DAC Peer Review

AUSTRALIA

Development Assistance Committee

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

The OECD member countries are: Australia, Austria, Belgium, Canada, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, the Netherlands, New Zealand, Norway, Poland, Portugal, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, the United Kingdom and the United States. The Commission of the European Communities takes part in the work of the OECD.

OECD Publishing disseminates widely the results of the Organisation's statistics gathering and research on economic, social and environmental issues, as well as the conventions, guidelines and standards agreed by its members.

This work is published on the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of the Organisation or of the governments of its member countries.

Also available in French under the title:

Examen du CAD par les pairs
Australie

© OECD (2005)

No reproduction, copy, transmission or translation of this publication may be made without written permission. Applications should be sent to OECD Publishing: *rights@oecd.org* or by fax (+33-1) 45 24 13 91. Permission to photocopy a portion of this work should be addressed to the Centre Français d'exploitation du droit de Copie, 20 rue des Grands-Augustins, 75006 Paris, France *(contact@cfcopies.com)*.

The Peer Review Process

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

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

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

This review contains the Main Findings and Recommendations of the Development Assistance Committee and the report of the Secretariat. It was prepared with examiners from Ireland and the United Kingdom for the Peer Review on 14 December 2004.

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

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

LIST OF ACRONYMS

ACFID	Australian Council for International Development
ADS	Australian Development Scholarships
AFP	Australian Federal Police
AKWa	AusAID Knowledge Warehouse
AMU	Activity Management Unit
ANAO	Australian National Audit Office
ANCP	AusAID NGO Cooperation Programme
AsDB	Asian Development Bank
AusAID	Australian Agency for International Development
CAP	United Nations Consolidated Inter-Agency Appeals
DAC	Development Assistance Committee
DFAT	Department of Foreign Affairs and Trade
ECP	Enhanced Cooperation Program
GFATM	Global Fund against AIDS, Tuberculosis and Malaria
GHD	Principles and Good Practice of Good Humanitarian Donorship
GNI	Gross National Income
LDCs	Least developed countries
HIPC	Heavily indebted poor countries
ICRC	International Committee of the Red Cross
IFAD	International Fund for Agricultural Development
IOM	Organization for Migration
LICs	Low-income countries
MAF	Multilateral and Regional Agency Assessment Framework
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
NGOs	Non governmental organisations
NZAID	New Zealand's International Aid and Development Agency
OCHA	Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
ORE	Office of Review and Evaluation
PNG	Papua New Guinea
PSU	Programme Support Unit
QAG	Quality Assurance Group
RAMSI	Regional Assistance Mission to Solomon Islands
SMT	Simplified Monitoring Toolbox
SWAp	Sector Wide Approach
UN	United Nations
WB	World Bank
WFP	World Food Programme
WHO	World Health Organisation

Signs used:

AUD Australian dollar

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

Slight discrepancies in totals are due to rounding

Annual average exchange rate (AUD per USD)

2000	2001	2002	2003
1.7265	1.9354	1.8413	1.5415

Australia's Aid at a glance

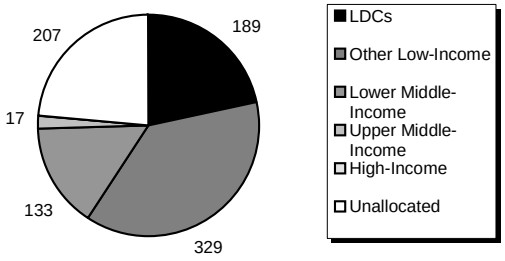
AUSTRALIA

Gross Bilateral ODA, 2002-03 average, unless otherwise shown

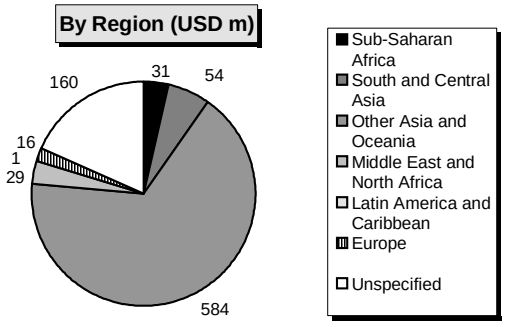
Net ODA	2002	2003	Change 2002/03
Current (USD m)	989	1 219	23.2%
Constant (2002 USD m)	989	993	0.4%
In Australian Dollars (million)	1 821	1 878	3.2%
ODA/GNI	0.26%	0.25%	
Bilateral share	78%	80%	
Net Official Aid (OA)			
Current (USD m)	7	9	18.0%

Top Ten Recipients of Gross ODA/OA (USD million)	
1 Papua New Guinea	195
2 Indonesia	79
3 Solomon Islands	44
4 Viet Nam	38
5 Timor-Leste	33
6 Philippines	32
7 China	29
8 Cambodia	21
9 Iraq	21
10 Bangladesh	17

By Income Group (USD m)



By Region (USD m)



By Sector

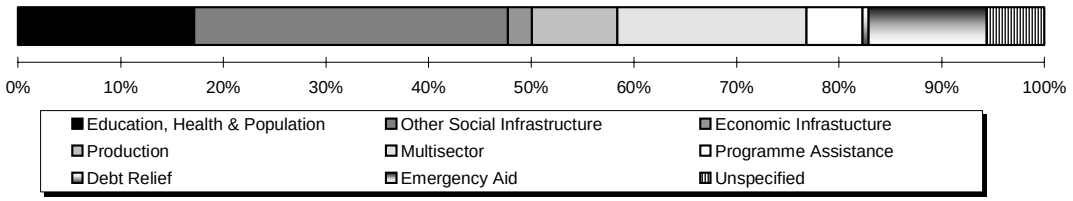


TABLE OF CONTENTS

DAC Main Findings and Recommendations 11

Secretariat Report 22

Chapter 1
Strategic Context and New Orientations

Context and progress since the 1999 Peer Review 22
The general principles of development co-operation policy 23
Advancing the national interest by assisting developing countries to reduce poverty 23
Investing in growth, stability and prosperity to reduce poverty 24
A link to be reinforced with poverty reduction and the MDGs 25
Engaging with fragile countries 25
Public support for development co-operation 26
Future considerations 28

Chapter 2
Volume and Distribution of Aid

Volume: further sustained increases needed to reverse the trend of falling ODA/GNI ratios 29
Bilateral ODA 29
An increased focus on the Pacific region 29
An appropriate geographical selectiveness 30
Technical co-operation: a major component of Australian aid 31
Debt 31
Sectoral distribution: stronger focus on governance 31
Increased focus on basic services delivery within education and health sectors 31
Support to humanitarian action 32
A strong non-governmental co-operation 33
Multilateral ODA: a strategic engagement 33
Assessing the effectiveness of multilateral organisations 33
Stronger share of non- core contributions and co-financing 34
Multilateral replenishments: an opportunity for advocacy 35
Future considerations 35

Chapter 3
Selected Key Issues

Governance: a leading role in Australian development co-operation 37
A comprehensive approach 37
Some operating practices 38
Risks and challenges 39

Australia - an increasingly important humanitarian actor with significant potential 40
Launching a new policy for humanitarian action 40
From policies to practice - principles for funding 42
Promoting co-ordination, standards and assuring accountability 43
Issues emerging 43
Conflict prevention and peace-building – new approaches and a change in policies 44
Mainstreaming cross-cutting issues 46
The gender perspective 46
HIV/AIDS 48
Future considerations 49

Chapter 4
Policy Coherence for Development

Strengthening policy coherence within the Australian system 50
A strong political commitment: the whole-of-government approach 50
Whole-of-government approach: challenges ahead for the Australian government and AusAID 51
Key issues in terms of policy coherence 52
Coherence with trade policies 53
Aid untying: policy versus results 53
Climate change 54
A policy on counter-terrorism activities in development co-operation 54
Refugee Policy and Practice 55
Capacity, co-ordination and monitoring 56
Policy co-ordination mechanisms 56
Working practices and negotiation skills: strategic partnerships 56
Mobilising external expertise and strengthening internal analytical capacity 58
Monitoring mechanisms 58
Future considerations 58

Chapter 5
Organisation, Human Resources and Management Systems

Overview/basic organisational mandate 59
AusAID corporate governance structure 59
Management of policy and strategy: a strong corporate management 60
Operational decentralisation 62
A process underway 62
Limited field office capacity 63
Performance measuring: quality assurance and evaluation of programmes 64
Knowledge management 64
Review and evaluation functions: higher focus on outcomes and results–based approaches 64
Management of human resources 66
Increased resort to external expertise 66
Role and position of PSU staff to be reviewed 67
High level of staff turnover 67
Future considerations 67

Chapter 6
Australian Co-operation in the Field

Toward harmonisation: promoting ownership and partnership 69
Working with partner governments 69
Working with other donors 69
Difficulties in implementing harmonisation and alignment 71
Delivery mechanisms 71
Move toward a more programmatic approach 71
Addressing ownership, sustainability, and capacity building issues: a continuous challenge 72
New mechanisms and way of implementation of the Australian aid programme 75
NGOs and civil society: an evolving approach 77
Future considerations 78

List of Annexes

Annex A The 1999 DAC Peer Review and Australia's achievements 80

Annex B Humanitarian action in AusAID's policy hierarchy 82

Annex C OECD/DAC standard suite of tables 83

Annex D AusAID organisational chart 90

Annex E Australia's aid programme in Papua New Guinea 91

Annex F Australia's aid programme in Cambodia 98

Press release of the DAC Peer Review of Australia 104

Description of Key Terms 106

Bibliography 108

List of Tables

Table 1. Human Resources Profile as at 30 June 2004 63
Table 2. Summary of AusAID's RBM information sources 65
Table C.1. Total financial flows 83
Table C.2. ODA by main categories 84
Table C.3. Bilateral ODA allocable by region and income group 85
Table C.4. Main recipients of bilateral ODA 86
Table C.5. Bilateral ODA by major purposes 87
Table C.6. Comparative aid performance 88

Chart and Figure

Chart 1. Trends in Australian allocable gross bilateral ODA per region (%) 30
Graph C.1. Net ODA from DAC countries in 2003 89

List of Boxes

Box 1. The guiding themes of Australian development co-operation 24
Box 2. The Australian Development Scholarship Scheme 32
Box 3. Multilateral and Regional Agency Assessment Framework (MAF) 34
Box 4. Good governance ideals for a good society 37
Box 5. Australia's humanitarian action policy 41
Box 6. Australia's new interventionism - The Regional Assistance Mission to Salomon Islands 45
Box 7. Gender and Development: GAD lessons and challenges for the Australian aid programme 47
Box 8. Strategic partnership agreement between AusAID and the Treasury Department 57
Box 9. AusAID Strategic Plan implementation: an on-going process 61
Box 10. Donor harmonisation: two examples 70
Box 11. Public financial management and law and justice sector: two examples of a programme approach 72
Box 12. Project aid 74
Box 13. The Enhanced Co-operation Programme (ECP) in PNG 77

DAC MAIN FINDINGS AND RECOMMENDATIONS

Australia's unique position within the Pacific

Australia's geographic location within the Asia Pacific Region is unique, and represents a challenge few donors face in terms of the proximity of countries affected by poverty, deficient governance and political instability. Australia's security and economic progress and development interests in neighbouring countries are therefore highly interdependent. This implies that, for Australia, defining and implementing effective development co-operation policies with its neighbouring countries is both central to its national interest and highly challenging. Australia's immediate region remains fragile. Since 2000, some promising change processes (Indonesia, Timor-Leste, Bougainville) have been in train, alongside deepening problems in Melanesia. The security environment in Solomon Islands deteriorated to the point that Australia and its regional partners were invited by the Prime Minister of Solomon Islands to intervene to supply law and order and restore financial stability. Papua New Guinea (PNG) also invited Australia to help strengthen basic law and order and administrative functions. For humanitarian, developmental and broader security considerations, Australia cannot walk away from these low-income countries under stress and has had to adapt its responses to address their needs. Being the largest donor in a number of these situations presents opportunities and challenges for Australia in terms of partnership and co-ordination.

Overall framework and new orientations

Major policy and organisational reforms in line with aid effectiveness principles

Australia's development co-operation policy frameworks and organisational structures and processes have evolved to adapt both to the new challenges faced by the region and to the imperative of aid effectiveness. These efforts have resulted in a stronger policy focus and an innovative whole-of-government approach. Australia has started to engage with harmonisation and alignment issues, and has begun moving toward the adoption of aid modalities that involve increased donor co-ordination, aid effectiveness and national ownership.

An overarching poverty reduction framework *Reducing Poverty: The Central Integrating Factor of Australia's Aid Program* was developed in 2001 to strengthen the poverty reduction focus of AusAID programmes. In endorsing this framework, the 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* re-affirmed the stated objective of Australia's aid - "to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development". The statement outlined the five guiding themes shaping Australia's efforts: i) promoting democratic and accountable government and effective administration; ii) assisting developing countries to access and maximise the benefits from trade and new information technologies; iii) improving basic services; iv) strengthening regional security; v) promoting sustainable approaches to the management of the environment and the use of scarce resources.

Australia is actively engaged in fragile countries

In order to support its neighbouring countries facing serious development challenges, Australia has developed a graduated and comprehensive approach, with the dual objective of helping to reduce the impact of failed systems on the poor and encouraging governments to embark on a reform path. This approach aims to reinforce the mutual goals of peace, security, respect for the rule of law, human rights, and social and economic development in the Pacific, drawing also on the principles and support of Australia's partners in the Pacific Islands Forum. Strengthening regional security by enhancing partner governments' capacity to prevent conflict, enhance stability and manage trans-boundary challenges has also become an important part of Australia's development co-operation programme. To this end Australia introduced in 2002 its *Peace, Conflict and Development Policy* addressing conflict prevention, conflict management and post-conflict recovery.

Need for a strengthened poverty focus

Australia's close identification of its aid objectives with its national interest has some basic implications. It places a premium on ensuring that its national interests and the development interests of its partner countries remain closely aligned, in both the short and the long term. In particular, effective development policies in its fragile region are the key to long-term regional political viability and economic progress. Moreover, greater attention to the impact of development actions on the overall objective to reduce poverty and achieve sustainable development will bring clear benefits in terms of engaging the Australian public/political constituencies.

Over the last five years, Australia has strengthened its focus on economic and wider governance issues - notably law and justice - in its partnerships with key partners. This orientation reflects a convincing analysis of the key constraints to their development. However, the relationship between governance and poverty reduction could be more clearly spelled out. In addition, the comprehensive approach to governance leads Australia to include as ODA elements of counter-terrorism and illegal migration. Such additional elements should be closely monitored to ensure that they do not result in a weaker focus on poverty reduction.

Thus, though the poverty reduction statement of 2001 was a welcome development, it now needs to be build upon with more clarity about how principles and values guiding the Australian aid programme contribute to poverty reduction. Australian programming should give greater prominence to poverty reduction to ensure consistency with AusAID's policy objectives. Australia should highlight the relationship between poverty reduction, and governance, security, and the whole-of-government approach in its future policy statements, aid programming and country operations. Poverty reduction efforts and cross-cutting priorities should also be closely monitored and evaluated. The on-going preparation of an MDG8 report and AusAID's involvement in the global discussion on how to make progress toward the MDGs is welcome.

The importance of using the MDG framework as a broad reference for the aid programme and the growing international consensus on improving the effectiveness of poverty-focused assistance point to the need for a greater degree of clarity regarding how Australia can ensure its ODA is fully focused on poverty reduction.

Australia enjoys high and increasing public support for overseas aid. At the same time further support for development education would be valuable. In a context where few NGOs are involved in public education and the private sector appears unwilling to address the issue of advocacy and generating public support for the aid sector, AusAID's role is critical. Its Global Education programme is proving a good means to reach remote populations and to convey key messages on a wide range of

development issues. AusAID could consider how to extend its development awareness work outside the education sector.

Translating cross-cutting policies at country level

AusAID has developed a rich policy agenda over the past few years encompassing cross-cutting issues, thematic/sectoral policies and implementation approaches. A key approach to implementation of cross-cutting policies is mainstreaming, particularly in relation to environment, gender and HIV/AIDS. But ensuring full translation of cross-cutting and thematic policies at country level remains a challenge for many bilateral donor agencies including AusAID. Australia should actively engage with other OECD donors to share its experiences and learn from the successes and failures of other approaches.

Gender equality is a stated AusAID policy priority. In 1997, an ambitious policy statement *Gender and Development: Australia's Aid Commitment* set out the policy rationale and approach of Australia's aid commitment to gender. This policy required AusAID to ensure that a gender perspective be integrated throughout the programme, with the needs, priorities and interests of women as well as men being considered at all levels and stages of development activities. Implementation has proved understandably challenging. AusAID's efforts to promote gender throughout its aid programme are especially welcome and important as its programmes are predominantly located in countries where the situation of women is particularly difficult and sensitive.

A revised HIV/AIDS Strategy, based on Australia's experience in responding to the epidemic and closely related to the commitments included in the UN Declaration on HIV/AIDS, was launched in July 2004. In addition to the need for strong political leadership, it emphasises the importance of working with regional and country-led partnerships; strengthening local capacities to respond to the epidemic; encompassing prevention, treatment and care; and investing in research for more effective responses. This new strategy provides an opportunity for a stronger and more systematic response to HIV across the programme, including HIV/AIDS within country strategies as a cross-cutting issue rather than developing specific HIV/AIDS projects. Maintaining the current Australian high profile on this issue and ensuring that the strategy will be fully translated into global, regional and country programmes requires strong oversight, revised programming instruments and adequate human resources including a high level of technical expertise. AusAID is actively engaged to this end.

Recommendations

- Australia strives, within its whole-of-government approach, to advance its national interest through poverty reduction and sustainable development. This requires that Australia's strategies must maintain consistency between its national interest and its aid objectives and programmes.
- The relationship between poverty reduction, and governance, security, and the whole of government approach should be reflected in future policy statements, and the poverty reduction focus should be followed through more consistently in implementation, monitoring and evaluation.
- AusAID is encouraged to continue to assess the impact of governance programmes in terms of poverty reduction, capacity building and ownership and to maximise the potential of holistic, integrated approaches to poverty reduction.
- Building on its Global Education programme, AusAID should reinforce its investment in development education in order to foster a broader and better informed public debate on

international development issues, including where appropriate supporting civil society organisations.

- Remaining engaged in fragile countries is critical, both for full achievement of the MDGs and for global security reasons, and Australia's efforts to this end are appreciated. Australia is encouraged to bring its experience to support good practice by the donor community.

- AusAID has developed a strong set of sectoral and thematic polices. Monitoring the extent that revised policies and approaches are reflected in operational programmes will be a key challenge in future years. Addressing cross-cutting priorities presents particular challenges and requires adequate guidance, appropriate expertise, consistent implementation mechanisms and relevant monitoring tools.

Aid volume and distribution

Australia is underperforming on aid volume

Though Australia has enjoyed thirteen years of economic expansion, its solid economic performance has not been reflected in the evolution of its ODA/GNI ratio over the same period. Increases in Australia's ODA totalling 9% in real terms between 1999 and 2003 are welcome though they fall below its cumulative economic growth of 13% over the same period (and GDP growth of 17%). Australia's ODA/GNI ratio has fallen progressively to reach 0.25% in 2001 and remains at that level in 2003, despite a small increase in 2002 (0.26%). The 2003 ODA/GNI ratio equals the total DAC ratio (0.25%) but lags behind the average DAC members' effort (0.41%). Australia ranks 15th out of 22 DAC members on ODA and 13th on ODA/GNI ratio.

Australia has endorsed the 0.7% ODA/GNI international objective, but has yet to publish a timeframe for achieving this target. In the context of the 2002 Monterrey Conference, Australia was one of the few DAC countries that did not make a specific commitment to maintain or increase ODA. Australia should revisit the issue of ODA commitments in view of the fact that it has much to contribute as a bilateral donor and in light of the needs of its partners and its ambitious agenda in the region. Further sustained increases in its ODA levels would provide it with an opportunity to do more to address the many pressing development challenges in its region.

… while there is an appropriate geographical and sectoral distribution …

In 2003, 47% of total estimated bilateral Australian ODA was allocated to Papua New Guinea (PNG) and the Pacific Islands, and 42% to Asia. Australia's strong focus on the Asia Pacific region is a logical consequence of Australia's position and role, and contributes to a rational division of labour between aid donors. It has also led Australia to reduce the number of recipient countries, which helps AusAID to act effectively where it is involved. Australia devotes 76% of its aid volume to least developed countries (LDCs) and other low-income countries (LICs), well above the DAC average of 55%, while the Pacific focus allows Australia to consistently support small island countries, thus addressing target 14 of MDG8 regarding the special needs of small island developing states.

AusAID's new strategic approach toward a more focused aid programme is appropriate and should be continued, drawing on Australia's comparative advantage balanced against other donors' sectoral involvement in each partner country. The stronger focus on governance, which is crucial in the Asia Pacific context, is costly particularly wherever it implies police contingents and in-line Australian public servants, as in the Regional Assistance Mission to Solomon Islands (RAMSI)

intervention and the Enhanced Cooperation Program (ECP) in PNG. This is reflected in the increased share of aid (from 6% in 1997-98 to 15% in 2002-03 and an estimated 33% in 2004-05).

… and good practice in terms of strategic approach to resource allocation between multilateral organisations

Australia is engaging individual multilateral agencies strategically, while recognising the important role that multilateral organisations can play in the Asia Pacific region. Australian multilateral aid is allocated on the basis of agencies' performance at the country level. To this end, Australia conducts on a regular basis assessments of multilateral organisations, with a view to building a knowledge base of multilateral organisations' operations and achievements, making better informed funding decisions, improving Australia's dialogue with multilateral organisations, and, ultimately, improving accountability to parliament. However, the share of multilateral aid in Australian ODA has steadily decreased over the last decade from 29% in 1991-92 to 20% in 2003, below the DAC average of 27%.

Recommendations

- The government of Australia should now increase the percentage of its GNI going to aid and announce medium and long-term targets for meeting its commitment to the 0.7% ODA/GNI international objective. The cost of its new level of engagement with governance and sustainable development in its immediate region would be an important factor to take into account.
- Australia is encouraged to continue improving the quality of its multilateral assessment framework. Sharing the results systematically would help other donors to benefit from Australia's approach.
- Australia might reflect on the steady decline in the relative share of multilateral aid in its programme, and take a strategic view of the future medium-term balance between bilateral and multilateral channels.

Policy coherence for development

Policy coherence is at the forefront of Australia's agenda

Policy coherence for development is at the forefront of Australia's agenda, reflecting awareness that development investments informed by coherent policy approaches maximise the impact of Australian aid. It is supported by a high-level policy commitment across the government. In Australia's view, policy coherence for development means taking account of the needs and interests of developing countries in the evolution of the global economy. It implies the systematic synchronisation of policies and actions across government to support economic growth and poverty reduction in developing countries, which requires much more than foreign aid. Australia's priorities in this respect are: i) enhancing trade liberalisation and market access for developing country exports; ii) supporting economic governance and law and justice reform through a strengthened engagement with its Pacific partners; iii) developing formal strategic partnership agreements with key Australian government agencies; and iv) promoting the policy coherence agenda at the international level.

Innovative institutional mechanisms: whole-of-government approach and strategic partnerships

The policy coherence approach is underpinned by a whole-of-government strategy, which aims at improving co-ordination across the Australian government through a more integrated approach to

work which spans more than one agency. While the Cabinet is the principal co-ordination forum of the executive arm of the Australian government, the whole-of-government work is co-ordinated by interdepartmental committees, complemented by various mechanisms, such as dedicated taskforces. DFAT has overall responsibility for Australia's external relations, but other agencies have the lead for international negotiations on a number of specific issues. Processes designed to achieve whole-of-government outcomes on domestic policy issues are generally used to co-ordinate this work. Building a strong culture of consultation on international activities is important in generating better decision making and programme delivery, given the increasing linkages between international issues and domestic policy matters. The strong links being established through strategic partnership agreements between AusAID and key governmental agencies, such as Treasury, are a welcome move in this respect.

Whole-of-government approach: a challenging opportunity

The whole-of-government approach provides an important opportunity to contribute to aid effectiveness through ensuring a focus on policy coherence across government and by recognising the importance of building institutional linkages with recipient countries. Efforts toward "mainstreaming" development across the government are commendable, and this new approach can indeed benefit AusAID as a way of promoting the development dimension in the whole-of-government agenda.

Such deepened and extensive partnerships are not without risks. The main risk is that development programme is dominated by an Australian-driven law and order agenda rather than a broader development agenda with strengthening local ownership. Recent statements indicate that Australia is aware of this risk and recognises the importance of local ownership and capacity building. As described in the introduction above, in PNG and in Solomon Islands, the development agenda co-exists with the foreign affairs agenda. Australia's own security interests as well as the development interests of these partners - which have invited both Australian policing and administrative support - are closely linked. Another risk lies in the new way of implementing the aid programme. An increasing proportion of Australian ODA is administered through government departments and agencies other than AusAID - amounting to 20% of Australian ODA announced for 2004-05 and representing 74% of the overall increase in the aid programme provided for that year. While there is undoubtedly a place for other government agencies in the delivery of aid, this carries risks if these agencies are involved without any requirement to include development objectives (sustainability, capacity building and local ownership) in their strategic plans and their performance monitoring and reporting systems.

It is appropriate that AusAID is afforded a lead policy-making role in the context of the whole-of-government approach to relations with key developing partner countries. Not only can AusAID contribute from its impressive knowledge base regarding institution/capacity building in difficult contexts, but it can also bring to bear international best practice from other systems and approaches. AusAID is encouraged to reinforce its proactive approach based on sound analytical work drawing on its knowledge of development issues and its direct experience and knowledge of developing countries. These corporate assets enable AusAID to lead discussions within the government, and this leadership in areas linked with developing countries issues should be reinforced to ensure that the development perspective is at the forefront in the government agenda.

Pursuing efforts to ensure consistency with internationally agreed good practice

Australia has a strong record on trade liberalisation and has made commendable efforts with tariff and quota free access for all goods produced in LDCs from July 2003 - as well as for goods from the Pacific Islands and PNG - added to increased trade-related technical assistance and capacity building

since 2001. An in-principle policy of untying free-standing technical assistance to LDCs was adopted in January 2004. Australia should pursue its efforts toward enhanced policy coherence. It could benefit from the elaboration of a national strategy on development and poverty reduction, as a means to set up a policy and structural framework to guide government agencies acting in and with developing countries.

Recommendations

- Australia faces a major challenge and opportunity in taking forward its "whole-of-government approach" in a way which is poverty-focussed, developmentally sustainable and owned by partner countries. AusAID is well positioned to continue to contribute to this approach and should pursue its efforts toward enhanced policy coherence. AusAID should continue to build its analytical capacity to be able to bring its expertise to the interdepartmental committees and thus influence the whole-of-government agenda.

- To ensure that the whole-of-government approach is an important contributor to aid effectiveness, the DAC encourages AusAID to continue to play a pro-active role in wider government decision-making on development issues. It could ensure as well that the MDGs and poverty reduction principles are articulated as part of the overall framework for this approach.

Aid management and implementation

Strengthened corporate management

AusAID's Strategic Plan was issued in December 2001 and has provided a robust framework to guide AusAID's operations, with three main objectives: i) improve the quality of AusAID's programmes; ii) enhance the agency's policy and analytical capacity; and iii) improve AusAID's people management and corporate systems. The Strategic Plan has allowed AusAID to re-engineer its structures, policies and programmes for improved effectiveness and reinforced strategic positioning.

AusAID's knowledge management is a good example of these positive changes. A number of systems and tools were developed within AusAID, aiming at reinforcing communication and team-based approaches with posts and across the agency. The AusAID Knowledge Warehouse (AKWa) provides a tool for lessons learnt in delivering the aid programme, while the electronic activity management manual AusGuide and the Country Programme Infoshare tool provide knowledge sharing across AusAID. Thematic networks have been established, and a strengthened peer review process, implemented at both concept stage and appraisal stage, was introduced in March 2002. These efforts have resulted in an improvement of the design of new programmes, with a real effort to take into account the lessons learnt.

AusAID's Strategic Plan was initiated three years ago and is being implemented: i) supporting the devolution of activity management in-country; ii) enhancing the strategic direction of programmes, iii) utilising more flexible and innovative programming and contracting mechanisms; iv) streamlining work practices; and v) engaging more strategically with other government departments, multilateral institutions and NGOs. Significant progress has been made and further implementation of the strategic plan will support the maturing of the devolution process as well as the shift to a more policy-focussed agency, and reinforce AusAID's positioning within the whole-of-government approach.

Aligning management and staffing practice with the new aid paradigm

Australia has begun decentralising the management of its aid programme to AusAID offices in partner countries. This process benefits from the high quality and committed expatriate and local staff and is proving successful. The current move is being extended in a number of countries, and broadened on the basis of country by country analysis and assessment. This requires strengthening AusAID's overseas capacity and could include elements such as: i) increasing the proportion of AusAID staff based in partner countries; ii) delegating more responsibilities to the field and clarifying the respective functions and decision-making roles between Canberra and the posts; iii) reinforcing stability and continuity within the national staff; iv) providing additional support to the field, through an enhanced technical advisory capacity, and v) pursing on-going efforts to improve communication between the field and headquarters. AusAID has tried different institutional models to reinforce its field office capacity, which should be carefully assessed against the need to ensure a strong policy and analytical capacity within the agency.

AusAID has introduced desirable improvements to its evaluation efforts, with an increased focus on programme strategy outcomes and an on-going implementation of a Results-Based Management approach. To ensure the independence of the evaluation function, AusAID should consider the establishment of a direct accountability line between the Office of Review and Evaluation (ORE) and the Office of the Director General - rather than via the hierarchy of the Policy and Global Programmes group.

In implementing its *People Management Strategy* (2002-06), AusAID has increasingly sought to strengthen its ability to access relevant policy and technical knowledge through long-term partnerships with research institutes and by appointing principal advisers. AusAID should continue to invest in its internal capacity, and should also look at ways to ensure the specialist skills that exist within the programme are used efficiently and effectively. The relatively high level of staff turnover, added to a high internal mobility, proves to be a real constraint for developing constructive relationships with key partners, which may negatively impact the quality of aid delivery. AusAID is currently seeking ways to address this issue, and could also consider the possibility of increasing the duration of postings overseas. Indeed, while the two plus one (optional) year duration of these postings may ensure a permanent flow of policy, programme and country knowledge between field and headquarters, it may also weaken the post's capacity to deal with enlarged responsibilities in the context of the devolution process. Increasing the duration of postings, coupled with greater decentralisation to the field may have a positive impact on staff turnover as AusAID has identified that the opportunity to develop field experience is a relevant factor in attracting and retaining staff.

An evolving approach to aid delivery, harmonisation and alignment

At the country level, Australia actively supports the implementation of partnership principles through aligning with partner government priorities in designing country strategies, strengthening their capacity to undertake country analytical work, and supporting aid co-ordination. Australia has also strengthened its collaboration with other donors, notably through joint country strategies, co-financing and delegated programmes. Australia and New Zealand are developing a strong partnership in delivering South Pacific aid programmes, as illustrated by the establishment of a delegated co-operation programme in the Cook Islands. This well-established co-ordination is an example of best practice, which should be closely monitored to identify the co-financed or delegated programmes' best modalities, in order to further extend them in the Asia-Pacific region. Australia is also actively involved in helping to develop regional strategies in the Pacific through the Pacific Islands Forum and other regional groupings. Since 1999, Australia has been experimenting with new aid instruments and

modalities (SWAps), shifting from project to programmatic approach in some of its key partner countries, a move which should be extended whenever appropriate conditions permit.

Some principles remain difficult to implement due notably to the lack of strong host country leadership and tensions between greater alignment and accountability requirements in some key partner countries. The latter face low capacity and weak institutions, resulting in a lack of credible frameworks for alignment. Low capacity and weak institutions also create conditions for corruption. Addressing such sensitive issues forms part of Australia's governance work. Australia should continue to take advantage of its strong relationships established with a number of partner countries to raise these problems in policy dialogues with partner countries. This requires a balanced approach and close co-ordination among donors. The regional approach promoted by Australia in the Pacific region seems appropriate to this end.

Aid delivery, even in countries under stress, must ensure that capacity building and to the extent possible local ownership are at the forefront. This points to the need to ensure that AusAID's way of working, which is, so far, mostly based on external technical assistance - technical co-operation accounted for 46% of total Australian ODA in 2003 - and relies highly on Australian managing contractors, is consistent with these objectives. It may also be necessary to reinforce the field offices' capacity to manage the programme implementation, in order to better ensure the translation of AusAID's core policies into programmes/projects as well as ensure consistency with the principles of sustainability and ownership. AusAID's shift towards SWAps and its whole-of-government approach have led to reconsideration of the role of Australian managing contractors. The review of external technical assistance in PNG should provide useful information regarding the effective use of this modality in programme-based approaches.

AusAID is aware of the risks to the long-term objective of capacity development and ownership of the more hands-on approach recently adopted in countries in difficult situations such as Solomon Islands or PNG - notably the placement of Australian civil servants in line and advisory positions within the partner country government. The numbers, role, composition and competencies of Australian civil servants should continue to be carefully monitored in order to avoid substitution. To this end, terms of reference for expatriates in line positions and those working as advisers should continue to include requirements to train successors, develop systems that they can operate, and identify simple benchmarks of performance. Moreover, Australia should ensure that sustainable exit strategies for recent major initiatives in Solomon Islands and PNG emerge over time, which requires careful articulation of approaches now.

NGOs play an important complementary role in delivering the Australian development co-operation programme. The Australian government provides approximately 15% of the total funds managed by the NGO sector. Along with an accreditation process, it is engaging in a new strategic and longer-term approach with NGOs, through co-operation agreements.

Recommendations

- AusAID should deepen and broaden devolution on a case-by-case basis, clarifying the respective roles of Canberra and the posts and increasing delegation to field offices. Appropriate human resources policy adjustments, strong communication, and adequate support to the field will be needed in this respect.
- AusAID should look at ways to ensure the specialist skills that exist within the programme are used efficiently and effectively and that internal capacity continues to be aligned with programme needs.

- In order to guarantee the independence of the evaluation function, AusAID should consider establishing a direct accountability line between the Office of Review and Evaluation (ORE) and the Office of the Director-General.
- The role and significant share of external technical assistance as well as AusAID's high reliance on managing contractors should be carefully analysed and its impact assessed against partnership and ownership principles. Based on the lessons learnt, contracting and financial management systems should be reviewed to ensure consistency with the move toward a more programmatic approach as well as with ownership and capacity building objectives.
- Australia's willingness to stay engaged in conflict situations and fragile environments is welcome and has wider interest for the development community. The new hands-on approach carries both opportunities and risks. Australia's assurance of long-term engagement is welcome and reinforces the importance of sustainability and capacity building in partner countries not least through progressively transferring responsibilities to national officials and strengthening local accountability mechanisms.

Humanitarian action

A new approach to humanitarian donorship…

Australia has doubled its allocations for humanitarian action over the last three years. Disbursements for emergency and distress relief have increased from USD 25 million in 1993 to USD 113 million in 2003. The emergency assistance share of gross ODA disbursements has also increased, from 3% in 1993 to 11% in 2003. This trend clearly indicates the increasing importance of humanitarian action in Australia's foreign policy which has called for renewed and coherent policies for Australia's support to humanitarian action.

In December 2004 Australia launched its new policy for humanitarian action. It takes its departure from the *Principles and Good Practice of Humanitarian Donorship* (GHD) endorsed in 2003 and declares that these principles constitutes the general benchmark against which Australia will assess the coherence, impact and accountability of its humanitarian actions. Furthermore, it indicates a shift from reactive response to a growing recognition that "the humanitarian imperative has a place in development" and outlines the relationship between development assistance and conflict resolution. Policies relating to resource allocation between multilateral and bilateral channels are not explicitly stated but Australia aims to increase its support to multilateral humanitarian agencies.

Humanitarian action is mainly managed by AusAID. AusAID's role in managing co-ordination and communication in this area should be recognised but could be strengthened further. The new policy will place increased demands on management and monitoring systems which need to be further adjusted before all aspects of the policy will be reflected and implemented. Australia could also further develop its procedures for ensuring adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response to complex emergencies.

… taking on a regional responsibility …

Following the focus of its overall aid programme resulting from its special geographical position and role, Australia's support to humanitarian action is primarily concentrated within the Asia-Pacific region. This regional approach plays an important role by targeting emergencies that would otherwise be unlikely to attract broader international attention. Australia's security interests and regional focus could risk compromising its needs-based approach to humanitarian response and the principles of neutrality and impartiality. This risk requires care in defining and designing responses to emergencies.

Australia's long-term commitments in its engagement in complex emergencies in the region have also resulted in a positive approach to the relationship between humanitarian assistance and development co-operation, integrating transition issues into its country and regional development co-operation strategies. This is further reflected in Australia's *Peace, Conflict and Development Policy*.

Australia also recognises natural disaster prevention and preparedness as key features of its humanitarian action and AusAID is a main actor in capacity building for reducing vulnerability to natural disasters in the Pacific region. Australia has been a major contributor in establishing regional emergency response stand-by mechanisms together with key donors in the Pacific.

… with a potential to do more and address challenges ahead

Through its new humanitarian action policy Australia has committed itself to respond to emergencies on a needs-based approach. In view of Australia's recent strong economic growth and the positive experiences of its humanitarian programme, there is an opportunity for improving its humanitarian performance and for increasing allocations to meet humanitarian needs in other regions.

The humanitarian action policy states that Australia will "improve the effectiveness, efficiency and combined efforts of military and humanitarian actors" and in this context it is important that Australia affirms the primary position of civilian organisations in implementing humanitarian action, particularly in situations of armed conflict and during peace keeping and/or military interventions.

One general finding from the Peer Review of Australia is that the lack of policy relevant DAC data makes it difficult to monitor donor performance in humanitarian action and that present vague reporting definitions and formats constitute a serious challenge for harmonised donor practices and improved efficiency among DAC members collectively.

Recommendations

- Australia's achievements in developing a policy for humanitarian action are recognised and appreciated. Australian experience gained from its regional involvements could provide useful references for international learning which could help identifying best practice especially in relation to natural disaster prevention and preparedness and transition support.
- When increasing its aid volume, Australia should consider also increasing its support for humanitarian action, in line with its policy and consistent with its needs-based approach.
- Australia should affirm the primary position of civilian organisations in delivering humanitarian action and ensure that the humanitarian principles of neutrality and impartiality enshrined in its policy on humanitarian action are followed through in implementation. In this context, Australia could also strengthen its procedures to ensure that the 1994 *Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief* and the 2003 *Guidelines on the Use of Military and Civil Defence Assets to Support United Nations Humanitarian Activities in Complex Emergencies* are respected.

SECRETARIAT REPORT

CHAPTER 1

STRATEGIC CONTEXT AND NEW ORIENTATIONS

Context and progress since the 1999 Peer Review

An integral component of the Asia-Pacific region. Australia's geographic location within the Asia-Pacific region sets the context for foreign and development co-operation policy as Australia's security and economic progress are closely linked to the fortunes of its developing country neighbours. Responding to development challenges within the region is in Australia's national interest, as set out in the 2003 Department of Foreign Affairs and Trade (DFAT) Policy White Paper *Advancing the National Interest* (DFAT, 2003a). Only a few bilateral donors are involved in the Pacific and Australia is by far the largest donor in most Pacific countries - apart from French Polynesia. Being the largest donor in these situations presents opportunities and challenges for Australia in terms of partnership and donor co-ordination. Australia's regional approach to development co-operation allows it to target developing countries and emergency situations that would otherwise be unlikely to attract broader international attention.

An evolving external context. The Asia-Pacific region has experienced social and political instability in the wake of the Fiji coup (2000), the Solomon Islands crisis (2000) and the bomb attacks in Bali (2002) and Jakarta (2003 and 2004). Although Timor-Leste's move to independence fundamentally altered the regional political landscape, instability prevails. The September 11 attack, and more recently the Iraq war have contributed to a change in Australia's perception of its security environment. Other threats, including trade in illegal drugs, people trafficking and illegal migration have also become more prominent in Australia.

Meanwhile, development gains in the region remain fragile. A number of Australia's Pacific neighbours are grappling with major governance and economic challenges. This is particularly the case in Melanesia, notably in Papua New Guinea (PNG), Australia's closest neighbour. In Australia's view, globalisation brings opportunities, but also increases countries' vulnerability to transnational threats. As a consequence and despite a favourable national economic situation, Australia faces complex and evolving challenges linked to the situation of its neighbours. Its security interests and the development interests of its partner countries are difficult to disentangle given the physical proximity.

At the same time, the context for aid delivery is shifting as a result of increased international dialogue on a range of issues including financing for development, sustainable development and partnership (Monterrey, WSSD, G8) as well as harmonisation and aid effectiveness (Rome).

Adapting the national response to the new challenges in the Asia-Pacific region. Australia's development co-operation policy frameworks and internal organisational structures and processes are evolving to meet the demand of its rapidly changing and challenging development environment. On the one hand, the well established foreign policy focus on promoting stability and prosperity in the Asia-Pacific region has been reinforced (as expressed in the 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* AusAID, 2002a) and on the other, the whole-of-government approach has been strengthened since 2002. This approach aims at increasing the effectiveness of intra-governmental working relationships placing a premium on enhancing the coherence and efficiency of established systems. The Australian Agency for International Development (AusAID) faces opportunities and challenges in its efforts to advance development co-operation policy within the overall government agenda (see Chapter 4). AusAID has been implementing important transformations since 2001, notably on the basis of its Strategic Plan (AusAID, 2001a). The Strategic Plan aims at improving aid effectiveness in an evolving environment, and at better positioning AusAID within the whole-of-government approach. To this end, it has introduced greater devolution and an enhanced focus on knowledge, policy and analysis into the programme (see Chapter 5).

The general principles of development co-operation policy

Advancing the national interest by assisting developing countries to reduce poverty

The stated objective of Australia's development co-operation programme is "… to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development" (1997 Statement *Better Aid for a Better Future*, AusAID, 1997a). It has been reaffirmed in the 2002 Ministerial Statement, *Australian Aid: Investing in Growth, Stability and Prosperity* (AusAID, 2002a), which states "… aid is a central component of Australia's foreign policy and national interest. It reflects the humanitarian desire of Australians to help those less fortunate than ourselves. Our aid is engaged in promoting growth, peace, and stability in the region and addressing issues which are directly linked to Australia's continued prosperity".

Australia's Foreign and Trade Policy White Paper *Advancing the National Interest* (DFAT, 2003a) recognises development co-operation as a strand of external policy and identifies as key priorities: i) maintaining security and prosperity; ii) consolidating and expanding regional and bilateral relationships; and iii) projecting Australia and its values. The latter point is to be achieved by promoting good governance, human rights and development, mainly through the aid programme. Promoting more effective governance in the Asia-Pacific region directly serves Australia's national interest, since countries with good governance are stable and prosperous. At the same time, the development of sound governance systems encourages economic growth and thus enables greater gains in poverty reduction.

Australia has sharpened its focus on the Pacific – "… both through necessity following the deterioration in security in Solomon Islands, but also through a strengthened realisation that a porous, underdeveloped and insecure region can increasingly feed instability, inhibit development and pose a threat to Australia's national security." (Commonwealth of Australia, 2004.) AusAID has also developed a policy paper on *Counter-terrorism and Australian aid* (AusAID, 2003a). It identifies two themes for the aid programme's contribution to counter-terrorism efforts: i) to build the capacity of partner countries to manage terrorist threats by strengthening counter-terrorist and broader law enforcement capacity; and ii) to promote environments conducive to economic growth and poverty reduction to minimise the potential for terrorist networks to develop. But security is not the only reason for significant external interventions, economic and social development and human rights are important too.

Reference to the national interest requires clarification. Even if, in a long-term perspective, development interests and national interests coincide, in the short term, these interests can diverge and therefore due attention should be given to the long-term development interests of partner countries. AusAID has a key role to play to ensure, within the whole-of-government agenda, that Australia's national interest does not override that of its partner countries, that sustainable exit strategies for recent major initiatives in Solomon Islands and PNG are developed, and that the general principle to maintain the independence of humanitarian action from other policy agendas is enforced.

Investing in growth, stability and prosperity to reduce poverty

An overarching poverty reduction framework *Reducing Poverty: The Central Integrating Factor of Australia's Aid Program* (AusAID, 2001b) was developed in 2001 to strengthen the poverty reduction focus of AusAID programmes. Australia's approach to poverty reduction embraces four closely connected and mutually reinforcing pillars: i) strengthening frameworks for sustainable and inclusive economic growth which will benefit the poor; ii) supporting interventions which enable the poor to improve their productivity; iii) encouraging governments, institutions and donors to be more accountable to the poor; and iv) reducing the vulnerability of the poor. The framework also stresses the importance of poverty analysis and set out principles for future action.

The 2002 Ministerial Statement *"Australian Aid: Investing in Growth, Stability and Prosperity"* re-affirmed the overall goal of Australia's aid as well as the overarching framework of Poverty Reduction. At the same time, taking into account the new challenges resulting from the evolving situation, it reinforced the aid programme's focus on assisting developing countries in the Asia-Pacific region, and emphasised the governance issue. Economic growth, linked with stability and good governance, is considered to be the main driver for development and poverty reduction, and increased integration into the world economy a key factor for economic growth. Australia stresses the importance of strengthened partner country policies, institutions and systems of governance. The Governance sector receives greatest priority in terms of support although globalisation and security are included as guiding themes. Improving access to basic social services, providing essential infrastructures, improving agriculture and rural development and maximising environmental sustainability remain key result areas for the Australian aid programme.

Box 1. The guiding themes of Australian development co-operation

Five guiding themes, identified in *Australian Aid: Investing in Growth, Stability and Prosperity,* shape Australia's efforts to assist developing countries to reduce poverty and achieve sustainable development and provide the basis for Australia's 2003-04 and 2004-05 international development co-operation programmes. They cover:

- Governance: promoting democratic and accountable government and effective administration.
- Globalisation: assisting developing countries to access and maximise the benefits from trade and new information technologies.
- Human capital: improving basic services to support stability and government legitimacy.
- Security: strengthening regional security by enhancing partner governments' capacity to prevent conflict, enhance stability and manage trans-boundary challenges.
- Sustainable resource management: promoting sustainable approaches to the management of the environment and the use of scarce resources.

In addition, strong policies have been developed by AusAID since 2000 in the main sectoral and programmatic areas, such as good governance, peace, conflict and development, HIV/AIDS, humanitarian action, food security and environmental management. These policies reflect the move toward more policy focus and strategic positioning.

A link to be reinforced with poverty reduction and the MDGs

Although the poverty reduction statement in 2002 is a welcome development a lack of clarity on the hierarchy of principles and values guiding the Australian aid programme persists. Poverty reduction receives lower prominence in Australian programming than AusAID's policy statements would suggest. This concern was raised by a number of Australian observers,[1] and is shared by the review team. The relationship between governance, security, the whole-of-government approach and poverty reduction, needs to be made more explicit. Specifically, Australia should clarify how the poor countries and the poorest communities within those countries will benefit from these approaches. Moreover, analysis to indicate how programme activities and modalities used are assessed from the perspective of their impact on poverty reduction as well as how the commitment to poverty reduction is incorporated into the whole-of-government approach would be useful in this regard.

Although Australia supports sectors such as health, education and rural development, and promotes good governance and stability, all of which are integral to achievement of the MDGs, the MDGs are not currently used as an internationally agreed framework for the programme within which development actions can be designed and monitored.

Australia is working towards creating stable and secure environments that can support growth in developing countries, a precondition for meeting the MDGs. Tackling poverty requires differentiated responses based on strong country knowledge and analysis. It also requires co-ordinated application of policies and actions across government to promote the conditions necessary for human development and poverty reduction. Australia therefore considers the MDGs as valuable reference points that help to maintain attention on the importance of global development efforts, rather than operational benchmarks for aid programmes on a country basis. Australia assumes that ODA on its own will not be sufficient to meet the MDGs and that real progress will require enhanced private as well as public sector investment generated from greater trade liberalisation, foreign direct investment and domestic savings. Australia therefore stresses the strong linkages between good governance, economic growth and progress against the MDGs and increasingly focuses its aid programme on building sound policy and institutional frameworks.

Australia notes that "… there is a potential danger in overemphasising the MDGs as targets at the country level. Such target setting can lead to distortion in sectoral allocations of budgets and aid programmes, to the detriment of investments in growth, stability and governance – the fundamental building blocks for sustainable progress in poverty reduction and the MDGs" (AusAID, 2004a). Australia is encouraged to take advantage of the opportunity presented by the MDG + 5 stocktaking event in 2005 to re-affirm the ultimate objective of poverty reduction and to measure the impact of its aid programme against the targets elaborated in 2000. The on-going preparation of an MDG8 report and AusAID's involvement in global efforts to enhance understanding of the policies and actions required to make progress toward the MDGs will foster useful reflection in this respect. In the dialogue with the Australian public, the MDGs can serve as a useful vehicle to convey a sense of the work to be done, while not being offered as a guide to programming.

Engaging with fragile countries

Some of Australia's nearest neighbours, mainly in Melanesia, are facing serious development challenges such as PNG and Solomon Islands. For humanitarian, developmental and broader security/national interest considerations, Australia has committed itself to supporting these countries

1. See Australian Council for International Development (ACFID) submission to the Review (ACFID, 2004).

under stress. It has therefore developed a graduated and comprehensive approach to address each situation, with the dual objective of helping to reduce the impact of failed systems on the poor and encouraging governments to embark on a reform path. This approach aims to reinforce the mutual goals of peace, security, respect for the rule of law, human rights, and social and economic development (AusAID, 2002a). Australia is working with the World Bank and others to further develop the Low Income Countries Under Stress (LICUS) framework.

Australia's approach includes, as a first step, an analysis of the situation to efficiently target assistance. Humanitarian assistance is provided for people in need, through the maintenance of basic service delivery, with Australia's assistance channelled directly to community organisations, non governmental organisations (NGOs) or other civil society organisations (CSOs) if government systems are failing. At the same time, Australia tries to develop broad-based aid investments that support wider society (NGOs, church-based groups, private sector organisations, etc.) in their efforts to promote peace and improved accountability or democratic reforms. It also engages in strengthening the institutional capacity of the law and justice sector and maintains a dialogue on good governance issues with partner governments, sometimes by working with reformers within the public service, and offering practical support and incentives for reform. In this dialogue, imposing conditionality, such as cutting non-humanitarian aid, may be appropriate, even though this means has to be carefully used. Withdrawal is not considered, instead, AusAID tries to make a difference in the way it uses its aid, by working jointly with reformers to address issues such as corruption and by incorporating incentives that encourage reform. If necessary, Australia's assistance may be channelled through sub-national levels of governments or directly to civil society organisations. Helping to develop regional solutions, and more generally engaging with other donors, as illustrated by the Regional Assistance Mission to Solomon Islands (RAMSI), is promoted. Where necessary, Australia works with warring parties to support conflict resolution processes.

Based on its previous experience, Australia is implementing a more 'hands-on' approach to assisting Pacific Island countries, as illustrated by the Enhanced Co-operation Programme (ECP) in PNG (see Box 13 in Chapter 6). Capacity building and local ownership must remain key objectives in such an approach, even if it is clear that engaging with countries under stress is a long-term high risk task.

Public support for development co-operation

A high and increasing public support for overseas aid. According to the latest public opinion surveys initiated by AusAID and conducted in conjunction with Australian NGOs, there is a high and increasing level of public support for Official Development Assistance (ODA) in Australia, with 85% of Australians supporting overseas aid in 2001, against 72% in 1994 (OECD, 2003). This positive trend is matched by the significant increase in the level of donations to NGOs, with average growth of 11% a year over the last five years, coming on the back of a significant rise at the end of the nineties. In 2001, 50% of Australians claimed to have contributed money or time for overseas aid, up from 47% in 1998. According to the Australian Council for International Development (ACFID), which represents 78 NGOs, 1.9 million Australians donated AUD 387 million to overseas aid and development in 2003 (Chapman R., 2004). Moral responsibility is the main motive behind aid. Australian support seems to be strongly linked to humanitarian concerns, as the Australian public is highly sensitive to emergency situations such as Timor-Leste independence or the Kosovo crisis. Volunteer programmes attract considerable interest among the Australian public. A challenge for the future will be to maintain this high public support rating for overseas aid.

Involvement in development education to be reinforced. Even though the majority surveyed in 2001 still believed the emphasis should be on long-term development (51%) rather than emergency aid (38%), support for long-term development aid declined somewhat from 1998 (54%). The link between aid support - seen as the right thing to do for ethical reasons - and awareness of development issues appears to be weak. Such awareness is limited within the Australian community, apart from a small number of NGO volunteers or academics. According to the 2001 public opinion survey, younger, more highly educated, higher income and urban dwelling Australians are more supportive of development aid for altruistic reasons, compared with their older, less well educated, poorer, rural compatriots who are less inclined to support aid overall and only then for emergency or self-interested reasons. Very few NGOs are involved in development education. AusAID does not co-finance NGOs' activities in this area, but works with 11 development education groups contracted through an open tender process (including two NGOs, the other groups being consortia of universities and teachers' associations) to implement its development education programme. This programme, driven on the basis of the *Australian Statement on Global Education* (AusAID, 2002b), aims at promoting teaching with a global perspective and accounts for 25% of AusAID's Public Affairs budget. It targets the primary and secondary school sector and produces professional curriculum materials, including a website, addressing a wide range of development issues. The programme is designed to support teachers (and through them students/schools) in metropolitan, regional and rural areas, and is accessible to all teachers across a broad socio-economic spectrum. It allows reaching the most remote areas, and a distance education initiative is currently being piloted for nation-wide implementation in early 2005. This is relevant, notably given the fact that, as highlighted by the survey, rural Australians are less supportive of aid. It might be important to consider as well how to reach less educated people and, to this end, how to strengthen civil society organisations willing to work in this area.

Public debate about development co-operation issues. Neighbouring countries such as Timor-Leste and PNG continue to be the main focus of Australian public opinion about aid and development. Asylum seekers and immigration policies, as well as the greater emphasis on security within the Australian aid programme are additional issues raised in the Australian public debate. According to a commentator,[2] "other current issues which have an impact on Australians' awareness of aid and development issues are asylum seekers, immigration generally, and international terrorism. There is a growing awareness among many in the Australian community that some international phenomena such as HIV/AIDS, environmental issues, terrorism, refugees and drugs are best handled through international assistance measures, rather than by traditional security forces." On behalf of Australian NGOs, ACFID conducts advocacy to gain significant increases in the federal government budget for a poverty-focused aid programme which meets Australia's commitment toward achieving the MDGs. Moreover, ACFID seeks to influence the policies of the Australian government and other key stakeholders in support of human rights and long-term strategies for financing sustainable development. In contrast, unlike in other DAC member countries, the Australian private sector seems to leave advocacy and generating public support for the aid sector to the government and NGOs, which is unfortunate as its voice could broaden and further encourage debate, at both a general public level and within influential corporate Australia. The MDGs represent an opportunity to increase public awareness of development issues and to demonstrate how Australia is contributing to regional initiatives in support of their achievement. Overall, Australia's development assistance efforts would benefit from a broader and better informed public debate on international development issues.

AusAID Public Affairs strategy 2005-07. This draft strategy aims at: i) providing public affairs support and advice to the minister and parliamentary secretary; ii) providing information along key

2. Otter M., "Australia", in *Public Opinion and the Fight against Poverty*, OECD/Development Center, 2003.

themes to varied targeted audiences; iii) upholding and strengthening the agency's reputation through development of effective government aid policy and programme delivery; iv) encouraging key stakeholders to support the Australian government overseas aid programme; v) providing information about Australia's overseas aid programme and through it encourage the Australian community to support the value of aid and AusAID's role; and vi) positioning public affairs as a valued asset within the agency. In line with the stronger focus placed by the Australian government on national security issues, the strategy highlights the links between poverty and stability. It specifies that the key themes to be developed on an annual basis are to be related back to poverty reduction (the themes for 2004 being: peace building, stability and governance), the key message being that "Australian overseas aid contributes to a safer, more stable region" (AusAID, 2004b). AusAID intends to put greater emphasis in its Public Affairs activities on how the agency's work supports the MDGs.

Future considerations

- Australia should strive, within the whole-of-government approach, to ensure that short-term national interest considerations are handled in a way that is consistent with the overriding need for aid interventions to promote sustainable long-term development.
- AusAID's poverty reduction statement should be updated and reinforced as the overarching objective of Australian development co-operation and the poverty reduction outcome followed through more consistently in implementation, monitoring and evaluation.
- Building on its Global Education programme, AusAID should reinforce its investment in development education in order to foster a broader and better informed public debate on international development issues. To this end, it should consider how to support civil society organisations willing to work in this area.
- Remaining engaged in fragile countries is critical, both for full achievement of the MDGs and for global security reasons, and Australia's efforts to this end are appreciated. Australia is encouraged to bring its experience to support good practice by the donor community.

CHAPTER 2

VOLUME AND DISTRIBUTION OF AID

Volume: further sustained increases needed to reverse the trend of falling ODA/GNI ratios

In 2003, Australia's total ODA amounted to USD 1 219 million, representing 0.25% of its Gross National Income (GNI).

Though Australia has enjoyed thirteen years of economic expansion, the longest run of uninterrupted growth in its post-war history, its solid economic performance has not been reflected in the evolution of its ODA/GNI ratio over the same period. Recent increases in Australia's total ODA amounting to 9% in real terms, between 1999 and 2003 are welcome, however, its ODA/GNI ratio has fallen progressively from a high of 0.65% in 1975 to 0.25% in 2001. ODA/GNI remains at 0.25% in 2003, despite a small recovery in 2002 (0.26%).[3] The 2003 ODA/GNI ratio equals the total DAC ratio (0.25%) but lags behind the average DAC members' effort (0.41%). Australia ranks 15th out of 22 DAC members on ODA volume, and 13th on ODA/GNI ratio.

Australia has endorsed the 0.7% ODA/GNI international objective, but has yet to publish a timeframe for achieving this target. This is all the more striking in a context of relatively high economic growth (Australia's GNI is expected to continue growing at an annual rate of 3.5%). In the context of the International Conference on Financing for Development, held at Monterrey, Mexico, in 2002, Australia was one of the few DAC countries that did not make a specific commitment to maintain or increase ODA. Australia should revisit the issue of ODA commitments in view of the fact that it has much to contribute as a bilateral donor. Further sustained increases in its ODA levels would provide it with an opportunity to do more to address the many pressing development challenges in its region. Moreover, Australia, in common with other DAC donors, is committed to improving aid effectiveness to bring about better development outcomes with the resources at its disposal.

Bilateral ODA

The level of bilateral aid as a proportion of total ODA is high and has increased from 74% in 1999 to 80% in 2003. The rationale for Australia's allocation preferences between bilateral and multilateral aid is explored in further detail below.

An increased focus on the Pacific region

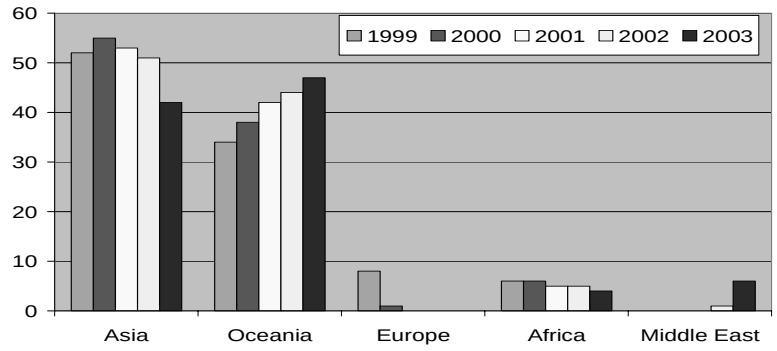
Australia's aid programme is characterised by a strong focus on Far East Asia and the Pacific (see Chart 1). Most recent AusAID data show: i) an acceleration in the increase of ODA allocated to the Pacific, notably resulting from strengthened engagement in Solomon Islands following the RAMSI

3. A real increase of 9.9% in ODA is planned for 2004-05 compared in Australian dollars with the previous year, resulting in an estimated ODA/GNI ratio of 0.26%.

deployment in July 2003 and the new Enhanced Co-operation Programme (ECP) in PNG; ii) a high but slightly decreasing level in Far East Asia; iii) an increase in ODA to the Middle East and Central Asia, resulting from reconstruction and humanitarian support to Afghanistan and to Iraq's reconstruction; iv) a constant but low level of ODA allocated to South Asia; and v) a slight and steady decrease of ODA devoted to Africa. As a result, in 2003, 47% of total estimated bilateral Australian ODA was allocated to PNG and the Pacific Islands, and 42% to Asia (including 36% to Far East Asia).

Australia's strong regional focus on the Pacific and Far East Asia regions contributes to a rational geographical division of labour among donors. As a consequence, though Australia is a middle-sized donor on the world stage, it has a large presence in its immediate neighbourhood. Australia is by far the largest donor to PNG, accounting for 89% of the total net disbursements of ODA to this country in 2002 (including the multilateral donors). It also accounted for 75% of ODA allocated to Solomon Islands, and for 38% of the total ODA allocated to Oceania countries.

Chart 1. Trends in Australian allocable gross bilateral ODA per region (%)



An appropriate geographical selectiveness

Australia is to be commended for its efforts to reduce the number of countries and sectors supported. Although bilateral aid is currently allocated among some 80 countries (see Table C.4 in Annex C), this number has been reduced by over 25% since the early nineties. In 2002-03, the five largest recipient countries - PNG (receiving 29%), Indonesia, Solomon Islands, Viet Nam and Timor-Leste - received 58% of total allocated bilateral gross ODA and the fifteen largest recipients, 85%. Since the RAMSI deployment in July 2003, Australian ODA to Solomon Islands increased fivefold and is currently its second most important bilateral programme.

In 2003, 28% of Australia's bilateral ODA, allocable by country, was devoted to least developed countries (LDCs) - close to the DAC average of 30%. 48% was allocated to other low-income countries (LICs), as against 25% for the DAC[4] (see Table C.3). The Pacific focus allows Australia to consistently support small island countries, thus addressing target 14 of MDG 8 relating to the special needs of Small Island Developing States (SIDS). As part of the global effort toward achievement of the MDGs, the DAC encourages Australia to maintain its strong positive focus on LDCs and LICS, which combined, account for 76% of its aid volume compared with the DAC average of 55%.

4. This notably results from the transfer of PNG to the LIC category since 2003.

Technical co-operation: a major component of Australian aid

Technical co-operation is a major and growing component of Australian aid, increasing from 37% of total ODA in 1999 to 46% in 2003, compared with the DAC average of 24%. The high proportion of ODA devoted to technical co-operation (which includes the scholarship programme – see Box 2) reflects the way Australian aid is implemented but has implications for ownership and capacity building. The use of external technical assistance as well as issues relating to quality, positioning, cost and relevance are explored in greater detail in Chapter 6.

Debt

All Australian aid is and has always been provided in grant form. Few developing countries owe bilateral official debt to Australia, which is mainly in the form of export credits. In 2003, developing countries owed an estimated USD 2.3 billion in bilateral aid to Australia. The Australian government is committed to providing 100% bilateral debt relief to all countries that qualify for debt relief under the enhanced World Bank/IMF Heavily Indebted Poor Countries (HIPCs) initiative. Both HIPCs-eligible countries with bilateral debts to Australia (Nicaragua and Ethiopia) are therefore not required to make debt repayments to Australia. Debt relief amounted to USD 6 million in 2003. In addition, Australia has committed USD 54 million through the multilateral HIPCs Initiative.

Sectoral distribution: stronger focus on governance

In line with the 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* and its strong emphasis on economic policy and governance issues, a significant shift toward the governance sector has occurred since the last review. The share of bilateral ODA allocated to governance and civil society grew from 6% in 1997-98[5] to 15% in 2002-03 - compared with a DAC average of 8% - representing an increase from USD 44 million to USD 133 million. This shift has been confirmed and will be amplified, since Australia estimates that governance will account for 33% of total Australian ODA in 2004-05.

Increased focus on basic services delivery within education and health sectors

The share of bilateral Australian ODA allocated to the education sector sharply decreased from 21% in 1997-98 to 8% in 2002-03. As a result, expenditure on education has dropped markedly decreasing from USD 159 million in 1997-98 to USD 70 million in 2002-03. This decrease results from a reclassification of scholarships as per DAC directives in 2001 under multisector education/training[6] and from AusAID's new strategic approach toward a more focused aid programme. This approach has led it to withdraw from the education sector in countries such as Cambodia, for reasons related to Australia's comparative advantage and other donors' involvement in this sector (see Chapter 6). Within the education sector, Australia increasingly supports primary education. It is estimated to account for 42% of education expenditure on average 2002-03, as against 15% in 1997-98 and 5% in 1992-93. In the health sector, there is a stronger focus on primary health care, which accounted for 60% of health expenditure in 2002-03, as against 49% in 1997-98 and 54% in 1992-93. This orientation is consistent with the 1999 DAC recommendation advocating continued re-orientation of bilateral assistance towards primary healthcare and basic education. For Australia, investing in basic service delivery systems helps to build human capital and fight against poverty. It is

5. Figures relate to two-year averages in this section.

6. This also explains the increase in multisector aid from 1997/98 to 2002/03 in table C.5.

also a way to ensure stability as "if governments fail to fulfil this responsibility, their legitimacy will be questioned" (AusAID, 2002a).

Box 2. The Australian Development Scholarship Scheme

Funding to the Australian Development Scholarships (ADS) Scheme has decreased in recent years. In March 2004, around 2 510 students were receiving funding compared with an estimated 3 130 students in March 2002. Even if it is decreasing, the ADS Scheme remains a priority for Australia, as stated by AusAID's Director General in 2003: "Australian Development Scholarships (ADS) have no small part to play in building the long-term skills base of Pacific Island countries (…) I believe this long-term investment is one of the best we can make" (Davis, 2003). The objective of the ADS Scheme is to provide students from developing countries with training which facilitates their contribution to the economic and social advancement of their country. The scheme is closely linked with AusAID's development co-operation objectives and comprises two categories: Public Sector and Open. ADS public sector awards are restricted to government sector employees whereas ADS open awards are open. Specific selection and eligibility criteria, determined in consultation with partner government and aligned with the broader country strategy, are developed for each country. For instance, in Cambodia, only civil servants can apply, since scholarships for tertiary study currently focus specifically on improving the management and technical capabilities within the public sector, thus excluding candidates from NGOs or civil society. The selection is done by a joint selection committee including representatives of the partner government and of AusAID.

A review of the Australian Development Scholarships programme in Viet Nam, one of the largest - representing 25% of the total country programme budget, and approximately 500 Vietnamese ADS scholars studying in Australia - was conducted in 2002 (AusAID, 2002g). This review recommended that the programme should be significantly more strategic and focused, and should more clearly demonstrate development outcomes and impact, based on performance indicators. The programme should also focus on strategically targeted postgraduate study, notably through strengthening selected key government institutions relevant to the market economy and rural development; and training selected personnel working in strategic projects/programmes, as opposed to targeting educationally disadvantaged areas. The review recommended that both undergraduate and vocational training should be addressed in-country instead of in Australia.

The impact of scholarship programmes, which are expensive in terms of finance and human resources, should be assessed against their development impact on the partner country and in relation to cost effectiveness. Australia could go further in strategically positioning its scholarship programme based on country needs, notably capacity building, and should consider extending alternative locations for studying, benefiting from regional opportunities, especially South to South co-operation. Apart from the Australian Regional Development Scholarships (ARDS) supporting study at post secondary education at institutions within Pacific islands countries, the institutions contracted to receive ADS awardees are currently all Australian and provide full time study in Australia. Australia is currently reviewing its scholarships programmes to ensure they address country programme requirements. In doing so, it should draw not only on its own experience but also on the experience of other DAC members. Australia could offer valuable experience to other DAC members as a result of this process.

As a result, the proportion of funding going to basic needs has increased slightly since 1998 and was above the average DAC member's effort, of 13% in 2002-03. In 2002, 3% of bilateral ODA was devoted to basic education and 5% to basic health, compared with 2% and 3% respectively for DAC members (see Table C.5).

Support to humanitarian action

Disbursements for emergency and distress relief have increased from USD 25 million in 1993 to USD 113 million in 2003 (constant 2002 dollars).[7] The emergency assistance share of gross ODA disbursements has also increased, from 3% in 1993 to 11% in 2003. Since 1999 and in accordance

7. DAC data do not have a statistical category for humanitarian action. In DAC reporting directives the term "Emergency and distress relief" is used, which includes "Emergency assistance", Relief food aid and "Other emergency and distress relief".

with the DAC reporting directives, Australia includes expenditures for assistance to refugees in their first twelve months of stay in a developed country. This item accounted for 22% of the disbursements for "Emergency and distress relief" in 2003.

Policies relating to resource allocation between multilateral and bilateral channels are not explicitly stated but Australia strives to increase its support to multilateral humanitarian agencies. UN data shows that Australia contributed 1.16% of global humanitarian funding in 2003. According to the same source Australia's contribution to United Nations Consolidated Inter-Agency Appeals (CAP) totalled USD 31.8 million in 2003, equivalent to 0.81% of total contributions to the CAPs, which positioned Australia as the 11th largest CAP donor (OCHA 2003).[8]

A strong non-governmental co-operation

Australia channels a relatively small share of its ODA through NGOs. 5.5% of total Australian aid (USD 54.3 million) was disbursed to NGOs in 2003. Australian government funding accounts for around 16% of the total funds raised by Australian NGOs. The volume and proportion of ODA channelled through NGOs has decreased since 2001. This decline is expected to be reversed somewhat in the coming years, notably as a result of new Cooperation Agreements with NGOs (see Chapter 6).

In 2003, Australian NGOs mobilised USD 337 million for development activities and humanitarian action. Resources mobilised by Australian NGOs are among the highest in the DAC and have steadily increased over the last decade (see Table C.1) representing 0.07% of Australian GNI in average 2002-03, against 0.03% in 1992-93. More than a hundred NGOs are active in development co-operation, the largest fourteen of which were responsible for 79% of total NGO expenditure in 2003, according to ACFID's 2004 report (ACFID, 2004a). Australian NGOs are relatively more involved in Africa than AusAID and are currently the main channel for Australian development co-operation in this region.

Multilateral ODA: a strategic engagement

Assessing the effectiveness of multilateral organisations

The share of multilateral aid in Australian ODA has steadily decreased over the last decade from 29% in 1991-92 to 20% in 2003, below the DAC average of 27%. Australia is engaging individual multilateral agencies strategically, while recognising the important role that multilateral organisations can play in the Asia-Pacific region, from effective co-ordination of donor efforts at country and regional level, to mobilising resources to address critical development issues where they have specialised expertise (HIV/AIDS, conduct of elections, protection of refugees, etc). Australian multilateral aid is allocated on the basis of agencies' performance at the country level. To this end, Australia conducts on a regular basis multilateral assessments, with a view to building a knowledge base of multilateral organisations' operations and achievements - and, ultimately, improving accountability to parliament - making better informed funding decisions and improving Australia's dialogue with multilateral organisations (see Box 3).

The Australian government has announced its intention to withdraw from the International Fund for Agricultural Development (IFAD) considering its limited relevance and effectiveness relative to priority development partners in Asia and the Pacific. This is an example of Australia's willingness to act where effectiveness is not proven. Australia's approach can help to improve international organisations' effectiveness and accountability, and the transparency of the process is positive. At the

8. UN OCHA Reliefweb, Financial Tracking Service, *Major Donors in 2003*, www.reliefweb.int/fts/

same time, it remains necessary to respect the multilateral character of these institutions and to ensure that judgements on the choice and performance of multilateral organisations are based on shared and clear criteria focusing not only on geographic issues.

Box 3. Multilateral and Regional Agency Assessment Framework (MAF)

AusAID developed the Multilateral Assessment Framework in 1998 in response to the government's policy aimed at ensuring that support for multilateral development agencies would be more strategic and based on informed assessment. It was developed as a tool for assessing the performance of multilateral agencies receiving annual core funding of at least USD 140 000, and serves both quality improvement and reporting function to the Parliament.

The MAF information is used by AusAID management and staff to monitor the effectiveness of multilateral agencies, and the overall results from UN and Commonwealth agencies form the basis of external reporting to parliament in the annual report. It allows better-informed decisions to be made in relation to the future funding of the multilateral agency.

Desks using multilateral/regional agencies for delivery of aid are responsible for collecting the data for the MAF, the most important sources being the country post and the multilateral agencies' existing system and reporting. Other bilateral agencies and reports from meetings of the multilateral agencies' governing bodies are other sources of information.

The framework assesses multilateral and regional agencies against the following main criteria:

- **Relevance** in terms of objective and focus to Australia's aid objective of poverty reduction and sustainable development, and consistency between organisation's aims and activities.
- **Efficiency** of the organisation, in terms of programming systems, administrative and finance systems, and governance mechanism.
- **Effectiveness** of the organisation, based on the outputs and outcomes achieved.

A rating based on the five-point scale ("weak" to "best practice") is assigned to each component and in general.

According to the Performance Information Reference Guide (AusAID, 2003d), MAFs for each agency are presently prepared at least every three years. Core agencies are assessed annually or every two years depending on the circumstances of the relevant agency and whether a re-evaluation is warranted. A Multilateral Development Bank Engagement Review is also done, on an annual basis, to provide AusAID with feedback on the effectiveness of its engagement with the MDBs.

Such assessment processes meet the legitimate quest for assessing, as a funding member, organisations and may lead to improving the performance of multilateral agencies. However, the MAF raises the issue of subjectivity in conducting the assessment. The assessment framework could be reinforced and its quality increased through more systematic and formal consultations with other bilateral donors, therefore ensuring the transparency of the process and the reliance on visible and clear benchmarks. Additionally, such consultation would lead to assess the relevance of the organisation against the local and international objectives of development and the specific mandate of the organisation, in addition to Australia's own objective. In order to learn from others and test procedures internationally, these assessments could be shared more widely within the donor community, as recommended by the previous review. So far the MAF results are only shared with relevant multilateral partners.

Stronger share of non- core contributions and co-financing

Though no geographic limitations are specified in the Multilateral and Regional Agency Assessment Framework (MAF), Australia clearly intends to strengthen engagement with effective United Nations (UN) organisations working on priority development issues in the Asia-Pacific region. To this end, it looks for greater collaboration and monitoring and an increased emphasis on non-core

contributions to the UN organisations, shifting away from general funding toward co-financing of particular projects. Core contributions to UN agencies development and humanitarian organisations have decreased, falling from USD 61 million in 1999 to USD 42 million in 2003 (see Table C.2.). The World Food Programme (WFP) and the World Health Organisation (WHO) are the largest recipients of Australian core contributions, both receiving approximately 18% of funds allocated to UN agencies. Australia's funding to international health programmes is targeted at regional, priority health needs. In addition, Australia contributed USD 15 million in 2004 to the Global Fund against AIDS, Tuberculosis and Malaria (GFATM), as part of an increased USD 280 million commitment to reduce the spread and impact of HIV/AIDS in the Asia-Pacific. Finally, Australia contributes to Commonwealth organisations**,** notably the Commonwealth Secretariat to improve its effectiveness, and the Commonwealth Fund for Technical Co-operation, which provides technical assistance to a range of Pacific Island States to support economic and governance reform.

Australia has strengthened its engagement with the Asian Development Bank (AsDB) and the World Bank (WB), seen as important development actors in the Asia-Pacific region, capable of mobilising the large resources needed to tackle important infrastructure needs in developing countries and well placed to promote policy dialogue with member countries. Co-financing, with funds provided as grants by AusAID for activities involving AsDB or the WB, is increasing. A review of co-financing in the Australian aid programme, conducted in 2002, confirmed that it provides AusAID with important opportunities to achieve objectives that cannot easily be achieved on a bilateral basis, and recommended AusAID adopt a more structured approach and improved mechanisms. It also endorsed co-financing as an important form of aid that facilitates a shift from project based assistance to alternative forms of assistance more consistent with the objectives of enhanced co-ordination (AusAID, 2002e).

Multilateral replenishments: an opportunity for advocacy

Australia is a member of AsDB and the WB, but not other regional banks. Australia's strategic approach was also highlighted at the time of the negotiations on replenishments of the AsDF and the IDA, which commenced in 2003-04 and will be concluded in 2004-05. Australia's aims for AsDF replenishment include maintaining the momentum on major reforms to increase transparency, accountability, country-responsiveness and effectiveness. Australia will also work to ensure that the AsDB articulates a strategy for engagement with poorly-performing member countries, and continues to give due regard to the needs of the small island member countries consistent with its mandate. During the IDA replenishment, Australia will continue to emphasise the importance of growth and trade to poverty reduction, highlight the development needs of the Asia-Pacific region and support strategies for engaging with poor-performing countries.

Future considerations

- The government of Australia should revisit the issue of aid commitments with a view to making a public commitment outlining medium and long-term ODA/GNI targets to allow Australia to strengthen its development co-operation efforts to tackle the pressing development challenges in its region.
- Such commitment would also allow increased predictability of future levels of aid funding. In this respect, Australia should consider adopting a multi-year ODA budgeting process.
- When increasing its aid volume, Australia should maintain its high allocation to LDCs and LICs, especially those in the Asia-Pacific region needing support to achieve the MDGs.

- Australia should also consider further increasing its support to humanitarian action, in line with its humanitarian action policy and consistent with a needs-based approach.
- Australia is encouraged to continue improving the quality of its multilateral assessment framework through a more systematic involvement of other donors in its implementation. The results could also be shared more systematically with other donors.
- AusAID may want to reflect on the steady decline in support for multilateral aid over previous years, and take a strategic view of the future medium-term balance between bilateral and multilateral channels.

CHAPTER 3

SELECTED KEY ISSUES

Governance: a leading role in Australian development co-operation

A comprehensive approach

Over the last five years, Australia has strengthened its focus on economic and wider governance issues in its partnerships with key partners. Australian support for governance has increased from 15% of total Australian ODA in 1999-2000 to 33% in 2004-05 (Commonwealth of Australia, 2004). As a result, governance is now at the forefront of Australia's development co-operation engagement, in line with its pivotal role in supporting long-term development outcomes. Drawing from the *Guiding principles for implementation* identified in 2000 (AusAID, 2000), and as outlined in the Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* (AusAID, 2002a), Australia's approach to governance focuses on five key pillars: i) improved economic and financial management; ii) strengthened law and justice; iii) increased public sector effectiveness; iv) development of civil society; and v) strengthened democratic systems.

Box 4. Good governance ideals for a good society

Political principles. Good governance:

- Is based on the establishment of a representative and accountable form of government Good governance requires a strong and pluralistic civil society, where there is freedom of expression and association.
- Requires a strong and pluralistic civil society, where there is freedom of expression and association.
- Requires good institutions – set of rules governing the actions of individuals and organisations and the negotiations of differences between them.
- Requires the primacy of the rule of law, maintained through an impartial and effective legal system.
- Requires a high degree of transparency and accountability in public and corporate process. A participatory approach to service delivery is important for public services to be effective.

Economic principles

- Good governance requires policies to promote broad-based economic growth, a dynamic private sector and social policies that will lead to poverty reduction. Economic growth is best achieved in an efficient, open-market economy.
- Investment in people is a high priority, through policies and institutions that improve access to quality education, health and others services that underpin a country's human resource base.
- Effective institutions and good corporate governance are needed to support the development of a competitive private sector. In particular, for markets to function, social norms are needed that respect contracts and property rights.
- Careful management of the national economy is vital in order to maximise economic and social advancement.

Source: Good governance - Guiding principles for implementation (AusAID, 2000).

These orientations are closely reflected in the country programmes, as illustrated in PNG and Cambodia. In both countries, a key objective (out of three) relates to governance. Large projects/programmes are implemented with a view to strengthening the rule of law, improving economic and financial management, and increasing the effectiveness of the public sector. Budgetary allocations reflect these areas of concentration, with notably the law and justice sector accounting for 41% of estimated Australian ODA expenditure in the governance sector in 2004-05. Major programmes in this sector are currently being implemented in PNG, Cambodia, Timor-Leste, Solomon Islands and Vanuatu.

AusAID's approach involves solid situation analysis, a comprehensive approach to governance, addressing both economic and political dimensions and establishing linkages across and inside each sector,[9] to allow the building of strong strategic frameworks. Synergies are built across the programme - the scholarship programme, which aims at reinforcing capacity building in key sectors and supporting efforts toward good governance through the training of civil servants, is an example.

Promoting good governance includes tackling corruption. Activities supported by the Australian aid programme targeting corruption include: i) promoting transparent and accountable government by improving investigation and enforcement capacities (*e.g.* audit), strengthening key government systems (*e.g.* procurement) and building a professional bureaucracy; and ii) supporting community organisations and the media that create demand for transparent and accountable government processes, decision-making and delivery of basic services. Internationally, Australia ratified the 1997 OECD Anti-Bribery Convention in 1999 and has signed the UN Convention against Corruption. It also signed the AsDB-OECD Anti-Corruption Initiative for Asia and the Pacific in 2003.

Some operating practices

As a consequence of this new focus, Australia is moving toward a more strategic positioning, based on a high analytical capacity allowing appreciation of key contextual constraints and development of a strong strategic framework. This more strategic positioning allows AusAID to better address the larger institutional constraints regarding effective service delivery, such as setting budget priorities and allocating resources. Working closely with key ministries, Australia's aid programme supports national co-ordination mechanisms gathering key sector agencies, such as in the law and justice sector in PNG. It also helps to develop a longer planning timeframe involving strategic and annual plans and establishing priorities to support those areas expected to most directly improve overall sector performance. In this respect, the focus on core aspects, especially economic governance and public sector management, is strategically of high importance and should be pursued. It is consistent with the DAC/GOVNET recommendations (The Hague, June 2000), which assume that public service reforms remain crucial for the achievement of poverty reduction. Similarly, AusAID is beginning to move from project aid to a more sectoral approach, with active involvement in Sector Wide Approaches (SWAps) in different countries, and strong support for donor co-ordination (see Chapter 6). The focus on governance also results in improved co-operation among a number of Australian agencies working in partner countries, such as Australian Federal Police (AFP), Department of Foreign Affairs and Trade and the Department of Immigration, Multicultural and Indigenous Affairs (DIMIA) as part of the whole-of-government approach.

9. In Cambodia, the Cambodia Criminal Justice Assistance Project (CCJAP II 2002-2007) is made up of six project components notably covering crime prevention and community safety; investigation; trial and sentencing; prisoner health and rehabilitation; and infrastructure.

AusAID considers that the development of good governance approaches should not be restricted to central government agencies, but should also include local administration, civil society and the private sector. Consequently, an orientation toward working at the subnational level is being developed in the framework of the PNG programme, and AusAID is already looking at ways to introduce incentives to encourage provincial and national governments to deliver health services more effectively. Such a move is being implemented in the agriculture sector in Cambodia, in line with the on-going national decentralisation process. This positive broadening should be pursued as a way to include a complementary "community demand-led" approach in AusAID's governance support.

Risks and challenges

Impact on poverty reduction. These orientations outlined above reflect a convincing analysis of the key constraints to development in most of Australia's partner countries. However the prominence of the governance focus should be appreciated more deeply, taking into account intra-sector analysis and impact assessment. In this respect, the current focus on law and justice within the governance sector should be explicitly assessed against its impact on poverty reduction.[10] This is all the more important as other components of governance (civil society and democracy, economic and financial management, and public sector effectiveness), which may also have a strong impact on poverty reduction, have not increased to the same extent. In addition, the comprehensive approach to governance leads Australia to increasingly include within the aid programme additional issues such as counter-terrorism, with a risk of diversion of aid for state security (see Chapter 4). An assessment of the governance programme against the over-riding objective of poverty reduction should help to determine how different elements interact and help identify the appropriate mix in a given situation. Moreover, it should assist Australia to consider the opportunity costs relating to allocations to other sectors in terms of their impact on poverty reduction. This approach requires a shift from input-based project monitoring to a focus on project outcomes, as set out in the AusAID evaluation on economic governance in the context of the Asian financial crisis (AusAID, 2003c).

Ownership and capacity building. Aid delivery, even in countries under stress, must ensure that capacity building and to the extent possible local ownership are at the forefront. A recent evaluation of AusAID's support to public sector reforms in PNG (AusAID, 2004c) stresses the fact that success in public service reform in the future will require "a greater degree of local ownership, involvement and collaboration, in a highly focused and contextually aware manner." This points to the need to re-assess AusAID's way of working, which is, so far, mostly based on external technical assistance, and highly relies on Australian managing contractors. The scheduled review in 2005 of AusAID external technical assistance to PNG is welcome in this respect. Likewise, AusAID should consider examining whether the more hands-on approach recently adopted in countries in difficult situation such as Solomon Islands or PNG - notably resulting in Australian civil servants placed in line position within the partner country government – works against the long-term objective of capacity development and ownership (see Chapter 6).

Policy dialogue. Crucial and sensitive issues, like corruption, form part of Australia's governance work. The policy dialogue established through annual high-level consultations, the country strategy process or the negotiation of more detailed programmes can be reinforced in order to strengthen Australia's ability to raise such crucial problems. Australia should take advantage of its strong relationships established with a number of countries in the Asia-Pacific region, which represent a real comparative advantage in terms of credibility. Addressing sensitive issues requires a balanced

10. From 2002-03 to 2004-05, the share of the governance sector spent on law and justice increased from 10% to 41% (Commonwealth of Australia, 2002 and 2004).

approach in the policy dialogue and close co-ordination among donors. In the Pacific region, where few donors are involved, the regional approach promoted by Australia seems appropriate to this end and should be pursued, in order to avoid the potential negative impact of unbalanced bilateral relationships.

Australia - an increasingly important humanitarian actor with significant potential

Australia has doubled its allocations for humanitarian action over the last three years. Emergency and distress relief accounted for approximately 11% of Australia's ODA in 2003. This trend clearly indicates the importance of humanitarian action in Australia's foreign policy and its increased role within development assistance which in turn has called for renewed and coherent policies for Australia's support to humanitarian action. This development notably results from recent emergencies in Australia's neighbourhood, such as natural disasters caused by cyclones and drought, armed conflicts in Bougainville and Solomon Islands, and long-term transition support to Cambodia and Timor-Leste.

Launching a new policy for humanitarian action

In 2004 Australia launched its new policy for Humanitarian Action (AusAID, 2004g). This new policy takes its departure in the *Principles and Good Practice of Humanitarian Donorship* (GHD) adopted in Stockholm and endorsed by Australia in 2003. The policy declares that GHD constitutes the general benchmark against which Australia will improve the coherence, impact and accountability of its humanitarian actions. Furthermore, the new policy indicates a shift from reactive response to a growing recognition that "the humanitarian imperative has a place in development." In its policy Australia emphasises the strong link between development and humanitarian action and recognises poverty as a root cause of vulnerability. In this context Australia also explicitly refers to support in building national and community capacities to manage the risks and consequences of emergencies (see Box 5).

The policy for humanitarian action reflects Australia's commitment to International Humanitarian Law (IHL) and the humanitarian principles of humanity and impartiality. The policy covers both support in relation to natural disasters and response to armed conflict and identifies actions of protection, material assistance, capacity building, prevention and preparedness. Australia places a strong emphasis on burden sharing and recognition of the principles of independence and neutrality. The policy provides a positive departure for humanitarian action and an interesting example of how GHD can be translated into national policies. One advantage of this policy is that it defines objectives, identifies policy goals and outlines how Australia intends to achieve these. Since the action policy is new and much remains to be implemented before all aspects of the policy can be reflected, management and monitoring systems might need to be further adjusted to ensure continued implementation.

Box 5. Australia's humanitarian action policy

The overarching goal of the policy is to: protect lives, alleviate suffering, maintain human dignity and assist recovery from conflict, natural and other disasters, through effective response, prevention, preparedness and risk reduction. The policy identifies eight areas of focus and identifies actions to address the objectives:

1. Meet the protection needs of vulnerable people by alleviating the effects of abuse and restoring dignified conditions of life to people affected by disasters and complex emergencies.

2. Foster respect for international humanitarian law, refugee and human rights law.

3. Meet the safety requirements of humanitarian workers.

4. Create closer links between development and humanitarian programmes to address root causes of insecurity and vulnerability and improve transition planning.

5. Assist governments and communities in the region to develop their own capacity to reduce the impact of disasters and to prevent disasters from undermining development objectives.

6. Strengthen international, regional, and local partnerships to obtain rapid mobilisation of resources and provide an effective channel to extend the reach and impact of Australian humanitarian assistance beyond Australia's region.

7. Incorporate gender considerations in planning, design, response, monitoring and evaluation to reduce the differential impact of crises on women and men and to ensure the skills and capacities of both are fully utilised at all stages and levels of activities.

8. Reduce the vulnerability to and consequences of HIV/AIDS on those affected by humanitarian action and reduce the impact of crises on people living with HIV/AIDS.

9. Improve the effectiveness, efficiency and combined efforts of military and humanitarian actors.

Source: Humanitarian Action Policy (AusAID 2004g).

Humanitarian action comes within the general framework of Australia's development co-operation policies and is located under the *Peace Conflict and Development Policy* (see Annex B). AusAID's Humanitarian Action Policy is informed and complemented by the *HIV/AIDS Strategy* and the *Food Security Strategy* (AusAID, 2004j).

Humanitarian assistance is managed by AusAID and the Humanitarian Action Policy outlines the relationship between development assistance to eliminate poverty on the one hand and conflict resolution on the other hand by emphasising that humanitarian action itself cannot reduce poverty, nor prevent or reduce conflict. As stated in the introduction, "The Humanitarian Action Policy deals with the symptoms of conflict and complements the *Peace, Conflict and Development Policy* that specifically addresses conflict prevention, conflict management and reduction, peace-building and post-conflict recovery. Through such measures outlined in this policy, humanitarian action can help counteract social instability, reduce vulnerabilities and strengthen local capacities" (AusAID, 2004g).

Two distinctive perspectives need to be highlighted when referring to Australia's national interest in the specific context of humanitarian action; the regional dimension and the priority given to security related issues. Following the focus of its overall development co-operation programme resulting from its special geographical position and role, Australia's support to humanitarian action is primarily

concentrated within the Asia Pacific region. However, Australia also commits itself to respond to emergencies on a needs based approach. Considering Australia's economic growth, there is an opportunity for improving its humanitarian performance and for increasing allocations to meet the humanitarian needs in other regions. The other dimension, prioritising security from an Australian perspective, is also reflected in the regional focus. From a humanitarian point of view this could compromise not only a needs based approach for humanitarian response, but also the principles of neutrality and impartiality. In this context, AusAID emphasises that it is not an implementing agency, and that out of respect for humanitarian principles, it channels its main part of its humanitarian funding through multilateral agencies and the International Committee of the Red Cross (ICRC). However, in order to ensure the requirement of humanitarian organisations to maintain a position of neutrality in relation to situations of armed conflict, Australia could consider strengthening its measures in this respect.

From policies to practice - principles for funding

Australia's financing decisions follow two stages. First, notional allocations are made to partner countries based on past and predicted needs. Specific allocations are then made based on available needs assessments through the Office for the Coordination of Humanitarian Affairs (OCHA) and the Consolidated Appeals Process (CAP), in conjunction with internal assessments by AusAID and on NGO applications. A pool of unallocated funding remains for allocations to acute emergencies and UN/OCHA flash appeals. Additional funds can also be made available through reallocations during the course of the financial year.

Funding arrangements for increased predictability and improved dialogue have been introduced through an approach of strategic partnerships with selected UN agencies such as OCHA, World Food Programme (WFP) and the ICRC. Similar arrangements have been made with a core group of Australian NGOs through an accreditation process that was open to all accredited Australian NGOs. In 2003, AusAID entered into cooperation agreements with five Australian NGOs to enable rapid engagement in humanitarian response efforts. The partnership approach has contributed to streamlining implementation, defining priorities and paving the way for more flexible funding arrangements including reduced earmarking and exploring multiyear funding mechanisms. Australia also supports harmonised procedures and standardised formats for reporting by implementing agencies. Given the context of a large increase of available funds, funding levels are perceived as predictable. However, longer-term commitments are subject to parliamentary approval in relation to the adoption of the annual budget.

Australia recognises disaster prevention and preparedness as a key feature of its humanitarian action. In the Pacific region, Australia is a main actor in capacity building for reducing vulnerability, especially in relation to annual cyclones and floods. The main share of this support is directed towards programmes implemented by Australian NGOs on cooperation agreements and regional organisations. Funds within country programmes may also be used to strengthen the mitigation capacity of partner countries through support to National Disaster Management Offices, local NGOs and community groups.

AusAID policies consider the participation of crisis-affected communities to be critical to effective humanitarian response. It is emphasised that outside assistance should complement local coping mechanisms. Mechanisms for contingency planning by humanitarian organisations to strengthen capacities for response at local, national, regional and global levels are being supported. In this context Australia has also contributed to the work on developing guidelines on consultation and participation of crisis-affected communities through the Active Learning Network for Accountability and Performance in Humanitarian Action (ALNAP). However, it remains unclear how Australia

intends to meet its own policy on ensuring adequate involvement of beneficiaries in the design, implementation, monitoring and evaluation of humanitarian response to complex emergencies.

The Australian approach to the relationship between humanitarian assistance and development co-operation is to integrate humanitarian action and transition issues into its country and regional development co-operation strategies. Australia does not have a special system or budget line to address transition support, but has recognised long-term commitments at an early stage in its engagements in peace processes *i.e*. Cambodia and Timor-Leste. Furthermore, Australia supports the Pacific Trust Fund which provides transition support in the region. In the promotion of good humanitarian donorship, Australia identifies specific challenges in relation to prevention and risk reduction, and regarding the boundaries between humanitarian action and development in this specific field.

Promoting co-ordination, standards and assuring accountability

Australia supports and recognises the role of the United Nations in providing leadership and co-ordination of international humanitarian action and contributes to UN's co-ordination through the work of OCHA, the CAP and Common Humanitarian Action Plans (CHAP). The role and mandate of the ICRC/IFRC are also well recognised and respected by Australia. To advance on international co-ordination issues, Australia participates in donor co-ordination initiatives such as the Montreux Process and the donor support groups of OCHA and the ICRC. As the CAP has limited application in the Pacific region, other measures have been developed for managing co-ordinated responses in the region. Australia has been a major contributor in establishing regional emergency response stand-by mechanisms together with key donors in the Pacific.

Australia has been engaged in the development of practical tools to promote accountability, efficiency and effectiveness in implementing humanitarian action both by providing funding and supporting dissemination of standards and principles. AusAID has developed monitoring briefs and multilateral and regional assessment frameworks for performance reporting and is in the process of developing a new humanitarian and emergency programme performance framework to ensure indicators reflect internationally accepted criteria, standards and best practice.

To improve awareness of procedures and processes in relation to natural disasters, AusAID has developed a *Field Guide to Emergency Response Procedures*. The field guide is updated annually in advance of the Pacific cyclone season and includes a condensed version of AusAIDs *Emergency Response Standard Operating Procedures*, outlining flowcharts for response, procedures for field assessments and reporting, responsibilities, contacts and mechanisms.

Australia recognises the constraints of existing systems for the collection of policy relevant data on Humanitarian Action spending and the need for improved and consistent statistical definitions. In this context Australia's reporting systems for humanitarian action aspire to a high degree of accuracy, timeliness, and transparency. Based on its experience, these are areas where Australia could reinforce its contribution to international policy development.

Issues emerging

The humanitarian action policy states that Australia will "… improve the effectiveness, efficiency and combined efforts of military and humanitarian actors". This position highlights a crucial issue in the discourse of humanitarian action, notably for creating and maintaining secure "humanitarian space", in which humanitarian agencies are able to do their work. In conflict-related emergencies, there is a constant danger of mixing political, military and humanitarian objectives, compromising

humanitarian objectives and principles and as a result reducing the capacity to deliver effective humanitarian response. It can also be argued that these issues need to be approached on a case- by-case basis and in relation to the specific context of an emergency. It is of great importance that Australia continues to affirm the primary position of civilian organisations in implementing humanitarian action, particularly in situations of armed conflict and during peace keeping and/or military interventions. The 1994 *Guidelines on the Use of Military and Civil Defence Assets in Disaster Relief* and the 2003 *Guidelines on the Use of Military and Civil Defence Assets to Support UN Humanitarian Activities in Complex Emergencies* provides the framework in this field. AusAID recognises these challenges and seeks to address them by affirming the primary position of civilian organisations through: advocacy in whole-of-government settings; and participation in policy dialogue and training that the Australian military undertakes as part of its obligations under the Geneva Conventions (*e.g*. Defence Peace Keeping Operations, CivMil cooperation).

To achieve the objectives set out in the new strategy, AusAID will need to develop its systems to support learning for the effective and efficient implementation of humanitarian action. Work is to be started on developing a specific monitoring and evaluation framework, designed to measure political and social impacts as well as administrative performance and quantitative results.

Conflict prevention and peace-building – new approaches and a change in policies

Recent conflicts in Bougainville, Fiji and Solomon Islands necessitated new policy approaches to conflict prevention and peace-building. Strengthening regional security by enhancing partner governments' capacity to prevent conflict, enhancing stability and managing trans-boundary challenges have become an important part of Australia's development co-operation programme. Australia views security as a fundamental pre-condition of economic development and emphasises that conflicts can be created and exacerbated by poverty.

In 2002 Australia introduced its new *Peace, Conflict and Development Policy* (AusAID, 2003d) outlining a three dimensional approach to conflict prevention and peace-building. The first dimension addresses issues related to "conflict prevention" and "peace-building" including actions to facilitate dialogue, strengthen governance and measures to prevent the availability and trafficking of small arms. There is also a special focus on addressing rural and urban tension and inequitable access to resources.

The second dimension focuses on "conflict management" and "conflict reduction", including "humanitarian relief." The activities outlined include peace dividends, support to refugees and internally displaced, support to women and children and support to the media. The third dimension addresses issues of "post-conflict recovery". Its priorities are identified as direct support to peace and reconciliation processes, demobilisation and reintegration of ex-combatants, demining and reconstruction and economic recovery. Strengthened collaboration with neighbouring countries on peace and security issues is a major component of the whole-of-government approach and complements Australia's development cooperation. The policy concludes that aid interventions are one of Australia's primary instruments for conflict prevention and conflict management. So far, conflict analysis has been incorporated into selected country programme strategies such as Burma, PNG, the Philippines, the Solomon Islands and Sri Lanka.

RAMSI provides a useful case study on how the "whole-of-government approach" has enabled Australia to adopt a new position to address complex emergencies in the Pacific region (see Box 6).

Box 6. Australia's new interventionism - the Regional Assistance Mission to Salomon Islands

Background. The conflict in Solomon Islands relates to ethnic clashes, mainly between Malaitan settlers living in Guadalcanal Province and the Guadalcanal people. Social unrest increased as the government failed to deliver basic services due to ruined public finances and widespread corruption. A peace agreement reached in 2000 intended to end the conflict but inherent flaws in the agreement only contributed to increasing tensions. Distrust in the government increased when it failed to address the renewed and widespread violence. The security situation rapidly deteriorated as armed operations by ex-militants, including high ranking police officers, paralysed the government which then ceased to function. The situation became unmanageable and the government was forced to call for regional assistance.

The Regional intervention. In 2003, Australia and New Zealand reacted to the government's appeal and mobilised regional acceptance for the establishment of the RAMSI. A treaty was signed between Solomon Islands and sixteen member countries of the Pacific Islands Forum, which provided a legal framework and outlined the mandate of the operation. RAMSI provides an interesting example of a regional approach to conflict management, with ten Pacific Islands Forum members having contributed police and/or military personnel. Operations started with an intervention force, made up of 330 police officers and 1 800 military personnel, both predominately Australian, with a mandate to restore law and order and lay the foundations for a wider political, security and economic reform agenda. The purpose of RAMSI has been to restore physical and economic stability and the basic functioning of government to Solomon Islands. An economic assistance package to restore economic stability is a key part of RAMSI support to Solomon Islands, including budget support to ensure the maintenance of essential services delivery. As well, a significant programme of assistance was mobilised to support the effective functioning of the justice system and prison. In addition to police and military personnel, around 80 RAMSI officials are working in various government departments, including the finance and justice sectors. RAMSI was able to build on work already being undertaken through Australia's aid programme, particularly in the justice sector, as well as on economic reform, peace building, community development and health services.

Results: One year after its launch, RAMSI has largely been a success. Security has been restored and the military component has gradually been reduced. Key insurgents have been arrested and almost 4 000 small arms and light weapons have been collected and destroyed. Reconstruction of the national police service is under way. Justice and prison infrastructure have been significantly upgraded to support the restoration of the rule of law. In addition, significant gains have been made in stabilising government finances by introducing budget discipline, controlling expenditure, enhancing revenue collection and meeting financial obligations.

Future role of RAMSI. The operation has now entered a second phase which will have to address the more long term solutions of state building measures. In particular, a major programme to rebuild and reform the machinery of government has commenced. In this context it will be crucial to identify and manage ways to empower Solomon Islanders to build on initial successes and implement a comprehensive reform agenda of state building. Australia is set to continue its crucial leadership of the operation, recognising the need for a long term commitment.

A key to future success lies in how to increase opportunities for Solomon Islanders to participate and influence the work of RAMSI, focusing in particular on governance and the rule of law to ensure provision of basic services to the community. However, one researcher (Dinnen, 2004) argued that the concepts of "failed" or "collapsing states", commonly used to describe situations such as the one of Solomon Islands, could be misleading and might risk simplifying the problem of state building. Many of the so-called failing states could hardly be regarded as functioning states before crisis emerged. "What is needed is a different approach to state building that addresses directly the complexities of trying to build a unitary state and sense of 'nation' in such fragmented and diverse environments. This cannot be achieved quickly or simply engineered through a massive infusion of external resources and expertise. Nor can it be accomplished by focusing exclusively on state structures. It is the dysfunctional character of state-society relations that needs to be addressed if sustainable improvement is to be achieved".

Source: Briefings AusAID, & Dinnen (2004).

Mainstreaming cross-cutting issues

AusAID has developed a rich policy agenda over the past few years encompassing cross-cutting issues (poverty, governance, gender and environment), thematic/sectoral policies as well as implementation issues. A key approach to implementation of cross-cutting policies is mainstreaming, particularly in relation to environment, gender and HIV/AIDS, however, ensuring full translation of cross-cutting and thematic policies at country level remains a challenge for many bilateral donor agencies including AusAID.

The gender perspective

A strong engagement

Gender equality is a stated AusAID policy priority. In 1997, an ambitious policy statement on "Gender and Development" set out the policy rationale and approach of Australia's aid commitment to gender (AusAID, 1997b). The 1999 Peer Review found that Australia was among the leaders in the DAC in devoting time and resources to develop gender equality policies and the operational tools needed to implement them. Drawing on analysis showing the critical role of women for peace and development, the policy requires AusAID to ensure that a gender perspective is integrated throughout the programme, with the needs, priorities and interests of women as well as men being considered at all levels and stages of development activities. AusAID's efforts to promote gender throughout its aid programme are especially welcome and important as its programmes are predominantly located in countries where the situation of women is particularly difficult and sensitive.

In line with the DAC recommendations, the proportion of development activities, which include gender equality as a primary objective or which have mainstreamed the gender dimension, has increased over the last five years, representing 34% of total ODA in 2003-04, according to Australia's memorandum. In 2003-04, expenditure relating to activities that have mainstreamed gender represented 31% of total ODA expenditure - against 19% in 1998-99, and expenditure on activities that have gender as a primary objective represented 3% of total ODA expenditures. Gender issues are now better integrated into country strategies, as illustrated by the current Viet Nam country strategy, and are more often taken into account in the poverty profile of partner countries. AusAID has a number of good practice examples for mainstreaming gender in various sectors and regions, such as prevention of the trafficking of human beings (Asia Regional), children (Pacific Children's Programme), or rural health project (Xianyang, China). In Cambodia, the review team noted that most projects included a gender component, even if the issue was not fully mainstreamed into the country programme.

Mainstreaming gender

Gender equality is an essential element of development actions aimed at achieving poverty reduction. Gender mainstreaming is a strategy that enables donors to creatively and proactively adapt their way of working so that gender equality becomes aligned with and in turn influences the design, implementation, monitoring and evaluation of policy and programmes. AusAID benefits from the expertise of a full-time gender specialist backed up by additional gender specialists hired on shorter-term contracts ("period offers") as necessary. Gender policy in a number of areas has been devolved to the relevant branch or to the Gender Network.

Between 1997 and 2000, AusAID invested a considerable amount of time and resources into developing tools and guides for gender mainstreaming, and between 2001 and 2003, focused on review and assessment of implementation in an effort to document lessons learned and good practice

examples. The current approach is to focus on good practice and incrementally improve the effectiveness of gender mainstreaming at the field level in co-operation with partner countries. The publication *Gender and Development: GAD lessons and challenges for the Australian aid programme* focuses on good practices and has been integrated into implementation of AusAID's Strategic Plan (AusAID, 2002c), (see Box 7).

Box 7. Gender and Development: GAD lessons and challenges for the Australian aid programme

Summary of main conclusions and lessons learned

"**Programme strategies** need an increased emphasis on gender analysis. As part of an overall poverty analysis, gender strategies that are appropriate to the targeted sectors, geographic regions and social groups are also required.

Attention to gender during **design** is critical. All activities rated satisfactory overall for gender mainstreaming had included gender considerations in the designs.

Inclusion of detailed gender responsibilities in terms of reference for **implementation** teams directly influences the level of GAD knowledge that the contractor field team demonstrates. In those activities where all team members had an understanding of GAD or access to advice on gender issues, GAD was well integrated into activities. Where this was not the case, gender was less likely to be given attention.

GAD mainstreaming in activity designs and implementation is influenced more by the **capacity** of AusAID staff, the activity team and partner institution than by regional characteristics. Even where there is a focus on gender equality, the approaches used tend to reflect the previous Women in Development policy rather than a gendered approach to development.

Inclusion of activities to strengthen partner institution capacity to undertake gender analysis, planning and implementation was a major strength of those activities that rated satisfactory overall.

In order to improve the quality of **monitoring and reporting**, of gender outcomes, activity designs need to include GAD performance indicators and reporting mechanisms to ensure gender-related information is collected, analysed and reported.

The findings of this review are in keeping with the lessons arising from the GAD experiences of other donors. AusAID has found some good practice examples where gender mainstreaming is successful, and other instances where there is more work to be done."

Source: Gender and development: GAD lessons and challenges for the Australian aid programme (AusAID, 2002c).

Prospects for the future

The review team noted that the visibility of gender throughout the AusAID programme is not as high as expected given AusAID's strong commitment and significant investment of resources in this area. This may be related to the high level of staff movement and turnover (see Chapter 5). The recommendations of the 2002 Gender and Development review focused on programme strategies, activity design, capacity building, monitoring and reporting, AusAID is encouraged to continue implementation of these recommendations and to share its experiences with the DAC Gender Network.

Australia is to be commended for its efforts in the area of gender and development. In line with the experience of other bilateral donor agencies, implementation has proven more difficult than policy formulation, however, as part of its ongoing efforts to improve its performance, AusAID could usefully focus its future efforts on the following areas:

- Increasing the visibility of gender in programmatic discussions and documents.
- Adopting a more programmatic institutional approach to gender (rather than an activity based approach).
- Increasing the knowledge of all staff about advancing gender concerns with programmatic approaches (gender audits, analysis, competencies, budgets - for PRSPs, SWAPs etc).
- Updating existing policy manuals.
- Instituting a monitoring and evaluation mechanism for gender.
- Reviewing ways in which contractors will be monitored insofar as they implement the policy priorities of AusAID.

HIV/AIDS

One notable difference since the last Peer Review is the importance now afforded to HIV/AIDS. The threat that HIV/AIDS presents to political, economic and social development in the Asia Pacific region has led to a strong political response within Australia. This in turn has resulted in the allocation of dedicated financial resources and the development of comprehensive HIV/AIDS programmes across all AusAID's programme areas. Country specific responses to HIV/AIDS have been complemented with support for regional initiatives such as the Asia Pacific Leadership Forum on HIV/AIDS and the Asia Pacific Regional Networks on HIV/AIDS.

A revised HIV/AIDS strategy, *Meeting the challenge: Australia's international HIV/AIDS strategy* (AusAID 2004k), based on Australia's experience in responding to the epidemic, and on international lessons of good practice, was launched in July 2004. This new strategy is closely related to the commitments included in the UNGASS Declaration on HIV/AIDS. In addition to the need for strong political leadership, it emphasises the importance of working with regional and country-led partnerships; strengthening local capacities to respond to the epidemic; having a priority focus on prevention, treatment and care; and investing in research for more effective responses.

The new strategy was developed following a highly consultative process within Australia and with field missions. It provides for the appointment of a Special Representative to co-ordinate Australia's response to HIV/AIDS in the Region. Its launch was accompanied by an announcement that an additional USD 280 million is to be allocated to HIV/AIDS programmes over the next six years.

This new strategy provides an opportunity for a stronger and more systematic response to HIV across the programme, including HIV/AIDS within country strategies as a cross-cutting issue rather than developing specific HIV/AIDS projects. Maintaining the current Australian high profile on this issue and ensuring that the strategy will be fully translated in the country programmes requires relevant tools such as appropriate programming instruments and adequate human resources. AusAID is actively engaged to this end, with programming instruments under development, a taskforce established, a special representative appointed and a HIV/AIDS advisor position advertised. AusAID needs to continue to associate high level technical expertise, but also to improve its internal capacity. In particular, the technical challenges presented by the complexity of HIV/AIDS require access to specialist expertise that can ensure there is an ongoing commitment to maintaining programme quality.

This is all the more important as AusAID recognises the difficulties presented in mainstreaming HIV/AIDS across all sectors supported, and is committed to linking in with best international practice

in this area. A challenge in the future will be to demonstrate that the significant financial resources invested in this programme are yielding positive outcomes. This is a key issue, since many programmes do not currently mainstream HIV/AIDS, even in countries severely affected, or have a focus not fully consistent with the strategy. It will be important to ensure that programmes supported internationally and at country level reflect the strategic direction outlined in the new HIV/AIDS policy. This will require continued oversight and support - and will be an important responsibility for the newly recruited HIV/AIDS Advisor, as well as AusAID's senior executives.

Future considerations

- AusAID's programme is increasingly focused on political and economic governance. AusAID is encouraged to undertake a deepened analysis of the links between governance and poverty reduction and to assess the impact of governance activities in terms of poverty reduction, capacity building and ownership.
- Australia's achievements in developing a policy framework for humanitarian action are recognised and appreciated. Australian experience gained from its regional involvements could provide useful references for international learning which could lead to identifying best practice in relation to these complex issues.
- Australia should ensure that the humanitarian principles of neutrality and impartiality enshrined in its policy on humanitarian action are followed through in implementation. In its support of humanitarian action, Australia could strengthen its systems to ensure that international guidelines regarding the use of military and civil defence are respected.
- AusAID has developed a strong policy framework. Better bridging policy and practice by ensuring the reflection of the policies in programmes is necessary. Translating cross-cutting issues such as gender and HIV/AIDS into action requires a new way of thinking supported by adequate guidance, appropriate expertise capacity, consistent implementation mechanisms and relevant monitoring tools.
- Recognising the complexities involved in mainstreaming cross-sectoral priorities across different programmatic instruments, Australia should actively engage with other OECD donors – to share its experiences and learn from the successes and failures of other approaches.

CHAPTER 4

POLICY COHERENCE FOR DEVELOPMENT

Strengthening policy coherence within the Australian system

Policy coherence for development is at the forefront of Australia's agenda, reflecting a broader concern that development investments are informed by coherent policy approaches that maximise the impact of Australian aid.[11] It is supported by a high-level policy commitment from the Department of Foreign Affairs and Trade, notably regarding coherence between its aid, foreign, trade and agriculture policies (DFAT, 2003a). In Australia's view, policy coherence for development means taking account of the needs and interests of developing countries in the evolution of the global economy (AusAID 2004l). It implies the systematic synchronisation of policies and actions across government (both donor and partner country) to support economic growth and poverty reduction in developing countries. It recognises that poverty reduction and sustainable development require much more than foreign aid. Coherent policies substantially enhance the effectiveness of efforts to reduce poverty and allow the benefits of globalisation to be equally shared. Coherence prevents having aid efforts undercut by other government policies and actions.

A strong political commitment: the whole-of-government approach

The Australian government has sought a more intensive approach to assisting economic development and meeting development challenges in the region, underpinned by a coherent whole-of-government strategy. This approach, described in the 1997 White Paper on foreign and trade policy *In the National Interest*, is seen as essential for achieving the government's goals, and has been enhanced since 2002. It aims at improving co-ordination across the Australian government through a more integrated approach to work which spans more than one agency.

Taking a whole-of-government approach to aid is consistent with Australian government recognition that the economic, social and security challenges confronting Australia are most effectively addressed by co-ordination across all government agencies. This approach allows access to a greater range of resources and expertise when addressing complex problems, paving the way for more innovative, effective and efficient solutions within and between countries. It enables Australia to adopt a holistic and fully coordinated approach to addressing the multiple factors affecting development gains in the Asia-Pacific region.

Australia has developed a systematic synchronisation across government of policies and actions relating to its relationships with developing countries. Australia's priorities in this respect are:

- Enhancing trade liberalization and market access for developing country exports (coherence of Australia's development co-operation and trade policies).

11. This was clearly specified in the *Twelfth annual statement to Parliament* (AusAID, 2003i).

- Supporting economic governance and law and justice reform through a strengthened engagement with its Pacific partners (including coherence in regional governance).
- Developing formal strategic partnership agreements between key Australian government agencies.
- Promoting the policy coherence agenda at the international level.

Whole-of-government approach: challenges ahead for the Australian government and AusAID

The whole-of-government approach provides an important opportunity to address development co-operation issues and can be a crucial means to support policy coherence for development. It can contribute to aid effectiveness through ensuring a focus on policy coherence across government and by recognising the importance of building institutional linkages with recipient countries. Previously, the relationship with partner countries was mainly seen in aid terms, without consideration by and involvement of other ministries and government institutions. Efforts toward "mainstreaming" development across the government are commendable, and this new approach can indeed benefit AusAID as a way of promoting the development dimension in the whole-of-government agenda, including with Treasury, Foreign Affairs, and the Australian Federal Police.

Such deepened and extensive partnerships are not without risks, and these potential risks must be appreciated to be tackled appropriately. The main risk is that the national interest dominates the development agenda and results in a security rather than a poverty driven agenda. Successful and sustainable development can be put at risk if short-term national interest considerations are handled without sufficient attention to the overriding need for aid interventions to promote development and poverty reduction. The centre of government – the Prime Minister and Cabinet – is playing an increasing role in co-ordinating whole-of-government responses and prioritising whole-of-government issues, including Australia's foreign policy. In PNG and in Solomon Islands, where the whole-of-government approach is particularly evident, the development agenda co-exists with the Foreign Affairs' agenda, which together aim at improving stability and prosperity in the region.[12] Australia's own security interests and the development interests of these partners, which have invited both Australian policing and administrative support, are closely linked. While security and stability are prerequisites for poverty reduction, AusAID's role within the whole-of-government approach should be to maintain the focus on poverty reduction, growth and sustainable development, which are the ultimate objectives of Australian development co-operation, and go beyond providing a safe and secure environment. In the same way, a crucial issue such as counter-terrorism, also at the forefront for obvious reasons, should not over-ride the development agenda.[13]

Another risk lies in the new way of implementing the aid programme under the whole-of-government approach. An increasing proportion of Australian ODA is administered through government departments and agencies other than AusAID. Those funds amount to 20% of Australian ODA announced for 2004-05, and represent 74% of the overall increase in the aid programme (Chapman R., 2004). While there is undoubtedly a place for other government agencies in the delivery of aid, it is important that sustainability, capacity building and the promotion of local ownership are

12. See Box 6 on RAMSI in Chapter 3 and Box 13 on ECP in Chapter 6.

13. Australia's response proves to be rapid and efficient in case of terrorism threat. The government's response in the wake of the Bali bombings is cited by the Parliamentary Secretary to DFAT as a good example of an effective all of government approach: "Australia has contributed funds and capacity building programmes to assist Indonesia get the Balinese economy get back on track after the devastation of the terrorist attack, an effort that involved at least 15 federal agencies." (Gallus, 2004).

emphasised in their strategic plans and their performance monitoring and reporting systems. More largely, a concern raised by observers is that neither a broad approach to the MDGs nor any other set of poverty-reduction principles have been articulated as part of the overall framework for the whole-of-government approach. Designing and delivering many of these programmes in a developing country context calls for a significantly different skill-set than is required of the same agencies in the domestic context. To this end, AusAID has started providing design support, contracting advice as well as training in key development lessons such as recurrent cost financing.

Recognition of the development agenda also covers the wider range of policy measures which impact on development, such as trade policy, debt management, immigration, and environmental policy, and whether policymakers are accountable in a systematic way for development objectives. Australia could gain from the elaboration of a national strategy on development and poverty reduction, as a means to set up a policy and structural framework to guide government agencies acting in and with developing countries.

Australia should afford AusAID a lead policy-making role in the context of the whole-of-government approach to relations with leading partner developing countries. Not only can AusAID contribute from its impressive knowledge base regarding institution/capacity building in difficult contexts with weak or non existent institutional capacities, but it can also bring to bear international best practice and lessons from other systems and approaches. AusAID is encouraged to reinforce its proactive approach based on sound analytical work drawing on its knowledge of development issues, its technical expertise, and its direct experience and deepened knowledge of developing countries (Melanesia). These corporate assets enable AusAID to lead discussions within the government, and this leadership in the areas linked directly or indirectly with developing countries issues should be reinforced to ensure that the development perspective is at the forefront of the government agenda. This positioning in core inter-ministerial committees is crucial as the Cabinet appears to move towards a new way of managing the whole-of-government approach. It will also ensure that AusAID is not only seen as the "banker" of any policy, but as a policy design contributor, and allows greater likelihood of sustainability of impact for Australian interventions. To this end, it is essential for AusAID to deepen linkages within and across Australian government in its capacity as Australia's official aid agency, and that the agency is allowed greater scope to influence decisions based on its knowledge and expertise.

Key issues in terms of policy coherence

Australia is increasingly adopting a consistent approach to the development perspective, mainly in the Pacific, and AusAID develops sound policy papers to this end. For instance, it promotes in PNG and the Pacific: i) a coherent international approach, including: providing efficient market access for Pacific exports, exploring options to enhance opportunities to boost remittances and strengthen the flow of technology, ideas and capacity, providing predictable levels and co-ordinated approaches to aid in the region, promoting financial and technological transfers through policies that encourage foreign direct investment to the region; ii) regional approaches that meet shared challenges, through pooling of resources, regional approaches, and identification of other areas of cooperation including economic management and common regulatory frameworks in aviation, customs, quarantine, trade and migration; and iii) more substantial engagement by Australia backed up with resources (AusAID, 2003h).

Efforts have been made by Australia notably in the trade and investment sectors, as well as through an increased effort towards aid untying. However, a number of issues could be addressed in a more consistent way across ministries.

Coherence with trade policies

Australia emphasises multilateral trade liberalisation, and works with its neighbouring developing countries to help them to maximise the benefits of global trade, as a means to reduce poverty. Australian leadership in the Cairns Group, support for regional trade liberalisation initiatives and capacity building, as well as a low tariff framework reflect a strong commitment to the global trade and development agenda. From July 2003, Australia granted tariff and quota free access for all goods produced in LDCs. Australia also provides duty and quota free access to goods from the Pacific Islands and Papua New Guinea, through the South Pacific Regional Trade and Economic Co-operation Agreement.

In response to Doha, Australia has increased its trade-related technical assistance and capacity building since 2001, in volume as well as in percentage of ODA, and has attributed a larger proportion of it to multilateral organisations and global trust funds. Bilaterally, technical assistance in sanitary and phytosanitary issues is provided through AusAID as well as Department of Agriculture, Fisheries and Forestry, Department of Health and Ageing and Department of Foreign Affairs and Trade. Technical assistance dealing with technical barriers to trade is provided through Australia's aid programme. A Trade Advisory Group has been established to guide monitoring and evaluation of this technical assistance and to provide policy and technical advice on trade and development issues.

Trade and development is a priority area for AusAID analytical work on coherence, given its centrality to growth and development. AusAID has developed or commissioned a number of studies highlighting key trade issues faced notably in the Pacific region. They also identify future synergies between Australian broader free trade efforts and development co-operation priorities. AusAID provides policy input on trade and development issues for key international negotiations in a number of forums (WTO, APEC, ASEAN, OECD, UNCTAD, etc.).

Regular senior level meetings between AusAID and the Office of Trade Negotiations of the Department of Foreign Affairs and Trade, AusAID's participation in Australian delegations to key Doha Round discussions and attendance at international economic policy working group meetings ensure that development considerations are taken into account in Australia's trade policy positions. This is complemented by informal consultations at working-level with DFAT, Fisheries and Agriculture and Treasury, as well as by interdepartmental meetings on specific issues.

Australia is promoting deeper regional integration through new trade agreements such as the Pacific Agreement on Closer Economic Relations (PACER) and the Pacific Islands Countries Trade Agreement (PICTA). Ensuring AusAID's involvement in the monitoring of these agreements and notably assessing their social impact should be a way to reinforce policy coherence for development in this area.

Aid untying: policy versus results

In 2002, 52% of Australia's bilateral aid commitments to the LDCs (excluding technical co-operation and administrative costs) were tied. This was the fourth highest percentage of tied aid among the 19 DAC members for which reporting was available. Australia has committed to untying aid to LDCs covered by paragraph 7 i) of the DAC Recommendation on untying Official Development Assistance to LDCs. However, this decision has had limited impact on its programme, because most of its ODA allocated to the LDCs falls outside the coverage provisions of the Recommendation.

Australia has decided to further untie its bilateral aid to LDCs. As of January 2004, it has adopted an in-principle policy of untying Free-Standing Technical Assistance to LDCs. AusAID contracts for implementation in LDCs are therefore not subject to the eligibility criteria of carrying on business in Australia or New Zealand (AusAID, 2004i).[14] However, for certain sensitive activities that may have a direct impact on Australia's national interest, such as policing and/or transnational crime, contracts may, on occasion, be restricted to Australia and New Zealand suppliers. The practical impact of this policy is that nearly all of Australia's bilateral aid to LDCs (with the exception of food aid) is untied. Australia has also recently made a number of changes to its tender eligibility criteria. As of October 2003, all Australian and New Zealand citizenship requirements were relaxed allowing AusAID and managing contractors to utilise recipient country and international technical expertise on development assistance activities.

These policy changes are encouraging. They will contribute to improving the effectiveness of AusAID's programmes, and they promote a more balanced effort-sharing amongst members in the context of the DAC Recommendation. Since AusAID only recently implemented this new policy, the changes were not apparent at the time of the Peer Review mission in Canberra and in Cambodia. In the coming years, Australia should follow the effects of this commendable measure to be able to take corrective measures to reinforce its impact, for instance by strengthening partner country procurement and expertise in technical assistance capacity. As far as food aid is concerned, Australia announced in 2003 that its commitment under the Food Aid Convention would be provided in Australian commodity when it is cost effective to do so. The move to only provide Australian produce where cost effective resulted in an immediate 29% increase in locally purchased or triangular transactions (all on a non-tied basis) in 2003. This move toward local and triangular transactions greatly improves the aid effectiveness of Australian food aid and will improve its cost effectiveness significantly.

Climate change

Australia has not ratified Kyoto protocol and ranks third within the OECD countries in terms of emissions of CO_2/inhabitant (OECD, 2004). Australia's emissions, however, amount to only 1.6% of total world emissions. According to the National Greenhouse Gas Inventory 2002, Australia's net emissions in 2002 were 1.3% above 1990 levels, even though the gas emissions intensity has declined since 1990. While not ratifying the Treaty, Australia is, however, on track to meet its Kyoto target.

AusAID has developed a sound policy to mainstream environment in its aid programme (AusAID, 2003e), and is notably committed to reducing vulnerability to climate change in the Pacific. AusAID helps Pacific islands to monitor the effect of climate change through a "Climate change and sea level rise monitoring" programme, which has been operational since 1990. While initial efforts focused solely on monitoring, the third phase may also include work on adaptation/response measures. AusAID has also developed a seven year "Vulnerability and adaptation Initiative", aimed at supporting regional co-operation within the Pacific to deal with the impacts of climate change, climate variability and sea level rise. Australia is also a long-standing and substantial contributor to the Global Environment Fund, providing AUD 184 million provided since the GEF's inception in 1991.

A policy on counter-terrorism activities in development co-operation

AusAID has developed a separate policy regarding counter-terrorism which outlines the specific role and potential of the Australian aid programme in line with the broader efforts by the government

14. This eligibility criteria, which remains valid for non LDCs countries, has also been lightened, as previous nationality requirements regarding the implementing team have been removed since October 2003.

to combat terrorism (AusAID, 2003a). Apart from identifying relationships between poverty, weak governance and the possible growth of terrorist networks, it aims at identifying the means for partner countries to manage terrorist threats by strengthening law enforcement and promoting poverty reduction.

Within the Australian aid programme, expenditure for counter-terrorism support and capacity building comes under good governance. Counter-terrorism activities identified in 2003-04 included an AUD 10 million four-year counter-terrorism initiative in Indonesia which focused on policing, tracking terrorist financing, and a "travel security programme". Similarly, an AUD 5 million three-year package of counter-terrorism assistance to the Philippines and an AUD 1.5 million regional contribution to a fund to build counter-terrorism capacity in APEC countries were also identified.

Australian NGOs have raised concerns about these current trends towards an increasing diversion of aid for state security and counter-terrorism objectives, measures which do not directly contribute to poverty reduction (ACFID, 2004b). Although they recognise the importance of security activities to build regional and domestic security and stability, they argue that the limited resources for development cooperation should be used for poverty reduction. They further emphasise that assessment of the outcomes of Australia's good governance activities must be measured against their contribution to the eradication of poverty and protection of human right to ensure that security and counter-terrorism do not drive the international agenda, distracting from the focus on development and poverty reduction.

Counter-Terrorism and Australian Aid was written as a statement of principle rather than detailed guidance for programming. Therefore it gives a broad outline of activities that could be covered but provides little guidance for translation into programming decisions. Further work is underway to this end. Some directions are also provided in the light of co-ordination and partnerships. Additionally, guidelines for *Strengthening Counter-Terrorism Measures* in the Australian aid programme were developed by AusAID in July 2004 (AusAID, 2004d), providing advice on how to avoid any risk of funding organisations associated with terrorism, in line with the relevant Australian laws and the UN Charter Act.

Refugee Policy and Practice

Australian law provides for the granting of refugee status or asylum to persons who meet the definition in the 1951 UN Convention Relating to the Status of Refugees and its 1967 Protocol. Its policy of managed migration includes a Humanitarian Program that provides resettlement places in Australia for refugees and others in humanitarian need, with 13 000 places (including 6 000 refugee places) in 2004-05. The Australian Humanitarian Program is one of the three largest resettlement programmes in the world. However, in 2001, in response to an influx of boats carrying asylum seekers, the Australian government developed a new migration policy commonly referred to as "the Pacific Strategy". Parliament agreed to change its immigration laws resulting in Australia sending asylum seekers to Nauru and PNG. With the introduction of the "Pacific Strategy", asylum seekers without visas intercepted at sea are to be housed in offshore processing centres, administered by the International Organization for Migration (IOM) with funding from the government, in Nauru and on Manus Island in PNG. In addition, the government also introduced a policy of excising islands from the migration zone in 2001.

The country's immigration laws and detention policy have been widely criticized by human rights and refugee advocacy groups, who charged that the sometimes lengthy detentions violated the human rights of asylum seekers. In 2002, the High Commissioner for Human Rights' Special Envoy to Australia and the UN Working Group on Arbitrary Detention (WGAD) investigated conditions in the

detention centres and expressed concerns about the psychological impact that prolonged detention was having on asylum seekers, in particular children and unaccompanied minors. The Australian government maintains that it detains people because they are unlawful non-citizens, not because they are asylum seekers, and treats detainees in a manner consistent with international human rights obligations. Only about 25% of people in immigration detention at any one time in 2004 sought asylum, with the vast majority of asylum seekers not detained while their claims were processed. Those who are found to be refugees are released from immigration detention immediately, subject to health and character requirements. In the last 12 months there has been a marked reduction in the number of women and children held in detention and significant practical improvements to the arrangements for children, including the provision of a more domestic environment for women and children.

Capacity, co-ordination and monitoring

Policy co-ordination mechanisms

The Cabinet is the principal co-ordination forum of the executive arm of the Australian government. The Cabinet Policy Unit, supplemented by the Cabinet Implementation Unit, reinforces whole-of-government co-ordination and the implementation of government decisions. The whole-of-government work is coordinated by interdepartmental committees, complemented by dedicated taskforces, formal partnerships to deliver programmes, delivery of services by an agency on behalf of one or more other departments, and special-purpose agencies created outside the normal departmental structures to develop whole-of-government products. At country level, co-ordination among agencies is ensured through specific mechanisms. In Solomon Islands, a Special Co-ordinator's office has been set up with senior officers from DFAT, Defence, AFP and AusAID working together.

DFAT has overall responsibility for Australia's external relations, but other agencies have the lead for international negotiations on a number of specific issues. Processes designed to achieve whole-of-government outcomes on domestic policy issues – including cabinet committees, secretaries' committees and traditional interdepartmental committees – are generally used to co-ordinate this work. However, building a stronger culture of consultation on international activities is important in generating better decision making and programme delivery, given the increasing linkages between international issues and domestic policy matters. Information sharing plays a critical role here.

Working practices and negotiation skills: strategic partnerships

In addition to the interdepartmental committees, strong links are being established between key governmental agencies through strategic partnership agreements. These agreements aim at facilitating and deepening engagement as well as strengthening co-operation arrangements with key agencies on shared strategic priorities. Such agreements have already been finalised with Treasury, AFP, and the Department of Agriculture, Fisheries and Forestry; and agreements with Attorney-General's Department and the Department of Finance and Administration are being finalised. Even if each agreement is specific, taking into account the specific skills, attributes and strengths of the agencies, they all specify the partnership principles, shared strategic goals and co-operation arrangements. These partnerships are designed to advance the government's policies of promoting growth, stability and prosperity in the Asia Pacific region, however, the reference to poverty reduction as a common objective is non-existent or weak, at best, (see Box 8).

Box 8. Strategic partnership agreement between AusAID and the Treasury Department

This partnership, designed to advance the government's policies of promoting growth, stability and prosperity in the Asia Pacific region, will be governed by the following principles: equal partnership underpinned by mutual respect, professionalism, honesty, cooperation and two-way communication at all levels, and close links established regarding programmes which incorporate economic governance elements to ensure these activities are co-ordinated and maximise Australian assistance's impact. The shared Strategic Goals are specifically to "work together to:

a) Strengthen economic and fiscal governance in the Pacific, including through policy advice and priority setting in Australia's elevated commitment to economic stabilisation and reconstruction in PNG, Solomon Islands and Nauru (in conjunction with other departments).

b) Support effective Australian economic engagement with key developing country partners in Asia, including by collaborating on assistance to priority countries to build capacity in economic and fiscal governance.

c) Further regional economic integration and strengthened financial architecture through engagement and support for developing country participation in fora such as the Manila Framework Group (MFG), APEC, ASEAN and the Pacific Forum mechanisms.

d) Leverage the resources and skills of the International Monetary Fund (IMF), WB and AsDB to achieve improved economic, governance and development outcomes in the region.

e) Promote the implementation of trade and investment liberalisation policies from which developing countries benefit.

f) Contribute to broader Australian policy on regional economic development, as appropriate."

Based on each agency's **skills, attribute and strengths**, the Agreement specifies that "Treasury looks to AusAID to provide: a) expert advice on development policy and programme development for developing countries in the region; b) co-operation in joint governance and management of programmes delivered by Treasury (…); c) analysis and appropriate programming linking economic reform with broader service delivery and stability aims; and d) expertise on programme design, monitoring and evaluation and capacity-building. AusAID looks to Treasury to provide: a) economic analysis of regional developing nations; b) expert advice on appropriate economic, structural and fiscal reforms for relevant nations in the region; and c) personnel for capacity building programmes in selected economic agencies."

Regarding the **Co-ordination Arrangements**, each agency will assign responsibility for maintaining the Strategic Partnership to an appropriate senior executive officer. In addition, Treasury and AusAID will meet twice annually at a senior executive level to review the Strategic Partnership and set priorities for co-operation and joint work. Senior engagement on work priorities will provide opportunities for more strategic and efficient programming approaches, and dialogue at a senior and operational level will identify opportunities for broader cooperation.

Co-ordination benefits from the new institutions set up in other departments following their involvement in regional programmes: a new Pacific Assistance Division in Treasury, a Pacific Branch in the Attorney General's Department and a Pacific Unit in the Department of Finance. AusAID is participating in a secondment to the Australian Federal Police to improve communications and encourage a whole-of-government approach to capacity building through law enforcement programmes. There is also an AusAID secondment to the Australian Public Service Commission.

Mobilising external expertise and strengthening internal analytical capacity

AusAID's focus on reinforcing its analytical capacity, based on the Strategic Plan, is consistent with its new strategic positioning within the whole-of-government approach. AusAID has been able to access relevant policy knowledge through long-term partnerships with research institutes and universities, and by appointing external advisers. AusAID is aware of the need to build staff capacity and has already commenced actions to this end. Improving AusAID's core analytical capacity, in order to lessen dependence on external expertise, and looking at ways to maximise the use of the specialist skills that exist within the programme is of great importance, since a strengthened internal analytical capacity is crucial to enable AusAID to influence the political agenda (see Chapter 5).

Monitoring mechanisms

AusAID decided in August 2004 to establish a whole-of-government Operational Support Unit to improve the coherence and efficiency of AusAID operational engagement with other government departments. It will enable programme areas to engage with Australian government partners at a more strategic level. Additionally, a cross-agency working group will develop organisational guidance on key operational issues relating to AusAID whole-of-government engagement.

At the implementation level, the whole-of-government approach implies a change in the way AusAID delivers its aid programme, as AusAID guidelines were not designed with this approach in mind. AusAID should also consider, as a high priority, the specific monitoring processes and performance benchmarks to be introduced to assess whole-of-government interventions against common development outcomes. Such monitoring is not currently applied to ODA administered by other government agencies and AusAID should lead the reflection inside the government on this issue.

Future considerations

- Australia faces a major challenge in taking forward its "whole-of-government approach" in a way which is poverty-focussed, developmentally sustainable and owned by partner countries. AusAID is well positioned to contribute to this objective, but its voice must be given adequate weight in wider government discussions. AusAID should continue to build its analytical capacity to be able to bring its expertise to the interdepartmental committees and thus influence the whole-of-government agenda.
- Elaborating a national strategy on policy coherence for development could be a means to reinforce the scope for action in this respect. Such strategy would help reconcile the security and development agenda and strengthen coherence. It could ensure as well that the MDGs and poverty-reduction principles are articulated as part of the overall framework for the whole-of-government approach.

CHAPTER 5

ORGANISATION, HUMAN RESOURCES AND MANAGEMENT SYSTEMS

Overview/basic organisational mandate

AusAID's core business is to serve the Australian government by advising on development issues and managing Australian development co-operation programmes focused on achieving broad-based growth, stability and effective governance, particularly in the Asia-Pacific region. In this way, AusAID contributes to the formulation and implementation of Australia's broader foreign policy framework. The Agency's two direct outputs are policy and programme management. In line with Australian Public Service reforms, the government purchases these two outputs from AusAID, at agreed prices in 2004-05 of AUD 14.5 million and AUD 58.2 million respectively.

AusAID's management programme seeks to: i) ensure programmes and projects correspond with government priorities and are defined in partnership with the people and governments of developing countries; ii) ensure high quality projects and programmes through effective identification and design, regular monitoring, evaluation, identification of lessons learned, and access to technical expertise and external advice; iii) establish and manage contracts with delivery partners including the private sector, public sector, international and regional development organisations, and community groups.

AusAID provides advice and analysis to the Minister for Foreign Affairs and to the Parliamentary Secretary to the Minister for Foreign Affairs on development co-operation policy, programme directions, and international development issues, allowing the government to make informed decisions in Australia's national interest. The agency also supports government communication with the Australian community and parliament. This helps to build awareness of development issues and ensures that the aid programme is accountable to the government, the parliament, and the Australian public.

AusAID corporate governance structure

AusAID is an administratively autonomous agency within the Foreign Affairs and Trade portfolio. As Chief Executive, the **Director-General** is responsible for the operation and performance of AusAID and reports directly to the Minister for Foreign Affairs and the Parliamentary Secretary who assists the Minister on aid and consular matters. The Director-General is a member of the Department's Executive.

The **AusAID Executive** assists the Director-General in meeting his responsibilities. The Executive, consisting of the Director-General and three Deputy Directors-General, focuses on strategic direction-setting and broad management issues. The Executive also focuses on AusAID's relationship with the Minister and the Parliamentary Secretary. A Policy Reference Group, made up of twelve people, assists the Executive in identifying issues for policy. Including key managers of programmes, it also ensures interface between policy and country strategies. Additionally, an Executive Services

Group (ESG) was set up to follow the organisational change in AusAID, in line with the implementation of the Strategic Plan. This ESG will become permanent (as of August 2004) and will pursue corporate governance issues, monitor progress on AusAID's Strategic Plan implementation and give strategic oversight to the Agency's whole-of-government engagement.

An **Audit Committee** assists the Director-General by reviewing, monitoring and recommending improvements to AusAID's management systems, key business processes, corporate governance framework, internal audit functions and the external audit process. Additionally, two high-level advisory groups in AusAID advise the Executive on key management issues: i) the **People Management Advisory Group**, which supports the implementation of human resource management and strategies for the agency; and ii) the **Information Management Advisory Group**, which is responsible for the implementation of the information management and technology strategy for the agency.

The **Aid Advisory Council** provides the Minister with independent expert views on the planning and delivery of Australia's aid programme, with the view of ensuring the consistency between the aid programme and the values of the wider Australian community. It also is a means of opening the aid programme up to new ideas and approaches to development. The Minister chairs the Council, which consists of academia, private sector, NGOs and community group representatives.

The **Committee for Development Co-operation** (CDC) is a joint AusAID/NGO advisory and consultative body made up of six elected NGO representatives and six appointed senior AusAID staff delegates. It meets three times a year and its mandate includes the management of the AusAID NGO Cooperation Program (ANCP), the NGOs' accreditation process, and issues of common interest such as NGOs funding and performance information issues (see Chapter 6). In addition, discussions are currently underway to arrange regular Development Policy Forums around key issues, to enable development policy dialogue between AusAID and Australian NGOs outside of the funding relationship. Finally, AusAID-NGOs consultation forums focusing on broad strategic and policy issues in the aid programme recommenced in 2004.

AusAID organisational structure (see Annex D). The new organisation chart of AusAID's central office, located in Canberra, reflects the key positioning of the Policy and Global Programmes Division, consisting of the Policy and Multilateral Branch and of the Office of Review and Evaluation. This is a new division, placed at the centre of the chart. It has replaced the former Programme Quality Group, focused on programme implementation, monitoring and evaluation. The new emphasis on policy and analysis, in line with AusAID's Strategic Plan, is thus clearly established. The two other divisions combine geographical and cross-cutting issues, with, on the one hand, Asia and Corporate Resources (including humanitarian and regional programmes as well) and, on the other hand, PNG, Pacific and Partnerships. Three Principal/Senior level advisors appear in the structure; they provide services across the range of programmatic areas. They are not integrated into line reporting within AusAID. Although an advisor co-ordinator supervises their services, clarifying their position would be appropriate (see below the Management of Human Resources).

Management of policy and strategy: a strong corporate management

In 2001, AusAID undertook a major strategic planning initiative, first to ensure the Agency was positioned to respond to the increasingly complex international development environment and to influence the whole-of-government agenda, and second to improve the effectiveness of aid. In this respect, the three main objectives of *AusAID Strategic Plan: Improving Aid Effectiveness in a Changing Environment* (AusAID, 2001a) are to: i) improve the quality of AusAID's programmes;

ii) enhance the Agency's policy and analytical capacity; and iii) improve AusAID's people management and corporate systems.

Significant changes have been made since 2001, with this Plan providing a robust framework to guide AusAID operations, but further corporate reform will be required to support the maturing of the devolution process, the shift to a more analytical and policy-focussed Agency and the full translation of policies into all programmes. The Strategic Plan has been implemented over the last two years through the following directions: i) supporting the devolution of activity management in-country; ii) enhancing the strategic direction of programmes, iii) utilising more flexible and innovative programming and contracting mechanisms; iv) streamlining work practices; v) engaging more strategically with other government departments, multilateral institutions and NGOs. At the same time, the Strategic Plan's call for improved quality and development effectiveness led to more innovation and flexibility.

AusAID's Strategic Plan implementation is on-going, with increased attention being paid to advancing partnership arrangements with other key Australian government agencies to support whole-of-government approaches to development issues in the Asia-Pacific region. At the same time, increasing emphasis is being placed on building AusAID's policy and analytical skills and expertise. The greater analytical focus on sector issues or country situation analysis has proven to be positive in terms of programme delivery. This effort should be reinforced and enlarged to address strategic issues, since it is critical to AusAID role as a valued contributor to the government's objectives, (see Box 9).

Box 9. AusAID Strategic Plan implementation: an on-going process

AusAID's Strategic Plan was issued in December 2001. This initiative was based on recognition that donors face new challenges for aid effectiveness - a need for strengthened policy engagement with partner countries, greater focus on assisting aid recipients to build their own development capacity, closer co-ordination among development partners and less reliance on stand-alone projects.

Key operational changes outlined in the Plan include: better programme strategies through, for example, increased attention to development research and analysis; more rigorous selection of programme activities to align with strategies; greater efforts to improve quality of activities, particularly at the design stage; broadened participation in the delivery of the aid programme; continuous improvements to contracting, including use of a wider range of contract models, streamlined tender and contract documentation, and expansion of the contractor performance system; expanded use of specialist expertise and integration of this within programme and policy areas; a greater focus on in-country programme and contract management and monitoring. Despite the significant moves already done, there remains much to be done to work through the radical change led by the strategic plan. AusAID quality, effectiveness, efficiency, responsiveness and impact will directly influence the resources available for development. To this end, five principles will shape AusAID further organisational change: i) a focus on core business (ensuring the critical support to conduct core business effectively); ii) a focus on quality and effectiveness of development assistance, which remains a top priority; iii) encouraging innovation toward the best management solutions to improving the effectiveness of AusAID and discharge its whole-of-government responsibilities responsively and flexibly; iv) differentiation in the way each branch is managed; and v) enhancing AusAID development capacity.

These changes intend to reinforce AusAID's assets in its role as Australia's official aid agency, notably its linkages within and across Australian government, its knowledge of the social, economic and political context in developing countries, as well as machinery of government, at the national and sub-national level; its understanding of the long-terms aspects of development, including approaches to strengthening the sustainability and achievements of development assistance; knowledge of the complexities of poverty and strategies for poverty reduction; its networks and relationships with partner governments, donors and multilateral organisations, as well as civil society and the private sector in Australia and developing countries; and its experience in rapid and flexible responses to emerging issues and humanitarian crises.

The Strategic Plan proved to be a comprehensive way of reshaping the aid programme and led to positive changes in the management. The move toward more policy focus and strategic positioning, highlighted by the strong institutional link established between the policy division and programmes, resulted in a strong policy framework. However, as mentioned in Chapter 3, in some areas there remains a gap between carefully-crafted sectoral or cross-cutting policies and their implementation. It will be necessary to take further steps in terms of policy guidance, resources and aid delivery mechanisms to ensure that the vision developed in Canberra guides Australian aid programme implementation at the country level. A difficult balance is to be achieved here, since promoting partnership and ownership requires adequate flexibility to adapt local strategies to each specific context.

Operational decentralisation

AusAID is represented in 33 overseas diplomatic missions. Overseas representation, including Australian and locally-contracted Program Support Unit (PSU) staff, supports the development co-operation programme's operations in developing countries and engagement with multilateral agencies. As part of AusAID's Strategic Plan, in-country management is implemented more widely, even though the on-going devolution process could benefit from being put in place more rapidly.

A process underway

Australia has begun decentralising the management of its aid programme to AusAID offices in partner countries. This devolution process is proving successful, and should be further extended in a number of countries, and broadened to include others. This move may be done on a case by case basis, but is likely to require an increase in dedicated resources - both human and technical – with notably a greater proportion of AusAID staff based in-country rather than in Canberra.

As at 30 June 2004, AusAID had 734 staff including 508 (69%) "Australia Based Staff (A-based staff)", split primarily between Canberra and overseas, and 226 (31%) PSU staff who are recruited locally. Due to the strength of PSU teams in managing AusAID programmes in-country, 40% of overall AusAID staff work in the posts outside Australia.[15] However, only 13% of Australia based (A-based) staff are posted, 87% remaining in Canberra. The devolution process has led to a higher percentage of A-based staff located in the field (27% and 36% of A-based staff in the field in the case of PNG and Indonesia respectively, as against an average of 19% in Pacific countries). However, the percentage remains low, and it is difficult to assess where the centre of gravity is, between the decentralised posts and headquarters. Notwithstanding the high quality of both the PSU staff and the A-based staff working outside Canberra, it is unclear to what extent devolution has been implemented in practice. To take PNG as an example, staffing consists of a team of 40 staff in Canberra, and 40 in the country (comprising 18 expatriates and 22 PSU staff).

15. These totals do not include a further 12 short-term aid experts drawn from AusAID ranks and seconded or placed in a number of countries in the region in support of AusAID programmes. Also, the totals do not include 17 internal sectoral advisors.

Table 1. Human resource profile as at 30 June 2004

Staff location	A-based Staff				PSU Staff	Total			
	Field*		Canberra		No (Field)	Field		Canberra	
	No.	% A-based staff	No.	% A-based staff		No.	% total staff	No.	% total staff
Pacific	13	19	55	81	41	54	50	55	50
East Asia	15	27	41	73	74	89	68	41	32
Timor-Leste, Humanit. & Regional	8	19	35	81	42	50	59	35	41
PNG	17	27	47	73	38	55	54	47	46
Indonesia	8	36	14	64	26	34	71	14	29
Other	3	1	252	99	5	8	3	252	97
Total	**64**	**13**	**444**	**87**	**226**	**290**	**40**	**444**	**60**

* The numbers reflected here represent actual numbers of staff (including part-time staff).[15]

While the whole-of-government approach will require maintaining a strong headquarters capability, the devolution process will require additional staff support, as well as an adaptation of the staff policy (see below) and of delivery mechanisms (see Chapter 6). In addition, the current organisational system may lead to overlaps, and it is necessary to clarify the respective functions and decision-making roles between Canberra and the posts. It is also necessary to ensure more consistency in the responsibilities of post staff between different country programmes. These adjustments could allow increased effectiveness in aid delivery as well as improved relationships with key partners (partner country government, other donors, NGOs, managing contractors). The concern regarding consistency of duties also covers the devolution of humanitarian responsibilities. Notably, the strong consultative relationship built by the Humanitarian and Emergency section with NGOs has not migrated with a similar degree of understanding to country desk staff within AusAID. This can result in loss of time and energy for both AusAID and the NGOs.

Limited field office capacity

Despite high quality and committed expatriate and local staff, AusAID overseas capacity is limited. The devolution process, added to the context of changing programmes, has led to substantial increased demands made on AusAID posts. The high turnover of A-Based staff, resulting from the two plus one (optional) year duration of overseas postings, may ensure a permanent flow of policy, programme and country knowledge between field and headquarters. But it may also weaken the post's capacity to deal with enlarged responsibilities in the context of the devolution process. The lack of resources at the country level accentuates the problem of a lag between policy articulation in Canberra and translation into country programmes. On the one hand, it weakens the ability to monitor policy implementation and the capacity to conduct policy dialogue, and on the other hand, lessens the impact of the important investment in knowledge. It is therefore necessary to delegate more responsibility to the field and to reinforce AusAID country offices' capacity to conduct high level policy discussions, support harmonisation, and design and monitor programmes. At the same time, moving more Canberra based staff to the field would reduce duplication, allow AusAID to clearly define the division of roles and responsibilities between the two and provide greater opportunities for Canberra based staff to gain field experience.

While they have varying degrees of autonomy, Programme Support Units (PSU) are in place in all AusAID partner countries. In Cambodia, an additional outsourced unit is responsible for management of agriculture sector activities. This first initiative should be carefully monitored, and should not lead to a situation where a high level of technical expertise is located outside the Embassy. It is essential not to displace policy and analytical work outside AusAID.

Performance measuring: quality assurance and evaluation of programmes

As part of the Strategic Plan's efforts to improve quality, performance effectiveness and accountability of the programme, AusAID has started introducing improvements to its knowledge management as well as to its evaluation effort.

Knowledge management

Following an Information Management Study (2001), a number of systems and tools were developed within AusAID, benefiting from strengthened Information and Communication Technology (ICT) systems and aiming at reinforcing communication and team-based approaches with posts and across the Agency. An Information and Research Services Unit was set up, aiming at integrating key statistical and information functions and focusing on access to up-to-date analytical material to enhance policy and programme outcomes. The AusAID Knowledge Warehouse (AKWa) provides a tool for disseminating lessons learnt in delivering Australia's aid programme. It shares examples of good practice through the activity cycle and documents relating to quality. AKWa is complemented by AusGuide, the AusAID's electronic activity management manual, being updated to support devolution and reflect new forms of aid. Additionally, the Country Programme Infoshare system was established in February 2004 to provide a tool for joint work and knowledge sharing across AusAID, especially between Canberra and posts. Finally, an integrated platform for managing AusAID aid activities (AidWorks) is currently under development and will complement the AusAID knowledge management framework. All of these tools will be installed on AusAID's central ICT system.

At the same time, thematic networks (such as law and justice, water) were established, and a strengthened peer review process was introduced in March 2002. Peer review is carried out at both concept stage (setting the directions for a new initiative) and appraisal stage (assessing the case for implementation) of AusAID's main programmes - for which the allocation is likely to exceed AUD 3 million - or smaller activities which have sensitive implications. Corporate review of Agency operations by the Executive has also been broadened to encompass regular review of programme strategy development and business performance and all country strategy peer reviews now involve two senior executive service officers.

These efforts have resulted in an improvement of the design of the programmes, with a real effort to take into account the lessons learnt, including from other donors, such as in the Philippines Australia Governance Facility II (April 2004) or the "Local Solutions for Local Development" programme in Indonesia (May 2004). There does remain scope for improvement, notably in translating new policies into programme orientation. An example is raised by ACFID, which states that NGOs are unable to obtain clear guidance from AusAID regarding the implementation of the *Guidelines for Strengthening Counter-terrorism Measures in the Australian Aid Program* introduced in May 2004 (ACFID, 2004b).

Review and evaluation functions: higher focus on outcomes and results–based approaches

Since 1999, AusAID has been experimenting with substantial change through the adoption of a quality assurance approach, which was supported by the Quality Assurance Group (QAG). The QAG is positioned within AusAID's Office of Review and Evaluation (ORE), which has primary responsibility for the management of AusAID's quality assurance efforts. The Simplified Monitoring Toolbox (SMT) has recently replaced the Activity Monitoring Brief (AMB) as AusAID's principal routine monitoring and reporting tool. Trialed for the last two years, the SMT was independently reviewed in July 2004. All new activities will use the SMT and existing activities will transfer to the SMT where possible. The SMT consists of various reports or 'tools' that are completed by

contractors/delivery organisations and forwarded to AusAID. It has three main functions: (i) to provide a standard but flexible reporting system for AusAID activities; (ii) to capture information to meet AusAID's performance reporting; and (iii) to contribute to contractor performance assessments. Additionally, the QAG conducts rapid reviews of selected projects, relying on peer assessment against a Quality Frame articulating the standards of good practice aid delivery. This tool could be of considerable interest to other donors seeking to implement systems to reinforce aid effectiveness.

Since the adoption of AusAID Strategic Plan, a number of additional changes have occurred, with a renewed emphasis on programme strategy outcomes while retaining the centrality of quality at the activity level. An on-going implementation of a Results-Based Management approach, at both the individual activity level and programme strategy level, has aimed at better demonstrating the impact of aid and at adapting to new aid delivery mechanisms. These changes led to the following activities:

- Elaboration of new guidelines on activity completion reporting in September 2003, focusing more on outcomes and predicted sustainability. From that date, all significant activities need their Activity Completion Report (prepared by the implementing contractor) to be supplemented by an Independent Completion Report (ICR), which are placed in AKWa.
- Ex-post evaluations. From 2004-05, the programming branches will be required to fund and manage two *ex-post* evaluations per year resulting in a total of more than 10 evaluations per year (compared with one or two previously).
- Performance frameworks for programme strategies. From 2002, newly developed programme strategies have been required to include a performance assessment framework, linking activity-level interventions to higher strategic goals, thus complying with international good practice requirements. ORE has developed introductory guidelines to the Results Framework approach (AusAID, 2003f) and is working closely with individual line managers around the agency on how best to adapt it to their own strategy development needs.
- Rapid Impact Assessments for country programmes. This approach has been developed by the Evaluation section and consists of the three following steps: i) using macroeconomic and social change data, construct a story of development in the country or region over the time period of interest; ii) identify one or more plausible hypotheses of the role of aid in that development story; and iii) using archival research techniques of AusAID documents, look for evidence to either support or disprove those hypotheses. This process was completed for PNG and has resulted in the publication of *The Contribution of Australian Aid to PNG, 1975-2000,* and a similar exercise is currently under way for the Pacific.

Table 2. Summary of AusAID's RBM information sources

Decision level	Instrument	Source level
Government, Agency	Simplified Monitoring Toolbox	Activity
Government, Agency	Cluster and thematic evaluations	Activity
Government, Agency, programme	Programmes reviews (including Rapid Impact Assessments)	Programme
Government, Agency, Programme	Completion Reports: *Ex-post* evaluations	Activity
Programme	Strategy Performance Assessment Framework	Programme
Agency	Quality Assurance Group	Activity
Activity	Activity M&E frameworks, Mid-Term Review, monitoring	Activity

Source: AusAID, 2004.

In addition, the Performance Review and Audit Section undertakes several types of internal audit, including audits of commercial contractors, NGOs, overseas posts and AusAID management functions. The external audit is provided by the Australian National Audit Office (ANAO).

The steps taken in recent years toward a higher focus on outcomes and introduction of results-based approaches are positive and should be reinforced, since this would help to make further gains in quality, clarify the goals and objectives pursued under the development co-operation programme, and reinforce the strategic role for evaluation. Maintaining the independence of the evaluation function is a key issue to this end. AusAID should consider in this respect the establishment of a direct accountability line between ORE and the Office of the Director General - rather than via the hierarchy of the Policy and Global Programmes group - to avoid any potential conflict of interest between sections. AusAID's decisions announced in August 2004 to conduct a review of fundamental quality systems led by AusAID's senior advisers, as well as to reinforce ORE by moving in the Information and Research Services Unit may lead to such improvements (AusAID, 2004e).

Management of human resources

AusAID's human resource policy is guided by its *People Management Strategy* (2002-06) and AusAID's People Management Advisory Group. AusAID's key challenge is to ensure that staff have the skills necessary to meet the expectations of the Strategic Plan. Reinforcing AusAID's position within the whole-of-government approach has consequences in terms of staff requirements as well.

Increased resort to external expertise

The vast majority of Australia-based staff are Australian Public Servants. However, AusAID seeks increasingly to strengthen its ability to access relevant policy and technical knowledge through long-term partnerships with research institutes and by appointing Principal Advisers to advise on emerging programme and policy issues. Among the 17 advisors currently appointed, three are Principal/Senior advisers and 14 work at Adviser Level. They provide consultancy to line areas on an *ad-hoc* basis, and are co-ordinated by an Adviser Co-ordinator. Their contracts last for three years with the option of a two year renewal.[16] If support from advisers is not available, line managers requiring technical support have the option of using period contracts, usually tendered for a duration of three years. AusAID staff members with skills also have the option of becoming period contractors for a period of time *e.g.* three months.

Such mechanisms allow AusAID to allocate consultancies for specific periods of time with a high flexibility. However, taking into account the tensions that can arise when specialist expertise is contracted and managed externally (in the form of advisors, period contractors, or through the strong links established between AusAID and universities and research institutes), as opposed to these skills being available internally, AusAID should consider the need for investing in its internal capacity to be less dependent on external advisors and ensure a higher corporate analytical capacity across the range of professional/advisory disciplines. At the same time, AusAID should look at ways to ensure the specialist skills that exist within the programme are used efficiently and effectively – and consider what systems need to be put in place in this respect. The need for careful, and ongoing, assessment of the skills mix is all the more crucial in an organisation whose approach to aid delivery is changing.

16. Currently, seven advisors work in the economics and governance area, three work in health and education, five work in rural development, infrastructure, and community development, and the remaining five work in programme design and quality or commercial, contracts and legal areas. AusAID has plans to hire five principal advisers (economics, health, education, rural development and governance) and to make more strategic use of their skills throughout the programme.

Role and position of PSU staff to be reviewed

As illustrated in Table 1, PSU staff, who are locally hired, are crucial to the implementation of AusAID programmes: they represent 226 out of 290 staff located in the field (excluding aid experts – see footnote 15), an average of 78%. In Vientiane, the post is made up of nine PSU staff and one A-based staff and in a number of posts, such as Kathmandu, Maputo, Rangoon or Funafuti, there are no A-based staff.

The role of the locally hired staff will increase in line with the extension of the devolution process and it is of great importance to ensure stability and continuity within the national staff. To this end, the on-going measures taken to increase the investment in PSU capacities should be pursued. It may be particularly necessary to improve the career perspectives for local staff by reviewing the contractual aspects (short-term contract of one or two years) as well as the reporting arrangements for senior and experienced PSU personnel. AusAID could benefit from sharing its approach with other donors in order to gain ideas for improvements in its policies in this area.

High level of staff turnover

AusAID has experienced a level of turnover of about 10-15% over the past few years, although in 2003, 58 persons or 11% of the staff left, an improvement on previous years.[17] Forty-seven percent of separations were in the 30-39 year age group. Results of exit questionnaires show that lack of overseas opportunities for staff (60 positions overseas with around 25 postings per year), an ageing workforce and incentives provided by the Superannuation system encouraging retirement before age 55, career prospects elsewhere (NGOs, overseas organisations, other government departments.) and under-utilised skills/knowledge all contribute to staff turnover. The headquarters location also is a significant factor as many employees have personal links in Australian cities other than Canberra. This turnover, added to high internal mobility, constrains the development of constructive relationships with key partners (such as managing contractors, NGOs), as highlighted by ACFID in its submission (ACFID, 2004b). It results in limited institutional memory - for instance, the history of humanitarian support in Cambodia over the last twenty years had to be compiled by an external consultant because the staff was unaware of the past support in this area. High turnover can also lead to uneven and inconsistent approaches. AusAID's Human Resource Management team is aiming to reduce the level of turnover to under 10%, through improving its induction, pre-employment information, skills matching at recruitment and leadership development. Further work on addressing the challenges facing AusAID in attracting personnel that have the requisite skills - both in terms of specialist skills and in terms of familiarity/experience in programmatic approaches to aid delivery - is also necessary.

Future considerations

- AusAID should deepen and broaden devolution on a case-by-case basis, clarifying the respective roles of Canberra and the posts and moving toward more delegation to the field offices. Appropriate human resources policy adjustments, strengthened communication, and adequate support to the field, through an enhanced technical advisory capacity, will be needed in this respect.

17. This compares with an average Australian public service-wide turnover of 10% in the five years to 2002/03.

- AusAID should consider reviewing its organisational structure to better integrate technical skills, rather than relying on time limited contract staff, through the recruitment of adequate numbers of specialist staff. This also requires reinforcing and clarifying the role and position of principal advisors.
- In order to guarantee the independence of the evaluation function, which is critical for the credibility of the evaluation outputs, AusAID should consider establishing a direct accountability line between ORE and the Office of the Director-General, instead of the current link via the policy division hierarchy.

CHAPTER 6

AUSTRALIAN CO-OPERATION IN THE FIELD

Toward harmonisation: promoting ownership and partnership

In line with the Rome Declaration on Harmonisation to improve effectiveness of aid assistance and the DAC/GOVNET recommendation, Australia emphasises the importance of ownership and partnership. In July 2004, its Harmonisation Action Plan was finalised (AusAID, 2004f). Thus Australia's goal for donor harmonisation is two-fold: to enhance the effectiveness of Australia's development co-operation; and to strengthen partner countries' ownership of development. The Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* (AusAID, 2002a) stressed the need for Australia's aid strategies in individual countries to be increasingly engaged with and driven by partner countries' own framework for development. It also committed to "scale up" AusAID's programme investments to minimise administrative and reporting burdens. Australia is actively involved in the OECD-DAC Task Team on Harmonisation and Alignment. In 2004, it co-ordinated the DAC 14-country Survey on Harmonisation and Alignment in Fiji.

Working with partner governments

Partnership principles are implemented through the following ways of working with Australia's partner governments (added with new aid delivery mechanisms – see below): i) **aligning with partner government priorities** in designing country strategies, through National Planning Frameworks, as is the case in Indonesia, PNG, Philippines and Timor-Leste, or, where they exist, through PRSPs (Viet Nam, Cambodia); ii) **streamlining donor practices** and supporting aid coordination, at national and regional levels, through support to donor coordination and harmonisation mechanisms, as in Cambodia, where the review team noted AusAID's leading role, but also in Timor-Leste, where AusAID prepared a database identifying each donor and activity as a tool to develop synergies; and iii) **enhancing co-ordination and strengthening partner country capacity** to undertake country analytical work, through direct capacity building support as in Fiji, development of joint country analysis (Samoa), poverty assessments supporting partner governments' national development planning, and sharing of information and lessons learnt through AKWa.

AusAID's devolution process is critical in improving AusAID's capacity to pursue harmonisation and alignment through promoting stronger dialogue and interaction with local partners, enhancing AusAID's policy and analytical capacity, and improving its responsiveness to changing local circumstances.

Working with other donors

Partnership principles also lead Australia to increased collaboration with other donors, supported by high-level bilateral dialogue, and developed in the following directions.

Developing aid delivery options for donor collaboration, notably through **joint country strategies, co-financing and delegated programmes**: Australia is committed to work closely with the Multilateral Development Banks in key regional countries through joint policy dialogue, sharing strategic analysis and co-financing. Australia also seeks opportunities to harmonise its procedures with other donors and to promote practical and flexible mechanisms to improve donor co-ordination and coherence in the Asia-Pacific region. In particular, the concerted action among donors in Timor-Leste resulted in positive outcomes. There, AusAID's support was channelled through the Trust Fund for Timor-Leste, co-managed by the World Bank and AsDB. In addition, following the 2001 joint Australia-New Zealand Review "Harmonising donor policies and practices in the Pacific" (AusAID, 2001c), Australia and New Zealand are developing a strong partnership to enhance the effectiveness and coherence of aid in the Pacific region. A close collaboration is already established in Tuvalu (where AusAID and NZAID operate from a single office), Solomon Islands, Samoa, and Niue, and a first joint New Zealand and Australian aid programme in Cook Islands is being set up (see Box 10). Australian aid to other countries linked to New Zealand, notably Niue, is to be transferred to Trust Fund contributions. Progress is also underway to harmonise Australian and New Zealand scholarship programmes in the Pacific.

In countries where Australia is a middle-sized donor, like Cambodia or Indonesia, AusAID is seeking to focus its support on fewer sectors, identified on the basis of comparative advantage and consistency with other donors aid programme. This notably led AusAID in Cambodia to withdraw from the education and health sectors, which were highly supported by other donors and to target agriculture and governance support, where AusAID could draw from broad experience. AusAID is also developing co-financing activities, like the basic education project in Laos funded with AsDB, and participates in secondment programmes, with Korea, Japan, New Zealand and a number of multilateral agencies.

Box 10. Donor harmonisation: two examples

Australia-World Bank-AsDB joint Country Strategy in PNG

Australia, together with the AsDB and the World Bank, has been engaged since 2002 in developing a Joint Country Strategy Paper in PNG. The aim is to more closely align donor support around PNG's development priorities through joint analytical and advisory services, policy dialogue and co-ordinated financing of high-priority investments. Although work is in progress, the Joint Country Strategy process has nevertheless allowed an increased co-ordination in key sectors such as health, education, transport or public expenditure management – eliminating duplication of effort and providing a common platform from which to build integrated assistance.

First joint New Zealand and Australian aid programme in Cook Islands

A historic aid agreement was signed on 2 September 2004 by representatives of the Cook Islands' Ministry of Foreign Affairs and Immigration and government aid agencies, NZAID and AusAID, marking a new approach to aid delivery in the Cook Islands. The Tripartite Arrangement sets out the basis of the co-funded New Zealand and Australian development assistance programme, which will be piloted over a two-year period from 2004 to 2006. NZAID will manage the day-to-day operations of the combined programme and the three governments will meet regularly to set strategic directions. New Zealand provides NZD 6.2 million and Australia AUD 1.5 million annually in programmed aid to the Cook Islands. The agreement should enhance Cook Islands' ownership and management of aid programmes, with the potential to reduce administrative processes. The increased size and flexibility of the joint programme as well as the combination of the experience and lessons of both aid programmes should also help achieve better results and contribute to significant social and economic benefits to the Cook Islands. Finally, it is hoped the agreement will pave the way for similar initiatives in the Pacific.

Helping to build regional strategies: Australia's development co-operation programme is identifying opportunities for pooling regional resources in the Pacific, notably in the transport and police sectors, for more efficient service delivery and improved administration. Australia is also backing reform of the Pacific Islands Forum Secretariat, and, through the East Asia Regional

programme, provides support for the Asia-Pacific Economic-Co-operation (APEC) Forum and the Association of South-East Asian Nations (ASEAN). It also supports regional initiatives addressing problems such as people trafficking (in partnership with IOM and the government of Laos, Cambodia, Burma, and Thailand), the spread of HIV/AIDS in South East Asia, communicable disease, and institutions such as the Mekong River Commission which deal with regional issues.

Reducing donors' impact on partner government burdens, notably by rationalising reporting requirements on partner governments and the volume of in-country missions - for instance through multi-donor mission such as to Solomon Islands (2002) - or by participating in trust funds.

Difficulties in implementing harmonisation and alignment

Some principles remain difficult to implement, due to a number of factors. On the one hand, the limited number of donors as well as the limited scope of their programmes in most of the Pacific countries results in AusAID being by far the largest donor, which added to lack of strong host country leadership, has sometimes led to a weak co-ordination pattern. In PNG, donor co-ordination is stronger at the sector level than at the national level. Moreover, tensions often exist between greater harmonisation and alignment, and accountability requirements. In key Australian partner countries, capacity is low and institutions are weak (Cambodia, PNG, Solomon Islands), resulting in a lack of credible frameworks for alignment with partner government systems *i.e.* national poverty reduction strategies, medium term expenditure frameworks or sector wide programmes. Low capacity and weak institutions can also create the conditions which give rise to corruption. Moreover, in fragile countries, it is necessary to consider aid predictability and at the same time to work with a link between aid volume and performance. As is the case for many donors, the Australian Government's single year budgetary approval process[18] is an obstacle to aid predictability which is key to new aid modalities (sectoral approaches and general budget support) and does not allow the flexibility which would be particularly valuable in difficult situations.

Delivery mechanisms

Move toward a more programmatic approach

According to harmonisation and alignment principles, aid delivery mechanisms should be aligned with partner government systems. Since 1999, Australia has been experimenting with modern aid instruments (SWAps), shifting from the project to the programmatic approach in some of its key partner countries, such as Indonesia and PNG, enabling greater ownership and increased operational co-ordination among donors (see Box 11). Australia is also involved in budget support in Timor-Leste.

The rationale for SWAps results from the failure of project aid to bring about significant change in targeted sectors in a number of countries. It also acknowledges the high transaction costs of project aid and expresses Australia's desire to increase the effectiveness of its aid. In PNG, the government and development partners acknowledged in 1999 that past approaches for strengthening the health sector had largely failed, mainly due to the multiplicity of plans, projects and procedures, combined with excessive influence on the programme from individual development partners. Accordingly, they decided to develop a SWAp in the health sector and the National Health Plan (2001-10) provided a framework for its implementation. As noted by the review team, this SWAp is proving to be efficient and appears to be effectively supporting capacity building and ownership. It has brought together the government of PNG and all key donors, who have agreed to work towards a single set of priorities that

18. Apart from PNG, where the treaty commits Australia to spend up to AUD 300 million per year in development assistance.

they collectively monitor. This development is all the more important in view of the deteriorating economic situation in PNG which calls for more efficient and prioritised spending.

Box 11. Public financial management and law and justice sector: Two examples of a programme approach

In **Cambodia**, Australia is assisting a joint World Bank/AsDB/Ministry of Economy and Finance initiative to develop a common donor framework for supporting public financial management reform. The new sector wide approach is expected to deliver a more coordinated, strategic approach that takes account of Cambodian government priorities, facilitates appropriate sequencing of inputs, and provides for common reporting and performance measurement system. As of the beginning of 2004, the Public Financial Management reform programme is being re-formulated to this end, through a wide-ranging consultative process supported by the main donor agencies in Cambodia and aimed at enabling the Ministry of Economy and Finance to take on responsibility and an ownership role.

In **PNG**, AusAID is assisting the Law and Justice Sector Program, which supports PNG's National Law and Justice Policy and Plan of Action, and Medium-Term Development Strategy 2003-05. The design phase commenced in April 2003 and a sector-wide approach was adopted, based on the recognition that weakness in one agency would impact on the operation of others. The programme provides co-ordinated operational level assistance through an incentive based approach to the use of resources at the national and provincial levels of government and through civil society. Annual assistance is determined using the government planning and budget cycle. Key elements of the sector approach include: i) supporting the PNG government's National Co-ordinating Mechanism (comprised of the heads of all key sector agencies including the Chief Justice, Commissioners of Police and Corrections, Chief Ombudsman, Attorney General and Secretary of Planning and Rural Development); ii) adopting a longer planning timeframe involving strategic and annual plans and establishing priorities to support those areas expected to most directly improve overall sector performance; and iii) increasing the use of PNG agencies' systems to plan, deliver and monitor assistance, with targeted support to be provided to develop and strengthen management and financial systems and to establish a comprehensive performance framework for the sector.

Although the limits of project aid are recognised by AusAID (see Box 12), a large part of Australian aid continues to be delivered through projects. In a number of countries, Australia is funding individual projects, a sector-wide approach, NGOs and community based groups, as well as participating in policy level discussions. While this diversity is required in order to best meet the needs of the partner country in each sector, it imposes huge demands on programme management and requires that a very wide range of competencies be available. In PNG, the five priority sectors currently cover 93 bilateral activities. In Cambodia, Australian bilateral aid is currently delivered through 24 projects, 6 regional projects, 3 volunteer programmes and the new cooperation agreements to be concluded with NGOs. Each project works under specific timeframes and with different managing contractors.

Addressing ownership, sustainability, and capacity building issues: a continuous challenge

Some of AusAID's delivery mechanisms may hamper moves toward ownership and capacity building. Key factors here are related to technical assistance and reliance on Australian managing contractors.

High proportion of ODA delivered in the form of technical assistance

As mentioned in Chapter 2, technical co-operation (including technical assistance and scholarship schemes) accounted for 46% of total Australian ODA (and for 58% of Australian bilateral ODA) in 2003, one of the highest proportions among DAC members. In PNG, the significant volume and scope of technical assistance provided to support the health as well as the law and justice sectors could contribute to undermining capacity building and inhibiting local ownership if continued for the long term. In the health sector, AusAID provided 264 staff in 2001-02, 222 of whom were expatriates[19] accounting for nearly 25% of AusAID financial support to the sector. Such support should build country capacity consistent with, rather than substituting the government's capacity. In Cambodia, the review team noted that among the 45 expatriates working within AusAID programmes, a number were involved in quite detailed implementation issues. Australia might achieve a greater impact in building capacity and strengthening local ownership by withdrawing from implementation and focusing its technical assistance more on capacity building and upgrading the skills of civil servants and national staff to reduce continuing reliance on international experts. The quality, relevance and positioning of technical assistance, which is an expensive form of aid, will have a significant impact on capacity building and ownership. The Cambodia programme is moving toward joint donor and sector approaches at a pace appropriate to sectoral contexts, and there is evidence that some project capacity building efforts are showing good results (particularly in regional trafficking). Australia is providing key inputs on the pace and approach to capacity building in the joint donor development of the PFM programme (outlined in Box 11). The use of external technical assistance should be assessed against AusAID's commitment to more effective development assistance in terms of appropriateness – notably in light of national absorptive capacity and government priorities - scope, management and quality. AusAID recognises that its approach to technical assistance needs to be reviewed in light of the move to programme-based approaches, lessons learnt from capacity building and institutional strengthening projects. A joint Australia-PNG review of Australian technical assistance is proposed in 2005. Such a review is all the more important in view of plans to dramatically reinforce external technical assistance in the context of the newly signed ECP (see Box 13).

Aid delivery: high reliance on managing contractors

Since AusAID is not an implementing agency, Australian firms and individuals under contract to AusAID play a major role in delivering Australia's aid programme. AusAID managed more than 1 600 commercial contracts with a total contract value of approximately AUD 2.3 billion, representing around 90% of Australia's bilateral aid programme during 2000-01 (Australian National Audit Office (ANAO, 2002). A relatively small number of contractors deliver the bulk of overseas aid. For example in 2000-01, the largest contractor had 27 separate contracts with a total value of AUD 354 million (15% of the total contract value); the second largest had 20 contracts worth AUD 209 million (9%).

Aid contracts managed by AusAID vary widely in purpose, complexity and scope, and therefore in contract value. At one end of the spectrum are many short-term, relatively simple consultancies. Such consultancies can involve pre-feasibility studies, development of full project designs, or the provision of technical advice to AusAID. At the other end of the spectrum are complex, multi-million dollar construction and institutional strengthening projects.

19. Including project administration staff and 148 short-term inputs (including 60 visiting health specialists to provide direct health care services).

Box 12. Project aid

Sustainability challenges in Cambodia

Several projects in Cambodia face serious sustainability challenges and the impact after Australian assistance ends is an issue that the teams are grappling with. The project approach is problematic where it involves: i) salary supplements, a practice shared by all donors which poses problems of sustainability and which can have a negative impact on the fight against corruption (noting that a group of donors is thinking about a scheme to phase out ad hoc salary supplements and bring in a merit-based salary system expected to evolve into civil service pay reform) and; ii) the existence of dedicated project units within Ministries, such as the CCJAP, which can undermine institutional capacity building. The higher wages offered to the project unit's local staff results in weakening government capacity by attracting the most skilled personnel.

Going beyond the project approach would allow AusAID to better tackle the constraints of a sector, such as land title in the agriculture sector, and to fully integrate the aid programme into the national strategy. This should lead to intensified collaboration with other donors seeking more comprehensive sector wide interventions. Within the agriculture sector, the opportunity to deepen integration at the subnational level through AusAID's Extension Project, by strengthening the links with the existing Seila programme should be explored further. This programme, launched in 2001, is an aid mobilisation and co-ordination framework supporting the Royal Government's decentralisation and deconcentration reforms to develop a three-tiered system of planning and budgeting, focused on the Commune, the Province and the National levels. Australia's aid to rural development could be linked in a more programmatic way with this new framework, with an increased focus on capacity building at the three levels, although the issue of whether the institution duplicates some state functions will need further investigation. Strong government leadership in the agriculture sector certainly remains a crucial element for future progress.

A success story in PNG: the Institute of Medical Research

The Papua New Guinea Institute of Medical Research (IMR) is one of the most respected health research institutions in the developing world. Since its establishment in 1968 as a statutory body of government, the Institute has focused its research activities on the major public health issues of PNG, such as malaria, respiratory diseases, sexual health, filariasis, and emerging infectious diseases, with the primary aim of improving the health of Papua New Guineans as well as the control and prevention of disease. Though the activities of the Institute cover a wide span and its laboratory and computer facilities make use of the latest technology, its research programmes are firmly rooted in the community, with community-based staff and active involvement from the participating communities. Moreover, they cut across disciplines and bring clinicians, epidemiologists and laboratory workers together with anthropologists and the participating community, to look at the disease in context. Since the research units of the IMR provide specific scientific expertise and experience, the IMR also has an important training function. An undoubted factor in the success of the IMR is a strong international partnership. Collaboration with centres of excellence in the industrialised world increases access to technology, broadens funding opportunities and provides a vital corridor for intellectual exchange. The IMR is funded by the PNG government, Australia and grants from international scientific institutions. While government funding is stable, the Australian funding, which has been very high, is decreasing and the funding from scientific institutions is taking the lead, as a result of the excellence of the research conducted. This project has proven to be successful; however transfer of the executive leadership to Papua New Guineans may be a challenge.

With Australian contractors playing such a major role, effective management and delivery of aid through these contracted arrangements is critical to successful aid outputs and outcomes. The contracts involve relationships with a number of key stakeholders, including: the partner government; the counterpart agency; the Australian Managing Contractor (AMC) – typically a large Australian company, partnership or consortium contracted to deliver the aid project; the Australian Team leader (ATL) and project team – employed or contracted by the AMC to deliver the project in the recipient country; the desk – an AusAID officer stationed in Canberra who has primary responsibility for managing the aid project; and the post – an AusAID officer stationed in the recipient country who

monitors projects and liaises with the ATL and partner government in-country. Various arrangements for aid delivery may occur depending on the situation. For instance, in a number of projects, the AMC also manages local sub-contractors.

Although AusAID's aid contract management has been improved over the last two years following ANAO's audit recommendations and in line with the Strategic Plan, the review team, noting the very high reliance on managing contractors in delivering Australian aid programme, found that posts needed to be well-equipped to be able to closely monitor the contractors and therefore ensure the full translation of AusAID core policies into the programmes/projects, including key cross-cutting policies on gender or environment. In the countries visited, some projects were managed in a way which was inconsistent with the principles of sustainability and ownership (high reliance on external technical assistance, focus on expensive technologies, strong external leadership hampering national leadership and capacity building).

AusAID's shift towards SWAps should lead to reconsideration of the role of Australian Managing Contractors. They will have to adapt their skills to the new modalities of aid. In its effort to deliver the vision developed at headquarters for improved aid effectiveness, AusAID will need to push forward in this direction, since it may face the inertia of structures and individuals used to long-standing patterns of work, and contractors highly dependent on AusAID's business. At the same time, AusAID needs to continue to explore strategic alliances with institutions that constitute a source of institutional and specialist expertise in response to complex and evolving programme needs.

Recurrent costs and sustainability

The 2002 Ministerial Statement *Australian Aid: Investing in Growth, Stability and Prosperity* recognises that affordability of systems and maintenance costs is critical and that Australian aid must be driven by long-term affordability. AusAID has strengthened its capacity to develop quality designs with an emphasis on sustainability, including recurrent cost funding. *Promoting Practical Sustainability* (2000 and reissued in 2003) provides guidance related to long-term financial viability. In addition, substantial attention has been given to financial sustainability through the use of the *Quality Framework* in QAG exercises, and through the SMTs at the activity level. This has been a crucial issue in PNG, where aid, such as the extension of road infrastructure, has sometimes added inappropriately to the size of the recurrent budget. AusAID's focus is now on maintaining existing roads, rather than adding to PNG's recurrent costs by constructing new ones. The extent of Australia's contribution to the maintenance of transport infrastructure will be linked to PNG budget outcomes that reflect national transport objectives and satisfactory progress with the implementation of key budget reforms.

Australia should consider how to address transaction costs in implementing its whole-of-government approach, and look at ways to avoid any additional burden for the partner countries.

New mechanisms and way of implementation of the Australian aid programme

In implementing AusAID's Strategic Plan, increased attention is being paid to broadening partnership arrangements with other key Australian government agencies to support whole-of-government approaches to development issues in the Asia-Pacific region. This results in **increased co-operation between Australian departments** in the field. For instance, in Timor-Leste, where Australian aid is mainly focused on governance (53% of the aid programme spending in 2002), an important joint programme involving the Australian government, AusAID and the Australian Federal Police (AFP), in coordination with the government of Timor-Leste, is being implemented. Within this framework, AFP and AusAID come together to assist the East Timorese to build security,

police investigation and administration capabilities. In a more extensive way, the Enhanced Cooperation Programme (ECP) recently signed with PNG is built upon synergies between the different agencies (see Box 13). This implies AusAID must adapt its way of working, as AusGUIDE guidelines are not designed for this form of aid. AusAID also needs to assess the implications for its own capacity, and to address with other departments issues relating to the transaction costs generated by this programme.

Additionally, Australia is moving toward a system of **co-location**, with AusAID staff (expatriate and locally engaged) working within the partner government to jointly manage the aid programme. This is already the case in Timor-Leste, and AusAID is considering it for PNG subject to strong and explicit support from the Government of PNG, as a next step toward a more strategic positioning and in line with aid effectiveness principles and Australia's more programmatic approach in PNG. This strategy, which may bring confusion regarding reporting lines, is not without risks and should be closely monitored. However, co-location will not occur without the support of GoPNG and is very much an initiative-in-progress. As such, the responsibilities of both partners towards achieving better aid effectiveness are crucial. (see Annex E).

Australia is moving toward a more **hands-on approach** in countries in complex situations, as in Solomon Islands through RAMSI, or more recently in PNG through the ECP and in Nauru, where the Australian government announced the placement of three senior Australian civil servants to assist in sorting out its financial crisis. This approach results from the pressure to increase aid effectiveness. In PNG, this is an issue Australia has been grappling with since 1975: after two decades of budget support, then, in the 1990s, a shift to project delivery, Australia is now moving toward a more programmatic approach and focusing on key governance issues such as weak public expenditure management. It was with the objective of improving the impact and cost-effectiveness of Australian aid that the governments of Australia and PNG agreed to ECP in December 2003. Australia's decision to stay engaged in fragile situations was explained by AusAID's Director General to the Senate in May 2003: "Withholding aid could further their decline, rather than generate pressures for reform, with the result that defective states could simply become seriously defective states that are even harder to restore (…) Withdrawing funding could also undermine support for champions of reform in government and affect those most deserving of our assistance: people living in poverty. If reducing support affected the delivery of essential services, there could be implications for stability" (Davis, 2003).

The more hands-on approach has resulted in placing Australian civil servants in **line positions** inside the partner government. According to AusAID, capacity building lies at the heart of this new approach. Both ECP and Australia's contribution to RAMSI are centred on stronger institutional linkages between Australian agencies and their PNG and Solomon Islands counterparts, placing Australian public servants side-by-side with local officials and in some cases directly in line positions for defined periods. Building such linkages is seen as providing a basis for longer-term partnerships, skills transfer, and sustainability. However, the issue of capacity building and ownership cannot be avoided, since there can be a risk of both external priority setting and substitution with this method of implementation. For instance, in PNG, ECP members now "… sit on and exercise influence on the Public Debt Committee and the newly formed Payrolls Committee. In addition, they have provided strategic-direction and influenced policy outcomes on a range of issues affecting fisheries management, rural banking, national roads and to assist the PNG Housing Corporation to address its financial problems" (O'Keeffe, 2004). The numbers, role, composition and competencies of Australian civil servants will have to be carefully examined in order to avoid substitution, which is a major risk in this strategy particularly if capacity-building experience in weak institutional environments is lacking. To this end, terms of reference for expatriates in line positions and those working as advisers should include requirements to train successors, develop systems that they can

operate, and reach simple benchmarks of performance. A clear timeframe should also be established to progressively transfer responsibilities to national officials.

Box 13. The Enhanced Co-operation Programme (ECP) in PNG

This large five-year programme, amounting to AUD 1.1 billion, introduces new mechanisms aimed at strengthening aid delivery through direct engagement with PNG's central agencies, in order to tackle key governance issues. It includes joint initiatives to address acute law and order problems, strengthen border security, tackle corruption, encourage robust financial and budget management, and reform the public service. The ECP will be implemented largely through the placement of up to 64 selected Australian public servants into PNG government departments and agencies. When fully implemented, these personnel will include specialists working across legal sector (Solicitor General' Office, Prosecutor's Office, National and Supreme Courts), economic and public administration, and border protection and transport security. The ECP will also place up to 230 serving Australian Federal Police officers with the Royal Constabulary in Port Moresby, Lae, Mt Hagen, Bougainville, and along the Highlands Highway.

A fundamental objective of ECP is to build PNG capacity through lasting institution-to-institution linkages. The success of ECP will not be measured by improvements in PNG institutions at a point in time, but through the establishment of broad-ranging and long-term relationships between Australia and PNG institutions. Australia will continue to fund a range of activities through the development co-operation programme that support the objectives of the ECP. In addition to the law and justice sector programme, Australia is providing support for governance at the provincial level, including financial management training, institutional capacity building, and support for the conduct of audits and improved financial reporting. Through the civil society programme, Australia is promoting public debate on PNG's development choices and thereby building demand for better governance.

NGOs and civil society: an evolving approach

NGOs play an important complementary role in delivering the Australian development co-operation programme. In 2003, the Australian public donated AUD 386 million to aid and development work of Australian NGOs, amounting to around 63% of their total funds. The remaining funds were provided by the Australian government (AUD 90 million in 2003, approximately 15% of the total funds managed by the NGO sector), and other Australian and multilateral donors (AUD 137 million, 22%).

Australian NGOs may receive funds from AusAID through three schemes. The **AusAID-NGO Cooperation Program (ANCP)** provides support to Australian NGOs undertaking direct poverty reduction activities. In 2004-05, funding for the ANCP will be AUD 25.6 million. **Co-operation agreements** aim at developing strategic partnerships with Australian NGOs, as set out in the 2002 Ministerial Statement *Australian aid: Investing in Growth, Stability and Prosperity.* These partnerships, resulting from a competitive selection process, are closely guided by bilateral country strategies to ensure Australia's funds are more effectively targeted to development priorities. They allow a more strategic and longer-term engagement with NGOs in accordance with country programme priorities. In 2003, cooperation agreements began in the humanitarian programme and three country programmes: Africa (AUD 50 million over five years), Solomon Islands (AUD 5 million over three years) and Viet Nam (AUD 20 million over five years). NGOs may also access funding from **post administered funding schemes**. In Cambodia and PNG, these mechanisms have proven to be an efficient way to support small-scale poverty reduction projects. They allow AusAID to support efficient poverty reduction and humanitarian assistance projects, focusing on ownership and capacity building. At the same time, AusAID can benefit from the experience of such initiatives and keep contact with the grassroots level while engaging in a more programmatic approach. Funding may be available in-country for NGOs and community organisations from partner countries through such

mechanisms as the Small Activities Scheme and the Direct Aid Programme, as in Philippines and Timor-Leste.

The review of the ANCP which is planned for 2005 will provide further guidance to adapt the system and improve its effectiveness and efficiency. The review should check whether small but innovative NGOs can access funding through the current mechanism, the primary and sometimes only source of government funds for many medium and smaller NGOs. Appropriate attention should be given to the level of real funding available under this mechanism, taking into account both its specificity as government recognition of community support for NGO programmes and efforts toward more accountability and aid effectiveness made by the Australian NGOs. These efforts, led by ACFID, resulted in the introduction of the Code of Conduct for NGOs (1997) and more recently, in the *Research report for the ACFOA strategy on quality* (ACFID 2002).

Since 1997 AusAID has used an **accreditation process** which acts as a front-end risk management process and ensures accountable use of funding with minimal activity overview by AusAID. NGOs are required to be accredited by AusAID to be eligible for funding through AusAID NGO Schemes. Accreditation is also required for NGOs willing to access programmes that are substantially funded through other bilateral and global channels (*e.g.* humanitarian relief programmes, co-operation agreements). Accreditation is valid for five years, and NGOs must apply for re-accreditation at the expiry of this period. NGOS can apply at two different levels – base and full accreditation -, allowing them to access funding for projects or for annual development plans through ANCP. 48 NGOs are currently accredited (16 base and 32 full accreditation). ANCP funding for NGOs is determined annually in the federal budget delivered in May and the level of funding allocated to each agency is based upon an agreed formula established in 1996 for proportional distribution of funds. Peer NGO/AusAID review is the central feature of the accreditation process, with the Committee for Development Cooperation working with the NGO community as a whole and individual NGOs under review. This process is welcomed by the NGOs, and a recent AusAID review (March 2004) recommended only minor adjustments to procedures and forms.

Volunteer programmes: Following an audit of the volunteer programmes, AusAID decided to adopt a new policy marked by the introduction of an accreditation process, which was completed in mid-2003. The Australian government decided that it was appropriate to tender the delivery of a range of volunteer services, with a view to promoting value for money and greater effectiveness of these activities. The tender opened in October 2004 and the relevant organisations will be in place by the end of the financial year (June 2005). In 2003-04, 653 Australian volunteers were mobilised using aid funding, including 215 Australian Youth Ambassadors for Development.

Future considerations

- AusAID's experience illustrates that a move toward a more programmatic approach can strengthen local ownership and capacity building. AusAID could benefit from taking this shift faster and more comprehensively, whenever the appropriate conditions are met.
- The role and significant share of external technical assistance as well as AusAID's high reliance on managing contractors should be carefully analysed and its impact assessed against partnership and ownership principles. Based on the lessons learnt, contracting and financial management systems should be reviewed to ensure consistency with the move toward a more programmatic approach as well as with ownership and capacity building objectives.

- The strong co-ordination established with NZAID in delivering South Pacific aid programmes is an example of best practice. It should be closely monitored to identify the co-financed or delegated programmes' best modalities, in order to further extend them in the Asia-Pacific region. Reinforced donor co-ordination is required, specifically in countries in fragile situations.
- Australia's decision to stay engaged in fragile situations in welcome. The new and more "hands-on approach", resulting in placing Australian civil servants in line positions inside the partner government is not without risks. The numbers, role, composition and competencies of Australian civil servants should be carefully examined in order to avoid substitution, which is a major risk in this strategy, particularly if capacity –building experience in weak institutional environments is lacking. To this end, terms of reference for expatriates in line positions and those working as advisers should include requirements to train successors, develop systems that they can operate, and identify simple benchmarks of performance. A clear timeframe should also be established to progressively transfer responsibilities to national officials.
- Given the complementary role played by Australian NGOs in delivering Australian development aid and humanitarian action, particular attention should be paid to the partnership with these actors. While engaging in a more strategic and longer-term way with NGOs through the strategic partnerships is encouraged, appropriate attention should be given to the other funding mechanisms, to ensure that the small but innovative and efficient NGOs can have access.
- As an OECD/DAC member located within the same region, Australia could pay particular attention to its relationships with new donors, such as China and Thailand, to promote good practices for aid effectiveness.

ANNEX A

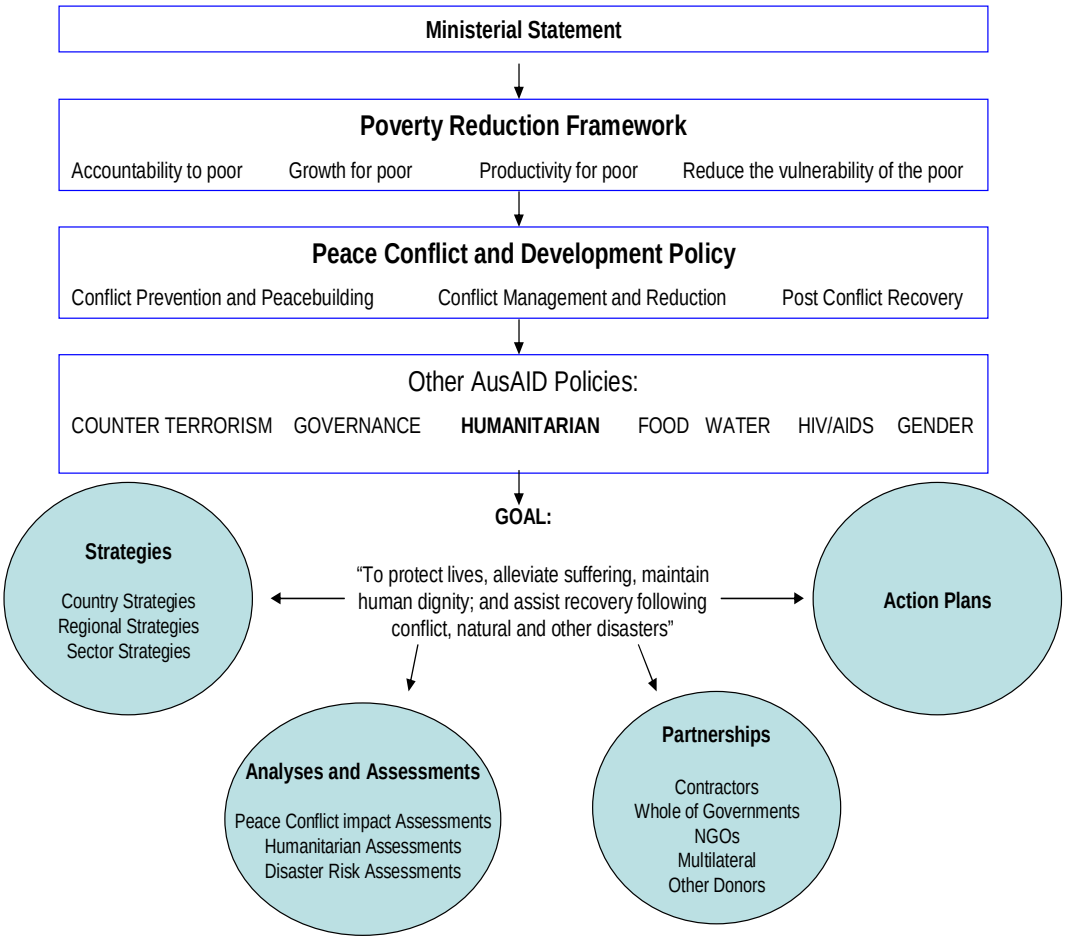
THE 1999 DAC PEER REVIEW AND AUSTRALIA'S ACHIEVEMENTS

Recommendations	Progress achieved by 2004
Aid volume Increase its ODA/GNI ratio	Despite a real increase in ODA over the last four financial years, Australia's ODA/GNI ratio has remained at the level of 0.25%. This stabilisation halts the declining trend noted since the 1970s. In 2003, Australia's performance was equal to total DAC ODA/GNI ratio, but lags behind the average DAC members' efforts.
Strategic framework 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.	AusAID has developed a poverty reduction framework (2001) and a new toolkit emphasising poverty analysis in AusAID programme strategies. The hierarchy of values guiding the Australian aid programme should be clarified to ensure poverty reduction is at the forefront. AusAID's stronger focus on governance could be more directly related to, and assessed against, the poverty reduction objective.
Basic social sectors Continue the re-orientation of bilateral assistance for health and education towards the primary and basic levels.	The proportion of funding going to basic needs has slightly increased since 1998 and is above the average efforts of DAC members, amounting to 14% in average 2002-03. 4% of bilateral ODA was devoted to basic education and 6% to basic health, compared with 2% and 3% respectively for the DAC members in 2002.
Gender equality Increase the proportion of development activities which include gender equality as a primary objective or which have mainstreamed gender dimensions and monitor whether gender equality dimensions should be further integrated within the programme.	The proportion of development activities which include gender equality as a primary objective or which have mainstreamed gender dimensions has increased since the last review. However, visibility of gender in the programmes as well as in a number of strategies is weaker than expected. Drawing on the review of the 1997 AusAID's *Gender and Development Policy* implementation, measures are being undertaken to further integrate gender issues into programme strategies, activity development and design, training, and capacity building.
Coherence for development 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.	In view of EFIC's adherence to international Export Credit Agencies rules and robust environmental policy (based on World Bank environmental policies), AusAID does not consider it necessary to provide further guidance for EFIC facilities provided for investments in developing countries at this time.

Human resources Examine ways of improving the management of aid by fostering staff continuity.	AusAID has experienced a level of turnover of 10-15% over the past years, (which compares with an Australian Public Service-wide turnover rate of 10% in the five years to 2002-03) and AusAID's Human Resource Management team, through the People Management Advisory Group (PMAG) created in 2002, aims to reduce it to under 10%. To this end, it has taken a number of measures targeting staff mobility and intends to improve pre-employment information, skills matching at recruitment and leadership development. Ensuring there is adequate representation within AusAID of appropriate numbers of specialist staff and more stability with locally recruited staff is also necessary. This requires pursuing the on-going efforts toward appropriate human resources policy adjustments.
Information and awareness raising Help to generate public understanding of the role of aid by articulating the inter-linkages and complementarities between the various strands of its external policy Follow through on the innovative efforts of promoting public awareness through development education activities.	A new AusAID Public Affairs strategy (2005 – 07) has been drafted. Among the draft strategy's six goals, three directly relates to public information and development education, and will highlight the role Australia's development co-operation programme plays in building a safer region. Efforts are made toward reaching broader media, and key stakeholders through a multifaceted public information campaign. AusAID's development education programme, accounting for 25% of AusAID's Public Affairs budget, aims at promoting teaching with a global perspective. The programme is designed to support teachers (and through them students/schools) and is accessible to all teachers across a broad socio-economic spectrum. It allows AusAID to reach more remote areas, which is important, given the fact that rural Australians are less supportive of aid.
Harmonisation and Alignment Share with other interested donors experience of systems and processes developed for assessing programme quality. 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 designed.	A number of information tools have been developed (Review and Evaluation series, AusAID's website including a database (AKWa), which facilitate the sharing of experiences regarding notably programme quality assessment. Australia promotes partnerships in developing monitoring and evaluation frameworks (joint reviews, secondments). Australia has also made substantial progress on harmonisation, of which its delegated co-operation programme with New Zealand in Cook Islands is a significant example. AusAID on-going devolution process, along with refinements to its contracting, project design and management processes, facilitates greater involvement of local counterparts in the programme implementation. However, the role of external technical assistance as well as AusAID's high reliance on external managing contractors should be analysed and their impact assessed against partnership and ownership principles. From January 2004, all Australian bilateral aid to LDCs has been "in-principle" untied, new contracting eligibility criteria enable better use of local expertise , and the untying of free-standing technical assistance to LDCs will be extended to all developing countries in January 2005. The effects of these positive moves should become apparent within coming years. Even though aligning with partner government systems in countries where the structures and capacity are very weak is a significant challenge, Australia is making gains in aligning new activities with partner budget cycles, programme planning cycles, and monitoring and evaluation frameworks, and is moving toward a more programmatic approach. AusAID has strengthened its capacity at different stages of the project cycle, to ensure project sustainability, including recurrent cost funding.

ANNEX B

HUMANITARIAN ACTION IN AUSAID'S POLICY HIERARCHY



Source : AusAID Briefing 2004.

ANNEX C

OECD/DAC STANDARD SUITE OF TABLES

Table C.1. Total financial flows

USD million at current prices and exchange rates

Net disbursements

Australia	1987-88	1992-93	1999	2000	2001	2002	2003
Total official flows	**867**	**1 267**	**1 657**	**1 570**	**936**	**1 040**	**1 308**
Official development assistance	**864**	**984**	**982**	**987**	**873**	**989**	**1 219**
Bilateral	579	727	730	758	660	774	975
Multilateral	286	257	252	229	212	215	244
Official aid	**7**	**5**	**3**	**8**	**5**	**7**	**9**
Bilateral	4	2	2	2	2	4	2
Multilateral	4	3	1	6	3	4	7
Other official flows	**- 4**	**277**	**672**	**575**	**59**	**44**	**80**
Bilateral	17	200	627	505	- 24	-22	-6
Multilateral	- 21	77	45	71	83	66	86
Grants by NGOs	**42**	**78**	**95**	**150**	**211**	**248**	**337**
Private flows at market terms	**1 350**	**1 859**	**2 956**	**1 746**	**5 251**	**1 313**	**- 221**
Bilateral: *of which*	1 350	1 859	2 956	1 746	5 251	1 313	- 221
Direct investment	1 285	980	- 56	1 235	3 482	469	1 458
Export credits	65	23	-	-	-	-	-
Multilateral	-	-	-	-	-	-	-
Total flows	**2 259**	**3 204**	**4 708**	**3 466**	**6 398**	**2 601**	**1 424**
for reference:							
ODA (at constant 2002 $ million)	*908*	*906*	*913*	*981*	*943*	*989*	*993*
ODA (as a % of GNI)	*0.41*	*0.36*	*0.26*	*0.27*	*0.25*	*0.26*	*0.25*
Total flows (as a % of GNI) (a)	*1.06*	*1.13*	*0.57*	*0.53*	*0.37*	*0.22*	*0.61*

a. To countries eligible for ODA.

ODA net disbursements
At constant 2002 prices and exchange rates and as a share of GNI

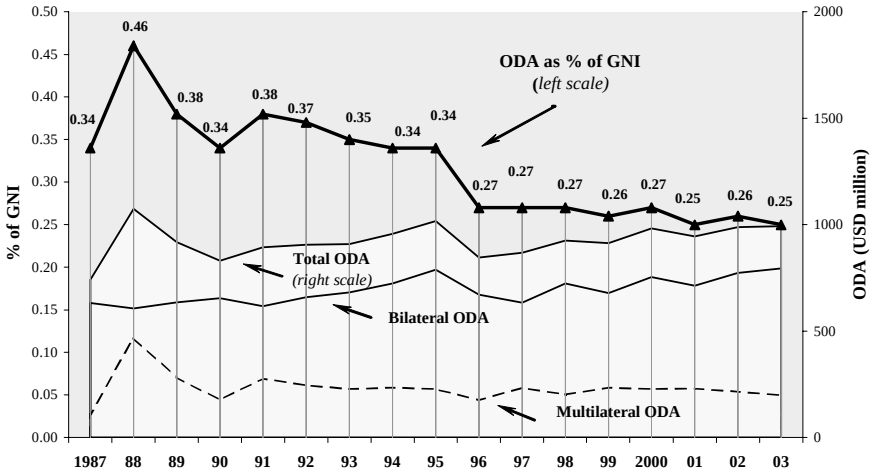
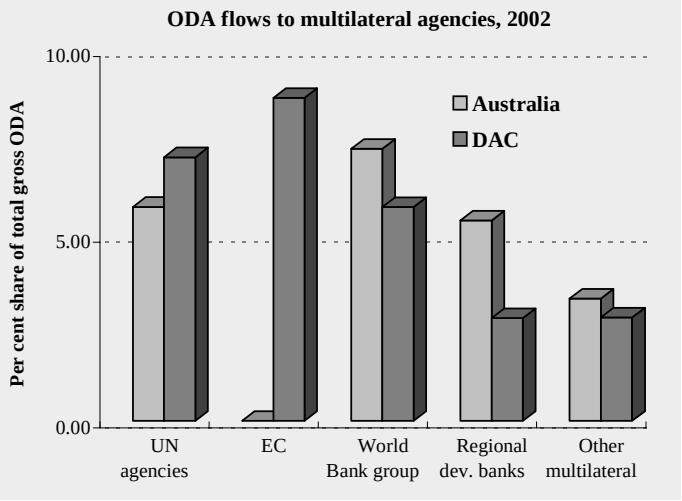


Table C.2. ODA by main categories

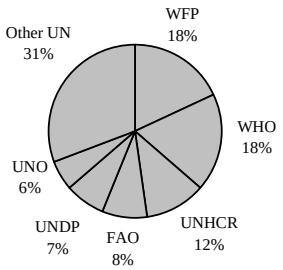
Disbursements

Australia	Constant 2002 USD million					Per cent share of gross disbursements					Total DAC
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	2002%
Gross Bilateral ODA	**679**	**753**	**714**	**774**	**794**	**74**	**77**	**76**	**78**	**80**	**73**
Grants	***679***	***753***	***714***	***774***	***794***	***74***	***77***	***76***	***78***	***80***	***61***
Project and programme aid	94	109	76	87	70	10	11	8	9	7	12
Technical co-operation	336	404	433	424	456	37	41	46	43	46	24
Developmental food aid	3	24	18	32	16	0	2	2	3	2	2
Emergency and distress relief	118	83	53	98	113	13	9	6	10	11	6
Action relating to debt	4	8	10	5	6	0	1	1	0	1	8
Administrative costs	49	47	51	45	45	5	5	5	5	5	5
Other grants	75	78	73	83	88	8	8	8	8	9	4
Non-grant bilateral ODA	-	-	-	-	-	-	-	-	-	-	***12***
New development lending	-	-	-	-	-	-	-	-	-	-	**10**
Debt rescheduling	-	-	-	-	-	-	-	-	-	-	**1**
Acquisition of equity and other	-	-	-	-	-	-	-	-	-	-	**1**
Gross Multilateral ODA	**234**	**228**	**230**	**215**	**199**	**26**	**23**	**24**	**22**	**20**	**27**
UN agencies	61	55	55	57	42	7	6	6	6	4	7
EC	-	-	-	-	-	-	-	-	-	-	9
World Bank group	78	74	74	72	74	9	8	8	7	7	6
Regional development banks (a)	65	71	67	53	56	7	7	7	5	6	3
Other multilateral	31	28	33	33	27	3	3	4	3	3	3
Total gross ODA	**913**	**981**	**943**	**989**	**993**	**100**	**100**	**100**	**100**	**100**	**100**
Repayments and debt cancellation	-	-	-	-	-						
Total net ODA	**913**	**981**	**943**	**989**	**993**						
For reference:											
ODA to and channelled through NGOs	*30*	*24*	*63*	*57*	*44*						
Associated financing (b)	-	-	-	-	-						

a Excluding EBRD.
b. ODA grants and loans in associated financing packages.



Contributions to UN Agencies (2002-03 Average)



Contributions to Regional Development Banks (2002-03 Average)

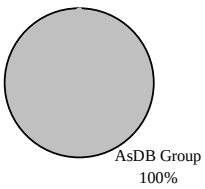
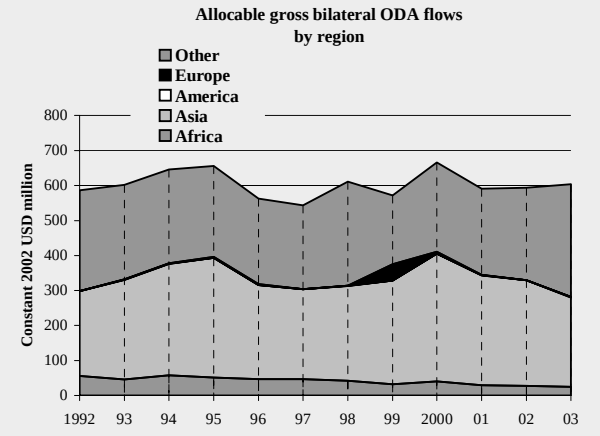


Table C.3. Bilateral ODA allocable by region and income group

Gross disbursements

Australia	Constant 2002 USD million					Per cent share					Total DAC
	1999	2000	2001	2002	2003	1999	2000	2001	2002	2003	2002%
Africa	32	41	30	28	26	6	6	5	5	4	**37**
Sub-Saharan Africa	28	32	23	25	21	5	5	4	4	4	**31**
North Africa	4	8	8	3	4	1	1	1	1	1	**6**
Asia	296	364	313	302	255	52	55	53	51	42	**35**
South and Central Asia	31	49	53	57	39	5	7	9	10	7	**17**
Far East	265	315	261	244	215	46	47	44	41	36	**19**
America	0	1	0	0	1	0	0	0	0	0	**13**
North and Central America	0	0	0	0	0	0	0	0	0	0	**5**
South America	0	0	0	0	1	0	0	0	0	0	**8**
Middle East	1	3	1	4	37	0	0	0	1	6	**4**
Oceania	194	253	246	259	285	34	38	42	44	47	**2**
Europe	47	6	1	0	0	8	1	0	0	0	**9**
Total bilateral allocable by country	**571**	**666**	**591**	**593**	**603**	**100**	**100**	**100**	**100**	**100**	**100**
Least developed	151	204	164	173	166	26	31	28	29	28	**30**
Other low-income	269	330	303	305	287	47	50	51	51	48	**25**
Lower middle-income	146	125	114	102	133	26	19	19	17	22	**41**
Upper middle-income	5	6	11	13	16	1	1	2	2	3	**5**
High-income	-	-	-	-	-	-	-	-	-	-	**0**
More advanced developing countries	1	-	-	0	-	0	-	-	0	-	-
For reference:											
Total bilateral	679	753	714	774	794	*100*	*100*	*100*	*100*	*100*	***100***
of which: Unallocated	*108*	*87*	*122*	*181*	*191*	*16*	*12*	*17*	*23*	*24*	***22***



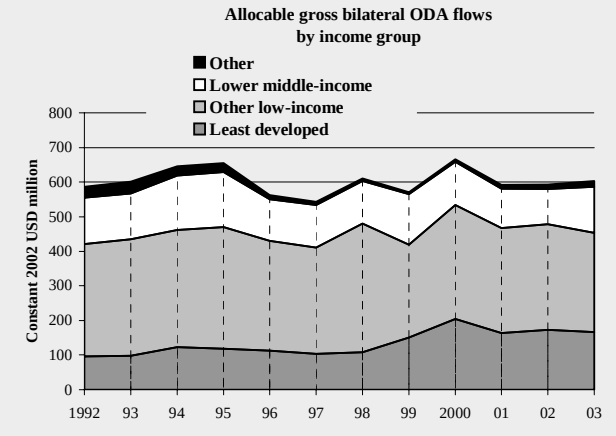


Table C.4. Main recipients of bilateral ODA

Gross disbursements, two-year averages

Australia	1992-93			1997-98			2002-03		
	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share	Current USD million	Constant 2002 USD mn.	Per cent share
Papua New Guinea	232	214	36	Papua New Guinea	240	214	37	Papua New Guinea	195	175	29
Indonesia	81	75	13	Indonesia	76	68	12	Indonesia	79	71	12
China	42	39	7	Philippines	44	39	7	Solomon Islands	44	38	7
Philippines	32	30	5	Viet Nam	41	37	6	Viet Nam	38	34	6
Thailand	27	25	4	China	31	27	5	Timor-Leste	33	31	5
Top 5 recipients	**415**	**383**	**64**	**Top 5 recipients**	**432**	**384**	**66**	**Top 5 recipients**	**389**	**348**	**58**
Malaysia	23	21	4	Cambodia	23	20	4	Philippines	32	29	5
Fiji	20	18	3	Bangladesh	14	13	2	China	29	26	4
India	15	14	2	Egypt	14	12	2	Cambodia	21	19	3
Viet Nam	14	13	2	Thailand	13	12	2	Iraq	21	17	3
Mozambique	11	10	2	India	13	11	2	Bangladesh	17	16	3
Top 10 recipients	**498**	**459**	**77**	**Top 10 recipients**	**508**	**453**	**78**	**Top 10 recipients**	**508**	**455**	**76**
Laos	10	10	2	Fiji	13	11	2	Nauru	14	12	2
Vanuatu	10	9	2	Laos	12	11	2	Vanuatu	13	11	2
Solomon Islands	10	9	2	Vanuatu	9	8	1	Fiji	11	10	2
Samoa	10	9	2	Samoa	9	8	1	Afghanistan	11	10	2
Bangladesh	9	9	1	Solomon Islands	8	7	1	Laos	9	8	1
Top 15 recipients	**548**	**505**	**85**	**Top 15 recipients**	**559**	**497**	**86**	**Top 15 recipients**	**565**	**507**	**85**
Cambodia	9	8	1	Tonga	7	6	1	Samoa	9	8	1
Zimbabwe	9	8	1	South Africa	6	6	1	Thailand	9	8	1
Tonga	8	7	1	Mozambique	6	6	1	South Africa	8	7	1
Ethiopia	6	6	1	Sri Lanka	6	5	1	India	8	7	1
Sri Lanka	6	6	1	Nepal	5	5	1	Tonga	7	6	1
Top 20 recipients	**586**	**539**	**91**	**Top 20 recipients**	**590**	**525**	**91**	**Top 20 recipients**	**606**	**543**	**91**
Total (111 recipients)	**644**	**593**	**100**	**Total (79 recipients)**	**649**	**577**	**100**	**Total (80 recipients)**	**667**	**598**	**100**
Unallocated	83	76		Unallocated	122	108		Unallocated	207	186	
Total bilateral gross	**727**	**670**		**Total bilateral gross**	**771**	**685**		**Total bilateral gross**	**874**	**784**	

Table C.5. Bilateral ODA by major purposes

at current prices and exchange rates

Gross disbursements - Two-year averages

Australia	1992-93		1997-98		2002-03		2002
	USD million	Per cent	USD million	Per cent	USD million	Per cent	Total DAC per cent
Social infrastructure & services	**300**	**39**	**353**	**46**	**385**	**44**	**35**
Education	142	18	159	21	69	8	9
of which: basic education	6	1	24	3	29	3	2
Health	28	4	37	5	75	9	5
of which: basic health	15	2	18	2	45	5	3
Population programmes	19	2	25	3	23	3	4
Water supply & sanitation	34	4	34	4	21	2	3
Government & civil society	45	6	44	6	133	15	8
Other social infrastructure & services	31	4	54	7	64	7	7
Economic infrastructure & services	**87**	**11**	**94**	**12**	**58**	**7**	**13**
Transport & storage	42	5	58	8	45	5	6
Communications	11	1	5	1	3	0	0
Energy	28	4	24	3	3	0	4
Banking & financial services	0	0	2	0	6	1	1
Business & other services	6	1	5	1	1	0	1
Production sectors	**61**	**8**	**62**	**8**	**64**	**7**	**7**
Agriculture, forestry & fishing	41	5	52	7	57	7	5
Industry, mining & construction	18	2	8	1	3	0	1
Trade & tourism	2	0	3	0	4	0	1
Other	-	-	-	-	0	0	0
Multisector	**11**	**1**	**57**	**7**	**144**	**17**	**8**
Commodity and programme aid	**219**	**28**	**96**	**13**	**41**	**5**	**5**
Action relating to debt	**4**	**0**	**13**	**2**	**6**	**1**	**13**
Emergency assistance	**39**	**5**	**41**	**5**	**119**	**14**	**8**
Administrative costs of donors	**39**	**5**	**49**	**6**	**50**	**6**	**6**
Core support to NGOs	**13**	**2**	**0**	**0**	**3**	**0**	**6**
Total bilateral allocable	**773**	**100**	**767**	**100**	**870**	**100**	**100**
For reference:							
Total bilateral	*790*	*75*	*771*	*76*	*874*	*79*	*74*
of which: Unallocated	*17*	*2*	*4*	*0*	*4*	*0*	*3*
Total multilateral	*257*	*25*	*247*	*24*	*230*	*21*	*26*
Total ODA	***1 047***	***100***	***1 018***	***100***	***1 104***	***100***	***100***

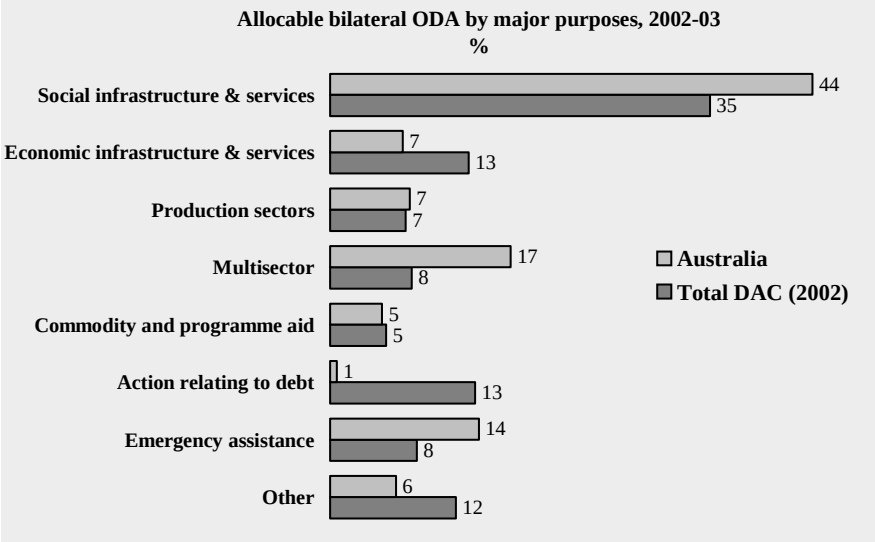


Table C.6. Comparative aid performance

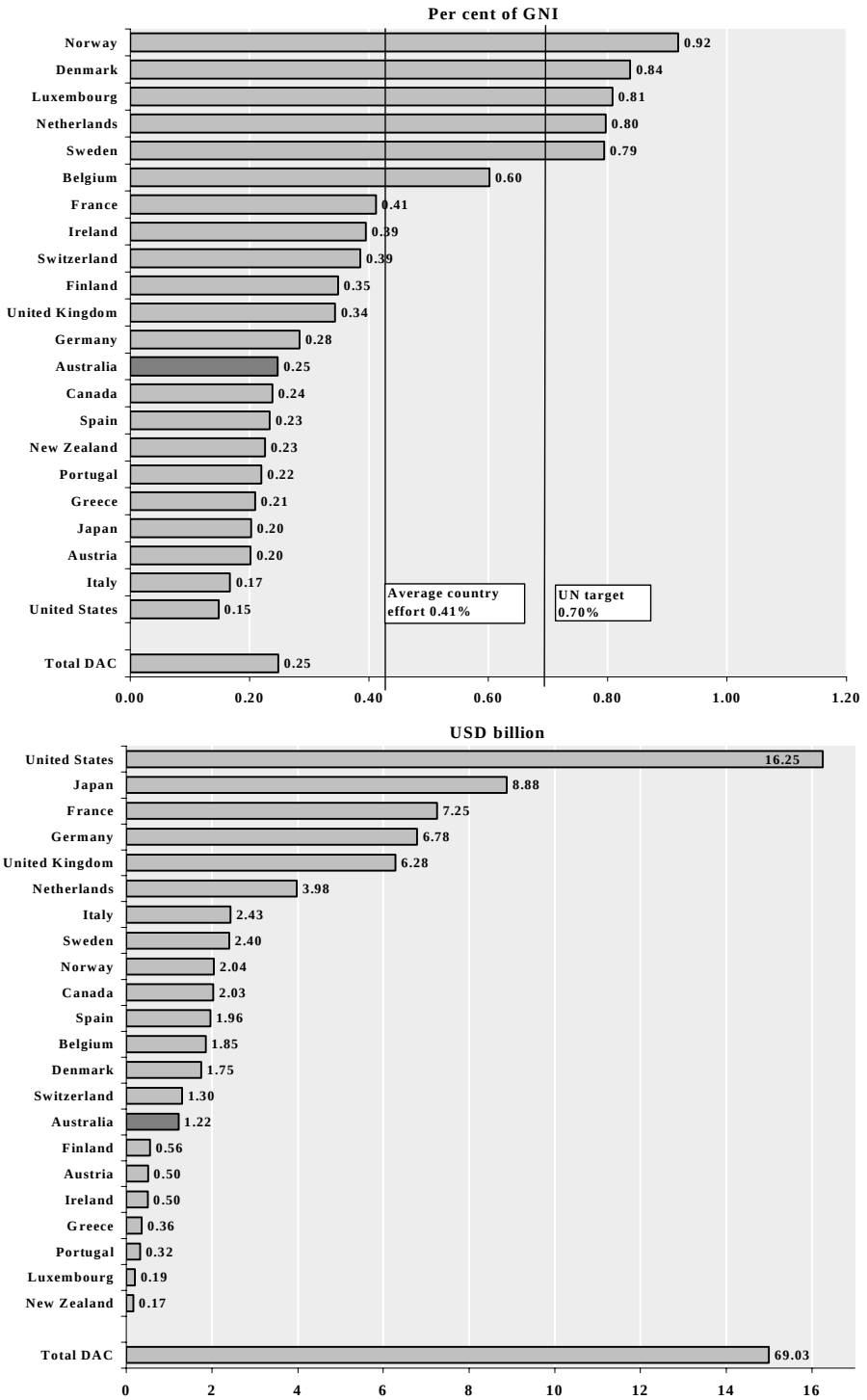
Net disbursements

	Official development assistance			Grant element of ODA	Share of multilateral aid				ODA to LDCs Bilateral and through multilateral agencies		Official aid	
	2002		96-97 to 01-02 Ave. annual % change in real terms	(commitments) 2002	2002				2002		2002	
					% of ODA		% of GNI					
	USD million	% of GNI		% (a)	(b)	(c)	(b)	(c)	% of ODA	% of GNI	USD million	% of GNI
Australia	989	0.26	2.4	100.0	21.8		0.06		19.4	0.05	7	0.00
Austria	520	0.26	7.1	96.1	30.0	11.2	0.08	0.03	32.6	0.08	196	0.10
Belgium	1 072	0.43	7.2	100.0	33.6	14.1	0.15	0.06	32.9	0.14	97	0.04
Canada	2 004	0.28	-0.6	99.9	25.1		0.07		17.4	0.05	104	0.01
Denmark	1 643	0.96	2.8	100.0	36.8	30.2	0.35	0.29	33.3	0.32	167	0.10
Finland	462	0.35	5.2	100.0	45.6	31.9	0.16	0.11	33.3	0.12	67	0.05
France	5 486	0.38	-2.7	99.6	34.1	10.7	0.13	0.04	29.6	0.11	1 464	0.10
Germany	5 324	0.27	-0.4	99.4	37.5	13.9	0.10	0.04	25.0	0.07	780	0.04
Greece	276	0.21	9.6	..	61.3	15.8	0.13	0.03	13.4	0.03	16	0.01
Ireland	398	0.40	14.4	100.0	32.8	17.0	0.13	0.07	52.8	0.21	26	0.03
Italy	2 332	0.20	4.6	100.0	56.8	24.2	0.11	0.05	44.8	0.09	..	..
Japan	9 283	0.23	3.0	87.7	27.9		0.06		19.5	0.04	99	0.00
Luxembourg	147	0.77	13.3	100.0	21.2	11.5	0.16	0.09	39.6	0.30	10	0.05
Netherlands	3 338	0.81	3.7	100.0	26.6	20.4	0.22	0.17	35.3	0.29	211	0.05
New Zealand	122	0.22	3.5	100.0	24.7		0.06		25.0	0.06	1	0.00
Norway	1 696	0.89	2.9	100.0	32.5		0.29		36.9	0.33	45	0.02
Portugal	323	0.27	6.6	100.0	42.3	19.6	0.11	0.05	37.3	0.10	33	0.03
Spain	1 712	0.26	9.5	100.0	41.7	17.4	0.11	0.05	14.7	0.04	11	0.00
Sweden	2 012	0.84	5.4	100.0	36.8	32.7	0.31	0.27	31.3	0.26	107	0.04
Switzerland	939	0.32	2.3	100.0	18.6		0.06		26.6	0.08	66	0.02
United Kingdom	4 924	0.31	6.8	100.0	28.8	10.0	0.09	0.03	23.4	0.07	494	0.03
United States	13 290	0.13	6.8	100.0	20.5		0.03		22.7	0.03	2 313	0.02
Total DAC	58 292	0.23	3.5	97.8	30.1	20.3	0.07	0.05	26.0	0.06	(6317.2)	(0.03)
Memo: Average country effort		0.41										

Notes:

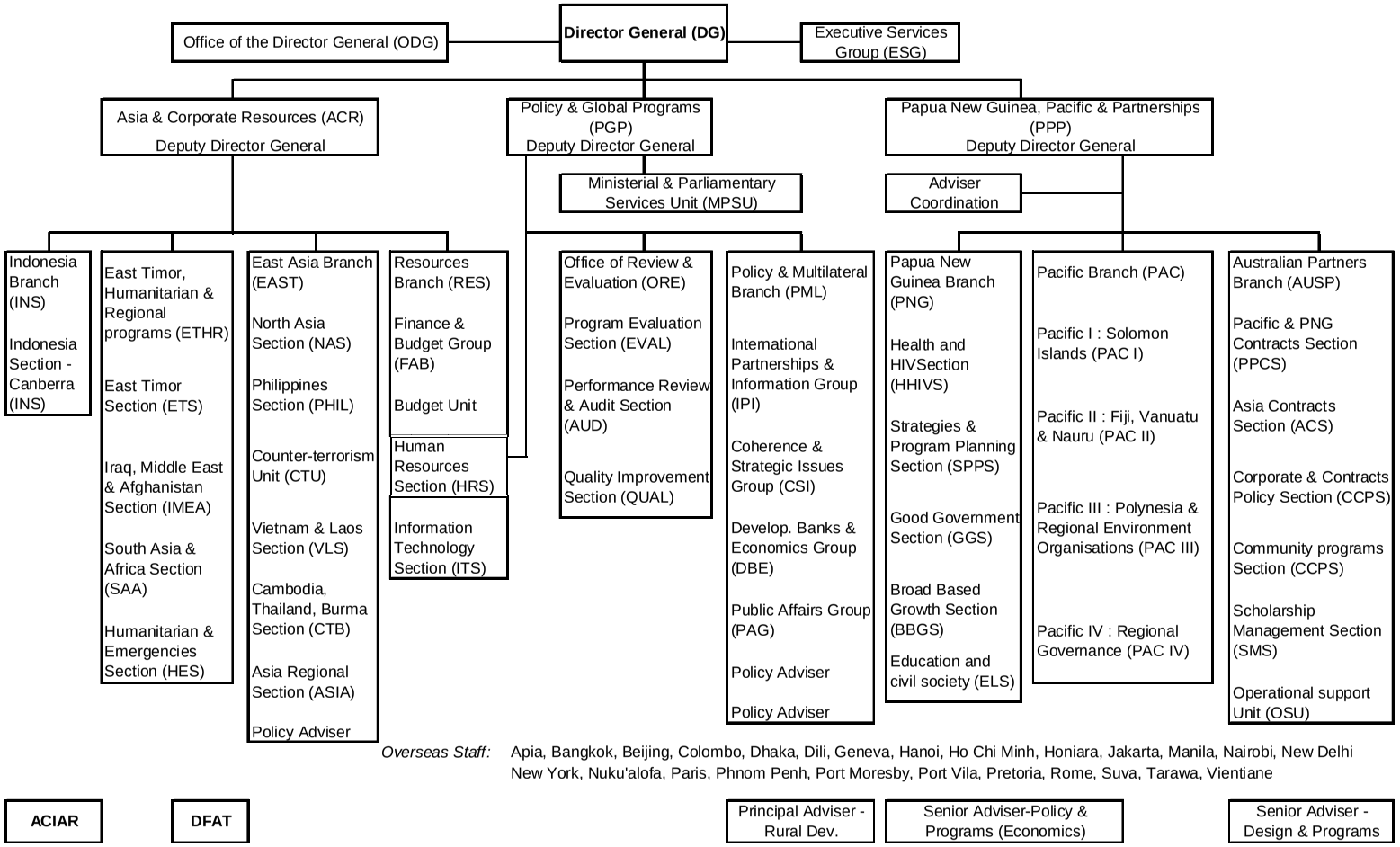
a. Excluding debt reorganisation.
b. Including EC.
c. Excluding EC.
.. Data not available.

Graph C.1. Net ODA from DAC countries in 2003



ANNEX D

AUSAID ORGANISATIONAL CHART



Source: AusAID.

ANNEX E

AUSTRALIA'S AID PROGRAMME IN PAPUA NEW GUINEA

Introduction

As part of the review of the Australian aid programme, a DAC team consisting of representatives of the United Kingdom, Ireland and the OECD Secretariat visited PNG between 28 June and 2 July 2004. It met with Australian development co-operation officials from the Australian Embassy to PNG, representatives of the PNG government and civil society and officials from bilateral and multilateral aid agencies. Discussions were held in Port Moresby and in the Highlands. This report reflects the team members' impressions of Australia's aid to PNG.

With a population of over five million people, basic social indicators in PNG are low, despite a relatively high, resource-driven GNI. Life expectancy is one of the lowest in the Pacific. While PNG's social and economic indicators improved markedly in the early years following independence, progress over the last decade has been disappointing, with slowing economic growth and falling GNI per capita. PNG is facing significant social challenges, notably an increased prevalence of HIV/AIDS and highly fragmented cultural communities resulting in inter-tribal conflict and a very low presence of indigenous NGOs. Over a third of PNG's population is living in poverty,[20] concentration of poverty is high in rural areas where some 85% of the population live, depending on subsistence farming and some cash cropping for survival. Transport and communication have been neglected, and most roads are in very poor condition due to lack of maintenance. Government provision of basic services has collapsed outside the capital.

PNG's capacity to manage its economy and implement necessary economic reform is weak. Rich mineral deposits and large levels of foreign aid have created windfall incomes. However, the improvements in infrastructure, investment and diversification of the economy that one might expect to see have not followed. The economy contracted by 3.3% between 2000 and 2002, and then grew by 2.5% in 2003 and is predicted to grow by 2.8% in 2004. The non-mineral sectors (agriculture) have been hurt by high exchange rates maintained for two decades, while existing mining projects will wind down within the decade. Less than 10% of the population is employed in the formal sector. Declining living standards have been accompanied by a severe and prolonged degradation of public institutions, with a high level of corruption and nepotism. Law and order have broken down and crime rates are soaring.

The relative importance of aid as a percentage of PNG's government expenditure has dropped significantly since Independence, from 41% in 1975 to about 17% in 2000. Aid from all donors represented 7% of PNG's GNI in 2002. PNG is by far Australia's largest development partner in terms of bilateral aid volume. Australia provides one fifth of its total aid expenditure to PNG each year,

20. Based on the costs of a consumption basket which meets the minimum food-energy requirement of 2 200 calories per day supplemented by basic non food expenditure requirements.

representing 85% of PNG's donor support and 14.5% of its budget. This specific situation creates opportunities as well as responsibility for Australia in its relations with PNG's government as well as with the other donors.

Geographic proximity and a shared history have led to a complex and wide-ranging bilateral relationship between Australia and PNG. As the security of PNG and Australia appears to be inextricably linked, Australia has an overriding interest in PNG's sustainable economic development and stability. PNG is Australia's 22nd largest merchandise trading partner and benefits from a small trade surplus, due mainly to gold exports. Australia has a 44% share of total PNG's imports, and important investments in the mining and petroleum sectors. Since 1975, Australia has developed strong defence co-operation links with PNG. Key aspects of the relationship between the two countries are encompassed in a number of formal bilateral agreements, the umbrella agreement being the Joint Declaration of Principles of 1987 revised in 1992. The major bilateral meeting for Australia and PNG is the Annual PNG-Australia Ministerial Forum. The fifteenth Annual Forum was held in Adelaide on 11 December 2003. A new Enhanced Co-operation Programme (ECP) was signed on 30 June 2004.

Strategy, programming and partnerships

Over time, Australia's development support to PNG has been evolving in response to better understanding about aid effectiveness and deteriorating circumstances in PNG especially in regard to governance.

Australian aid was transformed over the 1990s from untied budget support (where, as part of the agreement following colonial rule, Australia provided funds directly into PNG's government operating systems[21]) to aid largely delivered through discrete, project based activities. The shift, completed in July 2000, was extended through the *Treaty on Development Cooperation* (1999), which introduced an Incentive Fund allowing community organisations to receive direct funding for the delivery of development co-operation, and performance benchmarks that tried to more closely link funding decisions to performance. Finally, the PNG Country Strategy 1999-03, setting out a framework for aid delivery, recognised the need for progressive introduction of a delivery approach that combined project aid with sector investment programmes. As a result, in 1999 and 2001 respectively, work began to develop sector wide approaches in the health and law and justice sectors.

The joint Country Strategy for the period beyond 2003 was initiated in 2002 with the World Bank and Asian Development Bank. This strategy intends to provide a common analysis of the challenges facing PNG and a framework for close cooperation amongst the main donors in delivering their assistance. This framework, and the 2001 AusAID *Strategic Plan* and the 2002 Ministerial Statement, *Australian Aid Investing in Growth, Stability and Prosperity*, set the broader policy and operational contexts for a revised approach to Australian aid to PNG. The strategic plan called for greater engagement with recipient countries, enhanced coherence among donors, and less-reliance on stand-alone projects unconnected to the budget and development plans. The ministerial statement delineated the response to poor performers, including the centrality of good governance, the focus on incentive-based approaches and affordable systems.

The current aid programme, developed on the basis of a framework paper produced in 2002, pursues the following objectives: i) enhancing the quality of governance in PNG, ii) encouraging broad-based, sustainable growth, particularly in the rural areas, and iii) addressing the underlying

21. About AUD 10.36 billion of the AUD 13.9 billion provided to PNG since Independence was budget support, the majority of which provided prior to 1992. The majority of funds provided since 1992 has been on targeted assistance such as the provision of technical advice, training, and capacity building.

causes of conflict and social instability. It highlights the imperative to work with civil society and at the sub-national level of government. It addresses the key issues and is linked with the national priorities. It shows a commitment to working through national development processes as illustrated by Australia's support, along with the World Bank and Asian Development Bank, for the Public Sector Reform Strategy 2003-07 and the Public Expenditure Review and Rationalisation Review. Australia's ODA to PNG is estimated at AUD 436 million in 2004-05, an increase of AUD 102 million on 2003-04. Of the AusAID-managed AUD 300 million aid programme, the key areas are governance (including law and justice activities such as support to village courts and prisons and components of the Enhanced Co-operation Programme) which amounts to 37% of Australian bilateral aid volume in 2004, infrastructure (26%, which includes maintenance of rural roads such as the Highland Highway and national airports), health (18%) and education (16%), focusing on improved service delivery. Support is also provided to small agricultural activities, NGOs and community groups, representing 3% of total aid amount.

A new Enhanced Cooperation Programme (ECP) started in July 2004, implemented by a number of Australian government agencies. Additional resources of up to AUD 180 million a year from 2005-06 are provided for components of the ECP. The ECP includes joint initiatives to address acute law and order problems, strengthen border security, tackle corruption, encourage robust financial and budget management, and reform the public service. This programme introduces new mechanisms aimed at strengthening aid delivery through a direct engagement with PNG's central agencies (see Box 13 in Chapter 6).

The absence of a finalised Medium Term Development Strategy, which should be the basis for the elaboration of AusAID's programme, is clearly an obstacle to the process towards local ownership. It is nevertheless necessary for AusAID to develop a broad-based development co-operation strategy in PNG. An analytical framework already exists, which could be reinforced in terms of poverty analysis, to allow a clearer and broader strategic vision, resulting in a more explicit focus on poverty reduction as an overriding objective. Such a framework could also help the government to finalise its own development strategy. The formulation of the strategy will benefit from the joint aid review of Australia's aid programme, which is soon to be finalised.

The position of AusAID as by far the largest donor, the limited number of bilateral and multilateral donors involved as well as the limited scope of their programmes, added to the lack of government leadership in relation to co-ordination, result in a weak co-ordination pattern at the national level, apart from the health sector.[22] There are however close links between the New Zealand and Australian aid programmes, and co-ordination efforts on specialised topics. Efforts towards more coordination through joint analysis with AsDB and WB have not been supported to date by the government. However, these efforts have allowed increased co-ordination in key sectors such as health, education, transport or public expenditure management – eliminating duplication of effort and providing a common platform from which to build integrated assistance. It would be useful to draw on the momentum created around the joint analysis to pursue co-ordination efforts and implement basic operational co-ordination mechanisms. Australia should further use its preferential access to key individuals and its position as lead donor to better effect by advocating a stronger response to the key challenge of corruption and its impact on service delivery, by seeking a more robust political response to the HIV/AIDS epidemic and by further strengthening policy dialogue with other development partners.

22. Twice-yearly Government-Development Partner Summits are organised in the SWAp framework.

Although there has been a decrease in aid volume going to PNG over the last ten years, the spending target to be attained each year (the 1999 Treaty specifies that up to AUD 300 million are to be allocated each year) leads to pressure to develop an annual AUD 300 million programme. This pressure may create distortions and even diminish AusAID's capacity to engage on the real causes of poverty in PNG. It restricts the conditionality which could be linked to benchmarks agreed within the Treaty, and does not allow the flexibility which should be particularly required in the difficult situation of PNG. This issue is all the more important as the five-year ECP programme starting in 2004 will generate considerable additional resources.

Withdrawing aid from PNG is not considered by Australia, which has no exit strategy. Australia's support and involvement in PNG is seen in a long term context. The relationship with PNG is more diverse than an aid relationship, and the public expects that Australia – as developed neighbour, principal source of trade, aid and investment, defence partner, and former administering power – will take prime responsibility for resolving any problems in PNG. As a result, the question for Australia is not the volume of aid, but how this aid is positioned.

The ECP illustrates this problem. Resulting from a Cabinet initiative, it will be managed by the Australian High Commission in Port Moresby, and is to ensure a longer-term engagement of central agencies, even though the ECP timeframe (five years) seems quite short, taking into account its objectives. The programme represents a change in the way Australia co-ordinates its external programme, with an effort to bring policy coherence in the country, by gathering all Australian government actors under a broader strategy. The whole-of-government approach in PNG involves key public sector agencies, notably DFAT, Defence, Immigration, Customs and Treasury departments. Regular meetings are chaired by the High Commissioner, with a representative of each agency, including AusAID, to ensure close coordination. The ECP is seen as an opportunity to go further and create real institutional linkages with central agencies in PNG. At the same time, it may create tension with AusAID's stated approach regarding a poverty focus as well as the principles of ownership, partnership and capacity building. AusAID will have to keep its strategic vision, focusing on the overriding poverty reduction objective and promoting ownership and capacity building and could possibly use ECP to enhance the capacity of central agencies in these areas. As a first step, AusAID could play a key role in helping establish the ECP performance framework, including specific targets and monitoring indicators. Moreover, as there may be synergies, but also tensions, between Australian national interest and PNG's development, a co-ordination framework, including the ECP, contributing to a common agenda should be developed, with strong support from AusAID. Finally, another key issue relates to the transaction costs generated by the ECP programme and the implications for AusAID's own capacity and ongoing projects and programmes.

Programme implementation

AusAID should be careful to avoid the risk of substituting for PNG service delivery incapacity as well as ensure that the high level of AusAID recurrent cost financing is additional to PNG government funding. There is also risk that there may be too close attention paid to Port Moresby, at the expense of needs and opportunities in the provinces. This is being addressed by AusAID through its on-going reflection about engaging at the subnational level, on the basis of a pilot experience in three identified provinces. The synergies created between the national level and the provinces through this new mechanism could create a positive momentum.

The shift from project to programme approach, as well as efforts toward more strategic positioning, based on a high analytical capacity and a strong strategic framework, is appropriate and should be accelerated, even though it is necessary to take into account the constraints resulting from the weaknesses of the PNG government, notably on governance. The shift could allow AusAID to

tackle larger institutional constraints to delivering effective services, such as setting budget priorities and allocating resources. In this respect, the focus on core aspects, and especially economic governance and public sector management such as public expenditure management is strategically of high importance and should be pursued. The Sector Wide Approach (SWAp) implemented in the Health sector to improve services, led by the PNG government and supported by AusAID since 1999, appears to be efficiently and effectively supporting capacity building and ownership. It has brought together the government of PNG and all key donors, who have agreed to work toward a single set of priorities that they collectively monitor. In addition, this approach is progressively integrating technical advisers into the PNG health system (rather than having them sitting outside government under the project model) and is looking at ways to introduce incentives to encourage provincial and national governments to deliver health services more effectively. Development of a SWAp approach is in process in the law and justice Sector, the education sector being less advanced (see Box 11 in Chapter 6).

The move toward programme approaches should reinforce consistency between AusAID's programme and its strategic vision in PNG. However, the project approach remains important. This raises the issue of the role of the considerable technical assistance and guidance, which, despite its quality, remains expensive, and moreover may undermine capacity building and inhibit local ownership. For instance, in the health sector, AusAID provided 264 staff in 2001-02 of whom 222 were expatriates (including project administration staff and 148 short-term inputs including 60 visiting health specialists to provide direct heath care services), accounting for nearly 25% of the value of AusAID support to the sector. This external technical assistance should be assessed against AusAID's commitment to more effective development assistance. This is all the more important as this external assistance is to be dramatically reinforced via the ECP, which will be implemented largely through the placement of up to 64 selected Australian public servants in PNG government departments and agencies - some of them in line positions - with up to 230 Australian Federal Police officers to serve in PNG. Ensuring capacity building as well as ownership, and specifically avoiding substitution, will be a real challenge.

The rapid spread of HIV/AIDS is a further threat to development and poverty reduction in PNG. As a consequence, working with the government of PNG to manage the impact and limit the spread of HIV/AIDS is AusAID's priority, as the leading donor of HIV/AIDS programmes in PNG. Through the five year National HIV/AIDS support project, AusAID is targeting high-risk groups and focusing on preventive and treatment measures in high-risk provinces, as well as advocating for a stronger political commitment and strengthening national capacity. The task of addressing HIV/AIDS is being mainstreamed across Australian development co-operation programmes in PNG with, for example, an HIV/AIDS needs analysis and response incorporated into all road maintenance activities.

In addition to providing considerable financial resources, AusAID has strongly advocated for a more comprehensive political and institutional response to HIV/AIDS in PNG. It has invested substantially in supporting the National Aids Council and strengthening co-operation between central government, provinces and civil society organisations in responding to the epidemic. The extent of the problem and the technical challenges presented by its complexity require access to specialist expertise that can ensure there is an ongoing commitment to maintaining programme quality. AusAID recognises the difficulties presented in mainstreaming HIV/AIDS across all sectors and is committed to linking with best international practice in this area. A key challenge in the future will to be able to demonstrate that the significant financial resources invested in this programme are yielding positive outcomes.

Gender mainstreaming is more difficult in a programme approach than with projects. Moreover, the issue is difficult to raise in a male dominant environment, which is the case in PNG. As a result, gender is less visible in the PNG programme, even though the link between gender and poverty is well established. It would be useful to see to what extent gender could be included in the objectives of the programme, overall rather than in individual sectors, and co-ordinated with other donors' programmes. Additional analytical work should be necessary to allow AusAID to effectively promote this issue and adopt a proactive gender approach. AusAID also needs to consider further what operational instruments and institutional competencies are required to ensure gender is successfully integrated into PNG programme.

Organisation and management

A shift took place in 2003 and early 2004 in terms of decentralisation, with an important decrease of staff based in Canberra (from 65 to 40) and an increased of staff based in PNG. The more strategic engagement in PNG as well as programme implementation are now driven by AusAID's office in Port Moresby. This is an appropriate step and should be followed through. The degree of decentralisation and the division of labour between Canberra and Port Moresby should be clarified. Currently, if the AusAID mission chief in Port Moresby proposes a new policy, it has to be approved by Canberra's PNG branch, which then submits it to the minister. The location of staff remains unbalanced, with 40 staff in Canberra, and only 18 expatriates[23], added with 22 local programme staff, in PNG. The high engagement at the senior level resulting from the whole-of-government approach as well as the overall management of the programme in Canberra does not appear to justify this distribution. This organisational system may lead to overlapping, and a better efficiency could be attained through a further move in the devolution process.

AusAID staff in Port Moresby are clearly of very high quality, in terms of competencies and commitment. AusAID local staff sees the devolution process as a success, resulting in a clear definition of responsibilities as well as in empowerment. Added to their ability to create linkages with PNG nationals, AusAID local staff represent an important asset for Australia's development co-operation. While it is necessary to reinforce on a short-term basis the on-going support received from Canberra, notably in the health sector, advancing the devolution process will need i) to move towards a reinforcement of internal capacity; and ii) re-consideration of the career perspectives for national staff by reviewing the contractual aspects (short-term contract of one or two years) in order to ensure more stability and continuity.

Co-location - the placement of AusAID staff (expatriate and locally engaged) within PNG government departments and agencies to jointly manage the aid programme - which AusAID is considering as a next step toward a more strategic positioning, needs to be addressed cautiously. Its objective is to increase AusAID's level of engagement with its development partner and to assist PNG to direct all of its available resources – aid plus its own revenue – toward its identified development priorities. Such joint management requires joint efforts of AusAID and PNG government to ensure the associated risks are managed and addressed. It also requires clearly defined lines of authority and reporting of co-located staff, firstly to ensure ownership and capacity building and secondly, at an operational level, to avoid any confusion over local AusAID staff roles in relation to their national counterparts. It is notably essential not to expose the local staff to pressures which may be difficult to handle in a context of declining quality of governance. Finally, consideration should be given to the imperative of maintaining a strong cohort of management and specialist staff within AusAID and the

23. Plus one staff member for human resources.

Australian High Commission to oversee a complex and evolving country programme and ensure the optimum use of all resources.

A joint review of Australia's aid programme, conducted with an external actor, is currently underway and is focusing on joint strategic directions for the aid programme, developing an appropriate performance-based system and recommending effective systems for aid management. It will be an opportunity to maintain a sharp poverty focus in the programme, through clear poverty focused targets and agreed indicators to measure programme performance and outcomes.

ANNEX F

AUSTRALIA'S AID PROGRAMME IN CAMBODIA

Introduction

As part of the review of Australian aid, a Development Assistance Committee (DAC) team made up of representatives of United Kingdom, Ireland and the OECD Secretariat visited Cambodia between 12 and 16 July 2004. It met with the main Australian development co-operation officials, representatives of the Cambodian government and civil society and officials from bilateral and multilateral aid agencies. The mission included discussions in Phnom Penh and visits to projects around the capital and in Battambang province. The present report reflects the team members' impressions of Australia's aid to Cambodia.

Cambodia's political unrest between 1970 and 1998 largely determined the parameters for the current situation. The Khmer Rouge systematically destroyed all state capability between 1975 and 1979. The Vietnamese-backed State of Cambodia (1979-93) reconstructed the State along socialist lines but with minimal external support. The Khmer Rouge remained in armed conflict with government until around 1998. Even if Cambodia has made significant progress in the last decade towards national reconciliation, peace and security, this LDC remains one of the poorest in the world with a per capita GNI of around USD 300 and social indicators that are amongst the worst in the region. The state is still under reconstruction, and poverty has largely resulted from high population growth, inadequate opportunities, low capabilities, insecurity, exclusion, and vulnerability. Addressing the key issues in this complex environment requires a mix of humanitarian and longer term development responses.

Cambodia's National Poverty Reduction Strategy (NPRS) 2003-05 sets out the framework for poverty reduction, building on the Second Socio-Economic Development Plan 2001-05. It identifies eight priority poverty reduction actions : 1) maintaining macroeconomic stability; 2) improving rural livelihoods; 3) expanding job opportunities; 4) improving capabilities; 5) strengthening institutions and promoting governance; 6) reducing vulnerability and strengthening social inclusion; 7) promoting gender equity; and 8) priority focus on population. The NPRS has potential as a tool for better coordinating donor and government inputs. However, in its current form, the strategy is essentially a comprehensive list of development objectives and activities, with little prioritisation.

Cambodia is very dependent on development assistance; close to one third of Cambodia's budget is funded by international aid, the main donor country being Japan. In this context, Australia is a medium-size donor, along with France, Germany and Sweden; in 2002, Australia's bilateral assistance represented 8% of total bilateral assistance, and 4.5% of total official development assistance to Cambodia. However, the historical links enhanced notably by Australia's leading role in the Paris Peace Accords process in 1991 result in a strong relationship, as reflected by the regular high level talks between the two countries.

The goal for the Cambodia-Australia Development Cooperation Programme is to advance Australia's national interest through contributing to poverty reduction and sustainable development in Cambodia. To this end, the Development Cooperation Strategy 2003-06 centres on three themes: strengthening the rule of law; increasing the productivity and incomes of the rural poor (particularly in the agriculture sector); and reducing the vulnerability of the poor. AusAID's strategy is based on sound analysis and is poverty driven, even though reference to the MDGs remains weak. The potential tensions which may exist between different policy perspectives and poverty reduction are addressed through the whole-of-government approach directed by the Ambassador with the embassy agency heads (Trade and Foreign Affairs, Immigration, Australian Federal Police, AusAID). This approach has resulted in the involvement of other government agencies, such as the Australian Centre for International Agricultural Research (ACIAR) in support of agriculture projects, but also in the setting up of a migration management project and support by the Australian Federal Police to the Cambodian police on child sex, narcotic and border control issues.

AusAID's current strategy is focused on fewer sectors than previously the case, taking into account Australia's comparative advantage as well as the involvement of other donors in the health and education sectors, from which Australia decided to withdraw. This more focused strategy will allow Australia to build on the efforts made and increase the effectiveness of Australian aid in its remaining sectors of concentration. These sectors are fully integrated within the NPRS framework. Likewise, the strategy's timeframe (2003-06) has been defined to allow the future strategy to be built on the basis of the next NPRS (2006-08). It is also worthwhile to point out the integration of Australia's humanitarian policy within AusAID's country strategy, with a shift toward a more strategic approach linking humanitarian and development assistance. Humanitarian assistance is addressed under the second objective of the national strategy - reducing the vulnerability of the poor - and encompasses the fight against food insecurity, natural disasters and land mines.

Australia's aid to Cambodia combines bilateral, regional and humanitarian allocations, support provided through Australian NGOs, and modest volunteer programmes (37 volunteers in 2004). The bilateral programme, which amounts in 2004-05 to AUD 24.5 million out of a total Australian ODA to Cambodia of AUD 41.4 million, is mainly implemented by managing contractors, apart from humanitarian allocations to WFP and NGOs. Three main agriculture projects, aimed at developing a district-oriented agricultural extension system (CAAEP II), improving rice seed quality, rice milling and small scale village-based fruit and vegetable marketing (AQIP), and supporting agriculture research (CARDI-AP), contribute towards increased productivity and incomes of the rural poor. Different projects regarding food security through WFP, disaster preparedness, and mine action aim at reducing the vulnerability of the poor. The third objective of AusAID's strategy - Strengthening the rule of law - is currently addressed through the Cambodia Criminal Justice Assistance Project (CCJAP), targeting improved adherence to international human rights standards in Cambodia's criminal justice system (judicial police, the prisons and the courts) as well as crime prevention and community links to the justice sector. Some cross-sectoral activities regarding HIV/AIDS therapy, training through the scholarship programme, and community development through civil society organisations, complement the strategy. In addition, AusAID Asia Regional Programmes promote co-operation between regional countries on key issues, and two important regional programmes are implemented in this respect: assistance to the Mekong River Commission, and Asia Regional Co-operation to Prevent People Trafficking.

Australia seeks to influence the policy of government and other donors to promote essential reforms, as well as to build partnerships between donors to achieve policy objectives. In this respect, Australia's catalytic role in facilitating rethinking of government-donor technical working groups is an excellent example of putting leadership and staff time to good effect, in a difficult context. Australia is also moving towards a more programmatic approach, particularly by supporting the crucial Public

Financial Management Reform Programme, which involves the Ministry of Economy and Finance along with the main bilateral and multilateral donors (see Box 11 in Chapter 6). This move has implications for the aid instruments that Australia is using. In the current situation, Australia is involved via individual projects (and technical assistance), providing support to NGOs, as well as supporting sector-level programmes and participating in central level policy discussions. This does impose high demands on the managers of the programme and requires that the competencies necessary for this engagement are available. The experience gained by AusAID could help to define a wider policy, consistent with the programme approach and reinforcing AusAID's capacity to influence policy direction.

NGOs can apply for funds to implement projects focused on poverty alleviation and capacity building through the Cambodia Community Development programme (Australian NGOs) and the Community Development Fund (NGOs, institutions and community organisations), two mechanisms which proved to be an efficient way to support small-scale poverty reduction projects. Different Australian NGOs are also involved in humanitarian projects funded by AusAID. In addition, twelve accredited Australian NGOs have in 2003-04 used the AusAID-NGO Cooperation programme (ANCP) funding for work in Cambodia. As a result, 12-15% of Australian aid in Cambodia goes through NGOs and community organisations. It allows AusAID to support efficient poverty reduction and humanitarian assistance projects, focusing on ownership and capacity building. At the same time, AusAID can benefit from the experience of such initiatives and keep contact with the grassroots level while engaging in a more programmatic approach bilaterally. Future co-operation agreements to be established between AusAID Phnom Penh and accredited NGOs by 2005 should reinforce the strong links established with NGOs, through a process allowing the most effective NGOs to apply in each relevant sector.

Reinforcing policy dialogue and partnerships

Benefiting from the strong political relationship between Australia and Cambodia, which represents a real comparative advantage for Australia, and given the focus on governance issues, AusAID has signalled its intention to further reinforce the focus on policy dialogue. This is necessary in order to allow Australia to raise, beyond technical issues, crucial problems such as corruption, land title or local ownership. While a balanced approach in the policy dialogue and close co-ordination among donors is necessary, Australia could play a leading role in such areas due to its neutral position. AusAID can also benefit from the positive and strong partnership established with a number of NGOs active in humanitarian and development assistance (de-mining, micro-credit, etc).

The strategic position acquired by AusAID in the donor co-ordination process, as well as its technical leadership in agriculture, should be pursued. Two key issues: (i) improving the Technical Working Groups (TWG) framework, by rationalising the overall structure (merging some of the seventeen groups, for instance the two TWGs on Agriculture and Food security), helping to define the final terms of reference in close co-ordination with the government and other donors, and providing appropriate input to support the agriculture technical group; (ii) improving the NPRS monitoring system, by reaching an agreement on core indicators for performance by the donor community, and reviewing the current result frame in the perspective of the second NPRS.

Programme implementation: moving toward a more programmatic approach

Addressing sustainability, ownership and capacity building issues

Several projects face serious sustainability challenges and the impact when Australian assistance ends is a challenge the teams are grappling with (see Box 12 in Chapter 6). Within a more focused sectoral approach, the move toward a more programmatic approach should therefore be deepened and enlarged, helping to tackle the issue of sustainability, ownership and capacity building faced by some projects.

Mainstreaming cross-cutting issues

HIV/AIDS is a crucial issue since the rate of spread of HIV/AIDS in Cambodia is one of the highest in South-East Asia. However, apart from two therapy projects, the reference to HIV/AIDS is weak in the programme. In addition, the focus of the current HIV programme (in the area of treatment) relates to a complex and specialist area, and the absence of a concurrent engagement in the health sector may present particular challenges in terms of oversight and monitoring. It does not address the issue of injecting drug use which is a key factor of transmission in East Asia. Australia can play an important advocacy role in this respect. The new AusAID HIV/AIDS Strategy will present an opportunity for a stronger and more systematic response to HIV across the programme. To oversee such reinforced HIV/AIDS mainstreaming policy in Cambodia will require the appropriate programming instruments and competencies.

Gender: Most projects include a gender component, even if this issue is not fully mainstreamed in the programme. Translating more systematically AusAID's gender strategy within the programme should be a priority for the next development cooperation strategy. This implies AusAID should consider what operational instruments and institutional competencies are required to this end. Gender and HIV/AIDS themes illustrate the importance of developing Cambodia specific strategies linked to AusAID's global policy statements.

Untying of aid: Most aid is currently delivered through Australian organisations (Australian Technical Assistance, scholarships, NGOs and project management contracts), as the recent decision to untie aid to LDCs has not yet had an impact in Cambodia, due to the duration of the on-going contracts. Thus, it is too early to assess the impact of the untying decision, but it will be important to ensure that tender modalities allow an effective and open competition for future contracts. Consideration could be given to help to improve Cambodian expertise in technical assistance, enabling Cambodian companies to successfully bid.

Organisation and management

Reinforcing the decentralisation process and improving the human resources in AusAID Phnom Penh

Deepening the operational devolution of responsibilities: Cambodia is a pilot country as regards the devolution process within AusAID regarding activities directly managed by the post. This operational devolution, which is subject to internal monitoring and review, is appropriate and should be deepened. Significantly, AusAID has more permanent staff in Canberra (four staff) than in Phnom Penh (two A-based staff), which seems to be under-staffed, despite the seven locally engaged professional contractors.

Strengthening core office expertise: The shift toward new modalities of aid, the increased focus on policy dialogue as well as support for the co-ordination process will require a specific investment in human resources, with additional competencies ranging from policy and strategic issues to technical aspects. Transferring two to three posts from long-term technical assistance (or from Canberra) to support policy dialogue in the AusAID office would strengthen its capacity to engage in policy dialogue and to design new programmes. A stronger office would reinforce monitoring the programmes implemented by managing contractors. It would also strengthen AusAID's capacity to support harmonisation as well as policy dialogue. Finally, given the substantial increased demands that are being made on AusAID in Phnom Penh – in the context of a changing programme – there is a need to more clearly define what level/type of support is available from Canberra.

Promoting longer term assignments: The rapid turnover of staff in the Embassy (assigned for two years with a possible additional year), considered valuable in ensuring a constant flow of policy, programme and country knowledge between field and headquarters, may hinder the ability to develop and advance a strategic vision of the programme. Particularly in a complex situation such as Cambodia, time is needed to acquire a good knowledge of the challenges and opportunities, crucial to conduct an effective policy dialogue. Enough time is also important to efficiently monitor the programme implementation, with project durations exceeding three years. The current situation reinforces the position of the managing contractors, who deal with many different persons in AusAID in the course of project implementation. AusAID should consider the impact of longer term assignments on its aid programme effectiveness, especially in the context of enhanced devolution.

Ensuring the support of high quality local staff: Local staff is an important support to monitor programme implementation, and AusAID has been able to recruit skilled experienced personnel. The contractual arrangements could be reviewed to ensure this high quality support remains available in the longer term.

Ensuring the core policy and analytical work inside AusAID

In order to efficiently monitor programme implementation and to conduct policy dialogue with the government as well as co-ordination with other donors, AusAID's office in Phnom Penh is supported by two different entities: i) the Programme Support Unit (PSU), located in the Embassy and directly managed by AusAID first and second secretaries; and ii) the AusAID Cooperation Office, located outside the Embassy, managed by an Australian contractor and focused on the agriculture sector. It covers the Agriculture Activity Management Unit (AMU), in charge of contract management and activity monitoring for the three agriculture projects. It also is in charge of the Agriculture Sector Monitoring Group, which includes the development and monitoring of indicators for the sector. In addition, the AusAID Cooperation Office manages the Technical Assistance Facility (TAF), which aims at providing responsiveness and flexibility in programme implementation by recruiting experts for short term assignments (2/3 months). This mechanism helps to fill gaps by responding to requests for high level advisory services and specialist training to key Cambodian government agencies. In this complex of inter-related units it is important that policy and analytical work not be delegated outside AusAID staff hands, hence the AAMU should be limited to activity management.[24]

24. From a practical point of view, the relationship between the PSU and AAMU/TAF should also be clarified, regarding the functions of the Senior Programme Officer in charge of agriculture within the PSU, and of the PSU's Manager, in charge of AAMU/TAF's management.

Improving monitoring and impact evaluation systems

Monitoring and evaluation*:* a joint desk-post Work Plan was established in 2004 incorporating the Country Portfolio Risk Assessment and Monitoring Plan. It remains necessary to reinforce the performance benchmark frameworks in each sector and particularly in the law and justice sector. This should include the monitoring of the change processes underway in AusAID, with a management indicators section. A Management Review Group was set up by AusAID to this end. The programme is currently evaluated on an on-going basis, with detailed assessments as part of the mid-term review and the preparation of the new strategy. It will be useful to conduct evaluations of the programme's impact on poverty reduction and its contribution to national development objectives, and to ensure that the evaluation findings help inform the programming strategy.

PRESS RELEASE OF THE DAC PEER REVIEW OF AUSTRALIA

AUSTRALIA TACKLES INSTABILITY AND POVERTY IN THE ASIA-PACIFIC REGION AND IS URGED TO DO MORE

Australia has made significant advances since the last Peer Review in 1999 in adapting to the new challenges faced by the Asia-Pacific region. Australia's geographic location provides a particular challenge in terms of the number and the proximity of countries afflicted by poverty, deficient governance and political instability. The OECD Development Assistance Committee (DAC) recognises Australia's leading role in its neighbouring region, particularly in HIV/AIDS, approaches to fragile states and peace building and conflict resolution.

Australia's net official development assistance (ODA) was USD 1.2 billion in 2003, or 0.25% of its Gross National Income, putting its aid efforts in 13th place out of 22 DAC members in terms of ODA/GNI. Australia has enjoyed more than a decade of economic growth, above the OECD average. Yet its ODA/GNI ratio has stagnated. Meanwhile, the assistance needs of its partners have increased and Australia has an ambitious agenda for involvement in Indonesia, Solomon Islands, Papua New Guinea, Timor-Leste and countries of the South Pacific region. The DAC recommends that Australia now increase the percentage of its GNI going to aid and announce medium and long-term targets for meeting its commitment to the 0.7% ODA/GNI international objective.

Australia's development objective is "to advance Australia's national interest by assisting developing countries to reduce poverty and achieve sustainable development". Australia is increasingly stressing good governance in order to ensure the political stability and security necessary for economic growth and poverty reduction in the Asia-Pacific region. At the same time, poverty reduction should remain the key reference point in designing effective development assistance programmes, along with the Millennium Development Goals (MDGs). The DAC recommends that Australia highlight the relationship between poverty reduction, and governance, security, and the whole-of-government approach in its future policy statements, aid programming and country operations. Poverty reduction efforts and cross-cutting priorities should also be closely monitored and evaluated.

Australia's willingness to stay engaged in conflict situations and fragile environments is welcome and has wider interest for the development community. The new hands-on approach carries both opportunities and risks. The DAC welcomes Australia's assurance of long-term engagement and stresses the importance of sustainability and capacity building in partner countries not least through progressively transferring responsibilities to national officials and strengthening local accountability mechanisms.

Australia's development objectives include coherence between its aid, foreign, trade and agriculture policies, underpinned by a whole-of-government strategy to improve co-ordination across the Australian government. The DAC commends this effort. To ensure that the whole-of-government approach is an important contributor to aid effectiveness, the DAC encourages AusAID to continue to play a pro-active role in wider government decision making on development issues.

The DAC notes that AusAID is changing its approach to aid delivery. The DAC recognises AusAID's movement towards harmonisation and alignment, including practical examples of delegated co-operation and joint strategies, and encourages the move toward a more programmatic approach. The role and significant share of external technical assistance as well as AusAID's high reliance on external contractors should be carefully analysed against aid effectiveness principles, ownership and capacity building. Aid effectiveness would be enhanced by further untying.

While moving toward decentralisation, AusAID needs to continue to clarify the respective roles of Canberra and the field offices and to increase delegation to the field. Appropriate human resources, policy adjustments, strengthened communication, and support to the field will be needed in this respect, as will adequate numbers of staff with the necessary technical skills

AusAID has adopted a systematic approach to assessing and funding multilateral organisations and is encouraged to continue improving the quality of its multilateral assessment framework. There has been a decline in the relative share of multilateral aid in its programme. It may be opportune for AusAID to take a strategic view of the future medium-term balance between bilateral and multilateral channels.

The DAC commends Australia's new policy on humanitarian action and its commitment to the Principles and Good Practice of Humanitarian Donorship (GHD), endorsed in 2003. Australia supports humanitarian action particularly in the Asia-Pacific region, helping build capacity to reduce vulnerability to natural disasters and targeting emergencies and is seeking to attract broader international attention to the region. Australia's long-term engagement and commitment in complex emergencies in the region are encouraged, linking humanitarian assistance and development co-operation. When increasing its aid volume, Australia should also consider increasing its support for humanitarian action in line with its policy and consistent with its needs-based approach.

The DAC Peer Review of Australia's development co-operation policies and programmes took place on 14 December 2004. The discussion was led by the DAC Chair Mr. Richard Manning. The Australian Delegation was headed by Mr. Bruce Davis, Director-General of AusAID. The examiners for the Peer Review were Ireland and the United Kingdom.

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.

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

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

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

DAC LIST OF AID RECIPIENTS: The DAC uses a two-part List of Aid Recipients which it revises from time to time. Part I of the List comprises developing countries (eligible to receive official development assistance). It is presented in the following categories (the word "countries" includes territories):

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

Other LICs: Other Low-Income Countries. Includes all non-LDC countries with per capita GNP less than USD 760 in 1998 (World Bank Atlas basis).

LMICs: Lower Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 761 and USD 3 030 in 1998. LDCs which are also LMICs are only shown as LDCs – not as LMICs.

UMICs: Upper Middle-Income Countries, *i.e.* with GNP per capita (Atlas basis) between USD 3 031 and USD 9 360 in 1998.

HICs: High-Income Countries, *i.e.* with GNP per capita (Atlas basis) more than USD 9 360 in 1998.

Part II of the List comprises "Countries in Transition"; assistance to these countries is counted separately as “official aid”. 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 (OR RESTRUCTURING): Any action officially agreed between creditor and debtor that alters the terms previously established for repayment. This may include forgiveness, rescheduling or refinancing.

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

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

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

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

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

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

OFFICIAL AID (OA): 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%).

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

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

TECHNICAL CO-OPERATION: Includes both (i) grants to nationals of aid 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 aid recipient countries.

VOLUME (real terms): 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. These data show the value of aid in terms of the domestic purchasing power of a US dollar in the year specified.

BIBLIOGRAPHY

ACFID (Australian Council for International Development) (2002), *Research Report for the ACFOA Strategy on Quality*, Canberra.

ACFID (2004a), *Annual Report 2004*, Canberra.

ACFID (2004b), "Submission to DAC Peer Review of Australia", 16 September 2004, www.acfid.asn.au.

ANAO (Australian National Audit Office) (2002), *Audit Report AusAID contract management*, Canberra.

AusAID (1997a), *BetterAaid for Better Future. Seventh Annual Report to Parliament on Australia's Overseas Aid Program and the Government's Response to the Committee of Review of Australia's Overseas Aid Program*, The Hon Alexander Downer MP, Minister for Foreign Affairs, Canberra.

AusAID (1997b), *Gender and Development – Australia's Aid Commitment*, AusAID, Canberra.

AusAID (2000), *Good governance: Guiding principles for implementation*, AusAID, Canberra.

AusAID (2001a), *AusAID Strategic Plan- Improving Effectiveness in a Changing Environment*, AusAID, Canberra.

AusAID (2001b), *Reducing Poverty. The Central Integrating Factor of Australia's Aid Program*, AusAID, Canberra.

AusAID & New Zealand MFAT (2001c), *Harmonising Donor Policies & Practices in the Pacific – Report of the joint Australia – New Zealand Project*, AusAID, Canberra.

AusAID (2002a), *Australian Aid: Investing in Growth, Stability and Prosperity*: *Eleventh Statement to Parliament on Australia's Development Cooperation Program*, The Hon. Alexander Downer MP, Minister for Foreign Affairs, AusAID, Canberra.

AusAID (2002b), *Global perspectives – A statement on global education for Australian schools*, AusAID, Canberra.

AusAID (2002c), *Gender and development. GAD lessons and challenges for the Australian aid program*, AusAID, Canberra.

AusAID (2002d), *Peace, Conflict and Development Policy*, AusAID, Canberra.

AusAID (2002e), *Review of Cofinancing in the Australian Aid Program*, Evaluation and Review Series, No. 31, AusAID, Canberra.

AusAID (2002f), *People management strategy* (2002-2006), AusAID, Canberra.

AusAID (2002g), *Vietnam – Australia Development Cooperation Program – Australian Development Scholarships Review*, AusAID, Canberra.

AusAID (2003a), *Counter-terrorism and Australian Aid*, AusAID, Canberra.

AusAID (2003b), *Australia-Cambodia Development Co-operation Strategy 2003-06*, AusAID, Canberra.

AusAID (2003c) *Economic governance and the Asian crisis – an evaluation of the Australian aid program response*, Quality Assurance Series, No. 30, AusAID, Canberra.

AusAID (2003d), *Performance Information Framework, Reference Guide*, AusAID, Canberra.

AusAID (2003e), *Environmental Management Guide for Australia's Aid Program*, AusAID, Canberra.

AusAID (2003f), *Guidance on using the Results Framework approach for Program Strategies and Performance Frameworks*, AusAID, Canberra.

AusAID (2003g), *Mobility in AusAID 2003 Report – Work in progress*, AusAID, Canberra.

AusAID (2003h), *Papua New Guinea and the Pacific – A Development Perspective*, AusAID, Canberra.

AusAID (2003i), *Twelfth annual statement to Parliament on Australia's Development Cooperation Program*, The Hon. Alexander Downer MP, Minister for Foreign Affairs, Canberra.

AusAID (2004a), *Peer Review of Australia's Development Cooperation Program – Memorandum to the Development Assistance Committee*, AusAID, Canberra.

AusAID (2004b), *Draft Public Affairs Strategy 2005 – 2007*, AusAID, Canberra.

AusAID (2004c), "Governance in PNG – A cluster evaluation of three public sector reform activities", *Evaluation and Review Series*, No. 35, AusAID, Canberra.

AusAID (2004d), *Guidelines for Strengthening Counter-Terrorism Measures in the Australian Aid Program*, AusAID, Canberra.

AusAID (2004e), *Organisational change in AusAID, Key message from the Executive*, AusAID, Canberra.

AusAID (2004f), *Donor Harmonization Action Plan Australia*, AusAID, Canberra.

AusAID (2004g), *Humanitarian Action Policy (draft)*, AusAID, Canberra.

AusAID (2004h), *Australian Development Scholarships, Information for intakes commencing 2005*, AusAID, Canberra.

AusAID (2004i), *Contracting out – Contracting for Australian aid*, June 2004, AusAID, Canberra.

AusAID (2004j), *Australian Aid Program: Food Security Strategy*, AusAID, Canberra.

AusAID (2004k), *Meeting the challenge: Australia's international HIV/AIDS Strategy*, July 2004, AusAID, Canberra.

AusAID (2004l), *Policy Coherence for Development – An Australian Approach (draft)*, August 2004, AusAID, Canberra.

AusAID (2002 - 2004), *Focus: The magazine of Australia's overseas aid program*; Vol. 17, No. 3, Summer 2002/03; Vol. 18, No. 1, Autumn 2003; Vol. 18, No. 2, Winter 2003; Vol. 18, No. 3, Spring 2003; Vol. 18, No. 4, Summer 2003; Vol. 19, No. 1, May 2004.

Commonwealth of Australia (2000), *Australia's Overseas Aid Program* 2000-01, Canberra.

Commonwealth of Australia (2001), *Australia's Overseas Aid Program 2001-02*, Canberra.

Commonwealth of Australia (2002), *Australia's Overseas Aid Program 2002-03*, Canberra.

Commonwealth of Australia (2003), *Australia's International Development Cooperation Program 2003-04*, Canberra.

Commonwealth of Australia (2004), *Australia's International Development Cooperation Program 2004-05*, MFA, Canberra.

Chapman, R. (2004), "Investing in aid effectiveness: the context and challenges for Australian NGOs", *Development Bulletin* No. 65, Development Studies Network, Canberra.

Davis, B. (2003), "Statement to the Senate Foreign Affairs and Trade Committee Inquiry into PNG and the Islands States of the Southwest Pacific", MFA, Canberra.

Department of Foreign Affairs and Trade (2003a), *Advancing the National Interest – Australia's Foreign and Trade Policy White Paper*, DFAT, Canberra.

Development Studies Network (2004), "Gender and Development", *Development Bulletin*, No. 64, Development Studies Network, Canberra.

Dinnen, S. (2004), "Aid effectiveness and Australia's new interventionism in the Southwest Pacific", *Development Bulletin* No. 65, Development Studies Network, Canberra..

Gallus, C., Parliamentary Secretary to the Minister for Foreign Affairs (2004), "Effective aid: a whole of government approach", *Development Bulletin* No. 65, pp. 5-10, Development Studies Network, Canberra.

Hughes, H. (2004), "Can Papua New Guinea come back from the brink?", *Issue Analysis*, No. 49, Center for Independent Studies, St Leonards, www.cis.org.au.

Kelly, L. (2004), "A new framework for NGO effectiveness", *Development Bulletin*, No. 65, Development Studies Network, Canberra.

Management Advisory Committee (2004), *Connecting Government, Whole of Government Responses to Australia Priority Challenges*, Australian Public Service Commission, Canberra.

O'Keeffe, A. (2004), "Developing effective aid delivery frameworks within policy parameters", *Development Bulletin*, No. 65, Development Studies Network, Canberra.

OECD/DAC (2000), *Development Cooperation Review, Australia*, Pre-print of the DAC Journal, Vol. 1, No. 2, OECD, Paris.

OECD/DAC (2001), *The DAC Guidelines: Poverty Reduction*, OECD, Paris.

OECD/DAC (2003), *Harmonising Donor Practices for Effective Aid Delivery*, DAC guidelines and reference series, OECD, Paris.

OECD/Development Centre Studies (2003), *Public Opinion and the Fight against Poverty*, OECD, Paris.

OECD (2004), *The OECD in Figures*, The OECD observer 2004/Supplement 1, Paris.

OECD/DAC (2004b), *Development Cooperation – 2003 Report*, The DAC Journal, Vol. 5, No. 1, OECD, Paris.

OECD/DAC (2005), *Food aid and the effects of its tying status*, OECD, Paris (forthcoming).

Pacific Islands Forum Secretariat (2003), *Regional workshop on donor harmonization*, Nadi, Fiji.

Siddiqui, F., C. Strickler and P. Vinde (2004), "Capacity building practices of Cambodia's development partners", Results of a survey, *Discussion paper*, Phnom Penh.

Sok, H. (2004), *Cambodia's Economic Development in the Integration process: Lessons Learned and Policy Implications for the Future*, Annual Bank Conference on Development Economics-Europe, Brussels.

UN (United Nations) (2004), *Humanitarian Appeal 2004 : Consolidated Appeals Process*, New York.

Windybank, S. and M. Manning (2003), "Papua New Guinea on the brink", *Issue Analysis* No. 30, Center for Independent Studies, St Leonards, www.cis.org.au.

World Bank (1999), "Civil Service Reform: a review of World Bank assistance", *Sector Study* No. 19599, Operations Evaluation Department, Washington.

THE DEVELOPMENT ASSISTANCE COMMITTEE

PEER REVIEW SERIES

HOW TO CONTACT US

The Development Assistance Committee welcomes your comments and suggestions.

Please contact us

by email at dac.contact@oecd.org, www.oecd.org/bookshop, by telefax at 33 1 44 30 61 40
or by mail to:

Organisation for Economic Co-operation and Development
Development Co-operation Directorate
Communications and Management Support Unit
2, rue André-Pascal
75775 Paris Cedex 16
France

WORLD WIDE WEB SITE
http://www.oecd.org/dac