



BENCHMARKING AGAINST PROGRESS: AN ASSESSMENT OF AUSTRALIA'S AID EFFECTIVENESS

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INTRODUCTION

Is Australia's aid program effective? Measuring the effectiveness of aid is no easy feat. For a start, there is uncertainty about what aid is trying to achieve. Even seemingly straightforward objectives, like poverty reduction, throw up a range of questions as to what precisely ought to be measured. For instance, how should one balance the provision of temporary relief to those in need with catalyzing permanent transformation in people's lives (Barder, 2009)? Second, it is notoriously difficult to isolate the effect of a single aid program from other factors. Aid is delivered in an environment of enormous complexity where all manner of other events shape outcomes, including actions by recipient governments, aid from other countries, non-aid flows, and the performance of the global economy. To accurately attribute impact to aid therefore requires a thorough understanding of the setting in which aid is given. Third, the effects of aid are not always immediate or straightforward. For instance, improvements in people's skills or the performance of institutions may manifest gradually. Measurements of what aid achieves must be sensitive to the different ways change is brought about (Woolcock et al., 2009).

A solution is to focus on Australia's *approach* to giving aid and see how it stacks up against international best practice. International best practice is defined here by what is known to work well in aid, either because it has been demonstrated through research, identified by aid recipients, or agreed through consensus within the aid community. The latter is captured in the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action—two statements of intent by ministers of developed and developing countries and heads of donor agencies, pledging improvements in the way aid is managed and delivered. As a member of the Organization for Economic Cooperation and Development's Development Assistance Committee (OECD DAC), Australia is a signatory to both agreements.

While adherence with best practice principles cannot guarantee that Australia's aid will always deliver its intended results, it increases the likelihood that those results will be achieved. And unlike the results of aid, adherence to best practice is fully within Australia's control. Australia's performance against best practice standards therefore serves as a touchstone of its commitment to greater aid effectiveness.

Introducing QuODA

A useful tool to assess Australia's aid program is the Quality of Official Development Assistance (QuODA) assessment, developed jointly by the Brookings Institution and the Center for Global Development (Birdsall and Kharas, 2010; Birdsall et al., 2011).¹ QuODA appraises donor performance along four separate dimensions, each representing distinct components of best aid practice: maximizing efficiency, fostering institutions, reducing the burden on recipients, and promoting transparency and learning. Each dimension is comprised of a collection of indicators against which donor countries are scored. Examining performance against the four different dimensions provides a basis for identifying donors' strengths, weaknesses and areas for reform. The recent release of the 2011 QuODA update provides an opportunity to assess Australia's aid effectiveness based on the latest available evidence.

QuODA is used to assess Australia's aid program in three ways. First, the aid program is appraised on its own based on Australia's performance on the different dimensions and indicators. These results are then corroborated using other performance indexes. Second, Australia is judged against a "benchmark" donor of equivalent size, which is involved in similar development work. Third, other donor countries and multilateral agencies active in Australia's region are assessed. These are donors with whom Australia has the option to partner or to delegate the delivery of its aid, and whose performance is therefore also relevant to assessing how effectively Australia's aid budget is spent.

A Fragile States Lens

To help shape the analysis, particular attention is paid to the role Australia plays in providing assistance to fragile states. The term "fragility" captures a range of different country conditions, but in each case there is a failure of the state to perform some of its most

Box 1: Using QuODA and Other Donor Rankings

QuODA is a valuable tool for helping Australia assess the effectiveness of its approach to giving aid, rank its performance alongside those of other donors, and monitor improvements in its approach over time. Nevertheless, like any other tools of its kind, QuODA has its limitations which are important to recognize when using it to form judgments.

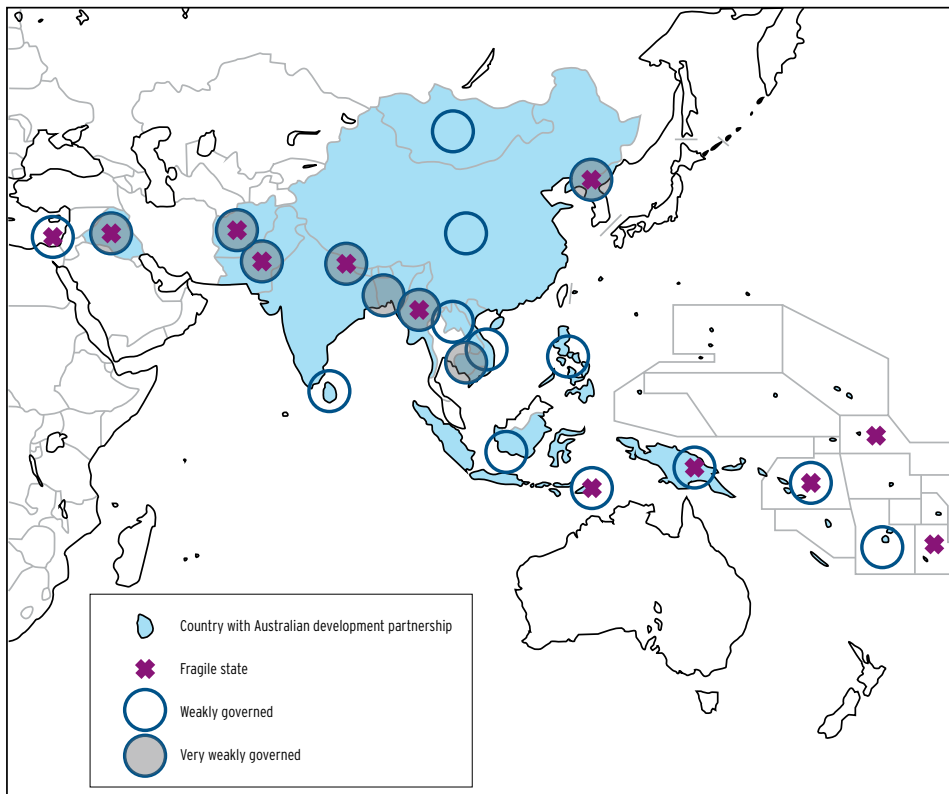
Lags incurred in the collection of data mean that the information used in the 2011 version of QuODA refers to 2009 and 2010—the most recent period for which there exists a full set of global aid data. Australia's aid program, like that of other donors, continues to evolve and the QuODA rankings will not pick up the most recent changes. Where these changes are known, they are commented on in this paper. Furthermore, some indicators used in QuODA are more reliable than others, and some aspects of aid management and delivery which are important to effectiveness are not picked up by QuODA due to the absence of comparable data.²

To mitigate these limitations and to verify QuODA findings, scores are corroborated with those of other indexes, and supplemented with information from other sources, where appropriate.

basic functions, due either to a lack of political will, capacity, or a combination of the two, creating significant challenges for development. These failures are typically observed in terms of one or more persistent deficiencies of the state: its authority, its legitimacy as perceived by the country's citizens, or its provision of services (Stewart and Brown, 2010).

Australia's focus on fragile states is a defining feature of its aid program: 50 percent of its aid goes to countries that are considered fragile.³ This focus on fragile states is a reflection of Australia's region where fragility is commonplace. Among the countries that are not fragile, many still face related challenges associated with weak governance (Figure 1).

Figure 1: Characteristics of Australia's Development Partners



Source: Author's calculations⁴

Why is fragility important to this analysis? It is broadly recognized that promoting development is much harder in fragile states than in other countries. The reason for this is straightforward: governments cannot be relied upon to support the development process in fragile states, and in some instances may serve to undermine economic and social progress. This has important implications for aid. Aid delivery tends to be both a more costly and more complex task in fragile settings. Part of the complexity lies in understanding how to apply good practice aid principles. While the principles of effective aid remain just as relevant in fragile states, they cannot always be implemented in the same way as they can in other countries (Chandy, 2011).

While delivering aid in fragile states—and doing so effectively—undoubtedly presents a challenge, many donor countries are tasked to do exactly that. Australia's region obliges it to take on this type of work. Furthermore, there is a growing consensus within the development community that helping fragile states represents one of the core challenges of global development both now and in the future. Helping fragile states has become inseparable from a commitment to fighting poverty reduction, achieving the Millennium Development Goals (MDGs), and assisting low-income countries:

- *Fragile states account for a growing share of the world's poor. As global poverty levels fall, driven by progress in more stable developing*

countries, the share of the world's poor living in fragile states has doubled from 20 percent in 2005 to 40 percent today. More than half the world's poor are expected to live in fragile states by 2015 (Chandy and Gertz, 2011).

- *No fragile country has yet achieved a single MDG.* Fragile states are home to half of all children not in primary school and half of all children who die before reaching their fifth birthday (DFID, 2009). The remarkable success of many stable developing countries in achieving the MDGs has drawn attention to the lagging performance of fragile states.
- *Two-thirds of low-income countries are fragile.* The past decade has seen a wave of 30 (mostly stable) countries graduate out of low-income status. Of the 35 countries still classified as low-income, less than a dozen are stable.

Understanding how to deliver aid effectively in fragile states is, therefore, a vital question for the aid community over the coming years and one Australia can help to answer.

Context

This paper does not attempt to provide a general overview to the Australian aid program. However,

there are two aspects of the program that provide an important backdrop to this analysis.

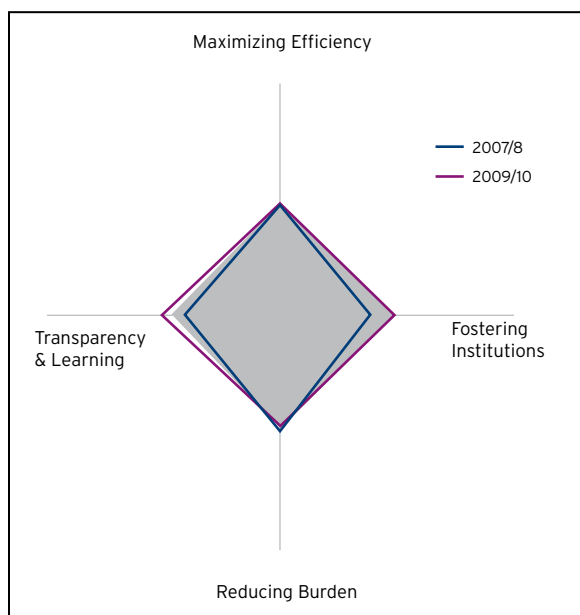
First, the Australian government has pledged to increase the volume of Australian aid to reach 0.5 percent of Gross National Income by 2015/16. This will result in a likely doubling of the aid budget from 2010, and position Australia as the sixth largest bilateral donor in the OECD. A large increase in the size of the aid budget creates both opportunities and risks for effectiveness, which are discussed in the paper.

Second, in November 2010, the Australian government commissioned an independent review of Australia's aid effectiveness. The review, together with the government's response, were published in July 2011 (Holloway et al., 2011; Commonwealth of Australia, 2011). Of the review's 39 recommendations, the government has agreed to 38. This means that the Australian aid program is expected to undergo significant reforms in the period ahead. Recommendations and reforms that are relevant to the QuODA analysis are referenced throughout this paper.

ASSESSING AUSTRALIA'S AID PROGRAM

Figure 2 illustrates QuODA's assessment of the Australian aid program in the form of a diamond on the four dimensions of good aid practice. Australia's latest performance is depicted by the purple diamond, while its performance from 2007-8 is depicted by the blue diamond.⁵ The perimeter of the grey symmetrical box gives the average donor performance. Where Australia's purple diamond lies outside the grey box, Australia scores better than average; and where it falls inside the grey box, it scores below average.

Figure 2: QuODA Assessment of the Australian Aid Program



Source: Birdsall et al., 2011

The purple diamond shows that Australia performs close to average along each of the four dimensions: marginally better than average on fostering institutions and promoting transparency and learning, and marginally below average on maximizing efficiency and reducing burden. Australia's ratings have sig-

nificantly improved between the two QuODA assessments on two of the dimensions: fostering institutions and transparency and learning. These are the two dimensions in which overall performance across the aid community has recorded a statistically significant improvement. This suggests that Australia's aid program is becoming more effective over time, both on an absolute measure and relative to other donors.

Australia's aggregate scores for each dimension mask a much more varied performance at the indicator level, in which its ratings are far from uniform and often stand in contrast to the average for other donors. The following section pays closer attention to the story behind Australia's performance in each of the four dimensions and the factors driving its strengths and weaknesses compared with good donor practice.

Box 2: Scores, Ranks and Distance from Average—What Matters?

In this paper, Australia's performance on the various QuODA indicators is described at times in terms of an absolute score, at other times in terms of the country's ranking among donors, but mostly in terms of its position relative to the average for all donors. Each of these perspectives can provide unique insights. However, a focus on Australia's performance relative to the donor average has particular advantages: First, it implicitly demonstrates where Australia should be able to improve its performance, based on what other donors have shown to be possible; second, it allows a comparison of donors' fulfillment of the global aid effectiveness agenda, to which each of the OECD DAC donors has subscribed; and third, it makes full use of the richness of the data provided by QuODA.

Maximizing Efficiency

The maximizing efficiency dimension attempts to measure the development "bang for the buck" spent

Box 3: Value for Money in Fragile States

Achieving and sustaining development successes is understood to be a more difficult process in fragile states and costs are inevitably incurred in managing the risk of operating in such environments. On the surface, this makes Australia's commitment to support fragile states appear incompatible with calls for greater value for money in aid. How can the two be reconciled?

In recent years, there has been growing recognition that aiding fragile states can play an important role in stemming the risk and escalation of crises. From a whole of government perspective, this can reduce the likelihood of more expensive forms of foreign intervention which conflict, state collapse and humanitarian disasters can oblige. Similarly, concerns over the negative external effects associated with fragility, conflict and state failure can be mitigated when aid is used as a preventative tool.

However, the case for value for money does not end with the decision to engage in fragile states. There are many ways Australia can achieve greater value for money through its existing aid programs in these settings.

First, a precondition for securing value for money is a clear understanding of what has been achieved and at what cost. This means maintaining a clear focus on results in aid programming, and carrying out regular

and rigorous evaluations to understand aid's impact. A focus on results need not imply short-termism or the narrow pursuit of quick wins, but rather designing interventions around a theory of change and the timeframes within which change is likely to occur.

Second, value for money means recognizing the trade-offs implicit in all aid allocations. Aid successes in fragile states may be less common than in other environments, but their impact can be transformative when they occur, as evidenced by Australia's pivotal role in securing post-conflict stabilization in the Solomon Islands and East Timor. Other allocation decisions should be more straightforward, such as scaling up what works and ending what doesn't. Here, Australia needs to make the right decisions and be ready to act quickly.

Third, in recognition of the limited scale of its aid program, Australia needs to think about how its aid dollars can best be leveraged. In most of the fragile states where Australia works, its aid budget is only a small fraction of the resources controlled by the government, and the broader set of resources committed to development efforts. Through partnering with others, Australia's aid can combine these resources with its own to achieve the same goals, whether by securing counterpart funding from governments, supporting the work of NGOs, or encouraging the role of the private sector.

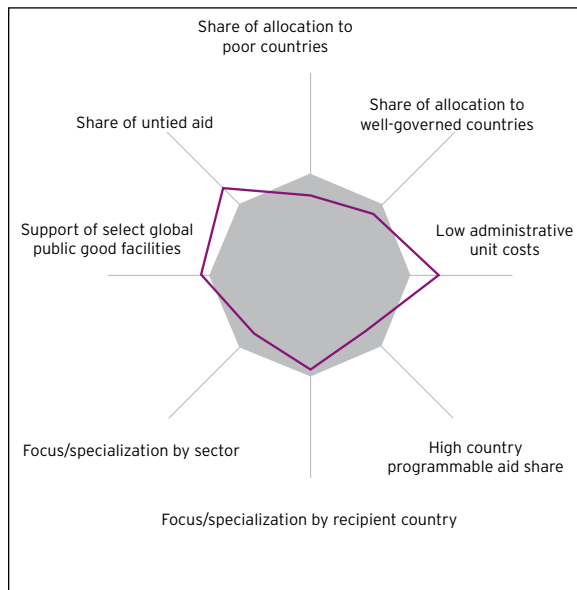
on foreign aid. This focuses on the link between development assistance and poverty-reducing growth and how this link can be strengthened. The efficiency of aid can be increased by directing aid to the right countries, by ensuring that aid dollars translate into development activities on the ground, and by having donors specialize in areas that reflect their particular strengths and know-how. Calls for greater efficiency resonate in today's global economic climate, when many OECD countries are facing difficult fiscal conditions. This has prompted commitments by many donors to extract greater value for money from their

existing aid budgets (Box 3). Value for money is often associated narrowly with the need to minimize the costs of aid management, but it equally concerns focusing aid on what works.

Figure 3 illustrates Australia's rating on the different indicators that make up the maximizing efficiency dimension. It identifies a number of areas where Australia performs well. One area where Australia scores particularly highly is in keeping its administrative costs low, thereby freeing up resources for development activities.⁶ Its administrative costs are

only seven percent of the size of funds it commits to development projects and programs in partner countries; for other donors such as Switzerland, Finland and Austria, administrative costs are three times this share. Given Australia's focus on fragile states, where aid management is expected to be more costly, this is a surprising result. While the need to reduce administrative overheads remains a critical issue for some donors, Australia's focus should be on how its approach to administering aid should adjust given the expected growth in its aid program over the next five years, to ensure these new funds are spent effectively.

Figure 3: QuODA Assessment of Australia—Maximizing Efficiency



Source: Birdsall et al., 2011

Another area of strength is Australia's commitment to international competitive procurement for the suppliers of goods and services used in aid delivery. Since April 2006, all of Australia's aid has been "untied" in this way, enabling Australia to secure lower prices for the aid it provides.⁷ The Australian Government issued

1,954 new procurement contracts during the 2009-10 financial year with a total value of approximately \$798 million. Based on international estimates, untying these contracts may have saved between \$120 million and \$240 million—funds which were freed up to be spent on other development activities (Jepma, 1991).⁸

An additional aspect of the efficiency of Australia's aid program is its support to facilities that provide global public goods necessary to fight poverty. These are goods that are blind to national borders, and whose provision tends to be under-supplied in the absence of effective international cooperation. Australia supports a number of global public good facilities, including UN Peacekeeping, the Global Environment Facility and the Extractive Industries Transparency Initiative, and punches marginally above its weight within the donor community, given the size of its resources. This is consistent with its commitment to good international citizenship. As its aid program increases in size, Australia should not feel obliged to support each and every initiative of this kind. Rather, Australia should choose which initiatives align most closely with its priorities and complement the remainder of its aid program, thereby adding to its effectiveness.

One area where Australia has shown leadership and foresight is its decision to provide multi-year funding to the World Food Program (WFP), providing it with greater flexibility to purchase larger quantities of food when prices are low, to reduce the need for large in-country stocks, and to allow for more timely delivery to people affected by conflict, floods or other natural disasters. This support, the first of its kind by the WFP's donors, is helping the institution mitigate the effects of volatile food prices on the poor (Ramachandran et al., 2010). Australia should look to build on this type of exemplary leadership in the future.

There are other areas on this dimension where Australia could look to improve. Despite Australia's low administrative costs, only 28 percent of its total aid budget counts as Country Programmable Aid, meaning it directly supports development projects and programs in partner countries. The remainder either does not involve transfers to partner countries (such as debt relief, scholarships and the provision of foreign advisers), or are responses to emergencies (food aid, humanitarian aid). Australia's performance on this indicator is close to the average for a bilateral donor, but is far behind that of multilateral agencies which devote a much larger share of their aid dollars to development projects and programs on the ground. The Global Fund, for instance, is able to translate 100 percent of its aid budget to tangible development activities. One of the reasons for Australia's relatively low score on this measure is the prominent role external advisers play in its aid program. A recent Joint Adviser Review and Adviser Remuneration Review indicate that advisers will be relied upon much less in the future, while continuing to play a valued role in particular areas of the aid program, and that steps are being taken to reduce unit labor costs (AusAID, 2011a; AusAID, 2011b). The former review is expected to eliminate a quarter of the adviser positions funded through Australia's aid program over the next two years. Australia's score on this indicator can therefore be expected to improve.

Another area for improvement is the degree to which Australia specializes in sectors in which it can develop and harness its comparative advantage as a donor. Australia is already recognized for its pioneering work on particular development issues, such as law and justice (Kaufmann, 2010; Murphy and Gramckow, 2010). However, rather than limiting its work to its established areas of expertise, Australia spreads its assistance across a broad selection of other areas that include health and water, education and skills, infrastructure

and private sector development, climate and disaster management, governance and democracy, and agriculture, among others. Part of the explanation for this is the role Australia plays as the overwhelming lead donor in many of the Pacific Islands. While there are definite advantages to an aid recipient in having a single or dominant donor with whom it can work—relationships of this kind have been identified as an important factor in the success of foreign aid to South Korea, Taiwan and Botswana (Brautigam, 2000; Azam et al., 1999; Kharas et al., 2010)—such relationships encourage donors to become involved in activities in which they have little track record or in-house expertise, using up resources which could instead be spent providing assistance in an area of strength. Over the past year, Australia has taken steps to narrow the spread of its aid program in certain countries—Vanuatu provides one example where this has been done effectively (AusAID, 2010b). However, more could be done to foster Australia's existing areas of comparative advantage and to give them greater prominence within Australia's aid program. This will be particularly important as Australia's aid program grows when the instinct will be to expand program objectives, thereby reducing the degree of focus.

Finally, Australia's score on the maximizing efficiency dimension is brought down by the country selectivity of its aid program. While other donors score strongly for targeting their aid only at countries that are both well governed and are very poor, where aid has proven to be most effective, Australia's recipients include those that are weakly governed and a number of middle income countries. Given Australia's commitment to the countries in its immediate region, this is not an indicator on which it can expect to improve significantly. However, it is a reminder of the added challenge Australia faces in delivering its aid effectively, and the importance of adhering to effectiveness principles in the complex environments in which it works.

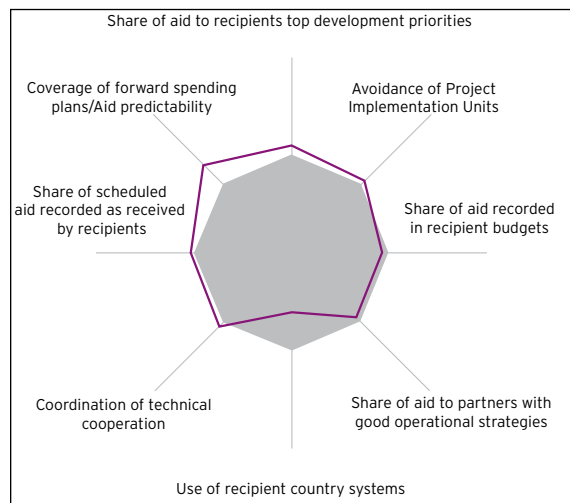
Fostering Institutions

Institutions are the building blocks of developed states. The indicators that comprise this dimension are all concerned with how aid can be delivered in a manner that reaffirms and reinforces the role of local institutions in recipient countries.

There are two particular motivations behind this focus on institutions and aid. First, a large share of foreign aid is concerned with providing goods and services to people in poor countries, which means inhabiting the role normally expected of governments or other local institutions. It is therefore important that, wherever possible, donors deliver their aid through these bodies to help them fulfill their rightful role, rather than duplicating their role and in the process undermining their purpose. Second, it is broadly recognized that for aid to be effective, recipients must share a sense of ownership over the projects and programs aid delivers, and attention should be given to how the impact of these interventions can be sustained beyond the duration of external funding. Recipient institutions are critical to both of these objectives; ownership can be engendered through delivering aid through local institutions, and those same institutions provide the best chance of sustaining activities and learning.

The challenge comes in countries where institutions either are chronically weak, which makes the task of working through these institutions slow and difficult, or lack integrity, which exposes aid to the risk of corruption. These problems are a defining feature of many fragile states. In these instances, donors, such as Australia, face a tough call in determining whether it is feasible to work with recipient institutions or not. A key question in assessing Australia's performance on this dimension is whether Australia is making the right calls, and is doing everything it can to support recipient institutions given the country circumstances in which its aid program operates.

Figure 4: QuODA Assessment of Australia—Fostering Institutions



Source: Birdsall et al., 2011

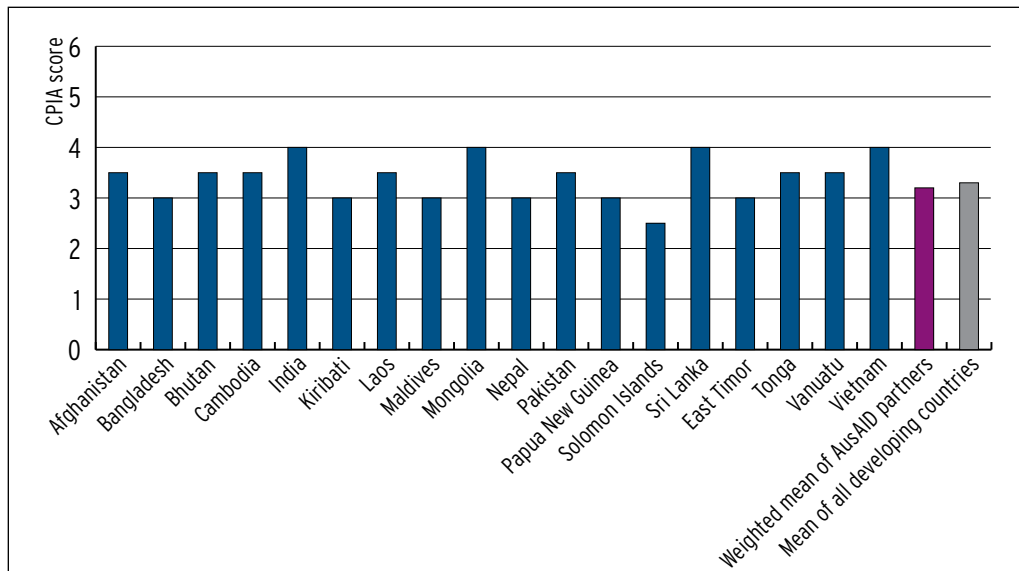
Figure 4 depicts Australia's performance on the different indicators that make up this dimension. The OECD DAC's Principles for Good International Engagement in Fragile States and Situations provide a useful resource for identifying which areas are most important for examining Australia's performance on this dimension (OECD DAC, 2007). On working through recipient institutions, the OECD DAC encourages donors to take the context as a starting point and to do no harm, which means judging country's institutions on their own merits and avoiding inadvertently weakening state capacity, respectively. Donors are also encouraged to increase the predictability of their aid, including over the medium term, to demonstrate their support for the gradual process of institutional development and to help institution's plan into the future. Finally, the OECD DAC recommends that donors move away from piecemeal approaches to capacity development, instead investing in shared assessments and responses to critical capacity gaps, working jointly with national stakeholders (OECD DAC, 2010b).

Three of the indicators in this dimension directly assess the extent to which Australia works through recipient institutions. Australia does well to limit its establishment of standalone bureaucratic entities, known as Project Implementation Units (PIUs), to execute its projects. This is commendable since PIUs are known for having a particularly pernicious effect on recipient bureaucracies and their capacity. Australia performs close to average for the proportion of its aid commitments recorded on recipient country budgets. Australia's mark of 48 per cent is significantly above the 30 per cent attained on the previous QuODA assessment, but remains far from perfect. It is unclear here whether the fault lies with Australia, in failing to furnish its aid data in a timely and easily interpreted manner, or with recipient countries, in failing to accurately assemble their budget documents. Regardless of the cause, Australia incurs no risk in having its aid recorded on recipient budgets so it stands to reason that this is an area Australia could look to improve.

A third indicator measures Australia's use of recipient country procurement and public financial management

systems. Australia demonstrates a strong preference for relying on its own systems. Of its aid to overseas governments, only 23 percent is administered through recipients' financial systems, compared to a donor average of 44 percent, and only 26 percent of contracts are issued through their tenders boards, compared to a donor average of 49 percent. Despite the focus of the Australian aid program on fragile states, the quality of systems among its development partners does not, of itself, warrant Australia's approach. An independent assessment of the quality of country systems suggests that those belonging to Australia's partner countries are varied but not significantly worse, on average, than other developing countries (Figure 5). Indeed, three of Australia's partner countries that are regularly classified as failed states—Afghanistan, Pakistan and Tonga—scored better than the average for developing countries. This suggests that increasing Australia's use of partner systems is more about challenging the priors held by AusAID's staff and altering agency norms. This is an area where there is significant room for Australia to improve. Following the Independent Review of Aid Effectiveness, the Australian government has pledged

Figure 5: World Bank Rating of Public Financial Management Systems



Source: World Bank, 2010⁹

to provide more assistance through partner systems where they are assessed as robust (Commonwealth of Australia, 2011).

There are two indicators on this dimension concerned with measuring the predictability of Australia's aid. The first is a short-term measure which captures the share of Australia's scheduled disbursements of aid that are recorded as being received by recipient governments. On this measure, Australia ranks around average with only 46 percent—a large increase on the 21 per cent score attained in the previous QuODA assessment, but still leaving significant room for improvement. Of the 54 percent which is not recorded by recipients, 24 percentage points can be blamed on Australia for failing to fulfill its disbursement schedule on time. The remaining discrepancy is an accounting error, and it is again unclear whether Australia needs to improve the manner in which it reports, or whether development partners need to address weaknesses in their record-keeping. The second indicator looks at whether donors are able to provide substantive forward spending plans. Here Australia performs well. It is one of only six bilateral donors (of 23 OECD DAC members) that is able to provide three-year spending plans publically. Australia's new four-year "whole of Overseas Development Assistance (ODA)" budget strategy promises to extend the predictability of its aid in the future (Commonwealth of Australia, 2011).

One final measure captures the extent to which Australia coordinates its technical cooperation activities with recipient institutions. Australia ranks just above average on this indicator—59 percent of its technical cooperation is coordinated, which represents a marked improvement on its earlier performance of 38 percent in 2007. The reduction in Australia's reliance on external advisers provides an opportunity to further improve the coherence of its

technical cooperation activities and ensure they are designed and delivered in a way that is consistent with recipient preferences.

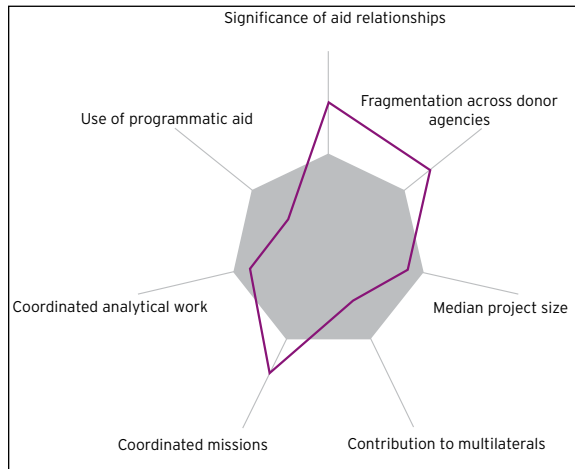
Reducing Burden on Recipients

In their attempt to support development overseas, donors often place heavy demands on recipients, including the very institutions they are trying to foster.¹⁰ These demands are multiplied several times over by the diffuse nature of today's aid architecture, in which at least 56 donor countries deliver aid through 197 bilateral agencies and 200 or more multilateral agencies.

Taken together, this intensity of engagement can easily overwhelm recipient governments, who are often understaffed and overworked. Typically the same bureaucrats who are responsible for liaising with donors are the very same ones who are charged with directing their own government's public expenditure. Thus, time spent working to improve the effectiveness of foreign aid can crowd out time spent ensuring domestic expenditure is well-managed. These constraints are especially evident in the governments of fragile states and countries with low capacity.

There are, however, approaches to aid giving that lessen the burden on recipients, while simultaneously serving to enhance aid effectiveness. This dimension of QuODA examines to what extent Australia adopts these approaches (Figure 6). The indicators used in this dimension fall into two broad categories. The first category assesses Australia's success in harmonizing its aid beside that of other donor countries and agencies to mitigate the problems associated with agency proliferation in the global aid architecture. The second category looks at project or program characteristics within the Australian program in terms of the demands they place on its development partners.

Figure 6: QuODA Assessment of Australia—Reducing Burden



Source: Birdsall et al., 2011

Some of the defining aspects of Australia’s aid program help minimize the burden its recipients face in juggling multiple donor relationships. First, Australia delivers the bulk of its aid (86 percent) through a single specialist agency—AusAID—freeing recipients from the inconvenience of having to maintain numerous relationships with the Australian government under different guises. Australia’s whole of government approach to aid management further enhances the degree of its policy coherence, with Australian agencies increasingly working towards a commonly defined strategy in each country (AusAID, 2010a). Of the OECD DAC members, only four countries concentrate more of their aid through a single agency; the US government, by contrast, spreads its aid management across 20 different agencies which do not conform to single country strategies, and its specialist development agency, USAID, is responsible for overseeing only half of the country’s total bilateral aid budget.

Second, Australia’s large size relative to the Pacific Islands, where a third of its aid program is spent, means that its bilateral relationships tend to be significant

ones for its development partners. This means that the administrative costs that recipients bear in managing Australia’s assistance are an acceptable cost when compared to the scale of the assistance they receive.

While these benefits are significant, Australia underutilizes arguably the most direct and straightforward way of reducing the burden on recipients of donor proliferation: the multilateral system. Multilateral agencies are purposefully designed to pool donor country efforts and serve as an intermediary between donor countries and aid recipients, thereby reducing the number of donor-recipient relationships (Kharas, 2007). But this role relies on donor countries being willing to restrict the number of their bilateral relationships, otherwise the total number of donor-recipient relationships ends up only being increased.

In practice, multilaterals are most effective in big countries where they have large long-standing programs, deploy their best staff, and generate efficiency gains through operating at scale (OECD DAC, 2010c). This poses a challenge for Australia given its particular interest in supporting development in small island states where multilaterals are less equipped to lead. Australia has understandably been reluctant to limit its direct involvement in these countries. Yet, the need for consolidated aid efforts is greatest in small countries which are most easily overwhelmed by excessive donor demands. Australia should therefore push for greater donor cooperation in these countries and explore opportunities to support multilateral leadership in other, more conducive environments. This is broadly in line with the Australian government’s response to the Independent Review of Aid Effectiveness, in which it pledged to increase its support of the multilateral system and to make greater use of its multilateral partners in supporting areas beyond its immediate region (Commonwealth of Australia, 2011).

Australia has a mixed record in conducting work jointly with other donors. It is ahead of the donor average in organizing joint missions to visit partner governments, but lags in terms of its reliance on shared analytical work. Australia has to work harder than other donors to perform well on these measures given that in many of its partner countries there are fewer opportunities to collaborate as the number of other donors is small, and Australia is by far the largest provider of aid.

There are two characteristics of Australia's bilateral program that could be altered to further reduce the burden on its development partners. Only a fifth of Australia's bilateral aid is program-based, whereby interventions within the same sector are integrated around a country-driven strategy—an approach which focuses recipient-partner dialogue around government programs rather than extraneous activities.¹¹ This compares to an average of 45 percent for the aid community as a whole, suggesting that Australia could go further in adopting this approach. In addition, the size of Australian aid projects is typically smaller than those of other donors, placing further demands on recipients' staff and their administrative systems. Australia's median project size is \$195,000, which is in line with the average for bilateral donors, but this is dwarfed beside, for instance, the World Bank's median project size, which stands at \$6.5 million.¹² Consolidating Australia's aid program around a more focused set of big projects would undoubtedly serve to relieve its development partners of much of the burden associated with receiving aid. In its response to the Independent Review of Aid Effectiveness, the government has pledged to increase its average project size between now and 2015 (Commonwealth of Australia, 2011).

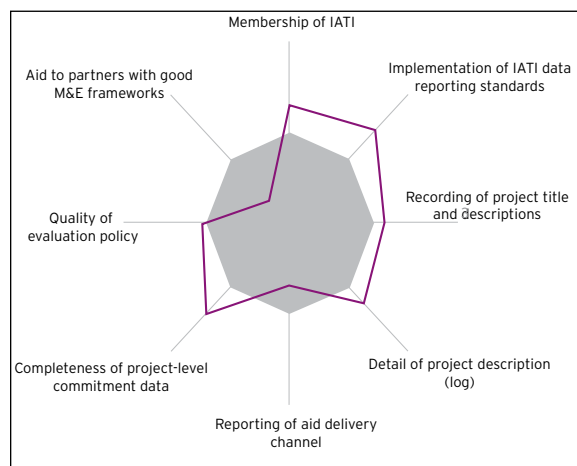
Promoting Transparency and Learning

The promotion of transparency and learning serves as a standalone dimension in QuODA, but its role in promoting effectiveness is closely linked with each of the other three dimensions. Transparency is increasingly seen as a low-cost—and thus efficient—way of increasing the effectiveness of aid and reducing scope for corruption. One study estimates that making the aid system transparent would generate \$11 billion in benefits—far beyond the cost of opening up the current system (Aidinfo, 2009).¹³ In addition, a greater investment in learning and evaluation would pay dividends by helping donors and recipients to identify interventions that have the most positive impact, which can then be repeated and scaled up, while staying clear of the ones whose results are found to be disappointing. Transparency is also key to fostering recipient institutions. A transparent aid program is less likely to duplicate the work of partner country governments and risk undermining their role. Furthermore, a commitment to transparency renders aid more predictable, which supports recipient institutions' capacity for longer term planning. Finally transparency plays a role in reducing the burden development partners face in managing the receipt and coordination of aid. When aid is transparent, recipient governments can spend less time chasing donors for information and more time on other activities, including managing domestically financed investment programs.

Today, a transparency and learning revolution is sweeping through the aid industry, facilitated by advances in information technology, which have dramatically reduced information costs. The aid industry appears to be only at the beginning of its transformation, with considerable scope for improvement in the breadth, quality, granularity, accessibility and timeliness of the information it provides. While this transformation is ongoing, its ultimate objective is clear: to

increase knowledge on the five Ws of aid—*who* is doing *what*, *where* and *whether* it's *working*. The potential beneficiaries of this knowledge make up a diverse group, which includes taxpayers in donor countries, the donor community and other development actors such as charities and foundations, the research community, and most importantly governments and civil society in recipient countries.

Figure 7: QuODA Assessment of Australia—Promoting Transparency and Learning



Source: Birdsall et al., 2011

Figure 7 illustrates Australia's performance on this dimension. Australia scores above average on six of the eight indicators, ranking ninth overall and fifth among bilateral donors. This represents an improvement on Australia's past performance, after adjusting for recent changes to the QuODA methodology.¹⁴ While Australia is a strong performer on this dimension, it will have to continue to improve its focus on transparency and learning if it is to maintain its position, given that expectations of what constitutes best practice in this area are continuously being raised.

Four of the indicators on this dimension pick up different aspects of the data Australia provides to the OECD DAC under its voluntary reporting requirements. Australia scores above average on three of the four indicators. These indicators focus on the breadth and depth of the information reported. While the OECD DAC is only one repository for aid information, these indicators serve as a useful proxy for Australia's general openness to information-sharing. Australia's willingness to make information public for different aspects of its aid program, and to meet a high standard of disclosure relative to other donors, is laudable and serves as a good example to other donors, as well as to its development partners.

This dimension also acknowledges Australia's membership of the International Aid Transparency Initiative (IATI) and its adherence to agreed IATI standards for publishing aid information. IATI is a multi-stakeholder initiative through which donors, partner countries and civil society organizations work together to establish common standards for transparency. Launched following the third High Level Forum on Aid Effectiveness in Accra in 2008, it seeks to make aid data more demand-drive, accessible and interpretable. At present, IATI has 21 donor members, along with 22 partner country members, and 11 donors have met the IATI standards. In recent months, Australia has continued to innovate in this area. In line with a recommendation from the Independent Review of Aid Effectiveness, the government has pledged to issue a Transparency Charter before the end of the year, committing AusAID to providing more information on what it funds and the results it achieves (Commonwealth of Australia, 2011).

One area for Australia to improve is the quality of the Monitoring and Evaluation (M&E) systems that exist in its partner countries. Robust M&E systems are an

important governance tool for informing policymaking and resource management decisions. When donors give aid to countries with such systems in place, they can have greater confidence that their support will ultimately be used to good effect. Australia has recently made the improvement of partner M&E systems a priority which may prove a valuable investment as it prepares to scale up its aid program (Office of Development Effectiveness, 2010). Australia's own evaluation policy is judged as satisfactory by QuODA. The Australian Government has recently committed to an annual assessment of aid effectiveness and, additionally, an annual synthesis of evaluations and quality assurance reports to help drive ongoing improvement, critical reflection and learning. Not picked up on this dimension is Australia's support for the International Initiative for Impact Evaluation (3ie)—a program that aims to increase development effectiveness through conducting rigorous impact evaluation on priority development issues. AusAID is one of its 19 members.¹⁵

Alternative Assessments of Australian Aid

QuODA is one of a number of recent attempts to assess and compare countries' approaches to aid giving, as well as their broader development policies.¹⁶ Four others are explored here, each of which was launched

in 2010 or 2011 and is therefore concerned with performance over a similar period. These assessments can both shed new light on Australia's performance, and test whether the findings from QuODA are corroborated elsewhere.

Knack, Rogers and Eubank

Knack, Rogers and Eubank carry out a similar exercise to QuODA, constructing an aid quality index to assess the performance of 38 donor countries and agencies (Knack et al., 2010). The index is comprised of four sub-indexes focused on four effectiveness themes: country selectivity (targeting aid at countries where aid effectiveness should be greatest), alignment (employing recipients' development strategies, institutions and procedures), harmonization (adopting common donor arrangements and simplifying procedures), and specialization (narrowing the focus of aid on a small set of countries, sectors and projects). Each sub-index is made up of a collection of indicators, by which donors are scored.

Australia performs well overall, ranking twelfth on the aggregate index, or sixth if multilateral agencies are excluded. Its high ranking is attributable to a particularly strong performance on harmonization, where it ranks fifth, and specialization, where it ranks eighth.

Figure 8: Comparing Australia's Performance on Different Indexes

Index	Focus	Australia's Ranking
QuODA	Maximizing efficiency	16th of 31
	Fostering Institutions	17th of 31
	Reducing burden	18th of 31
	Promoting transparency and learning	9th of 31
Knack, Rogers and Eubank	Approach to giving aid compared to international best practice	12th of 38
Pilot Aid Transparency Index	Transparency of aid	36th of 58
Humanitarian Response Index	Generosity and effectiveness of humanitarian aid	13th of 23
Commitment to Development Index	Impact of rich country policies on poor countries	9th of 22

Source: Author

The areas for improvement are selectivity, where it ranks thirteenth, and alignment, where it ranks only twenty-second.

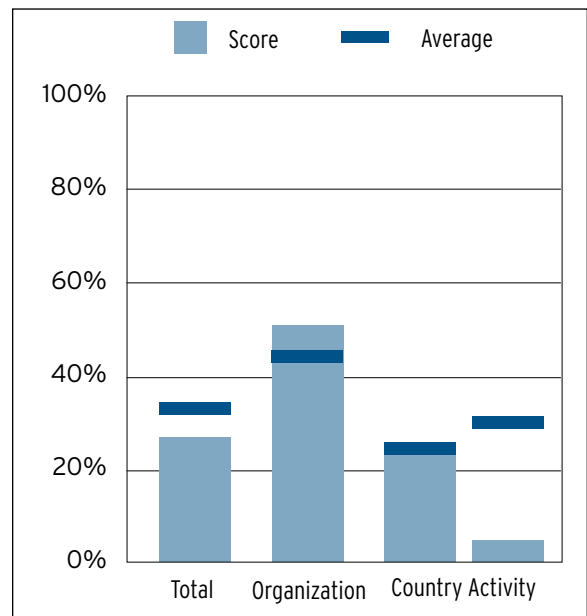
While this study and QuODA rely on many of the same sources of data, the two assessments employ different indicators and cover different time periods. Thus, Knack, Rogers and Eubank include an indicator that rewards Australia for the degree of geographical focus of its aid program by targeting the Asia-Pacific region, which is interpreted as a signal of the program's cohesion and purpose, while it excludes the QuODA indicator which captures the share of Australia's aid recorded in the budgets of recipient governments.¹⁷ Even where both assessments use the same indicators, they can result in different judgments.¹⁸ Interestingly, the Knack, Rogers and Eubank study adjusts many of its scores for "factors that are not directly under the control of donor agencies", such as the level of risk associated with particular development partners. This, one might assume, would help Australia's ranking, given the focus of its aid program on fragile states where aid delivery is more complex. Yet Australia's overall ranking does not change whether adjustments are made for these factors or not, even though the paper finds evidence that some aid policies can be explained by recipient country characteristics.

Pilot Aid Transparency Index

Another initiative that ranks donors is Publish What You Fund's Pilot Aid Transparency Index which examines the transparency of 58 aid agencies (Publish What You Fund, 2011). The assessment looks at the availability of aid information at organization, country and activity level, based principally on survey information completed by civil society organizations. This information is organized into 37 indicators which are aggregated to generate donor rankings.

AusAID ranks thirty-sixth overall, which, given the report's conclusion that the aid industry is not transparent enough, places AusAID in the group of agencies categorized as "poor" performers. This result is at odds with the QuODA assessment. However, a deeper exploration of the Pilot Aid Transparency Index can explain the discrepancy. AusAID's performance on the Index can be broken down into three components. AusAID scores above average in terms of the availability of organization-level information, and equal to the average for country-level information; it is the paucity of AusAID's activity-level information which drags its overall ranking down (Figure 9). Given AusAID's recent commitment to publish basic project data to IATI standards, one would expect AusAID's overall ranking to be revised dramatically upwards were the survey to be repeated today bringing it more in line with Australia's performance on QuODA.

Figure 9: Pilot Aid Transparency Index—Australia Assessment



Source: Publish What You Fund, 2011

For this reason, the QuODA finding that Australia is a relatively transparent donor still holds. Nevertheless, this serves as a reminder both of the pace with which standards of transparency are changing within the aid industry and of the difficulty in comparing levels of transparency across donors.¹⁹

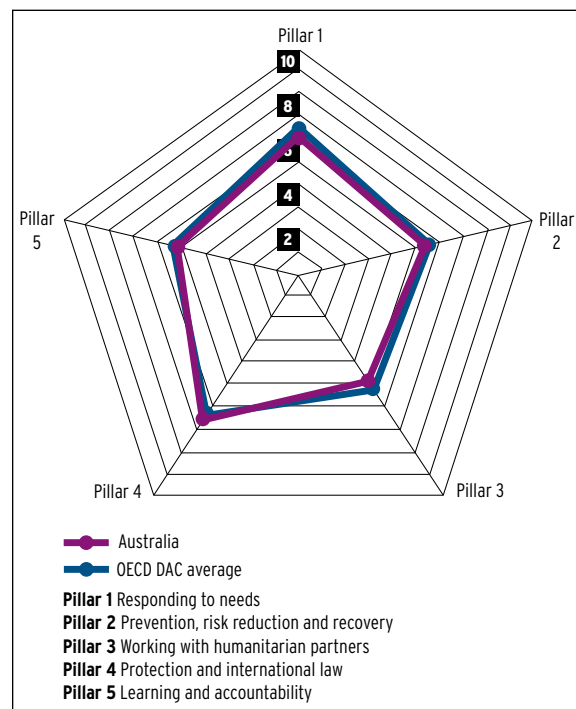
Humanitarian Response Index

DARA's Humanitarian Response Index assesses 23 donor countries based on the generosity and effectiveness of their humanitarian aid—aid that is specifically designed to save lives, alleviate suffering and protect human dignity during and in the aftermath of emergencies (DARA, 2010). While many of the principles of effective aid can be usefully applied to humanitarian aid, there are aspects of humanitarian aid that are unique, which means it makes sense to assess it separately. For this reason, humanitarian assistance receives little focus in QuODA. Nevertheless, with around 10 percent of Australia's aid dedicated to humanitarian, emergency and refugee-related expenditures, it is important to assess Australia's performance on this component of its aid program and its conformity with good practice.

DARA assesses donor performance on a range of indicators that are organized into five pillars: responding to needs; prevention, risk reduction and recovery; working with humanitarian partners; protection and international law; and learning and accountability. Australia scores very close to the donor average across each of these pillars (Figure 10). However, an analysis of Australia's performance on individual indicators reveals a number of interesting lessons. Australia is a leader in particular areas including funding reconstruction and prevention, and providing timely funding to complex emergencies. Areas for improvement include increasing the share of its funding to NGOs and reducing the share of humanitarian aid

to multilateral agencies that is earmarked (81 percent compared to an OECD DAC average of 65 percent). The latter problem applies equally to Australia's broader aid program, demonstrating how the challenges of effectiveness for humanitarian and development aid overlap.

Figure 10: Humanitarian Response Index—Australia Assessment



Source: DARA, 2010

Commitment to Development Index

A fourth and final assessment is the Center for Global Development's Commitment to Development Index (Roodman, 2011). This index looks at the entire gamut of rich country policies towards poor countries, rather than focusing on aid programs alone. Altogether, the index assesses performance in seven policy areas: aid, trade, investment, migration, environment, security, and technology. It then ranks countries on their overall performance across the seven areas.

In the most recent assessment, Australia ranks ninth equal in the list of 22 rich countries. Australia's overall score has hardly changed in the eight consecutive years in which the index has been compiled.²⁰ However, due to improved scores by other countries, Australia has slid down the rankings from its original position of sixth place.

Of the seven policy areas examined, Australia performs particularly strongly in three: security, trade and investment. Australia is commended for its generous contributions—both financial and in terms of personnel—to international peacekeeping and humanitarian efforts. Australia has some of the lowest tariffs on agricultural imports of any rich country, which provides a level playing field for farmers in developing countries. And the Australian government's provision of political risk insurance and foreign tax credits to companies seeking to invest overseas supports private sector development in developing

economies. Australia performs less well on its migration and environment policies. On migration, Australia ranks poorly due to the restrictions on immigrants from developing countries, and on the environment, Australia's position is dragged down by its high emissions per capita (the highest of all OECD countries), its low gas taxes, and its high fossil fuel production.

The index's aid policy assessment considers both the generosity of countries' aid programs and aspects of quality, looking at similar issues to those featured in QuODA, including the extent of aid tying, fragmentation, country selectivity, and a measure of Country Programmable Aid. On this component of the index, Australia ranks thirteenth, or a little below average. One policy for which Australia is rewarded, and which is absent from QuODA since it does not concern official aid, is its tax regime, which encourages private giving to charitable causes.

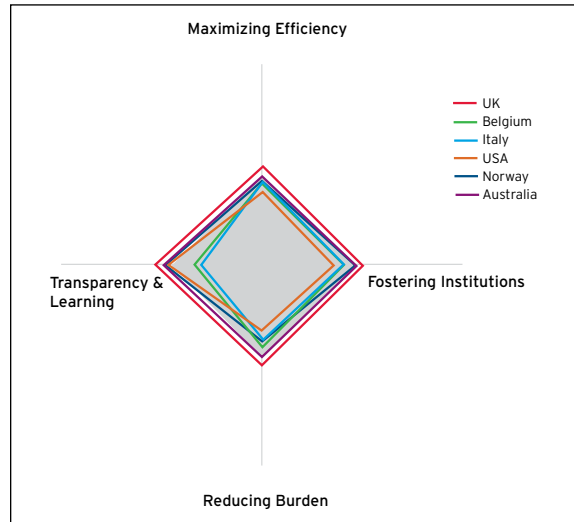
BENCHMARKING AUSTRALIA'S PERFORMANCE

As argued earlier, good practice aid principles are just as relevant in fragile states but entail greater effort and care to be implemented effectively (Chandy, 2011). A useful approach to understanding these challenges, and how they can be overcome, is to examine Australia's performance relative to other donors who share a similar focus on fragile states.

Australia is one of only six donor countries that devote 50 percent or more of their aid program to fragile states (Figure 11). In Figure 12, Australia's performance on QuODA is compared with each of the other five: Belgium, Norway, Italy, the UK and the USA. When these donors are benchmarked against one another, the UK is the leader, consistent with its reputation as a strong performer in international development.²² However, Australia follows closely behind and is second among the six donor countries when their rankings are aggregated across the four QuODA dimensions, outperforming the remaining four. This is an important result and indicates that Australia's

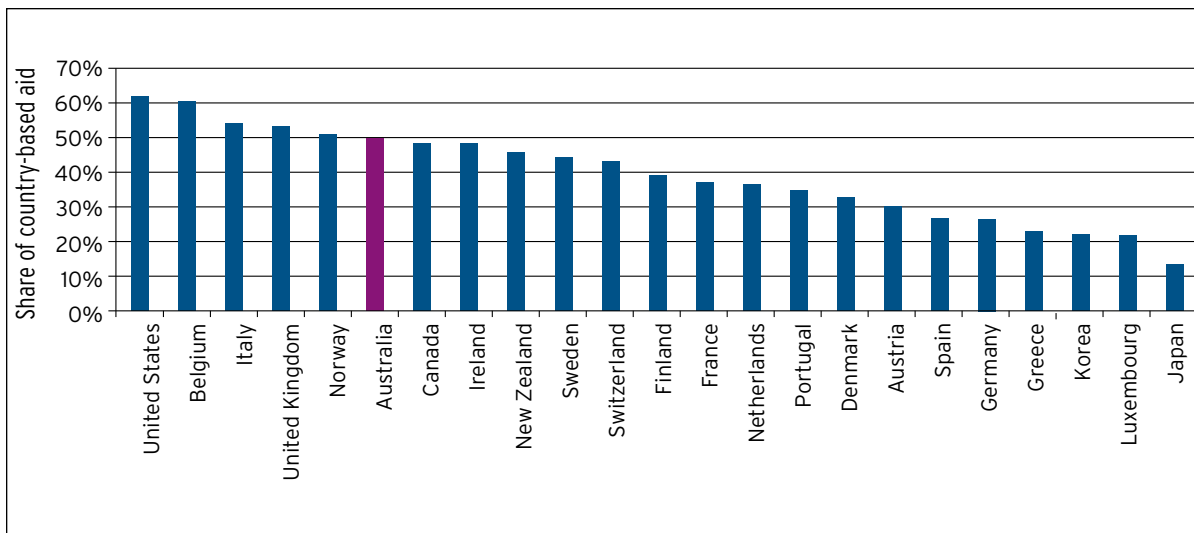
efforts to heed good practice principles, despite the challenges posed by the context of its aid program, are paying off. Those other donors can learn from Australia's example.

Figure 12: QuODA Assessment of Donors with Fragile States Focus



Source: Birdsall et al., 2011

Figure 11: Share of Bilateral Aid to Fragile States



Source: Author's calculations²¹

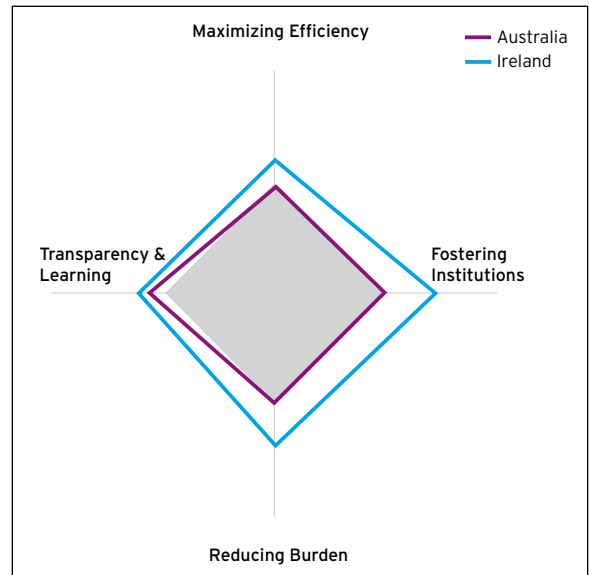
However, it would be wrong to infer from this that Australia is doing everything it can to deliver its aid effectively given its fragile states focus. Assessing Australia's comparative performance against a benchmark donor country can provide some clues as to how Australia could further improve its effectiveness. For this exercise, Ireland is chosen as a benchmark.

Like Australia, Ireland is a mid-size donor. While Ireland does not have as great a focus on fragile states as Australia, it is not far behind; fragile states make up two of its top three aid recipients and five of its top ten. This focus is born not from its geography, but rather from a number of intensive, long-lasting development cooperation programs Ireland has built with specific Least Developed Countries (LDCs) in Africa, and its willingness to engage in emerging post-conflict situations.²³

Despite this focus, Ireland has an excellent track record in applying the principles of effective aid. It is one of the top performers in meeting the targets set out in the Paris Declaration and is one of only three donors that ranks among the top ten donors on all four dimensions of QuODA.²⁴ Ireland scores ahead of Australia on all four QuODA dimensions (Figure 13). Furthermore, Ireland has recently undergone a rapid increase in the volume of its aid program to meet its international commitment to devote 0.7 percent of its Gross National Income (GNI) in foreign assistance. As Australia embarks on a similar trajectory, there is much it can learn from Ireland's experience.

On the maximizing efficiency dimension, Ireland gains a significant advantage over Australia by maintaining a narrower sector focus in its aid program. Ireland specializes in providing aid in three areas: HIV/AIDS, governance and humanitarian assistance. Its ability to maintain this focus can be at least partly attributed

Figure 13: QuODA Assessment—Australia vs Ireland



Source: Birdsall et al, 2011

to two factors. First, Ireland requires all its country strategy papers to contain “an evidence-based statement of Irish Aid’s comparative advantage”, as a basis for determining which areas Ireland will direct its aid (Government of Ireland, 2008). Evidence is gathered through public consultations with government, donors and civil society, and through donor peer assessments (Box 4). Second, Ireland has demonstrated its willingness to withdraw from sectors—a process many donors find difficult to do in practice. When such a decision is made, it is implemented in a responsible manner, adjusting its internal organization and staffing requirements accordingly, and sharing expertise with donors remaining in the sector (OECD DAC, 2009). Australia can learn from this approach. While Ireland is perceived as a flexible donor, with the willingness and agility to respond to needs as they arise—a characteristic that is necessary for donors engaged in fragile states—this need not imply that it tries to do everything.

Box 4: Ireland's Sector Focus

Irish Aid has become a respected donor in the area of HIV/AIDS. In Uganda, Irish Aid defined its comparative advantage in this area in terms of its: i) ability to engage in both upstream policy and decentralized levels; ii) use of multiple aid modalities; iii) long-term institutional memory; iv) flexibility; v) reputation as a credible and genuine partner with no hidden agenda; vi) strong advocacy for harmonization and alignment; and vii) experience in chairing the AIDS Development Partner Group over the previous five years.

Source: OECD DAC, 2009

Ireland ranks second among all the donors on the fostering institutions dimension. This provides compelling evidence, if it were needed, that aid can be delivered in a way that reinforces and nurtures the rightful role of government, even in fragile states. The difference between Ireland and Australia's approach to aid delivery is most stark in terms of the use of recipient country systems. Ireland's aid policy specifies that its aid must be, to the greatest extent possible, "locally owned and led" (Government of Ireland, 2006). In practice, this means relying on national systems and locally available expertise as a first option. As a result, 80 percent of its aid employs partner financial management systems, and 89 percent of its contracts are managed by recipients. Ireland's rationale for this approach is that channeling support through country systems strengthens country capacities and facilitates policy dialogue and trust between itself and its partners. To ensure funds are correctly used, Ireland follows a rigorous process of internal checks and controls, and invests heavily in recipient monitoring frameworks. As Australia attempts to increase its use of recipient country systems, it might usefully look to Ireland for lessons on managing risk and building trust with its partners.

Ireland also ranks second overall on the reducing burden dimension. There are at least two areas where Ireland's experience is relevant to Australia and which demonstrate effective ways of managing a growing aid program. First, Ireland relies much more strongly than Australia on using program-based approaches to deliver its aid. These approaches, which include budget support, sector budget support and basket funds, have allowed space for Ireland to increase its volume of funding over time without a proportionate increase in administrative costs. In addition, program-based approaches enable Ireland to work closely with like-minded donors, including the EU and the Nordic Plus Group. Ireland regularly participates in Joint Assistance Strategies with these partners and uses the Nordic Plus Group's joint harmonization tools to engage in "silent partnerships" and delegated cooperation in Mozambique and Zambia—two of Ireland's top five aid recipients. This provides another route through which Ireland's aid can be spent without undermining its efficiency. Second, a much larger share of Ireland's aid program funds multilateral agencies than that of Australia. This is part of a broader strategy through which Ireland has successfully managed the increase in its aid program. Over the period during which its overall aid budget has increased, the proportions channeled through civil society, multilateral agencies and to humanitarian work all increased faster than funding through Ireland's government-to-government programs. Today, a quarter of Ireland's aid is channeled through NGOs—the highest of all the OECD DAC donors; a third of the aid program goes to multilateral agencies; and sixteen percent of its bilateral aid goes to humanitarian work—more than two and a half times the average for OECD DAC members.

AUSTRALIA'S BILATERAL AND MULTILATERAL PARTNERS

This section explores opportunities for cooperation between Australia and other relevant donor agencies based on the latter's performance on QuODA.

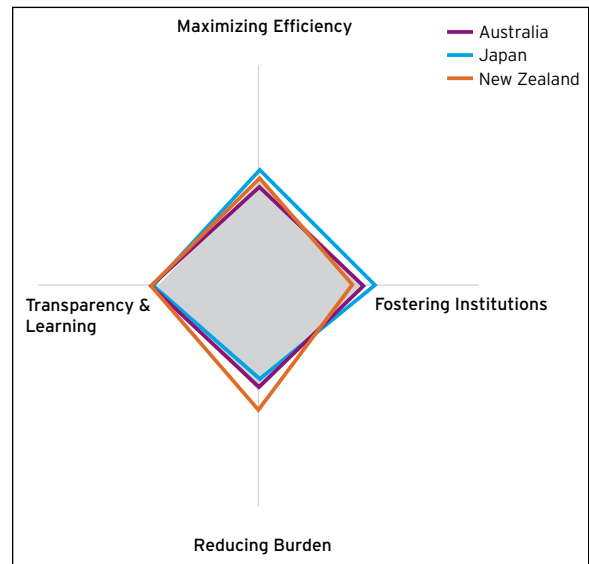
Australia has the opportunity to deepen cooperation through its relationships with various bilateral and multilateral donors, whether by partnering with other agencies in shared interventions, or delegating responsibility for aid delivery to other parties. Of course, partnering and delegation are not without their own challenges. Donors each have their own particular objectives and approaches to delivering aid, and differences come to the fore when negotiating cooperative arrangements. For cooperation to work, donors must be able to adequately manage their perceived risks, and trust between parties must be firmly established. For these reasons, the transaction costs associated with donor cooperation can be high. Nevertheless, when weighed against the large costs associated with donor fragmentation, the case for greater cooperation among donors is compelling.

The OECD DAC's guidelines for aid delivery in fragile states call on donors to agree on practical coordination mechanisms as an important basis for ensuring effective assistance (OECD DAC, 2007). Yet in many fragile states, donor activities remain highly fragmented with each pursuing independent strategies to the detriment of recipient countries' development. Standards of donor coordination are usually adequate for information exchange, but do not result in harmonized activities, and it is extremely rare for donors to establish an effective division of labor (OECD DAC, 2010b). These problems are not unique to fragile states, but their effect can be particularly harmful in these settings, where recipient governments are ill equipped to lead coordination efforts themselves.

Bilateral Partners

Figure 14 depicts Australia's performance on QuODA alongside that of two bilateral donor countries that operate in the same neighborhood: New Zealand and Japan. Examining specific aspects of each country's performance provides some indication of the opportunities for, and constraints to, greater bilateral cooperation.

Figure 14: QuODA Assessment—Regional Bilateral Donors



Source: Birdsall et al., 2011

In contrast to Australia, both New Zealand and Japan have developed their aid programs around a relatively strong sector focus, which has become a defining feature of each country's foreign assistance. New Zealand has, until recently, focused its aid predominantly on social infrastructure and services, while Japan has established a reputation for supporting the agriculture sector and economic infrastructure, such as utilities and transport. These areas of focus provide a clear signal to Australia as to which areas it might consider delegating responsibility for the delivery of its aid to increase the efficiency of its aid program.

Australia, New Zealand and Japan each tend to sponsor relatively small aid projects and programs. In exploring opportunities for partnerships with these agencies, Australia should avoid “business as usual” which would result in a continued proliferation of small-scale interventions. Instead, partnerships should be used as a strategy for transitioning to larger scale interventions. Partnerships are more justified in large interventions, as they allow transaction costs to be spread more thinly and overall project costs to be shared between parties. Notably, half of New Zealand’s aid is provided using program based approaches. Given the large overlap in country focus between Australia and New Zealand, Australia should explore what opportunities exist to support those programs in which New Zealand is currently engaged and which are performing well.

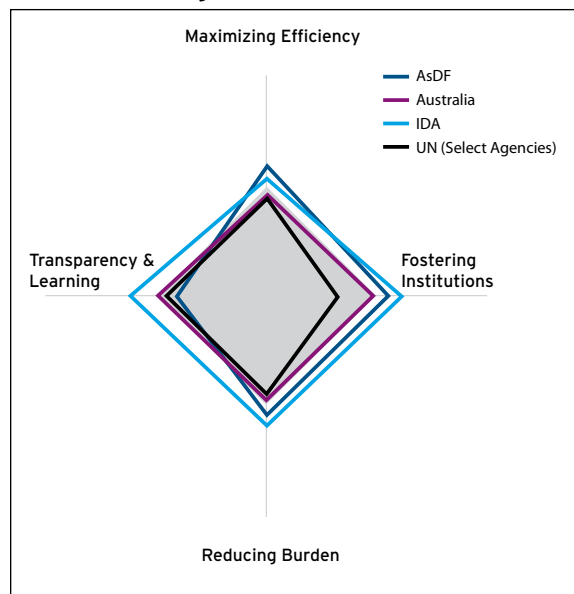
Donor cooperation is particularly justified in the Pacific, where the region’s future prosperity is dependent on a recognition by all parties of the need for a regional division of labor to compensate for shallow domestic markets and the limited scope for industrial development and diversification in any one country. Donors should, wherever possible, espouse this same principle in their approach to aid giving. Ultimately however, the viability of greater bilateral cooperation between Australia and other donor countries active in the same neighborhood will depend on the country context and thus a case-by-case analysis of the merits associated with each opportunity.

Multilateral Partners

Figure 15 pits Australia against three major multilateral agencies active in its region: the Asian Development Fund (AsDF), the International Development Association (IDA) (the lending arm of the World Bank that focuses on low-income countries) and the United Nations (UN).²⁵ Taken as a whole,

multilateral agencies outperform bilateral agencies on each of the four dimensions of aid quality on QuODA—a finding consistent with most donor performance assessments, which view multilateral agencies as generally being more effective. The effectiveness of multilateral agencies is usually explained by two factors: their well defined mandates and their freedom from political interference, which together allows them to specialize and to retain a strong poverty focus. Importantly, the political freedom of multilateral donors does not appear to translate into lower levels of accountability given their strong performance in promoting transparency and learning.

Figure 15: QuODA Assessment—Multilateral Agencies



Source: Birdsall et al., 2011

The Asian Development Fund and IDA are among QuODA’s top overall performers—a finding which should give Australia considerable confidence in strengthening its ties with these agencies. Both donors score well on a number of indicators, including

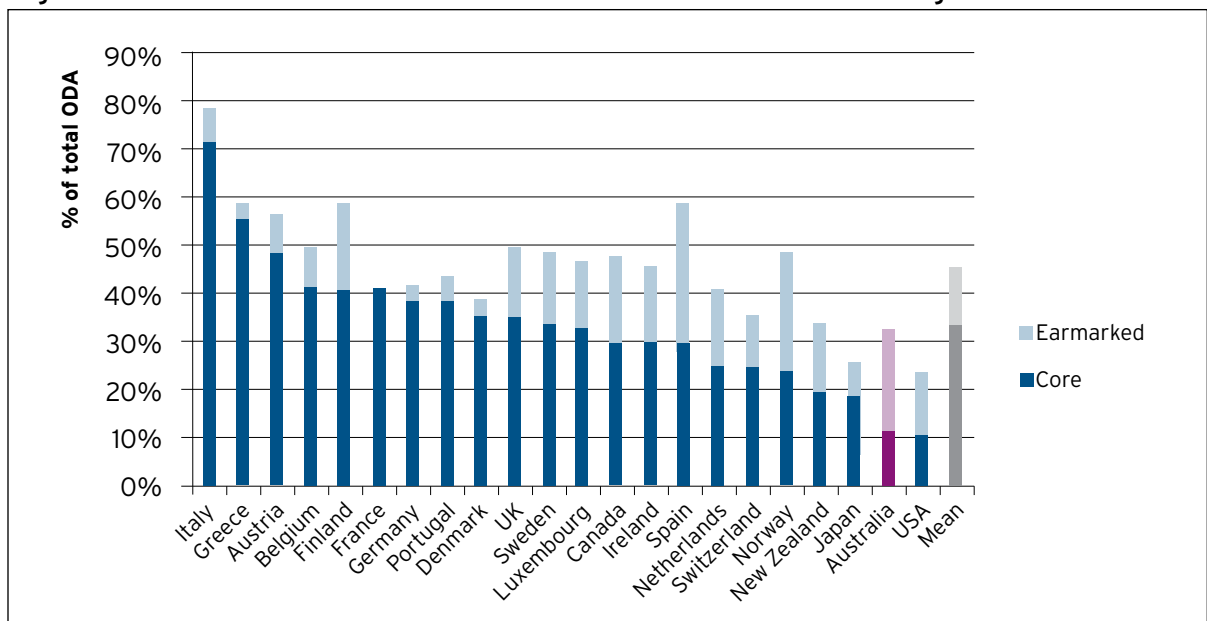
their focus on poor countries, their high country programmable aid share, using program-based aid, funding large-scale interventions, adopting partner country systems, and having their aid accurately recorded on recipient budgets. Australia can look to leverage these strengths—all areas where Australia performs below average—by deepening its cooperation with the two multilateral agencies.

The UN's weak performance on QuODA is partly a result of its mandate, which compels it to work often on neglected "fringe" issues (for example, population, democracy and civil society) which do not rank highly among recipient priorities and require it to spread its aid thinly over many countries in modest-sized interventions. However, part of the explanation for the UN's low ranking boils down to its approach to aid giving: its tendency to establish PIUs, to avoid partner country systems, the unpredictability of its aid and its failure to have its aid adequately recorded on recipient budgets.²⁶ As an important funder and

stakeholder to the UN, Australia could condition its future support on improvements against key performance metrics.

A key lesson from this analysis is that the effectiveness of Australia's aid program is determined both by the performance of donors with whom it chooses to partner or through whom it chooses to delegate, and by the way Australia approaches cooperation. In the past, Australia has used cooperation mainly as a tool to draw greater donor attention and resources to issues of its national interest, but without sufficient focus on whether other donors had the requisite expertise to lead such efforts and whether their deployment made sense from the perspective of recipient countries and the donor community as a whole. This explains its relatively low level of core funding to multilateral agencies, compared to the large level of earmarked funds it provided to the very same agencies (Figure 16).

Figure 16: Core Contributions and Earmarked Funds to Multilateral Agencies²⁷



Source: OECD DAC, 2010c

Going forward, Australia will need to broaden the objectives of its multilateral engagement to match the growth of its aid program, as its role and responsibilities within the aid architecture expand and it comes to depend on its donor relationships to leverage the greatest possible impact of its aid. In its response to the Independent Review on Aid Effectiveness, the government pledged to increase its core funding to the multilateral system, to base its multilateral contributions on a new assessment of the effectiveness of its multilateral partners, and to use its growing influence to promote issues of Australian interest including value for money and fragile states (Commonwealth of Australia, 2011).

CONCLUSION: WHAT COULD AUSTRALIA DO DIFFERENTLY?

This assessment of Australian's aid program suggests a number of recommendations to shape ongoing reforms to the aid program:

- *Using country strategies as a basis for greater sector focus.* In recent years, country strategies have come to play an increasingly prominent role in shaping Australia's bilateral development partnerships. These provide a useful tool for, inter alia, defining the appropriate scope of Australia's aid program. There is a strong case for delineating more narrowly those areas in which Australia is best qualified to provide support and which recipient countries have identified as priorities for assistance.
- *Strengthening performance frameworks to compensate for inherent efficiency challenges.* Australia's region obliges it to work in environments in which aid often fails to achieve its intended results and the cost of aid delivery is higher. Australia can compensate for this by employing performance frameworks to monitor whether the goals of its aid are being achieved and at a reasonable cost. Australia should invest sufficiently in these frameworks to ensure they are capable of fulfilling this role.
- *Identifying innovative means to increase the use of partner systems, especially in fragile states.* While the challenges to using partner systems should not be underplayed, Australia's reliance on parallel systems undermines its efforts to bring about sustainable, transformational development in recipient countries. Australia should consider innovative and country-tailored solutions, which will enable it to increase its use of partner systems even in challenging circumstances. Solutions may include: employing sub-national systems or non-government systems when national government systems cannot be relied upon; transitioning to partner systems subject to confidence-building measures; making use of partner systems explicitly conditional on system performance; using partial earmarks, oversight and tracking; requesting that recipient governments contract out its weakest functions, such as procurement, financial management or audit services; and building on existing examples where partner systems are successfully being used, whether by Australia or other donors.
- *Employing aid modalities that facilitate the transition to a scaled up aid program.* In preparation for a growing aid program, Australia should employ aid modalities that allow it to increase the funding and scale of existing interventions without incurring constraints or raising its administrative burden and cost. These include channeling aid through multilaterals and NGOs, and employing program-based aid. These same modalities are recognized for increasing the effectiveness of aid, including in challenging environments. At the same time, a shift in Australia's aid modalities will require robust management and oversight to ensure that they are employed in the most effective way possible.
- *Expanding the use and scope of donor partnerships.* Australia has considerable experience, both good and bad, in partnering with other aid agencies. However, the changing aid architecture, combined with Australia's growing aid program, has thrown up many new opportunities for partnership, including those with non-DAC and unofficial donors, which Australia should rightly pursue. Partnerships provide a valuable mechanism for improving the effectiveness of aid, including, enabling larger scale interventions and moving towards a clear division of labor.
- *Maintaining Australia's strong performance on transparency.* Australia should look to build upon its strong performance in this area. To do so, however, it will have to keep innovating,

as standards of transparency within the aid industry are rising quickly. Increasing attention should be given to the quality, relevance, accessibility and timeliness of information, and establishing mechanisms for learning and beneficiary feedback which transparency can facilitate. Through its new Transparency Charter, Australia should make greater use of the internet to share information, and to encourage feedback on the information it makes public.

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ENDNOTES

1. Note that QuODA has already been used to assess Australia's aid program in Holloway et al., 2011; Birdsall and Perakis, 2011; and Higgins, 2010.
2. These weaknesses are discussed in Birdsall and Kharas, 2010, pages 8-10. See also endnote 18.
3. Share of country-based bilateral aid going to fragile states in 2009, using the country classification of fragile states used in OECD DAC, 2010a. Data from OECD DAC, 2011a. See also Figure 11.
4. Analysis restricted to the 30 countries with bilateral Australian development partnerships and aid programs of at least \$5 million a year in 2009-10 and 2010-11 budgets (Commonwealth of Australia, 2009 and Commonwealth of Australia, 2010). Country classification of fragile states as described in endnote 3. Weakly governed countries are those who fall in the fourth quintile of country rankings on the 2009 Worldwide Governance Indicators, with rankings based on averaged scores across the six governance measures (Kaufmann et al., 2010). Very weakly governed countries are those who fall in the fifth quintile.
5. 2007-8 ratings are based on the revised QuODA methodology to allow comparisons over time. See Birdsall et al., 2011, for details of methodological changes.
6. Administrative costs as reported to the OECD DAC (OECD DAC, 2011a).
7. The one exception to the untying principle covers tenders for Australia-Indonesia Partnership for Reconstruction and Development contracts where government policy dictates that tendering is restricted to Australian, New Zealand and Indonesian suppliers.
8. Jepma found that tying aid decreased the value of aid by between 15 and 30 percent.
9. Scores based on indicator 13: Quality of budget and financial management.
10. Ironically, the demand for more effective aid can exacerbate this problem. To ensure a high degree of recipient ownership of their own aid programs, donors look to involve recipient bureaucrats in every one of their government sector projects from inception through to completion, as well as in broader strategy consultations and the launch of new thematic initiatives. Before aligning their aid with recipients' strategies, institutions and procedures, donors typically ask that they be opened to increased scrutiny and opportunities be made for close donor engagement to ensure their aid money is not being wasted. Donors aim to have aid programs that are results-driven, but this requires an agreement with recipients on performance frameworks and joint evaluation efforts. Finally, for donors and recipients to be mutually accountable means spending regular time together discussing each party's responsibilities to the other and whether each is pulling its weight.
11. Program based aid modalities include pooled funding, direct budget support and Sector Wide Approaches.
12. Author's estimates based on OECD DAC, 2011.
13. Benefits split between efficiency savings and effectiveness gains.
14. In the first iteration of QuODA published in 2010, Australia was originally ranked 2nd among all donors on the transparency and learning dimension. However, a number of methodological changes introduced in the 2011 QuODA update have resulted in a significant reshuffle of the original donor rankings. These changes include: (i) a change of the data source from AidData to the DAC's Credit Reporter System for the indicator "recording of project title and descriptions"; (ii) a raising of standards for what constitutes effective aid to enable greater differentiation between donor performance on the indicators "aid to partners with good M&E frameworks" and "completeness of project-level commitment data"; and (iii) the

- fixing of a coding error on the indicator “reporting of aid delivery channel”. In addition, data has been updated for the indicator “detail of project description”. While these changes result in Australia’s 2010 ranking being downgraded, they also capture a significant improvement in Australia’s performance between the 2010 and 2011 rankings.
15. This is captured under the support for global public good facilities indicator on the Maximizing Efficiency dimension.
 16. Among those not discussed here are Mosley, 1985; Dollar and Levin, 2004; Acharya et al., 2004; Easterly and Pfutze, 2008; and Williamson, 2010.
 17. Since the Knack, Rogers, Eubank assessment uses 2008 data, the assessment of the geographical focus of Australia’s aid program does not account fully for its ongoing expansion into Africa and Latin America in recent years, which would presumably bring Australia’s score down.
 18. There are three specific aspects of Australia’s aid program—its use of program-based aid, use of PIUs, and sector focus—on which Knack, Rogers and Eubank arrive at a contrary opinion to QuODA. In each instance, where one study scores Australia above average, the other scores Australia below average. These can be explained by differences in the design of indicators and the sample of donors included in the two studies. This serves as a reminder that the results of any index or performance ratings are shaped by the normative judgments that feed into its design, and thus that any findings should be subject to a suitable degree of scrutiny before being used to inform policy decisions.
 19. See discussion in *Publish What You Fund*, 2010; *Publish What You Fund*, 2011; and in Birdsall and Kharas, 2010.
 20. Based on the 2011 methodology, Australia’s overall score in 2003 was 0.1 points ahead of its 2011 score.
 21. 2009 aid disbursements taken from OECD DAC, 2011a, limited to country-based bilateral aid. Fragile state classification as per OECD DAC, 2010a.
 22. See, for instance OECD DAC 2010d.
 23. Irish Aid has long-lasting development cooperation programs in nine countries, seven of which are in Africa. Together these account for half of its bilateral spending. All but one of its top 20 recipients are classified as LDCs. Sierra Leone, Timor Leste and Liberia are among the post-conflict countries to whom it has recently begun providing aid.
 24. The other donors are the UK and IDA.
 25. UN performance based on an aggregation of five UN agencies: the Joint UN Program on AIDS, UNAIDS; the UN Children’s Fund, UNICEF; the UN Development Program, UNDP; the UN Population Fund; and the World Food Program.
 26. These aspects of the UN’s approach to aid are arguably excusable in the case of the World Food Program whose operations are more akin to an NGO than a traditional aid agency. The same argument could be made to a lesser extent for UNICEF.
 27. Based on 2008 data.



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