in the IMF.

Parliament, make better informed funding decisions and improve Australia's dialogue with multilateral organisations. To avoid duplication, the framework uses multilateral agencies' existing systems and reporting complemented by other sources, such as feedback from overseas missions and delegates to meetings, independent reports, assessments by other donors and information from recipient countries.

The framework assesses multilateral agencies against three criteria:

- **Relevance:** the degree to which a multilateral organisation helps achieve the primary objectives for the Australian aid programme, i.e. poverty reduction and sustainable development. Relevance is also assessed against AusAID's ten Key Result Areas.
- **Efficiency:** the quantity and quality of output produced against overall expenditure, through analysis of the efficiency of each agency's programme and administrative and financial systems. Governance and management are worthy of attention as efficiency depends on the quality of these.
- **Effectiveness:** the degree to which an organisation achieves poverty reduction and sustainable development, i.e. whether activities and programmes have produced the desired outputs and whether these outputs have had the desired impact.

The Multilateral Assessment Framework's relevance criterion does not require AusAID's regional focus be reinforced, although a substantial share of multilateral assistance is directed to regional organisations in Asia-Pacific. The framework acknowledges that the foci of multilateral organisations and AusAID may be complementary and so no geographic limitations are specified.

During the 1998/99 pilot year, 27 annual assessments were completed with an initial focus on UN agencies, Commonwealth agencies, international environment programmes and Pacific regional organisations which receive core funding through AusAID. Multilateral development banks have not been included at this stage as their systems have been judged to be reliable and sound and there is already significant scrutiny of their programmes and policies by donors in the context of the periodic replenishment exercises.

During the pilot year, AusAID consulted widely with other departments and agencies which agreed that lack of information is an impediment to reporting and accountability. A review of the pilot year is being undertaken to assess the quality, completeness and consistency of annual assessments and to consider how field-level information can be more systematically gathered. Staff mobility is an issue for AusAID to the extent that it hinders the building up of capacity to manage the assessment process.

In the in-depth reviews, priority will be given to: international organisations receiving significant contributions from Australia; those for which there are significant information gaps; or those for which there are significant disparities in performance. A first in-depth review involved the CFTC and a field review of UNICEF is underway.

AusAID appreciates that the Multilateral Assessment Framework should not duplicate other assessments and should be an open, consultative and on-going process which will lead to improving the performance of multilateral agencies. The agencies themselves need to be part of the dialogue. AusAID will continue to explore opportunities to conduct in-depth reviews together with other donors as appropriate (plans to review the CFTC jointly with Canada and the United Kingdom did not eventuate). To learn from others and test procedures internationally, AusAID should share its assessments more systematically with other donors.

Management of the aid programme

Australian Agency for International Development (AusAID)

The Australian Agency for International Development is responsible for the management of the Australian government's development co-operation programme and administers most of Australia's ODA. The Simons Committee recommended, and the government agreed, that management of the aid programme by a single organisation ensured its coherence and integrity, and should be re-affirmed.

AusAID is an administratively autonomous agency in the foreign affairs and trade ministerial portfolio, with the Parliamentary Secretary to the Minister for Foreign Affairs taking particular responsibility for the aid programme. The Parliamentary Secretary is also Australia's Special Representative on Demining.

The Director-General of AusAID reports to the Minister for Foreign Affairs on aid policy and operations. The Director-General is a member of the DFAT Executive and is responsible to the Secretary of DFAT for the administration of AusAID. The AusAID Executive, comprising the Director-General and the three Deputy Directors-General, focuses on strategic direction-setting and broad management issues. Three executive committees have been formed to assist the AusAID Executive in its work:

- The **Programme Strategies Committee** provides strategic direction for AusAID's country operations and the country strategy approach as the basis of the development and delivery of the aid programme.
- The **Programme Quality Committee** assesses, monitors and improves activity, project and programme quality across the aid programme. This committee, plus an observer from the ANAO, sits separately as the **AusAID Audit Committee** to deliberate on AusAID's internal control framework and to enhance management controls based on audits, risk-management and fraud-prevention reviews.
- The **Corporate Change and Development Committee** provides a strategic focus for management and organisational issues.

AusAID's 1998-2000 Corporate Plan defined AusAID's core business as "advising on development issues and delivering Australia's development co-operation programme with excellence". Following reforms in the Australian Public Service, the government now "purchases" two specific outputs from AusAID - policy advice and programme management - at agreed prices in 1999/2000 of AUD 9.9 million and AUD 53.7 million, respectively. Four indicators have been developed to measure the quality of AusAID's programme management output:

- Seventy-five per cent of activities rated satisfactory or higher.
- Major programmes carried out in partnership with relevant partners.
- Processes ensure a high-quality programme reflecting government priorities.
- Feedback on tender information, number of late gazettals and the share of contracts terminated or subject to serious dispute.

Based on advice from AusAID, the Minister for Foreign Affairs decides on the aid budget, announced every May, for the forthcoming financial year (1 July to 30 June). At the mid-year point, an update reflects changes and revisions to the budget and provides the basis for the approach to the following year's budget. 1999/2000 is the first accrual-based outcome and output budget. Introduction of accrual budgeting is considered to provide an improved framework for budget management and performance evaluation. Like other departmental budgets, AusAID's budget is allocated against outcomes and outputs. AusAID has a single outcome "Australia's national interest advanced by assistance to developing countries to reduce poverty and achieve sustainable development". Under that outcome, funds are divided for aid projects and programmes and for the agency's two outputs. The government has discretion to make additional funds available for high priority events outside the budget process (e.g. support for East Timor).

AusAID's current organisational structure (see Chart 2) was adopted in January 1998 after AusAID had undertaken a major re-examination of its operations and structures in the light of the review by the Simons Committee. The most visible consequence of this restructuring is the creation of the Programme Quality Group. The Simons Committee had recommended that an independent "Office of Evaluation" be established, headed by a statutory officer reporting to the Minister, the Director-General of AusAID and the Aid Advisory Council, but this recommendation was not accepted as statutory, independent performance assessment and accountability checks will continue to be made by ANAO.

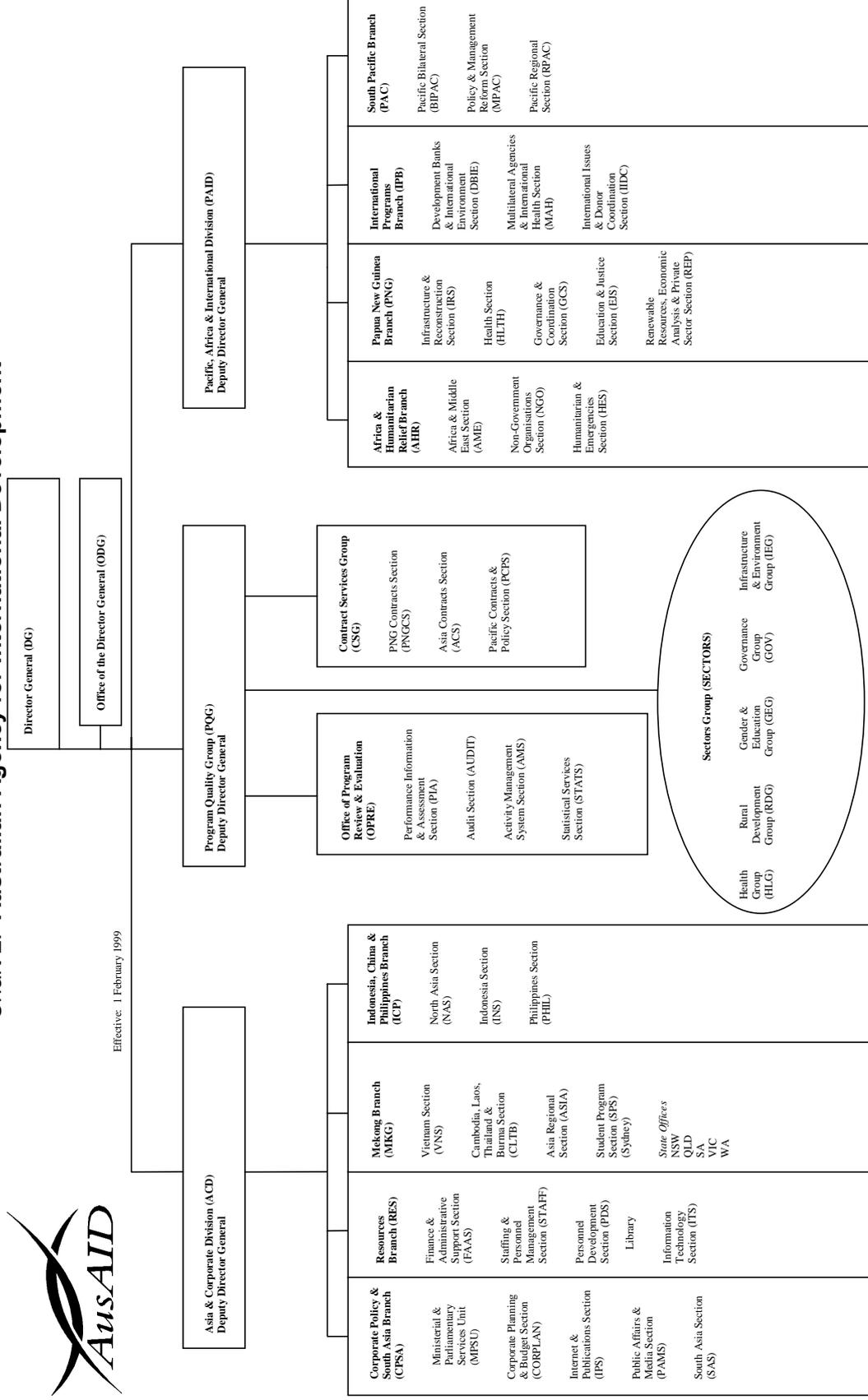
AusAID's staff as at 30 June 1998 was 559 (276 males and 283 females) of whom 465 were based in Canberra. There are 24 AusAID missions overseas staffed with 60 AusAID officers supported by locally-engaged staff. AusAID has staff based at international organisations in Geneva, New York, Paris and Suva. An unusual feature among DAC Members is AusAID's five State offices throughout Australia (Sydney, New South Wales; Brisbane, Queensland; Adelaide, South Australia; Melbourne, Victoria; and Perth, Western Australia) to administer the tertiary scholarship programme and provide some support for public information and education activities. The State offices have a total staff of 38. AusAID advises that from June 2000, all scholarship administration functions will be centralised in Canberra and the number of staff in State offices will decline to 12. From June 2000, State offices will only be responsible for outreach and communication activities.

AusAID's 21 overseas missions in developing countries work flexibly with desks in headquarters under working arrangements best suited to their programmes and operations. The management structure is fairly centralised with field posts having programme monitoring and development roles. AusAID's largest overseas mission, with 18 AusAID officers, is in Port Moresby. Twelve missions have just one AusAID officer. In Papua New Guinea, local staff have both professional functions with decision-making roles and support positions, although this does not seem to be the situation in all AusAID overseas missions.

Most AusAID staff are "generalists" who can be deployed flexibly according to needs. Professional development and training helps to provide them with knowledge and skills (e.g. project and contract management, sectoral skills in governance, microfinance, gender and health). To enhance staff effectiveness through training and development activities, a system of Performance Planning and Review was introduced in 1998. A People Management Strategy is currently being prepared to cover personnel policies and promote effective staff management and development. AusAID sees that achieving its corporate objectives requires the agency to attract, retain and develop appropriately skilled staff. AusAID further acknowledges that high rates of staff mobility, while an increasingly inevitable part of careers today, nonetheless impacts negatively on the agency's capacity to deliver a high quality aid programme.



Chart 2. Australian Agency for International Development



Source: AusAID.

Australian Centre for International Agriculture Research (ACIAR)

The Australian Centre for International Agriculture Research operates within the foreign affairs and trade ministerial portfolio and, as a statutory authority, has more autonomy than AusAID. A Board of Management, which includes the Director-General of AusAID, has overall responsibility for ACIAR. Advice on research policy and priorities is provided to the Minister for Foreign Affairs through the centre's Policy Advice Council.

ACIAR's mandate is to mobilise Australia's research capacity to help solve agricultural research problems of developing countries. Its intended outcome is to develop international agricultural research partnerships that reduce poverty, improve food security and manage natural resources sustainably. ACIAR works both bilaterally and multilaterally to support international agricultural research.

ACIAR has a staff of 50 in Canberra and maintains nine overseas officers. By mid 1998, ACIAR had commissioned more than 420 research projects in some 30 countries, of which about 365 had been completed. The centre is funded from the aid programme and its budget for 1999/2000 is AUD 43 million.

Public opinion and development education

An AusAID/ACFOA public opinion survey conducted in 1998 found that 84% of Australians support foreign aid and are motivated by humanitarian concerns, but that support is fragile as understanding of issues is generally weak. Previous analyses showed similarly that while support was broad it was not deep, and there was a lack of knowledge in the public about the official aid programme. Consequently, Australian authorities have been making concerted and imaginative efforts, with substantial political support, to educate the public about the aid programme.

Better Aid for a Better Future called for an evaluation of development education activities and consideration of new approaches in the light of available funding. As a result, AusAID adopted a communications strategy whose objective is to increase community awareness and understanding of the aid programme. Somewhat over 0.1% of ODA is devoted to public education activities, or about AUD 1.8 million in 1998.

The communications strategy takes a pro-active, professional stance towards the media, with the primary target groups being women, youth and rural and regional communities. The strategy's core message is that Australia's aid works, in the majority of cases. Secondary messages are that it creates a safer and more stable region, it involves giving the poor a "fair go" and it creates jobs for Australians.

The range of activities have included outreach seminars, conducted by the Parliamentary Secretary to the Minister for Foreign Affairs, where over 5 000 former aid volunteers have been presented with Certificates of Appreciation and where information is provided about the aid programme and business opportunities through the aid programme. NGOs have been mobilised to inform their members about the official aid programme by including an information pamphlet in their mailings to members.

A new corporate style guide on design and editorial style enhances consistency of all AusAID publications and documents in line with a new publications strategy. Efforts are clearly made to ensure that materials are attractive, well laid out and user friendly. A Global Education Page on the AusAID Internet site (www.aid.gov.au) provides curriculum material for use in schools with supporting

material for teachers. The Aid Advisory Council is another component of in the public education effort.

Two interesting publications are currently being prepared by AusAID. The first will present responses to the ten most common issues of concern about development co-operation and Australia's aid programme. The second publication is a retrospective of the achievements of the Australian aid programme since its inception, with a particular focus on human interest and aid impact. To promote better understanding and confidence in the programme, AusAID should also include some examples of results below expectations in this publication, as this is also part of the reality of development co-operation which the public needs to know about and accept. Clearly, major and controversial components of the programme since its inception, such as budget support to Papua New Guinea, Indonesia/East Timor, tertiary scholarships and the DIFF scheme, will need to be covered in a careful and balanced way.

The recent events near Australia, which have been given good coverage in the media and through AusAID's communication strategy, such as in Papua New Guinea (drought and tidal wave; peace process on Bougainville) and East Timor, show the extreme importance of ODA to neighbouring countries. The importance which neighbouring developing countries represent for Australia should imply a good understanding by the Australian public of the challenges addressed through their aid programme, and these have been made vivid by recent events. Given the relatively strong favourable opinion for development aid and the effort being made to educate and inform the public, the issue is how can the favourable current of opinion and understanding be transformed into stronger effective support for the overseas aid programme, and for higher levels of ODA.

CHAPTER 4

BASIC PROFILES

Official development assistance (ODA)

ODA volume

Australia's total net ODA disbursements amounted to USD 960 million in 1998, which gave Australia the 13th largest programme among the 21 DAC Member countries. Australia's ODA volume declined sharply in 1996 (see Annex Table I-1) before rising again, in real terms, in 1997. Between 1997 and 1998, Australia's ODA appeared to contract by 9.5%, but this fall was due to exchange rate fluctuations. In real terms, with the effects of inflation and exchange rate movements removed, Australia's ODA actually rose by 6.3%.

Expressed as a share of national income, Australia's ODA has been on a downward path since 1975 when it peaked at 0.65% of gross national product. At the time of the last DAC peer review, Australia's ODA/GNP ratio was 0.34%, which placed Australia tenth among DAC Member countries. In 1996 and 1997, Australia recorded an ODA/GNP ratio of 0.28%. In 1998, the ratio fell further, to 0.27%, its lowest level since records began in 1960. Australia's ODA/GNP ratio in 1998 placed it in 14th position in the DAC. While Australia's ODA/GNP ratio in 1998 was above the DAC average of 0.24%, it remained well below the DAC average country effort (unweighted average) of 0.40%. Australia's ODA/GNP ratio has been below the DAC average country effort since 1988 (see Figure 1).

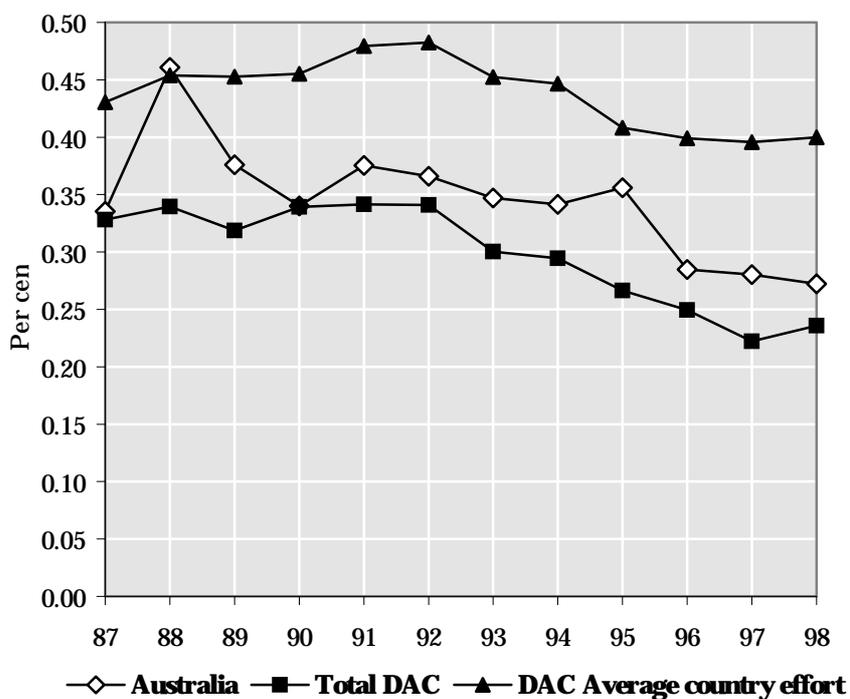
A combination of an expanding economy and an upwards revision to Australia's GNP, following the introduction in late 1998 of new methods for calculating national accounts, mean that budget allocations for ODA, as presented to Parliament in May 1999, would result in Australia's ODA/GNP ratio falling further. However, Australia continues to provide additional funding, outside of the annual budget process, for urgent development priorities, such as humanitarian assistance in Indonesia, drought relief in Papua New Guinea, support for East Timor, temporary asylum for refugees from Kosovo and East Timor and support for debt reduction initiatives. AusAID estimates that with the inclusion of additional funding for urgent needs, Australia's ODA/GNP ratio should rise by at least 0.01% in 1999.

ODA composition

Australia's bilateral assistance consists mainly of technical co-operation (38% of gross disbursements in 1998) and project and programme aid (18%) (see Table I-2). In constant 1997 prices and exchange rates, disbursements for technical co-operation rose over the most recent five-year period, from USD 313 million in 1994 to USD 427 million in 1998, while the progressive phasing out of budget

support to Papua New Guinea has contributed to the large decrease in project and programme aid, which fell from USD 429 million in 1994 to USD 208 million in 1998. Australia did not notify the DAC of any support for NGOs in 1997 or 1998, either core support or aid channelled through NGOs, although both kinds of funding occur.

Figure 1. ODA as a percentage of GNP



Source: OECD.

Australia channels most of its multilateral ODA through two development banks. The World Bank group received 6% of gross disbursements in 1998, slightly below the DAC average of 7%, while the Asian Development Bank group received 4%, above the DAC average for aid channelled through regional development banks of 3%. Australia supports a large number of United Nations agencies and funds, providing 9% of its total ODA in 1998, mostly to the World Food Programme - the main channel for the distribution of Australia's emergency and developmental food aid - which received 55% of Australia's UN contributions in 1997-98.

Geographical distribution of bilateral ODA

In 1998, 48% of Australia's gross bilateral ODA was provided to countries in Oceania while a further 37% was channelled to countries in East Asia (see Table I-3). These figures were well above the corresponding averages for DAC Member countries (5% to Oceania and 24% to East Asia). Australia's assistance to South Asia (7% of bilateral ODA in 1998) and Africa (7%) were below the averages for DAC Member countries. Up until 1998, Australia provided very little assistance to developing countries in the Americas, the Middle East or Europe.

Only eight of the 48 least-developed countries and three of the 24 other low-income countries are in East Asia or Oceania. This explains Australia's comparatively low level of assistance for these two groups of countries. In 1998, 18% of Australia's gross bilateral ODA was directed to least-developed countries (DAC average: 24%) and 14% went to other low-income countries (DAC average: 31%). In contrast, 66% of Australia's ODA was channelled to lower middle-income countries - a group which includes Australia's three largest recipients - in contrast to the DAC average of 35%. Very little Australian ODA is provided to upper middle-income countries or high-income countries.

Australia's bilateral ODA is dominated by the programme in Papua New Guinea, which received 37% of Australia's gross bilateral disbursements in 1997-98 (see Table I-4). The share of Australia's ODA directed to Papua New Guinea has been declining over the last decade, falling from 44% in 1987-88. China, Indonesia, the Philippines and Thailand have been other large recipients of Australian ODA over the last decade. Malaysia was the third largest recipient in 1987-88, but the programme there has been progressively wound down. In contrast, aid to Viet Nam, the fourth largest recipient in 1997-98, has increased rapidly. Outside of East Asia and Oceania, Bangladesh was Australia's largest bilateral partner in South Asia in 1997-98 and Egypt its largest partner in Africa. The number of countries receiving development assistance from Australia has declined, from 98 countries in 1987-88 to 79 countries in 1997-98.

In many countries in Oceania, Australia provides a large share of total net ODA from all sources. Australia is the largest donor to Papua New Guinea, where its USD 228 million of ODA in 1997 represented 65% of ODA from all sources, and to Nauru, where it provided 85% of total ODA. Australia provided a large proportion of ODA to Pacific island nations not strongly affiliated with a former colonial administration: Western Samoa (Australia's ODA amounted to 33% of total ODA in 1997), Fiji (32%), Kiribati and Vanuatu (31%), Tonga (28%) and the Solomon Islands (19%). Australia's second largest programme in 1997 was in Indonesia, where its USD 79 million represented 9% of ODA from all sources and made Australia the third largest donor.

Sectoral distribution of bilateral ODA

The sectoral distribution of Australia's bilateral ODA commitments has been changing over the last decade. The share of support for social infrastructure and services has doubled, from 26% in 1987-88 to 60% in 1997-98, with the increase mainly occurring in the education and health sectors (see Table I-5).

Like its geographic distribution, the sectoral distribution of Australia's bilateral ODA commitments does not correspond to the typical DAC donor's profile. Australia provided substantially more support to education than the DAC average in 1997-98, 32% as compared to 10% for the DAC, to health (Australia: 8%, DAC average: 4%) and to government and civil society (Australia: 10%, DAC average: 4%). Australia's support in other sectors is below the DAC average, particularly in economic infrastructure and services, production and actions relating to debt.

Support to basic social services

In recent years, Australia has been moving towards a greater focus on basic social services and in 1997-98 committed 13% of its bilateral ODA to basic education, basic health, population programmes and safe water supply. Nonetheless, aid for other types of education still absorbed 26% of Australia's bilateral ODA, a substantial increase on its 1992-93 level.

Notifications to the Creditor Reporting System show that Australian aid to the education sector continues to focus on tertiary education although, since 1997, substantial amounts of aid have also been committed for basic education. In 1997 and 1998, approximately 60% of aid for education was reported as post-secondary education, in particular scholarships. While students came from more than 40 countries, the six largest recipients of this aid, collectively receiving two-thirds of aid for post-secondary education, were Indonesia, Papua New Guinea, Viet Nam, India, Philippines and Fiji. Aid to basic education represented 12% of total aid to education in 1997 and 14% in 1998. An examination of individual activities reported shows that other activities may indirectly contribute to improving basic education, such as two teacher training projects in Papua New Guinea in 1997, the education sector programme in Kiribati and the institutional strengthening projects in Samoa in 1998 (all classified "education, level unspecified").

In the health sector, Australian aid has concentrated on the provision of basic services, although statistics show a decreasing trend. In 1993-94, over 80% of aid to the health sector was reported as basic health, in 1995-97 the share varied between 66% and 77%, while the data for 1998 indicate a drop to 55%. This does not necessarily mean that there has been a move towards tertiary services. Assistance to management of the health sector (in Indonesia and Fiji, for example) or health sector programmes (in Samoa and Vanuatu) may also contribute to basic health care.

Aid to population policies, programmes and reproductive health has been small and stable over recent years, focusing on reproductive health care and HIV/AIDS control. As regards water supply and sanitation, only activities that target the poor are included in the definition of basic social services. In the case of Australia, 3% of bilateral ODA was allocated to the water sector in 1996-97, mainly in support of large systems. These could potentially be of benefit to the poor, but this remains to be verified.

Other financial flows to developing and transition countries

Official aid

Australia's aid to countries in transition and the more advanced developing countries remains modest. Net official aid disbursements rose to USD 10 million in 1996, its highest level to date, from a previous total of USD 4 million reported for 1994 and 1995. In those years, the largest recipients of bilateral official aid, all technical co-operation, were Russia (USD 1 million in 1995 and USD 5 million in 1996) and Hungary (USD 1 million in 1996). Australia's multilateral official aid consists of contributions to the EBRD. These totalled USD 2 million in 1995 and 1996. Australia's total net official aid fell to USD 1 million in 1998.

Other official flows

In 1998, Australia's net disbursements of other official flows to developing countries amounted to USD 146 million (see Table I-1). Bilateral flows consisted mainly of official export credits. In previous years, Australia reported official export credits of USD 0.2 million in 1995 and USD 220 million in 1996. These large fluctuations may be attributable to some 1995 flows being notified for 1996.

Grants by non-governmental organisations

Donations to Australian NGOs for international development work are generally tax deductible. Child sponsorship may account for as much as half of the private funds raised in Australia.

Total grants by Australian NGOs have been increasing in recent years, from USD 76 million in 1996, the equivalent of 0.02% of GNP, to USD 151 million in 1997, or 0.04% of GNP (see Table I-1). Australia's private grants/GNP ratio for 1997 placed Australia in fifth position among DAC Member countries, behind the Netherlands, Ireland, Norway and Germany.

In 1998, total grants by Australian NGOs amounted to USD 111 million, or 0.03% of GNP.

Private flows at market terms

Gross private flows to developing countries from Australia amounted to approximately USD 1.5 billion each year between 1993 and 1995 consisting mostly of direct investments in 1993 and 1994 and export credits in 1995. When earnings on previous investments and credit repayments are deducted from these figures, Australia's total net private flows display somewhat more volatility, falling from USD 1 024 million in 1993 to USD 800 million in 1994, before rising again to USD 1 281 million in 1995 (see Table I-1).

Statistical reporting

After a couple of years of poor statistical reporting, Australia's 1998 data submissions on 1997 flows showed a clear improvement in terms of timeliness and data quality. Australian reporting to the CRS presently covers 93% of its bilateral ODA (excluding administrative costs), a high proportion by comparative DAC standards. Australia has also resumed reporting to the CRS on individual ODA disbursements. However, missing data on the "direct assistance to poor people" policy marker hinders a full analysis of Australia's bilateral aid in respect of the development partnerships strategy.

The major outstanding problem with Australia's annual reporting concerns private flows to developing and transition countries. Reporting on these in 1996 was arithmetically incoherent, as required data from the Australian Bureau of Statistics (ABS) could only be provided on a regional level and not broken down by recipient. This is because in some regions there are only a small number of recipients and the confidentiality of data would be compromised if details were provided, contrary to Australian regulation. Data on 1997 flows, due in July 1998, have still not been reported because the Australian financial year covers the period July to June and is not based on a calendar year. Consequently, the data for the 1997-98 financial year has to be finalised before a report for 1997 calendar year can be completed. This is now nearing completion. In future years, the ABS expects the compilations of calendar year data to be completed within 16-18 months after the end of the relevant calendar year. However, this means that data will not reach the Secretariat by October of the following year, so that the information cannot be included in that year's *Development Co-operation Report*.

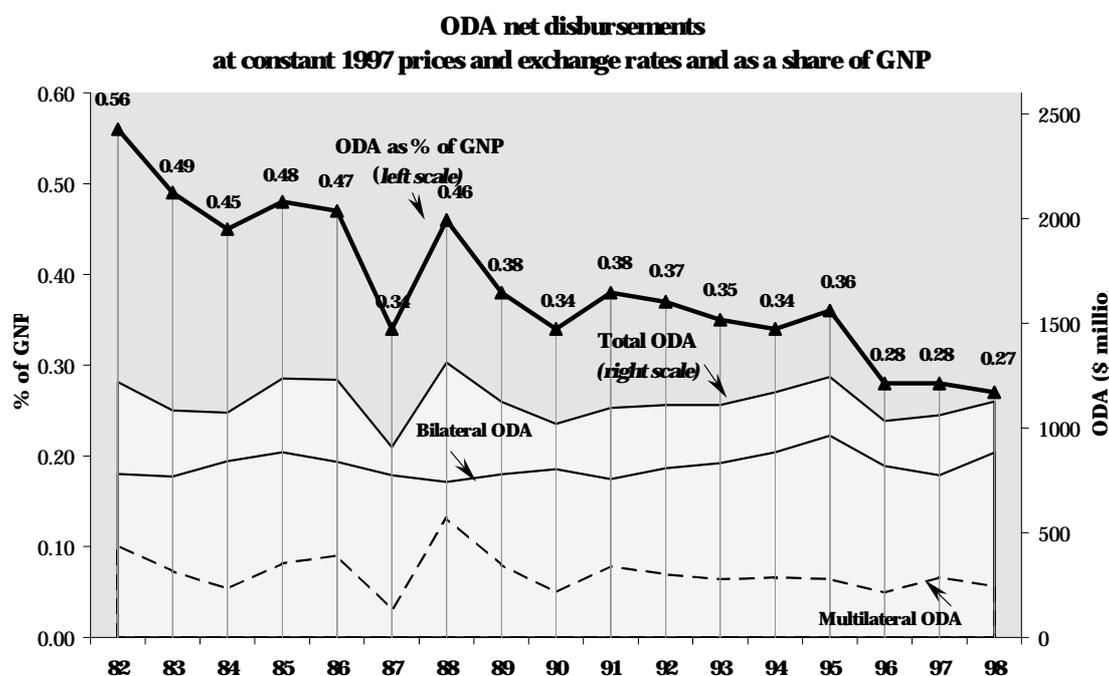
ANNEX I
STATISTICS OF AID AND OTHER FLOWS

Table I-1. Total financial flows
USD million at current prices and exchanges rates

	<i>Net disbursements</i>						
Australia	1982-83	1987-88	1994	1995	1996 (a)	1997 (a)	1998 (a)
Total official flows	909	860	1 265	1 199	1 304	1 158	1 108
Official development assistance	818	864	1 091	1 194	1 074	1 061	960
Bilateral	549	579	824	927	852	776	752
Multilateral	268	286	267	267	222	285	209
Official aid	n.a.	n.a.	4	4	10	0	1
Bilateral			0	2	7	0	- 0
Multilateral			4	2	2	-	1
Other official flows	91	- 4	170	0	220	97	146
Bilateral	81	17	170	0	220	97	53
Multilateral	9	- 21	-	-	-	-	94
Grants by NGOs	33	42	75	60	76	151	111
Private flows at market terms (a)	147	1 350	800	1 281	..	..	..
Bilateral: <i>of which</i>	147	1 350	800	1 281	..	..	..
Direct investment	147	1 285	1 283	- 284	..	..	..
Export credits	- 91	107	-	1 565	..	..	..
Multilateral	-	-	-	-	..	..	..
Total flows	1 068	2 252	2 140	2 540	..	..	..
for reference:							
ODA (at constant 1997 \$ million)	1 151	1 111	1 171	1 243	1 033	1 061	1 127
ODA (as a % of GNP)	0.53	0.41	0.34	0.36	0.28	0.28	0.27
Total flows (as a % of GNP) (b)	0.70	1.06	0.67	0.76	..	..	..

a. No data received on private flows in 1996, 1997 and 1998.

b. To countries eligible for ODA.



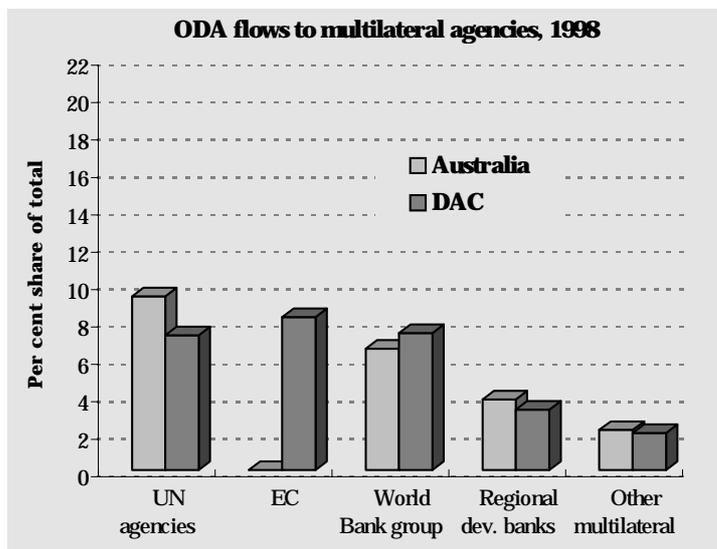
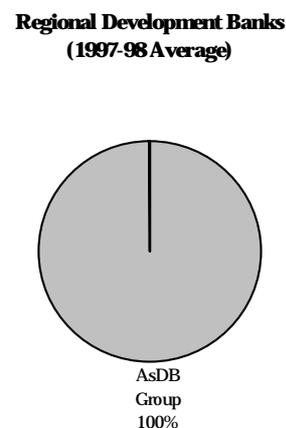
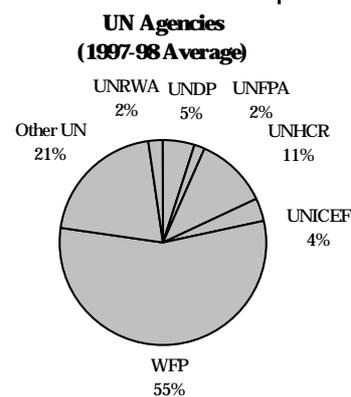
Source: OECD.

Table I-2. ODA by main categories

Australia	Constant 1997 \$ million					Per cent share					Total DAC 1998%
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
	Bilateral	884	964	819	790	882	76	78	79	73		78	71
Project and programme aid											
Grants	429	229	227	203	208	37	18	22	19	18	13
Loans	-	-	-	-	-	-	-	-	-	-	16
Technical co-operation	313	380	395	397	427	27	31	38	37	38	22
Developmental Food aid (a)	49	23	22	16	11	4	2	2	1	1	2
Emergency and Distress relief (a)	27	37	31	32	78	2	3	3	3	7	5
Action relating to debt	5	5	7	14	15	0	0	1	1	1	6
Core support to NGOs	28	9	4	0	0	2	1	0	0	0	2
Administrative costs	32	38	48	46	64	3	3	5	4	6	5
Other grants	102	242	85	82	79	9	19	8	8	7	2
Multilateral	287	278	214	285	245	24	22	21	27	22	29
UN agencies	90	91	54	76	105	8	7	5	7	9	7
EC	-	-	-	-	-	-	-	-	-	-	8
World Bank group	91	90	92	104	73	8	7	9	10	6	7
Regional development banks (b)	69	67	56	87	43	6	5	5	8	4	3
Other multilateral	37	30	11	18	24	3	2	1	2	2	2
Total gross ODA	1 171	1 243	1 033	1 075	1 127	100	100	100	100	100	100
Repayments	-	-	-	- 14	-						
Total net ODA	1 171	1 243	1 033	1 061	1 127						
For reference:											
<i>Aid channelled through NGOs</i>	-	52	-	-	-						
<i>Associated financing (c)</i>	101	131	-	-	-						

a. Emergency food aid included with Developmental Food Aid up to end 1995.
 b. Excluding EBRD.
 c. ODA grants and loans in associated financing packages.

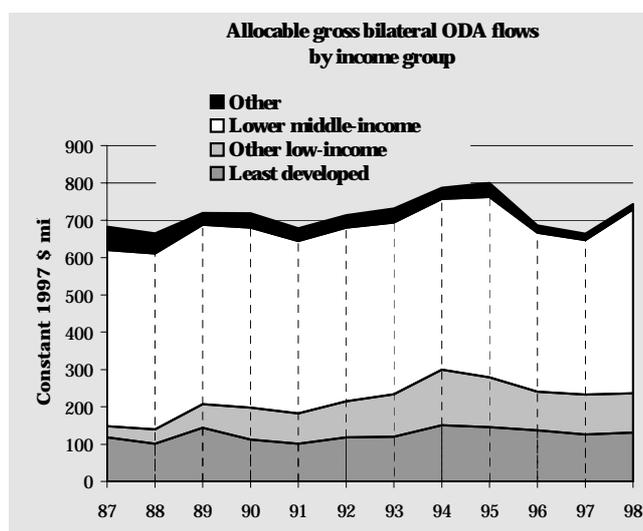
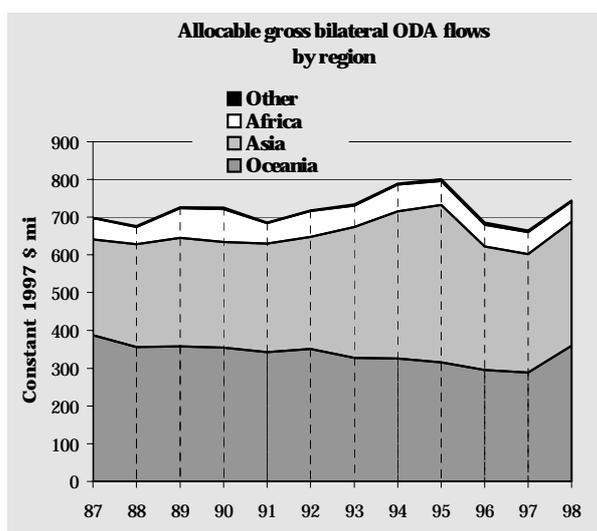
Gross disbursements



Source: OECD.

Table I-3. Bilateral ODA allocable by region and income groups

Australia	Gross disbursements										
	Constant 1997 \$ million					Per cent share					Total DAC 1998%
	1994	1995	1996	1997	1998	1994	1995	1996	1997	1998	
Africa	71	63	58	58	53	9	8	8	9	7	36
Sub-Saharan Africa	66	58	51	44	38	8	7	7	7	5	28
North Africa	5	5	7	14	15	1	1	1	2	2	8
Asia	390	417	327	313	329	49	52	48	47	44	39
South and Central Asia	57	56	57	52	52	7	7	8	8	7	14
Far East	333	362	270	261	276	42	45	39	39	37	24
America	1	0	0	0	0	0	0	0	0	0	13
North and Central America	1	0	0	-	0	0	0	0	-	0	7
South America	0	0	0	0	0	0	0	0	0	0	7
Middle East	1	2	2	3	2	0	0	0	1	0	4
Oceania	326	315	295	289	360	41	39	43	43	48	5
Europe	1	3	4	1	-	0	0	1	0	-	4
Total bilateral allocable	789	801	686	664	744	100	100	100	100	100	100
Least developed	150	145	137	126	131	19	18	20	19	18	24
Other low-income	150	134	103	107	106	19	17	15	16	14	31
Lower middle-income	457	484	426	414	493	58	60	62	62	66	35
Upper middle-income	29	36	18	16	14	4	5	3	2	2	6
High-income	1	1	1	1	1	0	0	0	0	0	3
More advanced developing countries	2	1	0	-	-	0	0	0	-	-	-
For reference:											
<i>Total bilateral</i>	884	964	819	790	882	100	100	100	100	100	100
<i>of which Unallocated</i>	95	163	133	126	138	11	17	16	16	16	22



Source: OECD.

Table I-4. Main recipients of bilateral ODA

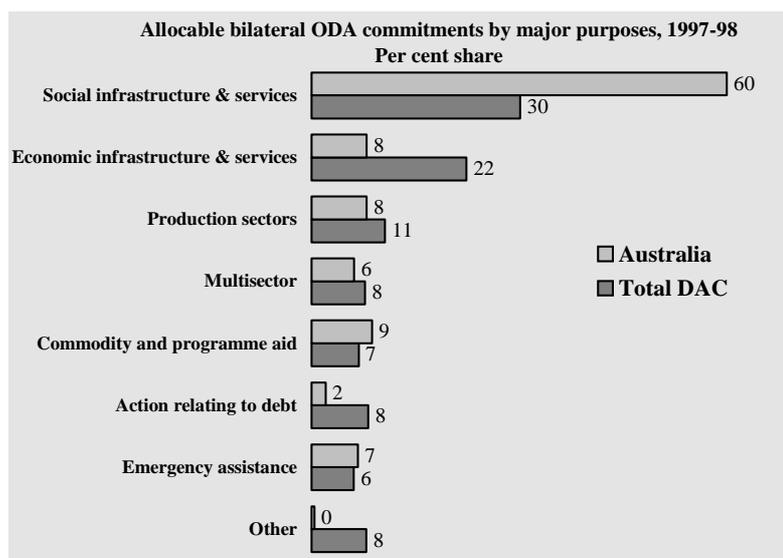
Australia	1987-88			1992-1993			1997-1998		
	Current \$ million	Constant 1997 \$ mn.	Per cent share	Current \$ million	Constant 1997 \$ mn.	Per cent share	Current \$ million	Constant 1997 \$ mn.	Per cent share
Papua New Guinea	229	301	44	232	262	36	240	261	37
Indonesia	60	78	11	81	92	13	76	83	12
Malaysia	38	50	7	42	48	7	44	48	7
Philippines	23	30	4	32	36	5	41	45	6
Thailand	19	25	4	27	31	4	31	33	5
Top 5 recipients	389	483	70	415	488	64	432	469	66
China	17	23	3	23	26	4	23	25	4
Fiji	16	20	3	20	22	3	14	16	2
Ethiopia	11	16	2	15	17	2	14	15	2
Bangladesh	10	13	2	14	16	2	13	14	2
Vanuatu	9	12	2	11	12	2	13	14	2
Top 10 recipients	432	566	82	498	561	77	508	553	78
Myanmar	8	11	2	10	12	2	13	14	2
Solomon Islands	8	10	2	10	12	2	12	13	2
Mozambique	8	10	1	10	11	2	9	10	1
Western Samoa	7	9	1	10	11	2	9	9	1
Tonga	6	8	1	9	11	1	8	9	1
Top 15 recipients	469	615	89	548	617	85	559	607	86
Hong Kong, China	6	8	1	9	11	1	7	8	1
Egypt	5	7	1	9	10	1	6	7	1
Laos	4	6	1	8	10	1	6	7	1
Tuvalu	4	6	1	6	9	1	6	7	1
Singapore	4	5	1	6	7	1	5	6	1
Top 20 recipients	492	646	94	586	664	91	590	641	91
Total (96 recipients)	525	688	100	644	726	100	649	704	100
Unallocated	54	71		83	93		122	132	
Total bilateral gross	579	759		727	820		771	836	
Unallocated									
Total bilateral gross									

Source: OECD.

Table I-5. **Bilateral ODA by major purposes**
at current prices and exchange rates

Commitments, two-year averages

Australia	1987-88		1992-93		1997-98		Total DAC per cent
	\$ million	Per cent	\$ million	Per cent	\$ million	Per cent	
Social infrastructure & services	184	26	300	39	403	60	30
Education	126	17	142	18	211	32	10
of which: basic education	-	-	6	1	35	5	1
Health	10	1	28	4	50	8	4
of which: basic health	-	-	15	2	29	4	2
Population programmes	1	0	19	2	10	1	2
Water supply & sanitation	10	1	34	4	22	3	7
Government & civil society	35	5	45	6	66	10	4
Other social infrastructure & services	4	1	31	4	43	6	4
Economic infrastructure & services	55	8	87	11	53	8	22
Transport & storage	52	7	42	5	28	4	10
Communications	2	0	11	1	3	0	1
Energy	1	0	28	4	13	2	9
Banking & financial services	0	0	0	0	1	0	1
Business & other services	0	0	6	1	9	1	2
Production sectors	64	9	61	8	53	8	11
Agriculture, forestry & fishing	50	7	41	5	49	7	8
Industry, mining & construction	10	1	18	2	2	0	2
Trade & tourism	4	1	2	0	3	0	0
Other	-	-	-	-	0	0	0
Multisector	12	2	11	1	41	6	8
Commodity and programme aid	369	51	219	28	59	9	7
Action relating to debt	-	-	4	0	13	2	8
Emergency assistance	6	1	39	5	45	7	6
Administrative costs of donors	22	3	39	5	3	0	6
Support to NGOs	7	1	13	2	0	0	2
Total bilateral allocable	718	100	773	100	670	100	100
For reference:							
<i>Total bilateral</i>	<i>727</i>	<i>72</i>	<i>790</i>	<i>80</i>	<i>671</i>	<i>73</i>	<i>70</i>
<i> of which: Unallocated</i>	<i>9</i>	<i>1</i>	<i>17</i>	<i>2</i>	<i>1</i>	<i>0</i>	<i>5</i>
<i>Total multilateral</i>	<i>277</i>	<i>28</i>	<i>194</i>	<i>20</i>	<i>246</i>	<i>27</i>	<i>30</i>
Total ODA commitments	1 004	100	984	100	917	100	100



Source: OECD.

Table I-6. Comparative aid performance

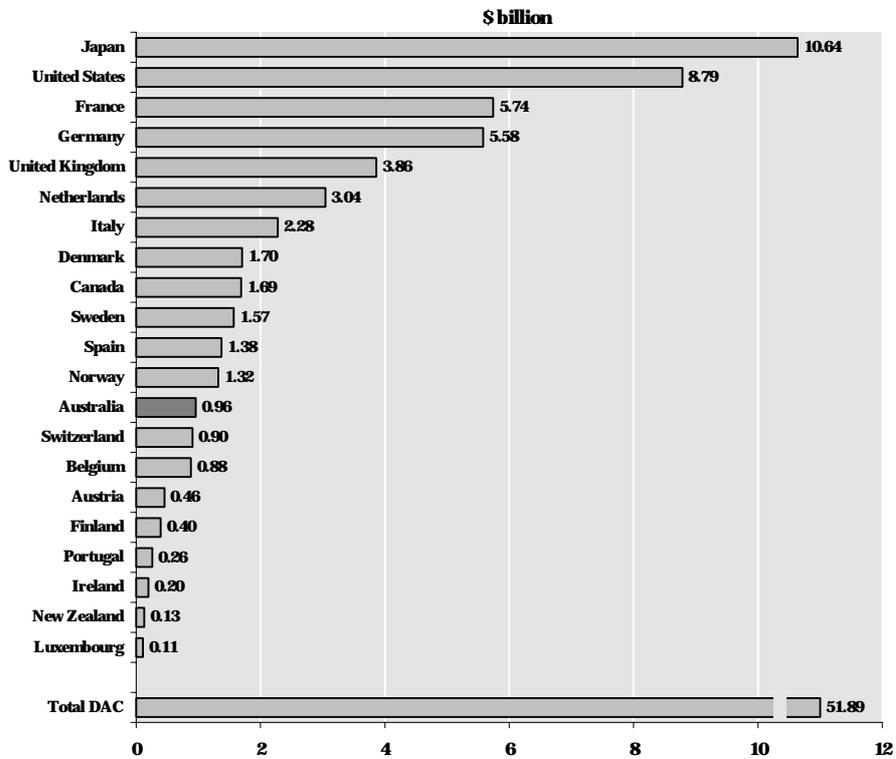
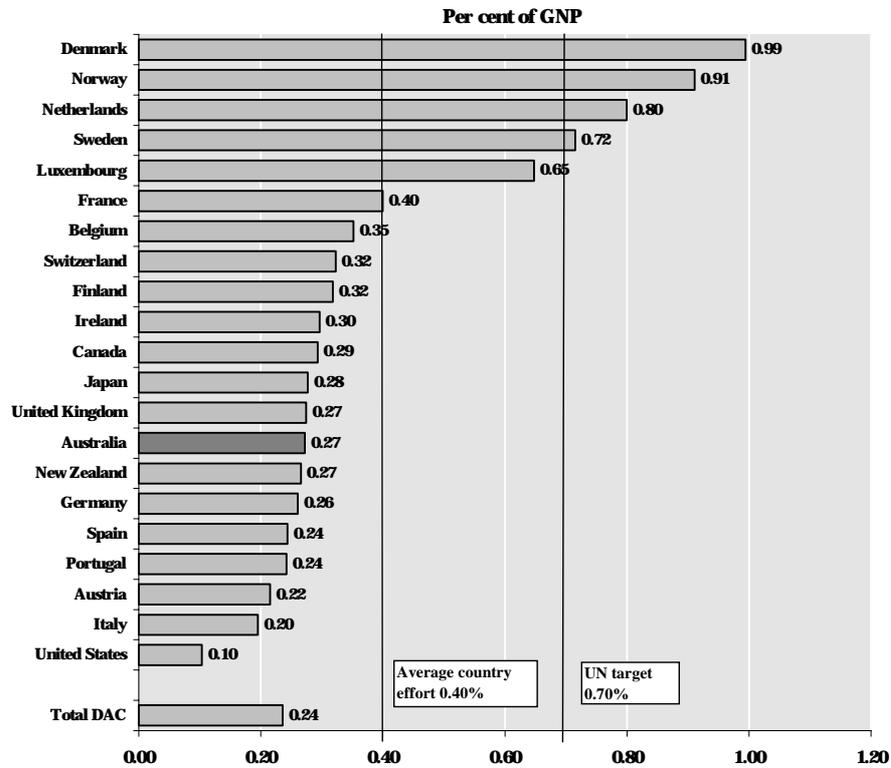
	Official development assistance		Grant element of ODA (commitments) 1997	Share of multilateral aid 1998			ODA to LLDCs Bilateral and through multilateral agencies 1998		Official aid 1998	
	1998	92-93 to 97-98 Ave. annual % change in real terms		% of ODA			% of ODA	% of GNP	\$ million	% of GNP
				(b)	(c)	(c)				
Australia	960	0.27	100.0	21.7	0.06	16.5	0.04	1	0.00	
Austria	456	0.22	95.2	36.0	18.4	18.9	0.04	191	0.09	
Belgium	883	0.35	99.3	39.2	17.1	27.5	0.10	68	0.03	
Canada	1 691	0.29	100.0	28.6	0.08	20.0	0.06	157	0.03	
Denmark	1 704	0.99	100.0	40.5	34.0	32.5	0.32	118	0.07	
Finland	396	0.32	99.8	47.3	30.9	26.4	0.08	82	0.07	
France	5 742	0.40	92.1	27.1	13.5	17.5	0.07	823	0.06	
Germany	5 581	0.26	94.9	37.5	15.3	20.9	0.05	654	0.03	
Ireland	199	0.30	100.0	37.8	13.1	45.6	0.14	-	-	
Italy	2 278	0.20	96.6	69.4	38.4	35.8	0.07	243	0.02	
Japan	10 640	0.28	78.8	19.6	0.05	14.6	0.04	132	0.00	
Luxembourg	112	0.65	100.0	31.3	14.4	26.0	0.17	3	0.02	
Netherlands	3 042	0.80	100.0	29.9	19.8	26.4	0.21	130	0.03	
New Zealand	130	0.27	100.0	24.3	0.06	21.1	0.06	0	0.00	
Norway	1 321	0.91	99.2	28.1	0.26	37.3	0.34	52	0.04	
Portugal	259	0.24	98.5	31.8	8.8	54.5	0.13	22	0.02	
Spain	1 376	0.24	93.0	39.1	12.2	9.1	0.02	5	0.00	
Sweden	1 573	0.72	100.0	33.8	27.7	28.4	0.20	105	0.05	
Switzerland	898	0.32	100.0	29.5	0.09	29.3	0.09	76	0.03	
United Kingdom	3 864	0.27	100.0	44.8	23.2	25.8	0.07	435	0.03	
United States	8 786	0.10	99.1	31.8	0.03	15.2	0.02	2 726	0.03	
Total DAC	51 888	0.24	91.8	32.3	22.8	20.7	0.05	6 024	0.03	
Memo: Average country effort		0.40								

Notes

- a. Excluding debt reorganisation.
- b. Including European Community.
- c. Excluding European Community.

Source: OECD.

Figure I-1. Net ODA from DAC countries in 1998



Source: OECD.

ANNEX II
PUBLISHED EVALUATION REPORTS

The following evaluation reports have been published recently and are available from the Internet at:
<http://www.aid.gov.au/publications/eval.html>

Evaluation Series

- Evaluation No. 1: *Evaluation findings: a compilation of AusAID's evaluation and review reports 1992/97.*
- Evaluation No. 2: *Monitoring and evaluation capacity-building study, December 1997.*
- Evaluation No. 3: *PNG cluster evaluation of three institutional strengthening projects, May 1998.*
- Evaluation No. 4: *The Philippines Australia technical and vocational education project PATVEP), March 1998.*
- Evaluation No. 5: *PNG agricultural cluster evaluation, March 1998.*
- Evaluation No. 6: *Review of AusAID's Food Aid, June 1997.*
- Evaluation No. 7: *Indonesia: Eastern Islands Study of Lessons Learned in Aid Delivery by AusAID and Other Donors, September 1998.*
- Indonesian Lessons Learned Booklet, September 1998t.*
- Evaluation No. 8: *South Pacific Cluster Evaluation, September 1998.*
- Evaluation No. 9: *Short Term Training Projects: Guidelines and Performance Indicators, March 1998.*
- Evaluation No. 10: *Assessment of Technical Advisory Groups, April 1998.*
- Evaluation No. 11: *Review of the Evaluation Capacities of Multilateral Organisations, May 1998.*
- Evaluation No. 12: *Managing Emergency Humanitarian Aid Evaluation: Lessons Learned from Experience, March 1998.*
- Energy Cluster Experience.*

Quality Assurance Series (continues from the Evaluation Series above)

Quality Assurance Series No. 13: *Asset Maintenance: The Impact of the Underfinancing of Recurrent Costs*, May 1999.

Quality Assurance Series No. 14: *Building for Development: An Evaluation of Four Infrastructure Projects in Tonga and Samoa*, May 1999.

Quality Assurance Series No. 15: *Growing Rice and Protecting Forests: An evaluation of three food production projects in SE Asia*, June 1999.

Quality Assurance Series No. 16: *Targeting Poor Farmers: Contributions to Rural Development in Thailand*, May 1999.

ANNEX III

FURTHER INFORMATION

Information on Australia's aid programme and its broader relations with developing countries is available from the Internet at the following sites:

Australian Agency for International Development (AusAID)	http://www.aid.gov.au/
Australian Council for Overseas Aid (ACFOA)	http://www.on-the-stone.com/acfoa/index.htm
Australian Centre for International Agricultural Research (ACIAR)	http://www.aciar.gov.au:80/
Centre for Democratic Institutions (CDI)	http://www.cdi.anu.edu.au/
Department of Foreign Affairs and Trade (DFAT)	http://www.dfat.gov.au/
Joint Standing Committee on Foreign Affairs, Defence and Trade	http://www.aph.gov.au/house/committee/jfad/index.htm
The Treasury	http://www.treasury.gov.au/

Unpublished information may also be obtainable through Australia's national "Freedom of Information" legislation.

PRESS RELEASE OF THE DAC PEER REVIEW OF AUSTRALIA

Australia's development co-operation programme is contributing to sustainable development and stability in the Asia-Pacific region, which is a key foreign policy objective for Australia. Continuing reforms and adaptations to aid policies and management have improved the quality and impact of the programme. Expressed as a share of its expanding gross national product (GNP), Australia's official development assistance (ODA) fell to 0.28% in 1996. It remained at that level in 1997 and in 1998 fell further to 0.27%. However, aid allocations were increased in 1999 in response to new demands.

Australia's security and economic progress are closely linked to the fortunes of a specific set of developing countries, more than is the case for most other Member countries in the OECD's Development Assistance Committee (DAC). Australia's continuing response to problems linked to the Asian financial crisis and its humanitarian and emergency assistance when crises have afflicted countries in the Asia-Pacific region illustrate this point. In East Timor, Australia is making a leading contribution to peace keeping and reconstruction efforts under the auspices of the United Nations, and has introduced a temporary tax levy to fund the required additional expenditures. Australia welcomes wider donor participation in development efforts in the Asia-Pacific region.

The DAC reviewed Australia's development co-operation policies and programme on 3 December 1999. The DAC's Chairman, Mr Jean-Claude Faure, summarised the committee's main findings:

- Australia's development co-operation programme has gone through an impressive process of restructuring and renewal since the last peer review in May 1996:
- The Simons Committee thoroughly and independently reviewed the programme. Following this, the government issued a new policy statement entitled *Better Aid for a Better Future* accepting most of that committee's recommendations.
- Subsequently, Australia's aid priorities and approaches were further revised in response to the Asian financial crisis, with a particular focus on governance.
- The programme now has an over-riding objective "to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development". To guide policy formulation, the programme has six key principles (including partnership), five priority sectors (including health, education and governance) and two cross-cutting issues (gender equality and the environment).
- In line with the Australian government's shift to results-based management, AusAID has incorporated an outcomes-oriented approach, including by placing greater emphasis on enhancing quality and performance information. A strengthened approach to programme planning, implementation and evaluation are an integral part of AusAID's focus on quality. These reforms put Australia in the vanguard of DAC Members' aid management practices.

- AusAID was restructured in 1998. These organisational changes have improved programme management by bringing together, in a new Programme Quality Group, reinforced sectoral advisory, contracting and quality assurance functions. An Aid Advisory Council has been established to advise the Minister for Foreign Affairs.

The DAC looks forward to learning, at the next peer review, how these changes are improving Australia's aid programme and its contribution to reducing poverty. The DAC encouraged Australia to continue its re-orientation of health and education activities towards the primary and basic levels, and to monitor the effectiveness of its country strategies for poverty reduction.

- Australia's mechanisms for checking and enhancing the coherence of its policies as they affect developing countries are comparatively strong. The large coincidence of interests between Australia and developing countries in the area of trade is a helpful factor. Identifying and treating issues of a more problematic nature in a timely way is always a challenge. The DAC recommended that, where it has relevant development expertise, AusAID might be invited to provide consultative guidance to the Export Finance and Insurance Corporation (EFIC) when government guarantees for investments in developing countries are considered.
- Australia is working to strengthen development partnerships and its country strategies are developed in consultation with partner countries. The Australian Delegation provided a submission on how it was translating the principles of development partnership into practice on the ground. A shift towards sector-wide and other innovative approaches to aid delivery is an important trend. The DAC welcomed this kind of submission, which would be a valuable feature in all peer reviews.
- AusAID has a policy of promoting an Australian identity in the programme. However, integrating talent and know-how from within developing countries into the development process are also a high priority. The DAC recommended that AusAID strive to maximise the use of developing countries' own resources and systems in the implementation and management of projects and programmes and to promote sustainability, for example by ensuring that long-term financial viability is built into project and programme design.

Australia's gross domestic product grew by 4½% in real terms in the 1998/99 financial year. The OECD's latest Economic Survey, which will be released in mid-December, assesses that the Australian economy has entered its ninth year of expansion and that the sustainability of that expansion is underpinned by a number of positive factors. Noting this, and conscious of the great development needs that still exist in partner countries in the Asia-Pacific region, the DAC encouraged Australia to increase its ODA/GNP ratio. *Better Aid for a Better Future* reconfirmed Australia's support for the 0.7% ODA/GNP target.

The Australian Delegation for the peer review was led by Mr. Bruce Davis, Director-General, AusAID. The examining countries were Germany and Japan.

DESCRIPTION OF KEY TERMS

The following brief descriptions of the main development co-operation terms used in this publication are provided for general background information. Full definitions of these and other related terms can be found in the "Glossary of Key Terms and Concepts" published in the DAC's annual Development Co-operation Report.

ASSOCIATED FINANCING: The combination of OFFICIAL DEVELOPMENT ASSISTANCE, whether GRANTS or LOANS, with any other funding to form finance packages.

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

DAC LIST OF AID RECIPIENTS: A two-part List of Aid Recipients was introduced by the DAC with effect from 1 January 1994. Part I of the List is presented in the following categories (the word "countries" includes territories):

LLDCs: Least Developed Countries. Group established by the United Nations. To be classified as an LLDC, countries must fall below thresholds established for income, economic diversification and social development.

Other LICs: Other Low-Income Countries. Includes all non-LLDC countries with per capita GNP less than USD 765 in 1995 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 766 and USD 3 035 in 1995.

UMICs: Upper Middle-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) between USD 3 036 and USD 9 385 in 1995.

HICs: High-Income Countries, i.e. with GNP per capita (World Bank Atlas basis) more than USD 9 385 in 1995.

Part II of the List comprises "Countries in Transition". These comprise: i) more advanced Central and Eastern European Countries and New Independent States of the former Soviet Union; and ii) more advanced developing countries.

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

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

EXPORT CREDITS: LOANS for the purpose of trade and which are not represented by a negotiable financial instrument. Frequently these LOANS bear interest at a rate subsidised by the government of the creditor country as a means of promoting exports.

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

GRANT ELEMENT: Reflects the **financial terms** of a commitment: interest rate, maturity and grace period (i.e. the interval to the first repayment of principal). The grant element is nil for a LOAN carrying an interest rate of 10%; it is 100% for a GRANT; and it lies between these two limits for a LOAN at less than 10% interest.

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

OFFICIAL AID: Flows which meet the conditions of eligibility for inclusion in OFFICIAL DEVELOPMENT ASSISTANCE, except that the recipients are on Part II of the DAC LIST OF AID RECIPIENTS.

OFFICIAL DEVELOPMENT ASSISTANCE (ODA): GRANTS or LOANS to countries and territories on Part I of the DAC LIST OF AID RECIPIENTS (developing countries) provided by the official sector with the promotion of economic development and welfare as the main objective and which are at concessional financial terms (if a LOAN, having a GRANT ELEMENT of at least 25%).

OTHER OFFICIAL FLOWS (OOF): Transactions by the official sector with countries on the DAC LIST OF AID RECIPIENTS which do not meet the conditions for eligibility as OFFICIAL DEVELOPMENT ASSISTANCE or OFFICIAL AID.

PARTIALLY UNTIED AID: OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services must be procured in the donor country or among a restricted group of other countries, which must however include substantially all recipient countries.

PRIVATE FLOWS: Consist of the following flows at market terms financed out of private sector resources:

Direct investment: Investment made to acquire or add to a lasting interest in an enterprise in a country on the DAC LIST OF AID RECIPIENTS.

Bilateral portfolio investment: Includes bank lending, and the purchase of shares, bonds and real estate.

Multilateral portfolio investment: This covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

Private export credits: See EXPORT CREDITS.

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

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

UNTIED AID: OFFICIAL DEVELOPMENT ASSISTANCE (or OFFICIAL AID) for which the associated goods and services may be fully and freely procured in substantially all countries.

VOLUME: Unless otherwise stated, data are expressed in current United States dollars. Data in national currencies are converted into dollars using annual average exchange rates. To give a truer idea of the volume of flows over time, some data are presented in **constant prices and exchange rates**, with a reference year specified. This means that adjustment has been made to cover both inflation between the year in question and the reference year, and changes in the exchange rate between the currency concerned and the United States dollar over the same period.