

The Auditor-General
Audit Report No.15 2009–10
Performance Audit

AusAID's Management of the Expanding Australian Aid Program

**The Australian Agency for International Development
(AusAID)**

Australian National Audit Office

© Commonwealth
of Australia 2009

ISSN 1036-7632

ISBN 0 642 81098 2

COPYRIGHT INFORMATION

This work is copyright. Apart from any use as permitted under the *Copyright Act 1968*, no part may be reproduced by any process without prior written permission from the Commonwealth.

Requests and inquiries concerning reproduction and rights should be addressed to:

Commonwealth Copyright
Administration
Attorney-General's Department
3-5 National Circuit
Barton ACT 2600

<http://www.ag.gov.au/cca>



Canberra ACT
26 November 2009

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken a performance audit of AusAID in accordance with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit and the accompanying brochure. The report is titled *AusAID's Management of the Expanding Australian Aid Program*.

Following its tabling in Parliament, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee'.

Ian McPhee
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT

AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act 1997* to undertake performance audits and financial statement audits of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

For further information contact:
The Publications Manager
Australian National Audit Office
GPO Box 707
Canberra ACT 2601

Telephone: (02) 6203 7505
Fax: (02) 6203 7519
Email: webmaster@anao.gov.au

ANAO audit reports and information about the ANAO are available at our internet address:

<http://www.anao.gov.au>

Audit Team

Tom Clarke
Stuart Turnbull
David Slattery
Sonia Polubinski

Contents

Abbreviations.....	8
Glossary	10
Summary and Recommendations	11
Summary	13
The Australian aid program.....	13
The audit	14
Overall conclusion.....	15
Key findings by Chapter	17
Summary of agency response	22
Recommendations	23
Audit Findings and Conclusions	27
1. Introduction	29
Why Australia provides aid	29
The growing Australian aid program	29
Australia’s aid policy.....	33
How the ANAO undertook this audit	34
2. Devolution and corporate support.....	37
AusAID’s management challenge	37
Devolution of country program management.....	37
Human resource management	46
Use of information systems.....	56
Conclusion	60
3. Country program aid	62
The importance of selectivity	62
Determining the focus of country program aid.....	63
The selectivity of country program aid	70
Conclusion	81
4. Technical assistance and partner government systems.....	83
Importance of sound design.....	83
Use of technical assistance	84
Delivering aid through partner government systems	94
5. Whole of government coordination	105
Australia’s whole of government approach.....	105
Strengths and weaknesses of the whole of government approach.....	106
Coordination of the whole of government approach.....	109
Selectivity of aid delivered by government agencies other than AusAID	119
6. Monitoring and evaluation.....	124

Performance orientation of aid agencies	124
AusAID's performance assessment framework.....	125
Monitoring program performance.....	126
Monitoring aid activities.....	131
Monitoring inputs.....	134
Evaluation and the Office of Development Effectiveness	136
Conclusion	141
7. External reporting.....	143
External reporting meets public information requirements	143
Outcome reporting	144
Other reporting	149
Cost of running the aid program	151
Conclusion	161
Appendices	163
Appendix 1: Formal Comments from AusAID and the Department of Finance and Deregulation	165
Appendix 2: Involvement of other government agencies in the aid program	170
Appendix 3: AusAID Internal Guidance Checklist to Assist in Classifying and Expense.....	172
Index.....	173
Series Titles.....	175
Current Better Practice Guides	177
Tables	
Table 2.1 Growth in AusAID staff between June 2006 and June 2008.....	40
Table 2.2 AusAID staff perspectives on devolution and country office work levels.....	41
Table 2.3 APS staff turnover 2008 calendar year	49
Table 2.4 Locally engaged staff leading development	53
Table 4.1 Findings from AusAID reviews on the use of technical assistance.....	88
Table 4.2 Australia's progress in implementing the <i>Paris Declaration</i> (2008)	96
Table 6.1 AusAID's performance management and evaluation framework	125
Table 6.2 Comparison of bilateral aid agency evaluation department publications.....	140

Figures

Figure 1.1	Australia's ODA, 1979–80 to 2015–16 (projected).....	30
Figure 1.2	Composition of Australian ODA, 2000–01 to 2009–10	32
Figure 2.1	Staff perceptions of role clarity and collaboration	44
Figure 2.2	Staff perceptions of corporate support	46
Figure 2.3	Staff perceptions of human resource management (APS and locally engaged staff).....	56
Figure 2.4	APS staff perceptions of AidWorks	59
Figure 3.1	Country program expenditure on countries outside Australia's top 20 aid recipients, 2007–08	71
Figure 3.2	Country program aid to selected recipients (excluding regional flows), by OECD sectors and size of contribution, 2005–06 to 2007–08.....	74
Figure 3.3	Country program aid (excluding regional flows) to selected recipients, by number of OECD sectors, 2005–06 and 2007–08.....	76
Figure 4.1	Use of technical assistance in selected Pacific countries, 2006–07	87
Figure 4.2	Staff views on AusAID's use of technical assistance:	90
Figure 5.1	Institutional framework for management of the Australian aid program	110
Figure 5.2	Contribution of other government departments to country and regional program expenditure 2007–08	121
Figure 7.1	AusAID's APS staff by funding source	157
Figure A 1	Aid expenditure by government agencies other than AusAID, 2005–06 to 2007–08.....	171

Abbreviations

APPRs	Annual Program Performance Reports
APS	Australian Public Service
ARDE	Annual Review of Development Effectiveness
ATPRs	Annual Thematic Performance Reports
AusAID	The Australian Agency for International Development
AusAID 2010	AusAID 2010: Director General's Blueprint
CPIA	The World Bank's Country Policy and Institutional Assessments
DFAT	Department of Foreign Affairs and Trade
DFID	Department for International Development (UK)
DESC	Cross-agency Development Effectiveness Steering Committee
ECP	Enhanced Cooperation Program
Finance	Department of Finance and Deregulation
FMA Act	<i>Financial Management and Accountability Act 1997</i>
GNI	Gross National Income
ICT	Information and Communications Technology
MDGs	Millennium Development Goals
ODA	Official Development Assistance
ODE	Office of Development Effectiveness

OECD	Organisation for Economic Co-operation and Development
PBS	Portfolio Budget Statements
PMEP	Performance Management and Evaluation Policy
QRS	Quality Reporting System
RAMSI	Regional Assistance Mission to the Solomon Islands
ROUs	Records of Understanding
SNS	Sub-National Strategy

Glossary

Administered items	Expenses, revenues, assets or liabilities managed by agencies on behalf of the Commonwealth having regard to relevant legislation and/or government policy. Agencies do not control administered items. Administered expenses normally include grants, subsidies and benefit payments.
AidWorks	AidWorks is AusAID's main aid information system. The primary functions of AidWorks are to support aid activity management, financial management and performance reporting.
Departmental items	Assets, liabilities, revenues and expenses that are controlled by the agency in providing outputs. Departmental items would generally include computers, plant and equipment assets used by agencies in providing goods and services and most employee expenses, supplier costs and other administrative expenses incurred.
Deployees	Employees deployed to overseas posts.
Devolution	Devolution is the transfer of power from a central to a subordinate level.
Scaling up	Projected growth in the Australian aid program between 2004-05 and 2015-16, as announced by the former Australian Government and subsequently the current Australian Government.
Selectivity	The choosing of some, not all, and the exercising of judgement in making the choice.

Summary and Recommendations

Summary

The Australian aid program

1. The objective of Australia's aid program (the aid program) is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'.¹ In 2008–09 the Australian Government provided an estimated \$3.8 billion in overseas aid.
2. The aid program has increased in size by 42 per cent since 2004–05.² Strong growth will continue to be required in order to meet the Australian Government's commitment to increase official development assistance (ODA) from 0.33 per cent of gross national income (GNI) in 2008–09, to 0.50 per cent in 2015–16.
3. The Australian Agency for International Development (AusAID) is the main Australian Government agency responsible for managing the aid program. In 2008–09 AusAID was accountable for \$3.2 billion, or 83 per cent of ODA. Other government agencies are responsible for smaller amounts of aid in areas such as defence, policing and trade.
4. Since 2000–01, the main source of growth in ODA has been bilateral programs of assistance (known as country program aid) planned and coordinated by AusAID. The agency is expected to remain predominant in the design and implementation of increased aid investments in the coming years.
5. AusAID provides advice and support to the Minister for Foreign Affairs and the Parliamentary Secretary for International Development Assistance on development policy. Australian aid policy aims to accelerate progress towards the Millennium Development Goals (MDGs),³ and places

¹ Commonwealth of Australia 2009, *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May 2009, p. 1.

² Real growth, adjusted for inflation. In September 2005, the Australian Government announced a doubling in the aid program on 2004 levels to around \$4 billion annually by 2010. [See Press Release, 13 September 2005, by Prime Minister John Howard, *Increases in overseas aid*.]

³ The MDGs set global development targets to be achieved by 2015 for poverty and hunger reduction, primary education, gender equality, maternal health and child mortality, combating disease, environmental sustainability, and global partnerships. The MDGs are drawn from actions and targets contained in the 'Millennium Declaration,' which was adopted by 189 nations and signed by 147 heads of states and governments during the United Nations Millennium Summit in September 2000.

emphasis on supporting the Asia-Pacific region. Australian Government strategies to improve aid effectiveness include a focus on partnerships with recipient country governments,⁴ and publication of comprehensive information about the aid program.

6. The Australia Government is a signatory to the international aid effectiveness agenda, as articulated in the 2005 *Paris Declaration on Aid Effectiveness* and the 2008 *Accra Agenda for Action*. Under these agreements, Australia has made commitments to strengthen and use partner country institutions and systems (including financial systems) to deliver aid; to reduce aid fragmentation and proliferation⁵—which have imposed high transaction costs on partner governments and made aid difficult to manage; and to increase the predictability of aid flows, thereby supporting budget planning of partner governments.

7. In early 2007, in response to an aid program White Paper,⁶ AusAID instigated internal reforms to deliver a considerably expanded and more effective aid program. These reforms included increasing program management responsibilities of country offices (known as devolution), adoption of new arrangements for the design and delivery of aid—in line with the *Paris Declaration on Aid Effectiveness*, and implementation of more rigorous performance assessment practices. AusAID also embarked on a program to upgrade country strategies to improve the focus (or selectivity) of Australia's support to particular countries.

The audit

8. The objective of this audit is to assess whether AusAID's management of the expanding aid program supports delivery of effective aid. The audit focuses on progress of AusAID's internal reforms to achieve this objective.

⁴ This approach is illustrated by Pacific Partnerships for Development, which were launched by the Prime Minister under the 2008 Port Moresby Declaration. The partnerships jointly commit Australia and Pacific nations to achieving and assessing progress against shared goals. [Media Release from the Prime Minister of Australia, 6 March 2008, Port Moresby Declaration.]

⁵ In the aid context, fragmentation refers to the situation when there are many small projects being delivered; proliferation refers to the provision of aid by a wide variety of donors in relatively small amounts.

⁶ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity: A White paper on the Australia Government's aid program*.

9. The audit considers critical aspects of AusAID's management of the aid program. These include: management arrangements and staff capacity; how aid investments are selected; major forms of aid or modes of delivery (being technical assistance and use of partner government systems); coordination of whole of government engagement; monitoring and evaluating aid performance, and external reporting.

10. The audit fieldwork was undertaken at AusAID in Canberra and three countries to which Australia is providing increasing levels of aid—Papua New Guinea, the Philippines and Vietnam. The audit methodology included a survey of AusAID staff, and analysis on the changing make-up of the aid program.

11. The audit did not examine AusAID's management of global programs,⁷ Australian development scholarships, and AusAID's contracts with suppliers.

Overall conclusion

12. Management of Australia's aid program is a complex undertaking—it requires engagement in multiple countries and sectors to help address difficult development challenges. The effective management of the aid program requires that AusAID develop sound aid initiatives and astutely manage their implementation, by working closely with Australian Government partners, recipient country governments, and other development stakeholders. Scaling up of Australian aid and the impetus to change how aid is delivered amplify these challenges.

13. The ANAO concluded that, since 2005, AusAID has managed the expansion of the aid program in a way that supports delivery of effective aid. This period has seen AusAID increase the management responsibilities of country offices, recruit additional staff and build in-house technical expertise, and strengthen monitoring and evaluation of aid—supporting delivery of more aid and improved aid effectiveness. Consistent with the international aid effectiveness agenda, AusAID has also made progress in changing the way Australian aid is delivered, by commencing to increase use of partner government systems, and working more collaboratively with other donors.

⁷ Global programs include funding for humanitarian, emergency and refugee programs, funding for programs run by multilateral organisations such as the World Bank, Asian Development Bank, and United Nations agencies, and funding for non government organisations, volunteer and community programs.

14. Notwithstanding this progress, the aid program is likely to double in size between 2008–09 and 2015–16, and AusAID faces considerable management challenges amidst ongoing program growth. AusAID staff are concerned about workloads and stress levels at many overseas posts and there is a shortfall of expertise in some areas; many country programs have operated without an agreed development assistance strategy; the number of aid activities under management has grown strongly—contributing to aid proliferation; and reducing reliance on traditional forms of aid is proving difficult. Resolving these issues requires a particular focus on AusAID’s internal capacity and the composition of Australian assistance—to make the delivery of aid more manageable and effective.

15. The ANAO has made six recommendations aimed at improving AusAID’s management of the aid program, and strengthening accountability for aid funding and its results. In particular, AusAID can improve management of human resources by addressing its long-standing problems with regards to the level of staff turnover, further increasing management responsibilities of locally engaged staff, and continuing to progress workforce planning and development—thereby building internal capacity to deliver aid. Completion of country program strategies that are central to, and record, aid allocation decisions would help make Australia’s increasing levels of aid more focused and predictable. Further, the development of a comprehensive policy on using partner government systems to deliver assistance would facilitate increased use of these systems, thereby helping to strengthen them and providing a scalable means of delivering aid. Finally, clarification of AusAID’s approach to classifying administered and departmental expenses, and improved external reporting, would help make aid program running costs more transparent to external stakeholders.

16. Importantly, implementation of strengthened performance assessment for aid programs and activities, and the work of the Office of Development Effectiveness (ODE),⁸ are focusing the attention of AusAID’s management and staff on the factors that lead to better aid outcomes. Continued improvement in monitoring and evaluation of aid is required if AusAID is to remain in a good position to meet the challenges of the coming years.

⁸ ODE was established by the 2006 White Paper as an independent unit within AusAID responsible for monitoring the quality and evaluating the impact of Australian aid.

Key findings by Chapter

Devolution and corporate support (Chapter two)

17. Recent corporate reforms undertaken by AusAID provide a platform to deliver more aid, and more effective aid. Devolution has supported accumulation of country knowledge and effective on-the-ground management and has strengthened corporate support in areas such as financial management, which helps country offices manage broader responsibilities. It has also resulted in increased staff numbers, and brought in and developed additional in-house expertise.

18. However, the model of devolved management arrangements implemented by AusAID and large scale organisational change, have led to staff concerns about high workloads and stress levels at many posts, which are likely to continue rising in the coming years. AusAID has not yet achieved effective internal collaboration, whereby posts, country program desks in Canberra, and thematic experts work together in a cohesive manner to manage growing levels of aid.

19. Some of the main difficulties encountered by AusAID in scaling up ODA highlight a need for the agency to improve human resource management. Regular changeover in roles, undertaken by staff, has been a long term problem that has worked against program effectiveness—only one in two APS staff remained in their position over the 2008 calendar year. AusAID did not adequately plan for the work implications of changes in how aid is delivered, which has resulted in a shortfall of expertise in some areas. Also, there are opportunities to build on recent improvements in the use of locally engaged staff by allocating them additional supervisory responsibilities, thereby strengthening management capacity at aid posts.

20. While improvements in these areas will support country programs in meeting high workloads, the aid program is likely to double in size between 2008–09 and 2015–16. Delivering a much larger aid program will require a concerted and collaborative effort across the entire Australian aid community. AusAID will need to strike a sound balance between its country, regional and global programs, and in using AusAID staff, other Australian Government agencies, managing contractors, multilateral agencies, other donors and civil society organisations to deliver aid.

Country program aid (Chapter three)

21. As the main Australian Government agency responsible for managing the aid program, AusAID plays a central role in the selection and implementation of country program aid. AusAID's experience is called on to inform and deliver aid policy, to align investments with the priorities and needs of partner governments, and to develop manageable programs of assistance.

22. In pursuing these objectives, AusAID has responded flexibly to changing aid policy directions, and has been able to deliver increased levels of country program aid, often through a broader range of sectors within countries. During fieldwork partner governments identified AusAID as a responsive donor, which is reflected by the large and diverse number of aid activities under the agency's management.

23. However, the broad focus of some country programs; strong growth in the number of aid activities under management; and the findings of reviews of AusAID's country programs, all indicate a need to improve the selectivity of country program aid. While AusAID has been responsive in management of country programs, their continued scaling up necessitates more strategic approaches that consolidate and expand on existing areas of focus, and contribute to global efforts to reduce aid fragmentation and proliferation.

24. A primary cause of weaknesses in selectivity of country program aid has been a failure to complete country specific strategies, and their lack of centrality to aid allocation decisions—in early 2009 only 11 of the top 20 recipients of country program aid had a strategy in place. There are many ways in which donors can provide support, and country strategies enable strategic approaches—through detailed consideration of developing country contexts, and donor capacity. AusAID can make country strategies and their review more relevant to strategic and operational decision making, including by using them as a vehicle to make Australian aid more predictable.

Technical assistance and partner government systems (Chapter four)

25. In 2007 AusAID committed to reducing its reliance on 'stand-alone' aid projects—implemented by contractors and involving 'technical assistance', and to increase use of sector programs of support—that work through recipient country development strategies and financial systems, together with other

donors. The 2006 White Paper also committed to more selective and effective use of technical assistance.

26. In the Pacific and Timor Leste, where Australian aid forms a major component of the resources available for development, an appropriate balance needs to be struck between provision of technical assistance and other forms of aid to support delivery of government services. Based on available data concerning use of technical assistance, aid program reviews, and the perceptions of AusAID staff in program delivery areas, the ANAO found that AusAID has not yet achieved the objective of using technical assistance more strategically and effectively in the region.

27. To make further progress, AusAID and its whole of government partners need to establish more strategic approaches for the use of technical assistance at a country and sector level—thereby supporting lasting capacity development. This requires careful consideration of the context in which technical assistance will be used, including constraints on partner government capacity and the ability of technical assistance to address these constraints; and considering whether alternate forms of support are more appropriate.

28. AusAID's use of partner government systems to deliver aid is increasing, but remains well-short of internationally agreed targets, and behind progress of other donors. This reflects the complexity of transitioning from its historic operating model, the lack of an agency strategy to reform this model, and the generally poor track record in accounting for government expenditure of many countries to which Australia provides aid.

29. To support increased use of partner government systems to deliver aid, there would be benefit in AusAID developing and publishing a comprehensive policy articulating its approach. Such a policy would describe: the benefits of using partner government systems and lessons learned to date; how decisions to use partner government systems are reached—including thorough assessment of potential development benefits and associated risks; and how the more significant risks of using partner government systems are managed by AusAID.

Whole of government coordination (Chapter five)

30. Around 10 per cent of the aid program annually is provided by Australian Government agencies other than AusAID, as well as state, territory

and some local governments, either through their own budget appropriation or that of AusAIDs.

31. The participation of other government agencies in the aid program enables development of bilateral institutional linkages and application of valued Australian expertise. However, deploying staff from other government agencies is relatively costly, agencies involved often have a limited capacity to support international work, and their personnel can be inexperienced in development contexts. Given these strengths and weaknesses, it is important that the costs and benefits of possible whole of government approaches are considered in comparison to alternate approaches for delivering aid, with decisions based on their relative merits.

32. The 2006 White Paper in the aid program established several mechanisms to coordinate whole of government engagement in the aid program, and to make sure it did not lead to loss of accountability for aid expenditure. These include the cross-agency Development Effectiveness Steering Committee (DESC), whole of government country strategies, and the role of the Office of Development Effectiveness (ODE) in monitoring and evaluating all Australian aid. Frameworks have also been developed at an operational level by responsible agencies to support whole of government coordination.

33. These mechanisms provide a sound basis for whole of government involvement in the aid program. However, to date their success has been variable, with weaknesses resulting in reduced selectivity of aid activities and shortfalls in monitoring and external reporting.

34. More work is needed to effectively use existing avenues for whole of government coordination. Greater effort is required to make sure all ODA eligible budget proposals are subject to scrutiny by the DESC in a timely fashion; to establish AusAID's country strategies as whole of government documents; to develop consistent aid monitoring and evaluation approaches that assist agencies; and strengthen operational coordination.

Monitoring and evaluation (Chapter six)

35. Since the 2006 White Paper was released, AusAID has: implemented a robust performance assessment framework for aid investments; commenced valuable annual program reporting; strengthened its quality reporting system for aid activities; and established ODE to monitor the quality and evaluate the

impact of Australian aid. These efforts are focusing agency attention on the quality of country programs and aid activities, and the factors that lead to better development outcomes.

36. The strengthening of aid monitoring and evaluation in AusAID remains work in progress that requires long term commitment. Continuing focus is needed to make sure country strategies provide a basis of assessment, to raise compliance with design and review requirements for aid activities, and position ODE to provide deep and sustained influence. Refinements are also necessary to align performance assessment at different levels and make quality reporting more rigorous.

37. The ongoing evolution of performance management in AusAID will require more strategic use of performance information, thereby informing program design and the scaling up of ODA. This means expanding on successful initiatives, identifying areas in need of further assistance, rationalising program portfolios and better understanding the internal resources required to deliver outcomes. To help make these links the quality of aid program data can be improved, particularly data about how aid is delivered.

External reporting (Chapter seven)

38. There have been recent improvements to AusAID's PBS performance information framework, including adoption of program level measures, budgeting and reporting at a regional level, and embedding performance indicators as part of internal monitoring.

39. However, performance indicators do not yet provide a comprehensive set of measures that drive and explain agency performance. To help do so, additional measures can be introduced covering completion of development assistance strategies, improvement in the selectivity of aid investments, compliance with quality reporting requirements for aid activities, and progress of changes in how Australian aid is delivered.

40. Since the aid program White Paper in 2006, AusAID has made good progress in increasing the transparency of aid program expenditure through external reporting. In particular, it has begun publishing thorough annual effectiveness reviews, annual program reviews, and more in-depth evaluations of the aid program. However, beyond these improvements, AusAID has not yet implemented its own policy that publication of agency reports is the

default position—many ODE reviews and evaluations of specific aid activities remain unpublished.

41. An important area of the aid program's funding that is not yet transparent is program running costs. Since the introduction of the Outcomes and Outputs Framework in 1999–2000, AusAID has, based on its interpretation of government guidelines, increasingly funded staff and other administration costs using the administered appropriation, on the basis of their proximity to aid. AusAID's approach to classifying expenses is not in line with conventional practices, and the extent of use of aid funds in this manner is not transparent. It is, therefore, difficult for external stakeholders to hold AusAID to account on the costs that it controls. Clarifying the classification of AusAID's expenses would improve transparency and accountability of aid program expenditure, in a way that maintains the integrity of the budget system.

Summary of agency response

42. The proposed report was provided to AusAID and an extract was provided to the Department of Finance and Deregulation for formal comment. AusAID provided the following summary response, and the formal responses from both agencies are shown at Appendix 1.

43. AusAID welcomes ANAO's report: *AusAID's Management of the Expanding Australian Aid Program* and the contribution it makes to the ongoing reform processes currently underway in AusAID. In particular, ANAO's analysis of the complex set of issues around creating a larger, more effective and efficient aid program will help Australia achieve the international development goals set by Government.

44. By drawing significantly on AusAID's own internal reviews (such as the *Annual Review of Development Effectiveness* reports and *Building on the 2010 Blueprint – A Reform Agenda for 2015*) the report helps to identify work in progress within AusAID's reform process and provides a useful external perspective on how this should be addressed. Similarly, the findings are consistent with other external reviews of the aid program, such as the *OECD's Development Assistance Committee Peer Review of Australia*, that confirms the robustness of AusAID's monitoring and evaluation system and whole-of-government approach that facilitates policy coherence for development.

Recommendations

Set out below are the ANAO's recommendations aimed at improving AusAID's management of the aid program, and strengthening accountability for aid funding and its results.

Recommendation No.1
Para 2.67 The ANAO recommends that, in order to better support program management, AusAID refine its approaches to human resource management, including by:

- regularly monitoring, and analysing the key drivers behind staff turnover and developing strategies to increase the length of time staff spend in roles; and
- increasing management responsibilities of locally engaged staff, where appropriate, including in relation to management of APS personnel.

AusAID response: *Agreed*

Recommendation No.2
Para 3.61 The ANAO recommends that, in order to make country and regional strategies more central to aid allocation decisions, and thereby improve selectivity of aid investments, AusAID:

- completes strategies for all major country and regional programs and keeps them up-to-date; and
- builds on the framework provided by Pacific Partnerships for Development, by including indicative multi-year resource allocations in all country and regional strategies.

AusAID response: *Agreed with qualification*

**Recommendation
No.3**

Para. 4.51

The ANAO recommends that, in order to facilitate increased use of partner government systems in delivering aid, and improve the effectiveness of the approaches adopted, AusAID develops policies that address:

- the benefits of using partner government systems and the lessons learned to date;
- how decisions to use partner government systems are reached, including thorough assessment of potential development benefits and associated risks; and
- how the more significant risks of using partner government systems are managed by AusAID.

AusAID response: *Agreed*

**Recommendation
No.4**

Para.6.59

The ANAO recommends that, in order to strengthen monitoring, evaluation and management of the aid program, AusAID:

- reports on the quality of monitored aid activities against the country program objectives to which they relate;
- improves the quality of data captured on how aid is delivered;
- publishes management responses for all major Office of Development Effectiveness reviews; and
- publishes a proposed Office of Development Effectiveness annual program of evaluations.

AusAID response: *Agreed*

**Recommendation
No.5****Para. 7.19**

The ANAO recommends that, in order to strengthen external reporting and help steer agency direction, AusAID develop additional PBS performance indicators to provide a more balanced set of measures that address a broader range of critical aspects of agency performance.

AusAID response: *Agreed*

Finance response: *Supported*

**Recommendation
No.6****Para. 7.57**

The ANAO recommends that, to improve transparency and accountability for aid program expenditure, AusAID:

- obtain clarification from the Department of Finance and Deregulation on its use of administered expenses for departmental purposes; and
- if the current approach to classifying administered expenses is to be continued, disclose, in its annual report, details of the program, role and cost of APS and locally engaged staff funded from the administered appropriation, as well as travel, accommodation, information technology and other administration costs paid for from this source.

AusAID response: *Agreed*

Finance response: *Supported*

Audit Findings and Conclusions

1. Introduction

This chapter provides background on the Australian aid program, and describes how the ANAO undertook the audit.

Why Australia provides aid

1.1 The world faces vast development challenges. Well over one billion people live under the poverty line of US\$1.25 per day; more than 15 per cent of people in developing regions are undernourished; around nine million children die each year from largely preventable and curable causes; over 10 per cent of children of primary-school age are out of school; and well in excess of one billion people live without improved sanitation.⁹

1.2 Australia and other wealthy nations provide aid to developing countries to help solve these problems. In supporting the stability and economic progress of developing countries, including many of Australia's regional neighbours, the provision of aid is firmly in Australia's national interest. Reflecting these considerations, the objective of Australia's aid program (the aid program) is 'to assist developing countries to reduce poverty and achieve sustainable development, in line with Australia's national interest'.¹⁰

The growing Australian aid program

1.3 The Australian Government provided an estimated \$3.8 billion in official development assistance (ODA) in 2008–09. This represents a real increase of 42 per cent in the quantity of ODA since 2004–05,¹¹ when the first major increases in aid volumes were announced by the then Australian Government.¹² Further increases in ODA are planned for 2009–10 and beyond, in order to meet the current Government's objective of increasing the

⁹ United Nations 2009, *The Millennium Development Goals Report*.

¹⁰ Commonwealth of Australia 2009, *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May 2009, p. 1.

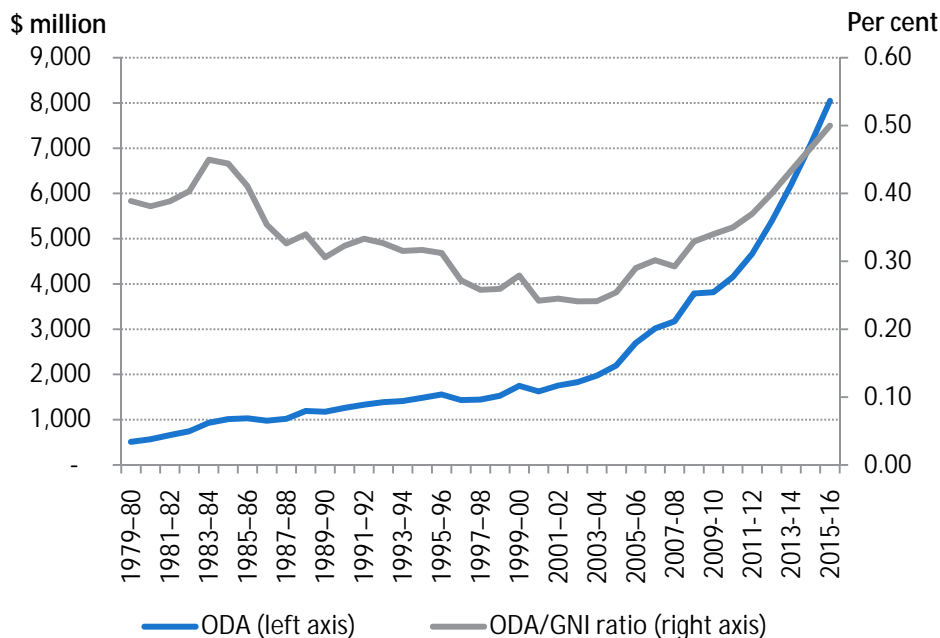
¹¹ *ibid.*, pp. 16 and 73.

¹² Press release, 13 September 2005, by Prime Minister John Howard, *Increases in overseas aid*.

proportion of ODA to gross national income (GNI) from 0.33 per cent in 2008–09, to 0.50 per cent by 2015–16 (see Figure 1.1). The increase in ODA is known as ‘scaling up’.

Figure 1.1

Australia’s ODA, 1979–80 to 2015–16 (projected)¹³



Source: Commonwealth of Australia 2009, *Australia’s International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May 2009; and, Australian Treasury GNI projections to 2012–13 from the 2009–10 budget.

1.4 AusAID is the main Australian government agency responsible for managing the aid program. In 2008–09 AusAID was accountable for an estimated \$3.2 billion, or 83 per cent of ODA.¹⁴ Other government agencies are

¹³ ODA projections for 2013–14 and beyond are based on an ANAO technical assumption that GNI will grow by a long run average growth rate, and Commonwealth budget targets for the ODA/GNI ratio. Given no ODA/GNI budget targets have been published for 2013–14 and 2014–15, the ANAO assumed a straight line increase between the 2012–13 target (0.40 per cent) and the 2015–16 target (0.50 per cent).

¹⁴ Commonwealth of Australia 2009, *Australia’s International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May, p. 16.

responsible for smaller amounts of aid in areas such as defence, policing and trade.

1.5 AusAID applies a mixed delivery model for the aid program, by drawing on a range of stakeholders and forms of aid according to prevailing circumstances. AusAID staff, other Australian Government agencies, managing contractors, multilateral agencies, other donors and civil society organisations¹⁵ all play a role. Important forms of aid include provision of training and experts (known as technical assistance) to build developing country capacity, specific deliverables such as roads and schools, and direct support for partner government budgets.

1.6 The main source of growth in Australian ODA since 2000–01 has been a large increase in aid provided through AusAID country programs.¹⁶ These programs account for 79 per cent of the forecast increase in aid between 2000–01 and 2009–10, and 63 per cent of estimated aid flows in 2009–10. By contrast, AusAID’s global programs¹⁷ are predicted to account for 24 per cent of total aid in 2009–10, while aid provided by Australian Government agencies other than AusAID (excluding the Australian Centre for International Agricultural Research) is expected to contribute nine per cent (see Figure 1.2).

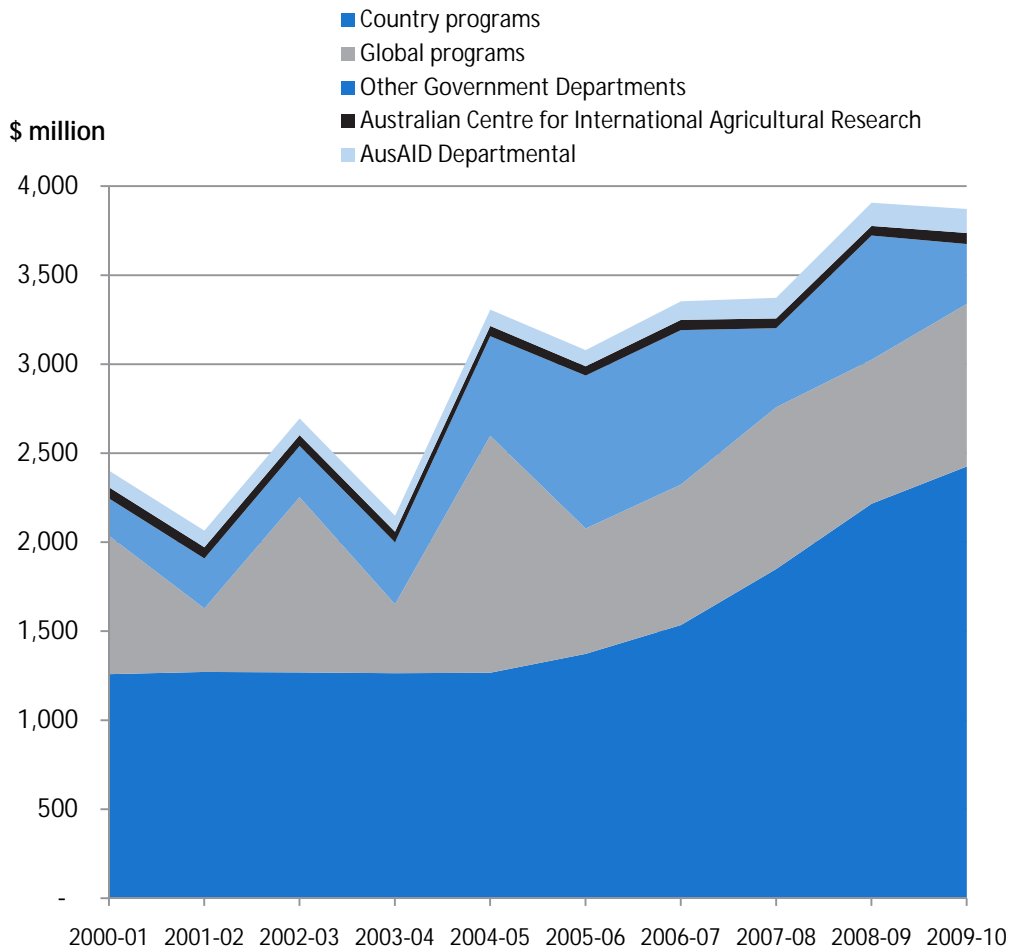
¹⁵ Civil society organisations are individuals and organisations that are not part of local, national, or other levels of government. This includes community-based and non-governmental organisations, trade unions, religious groups, academic institutions and other private, voluntary groups.

¹⁶ Bilateral programs of assistance agreed between Australian and developing country governments.

¹⁷ Global programs include funding for humanitarian, emergency and refugee programs, funding for programs run by multilateral organisations such as the World Bank, Asian Development Bank, and United Nations agencies, and funding for non government organisations, volunteer and community programs.

Figure 1.2

Composition of Australian ODA, 2000–01 to 2009–10¹⁸



Source: Commonwealth budget statements, 2002–03 to 2009–10.

¹⁸ Price adjustments for real prices are based on: Commonwealth of Australia 2009, *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May, p. 73.

Australia's aid policy

1.7 In April 2006, the then Australian Government published a White Paper on the aid program¹⁹ which established how the Government would approach an announced doubling in aid funding. The White Paper indicated that AusAID receive additional resources to manage program growth, and that more staff would be placed in the field to build expertise. Alongside additional funding, emphasis was placed on strengthening the effectiveness of the aid program by upgrading country development assistance strategies and improving monitoring, evaluation and external reporting. The White Paper outlined several mechanisms to support Australia's whole of government approach to aid delivery, including the cross-agency Development Effectiveness Steering Committee (DESC).

1.8 AusAID's strategic response, *AusAID 2010: Director General's Blueprint, (AusAID 2010)*²⁰ outlines reforms to enable the agency to deliver the White Paper, and a substantially expanded aid program. These include delegation of increased responsibility for program implementation to AusAID's offices overseas (country offices); a reduced reliance on managing contractor-delivered, technical assistance-oriented stand-alone projects; and increased reliance on partner government policies and financial management systems as a basis for aid delivery.

1.9 The election of the current Government in November 2007 has not affected these reforms, but did mark the beginning of changes in Australia's aid policy, as pronounced in a May 2009 policy statement.²¹ Changes include more explicit focus on the Millennium Development Goals (MDGs)²² as central

¹⁹ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity: A White paper on the Australian Government's aid program* (the White Paper).

²⁰ <http://www.ausaid.gov.au/publications/pdf/ausaid_2010.pdf> [Accessed 16 September 2009]. Published as at 20 February 2007.

²¹ Commonwealth of Australia (2009), *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May 2009, p. 2.

²² The MDGs set global development targets to be achieved by 2015 for poverty and hunger reduction, primary education, gender equality, maternal health and child mortality, combating disease, environmental sustainability, and global partnerships. The MDGs are drawn from actions and targets contained in the 'Millennium Declaration', which was adopted by 189 nations and signed by 147 heads of states and governments during the United Nations Millennium Summit in September 2000.

to aid allocations; maintaining a strong emphasis on the Asia-Pacific while also committing to increase aid to Africa and South Asia; and increased engagement with multilateral development organisations. Strategies to improve aid effectiveness include strong partnerships with partner governments,²³ use of their systems to deliver aid, and publication of comprehensive and accessible information about the aid program.

1.10 An important influence on both governments has been the international agenda for reform of the aid business which was articulated in the *Paris Declaration on Aid Effectiveness (Paris Declaration)*. Signed in 2005 by the then Government,²⁴ the *Paris Declaration* is a response to well-recognised problems with traditional approaches to delivering aid, and emphasises the importance of better coordination among donors, and greater use of partner government systems to deliver aid. The current Government has committed to the outcomes of the follow-up meeting in Accra in 2008, by agreeing to the *Accra Agenda for Action*, which reaffirmed, and strengthened commitment to the principles enunciated in the *Paris Declaration*.

How the ANAO undertook this audit

Audit objective and scope

1.11 The objective of this audit is to assess whether AusAID's management of the expanding aid program supports delivery of effective aid.

1.12 The audit examines AusAID's progress in implementing reforms identified in *AusAID 2010: Director General's Blueprint (AusAID 2010)* to support the planned increase in the size of the aid program, and aid effectiveness. These include:

- decentralisation of responsibilities for program management to country offices;
- adoption of new arrangements for the design and delivery of aid;

²³ This approach is illustrated by Pacific Partnerships for Development, which were launched by the Prime Minister under the 2008 Port Moresby Declaration. The partnerships jointly commit Australia and Pacific nations to achieving and assessing progress against shared goals. [Media Release from the Prime Minister of Australia, 6 March 2008, *Port Moresby Declaration*.]

²⁴ Alongside 34 other donor countries, 26 multilateral donors, 56 recipient countries, and 14 civil society observers.

- improved whole of government engagement; and
- implementation of more rigorous performance assessment practices.

1.13 The audit did not examine AusAID’s management of global programs, Australian development scholarships and AusAID’s contracts with suppliers.

1.14 Further, the audit did not examine or take account of the ANAO’s own role in delivering aid. The ANAO is funded through AusAID’s budget appropriation to provide direct assistance to the audit institutions of Indonesia and Papua New Guinea.

Audit methodology

1.15 The ANAO conducted fieldwork in Canberra and three countries to which Australia is providing increasing levels of aid—Papua New Guinea, the Philippines and Vietnam. Project visits were undertaken to regional locations in each country.

1.16 Interviews took place with AusAID officers at each location, and discussions were held with officials from other Australian Government agencies, developing country governments, other development organisations, and managing contractors. Relevant AusAID files and documentation were reviewed, and detailed analysis of the changing make-up of the aid program undertaken.

1.17 The ANAO carried out a survey of relevant AusAID staff, with over 55 per cent or 346 of these staff responding. The survey sought feedback on progress of internal reforms, the scaling up of ODA, and implementation of the *Paris Declaration*.

1.18 An independent expert and former AusAID Chief Economist was commissioned to write a short paper on the effectiveness of aid, and the factors that lead to better aid outcomes. The paper provided context for this audit report.

1.19 The audit was conducted in accordance with ANAO auditing standards at a cost of \$518 000.

How the report is structured

1.20 The remainder of the report is structured into the following six chapters, which examine:

- whether devolution of management responsibilities to overseas posts, human resource management, and information systems, are supporting AusAID to deliver more aid, and more effective aid (Chapter 2);
- the make-up of Australia's bilateral aid programs, and whether their scaling up is being managed effectively (Chapter 3);
- AusAID's management of two important aspects of the design of the Australian aid program, namely the use of technical assistance, and of partner government systems to deliver Australian aid (Chapter 4);
- the role of other Australian Government agencies in the aid program, and AusAID's performance in coordinating their involvement (Chapter 5);
- AusAID's recent efforts to improve monitoring and evaluation of the aid program (Chapter 6); and
- external reporting on the aid program, including in the context of the performance information framework in AusAID's Portfolio Budget Statements (Chapter 7).

2. Devolution and corporate support

This chapter examines whether devolution of management responsibilities to overseas posts, human resource management, and information systems, are supporting AusAID to deliver more aid, and more effective aid.

AusAID's management challenge

2.1 Aid agencies differ from domestically orientated government agencies in the breadth of their coverage. Domestic agencies have a national or sub-national geographic coverage, and usually focus on just one sector, say, education or health. Aid agencies have to work in many countries and many sectors. This imposes a high knowledge burden on aid agencies, and gives rise to the risk that they will lack the expertise to provide locally relevant and effective assistance.

2.2 The challenge of managing this risk is amplified for AusAID by the scaling up of Australian ODA and changes in the way aid is delivered. Strong growth in ODA has increased demands on AusAID to identify, design and implement new investments, as well as manage existing ones. New methods of delivering aid require closer in-country coordination with recipient governments and other donors, as well as strong local knowledge and sector expertise.

2.3 Over the past three years AusAID has pursued several organisational reforms to manage these challenges. These have included: devolution of responsibilities for country program management to country offices; a substantial increase in staff; building in-house technical expertise and using available human resources more effectively; and strengthening information systems. This chapter assesses AusAID's progress in implementing these reforms, and whether they support delivery of the growing aid program.

Devolution of country program management

2.4 Devolution is the transfer of power from a central to a subordinate level. Aid agencies devolve home office authority to in-country offices to respond quickly to local needs, and develop sound relationships with stakeholders at a country level. Devolution within AusAID commenced under a 2001 strategic plan, which proposed that country offices manage existing aid

activities.²⁵ The White Paper in 2006 provided impetus to extend devolution beyond aid activity management:

To ensure better aid delivery, and in recognition of the need for greater levels of policy and operational engagement from AusAID and other government agencies, more staff will be placed in the field over time. AusAID and its partners in aid delivery will build staff skills to strengthen analysis of critical development issues and to ensure that this is supported by a deeper knowledge of countries within the region.²⁶

2.5 To implement this policy, *AusAID 2010* established that country program posts would be given 'full responsibility and accountability for all aspects of implementation of AusAID's development strategy in-country'.²⁷ This included program design, implementation and management, in-country policy dialogue, managing local stakeholder relationships, monitoring and performance assessment.²⁸

Devolution of country program management is well-advanced

2.6 The ANAO's international fieldwork and review of AusAID documentation, showed devolution of country program management is well-advanced, in line with the strategic direction of *AusAID 2010*.²⁹ The 2008 OECD peer review of the aid program commended devolution, contrasting with other recent peer reviews of bilateral aid agencies that identified a need for increased decentralisation of operations to the field to improve development effectiveness.³⁰

²⁵ AusAID 2007, Staff note, "The Devolution of AusAID", p. 1.

²⁶ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's overseas aid program*, p. xv.

²⁷ *ibid.*

²⁸ AusAID 2007, *AusAID 2010: Director General's Blueprint*, p. 5. Under AusAID's devolved management arrangements, 'The country office has financial authority up to AUD 3 million, above which financial delegation reverts to Canberra and the Deputy Director General (up to AUD 10 million) and thereafter to the Director General.' [OECD 2008, *Peer Review of Australia*, p. 7.]

²⁹ The extent of devolution depends on the size and location of country programs, with smaller offices tending to be less than fully devolved. Some small and medium bilateral programs have in-country heads who report to a Senior Executive Service Officer at a regional hub. Other small programs without senior APS personnel in-country are overseen by the regional Senior Executive Service officer, or senior staff in Canberra. In 2007, two regional hubs were established in Bangkok and Suva to oversee regional aid initiatives and provide corporate and other enabling support to country offices in their region.

³⁰ See for example, OECD 2007, *Peer Review of Canada*, p. 15.

2.7 The ANAO observed that under devolution, AusAID's country office staff are developing greater country knowledge and stronger relationships with partner government personnel. Consistent with these observations, over 67 per cent of respondents to the ANAO's survey of AusAID staff agreed that devolution had improved country program effectiveness, with only 11 per cent disagreeing.

AusAID has been careful not to over-devolve

2.8 Since the release of the White Paper in April 2006, the number of AusAID staff has grown considerably to manage aid program expansion. The increase has occurred in Canberra and at country offices, including through a substantial rise in locally engaged staff (see Table 2.1).

2.9 Observing that some organisations have over-devolved and reflecting the high cost of posting officers overseas, AusAID has taken a measured approach to devolution. Between June 2006 and June 2008, the proportion of AusAID staff located overseas rose slightly from 46 per cent to 48 per cent.³¹ While *AusAID 2010* foreshadowed that 60 per cent of AusAID's workforce would be located overseas by 2010, an internal review of staff numbers in January 2008 estimated the proportion would only reach 51 per cent.³² The proportion of AusAID's APS staff (that is, excluding locally engaged staff) located in Australia remained relatively stable at around 80 per cent at June 2006 and June 2008. At June 2008, 74 per cent of AusAID's APS executive level staff were located in Canberra.³³

³¹ Compared to other devolved aid agencies the proportion of AusAID's overseas staff is the same as the United Kingdom (48 per cent of staff located overseas) and well below Denmark (73 per cent of staff located overseas). Data provided by the United Kingdom's Department for International Development, and OECD 2007, *Peer Review of Denmark*, p. 46.

³² AusAID 2008, Internal minute, "Staffing numbers review", 4 January 2008.

³³ AusAID 2008, *Annual Report 2007–2008*, pp. 264 and 267.

Table 2.1

Growth in AusAID staff between June 2006 and June 2008

	30 June 2006		30 June 2008	
	Number	Per cent	Number	Per cent
APS in Canberra	511	54	635	52
APS overseas	121	13	163	13
Locally engaged	311	33	430	35
Total	943		1228	
ODA/staff ratio ³⁴	2.33		2.35	

Source: AusAID annual reports; data extracted from AusAID's 'Aurion' human resource system; and, Australian Budget statements.

2.10 The staffing model applied by AusAID enables strong central direction setting, timely provision of advice to the Australian Government, and coordination of whole of government affairs in Canberra. However, it also places a premium on effective collaboration between Canberra and country offices so that posts can apply sufficient skills and are adequately supported to fulfil their expanded responsibilities. Effective collaboration is also required to allow the intimate knowledge of country needs that in-country managers have obtained, to suitably influence the direction of scaling up, and for AusAID to interact cohesively with external stakeholders in Australia.

Devolution has increased the workloads faced by country offices

2.11 AusAID's December 2008 staff survey highlighted the impact that devolution, amidst scaling up, has had on APS staff workloads at posts. Forty-four per cent of these staff reported high, very high, or severe work-related stress, compared with 17 per cent of staff located in Australia and 18 per cent of locally engaged staff. Almost half of AusAID's posted APS staff (48 per cent) indicated they worked more than 100 hours in the fortnight leading up to the survey, compared to 12 per cent of locally engaged staff and 11 per cent of staff

³⁴ The ODA to staff ratio is calculated using AusAID's country and global program aid (at constant 2008–09 prices). For staff as at 30 June 2006, an average of country and global program aid in 2005–06 and 2006–07 is used. For staff as at 30 June 2008, an average of country and global program aid in 2007–08 and the estimated 2008–09 outcome (as at May 2009) is used.

located in Australia.³⁵ The major contributing factors to posted APS staff being dissatisfied with their work-life balance were excessive workloads or unrealistic deadlines, followed by lack of staff, or lack of experienced staff.

2.12 The ANAO survey of AusAID staff gave further support to the finding that country offices are experiencing high workloads. Table 2.2 shows some survey responses on devolution and post work levels.

Table 2.2

AusAID staff perspectives on devolution and country office work levels

Response 1: The human resource capacity at Posts should be assessed in the context of increasing pressures both to engage strategically with development partners and in Posts' responsibility for program management.

Response 2: Devolution has resulted in a higher workload burden on in-country program managers. The transfer of human resources to Post was not commensurate with the removal of positions from Canberra, yet the work has if anything increased. In-country staff are now responsible for everything - Financial Management, HR, Public Affairs, Briefing, Contracting, Speech Writing etc.

Response 3: Devolution has been excellent in terms of having frontline AusAID Posts directly involved in and responsible for analysis. However, Posts need to be resourced adequately to accommodate the additional responsibilities brought to Posts by devolution.

Response 4: Devolution has not been supported through adequate posting of staff to posts who have the relevant skill sets to do an effective job. 'A Based [APS] Staff' in many instances do not have the skills to supervise and mentor...locally based staff.

Response 5: Devolution all depends on the people at either end. Where the people at either end are open to working together, then devolution works well. Where people at post have complete ownership and are hesitant to draw on the skills and resources in Canberra, it is less effective.

Source: ANAO survey of AusAID staff, March 2009.

2.13 The ANAO considers the concerns about staff workloads to be symptomatic of several simultaneous challenges. Additional responsibilities were devolved as scaling up of country program aid commenced; program growth has occurred through a large number of additional activities, often in new areas (see chapter three); and new forms of aid have required different skills and intensive engagement with partner country governments.

³⁵ AusAID 2008, "Insights Staff Survey". It is anticipated that many posted staff will work long hours, as has often been the case. However, long hours does not necessary translate into high stress levels, which are of particular concern.

2.14 The ANAO identified several factors that have made these challenges more difficult to meet. Firstly, many new staff and those recently posted remain inexperienced. Secondly, regular changes in roles undertaken by staff and weaknesses in internal collaboration have reduced support from Canberra for country offices. Finally, AusAID has not yet used its sizeable cohort of locally engaged staff to their full capacity, meaning a relatively small number of APS staff posted overseas lie towards the apex in the management chain for most country program aid. The following sections elaborate on these challenges in greater detail.

2.15 While improvements in these areas will support country programs in meeting higher workloads, the aid program is projected to again double in size between 2008–09 and 2015–16. Delivering a much larger aid program will require a concerted and collaborative effort across the entire Australian aid community. AusAID will need to strike a sound balance between its country, regional and global programs, and in using managing contractors, multilateral, non-government and civil society organisations to deliver aid.

Internal collaboration is not adequately supporting posts in managing devolved responsibilities

2.16 AusAID faces challenges in effective internal collaboration across countries and time zones, which have been intensified by more decentralised management arrangements. The agency needs to pay considerable attention to effective communication compared to domestically orientated agencies.

2.17 Staff satisfaction with internal communication is low, ranking least favourably of all aspects of the workplace in AusAID's most recent staff survey. Only 37 per cent of staff agreed communication between Canberra and posts was effective and only 27 per cent agreed communication between different areas of AusAID was effective. Locally engaged staff recorded much higher satisfaction ratings for all aspects of communication, while posted APS staff were the least satisfied group.³⁶ For two of the main posts, only six per cent of APS staff in Honiara, and only eight per cent in Port Moresby, agreed communication between different areas of AusAID was effective.³⁷ The main reasons for dissatisfaction with internal communications included lack of

³⁶ AusAID 2008, "Insights Staff Survey", pp. 15-16 and 128.

³⁷ AusAID 2008, "Insights Staff Survey", detailed breakdown of results provided to ANAO.

understanding between Canberra and posts, and insufficient or ineffective communication from the Executive and other senior management.³⁸

2.18 A staff survey conducted as part of an internal review of activity management devolution in 2007 highlighted lack of clarity in roles between country offices and Canberra, and weaknesses in collaboration between different areas of AusAID.³⁹ During the transition to more decentralised country program management, AusAID's internal monitoring again identified difficulties in role clarity and collaboration between country offices, country programs desks in Canberra and sector experts.⁴⁰

2.19 The ANAO survey of AusAID staff followed up on these issues in March 2009. The survey found the role of country program posts has become more sharply defined with extended devolution of country program management. However, there remains room for improvement in role clarity for country program desk staff and thematic groups⁴¹ in Canberra, and in the way they collaborate with posts (see Figure 2.1).

³⁸ *ibid.*, pp. 15-16. While there is no direct benchmark for these results, in the 2007–08 “State of the Service Survey”, 54 per cent of respondents across the APS agreed that formal and informal communication within their agency was effective. In response to a more general question in the AusAID staff survey, on the overall effectiveness of internal communication, 51 per cent of respondents were satisfied, although these results included much higher satisfaction among locally engaged employees.

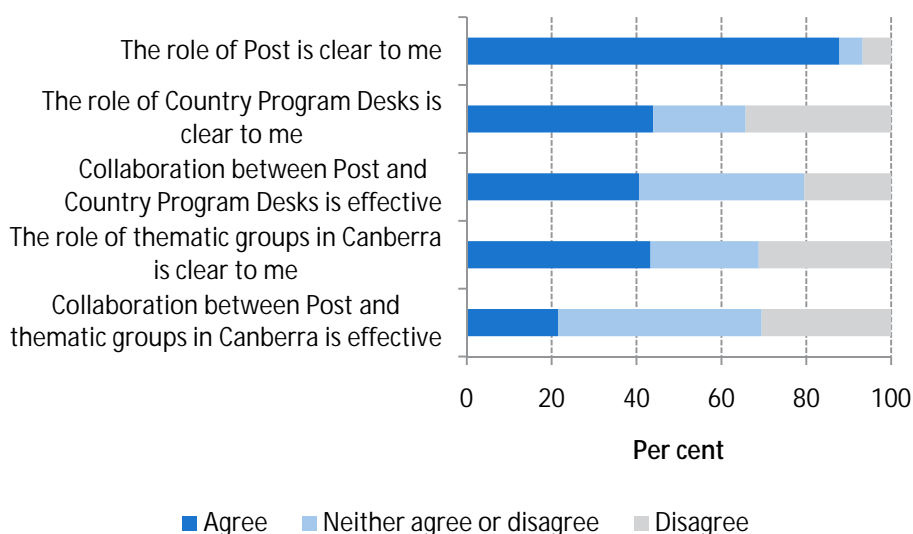
³⁹ AusAID 2007, “Review of Devolution”, Annexes.

⁴⁰ AusAID 2008, Executive Minute, “Implementation of Director General’s Blueprint: Status and Key Issues”, 16 April 2008, p. 3.

⁴¹ Thematic Groups were formed in 2007 to support program delivery by providing specialist expertise in areas such as education and health.

Figure 2.1

Staff perceptions of role clarity and collaboration



Source: ANAO survey of AusAID staff, March 2009.

2.20 Weak engagement between thematic groups and program delivery areas can negatively impact the design and delivery of aid, especially given a key responsibility of thematic groups is developing new policy proposals. AusAID has not yet taken full advantage of its additional field expertise to inform program expansion (see chapters three and six). Devolution also increases transaction costs for AusAID’s external stakeholders located in Australia, and more effective internal collaboration will support AusAID in managing these relationships.

Access of posts to corporate support has improved

2.21 Under devolution, one of the main pressures faced by posts is managing additional finance, human resource and contract management obligations. AusAID’s internal review of activity management devolution in 2007 found that:

Posts feel exposed to having to handle a range of corporate functions that they are not always trained or equipped for, in addition to their core development

responsibilities. This has significant risks for the Agency, especially in relation to finance and HR in-country.⁴²

2.22 *AusAID 2010* outlines an upgrade of corporate support functions to support overseas operations. Planned changes include the deployment of 'overseas-based dedicated financial, human resource and contracts expertise for country and regional programs' and 'clear guidance for overseas based staff in the respective functions'.⁴³

2.23 The establishment of corporate counsellor positions within overseas offices has now occurred, and is welcomed by posts. During audit fieldwork, post staff indicated a desire for more of this type of support. AusAID has also re-designed its procedural guidance for staff to support consistency in work practices under decentralisation. New guidelines cover financial management, contract management, human resource management, business planning, aid activity design and performance assessment. The guidelines have been well received by AusAID's staff, with 69 per cent of respondents to the ANAO survey agreeing guidance was clear and supportive, and 67 per cent agreeing it covered the main areas where guidance was needed.

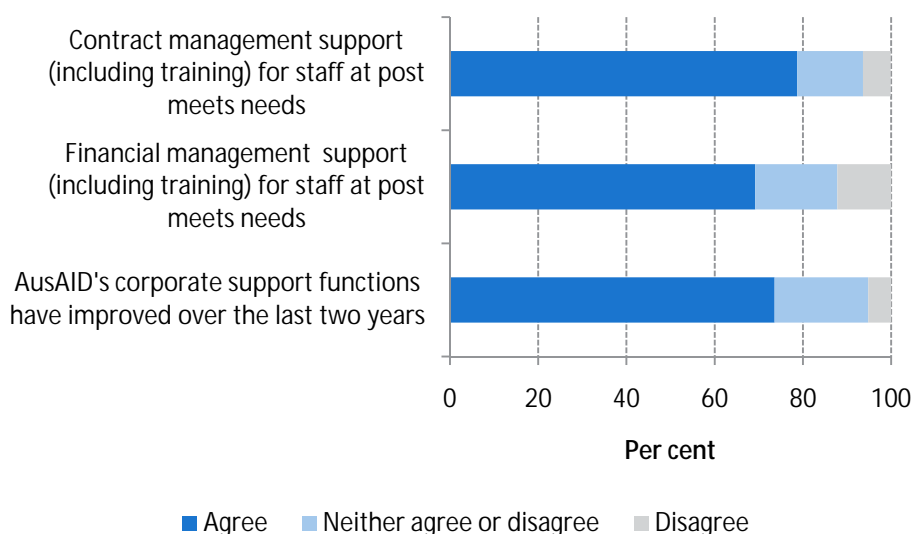
2.24 These developments have helped posts manage corporate responsibilities, and improvements in corporate support functions were reflected in responses to the ANAO survey of AusAID staff (see Figure 2.2). Providing posts have the capacity to fulfil corporate responsibilities does, however, remain an ongoing concern, and human resource management is one area that requires particular focus.

⁴² AusAID 2007, "Review of Devolution", p. 19.

⁴³ AusAID 2007, *AusAID 2010: Director General's Blueprint*, pp. 9-10.

Figure 2.2

Staff perceptions of corporate support



Source: ANAO survey of AusAID staff, March 2009.

Human resource management

2.25 AusAID is undergoing a fundamental shift in the nature of work undertaken—contract management and aid activity oversight are becoming less dominant; while country and sector knowledge, public financial management, and stakeholder management are increasing in importance as AusAID participates more in the delivery of aid. Changes have also occurred where work is undertaken, with devolution moving functions offshore. Effective management of human resources entails understanding and responding to AusAID’s changing environment by recruiting and developing suitable expertise, making sure a stable platform for knowledge accumulation and agency collaboration exists, and applying available skills in the right areas when needed.

Internal expertise has been strengthened, but program needs are exceeding the availability of expertise

2.26 In pursuing changes in how Australian aid is delivered, AusAID has recognised the importance of developing in-house technical knowledge. In 2007, *AusAID 2010* instigated the creation of specialist Canberra-based thematic groups (such as education and health), and recruitment of principal

advisors for particular sectors or themes. Meanwhile, AusAID has deployed more thematic experts to overseas posts in the last few years, and thematic networks have been established as a vehicle for thematic knowledge management, with program managers and technical experts participating in network discussions. As a result of these changes, AusAID considers it is 'clearly growing a stream of people ... with strong credibility in particular sectoral areas'.⁴⁴

2.27 However, growth in sector programs of support and use of partner country systems has generated strong demand for sector and country expertise by many country programs. Demand for expertise has often outstripped its supply. The ANAO noted that in-country expertise is variable across program delivery areas, and Canberra-based experts have tended to focus on higher profile areas.

2.28 AusAID has not clearly articulated the role of advisors based in-country:

We seem to have become slightly 'hung-up' on the role of country office advisers—how many we have; where they are located; what is their relationship with principal advisers and thematic groups. It is a statement of the obvious that when we are working closely with partner governments and in constant dialogue with them, when we are designing and implementing major (worth tens of millions) sector programs, and when we are seeking to play a constructive leadership role with other donors, having sectoral expertise based in country is more or less mandatory.⁴⁵

2.29 The roles of program delivery and Canberra thematic groups are articulated in *AusAID 2010*, however, agency-wide coordination arrangements were not established to guide interactions between Canberra thematic groups and advisors in-country until February 2009.⁴⁶ The quality of engagement has instead depended on relationship management by individuals in respective areas, the natural fit between thematic expertise and program work, and the primacy of country program assistance. As indicated by a recent internal

⁴⁴ AusAID 2009, "Building on the 2010 Blueprint: A Reform Agenda for 2015", p. 24.

⁴⁵ *ibid.*

⁴⁶ AusAID 2008, Executive Minute, "Implementation of Director General's Blueprint: Status and Key Issues", 16 April 2008, p. 3.

review, there remain some unresolved issues about roles, responsibilities and engagement [of thematic expertise] with the country and global divisions'.⁴⁷

2.30 The ANAO considers that AusAID can examine options to further build in-house expertise and better coordinate its allocation, which will help to make sure country program areas are well supported by the technical skills they need to manage their programs effectively. This does not mean, however, that AusAID should develop expertise in every sector it engages in, rather, a sensible balance can be struck between delegated cooperation with other donors and in-house capacity. Tightening the sector focus of the aid program will support development of Australian expertise by targeting particular areas, such as education.

High staff turnover is reducing program effectiveness

2.31 Organisations strive for a level of turnover that balances renewal, with experience and continuity in management. High staff turnover and mobility hinder knowledge accumulation, the development of productive working relationships and, as a result, the standard of program management. Managing staff turnover can be particularly difficult for aid agencies, given the need to post officers overseas, to respond quickly to changes in the environment, and available employment opportunities within other development organisations.

2.32 High staff turnover and mobility has been a long running problem for AusAID. The 1997 review of the aid program, *One Clear Objective: Poverty reduction through sustainable development (Simons review)* noted that:

The [Review] Committee is also concerned about the extent of staff mobility in AusAID. This was raised in many of the submissions received, and during overseas visits. It is far from being a new issue. It was raised in a review of ADAB, a predecessor of AusAID, as far back as 1986 (Fuchs 1986) and it has been an issue of concern to AusAID staff. A degree of mobility is to be expected given the small size of the agency and the need to post staff overseas. Nevertheless, the apparently very high rate of turnover depleted corporate

⁴⁷ AusAID 2009, "Building on the 2010 Blueprint: A Reform Agenda for 2015", p. 23.

memory, diminishes country knowledge and expertise, and causes inefficiencies through the need to constantly retrain staff.⁴⁸

2.33 The ANAO analysed movements by AusAID’s APS staff over the 2008 calendar year to assess whether turnover remains a problem. The analysis revealed that the situation described by the *Simons review* in 1997 still exists—only 49 per cent of APS staff finished 2008 in the same section they began it in. The results were lower across all Canberra based APS staff, at 44 per cent, and for APS country program desk staff in Canberra, at 38 per cent (see Table 2.3).⁴⁹ The ANAO’s survey of AusAID staff provided further evidence of high staff turnover—44 per cent of respondents disagreed that AusAID staff normally stay long enough in their roles to be effective, while only 31 per cent agreed.

Table 2.3

APS staff turnover 2008 calendar year

	All APS		Canberra		Desk	
	Number	Per cent	Number	Per cent	Number	Per cent
Number of staff	722		574		188	
Staff turnover (left agency or changed section by end year)	366	51	319	56	117	62

Source: AusAID’s ‘Aurion’ system, staff granted long term leave are treated as departed.

2.34 During audit fieldwork, AusAID’s external stakeholders consistently identified high levels of staff turnover as a dominant concern. High turnover was seen as reducing staff skills and experience, and continuity in management of aid activities. The 2008 OECD *Peer Review of Australia* noted that the combination of high staff turnover and mobility were seen by most of AusAID’s partners in Indonesia as ‘a constraint for developing constructive

⁴⁸ Commonwealth of Australia 1997, *One Clear Objective: Poverty reduction through sustainable development*, Report of the Committee of Review, prepared by H Simons (Chair), G Hart, & C Walsh, p. 311. Staff turnover was subsequently identified as a concern in the 2004 and 2008 OECD peer reviews of the Australian aid program. In a survey conducted as part of the 2007 review of activity management devolution, 86 per cent of staff disagreed that staff turnover at country program desks was low, with 60 per cent strongly disagreeing.

⁴⁹ This was partly due to additional overseas postings during the transition to 2010. However, even after adjusting for the net impact of additional postings in the 2008 calendar year (assuming that none of the 50 additional posted staff would have changed team), APS staff turnover would remain high at 44 per cent. Further ANAO analysis for the nine months to 30 September 2009 showed no marked difference overall in staff turnover, taking account of fewer staff postings overseas.

relationships'.⁵⁰ High turnover in Canberra is also a predominant cause of weaknesses in internal collaboration, which is reliant on sound working relationships.

2.35 The ANAO noted a range of instances where high staff turnover has compromised the quality of AusAID's program management. For example, the AusAID (2007) review of the Timor Leste country program found that staff turnover in Canberra was one of the major management deficiencies of the program. AusAID's (2005) evaluation of the PNG National HIV/AIDS Support Project found that 'rapid turnover of AusAID personnel responsible for the activity may have hindered timely responses to problems'. Reviews of AusAID's bilateral program to the Solomon Islands, have highlighted a lack of 'consistent and rigorous' scrutiny by AusAID of some initiatives resulting from high turnover of desk officers.⁵¹ A (2006) review of the Philippines country strategy reported that:

In 2003 AusAID was completing its devolution of activity management to country offices (Posts). Over the course of the strategy period the Philippines Post has reported difficulties in accessing support services from Canberra. A high staff turnover in Australia created issues around continuity on strategic issues.

2.36 Based on these findings, the ANAO considers that AusAID has not yet achieved an appropriate balance to staff turnover, which has tended to be too high. AusAID's human resources branch indicated the agency has taken a flexible approach to staff placements in order to enable it to respond to emerging aid priorities. However, when combined with relatively short postings and under emphasis on career pathways, AusAID's flexible approach to staff placement has contributed to high staff turnover.

2.37 The ANAO considers that AusAID can better support development of corporate knowledge, its key partnerships and program management by:

- *Considering the appropriate length of postings:* Currently, the standard length of postings is two years, with the option of a one-year extension.

⁵⁰ OECD 2008, *Peer Review of Australia*, p. 17.

⁵¹ Office of Development Effectiveness 2007, 'Peer Review Draft, Desk Review of Solomon Islands Bilateral Strategy', 22 November 2007. This evaluation of the Solomon Islands 'Institutional Strengthening of Land Administration' project noted in the case of this project that project managers had to cope with seven different desk officers in less than three years, with similar turnover problems identified in the 2005-06 review of the forests project.

This is at the lower end of international practice for non-hardship postings. Several other donors in Vietnam indicated posting lengths of three to five years, as it takes some time to become accustomed and able in such environments. While a degree of flexibility is required depending on country circumstances, increasing the average length of postings would help to address the knowledge burden and increase the effectiveness of many country offices; and

- *Improving promotion of career pathways*: Opportunities exist for staff to be placed more strategically over time, thereby building specific expertise and promoting career pathways. Greater emphasis can be given to placing thematic group members as in-country advisers according to their sector specialisation, while aid generalists may be given a series of roles that develop expertise in a particular country or region.⁵²

AusAID's use of locally engaged staff is improving

2.38 Locally engaged staff are recruited from within the countries aid agencies work, and form a sizeable and critical resource for many aid organisations—as at June 2008, 35 per cent of AusAID's staff were locally engaged.⁵³ These employees bring local knowledge and language skills, which are increasingly important to AusAID as it works more with partner governments and through their systems. Local staff can provide a degree of continuity in corporate knowledge that posted Australian staff cannot, and the cost of hiring them is very low relative to that of posting home country staff.

2.39 Locally engaged staff have formed a large contingent of AusAID's personnel for a long period of time. However, until recent years, their role was largely confined to aid activity management, under supervision of APS employees.⁵⁴ Noting an opportunity for improvement, in 2004, the OECD *DAC Peer Review of Australia* discussed the importance of local staff to devolution,

⁵² AusAID 2009, "Building on the 2010 Blueprint: A Reform Agenda for 2015", pp. 26-27.

⁵³ AusAID 2008, *2007–08 Annual Report*, and ANAO analysis of data from AusAID's 'Aurion' human resource system.

⁵⁴ AusAID 2004, "Note from the Director General to staff".

and identified that AusAID could improve their career perspectives and reporting arrangements by learning from other donors.⁵⁵

2.40 Recognising more flexible staff use would be necessary under extended devolution, *AusAID 2010* states that by 2010 ‘the historic norm of [locally engaged staff] roles being limited to advisory and support functions, and all formal decision making resting with public servants, will have disappeared’.⁵⁶

2.41 An important step on this path was the release of new overseas based staff guidelines (effective February 2008) which offered local staff employment status for the first time, thereby addressing concerns about lack of continuity in employment. This move, coupled with more competitive entitlements, aimed to address past difficulties in attracting and retaining high calibre staff.

2.42 Between June 2006 and June 2008, AusAID employed over one hundred additional locally engaged staff. Local staff are now being placed in more senior program positions by posts, including specialist roles, and in some cases are supervising other locally engaged staff. The ANAO observed some innovative use of locally engaged staff during fieldwork.

⁵⁵ OECD 2004, *DAC Peer Review of Australia*.

⁵⁶ AusAID 2007, *AusAID 2010: Director General's Blueprint*, p. 3.

Table 2.4**Locally engaged staff leading development**

During visits by the ANAO to Papua New Guinea, the Philippines and Vietnam, locally engaged staff were observed in leadership roles progressing development.

In Papua New Guinea, locally engaged employees play a critical role in helping to manage the Sub-National Strategy (SNS). These employees use their cultural understanding to build relationships with partners in provincial governments, thereby helping to implement SNS initiatives, and feeding back lessons learned to inform other AusAID initiatives.

In the Philippines, two country program teams are comprised solely of locally engaged staff. These teams oversee performance management, quality reporting, procurement, workforce planning and other administrative support. The post has opened what were formerly first secretary positions (now called portfolio managers) to locally engaged staff, who are expected to increasingly fill these roles over time.

In Vietnam, locally engaged staff have been developed in specialist roles to provide expertise on public financial management and gender. The contribution of these employees enables Australia to be the lead donor in the public financial management and gender working groups of the multi-donor, Vietnamese Government led Poverty Reduction Support Credits scheme.

2.43 Despite these positive examples, by mid-2009 there were still only two examples of locally engaged staff managing APS staff—in Goroka, Papua New Guinea, and Kupang, Indonesia. Historic reporting arrangements, whereby APS personnel manage their locally engaged counterparts, remains the norm, regardless of the relative skills and experience of staff. AusAID's constrained use of local staff as supervisors limits their ability to contribute towards alleviating high management workloads, and results in many APS staff arriving at post lacking the leadership and management skills they require.⁵⁷

2.44 A recognised limitation in the use of locally engaged staff is that only security cleared staff with Australian citizenship can access sensitive information. This means that country offices need to identify those positions in their structure that are diplomatic in nature and require an Australian placement, or to otherwise implement efficient arrangements to manage diplomatic affairs. In some circumstances, it may be possible to place specialist APS officers within country offices to handle sensitive matters across the portfolio of aid activities.

⁵⁷ AusAID 2008, Executive Minute, "Issues Paper: Workforce Planning—Initial Steps, 18 November 2008", p. 4.

2.45 The ANAO considers that within this limitation, and consistent with advice from senior program managers at post, AusAID needs to move to allocate additional management responsibilities to experienced and capable locally engaged staff, including in relation to APS personnel in-country. Consistent with this, the ANAO survey of AusAID staff found 91 per cent of staff agreeing that locally engaged staff should be allocated increased responsibilities, commensurate with their capabilities.

Workforce planning has been limited

2.46 Imbalances in workloads and responsibilities, difficulties faced by program areas in accessing expertise, and high staff turnover point to shortfalls in AusAID's workforce planning. Despite two previous attempts, large scale organisational change, and strong growth in staff numbers, AusAID has not yet developed an agency-wide workforce plan.

2.47 In the second half of 2008, AusAID's People and Planning Branch engaged a workforce planning practitioner and undertook extensive consultations with posts. The resultant paper presented to the AusAID Executive includes: analysis showing a significant shortfall in the number of people to fill Executive Level 1 positions in Canberra; reflected on high levels of internal turnover; and discussed problems with low levels of skills and experience in some branches.⁵⁸ The paper highlighted direct implications of devolution that may have been mitigated by better agency-wide planning and analysis.

2.48 In February 2009, an internal AusAID review recommended acceleration of agency workforce planning to better support scaling up and new forms of aid:

To the extent possible, undertake early identification of missing competencies in support of the scaling up and aid effectiveness agenda to feed into rapid recruitment in 2009.

A strengthened focus on the professional development of AusAID staff to be closely linked to the workforce development exercise and the imperative of delivering an effective scaled up aid program and building new skills in new aid modalities.⁵⁹

⁵⁸ AusAID 2008, Executive Minute, "Issues Paper: Workforce Planning – Initial Steps", 18 November 2008.

⁵⁹ AusAID 2009, "Building on the 2010 Blueprint A Reform Agenda for 2015", p. 27.

2.49 Following the review, AusAID committed to progress on workforce planning and professional development as part of the Director General's annual statement of priorities for 2009. A high profile workforce planning exercise is now underway, under the leadership of a steering committee comprising seven SES officers from across AusAID, and through the work of a dedicated workforce planning team. Initial work is focused on developing a workforce vision, establishing evidence based workforce planning, and investing in workforce planning infrastructure. A draft workforce plan is expected to be provided to AusAID's Executive for endorsement in December 2009, and will outline predicted workforce needs, gaps between demand and supply, workforce development strategies, and implementation roles.⁶⁰

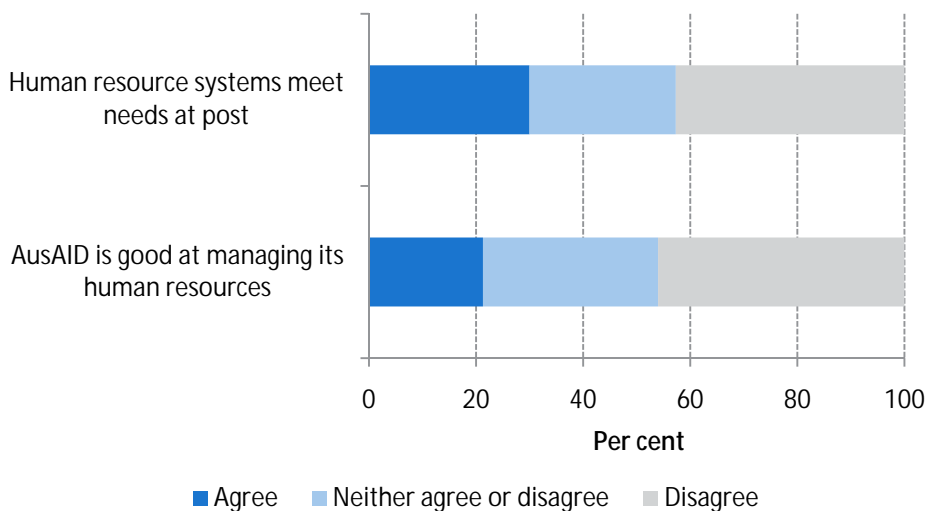
2.50 The ANAO considers AusAID's heightened focus on workforce planning and professional development to be important. Beyond meeting the challenges of scaling up and changes in the way aid is delivered, this work may help to address discontent within AusAID regarding human resource management and systems (see Figure 2.3). Over 56 per cent of APS respondents to the ANAO survey of AusAID staff disagreed that AusAID is good at managing its human resources, and only 13 per cent agreed. More broadly, the main concerns identified by staff in relation to human resource management were lack of transparency and consistency in recruitment and promotion practices; insufficient focus on development and use of staff skills; unpreparedness of APS officers for postings; inflexible use of locally engaged staff; high turnover; and inadequate human resource support functions.⁶¹

⁶⁰ AusAID 2009, "Workforce Planning in AusAID", August 2009.

⁶¹ ANAO survey of AusAID staff, March 2009, detailed responses.

Figure 2.3

Staff perceptions of human resource management (APS and locally engaged staff)



Source: ANAO survey of AusAID staff, March 2009

Use of information systems

2.51 Effective use of information systems is critical to AusAID as it manages operations across multiple countries. Sound information systems enable efficient application of consistent business rules, communication within, and between, countries and sound information management.

2.52 The ANAO has examined AusAID’s progress towards the objective for information systems outlined in *AusAID 2010*:

A strong spine of mandatory corporate systems that will be available in all AusAID locations, however remote, and which will provide all staff and managers with the necessary management information to do their jobs.⁶²

AusAID is investing in IT services to keep pace with agency needs

2.53 Prior to the recent scaling up of Australian aid, AusAID’s overseas staff were normally co-located at the Department of Foreign Affairs and Trade (DFAT) chanceries, and used the DFAT information and communications

⁶² AusAID 2007, *AusAID 2010: Director General’s Blueprint*, p. 9.

technology (ICT) environment. Under these arrangements, some AusAID applications could be accessed and AusAID would reimburse DFAT for the supply of ICT services. The recent growth in AusAID's overseas workforce has seen the agency outgrow these arrangements, with additional work accommodation necessary at several large posts. Changes in the way Australian aid is delivered have also resulted in more staff working in provincial offices, and recipient government offices.

2.54 Since 2006, AusAID has implemented its own ICT environment in Honiara, Jakarta and Port Moresby so that additional staff in these locations are provided with information technology services.⁶³ This has created a mixed ICT delivery model at some posts, combining AusAID and DFAT ICT services.

2.55 Despite these arrangements, AusAID's staff at posts report a range of difficulties with information systems, including inability to share documents, poor system performance, limited access for roaming users,⁶⁴ and reliance on manual administrative processes (due to limited or no access to corporate management systems).⁶⁵ The mixed ICT delivery model for posts also resulted in inefficient working arrangements for staff operating under different platforms in the same country.

2.56 These outcomes highlight the need for sustained investment in information technology to keep pace with agency requirements:

Progress in delivering increased accessibility to AusAID business systems to overseas users could be best described as 'Stop/Start' due to various organizational constraints. These have included deficiencies in a comprehensive IT architectural framework, poor governance, inadequate capital budgets, use of operational funds to cover new business initiatives and the business priority to manage and maintain existing IT production environments.⁶⁶

2.57 In November 2008 AusAID's Executive endorsed the 'Information Technology Services Refresh Project'. The project aims to consolidate disparate

⁶³ AusAID 2008, "IT Services Refresh Project Brief", p. 20.

⁶⁴ All AusAID staff have access to a laptop virtual private network solution, though there are often geographic and infrastructural issues which prohibit access to AusAID's information systems. [AusAID advice to ANAO, August 2009.]

⁶⁵ AusAID 2008, "IT Services Refresh Project Brief", pp. 19-20.

⁶⁶ AusAID 2008, "IT Services Refresh Project Brief", p. 7.

information technology platforms into a single AusAID ICT environment that all staff can access regardless of their location, and includes improved access for roaming users. Having a single platform will help to address the problems identified in paragraphs 2.55 and 2.56, and improve agency collaboration. The project is scheduled to be completed in September 2011, with initial work to focus on rectifying the main inefficiencies of current arrangements, including through deployment of a single ICT delivery model to Papua New Guinea and Solomon Islands staff, scheduled for December 2009.⁶⁷

AusAID has not been well supported by its aid information system

2.58 The main information system used by AusAID to manage the aid program is called 'AidWorks'. AidWorks is a web-based system, which allows users to access it from diverse locations. The primary functions of AidWorks are to support aid activity management, financial management and performance reporting.

2.59 AidWorks was released in December 2005 with base functionality. Since its release there have been a further nine releases either adding functionality or responding to enhancement requests from business areas. During this period there have been four different governance arrangements for the system, and three different business owners.⁶⁸

2.60 Regular changes in oversight arrangements for AidWorks have not supported a consistent vision for the system, and its functionality has fallen short of business requirements. Extensive consultation by AusAID on AidWorks during 2008 found the system is driving business process and that users have to work around the system to meet their business requirements.⁶⁹ In this regard, key limitations of AidWorks are that it cannot be used to determine future aid commitments and does not capture accurate information on how aid is delivered (including funding mechanisms and forms of aid)—both of which are important to scaling up.⁷⁰

⁶⁷ AusAID advice to ANAO, August 2009.

⁶⁸ AusAID Advice to ANAO, February 2009.

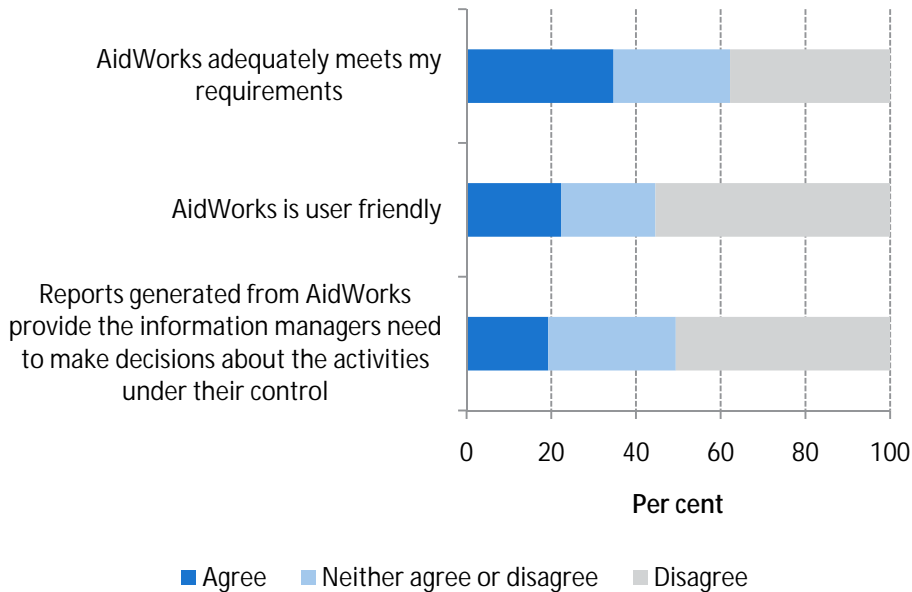
⁶⁹ AusAID 2008, "AidWorks 3 Business Case", p. 6.

⁷⁰ *ibid.*, Attachment A.

2.61 The ANAO survey of AusAID staff provides additional evidence of scope for improvement in AidWorks’ functionality (see Figure 2.4).

Figure 2.4

APS staff perceptions of AidWorks



Source: ANAO survey of AusAID staff, March 2009.

2.62 To address these concerns, in December 2008, AusAID’s Executive approved a three-year work program to reduce the gap between business requirements and system imposed behaviour, with a view to AidWorks supporting both activity management, and higher level program and policy development.⁷¹ Stage one of the upgrade, scheduled for December 2009, involves improvements in system usability, financial reporting, and search functionality.⁷²

⁷¹ AusAID 2008, “AidWorks 3 Business Case”, p. 7.

⁷² AusAID 2009, “AidWorks Overall Stage Plan Presentation”, March 2009.

Conclusion

2.63 Recent corporate reforms undertaken by AusAID provide a platform to deliver more aid, and more effective aid. Devolution has supported accumulation of country knowledge and effective on-the-ground management and has strengthened corporate support in areas such as financial management, which helps country offices manage broader responsibilities. It has also resulted in increased staff numbers, and brought in and developed additional in-house expertise.

2.64 However, the model of devolved management arrangements implemented by AusAID and large scale organisational change, have led to staff concerns about high workloads and stress levels at many posts, which are likely to continue rising in the coming years. AusAID has not yet achieved effective internal collaboration, whereby posts, country program desks in Canberra, and thematic experts would combine in a cohesive manner to manage growing levels of aid.

2.65 Some of the main difficulties encountered by AusAID in scaling up ODA highlight a need for the agency to improve human resource management. Regular changeover in roles, undertaken by staff, has been a long term problem that has worked against program effectiveness—only one in two APS staff remained in their position over the 2008 calendar year. AusAID did not adequately plan for the work implications of changes in how aid is delivered, which has resulted in a shortfall of expertise in some areas. Also, there are opportunities to build on recent improvements in the use of locally engaged staff by allocating them additional supervisory responsibilities, thereby strengthening the management capacity at aid posts.

2.66 While improvements in these areas will support country programs in meeting high workloads, the aid program is projected to again double in size between 2008–09 and 2015–16. Delivering a much larger aid program will require a concerted and collaborative effort across the entire Australian aid community. AusAID will need to strike a sound balance between its country, regional and global programs, and in using AusAID staff, other Australian Government agencies, managing contractors, multilateral agencies, other donors and civil society organisations to deliver aid.

Recommendation No.1

2.67 The ANAO recommends that, in order to better support program management, AusAID refine its approaches to human resource management, including by:

- regularly monitoring, and analysing the key drivers behind staff turnover and developing strategies to increase the length of time staff spend in roles; and
- increasing management responsibilities of locally engaged staff, where appropriate, including in relation to management of APS personnel.

2.68 **AusAID response:** *Agreed.* AusAID will continue to invest in strategic workforce planning approaches, processes and practices. In March 2009, AusAID established the Workforce Planning Steering Committee to lead the process of change, including the development of an evidence-based planning methodology supported by improved systems for data collection, analysis and forecasting.

3. Country program aid

This chapter examines the make-up of Australia's bilateral aid programs, and whether their scaling up is being managed effectively.

The importance of selectivity

3.1 There is an opportunity cost associated with all aid allocation decisions. The cost of providing a scholarship to study at an Australian University, for example, is equivalent to the cost of building a secondary school under the Australia—Indonesia Basic Education Program, or to the annual salaries of fifteen teachers in Papua New Guinea.⁷³ This means to maximise the effectiveness of aid, the relative costs and benefits of possible aid allocations need to be closely considered.

3.2 As an important arm of foreign policy, aid serves multiple purposes in alleviating poverty, such as promoting trade and regional stability. It is also in the national interest of donors to spread support broadly to be visible and helpful. Since there are good arguments to work in every poor country and in every sector, and there is little by way of rigorous calculus that can guide aid allocation decisions, the tendency of donors is to do a little of everything.

3.3 The discretion of donors thus increases complexity and fragmentation of aid. In many developing countries there are a large number aid donors operating projects in multiple sectors, which creates a considerable management burden for aid agencies, and imposes substantial transaction costs on recipient governments. Recognising these problems, and that Australia 'cannot be all things to all countries, or even to one country',⁷⁴ the 2006 White Paper on the aid program emphasised the importance of being selective.

AusAID's role in selecting aid investments

3.4 As the main Australian Government agency responsible for managing the aid program, AusAID has a central role in selection of Australia's aid

⁷³ AusAID 2009, "Office of Development Effectiveness, draft paper of Annual Review of Development Effectiveness 2008", p. 26.

⁷⁴ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's overseas aid program*, p. 58.

investments. AusAID provides advice to the Government on international development policy and implements poverty reduction activities in partnership with developing countries. These roles require that AusAID pursue several important objectives:

- aligning aid with the priorities and needs of recipient countries—whose ownership supports its sustainability and impact;
- delivering on Australia’s aid policy commitments, and facilitating internal consistency in their application—this includes supporting achievement of Millennium Development Goals (MDGs), and commitments under the international aid effectiveness agenda to reduce fragmentation of aid and increase the predictability of aid flows; and
- shaping the profile of scaled up ODA to support its manageability.

3.5 This chapter examines the role played by AusAID’s country strategies in determining the focus of country program aid (Australia’s bilateral programs of assistance to developing countries); the selectivity of aid provided through these programs—including how it has been affected by scaling up and the management implications; and the predictability of Australia’s bilateral support.⁷⁵

Determining the focus of country program aid

3.6 Country program aid is expected to exceed \$2.3 billion in 2009–10, representing approximately 63 per cent of Australia’s ODA. Forecast growth in country program aid, since scaling up was announced in 2005–06, is \$1.15 billion, compared to growth of \$1.12 billion for the entire aid program.⁷⁶

⁷⁵ In this chapter, unless otherwise stated, the terms country strategy, country program and country program aid refer to both country and regional aid programs managed by AusAID. Country programs relate to a particular developing country, whereas regional programs focus on aid interventions that can only be progressed at a regional level (such as transnational issues and economic integration). Some country programs, such as aid to Africa, are managed under multi-country management arrangements.

⁷⁶ Commonwealth budget statements 2007–08 to 2009–10.

Growth in country program aid is expected to continue through to 2015–16, underscoring the importance of strategic aid allocations.⁷⁷

The role of country strategies

3.7 Over a long period, reviews of the Australian aid program have emphasised the importance of country strategies to aid allocation decisions. The emphasis on sound planning through the completion of country strategies reflects the fact that there are many ways in which donors can provide assistance to partner countries. Country strategies provide a vehicle for strategically focusing efforts through detailed consideration of developing country contexts and donor capacity. The strategies also document the nature of assistance to be provided, thus generating accountability to partner governments.

3.8 This does not mean that established country strategies can or should be the only determinant of aid allocation decisions. Country programs and the strategies which guide them need to remain flexible. In recent times, for example, AusAID's country programs have had to respond to emerging global problems such as the threat of bird flu, climate change, and the global economic downturn; problems specific to particular countries such as political instability, humanitarian disasters and changes of government; and aid policy reforms resulting from the change of Australian Government in November 2007.

3.9 A central challenge for AusAID is to use country program planning to develop well focused and manageable programs of assistance, that are capable of responding to changing policy directions.

AusAID has struggled to complete country strategies and make them central to aid allocation decisions

3.10 Past reviews of the aid program found that country strategies were not established as a primary basis for determining country program investments. The *Report of the Committee of Review: The Australian Overseas Aid Program*

⁷⁷ The ANAO acknowledges that AusAID's global programs, which are forecast to account for 23 per cent of ODA in 2009–10, are also central to the delivery of aid, and important to the scaling up of ODA. The Australian Government is committed to increasing engagement with multilateral development organisations, and to deepening partnerships with Australian non-government organisations and civil society organisations. Delivering more aid through global programs will support both the division of labour between donors and the manageability of the aid program.

(*Jackson report*) on the aid program in 1984, observed that at that time the aid program was predominantly organised by sector programs, and argued that 'country analyses and aid strategy formulation should be the core of aid programming.'⁷⁸ In 1997, an independent review of the aid program found that AusAID's approach to country programming needed to be re-invigorated, with a particular focus on ensuring completion of country strategies for all recipient countries.⁷⁹ The thrust of the arguments was again reflected in the 2006 White Paper, which stated that:

The development of whole-of-government country strategies, coordinated by AusAID, will be the critical means for determining the focus of Australia's support to particular countries under the four themes, taking into account individual country circumstances, priorities and other donor programs.⁸⁰

3.11 In response to the gap between the coverage of existing country strategies and what was envisaged under the White Paper, in mid-2006, AusAID embarked on a program to upgrade them.

3.12 Progress has been slow. A stocktake of country strategy completion by the ANAO in early 2009 showed that 11 of the top 20 recipients of country program aid in 2007–08⁸¹ had current country strategies (or, where applicable, 'strategic frameworks').⁸² Although this included most major recipients (and 77 per cent of overall bilateral aid expenditure), it excluded a number of countries that, while challenging, should have had strategies in place. For example, Timor Leste, the sixth largest recipient of Australian aid has not had a country strategy since at least 2002,⁸³ during which period Australia has provided over \$350 million of assistance.⁸⁴ This is in spite of the fact that AusAID stated its

⁷⁸ Commonwealth of Australia 1984, *Report of the Committee of Review: The Australian Overseas Aid Program*, p. 5.

⁷⁹ Commonwealth of Australia 1997, *One Clear Objective: Poverty reduction through sustainable development*, Report of the Committee of Review, prepared by H Simons (Chair), G Hart, & C Walsh, pp. 165–166.

⁸⁰ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's overseas aid program*, p. 21.

⁸¹ Excluding amounts received under AusAID's regional programs.

⁸² Two of the top 20 recipients of country program aid (excluding regional program flows) were covered by a strategic framework: Fiji and Myanmar. Strategic frameworks are developed in cases where program resources cannot be predicated over the medium-term (e.g. in volatile operating environments); and/or the country's government is not recognised by the international community as legitimate.

⁸³ AusAID 2007, "East Timor Country Effectiveness Review".

⁸⁴ OECD Development Assistance Data.

intention to have a country strategy in place from 2004–05 onwards in response to a 2003–04 ANAO performance audit recommendation.⁸⁵ An AusAID review of the program observed that as a result:

The absence of a published AusAID East Timor country strategy has made it difficult for AusAID staff to resist requests for support and maintain a clear focus on strategic areas of support. Demands on staff time and the urgent need for support to many areas in East Timor have tended to make decision making reactive rather than planned and rational.⁸⁶

3.13 Similarly, the coverage of regional (and multi-country) program strategies has been low. In early 2009 only two formal strategies were in place—for the Greater Mekong subregion and the Pacific region, with new strategies in development for East Asia, South Asia, the Pacific, and Africa (multi-country strategy), which combined, are projected to provide \$558 million in regional program ODA in 2009–10.⁸⁷

3.14 AusAID advised the ANAO that its slow progress in upgrading country strategies was caused by a range of factors, including time taken to translate the 2006 White Paper into new strategies, changes to the operating environment in partner countries, and the change in Australian Government in November 2007. In particular, the Prime Minister’s Port Moresby Declaration in March 2008, wherein the Australian Government agreed to pursue ‘Pacific Partnerships for Development’ with Pacific Island nations, changed the nature of country strategy development for the region.⁸⁸

3.15 While noting recent challenges, the ANAO observed that AusAID has struggled to complete country strategies over an extended period of time, which has detracted from their centrality to program management, and efforts to improve the focus of country program aid. Country strategies are the primary mechanism through which AusAID can reach agreement with executive government and whole of government partners on development

⁸⁵ ANAO 2003, *Aid to East Timor*, Audit Report No. 20, 2003–04.

⁸⁶ AusAID 2009, “Improving the provision of basic services for the poor: Water and sanitation sector evaluation: East Timor Background Report”, draft, 7 February 2009, p. 27.

⁸⁷ AusAID advice to ANAO, August 2009.

⁸⁸ AusAID advice to ANAO, March 2009. The partnerships will gradually replace country strategies as Australia’s agreed development assistance strategies for the Pacific.

assistance, in line with the priorities of partner governments, and to date AusAID has not capitalised on the potential of country strategies.

The quality of country strategies is variable

3.16 For country strategies to be useful, they need to clearly outline the rationale for the assistance to be provided, how aid activities contribute to strategic objectives, how aid will be delivered—including the contribution of other government departments and use of partner government systems, and how performance will be measured. To provide for accountability to partner governments and support forward planning, the strategies also need to indicate the amount of assistance to be granted.

3.17 The ANAO reviewed a selection of country and regional strategies, and found their focus tends to be at a high level—on the rationale, objectives and principles of engagement. Less detail is provided on how aid objectives will be achieved, including the contribution of aid activities and use of delivery mechanisms. The strategies are not always up-to-date with program changes, and are usually not costed.⁸⁹

3.18 These problems limit the relevance of country strategies to strategic and operational decision making, reduce the transparency of resource allocation decisions and predictability of Australia's support to partner governments. In many cases, there is no clear line of sight between the inputs, outputs and intended outcomes of country program aid.

Pacific Partnerships for Development may lead to positive change

3.19 Pacific Partnerships for Development have the potential to improve the impact and relevance of development assistance strategies through strengthened alignment and mutual accountability, and more detailed consideration of operational matters. The partnerships are signed by heads of state, involve joint annual reviews of progress, and consist of both high level objectives and principles, and detailed implementation plans—including agreed targets, resource contributions, and implementation approaches.⁹⁰ An AusAID self-assessment report suggests that:

⁸⁹ Chapter six discusses the need for AusAID to improve the way country program aid objectives are defined.

⁹⁰ AusAID advice to ANAO, August 2009.

In practical terms, this will see Australia's assistance reinforce strong country leadership of development strategies and programs by committing to long term, more predictable engagement, with assistance better aligned to country's own management and decision making systems.⁹¹

3.20 Since March 2008, AusAID has taken the opportunity presented by Pacific Partnerships for Development to also refine its approach to strategy development for countries outside the Pacific. Revised country strategy architecture emphasises articulation of delivery strategies, which will set out how aid will be provided. This includes links between aid activities and program level objectives, the role of partners in aid delivery, and use of recipient country systems.⁹²

3.21 The ANAO considers the new country strategy architecture to be a step forward. One of the main reasons for the failure of country strategies to gain traction has been their lack of centrality to strategic and operational decision making. Bringing a stronger operational focus to their contents will help in this regard, while also informing the scaling up of ODA. In particular, revised approaches to country strategy development present an opportunity to explore and reach agreement on the involvement of a diverse range of development stakeholders in delivery of growing levels of Australian aid, and on how partner country systems can be strengthened and used to facilitate this growth.

3.22 At this stage, however, it is too early to assess whether these changes will be successful. As at June 2009 five Pacific Partnerships for Development had been approved, covering some but not all sectors, and accompanying implementation schedules were incomplete.⁹³ No strategies for countries outside the Pacific had been finalised under the new country strategy architecture.

⁹¹ OECD 2008, *Compendium of donor reports on implementing the Paris Declaration: Vol. 2: Donor Self Assessments*, p. 5.

⁹² AusAID advice to ANAO, August 2009. AusAID has also reconstituted its Program Committee as a sub-committee to the AusAID Executive, with a specific focus on the quality of program strategies. [AusAID 2009, "Executive Minutes", 6 February 2009.]

⁹³ AusAID 2009, "Status of Partnerships for Development", 1 June 2009. For some Pacific countries, the transition from country strategies to partnerships will also be less than ideal, with two strategies operating in tandem for a period of time.

AusAID can further improve aid predictability

3.23 The efforts of developing countries to coordinate the allocation of aid with their own budget resources are often frustrated by unpredictability of forthcoming aid flows. This arises because donors frequently do not provide information about their forward spending plans early enough for partner governments to plan ahead, or donors fail to stick to the commitments they have made. The impacts can be particularly serious in countries that rely heavily on aid, many of which are in the Asia-Pacific region where Australia provides most of its aid.

3.24 Until recently, and unlike most donors, Australia did not have a multi-year programming framework in place to enable provision of indicative figures to its partners on its forward spending plans.⁹⁴ Consequently, a recent OECD survey found that only 30 per cent of the Australian aid program was recorded in partner country budgets, compared with the OECD donor average of 48 per cent.⁹⁵

3.25 The introduction of Pacific Partnerships for Development, which will include multi-year resource commitments from Australian and partner governments, has provided a formal mechanism to improve predictability of Australian aid to the region.

3.26 However, as indicated in paragraph 3.22, established partnerships do not yet cover all sectors, and accompanying implementation schedules (which include financial commitments) are still under development. As a consequence, it will be some time before the partnerships provide a holistic indication of Australia's ODA commitments. For countries outside the Pacific, AusAID has indicated that country program delivery strategies will in many cases span multiple years and provide an indicative funding picture of Australian ODA,⁹⁶ however, at the time of preparing this report, there were no finalised examples of such strategies.

3.27 Under the *Financial Management and Accountability Act 1997*, AusAID is able to make multi-year financial commitments based on forecast

⁹⁴ OECD 2008, *Scaling Up: Aid Fragmentation, Aid Allocation and Aid Predictability: Report of 2008 Survey of Aid Allocation Policies and Indicative Forward Spending Plans*, p. 36.

⁹⁵ OECD 2008, *Better aid—2008 survey on monitoring the Paris Declaration*.

⁹⁶ AusAID advice to ANAO, August 2009.

appropriations published in Commonwealth budget statements. The commitments remain contingent on AusAID's actual budget appropriation for the year. Uncertainty about the country level implications of increases in the aid budget, and the need to retain a degree of flexibility within the aid program, to respond to emerging priorities and reward performance, also affect AusAID's capacity to provide accurate financial commitments.

3.28 The ANAO considers that within these parameters, and building on the framework provided by Pacific Partnerships for Development, AusAID can do more to provide its major partners with holistic multi-year estimates of future financial commitments, acknowledging these can only be indicative. Doing so would sharpen the focus of all stakeholders (including whole of government partners) on the importance of country strategies, and support AusAID in planning for the internal resource implications of forthcoming aid flows.

The selectivity of country program aid

3.29 In this section, the ANAO considers the selectivity of country program aid in terms of its geographic and sector focus, the number of aid activities under management, and findings of country program reviews. The impact of scaling up on selectivity is also examined.

Country program aid is focused on Australia's geographic region

3.30 Globally, a small proportion of aid to recipient countries is provided by a large number of donors. For example, the OECD has estimated that in 2005–06, 38 aid recipients were supported by more than 25 donors. For 24 of those aid recipient countries, there are 15 or more donors that combined, provide less than 10 per cent of that country's aid.⁹⁷ This creates an extremely complicated stakeholder environment, resulting in duplication, and a waste of resources on the part of both donors and partner governments.

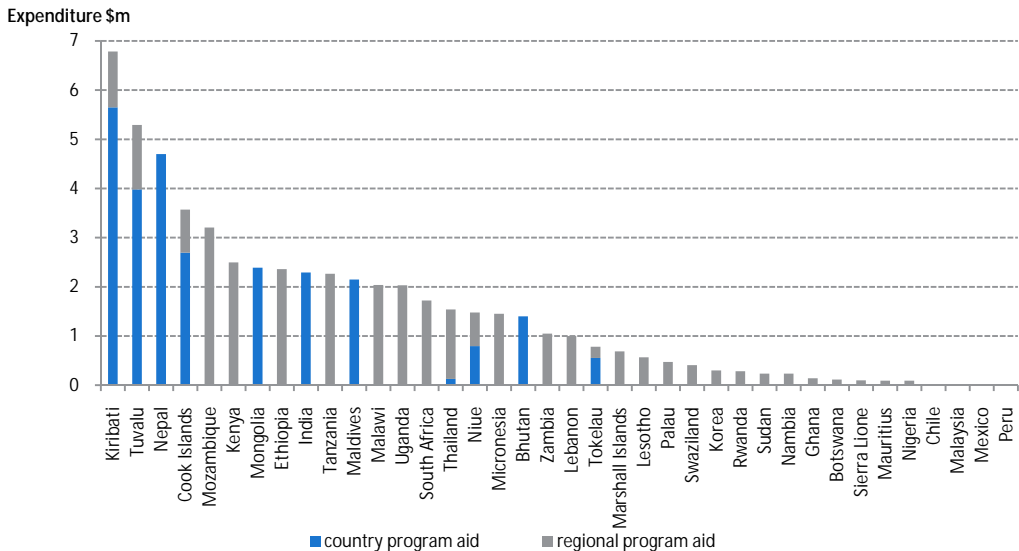
3.31 Reflecting the longstanding emphasis on the Asia-Pacific region, AusAID's country program aid is highly concentrated on a small number of countries, mostly in Australia's geographic region. In 2007–08, 96 per cent of country program aid was provided to the top 20 recipient countries, which supports its manageability, and development of specialist expertise.

⁹⁷ OECD 2009, *Rebalancing the World Economy: OECD Development Co-operation Report 2009*.

3.32 However, a very small proportion of country program aid is spread across many countries—in 2007–08 \$55 million (four per cent) was provided to 39 countries, mostly through AusAID’s regional programs of assistance (see Figure 3.1).

Figure 3.1

Country program expenditure on countries outside Australia’s top 20 aid recipients, 2007–08



Source: ANAO analysis of data provided by AusAID’s Statistics Unit.

3.33 AusAID’s regional programs are used to support bilateral relations, where a regional approach is the most effective way to achieve development objectives shared between governments in the region.⁹⁸ AusAID advised the ANAO that regional initiatives can deliver substantial aid to some major partners, but also small amounts to other participants in joint activities, and that use of regional management arrangements is an administratively efficient means of doing so.⁹⁹

3.34 Nevertheless, when countries have small amounts of country program aid they are generally not covered under current country, regional or multi-country strategies—heightening the risk that investments are poorly

⁹⁸ AusAID 2008, “Strategies Framework”, draft, p. 1.

⁹⁹ AusAID 2009, “Working notes on statistical issues”, AusAID Statistics Unit, p. 5.

targeted and accounted for, which may contribute to aid proliferation. Notably, AusAID's approach to regional program strategies is less developed than for country programs, and the agency has recognised these strategies present distinct challenges in developing objectives and performance frameworks.¹⁰⁰

Scaling up is broadening the geographic focus of country program aid

3.35 While maintaining a strong emphasis on providing aid to the Asia-Pacific region, the Australian Government has also undertaken to increase aid to Africa and South Asia.¹⁰¹ In the past two years country program aid to Pakistan and Bangladesh has grown strongly, and the 2009–10 budget announced an increase in aid to Africa from around \$85 million in 2006–07 to around \$164 million in 2009–10.¹⁰²

3.36 Growth in aid to Africa and South Asia, and the emergence of global issues (such as climate change) that are difficult to address at a country level, suggest regional program aid will grow strongly in the coming years, along with small amounts of aid to additional countries. Given these circumstances, the ANAO considers it important that AusAID leads development of sound regional (and multi-country) strategies, that are realistic about what can be achieved with relatively small aid contributions, and pursue arrangements to deliver aid that do not further complicate stakeholder environments.¹⁰³

¹⁰⁰ AusAID 2008, "Program Committee Minute: Country Strategy Development", 19 August 2008.

¹⁰¹ Commonwealth of Australia (2009), *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, 12 May, pp. 1-9.

¹⁰² Stephen Smith (Minister for Foreign Affairs), Bob McMullan (Parliamentary Secretary for International Development Assistance), and Duncan Kerr (Parliamentary Secretary for Pacific Island Affairs), *2009-10 International Development Assistance Budget*, Media Release, Canberra 12 May 2009.

¹⁰³ AusAID has already set a number of sound precedents for division of labour between donors. For example, in the Cook Islands and Niue, AusAID works through delegated cooperation arrangements with the New Zealand Agency for International Development. In Nepal, East and Southern Africa, similar arrangements are in place with the United Kingdom. [AusAID 2008, *Australia: Self Assessment Report on the Implementation of the Paris Declaration*, p. 3.]

Country program aid is provided to a large number of sectors in many countries

3.37 Australian support tends to account for a high proportion of total aid to its recipients, reflecting Australia's importance as the biggest donor to the Pacific and the strong geographic concentration of its aid. In Papua New Guinea, the Solomon Islands, and some other Pacific Island nations, Australian aid accounts for over 50 per cent of total aid flows.¹⁰⁴

3.38 Being the dominant donor means Australia is often the donor of first and last resort for countries seeking assistance, and many Pacific nations are in need of broad ranging aid to make progress against MDGs. Australia's interests in its regional neighbours are also extensive, ranging from border control issues, such as illegal migration and illegal foreign fishing, through to concern about the potential impacts of regional conflicts and instability.¹⁰⁵ These circumstances call on AusAID to provide support to a large number of sectors in many of the countries it works in.

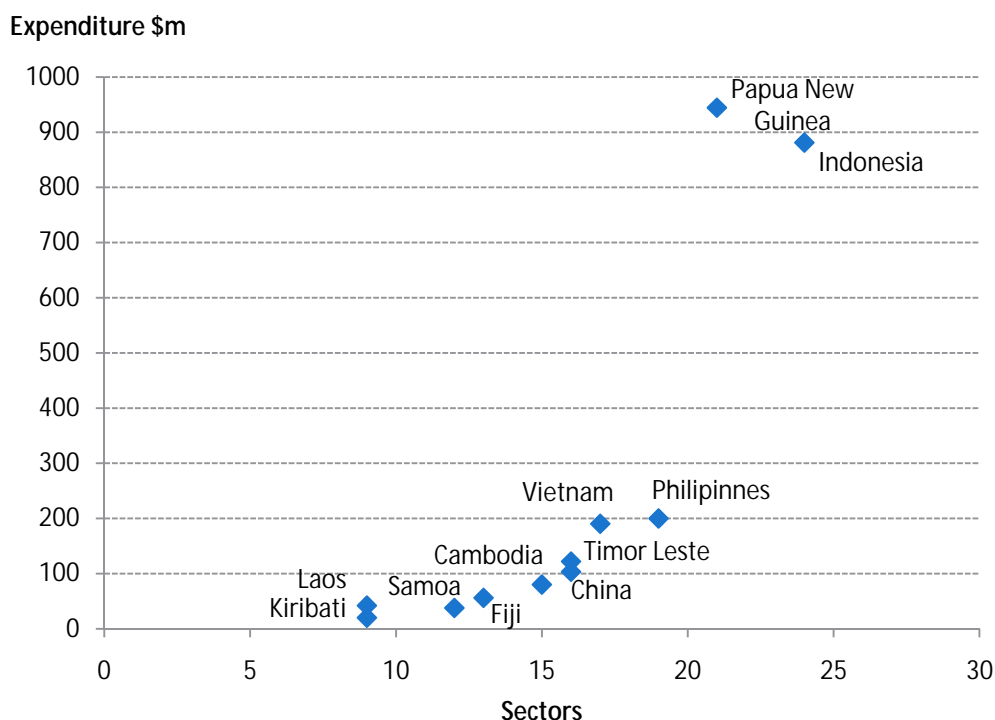
3.39 Australia's most broadly focused country programs are Indonesia and Papua New Guinea, a factor of both their strategic importance and size (see Figure 3.2). For many smaller and less strategically important country programs, assistance is still provided to a large number of sectors, including in some countries that do not rely on Australian aid. Figure 3.2 shows no difference in the breadth of focus of (similarly sized) programs such as Timor Leste and Cambodia, though the relative contribution of Australia's aid and national interest considerations are quite different. Similarly, there is only a small correlation between the size of Australia's country programs, and their breadth of focus for example, the Philippines and Vietnam compared to Papua New Guinea.

¹⁰⁴ OECD DAC Creditor Reporting System data.

¹⁰⁵ AusAID 2002, *Australian Aid: Investing in Growth, Stability and Prosperity*, Eleventh Statement to Parliament on Australia's Development Cooperation Program by the Hon. Alexander Downer MP, Minister for Foreign Affairs.

Figure 3.2

Country program aid to selected recipients (excluding regional flows), by OECD sectors and size of contribution, 2005–06 to 2007–08¹⁰⁶



Source: ANAO analysis of data provided by AusAID’s Statistics Unit.

3.40 This suggests that neither the importance of Australian aid to its recipients, nor the depth of Australia’s national interest, are the only determinants of the breadth of focus of country programs. In this regard, AusAID has indicated the agency’s responsiveness to partner government requests is another reason for the broad sector focus of many country programs.

3.41 Feedback received during audit fieldwork at AusAID posts, and in response to the ANAO survey of AusAID staff, suggested the breadth of focus of country programs was making it difficult for staff to develop deep knowledge in particular areas. More staff agreed than disagreed with the proposition that AusAID works in too many sectors to enable its staff to

¹⁰⁶ Where total sector expenditure was at least \$10 000, excludes donor administration costs sector.

develop the knowledge needed to engage effectively in policy dialogue with partner governments.¹⁰⁷

Scaling up has at times broadened the sector focus of country program aid

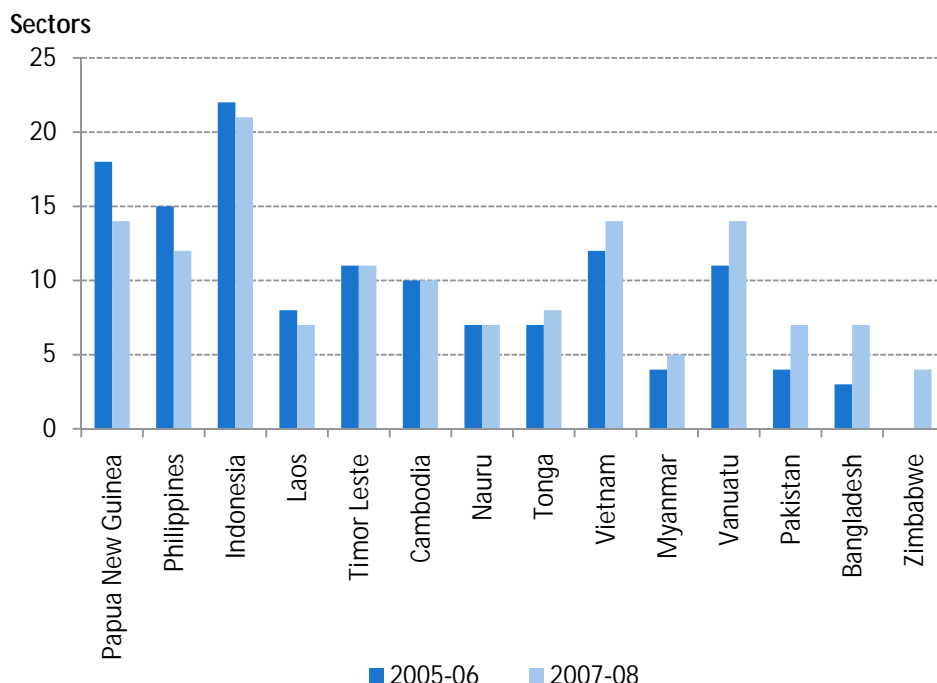
3.42 Since commencement of scaling up, the two main drivers of the sector focus of country program aid have been changes in Australian Government policy, and work undertaken by program managers to improve aid selectivity. In particular, the four themes identified by the White Paper in 2006 led to refinements in the focus of country program aid, and the change of Australia's government in November 2007 again reshaped priorities. Since 2006, a range of new policy proposals brought forward by the previous and current governments have been implemented by country programs, including measures covering infrastructure, health, education, climate change, disability, avoidable blindness and water and sanitation.

3.43 The impact of scaling up on the sector focus of country programs has been mixed (see Figure 3.3). In some countries, there has been a reduction in the number of sectors AusAID works in, and additional budget allocations from new policy proposals have enabled consolidation and expansion of ongoing work in existing focal sectors—Indonesia, Papua New Guinea and the Philippines are three examples. On the other hand, there are more instances where scaling up has contributed to a broadening of the sector focus of country programs, for example, in Myanmar, Vietnam, and Vanuatu.

¹⁰⁷ ANAO survey of AusAID staff, March 2009.

Figure 3.3

Country program aid (excluding regional flows) to selected recipients, by number of OECD sectors, 2005–06 and 2007–08¹⁰⁸



Source: ANAO analysis of data provided by AusAID’s Statistics Unit.

3.44 Engaging in new sectors within countries presents challenges for AusAID, as new interventions generally require additional expertise, management arrangements and reporting. As a consequence, program managers are required to work hard to harmonise efforts with those of other donors. For example, the Tongan annual program performance report observes:

Scaling up means that AusAID is entering into sectors in Tonga where we have not traditionally worked. The challenge in this area is to ensure that we do not create an administrative burden for AusAID or Tonga. Where possible

¹⁰⁸ Where total sector expenditure was at least \$1000 for the year in question, excludes donor administration costs sector.

AusAID will work with existing donor programs, and will continue to push for improved sectoral management approaches rather than ad hoc activities.¹⁰⁹

3.45 Weaknesses in selectivity of country program aid investments have been identified in several country program reviews by AusAID's Office of Development Effectiveness (ODE) and in annual program performance reports. Key findings include that country programs have been spread too broadly and thinly, and focus on depth and quality of engagement to achieve a sustainable difference is needed.¹¹⁰ Annual performance reports have also identified weaknesses in coherence between country level objectives and the aid activities which underpin them.¹¹¹

3.46 The ANAO considers that, wherever appropriate, AusAID needs to pursue opportunities to scale up through existing focal areas. Such an approach would build on gains made to date through depth and quality of engagement, while generating efficiencies that support manageability of scaled up country program aid.

AusAID has a large number of activities under management

3.47 Proliferation of aid activities is a global problem—since the late 1990's the number of aid activities implemented by donors has risen from around 20 000 per year, to over 60 000 in recent times.¹¹² In 2007–08 AusAID's country and regional programs had 954 aid initiatives and 1331 aid activities under management, with median annual expenditure of only \$398 000 for initiatives and \$250 000 for activities.¹¹³ Sixty-six per cent of aid initiatives expended less than \$1 million during the financial year, and accounted for only nine per cent of country program aid.

¹⁰⁹ AusAID 2008, *Annual Program Performance Report: Tonga*, pp. 11-12.

¹¹⁰ For example, AusAID Office of Development Effectiveness 2007, *Assessment of the Indonesia Country Program Strategy*, p. 9; AusAID 2007, "Review of AusAID's Africa Strategy: Australia's 2003–07 framework for Africa", p. ii; and, AusAID 2006, *Rapid Assessment of the Philippines Country Strategy, 2004–2008*, p. vii.

¹¹¹ For example, AusAID 2008, *Cambodian Annual Program Performance Report 2007–08*, p. 1; and AusAID 2008, *Laos Annual Program Performance Report 2007–08*, p. 2.

¹¹² World Bank 2007, *Aid Architecture: An overview of the main trends in official development assistance*, p. 22.

¹¹³ ANAO analysis of AusAID 'AidWorks' data. Initiative and activity are different technical terms used by AusAID to account for aid delivery. Typically, an initiative is broader in focus, and comprised one or more separate activities, that have a narrower and shorter term focus.

3.48 In 2008, the Annual Review of Development Effectiveness (ARDE) noted available data shows the average value of Australian aid activities is lower than the overall average for OECD donors.¹¹⁴ The review attributed the small size of Australian aid activities to: Australia's flexibility and responsiveness in providing development assistance; the small size of many of Australia's recipient countries; and the countries' reliance on Australia as the donor of last resort for all sectors.¹¹⁵

3.49 AusAID has recognised that the profile of its aid represents a problem in terms of effectiveness, management and transaction costs. For example, the Annual Review of Development Effectiveness 2008 stated:

Although Australia enjoys a reputation with partners for its flexibility and responsiveness in development assistance, its experience is that being flexible and responsive can lead to a proliferation of small activities across many sectors, which reduces the overall impact of assistance. Such proliferation also creates a management burden for both the Australian aid program and its partners. The transaction costs for partner countries in managing an increasing number of aid activities are prohibitive. For example, at one time in Ghana there was an estimated 1300 donor-financed projects requiring 2400 reports each quarter. For Australia, large numbers of small activities reduce the time available for dialogue with partners and strain quality assurance processes.¹¹⁶

3.50 The ANAO survey of AusAID staff provided confirmation that the large number of activities under management is a problem. Forty-five per cent of AusAID staff agreed (and only 25 per cent disagreed) that there were too many activities at a country level to enable efficient and effective management of aid delivered by AusAID.

Scaling up has resulted in strong growth in activities under management

3.51 Since AusAID embarked upon scaling up, there has been strong growth in the number of country program initiatives and activities under management. Between 2005–06 and 2007–08 the number of aid initiatives

¹¹⁴ The review noted that '*obtaining comparable data for donors on activity size is difficult because of the different definitions and methodologies used.*' [AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 41]

¹¹⁵ *ibid.*, pp. 41-42.

¹¹⁶ *ibid.*, p. 41.

increased by 23 per cent (from 776 to 954), and the number of aid activities increased by 50 per cent (from 885 to 1331).¹¹⁷

3.52 While an increase in aid activities is to be expected given strong growth in ODA and the need to meet changes in aid policy, 50 per cent growth in two years highlights that efficiencies have not yet been achieved in the scaling up process. An internal review of the aid program in early 2009 discussed the problem of activity proliferation:

Many of our country programs remain cluttered with relatively small existing activities and, more worryingly, relatively small activities continue to be under development in program pipelines. The Agency seems caught in a pattern whereby already activity-intense programs are being added to through the [new policy proposal] process, which is currently being delivered through a large number of small scale activities, which in turn feeds into increasing numbers of activity level business and management processes to be fulfilled which in turn overburdens staff, contributes to non-compliance with quality processes and limits 'head room' to address scaling up and working in new aid modalities.¹¹⁸

3.53 The ANAO reached a similar conclusion to the Annual Review of Development Effectiveness 2008, that 'scaling up should be primarily based on larger activities rather than a large number of activities.'¹¹⁹ This does not mean there is no place for smaller activities, which are often the most appropriate response to development needs, but rather that continuation of activity proliferation would not be a sustainable approach to scaling up.

3.54 The AusAID Director General's Annual Statement of priorities for 2009 recognised the imperative of achieving reductions in the number of activities under management, to 'create the management and program 'space' for an increasing aid budget'.¹²⁰ The ANAO also observed that senior program managers at post are working to phase out legacy activities. The results of these actions may begin to show as data on activities under management is updated for 2008–09 and beyond.

¹¹⁷ ANAO analysis of AusAID 'AidWorks' data.

¹¹⁸ AusAID 2009, *Building on the 2010 Blueprint: A Reform Agenda for 2015*, p. 14.

¹¹⁹ AusAID 2009, *Annual Review of Development Effectiveness: 2008*, pp. 41-42.

¹²⁰ AusAID 2009, *Director General's Annual Statement of Priorities*, February 2009, p. 3.

AusAID can improve its management of the scaling up of aid program expenditure

3.55 The ANAO identified three factors within AusAID's control which have contributed to weaknesses in selectivity of country program aid:

- Firstly, the failure to complete *country strategies*, and their lack of centrality to aid allocation decisions. Without detailed consideration of developing country contexts and a disciplined approach to pursuing strategic objectives, aid allocations are unlikely to maximise effectiveness.
- Secondly, weaknesses in *internal collaboration*. Working within the Australian budget context, AusAID faces the challenge of aligning new policy proposals approved on a sector basis, with country level priorities. This requires sound internal collaboration between program delivery areas (principally at posts) and Canberra based staff responsible for developing new policy proposals. As discussed in chapter two, AusAID has not always achieved effective internal collaboration, which in the case of new policy proposals, has led to a perception from program delivery areas that the process did not adequately consider country contexts and needs.¹²¹
- Finally, the links between *performance assessment* at a country level and identification of opportunities for scaling up are not yet strong. As discussed in chapter six, AusAID has not yet made sufficient use of improved annual performance reporting to influence aid allocations—whether by identifying areas in critical need of additional support, or those areas where gains made should be built upon.

3.56 The ANAO considers that better use of the country strategies and country performance reporting, including more timely and substantive engagement with country program areas on new policy proposals, will be critical to ensuring scaling up does not undermine efforts to improve

¹²¹ AusAID 2007, *AusAID 2010 Progress Report*, p. 5. In addition, 46 per cent of APS respondents to the ANAO survey of AusAID staff disagreed that posts are appropriately consulted in the development of new policy proposals, with only 18 per cent in agreement.

selectivity, and that increases in aid are manageable. Some progress has been made on this front but more is required.¹²²

Conclusion

3.57 As the main Australian Government agency responsible for managing the aid program, AusAID plays a central role in the selection and implementation of country program aid. AusAID's experience is called on to inform and deliver aid policy, to align investments with the priorities and needs of partner governments, and to develop manageable programs of assistance.

3.58 In pursuing these objectives, AusAID has responded flexibly to changing aid policy directions, and has been able to deliver increased levels of country program aid, often through a broader range of sectors within countries. During fieldwork partner governments identified AusAID as a responsive donor, which is reflected by the large and diverse number of aid activities under the agency's management.

3.59 However, the broad sector focus of some country programs; strong growth in aid activities under management; and the findings of country program reviews all indicate a need to improve the selectivity of country program aid. While AusAID has been responsive in management of country programs, their continued scaling up necessitates more strategic approaches that consolidate and expand on existing areas of focus, and contribute to global efforts to reduce aid proliferation.

3.60 A primary cause of weaknesses in selectivity of country program aid has been a failure to complete country strategies, and their lack of centrality to aid allocation decisions—in early 2009 only 11 of the top 20 recipients of country program aid had a strategy in place. There are many ways in which donors can provide support and country strategies enable strategic

¹²² AusAID has sought to improve consultation on new policy proposals as they are developed, including through earlier involvement of senior executive service officers from program delivery areas. AusAID has also worked to increase the flexibility with which funds can be used at a country level by making sure funding allocations contained in new policy proposals are less prescriptive. Country program managers report there is now less pressure to engage in implementation of new measures where the fit with country level priorities is not ideal. Nevertheless, as indicated by the Director General's annual statement of priorities for 2009: 'Coherence between our ongoing programs and new budget measures is an area of considerable concern and will require concerted effort, better alignment of key processes, and ongoing engagement between the Budget Unit, budget measure managers and program areas.' [AusAID 2009, *Director General's Annual Statement of Priorities*, February 2009.]

approaches—through detailed consideration of developing country contexts, and donor capacity. AusAID can make country strategies and their review more relevant to strategic and operational decision making, including by using them as a vehicle to make Australian aid more predictable.

Recommendation No.2

3.61 The ANAO recommends that, in order to make country and regional strategies more central to aid allocation decisions, and thereby improve selectivity of aid investments, AusAID:

- completes strategies for all major country and regional programs and keeps them up-to-date; and
- builds on the framework provided by Pacific Partnerships for Development, by including indicative multi-year resource allocations in all country and regional strategies.

3.62 AusAID response: *Agreed with qualification.* Country and regional strategies are already an important part of aid allocation decisions. Ensuring they are completed on time and increasingly reflect the Pacific Partnership for Development model is accepted. The use of multi-year allocations needs to be balanced with the need to remain flexible and be able to reflect the changing priorities of the Australian Government and changes in the global environment.

4. Technical assistance and partner government systems

This chapter considers AusAID's management of two important aspects of the design of the Australian aid program, namely the use of technical assistance, and of partner government systems to deliver Australian aid.

Importance of sound design

4.1 Aid can be provided in many different forms. For example, aid can be provided in the form of training or expert advisors (known as technical assistance); in the form of specific deliverables, such as roads, bridges, or schools; or in the form of direct support for partner government budgets, to assist them with meeting recurrent costs such as staff, or maintenance. The relative merits of different forms of aid have, and will continue to generate debate and research. Each type of aid has particular costs and benefits, and risks, which vary in practice according to individual country circumstances. Selecting the most appropriate form of aid in each situation is an important determinant of aid effectiveness.

4.2 Historically, the Australian aid program has placed heavy reliance on aid projects delivered by managing contractors, which incorporate substantial amounts of technical assistance. In recent years there has been growing recognition of the limitations of this approach. The 2006 White Paper identified that enhancing governance support required 'making more selective and effective use of technical assistance to promote reform'.¹²³ Subsequently, *AusAID 2010* articulates the intention to reform Australia's approach to delivering aid. It states:

The dependence on managing contractor-delivered, technical assistance-oriented, stand-alone projects will have decreased markedly. There will be a significant expansion of sectoral and thematic programs, working through host government development strategies and financial systems and in concert with groups of donors.¹²⁴

¹²³ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A White paper on the Australia Government's aid program*, p. xiii.

¹²⁴ AusAID 2007, *AusAID 2010: Director General's Blueprint*, p. 4.

4.3 A central influence on this path has been the international agenda for reform of the aid business, as articulated in the *Paris Declaration* and the *Accra Agenda for Action*, to which Australia is a signatory. These agreements emphasise the importance of better coordination among donors, and greater use of partner government systems to deliver aid.

4.4 In the following sections, the ANAO examines AusAID's progress in:

- using technical assistance more strategically and effectively; and
- expanding use of partner government systems to deliver aid.

Use of technical assistance

The role of technical assistance in aid

4.5 Technical assistance—the provision of experts and training to build the capacity of partner government staff and institutions, and to deliver technical services in areas such as engineering, health, or financial management—is a major ingredient of all aid programs.¹²⁵ The focus on technical assistance is grounded in the widely accepted view that domestic institutions are the primary determinant of domestic economic performance.¹²⁶ Poor governance underpinned by lack of institutional capacity, antiquated and inefficient administrative structures, lack of qualified human resources, and weak implementation are major barriers to reducing poverty.

4.6 The value of technical assistance is much debated. Some argue that donors provide too much technical assistance,¹²⁷ that technical advisers are too easily and often ignored, that capacity building is often an elusive goal, and that the provision of advisers can 'suck out' capacity, rather than build it.¹²⁸ On the other hand, many governments look to donors to provide technical assistance. The market for consultancy advice is not well-developed in many developing countries (especially not for international advice), and institutions

¹²⁵ European Centre for Development Policy Management 2007, *Policy Management Brief: Aid Effectiveness and the Provision of TA Personnel: Improving Practice*.

¹²⁶ See for example, Rodrik, D., 2003, *Introduction*, in: Rodrik, D. (ed.), *In Search of Prosperity: Analytical Narratives on Economic Growth*, Princeton University Press.

¹²⁷ Renikka, R., 2008, *Donors and Service Delivery*, in: W Easterly (ed.), *Reinventing Foreign Aid*, MIT Press, p. 186.

¹²⁸ Fukuyama, F., 2004, *Nation Building 101*, in: *Atlantic Monthly*, January/February.

in these countries often find it difficult to negotiate with international experts, to justify and finance the salaries they command, and to procure them. For small and fragile states, expatriate labour is required not so much to build, as to provide capacity—both the private and the public sectors of such countries will be reliant on imported skilled staff into the indefinite future.

4.7 Reflecting the experience of other donors, the success of AusAID in improving governance through technical assistance has been mixed. Notable successes include the restoration of law and order and basic fiscal and economic management in the Solomon Islands following a period of civil unrest, primarily through the policing work of the Australian Federal Police (AFP), and officials from the Department of Finance and Deregulation (Finance), and Treasury, who took up in-line positions in the Solomon Islands Government following the crisis.¹²⁹ Positive impacts have also been observed following technical assistance to Samoa and Vanuatu.¹³⁰ Prominent failures include Australia's technical assistance to the Timor Leste police force, which did nothing to prevent police involvement in the violent destabilisation of that country's government in 2006.¹³¹

The role of technical assistance in the Australian aid program

4.8 Consistent with a strong emphasis on good governance as a precondition for development, technical assistance is the major component of Australia's country program expenditure. The OECD calculated that use of technical assistance grew from 37 per cent of Australian ODA in 1999 to 46 per cent in 2003.¹³² A recent AusAID survey suggests technical assistance spending

¹²⁹ For example, as a result of Australian technical assistance to the economic governance sector in the Solomon Islands, tax arrears dropped from 50.7 per cent of annual tax collected in 2004 to 36.5 per cent in June 2007, and debt declined from 100 per cent of gross domestic product in June 2006 to 63 per cent in June 2007' [AusAID 2008, *Annual Review of Development effectiveness: 2007*, p. 21.]

¹³⁰ AusAID 2003, *Review of Institutional Strengthening Projects in Samoa: Final Report*, 2 May 2003, p.ii; and, AusAID 2006, *Vanuatu Public Service Reform Project & Vanuatu Ministry of Finance and Economic Management—Institutional Strengthening Project: Independent Completion Report*, p.5.

¹³¹ AusAID 2007, "Rapid review of the East Timor Country Program".

¹³² OECD 2004, *Peer review of the Australian Aid program*, p. 31. The increasing reliance on technical assistance reflected the approach taken by Australia towards 'fragile' or 'failed' states, following the events of 11 September 2001, and was exemplified by interventions such as the 'Enhanced Cooperation Program' in Papua New Guinea. As a result, aid spending by Australia on governance rose from nine per cent of the total in 1996–97 to 36 per cent in 2005–06. A major component of this growth was from the use of technical advisors, often sourced from other Australian Government agencies, placed in in-line or advisory positions with partner institutions to build institutional capacity, and improve governance.

remains at a similar level.¹³³ Australia uses a high amount of technical assistance to deliver aid compared to other donors, at around twice the average proportion of technical assistance of other OECD countries.¹³⁴

4.9 In the following sections, ANAO considers the appropriateness of AusAID's use of technical assistance.

AusAID's use of technical assistance in the Pacific and Timor Leste

4.10 A substantial proportion of Australian aid is provided to countries where aid forms a major component of the resources available for development. In these countries, Australian aid forms a significant component of their total aid flows. With the exception of Timor Leste, these countries are located in the Pacific, where small, geographically dispersed populations, high levels of outward migration, and weak education systems mean public and private sector organisations struggle to attract skilled staff. Government capacity suffers as a result.¹³⁵

4.11 In such contexts, the main measure of the success of ODA will be the extent to which it, in combination with domestic resources, contributes to the basic functioning of government.¹³⁶ Given the budgetary significance of Australian aid flows, it is critical an appropriate balance is struck between using available resources to provide technical assistance and to fund the provision of government services. Technical assistance is unlikely to be an effective strategy in situations where people do not have the physical resources, and access to the funds required to do their jobs.

4.12 While obtaining exact figures is difficult due to the limitations of AusAID's information systems, the available data indicates that technical assistance has been the major component of Australian aid to the Pacific and Timor Leste. A recent survey of technical assistance expenditure conducted by AusAID suggests that technical assistance comprised around 30 per cent of expenditure by managing contractors in Papua New Guinea, and over 50 per

¹³³ 'ODE surveyed the aid program's largest twenty contractors and found technical assistance, in the form of personnel, accounted for almost 50 per cent of the contracts with these organisations.' [AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 36.]

¹³⁴ *ibid.*

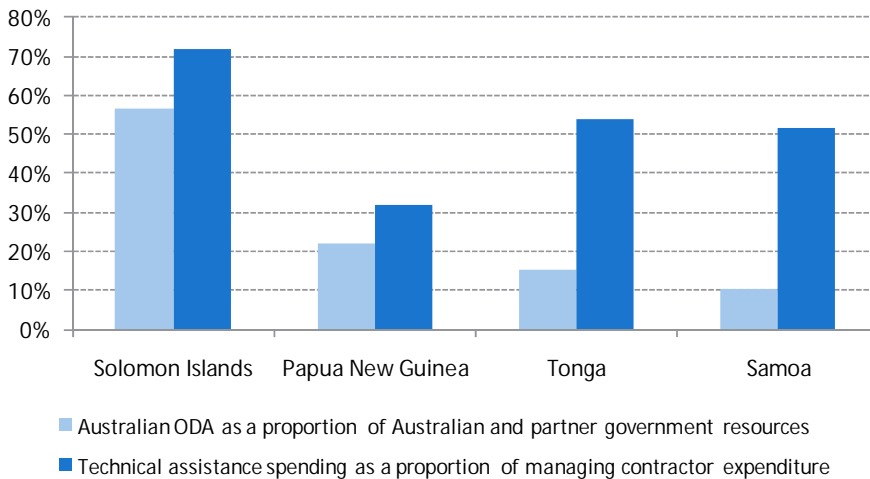
¹³⁵ AusAID 2008, *Annual Thematic Progress Report 2006–07: Health*.

¹³⁶ AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 15.

cent in the case of Solomon Islands, Tonga, and Samoa (see Figure 4.1).¹³⁷ In addition, the survey shows that technical assistance spending on deployed whole of government personnel, volunteers and in-line personnel is also a substantial component of country program expenditure in the Pacific, including around eight per cent in Papua New Guinea and Kiribati, and over 10 per cent in the Solomon Islands, Timor Leste, Tonga and Vanuatu.¹³⁸

Figure 4.1

Use of technical assistance in selected Pacific countries, 2006–07



Source: AusAID technical assistance survey, and United Nations Statistics Division.¹³⁹

4.13 The high level of technical assistance used in the Pacific and Timor Leste reflects the recipient country’s low government capacity and in some cases, recent state fragility. In the case of state fragility, substituting for staff is

¹³⁷ AusAID 2008, *Mapping technical assistance inputs and costs across Australia’s overseas aid program*, draft. The survey suggests that the proportion of managing contractor expenditure on technical assistance in other Pacific Island nations may be at similar levels, but the coverage of managing contractor expenditure was not sufficient for these countries to have confidence in the results.

¹³⁸ *ibid.*

¹³⁹ Data sourced from an AusAID survey of expenditure on technical assistance in 2006–07. The survey targeted 20 of Australia’s largest managing contractors, which were together responsible for delivering around 70 per cent of Australia’s bilateral program expenditure. The survey also collected information about expenditure on whole of government deployees, volunteers, and AusAID staff in advisory positions. The survey did not capture all country program expenditure, but is the best available source of information on AusAID’s technical assistance spending. [AusAID 2008, “Mapping technical assistance inputs and costs across Australia’s overseas aid program”, draft, p. 5.]. Information on central government expenditure was sourced from the United Nations Statistics Division database, *National Accounts Estimates of Main Aggregates*.

necessary for essential services to be delivered.¹⁴⁰ There are also strong demands from government partners with low capacity for technical assistance support.¹⁴¹ In designing aid initiatives for such environments, difficult choices exist regarding provision of capacity, building capacity, the degree of oversight of aid flows, and use of available funds for capital and recurrent costs.

4.14 Reviews of Australian aid to the Pacific and Timor Leste highlight that AusAID and its whole of government partners have struggled to strike an appropriate balance in addressing technical capacity and other constraints on the functioning of partner governments—notably a lack of resources to meet recurrent and capital costs associated with delivering services. The reviews highlight a tendency to rely too much on seeking change through the use of technical assistance, and a need for in-depth strategic consideration of the most appropriate forms of assistance.

Table 4.1

Findings from AusAID reviews on the use of technical assistance

In four out of the seven areas of program focus, a traditional institutional strengthening approach has been adopted. This has proved inflexible and ineffective in light of the range of constraints to better performance, which usually lie outside the influence of the Australian initiatives. In essence, the Australian initiatives have placed too much emphasis on a technical fix when the real constraints lie elsewhere. In the case of forests and lands, it is largely about political support for reform, in the case of disaster management, it is about national and provincial government linkages, in the case of health it is about system-wide shortcomings.¹⁴²

Many programs are unclear about how technical assistance can best contribute to capacity development. Technical assistance is still seen as the default position—the first solution to be considered—although there is much questioning going on about alternatives.¹⁴³

¹⁴⁰ AusAID advice to ANAO, August 2009.

¹⁴¹ AusAID 2008, *Improving Counterpart Relationships in Papua New Guinea: A study for the Governments of Papua New Guinea and Australia*, report prepared by P Morgan, p. 19. Morgan observed on the basis of this review that 'powerful incentives remain ... for both Governments to maintain the flow of technical assistance at current levels. Putting technical assistance in is an easier option, for example, compared to other ways to address the systemic ... issues that are pervasive in [Papua New Guinea] ... In comparison, much weaker incentives exist in the system to examine and apply alternative approaches and methodologies', p. 19.

¹⁴² AusAID 2007, *Desk Review of Solomon Islands Bilateral Strategy*. The review further states: 'the program still has to revisit its approach to technical assistance. The stock solution to almost any problem is to place another foreign adviser. Yet this model is simply not working, either to encourage change in policy or to build capacity', p. 22.

¹⁴³ AusAID 2008, *Desk review of technical assistance: Emerging lessons on Australia's technical assistance*, report prepared by H Baser, p. 12.

When preparing for and implementing technical assistance, the aid program should analyse the broader context, including the political context, within which technical assistance will operate, and the implications of that context for the chances of success. Technical assistance interventions provide opportunities for broader dialogue with other donors and partner governments. We should focus on using technical assistance more to support implementing activities and less on planning them; we should recognise the need to provide in-line support. Finally, technical assistance may not always be the best way to build capacity; investment projects also build capacity.¹⁴⁴

[A]ddressing the institutional barriers to better [education] service delivery has relied almost entirely on a traditional approach to building capacity, largely within the parameters and the needs of a project, as distinct from analysing systemic weaknesses and advancing strategies for the financing, management and organisation of education services at all tiers of government. This neglect may represent a conscious decision given the high levels of risk associated with the political economy of Papua New Guinea. But this is not what the higher order strategy papers have advocated since 2000.¹⁴⁵

[Technical assistance to health in Papua New Guinea] has been extensive and wide-ranging, accounting for nearly half of AusAID expenditure. Although it made positive contributions, some of which have had lasting impact, the team's judgement is that the results are not commensurate with the level of spending. Expenditure of A\$150 to A\$200 million on [technical assistance] has not produced a step improvement in performance or capacity. A better balance between [technical assistance] and operating costs would arguably have achieved more.¹⁴⁶

4.15 Consistent with these findings, in the ANAO survey of AusAID staff, a high proportion of respondents from the Papua New Guinea, Pacific and Timor Leste sections felt too much reliance is being placed on the use of technical assistance to achieve aid objectives in their area (see Figure 4.2).

¹⁴⁴ AusAID 2007, *East Timor Country Program Effectiveness Review*, p. iii.

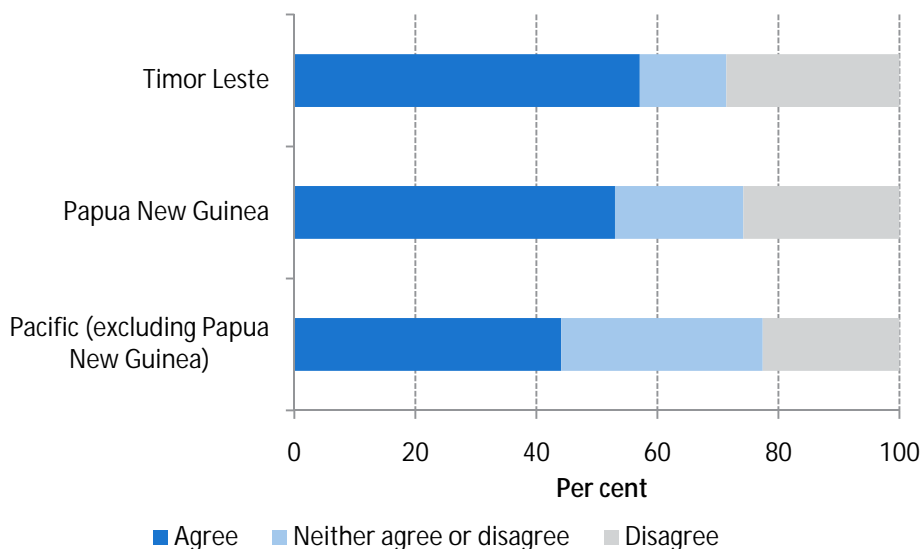
¹⁴⁵ AusAID 2009, *Education Service Delivery Evaluation*, draft, p. iv.

¹⁴⁶ AusAID 2009, *Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu, Working Paper 1: Papua New Guinea Country Report*, p. 40.

Figure 4.2

Staff views on AusAID’s use of technical assistance:

Too much reliance is placed on technical assistance to achieve the objectives of aid activities in my area



Source: ANAO survey of AusAID staff, March 2009.

4.16 Further evidence that AusAID can improve its use of technical assistance is provided by the OECD’s regular survey of the implementation of the *Paris Declaration*. One of Australia’s commitments under the *Paris Declaration* is to provide technical assistance in a way that enables partner countries to exercise leadership over the assistance provided, so that it is consistent with partner countries’ national development strategies—a commitment designed so that capacity development through technical assistance is country owned, rather than donor driven. The 2008 OECD survey on implementation of the *Paris Declaration* found that globally, donors were overachieving on this front, with 59 per cent of measured aid flows implemented in this manner compared to a 2010 target of 50 per cent. However, the OECD survey found that only 38 per cent of Australian technical assistance was provided through such coordinated programs.¹⁴⁷

¹⁴⁷ OECD 2008, *Better Aid: 2008 Survey on Monitoring the Paris Declaration: Making aid more effective by 2010*. The survey covered nine of Australia’s aid recipients—Afghanistan, Bangladesh, Cambodia, Vietnam, Indonesia, Laos, Papua New Guinea, Philippines, and Sudan.

Progress towards more effective and strategic use of technical assistance

4.17 To support achievement of the objective of the 2006 White Paper to make more selective and effective use of technical assistance, AusAID has completed and commissioned a considerable amount of research and analysis on the effectiveness of technical assistance, and the conditions under which it can be successful.¹⁴⁸ Drawing from this work, the Annual Review of Development Effectiveness 2007 recommended that technical assistance be demand driven and guided by partner government priorities and policies, that alternatives to traditional high cost sources of technical assistance be considered, and that it be recognised that not all technical assistance should be directed at building capacity—that some technical assistance should be used to fill holes where local capacity is unavailable.¹⁴⁹

4.18 The Australian aid program is now applying a greater mix of tools to develop partner government capacity—including twinning arrangements between Australian and partner government agencies; co-location of AusAID staff in partner government ministries; and use of incentive based partnership funding. To complement these efforts AusAID has recently developed and rolled-out a suite of training programs, workshops and guidance for its own staff, managing contractors, advisers and counterparts, aimed at building understanding of the theory and practice of capacity development.¹⁵⁰

4.19 During fieldwork, and in reviewing recent aid program evaluations, the ANAO found consistent evidence that AusAID is generally considered to be a flexible and responsive donor, and that short and long-term technical advisors and training sourced through the aid program are usually valued by AusAID's government partners,¹⁵¹ in spite of having sometimes been the focus

¹⁴⁸ For example, Australia co-funded with Denmark and Germany the 2007 international study by the European Centre for Development Policy Management *Provision of Technical Assistance Personnel in the Solomon Islands: What can we learn from the RAMSI experience?* [see <www.ausaid.gov.au/publications/pdf/ta_solomons.pdf>]. Also *Joint Evaluation Study of Provision of Technical Assistance Personnel: What can we learn from promising experiences?* [see <www.ausaid.gov.au/publications/pdf/ta_overview.pdf>].

¹⁴⁹ AusAID 2008, *Annual Review of Development Effectiveness 2007*, p. 33.

¹⁵⁰ AusAID advice to ANAO, August 2009. Examples include the *Making a Difference Program; Capacity Development Showcases*; and the *2008 Guidelines for Mentoring and Development*.

¹⁵¹ A mid-term review of the 'Government Partnership Fund' in Indonesia, for example, observed that 'There are clear and consistently positive views in both Canberra and Jakarta about the contribution of [the initiative] to building and supporting a stronger bilateral relationship between Indonesia and Australia.' [AusAID 2008, *Government Partnership Fund: Mid Term Review*, p.iv.]

of strong criticism by those partners.¹⁵² The ANAO also observed some progress towards more effective use of technical assistance in Papua New Guinea, where: high profile aid initiatives balance the provision of funding to support delivery of services with technical assistance;¹⁵³ there is a shift towards recipient agencies choosing between technical assistance and other forms of aid;¹⁵⁴ and, emerging management frameworks for technical assistance include joint Australia–Papua New Guinea steering groups.¹⁵⁵

4.20 In the larger developing economies of Asia (such as China, Indonesia, the Philippines and Vietnam), the significance of ODA, and by implication Australia’s contribution, is much lower than in the Pacific. In these countries, available data suggests technical assistance generally comprises a smaller component of Australian aid than in the Pacific,¹⁵⁶ and there is less concern among relevant AusAID staff about over-reliance on its use. Fieldwork also highlighted that the then governments of the Philippines and Vietnam were well positioned to use technical assistance.

4.21 The ANAO does, however, note scope for improvement in how AusAID articulates its approach to technical assistance at a country and sector level¹⁵⁷ and in establishing systems that capture levels and types of assistance provided. Entry into broad sector programs of support in many countries, and the development of implementation and delivery strategies,¹⁵⁸ present an opportunity for AusAID to outline broad parameters (such as areas of focus and types of assistance) to guide strategic use of technical assistance—based on sound diagnoses of development contexts. The ANAO notes that AusAID has

¹⁵² In particular, the Government of Papua New Guinea has previously criticised Australian aid to Papua New Guinea on the basis that much of its benefits flow to the Australian companies and consultants used to implement and oversee Australian aid projects. [AusAID 2005, *Core Group Recommendations Report for a White Paper on Australia’s aid program: companion volume*, p. 44.]

¹⁵³ Under the Law and Justice Sector Program and Sub-National Strategy.

¹⁵⁴ Under the Law and Justice Sector Program and Economic and Public Sector Program.

¹⁵⁵ Under the Economic and Public Sector Program, and Strongim Gavman Program.

¹⁵⁶ AusAID 2008, *Technical assistance survey data*.

¹⁵⁷ The Papua New Guinea health service delivery evaluation found, ‘It is the [sector-wide approach] reforms and action plans that should determine what capacity building support is needed (though those plans need to be reformed to become multi-year rolling, more strategic and more realistic about capacity and budget).’ [AusAID 2009, *Evaluation of Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu, Working Paper 1: Papua New Guinea Country Report*, p. 13.]

¹⁵⁸ For Pacific Partnerships for Development and country strategies respectively—see chapter three for a more detailed discussion on changes to country strategy architecture.

a tendency to not only provide technical assistance, but also to respond to requests for assistance. There is a need to balance this tendency with strategic consideration of likely impacts. The ANAO also considers that in the absence of regular or systematic data collection on the level and type of technical assistance provided, it will be difficult for AusAID to ascertain progress in reducing its reliance on this form of aid.

Conclusion—AusAID’s use of technical assistance

4.22 In the Pacific and Timor Leste, where Australian aid forms a major component of the resources available for development, an appropriate balance needs to be struck between provision of technical assistance and other forms of aid to support delivery of government services. Based on available data concerning use of technical assistance, aid program reviews, and the perceptions of AusAID staff in program delivery areas, the ANAO found that AusAID has not yet achieved the objective of using technical assistance more strategically and effectively in the region.

4.23 AusAID has for some time recognised the need to use technical assistance more strategically and effectively. To help do so, the agency has undertaken considerable research on its effectiveness; developed a broader range of approaches to build capacity; and sought to improve the understanding of staff and key stakeholders concerning capacity development. Improvements in strategic oversight of technical assistance, and in promoting choice between technical assistance and other forms of aid are desirable.

4.24 To make further progress, the ANAO considers that AusAID and its whole of government partners can establish more strategic approaches for the use of technical assistance at a country and sector level—thereby supporting lasting capacity development. This requires careful consideration of the context in which technical assistance will be used, including constraints on partner government capacity and the ability of technical assistance to address these constraints; and considering whether alternate forms of support are more appropriate.

4.25 The current movement towards adoption of more flexible mechanisms for allocating combined donor and partner government resources to development priorities will assist AusAID to strike a more appropriate balance between oversight of aid flows, and provision of technical, and other means of assistance. This will inevitably require greater use of partner government systems to deliver Australian aid.

Delivering aid through partner government systems

Why use of partner government systems is important

4.26 The typical intervention by an aid agency in the early decades of aid was a five-year capital project, such as the construction of a power plant or road. The recipient country was meant to ensure the sustainability of the project by supplying recurrent funding. However, as aid agencies moved into the social sectors, they began to recognise that recipient countries were frequently unable to supply recurrent funding, and were being overwhelmed by too many projects.

4.27 As a result, donors have progressively moved away from delivering aid through projects, stressing the need for broad and long-term programs of support for government sectors, including recurrent funding. At the extreme, some agencies provide un-earmarked budget funding; others increasingly provide un-earmarked support for sectors such as health or education. Sector programs—wide-ranging programs in particular sectors which any number of donors can support—expanded from only one per cent of total OECD aid in 2001 to 15 per cent in 2004.¹⁵⁹

4.28 The *Paris Declaration*, which calls on donors to use partner government systems¹⁶⁰ to the maximum extent possible, has driven continuation of this trend. The follow up to the *Paris Declaration*, in 2008, the *Accra Agenda for Action*, reaffirmed and strengthened this principle, requiring that the use of partner government systems should be the default position and that donors should be required to explain and justify any failure to do so.¹⁶¹

4.29 Use of government systems is not a panacea. One often cited risk is that putting funds through government systems in poor countries might mean

¹⁵⁹ World Bank 2007, *Aid Architecture: an Overview of the Main Trends in Official Development Assistance Flow*.

¹⁶⁰ 'Country systems and procedures typically include, but are not restricted to, national arrangements and procedures for public financial management, accounting, auditing, procurement, results frameworks and monitoring', [High Level Forum on Aid Effectiveness 2005, Paris Declaration on Aid Effectiveness, p. 4.]

¹⁶¹ Central arguments propounded as part of this agenda are that using partner government public financial management systems: helps to improve and strengthen the systems themselves; assists partner governments to better manage all the public resources available to the country; and increases alignment, reduces costs, supports sound budgeting and financial management, facilitates harmonisation between donors, and increases sustainability of results. [OECD 2008, *Report on the Use of Country Systems in Public Financial Management*.]

greater loss of funds due to corruption than if they were expensed outside of government systems.¹⁶² In addition to this risk, provision of financial resources to countries with deteriorating human rights records has sometimes led to reductions, delays or cancellations in the provision of budget support programs, and in other cases, has failed to provide a vehicle for expected improvements in public financial management and accounting systems.¹⁶³ In many developing countries, institutions cannot be relied upon to deliver resources to where they are needed in a timely fashion, indicating the use of government systems will not always be the most appropriate approach.

4.30 This is a difficult issue, with no clear answer. Even judged on corruption and leakage alone, the result is unclear, since, even if it makes individual interventions more vulnerable, by working with government systems, donors are more likely to be effective in helping to improve these systems. Even if leakage does increase, it might be worth it, for the reduction in transaction costs.

4.31 The ANAO reviewed AusAID's progress in increasing use of partner government systems in accordance with the *Paris Declaration*, the drivers of outcomes achieved, and implications for aid effectiveness.

AusAID is increasing its use of partner government systems but remains behind progress of other donors

4.32 During audit fieldwork, the ANAO observed that for many of AusAID's country programs, new aid initiatives are being developed and implemented that promote greater partner country ownership, increase use of partner country systems, and harmonise donor efforts through more holistic sector approaches—consistent with *Paris Declaration* commitments. The extent of use of partner country financial systems varies, at the one extreme, AusAID's use of general budget support in Vietnam places reliance on annual financial statements of the Vietnamese Government and its supreme audit institution's reports to account for the use of Australian funds. More commonly, arrangements are being established that place partial reliance on

¹⁶² See for example, Svensson, J., 2008, *Absorption Capacity and Disbursement Constraints*, in: W Easterly (ed.), *Reinventing Foreign Aid*, MIT Press.

¹⁶³ United Kingdom Department for International Development 2004, *Poverty reduction budget support: A DFID policy paper*.

partner government systems, but impose additional safeguards, such as auditing and reporting requirements.

4.33 The ANAO notes a strong commitment within AusAID to translate Australia's *Paris Declaration* commitments into effective programs of support, and that this task is central to the focus of AusAID's country offices. In particular, Pacific Partnerships for Development commit Australia to align funding increasingly with partner country decision-making, finance and procurement systems.¹⁶⁴ These observations were reflected in the results of the ANAO survey of AusAID staff, which suggested that progress has been made in implementing the *Paris Declaration*, a central element of which is the increased use of partner government systems to deliver aid.

4.34 Despite these positive findings, the 2008 OECD survey on implementation of the *Paris Declaration* found that Australia was well short of 2010 targets to increase use of partner government systems, and behind the progress of other donors. This included the proportion of Australian aid recorded in partner country budgets, use of partner government public financial management and procurement systems, and adoption of program based approaches to aid delivery (see Table 4.2).

Table 4.2

Australia's progress in implementing the *Paris Declaration* (2008)

Indicator	Australia	Global average	2010 target
	Per cent		
Aid flows are recorded in country budgets	30	45	85
Donors use country public financial management systems	40	47	One or two-thirds reduction in the amount of public sector aid not using partner countries' financial management systems (depending on the quality of those systems).
Donors use country procurement systems	23	44	One or two-thirds reduction in the amount of public sector aid not using partner countries' procurement systems (depending on the quality of those systems).

¹⁶⁴ AusAID advice to ANAO, August 2009.

Indicator	Australia	Global average	2010 target
	Per cent		
Donors use coordinated mechanisms for aid delivery	32	44	66

Source: OECD 2008, *Better Aid: 2008 Survey on Monitoring the Paris Declaration: Making aid more effective by 2010*. The survey covered nine of Australia's aid recipients—Afghanistan, Bangladesh, Cambodia, Vietnam, Indonesia, Laos, Papua New Guinea, Philippines, and Sudan. The OECD's survey is the only available source of comparative data on the extent of AusAID's use of partner government systems.

Reasons for Australia's relatively slow progress in using partner government systems

4.35 Several reasons for Australia's relatively slow progress in using partner government systems to deliver aid can be identified. First among these is AusAID's traditional approach to delivering aid, which has historically relied heavily on using managing contractors to deliver discrete aid projects (often involving substantial amounts of technical assistance) outside of government systems.¹⁶⁵ Broadening of this approach is a complex task which requires changes in managerial approaches and agency skills, and takes some time to achieve.

4.36 A second important factor is that Australian aid is delivered in countries that generally have very poor track records in accounting for government expenditure. In the Asia-Pacific region, where the bulk of Australian aid is delivered, corruption is a serious concern—out of the 32 countries in the region assessed by Transparency International in 2007, 22 were rated highly for perceived levels of domestic corruption. AusAID has also argued that one of the reasons for Australia's below par performance in using

¹⁶⁵ OECD 2004, *Peer Review of Australia*.

partner government systems is that 'Australia commits more of its aid program to fragile states than does any other aid donor'.¹⁶⁶

4.37 A third reason is, that AusAID did not have a strategy in place articulating the necessary steps to reform its aid delivery model, despite the commitment in *AusAID 2010* to work more through host government strategies and systems, the regular reference to the principles of the *Paris Declaration* in AusAID's procedural guidance, and the strong awareness among AusAID staff of these principles. More broadly, AusAID did not have an aid effectiveness strategy, and was reliant on country program managers and their staff to translate high level commitments (such as those in *AusAID 2010*) into effective programs on the ground.

AusAID's corporate approach to using partner government systems needs further development

4.38 The ANAO reviewed policy and supporting guidelines of the United Kingdom's Department for International Development (DFID) in using partner government systems to deliver aid, and compared them to approaches adopted by AusAID. DFID is well-recognised as a lead donor in providing poverty reduction budget support to partner governments,¹⁶⁷ and has had a published policy in place since 2004 that transparently outlines its approach.¹⁶⁸ This policy outlines: the benefits of budget support and lessons learned in its

¹⁶⁶ AusAID 2008, *Annual Review of Development Effectiveness 2007*, p. 12. By the most commonly used measure of state fragility, this is the case, but by other indicators, such as instability and conflict, the environment within which AusAID operates does not seem to be more difficult than that faced by bilateral donors on average. The most common way to estimate the level of fragility is derived from the World Bank's Country Policy and Institutional Assessments (CPIA). CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. By this measure of state fragility, Australia does appear to deliver more aid to fragile states than other donors. By other measures, such as the Fund for Peace failed states index, which focuses more specifically on assessing levels of internal conflict and instability, Australia ranks lowly among bilateral donors. In terms of aid delivered to countries by income grouping, Australia is around the global average for aid delivered to either 'least developed' or 'other low income' countries.

¹⁶⁷ DFID defines poverty reduction budget support as a form of financial aid to partner governments where funds are: provided in support of a government policy or expenditure program whose long term objective is poverty reduction; spent using national (or sub-national) financial management and procurement systems and accounted for using the partner government's accountability systems; and, normally transferred to the central exchequer account or to a sub-national account controlled by the partner government. Budget support may take the form of general support to the overall budget, or a contribution to the overall budget primarily aimed at achieving objectives within a particular sector at national or sub-national level. [United Kingdom Department for International Development 2008, *Poverty Reduction Budget Support: A DFID Policy Paper*, February 2008.]

¹⁶⁸ United Kingdom Department for International Development 2004, *Poverty Reduction Budget Support: A DFID Policy Paper*, May 2004, which was updated in February 2008.

use; criteria for provision of budget support and approaches used to maximise its impact; and, the political, macroeconomic, fiduciary, and accountability risks of budget support, and how they are managed. The policy is underpinned by detailed procedural guidance, including in relation to fiduciary risk management.

4.39 In deciding whether to use budget support, DFID assesses the quality of the partner government and its systems, including whether the government is committed to improving public financial management. The merits of budget support are considered alongside alternate ways to deliver aid, with close attention given to fiduciary and political risks,¹⁶⁹ and whether the potential benefits of budget support justify heightened risks in these areas.¹⁷⁰

4.40 By contrast, AusAID's corporate approach to using partner government systems to deliver aid is still under development. The agency does not have a policy articulating its approach, while guidelines for AusAID staff on assessing the risks associated with using partner government financial management systems were not released until July 2008, with broader guidance notes on use of partner government systems forthcoming in early 2009.¹⁷¹ While this is a good start, the guidelines remain basic, when compared to those used by some other donors, including DFID.

4.41 An AusAID commissioned independent review of AusAID's progress in implementing the *Paris Declaration* found that: 'Common concerns raised by AusAID staff were that they were lacking guidance about how to go about delivering aid in the era of the Paris Declaration.'¹⁷² The ANAO survey of

¹⁶⁹ DFID's fiduciary risk assessment procedures are rigorous and approved by the United Kingdom National Audit Office. Political risks are considered in light of the relationship between the donor and the partner government, drawing on the government's commitment to human rights, good governance and fighting corruption. This is particularly important given that withdrawal of budget support can be highly detrimental, and the predictability of budget support is central to its success. [United Kingdom Department for International Development 2008, *Poverty Reduction Budget Support: A DFID Policy Paper*, February 2008, pp. 11–13.]

¹⁷⁰ Ibid. The ANAO also notes that DFID has agreed arrangements with the United Kingdom National Audit Office to provide assurance to the United Kingdom Parliament on the use of budget support funds. DFID also publishes details in its annual report of the amount of aid funding provided as budget support, and on interruptions of aid due to breaches of conditionality, pp. 19 and 25.

¹⁷¹ AusAID 2008, *Fiduciary Risk Assessment Guidelines*; AusAID 2009, *The rationale: Why we should work in and through partner government systems?*; AusAID 2009, *What do we mean by partner government "systems"?*; and AusAID 2009, *What does a focus on partner government systems mean for how we work?*.

¹⁷² [AusAID 2008, *Evaluation of the implementation of the Paris Declaration: Case study of Australia*, Pilbrow, M., p. 20.]

AusAID staff also identified scope for improvement in AusAID's corporate guidance on how to implement the Paris Declaration, with just under one-third of respondents indicating available guidance and advice was insufficient (45 per cent of staff agreed guidance and advice was appropriate). A recurring theme of survey responses was uncertainty regarding AusAID's approach to managing the risks of using partner government systems.

4.42 AusAID's approach to using partner government systems has instead been predominantly developed from the ground up, under the leadership of country teams, often seeking to respond to requests from partner governments to increase the pace of implementation of the *Paris Declaration* agenda, and taking account of AusAID's risk and financial management policies. In some ways, this has been positive, enabling staff members at post to make initiative designs more context driven and based on assessed risks, to draw from the more established practices of other donors, and to contribute to the development of corporate guidelines on the basis of on the ground experience.¹⁷³

4.43 However, despite these positive factors, the ANAO considers there are several weaknesses in AusAID's approach to using partner government systems:

- In the absence of a well-understood corporate policy, there is a risk that inadequate practices will be applied, and that opportunities to learn from experience and expand on better practices will be missed.
- Without transparent articulation of the different types of risks of using partner government systems (such as fiduciary and political risks, time delays and changing policy priorities), and how they are treated by AusAID, there is a risk the agency will be exposed to criticism (in the event of funds spent through partner government systems being misused), that such decisions were ill-considered, even when the risks were known and accepted.
- Reflecting these concerns, it has been difficult for AusAID's country programs to pursue approaches that are likely to increase the

¹⁷³ AusAID 2009, *Review of the Effectiveness of Programs Delivered through Government systems using the program based approach and the appropriateness of risk management strategies under the AusAID bilateral program in Vietnam*, draft, prepared by Bartholomew, A., Nguyen, H., and Kousek, R.

effectiveness with which Australian funds can be used, but expose AusAID to higher risks.

AusAID's cautious approach has sometimes prevented resources from getting to where they are most needed

4.44 As illustrated by Figure 4.1, Australian aid is a substantial component of the resources available to many partner governments. It is critical in this context that financing mechanisms are sufficiently flexible to enable support to be provided for the delivery of government services.

4.45 In seeking to increase the use of partner government systems, donors, including AusAID, are faced with difficult choices about what level of control to retain over the use of their resources. A range of options are available in this respect: segregation of funds in separate bank accounts; earmarking of funds for specific purposes; imposition of donors' own procurement rules; and, imposition of additional audit and reporting requirements. Each of these choices has implications for the ease with which financial contributions can be accessed—the higher the level of control that is required, the harder it is for the implementing agencies to administer the funds, which, among other things, can result in funds not being used for their intended purpose. International evidence has shown that the imposition of additional safeguards to address weaknesses in partner government systems can result in the worst of both worlds, with additional bureaucratic requirements for little by way of benefits.¹⁷⁴

4.46 The scaling up of the Australian aid program is sharpening the importance of these choices. The significance of Australia's contribution to service delivery sectors will rise rapidly—for example, the 2007–08 budget announced a tripling of support for education, and a doubling of support for health by 2010.¹⁷⁵ Much of this expansion will occur in countries that are heavily reliant on external financing to provide basic services. Developing the

¹⁷⁴ AusAID guidelines for working in partner government systems have observed for example, that 'Working with only some parts of the [public financial management] system, and ignoring the potential distortions or incentives this might create, could undermine overall system performance'. [AusAID 2009, "Operational Note 2: Working in Partner Government Systems".]

¹⁷⁵ AusAID 2008, two sections from the *Annual Thematic Performance Report 2006–07: Education and Health*.

right financing arrangements will be critical to AusAID's ability to spend increased aid resources, and to the effectiveness of this expenditure.

4.47 The ANAO notes that AusAID's cautious approach to funds provision, while minimising the risk of corruption, has sometimes prevented resources from getting where they are most needed. Where efforts have been made to allocate resources to service delivery, the imposition of complicated financial management controls has often restricted the use of those funds for the intended purpose. This is well illustrated by the findings of a recent evaluation of AusAID's support to the health sector in three Pacific Island countries.¹⁷⁶ In the case of Papua New Guinea the review found that:

Spending by AusAID and other pooled funding donors has fallen far short of planned levels in the provinces. Donor funding proved very difficult to utilise because of the demanding financial management procedures put in place to minimise fiduciary risks. The shortfall in aid meant that per capita spending in the provinces did not increase in real terms during 2001–06, making it difficult for provinces to expand services. Instead of providing increased support for operating costs, AusAID spending continued to be dominated by technical assistance and investment in buildings and equipment, categories of expenditure the Medium Term Expenditure Framework has said should be reduced.¹⁷⁷

Conclusion—AusAID should develop a policy on using partner government systems

4.48 Since the release of *AusAID 2010* in early 2007, and reflecting Australia's commitments under the international aid effectiveness agenda, AusAID has increased its use of partner government systems to deliver aid. However, Australia's progress remains behind that of other donors on average, and well short of internationally agreed targets for 2010.

¹⁷⁶ In recent years Australian aid has accounted for around one-quarter of total health expenditure in Papua New Guinea, and more than half in Solomon Islands. [AusAID 2009, *Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu*, p. 5.]

¹⁷⁷ AusAID 2009, *Australian Aid to Health Service Delivery in Papua New Guinea, Solomon Islands and Vanuatu*, p. 15. A further example is provided in the case of Timor Leste by a paper jointly prepared by the governments of Timor Leste and Australia, which observed that 'Donor financial resources need to be more flexible and responsive, and place greater emphasis on partner government ownership.' [AusAID 2008, *A Balancing Act: Implementation of the Paris Declaration in Timor-Leste, Background Paper for the Third High Level Forum on Aid Effectiveness*.]

4.49 Australia’s relatively slow progress in using partner government systems to deliver aid reflects the complexity of transitioning from AusAID’s historic aid delivery model, the absence of a comprehensive strategy to do so,¹⁷⁸ and the generally poor track records of many of Australia’s aid recipients in accounting for government expenditure. In particular, AusAID’s corporate approach to using partner government systems to deliver aid, and articulating and managing the risks associated with this approach, requires further development.

4.50 As a result, it has been difficult for country programs to use partner government systems in a way that is likely to increase the effectiveness with which Australian aid funds are used, but which may entail higher levels of risk requiring management—particularly the possibility that funds are misused due to corruption. The expansion of the aid program, and with it Australia’s contribution to service delivery sectors in countries reliant on Australian aid, underscores the need to use and strengthen partner government systems as the mechanism for doing so.

Recommendation No.3

4.51 The ANAO recommends that, in order to facilitate increased use of partner government systems in delivering aid, and improve the effectiveness of the approaches adopted, AusAID develops policies that address:

- the benefits of using partner government systems and the lessons learned to date;
- how decisions to use partner government systems are reached, including thorough assessment of potential development benefits and associated risks; and
- how the more significant risks of using partner government systems are managed by AusAID.

4.52 AusAID response: *Agreed.* Whilst country strategies play a fundamental role in focusing AusAID’s engagement in the region, managing a

¹⁷⁸ Partly in response to these issues, AusAID is currently developing an Operations Policy Management Framework (OPMF). The framework will articulate clear directions and criteria on the choice of different aid modalities (including use of partner government systems), while outlining AusAID’s approach to risk, and minimum accountability requirements under different aid modalities. [AusAID 2009, “Building on the 2010 Blueprint: A Reform Agenda for 2015”, p. 19.]

scaled up aid program demands consideration of all aid contributions, and not exclusively bilateral spending. To this end, AusAID is developing a new and more integrated business model to manage scaling up across all programs of support. Guidance will be articulated in the Operational Policy and Management Framework (OPMF), due for implementation in early 2010. The OPMF will build on the significant changes already underway in the way AusAID does business, including working more often in a harmonised way with a range of different development partners.

5. Whole of government coordination

This chapter examines the role of other Australian Government agencies in the aid program, and AusAID's performance in coordinating their involvement.

Australia's whole of government approach

5.1 'Whole of government' is a term to describe the working together of government agencies across portfolio boundaries to achieve a shared goal.¹⁷⁹ The whole of government contribution to the aid program is substantial—aid provided by government agencies other than AusAID is forecast to exceed \$320 million in 2009–10, representing approximately nine per cent of aid program expenditure. This is a real increase of 56 per cent on the aid provided by other government departments in 2000–01 (see Figure 1.2).

5.2 The prominence of government departments other than AusAID in the aid program reflects Australian aid policy, which has focused on the links between governance, security and development, and on promoting Australia's national interest.¹⁸⁰ This policy underwrote the adoption of more interventionist approaches to aid provision, exemplified by major initiatives such as the 'Regional Assistance Mission to the Solomon Islands', and the 'Enhanced Cooperation Program' (ECP) in Papua New Guinea, key features of which were the involvement of a wide range of Australian public sector agencies.

5.3 The involvement of Australian Government agencies other than AusAID in the aid program, guided by their different mandates and objectives, raises the risk of aid fragmentation. Strong coordination among the different agencies involved in delivery of aid is critical to managing this risk, and supporting global efforts to reduce aid proliferation.

¹⁷⁹ Australian Government 2005, *Working together: Principles and practices to guide the Australian Public Service*, p. 1.

¹⁸⁰ This approach was expounded in the Eleventh Statement to Parliament on Australia's Development Cooperation Program in 2002. Observing that the world had changed markedly since the previous major aid policy statement was developed in 1997 ('Better Aid for a Better Future') as a result of the events of 11 September 2001, and the Bali bombings in 2002, the new statement ('Investing in Growth, Stability and Prosperity,') contained a much stronger emphasis on the links between development and security, as well as the importance of Australia taking a stronger regional role in addressing issues of trade, environment, immigration, disease, drugs and crime.

5.4 As Australia's lead agency in the development and implementation of aid policy, AusAID is central to the effectiveness of the whole of government approach.¹⁸¹ In 2006 AusAID characterised its relationship with whole of government partners as occurring at primarily an operational level. By 2010, AusAID envisioned that it would have strong partnerships with whole of government partners across the program, at both the strategy and the implementation levels.¹⁸²

5.5 In the following sections, the ANAO will outline the strengths and weaknesses of the whole of government approach and assess AusAID's performance in meeting the challenges of:

- building on the strengths, and minimising the weaknesses of the whole of government approach to delivering aid;
- coordinating whole of government involvement in the delivery of aid and improving accountability for the results of shared efforts; and
- selectivity of aid delivered by government agencies other than AusAID.

Strengths and weaknesses of the whole of government approach

5.6 In situations where multiple agencies are contributing to the delivery of a program or working towards shared goals, the costs and benefits of different whole of government approaches to implementation need to be considered.¹⁸³

Strengths of the whole of government approach

5.7 The engagement of a range of government agencies provides access to a large pool of qualified technical personnel in areas relevant to the aid program, and the opportunity to develop partnerships between government agencies in Australia and their counterparts in partner countries. The contributions of senior and mid-level officials from a range of Australian Government agencies

¹⁸¹ The White Paper on the aid program stated in 2006 that 'AusAID will play a central role in ensuring the whole-of-government approach to aid works, and will often take a leadership and coordinating role.' AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A white paper on the Australian Government's overseas aid program*, p. 63.

¹⁸² AusAID 2006, *Agency Business Plan: 2006–10*.

¹⁸³ Commonwealth of Australia 2006, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide produced by the Australian National Audit Office and the Department of Prime Minister and Cabinet.

are valued by recipient agencies, and provide a source of contemporary knowledge of public sector management generally unavailable through contracted consultants.¹⁸⁴

5.8 The increased involvement of other government agencies has provided the aid program with a mechanism to address situations of regional security, conflict and instability, and humanitarian disasters in partner countries.¹⁸⁵ For example, the involvement of agencies such as the Australian Federal Police (AFP) and the Australian Defence Force has enabled the Australian Government to respond to conflicts in the Solomon Islands and Timor Leste, and the earthquake and tsunami that devastated Thailand and other countries in 2004.¹⁸⁶

Weaknesses of the whole of government approach

5.9 Depending on their mandates, agencies involved in the aid program have different perspectives on the nature of the development problems they face,¹⁸⁷ as well as varying degrees of understanding of effective approaches to delivering aid. Engagement of a range of government agencies increases the risk that aid contexts will not be properly understood, and initiatives poorly designed and managed. An ANAO review of AFP deployments overseas found that AFP personnel were able to make a significant and positive contribution to law and order and public safety through involvement in the 'Regional Assistance Mission to the Solomon Islands'. However, personnel tasked with capacity development activities lacked the 'necessary skills, attributes and understanding of their task and the cultural implications of policing in the Solomon Islands'. This highlights that agencies, like the AFP, who do not deal with the provision of aid or assistance to overseas countries as

¹⁸⁴ See, for example, Dixon, G., Gene, M., and Walter, N., 2008, *Joint Review of the Enhanced Cooperation Program*; and, AusAID 2008, *Government Partnership Fund: Mid-Term Review*, p.iv.

¹⁸⁵ OECD 2008, *Peer Review of Australia*, p. 34.

¹⁸⁶ ANAO Audit Report No.53 2006–07, *Australian Federal Police Overseas Operations*.

¹⁸⁷ For example, the mandate of the Department of Foreign Affairs and Trade is to advance the interests of Australia and Australians internationally, by protecting Australia's security; enhancing Australia's prosperity; and helping Australian travellers and Australians overseas. For the Department of Immigration and Citizenship, it is to manage the lawful and orderly entry and stay of people in Australia, including through effective border security. The Australian Customs and Border Protection Service's role is to detect and deter unlawful movement of goods and people across the border.

part of their core business, may lack the necessary skills and understanding of those country's cultural customs and environment.¹⁸⁸

5.10 International engagement is not core business for most government agencies involved in the aid program. In many cases, they are not funded, or organised to support international deployments, and rely on AusAID in terms of strategic oversight, coordination, and day-to-day management.¹⁸⁹ An AusAID review of the Indonesian country program noted the problems that a lack of capacity to engage internationally can cause. It highlighted that one agency, in particular, was unable to deliver on Australian Government commitments after 18 months, undermining relationships with Indonesian counterparts.¹⁹⁰ In some cases, other government departments have been forced to look beyond their own staffing contingent to fill positions from other sources, raising questions about the value added by their involvement.¹⁹¹

5.11 A recent survey conducted by AusAID on the cost of technical assistance personnel in the aid program found that staff deployed from Australian Government agencies cost substantially more than the contracted consultants traditionally used.¹⁹²

Conclusion

5.12 The participation of other government agencies in the aid program enables development of institutional linkages and application of valued

¹⁸⁸ ANAO Audit Report No.53 2006–07, *Australian Federal Police Overseas Operations*. Similarly, an AusAID review of the Indonesia Country Program noted that 'In some instances, Australian agencies have focussed on providing equipment, such as computers and other information technology systems, as a way to strengthen partnerships, but without considering the sustainability of assistance. If the equipment is unused or broken after a couple of years, the perception of the counterpart agency (and others) is likely to be negative', [AusAID 2007, *Assessment of the Indonesia Country Program Strategy 2003–06*, p. 13.]

¹⁸⁹ While many whole of government initiatives, such as the AFP's deployment in the Solomon Islands have been supported through their own budget appropriations, other agencies are not explicitly supported to address the management implications of deployment of their staff to overseas aid projects. [Baser, H. 2008, *Desk Review of Technical Assistance: Emerging Lessons on Australia's Technical Assistance*.]

¹⁹⁰ AusAID 2007, *Assessment of the Indonesia Country Program Strategy 2003–06*, p. 13. The assessment subsequently noted 'Agencies that have built up their engagement with Indonesian counterparts slowly (e.g. Treasury), or that have committed dedicated funding and staffing (e.g. Australian Federal Police) are gaining the most traction. Often, the problem is not money but internal capacity to deliver. Unfulfilled promises or substandard delivery damages relationships.'

¹⁹¹ Baser, H., 2008, *Desk Review of Technical Assistance: Emerging Lessons on Australia's Technical Assistance*.

¹⁹² AusAID 2008, "Mapping technical assistance inputs and costs across Australia's overseas aid program", draft.

Australian expertise. However, deploying staff from other government agencies is relatively costly, agencies and personnel involved can be inexperienced in development contexts, and often have a limited capacity to support international work. Given these strengths and weaknesses, it is important that the costs and benefits of possible whole of government approaches are considered in comparison to alternate approaches for delivering aid, with decisions based on their relative merits.¹⁹³

5.13 As Australia's lead aid agency, AusAID plays a central role in supporting strategic consideration of how aid can best be provided, including possible whole of government approaches. AusAID also has an important role in facilitating the engagement of other government agencies in the aid program, by sharing its development knowledge and providing operational support. More broadly, the strengths and weaknesses of whole of government approaches call on all involved agencies to effectively use established coordination arrangements.

Coordination of the whole of government approach

5.14 Strong coordination among the different agencies involved in delivery of the Australian aid program is critical to the development of coherent aid policies, effective implementation, and accountability for the results of combined efforts.¹⁹⁴ Appendix 2 outlines the nature of the involvement of government agencies other than AusAID in the aid program, and this section considers the effectiveness of whole of government:

- frameworks for strategic cooperation;
- country strategies; and
- frameworks for operational coordination.

¹⁹³ AusAID came to a similar conclusion in a recent annual review of governance activities in the aid program, which noted that: 'Overall, at the aggregate level, it does not appear to make a decisive difference whether deployees or consultants are used to implement economic governance interventions. Good examples can be found of using both modes and use of both is likely to be the case in coming years. This will require greater emphasis on coordination and harmonisation of efforts within the Australian aid program, and greater attention to consideration of areas of comparative advantage.' [AusAID 2008, *Annual Thematic Performance Report 2007–08: Economic Governance*, p. 20.]

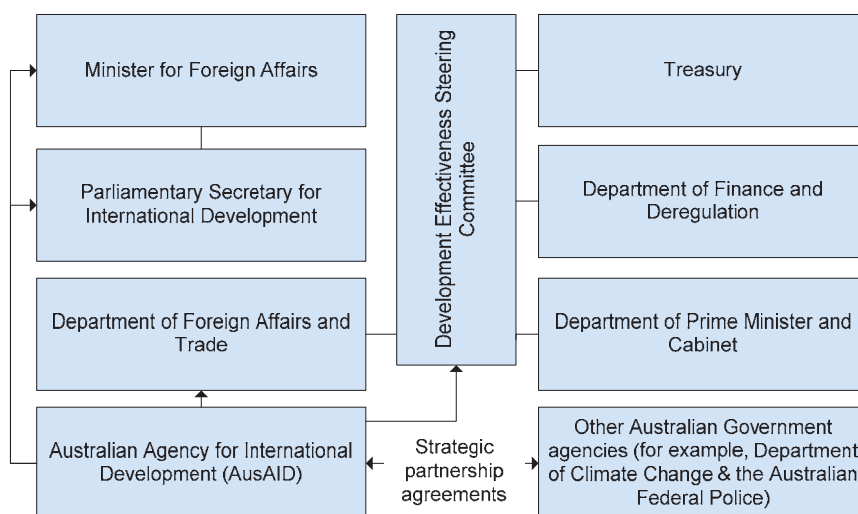
¹⁹⁴ Commonwealth of Australia 2006, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide produced by the Australian National Audit Office and the Department of Prime Minister and Cabinet.

Frameworks for strategic cooperation are in place, but could be used more effectively

5.15 The institutional framework for Australia’s whole of government approach to the delivery of aid is depicted in Figure 5.1. Most of Australia’s development assistance is managed directly by AusAID, an administratively autonomous agency within the Foreign Affairs and Trade portfolio, whose Director General reports directly to the Minister for Foreign Affairs on all aspects of aid policy and operations, as well as through its dedicated Parliamentary Secretary.¹⁹⁵ Overall responsibility for development policy is held by the Minister for Foreign Affairs.

Figure 5.1

Institutional framework for management of the Australian aid program



Source: OECD 2008, *Peer Review of Australia*.

5.16 In deciding matters of policy, the Minister receives advice from a range of sources. A key source of advice is the Development Effectiveness Steering Committee (DESC), which was established by the 2006 White Paper to oversee and coordinate whole of government cooperation in the aid program.¹⁹⁶ The DESC is chaired by AusAID’s Director General, and includes deputy secretaries from DFAT, Department of Prime Minister and Cabinet, Finance

¹⁹⁵ OECD 2008, *Peer Review of Australia*.

¹⁹⁶ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government’s overseas aid program*, p. 60.

and the Treasury.¹⁹⁷ An important role of the DESC is to provide advice to government on the merits of the ODA eligible new policy proposals, through which the aid program is being scaled up.¹⁹⁸

5.17 The ANAO observed that the DESC provides a useful platform for inter-departmental communication and cooperation on aid budget matters, and an opportunity for AusAID, based on its strong international development knowledge, to influence strategic decision making.

5.18 However, during fieldwork, both AusAID and other Australian Government agencies noted that the effectiveness of the DESC has been reduced by a failure to make sure that all ODA eligible proposals are scrutinised in a timely manner. This has limited the capacity of the DESC to subject proposals to robust whole of government consideration.

5.19 In response, the Australian Government agreed in the 2009–10 budget that agencies be required to engage with the DESC at an early stage on development of potentially ODA eligible proposals, that Finance, in consultation with AusAID, release an Estimates Memorandum outlining the ODA budget process, and that the new policy proposal template include an ODA eligibility section.¹⁹⁹ An Estimates Memorandum has now been drafted, and among other things, establishes the required contents of concept papers for ODA proposals—which include how the proposal will address identified needs, how success will be measured, risk management, implementation strategies, and predictability of aid flows.²⁰⁰ In line with these steps, the ANAO considers establishment of the DESC as a stronger gateway for ODA proposals will facilitate strategic aid investments, as well as improve coordination and accountability for aid initiatives.

¹⁹⁷ AusAID, *Development Effectiveness Steering Committee: Terms of Reference*. The relationships between whole of government partners and AusAID are also guided by 'Strategic Partnership Agreements', which are in place with eight of AusAID's major public sector partners, and provide another forum through which priorities can be debated and decided at senior levels. [AusAID Executive Minute, "Review of Strategic Partnership Agreements", 10 October 2007.] AusAID also attends, when relevant, meetings of the Secretaries' Committee on National Security and the Strategic Policy Co-ordination Group, which support whole of government interaction on strategic and security issues. [OECD 2008, *DAC Peer Review of Australia*, p. 35.]

¹⁹⁸ AusAID, *Development Effectiveness Steering Committee: Terms of Reference*.

¹⁹⁹ Department of the Prime Minister and Cabinet advice to ANAO, July 2009.

²⁰⁰ AusAID advice to ANAO, August 2009.

5.20 Following stakeholder consultations and examination of DESC minutes, the ANAO notes that the DESC has had limited success as a forum for engagement of other government departments on matters of aid policy and effectiveness. This includes for example, engagement on the implications of the *Paris Declaration* for the aid program, and the role and importance of country strategies as frameworks for Australia’s bilateral development assistance (including assistance provided by whole of government partners). In particular, greater focus is needed for the DESC to provide a vehicle for timely and substantive engagement of key whole of government stakeholders in the development and approval of country strategies.

5.21 AusAID has recognised these issues and in March 2009 AusAID’s Director General wrote to members of the DESC, reaffirming, among other things, the important role of the DESC in providing input to aid effectiveness directions and whole of government country, regional and global strategies.²⁰¹

Country strategies have not provided strong frameworks for coordinating and accounting for whole of government efforts

5.22 Experience has shown that the effectiveness of cross-agency implementation is greater when there is an overarching implementation plan, coordinated by a nominated lead agency, which clearly defines cross-agency dependencies and responsibilities, as well as performance indicators and targets.²⁰² Whole of government country strategies were envisaged by the 2006 White Paper, as being a central means to support strategic engagement and coordinate whole of government involvement in the aid program. The White Paper recognised the need to upgrade country strategies to include ‘all ODA-eligible activity, including that delivered by Australian Government agencies other than AusAID, in order to strengthen the coordination and focus of Australia’s aid programs.’²⁰³

5.23 AusAID’s progress in updating country strategies has been slow, which has meant that many country programs do not have an approved strategy (see

²⁰¹ AusAID 2009, “Letter from AusAID Director General to DESC members”, March 2009.

²⁰² Commonwealth of Australia 2006, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide produced by the Australian National Audit Office and the Department of Prime Minister and Cabinet,

²⁰³ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government’s overseas aid program*, p. 58.

paragraphs 3.10 to 3.15). In addition, a review conducted by AusAID's Office of Development Effectiveness (ODE) in 2008 found that success in engaging whole of government partners in the production of country strategies has been limited. The review found that:

Existing country strategies are not generally viewed as whole-of-government documents and are instead perceived as of limited value for other government partners engaged in the aid program.²⁰⁴

5.24 The main obstacle identified by the review to making sure country strategies adequately reflect all Australian ODA, is the need to focus them on a limited number of strategic objectives that cannot reflect the breadth of Australian, and by implication other government agencies', interests and involvement. The review argued that this does not negate the importance or value of activities that are outside the scope of the strategy, but can result in a loss of visibility for such activities, and the agencies involved in implementing them.²⁰⁵

5.25 The ANAO acknowledges that country strategies should not act as a binding constraint in determining the eligibility of new activities for funding, including those implemented by other government agencies. As discussed in chapter three, country programs and the strategies that guide them will always need to be responsive to changes in the domestic and partner government policy environments, and to new opportunities for engagement. However, the ANAO considers that lack of visibility of other government agency contributions to country strategies also amounts to a loss of accountability for that expenditure, and an increased risk of undermining overall program coherence. The inability to establish country strategies as whole of government documents that transparently document approved and potential aid flows, also increases the risk of discord among whole of government partners regarding how ODA is, or should be used.

5.26 The ANAO considers that focusing country strategies on a limited number of strategic objectives, and incorporating all Australian ODA, including ODA delivered by other government agencies, would facilitate improved accountability between Australia and its aid recipients, and coherent

²⁰⁴ AusAID 2008, "Whole-of-government working in the aid program: an informal review of country strategy development and performance reporting", p. 1.

²⁰⁵ *ibid.*, pp. 1–2.

strategic approaches. The development of detailed delivery and implementation strategies (for country strategies and Pacific Partnerships for Development respectively) presents an opportunity to do so, by more clearly outlined roles of other government agencies at a country level, transparently documenting work underway, and providing a basis for annual review and negotiation with whole of government stakeholders and partner governments in the context of country program budget allocations.²⁰⁶

Frameworks for operational coordination need further development

5.27 Effective implementation of whole of government initiatives is underpinned by clear and commonly understood governance and decision-making arrangements.²⁰⁷

5.28 At an operational level, whole of government coordination occurs through management arrangements that vary according to their degree of formality, and levels of engagement. There are prominent examples where strong coordination frameworks have been developed. For example, the ANAO has previously concluded in the case of the Regional Assistance Mission to the Solomon Islands that '[the Department of Foreign Affairs and Trade] and AusAID have put in place arrangements that enable the effective coordination of Australian Government assistance to the Solomon Islands.'²⁰⁸ In other cases, frameworks for management, monitoring and evaluation of whole of government initiatives have been lacking. One notable example was the major whole of government component of Australia's aid to Papua New Guinea, the Enhanced Cooperation Program (ECP—replaced by the Strongim Gavman Program in July 2009), which operated from its inception in 2004 without a management framework to formalise agreement among Australian Government partners about its goals and objectives, and, management,

²⁰⁶ AusAID advised the ANAO that while there is still some way to go to improve whole of government engagement in the development of country strategies, there are examples where the role of Australian Government partners is being addressed in revised country strategies and Pacific Partnerships for Development. For example, the Kiribati–Australia Partnership for Development recognises activities managed by the departments of Foreign Affairs and Trade, and Education, Employment and Workplace Relations. [AusAID advice to ANAO, August 2009.]

²⁰⁷ Commonwealth of Australia 2006, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide produced by the Australian National Audit Office and the Department of Prime Minister and Cabinet,

²⁰⁸ See ANAO Audit Report No.47 2006–07, *Coordination of Australian Government Assistance to Solomon Islands*, p. 13.

monitoring and evaluation arrangements. This led a joint Papua New Guinea and Australian review to observe in 2008 that:

As a direct government-to-government initiative ... [ECP] has evolved in a way that omits several elements of conventional aid program management, in particular joint management of the program with the recipient government (for example, through joint steering committee arrangements) clear capacity building strategies and definition of objectives, and half yearly or annual monitoring of progress in achieving these objectives.²⁰⁹

5.29 In the case of the Strongim Gavman Program, AusAID has made some progress, through its leadership in developing a management framework for the program, in fostering agreement over, and a common language for discussing the design, purpose, and performance of the initiative with its whole of government partners.²¹⁰ However, for the Strongim Gavman Program and some other whole of government initiatives, there are some fundamental governance problems that are not yet resolved.²¹¹ These problems were clearly articulated by the review of ECP, which observed that:

[N]o single Commonwealth agency is responsible for monitoring the collective performance of the [ECP] against its objectives and its budget. While [the Department of Foreign Affairs and Trade] has overall leadership of the program, funding is through an AusAID appropriation, breaking the usual nexus between control of program financing and responsibility for its performance. Further, the performance of individual deployees is the responsibility of the sending agency, and there seems to be considerable variation between deploying agencies in the extent of monitoring of the results of their deployments.²¹²

5.30 The ANAO considers that overall, for initiatives involving whole of government partners, there is room to define clearer governance and

²⁰⁹ Dixon, G., Gene, M., & Walter, N., 2008, *Joint Review of the Enhanced Cooperation Program*.

²¹⁰ A more rigorous management framework has been developed in response to the joint review. [AusAID 2008, "Strongim Gavman Program: Management Framework", draft.]

²¹¹ Further examples are provided in the following section in relation to shared monitoring and evaluation frameworks.

²¹² Dixon, G., Gene, M., & Walter, N. 2008, *Joint Review of the Enhanced Cooperation Program*, p. 31.

accountability arrangements in the form of design documents, and supporting records of understanding.²¹³

Further work is required to develop shared monitoring and evaluation frameworks

5.31 When ODA funding is provided to other government agencies through AusAID's own appropriation, AusAID's internal accountability arrangements apply, including monitoring and evaluation practices, the results of which are reflected in AusAID's annual reporting. Funding sourced through an agency's own budget appropriations is accounted for under their own arrangements.

5.32 Where a number of agencies share implementation responsibilities, a coordinated approach to cross-agency reporting is required, including agreement about overall accountability for monitoring and reporting, and individual responsibilities for different components of reporting. An important consideration is to give sufficient attention to the risks of incompatible data between agencies and how this will be dealt with. A balance needs to be struck between the benefits of data compatibility between agencies and the resources needed to collect any additional information.²¹⁴

5.33 The ANAO examined reviews of several major whole of government initiatives and noticed consistent weaknesses in monitoring and evaluation arrangements. As indicated in paragraphs 5.28 and 5.29, the ECP lacked shared monitoring of progress against strategic objectives; a review of the 'Government Partnership Fund' in Indonesia, observed that: 'Monitoring and evaluation, risk management, and reporting were weak across the [initiative's] activities. This has limited the capacity of the [initiative] to demonstrate effectiveness based on credible evidence';²¹⁵ and, a review of the 'Pacific Governance Support Program', observed that: 'AusAID reported that its field monitoring of [the initiative's] activities was limited, based on an assessment of

²¹³ Records of understanding (ROUs) are formal agreements between AusAID and other government departments engaged and funded by AusAID to deliver aid programs. The ANAO previously identified, in the case of Australian assistance to the Solomon Islands that AusAID had failed to complete ROUs with participating agencies. [ANAO Audit Report No.47 2006–07, *Coordination of Australian Government Assistance to Solomon Islands*, p. 37.] Whole of Government stakeholders consulted during the audit observed that the finalisation of up-to-date ROUs continues to pose a challenge for AusAID.

²¹⁴ Commonwealth of Australia 2006, *Implementation of Programme and Policy Initiatives: Making implementation matter*, Better Practice Guide produced by the Australian National Audit Office and the Department of Prime Minister and Cabinet.

²¹⁵ AusAID 2008, "Government Partnership Fund: Mid-term review", p. viii.

low risk. It depended primarily on reporting by implementing Australian agencies and on their internal systems'.²¹⁶

5.34 To assist in management and accountability for whole of government involvement in the aid program, the 2006 White Paper established the Office of Development Effectiveness (ODE). Among its roles, ODE was expected to 'monitor the quality and evaluate the impact of AusAID and, as appropriate, other Australian Government agencies' ODA programs', publish an Annual Review of Development Effectiveness (ARDE), that would draw on 'the experiences of all Australian government departments delivering ODA', and 'act as a resource for all Australian Government agencies delivering ODA-eligible expenditure.'²¹⁷

5.35 While there are several notable exceptions,²¹⁸ to date ODE has had limited success in engaging other government agencies in these areas, and the aid program is some distance from having consistent approaches to reporting performance across the entire program.²¹⁹ This in part reflects that AusAID encourages, but does not impose, performance assessment systems on other government agencies, and that there are constraints to undertaking independent reviews of whole of government programs.²²⁰

5.36 The ANAO considers there are two important points of leverage which can be used more effectively by AusAID to engage other government agencies in developing consistent approaches to monitoring and evaluating ODA. The first is the role of the DESC in scrutinising ODA eligible budget proposals. As a strong gateway, the DESC can seek to elicit upfront agreement on how whole

²¹⁶ AusAID 2008, "Pacific Governance Support Program: Independent Completion Report", p. 7

²¹⁷ AusAID 2006, *Australian Aid: Promoting Growth and Stability: A White Paper on the Australian Government's overseas aid program*, p. 60.

²¹⁸ For example, the 2007 ARDE drew on ODE country strategy evaluations that included whole of government aid, and reviews of major whole of government initiatives; the Australian Centre for International Agricultural Research is actively monitoring its own ODA; AFP has provided two secondees to ODE to learn more about AusAID's approach to performance assessment; whole of government partners are increasingly involved in development of Annual Program Performance Reports, though mainly in a contestability role to date; and, AusAID has made training available to whole of government partners to improve their capacity in assessing performance of ODA.

²¹⁹ AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 57; AusAID 2008, *Whole-of-government working in the aid program: an informal review of country strategy development and performance reporting*, p. 4.

²²⁰ For example, in reviewing the Philippines country strategy, ODE was not given access to Australian Federal Police material due to security concerns relating to counter terrorism. [AusAID advice to ANAO, August 2009.]

of government initiatives will be monitored and evaluated. Secondly, revised country strategies can support clearer articulation of the role and work of other government agencies, providing for their ongoing engagement in performance assessment.

Conclusion—Coordination of the whole of government approach

5.37 The 2006 White Paper on the aid program established several mechanisms to coordinate whole of government engagement in the aid program, including the DESC, whole of government country strategies, and the ODE. Frameworks have also been developed at an operational level to support whole of government coordination.

5.38 The ANAO found their effectiveness has varied:

- The DESC has provided a sound platform for whole of government communication and cooperation on aid budget matters, but its effectiveness has been reduced by a failure to make sure all ODA eligible proposals are subject to scrutiny by the DESC in a timely fashion;
- Country strategies are not generally viewed as whole of government documents, and have not provided sufficient accountability for Australian ODA, including ODA delivered by other government departments;
- Despite some notable exceptions, the ODE has had limited success in engaging other government agencies in developing consistent approaches to assessing the performance of ODA expenditure, making it difficult for ODE to provide a holistic representation of the outcomes of whole of government efforts;
- The quality of operational frameworks for whole of government coordination has been variable, and sometimes poor; and
- AusAID has recognised the main weaknesses in whole of government coordination, and in particular, is working to further strengthen the effectiveness of the DESC and country strategies.

Selectivity of aid delivered by government agencies other than AusAID

5.39 In order to get the best results from limited resources, it is critical that Australia's aid, including whole of government contributions, is used strategically. Recognising that Australian aid cannot be 'all things to all people', there is a need to be selective in identifying and pursuing avenues of engagement. It also includes careful consideration of the costs and benefits of whole of government engagement; as such engagement is not the most cost-effective option in all circumstances. Internationally, whole of government approaches to aid delivery have exacerbated the global problem of aid proliferation, and it is important Australian aid allocation decisions do not worsen this situation.

5.40 As a major component of donor countries' foreign policies, aid can have several objectives. For example, nearly all nations have signed up to the Millennium Development Goals (MDGs), which articulate a number of development goals for developing nations for 2015, such as the halving of poverty, and which emphasise the provision of aid as important for the achievement of these goals. Aid may also have commercial, political, diplomatic and security objectives.

5.41 Inclusion of the national interest in the Australian aid program's objective provides a degree of flexibility to pursue these other objectives, as long as this supports the overarching goal of poverty reduction. It also increases the challenge of achieving strategic coherence across the aid program. There will not always be a natural fit between the mandates and motivations of agencies involved in the aid program (many of whom are focused primarily on domestic matters), and the strategic focus of AusAID's bilateral aid programs. In addition, it will not always be appropriate for involved agencies to engage in whole of government coordination, when activities are better conducted separately.

5.42 Taking account of these considerations, in the following sections the ANAO examines the selectivity of aid delivered by government agencies other than AusAID, at a program-wide and country level, and in terms of the number and size of aid activities under management.

Efforts can be more strategic

5.43 While aid delivered by Australian Government agencies other than AusAID is forecast to increase by 56 per cent in real terms between 2000–01 and 2009–10, it remains relatively contained as a proportion of total aid—accounting for around 10 per cent of the aid program annually.²²¹ At a macro level, AusAID’s country and global programs still dominate aid flows, and Australian aid is not fragmented like that of some other bilateral donors.²²²

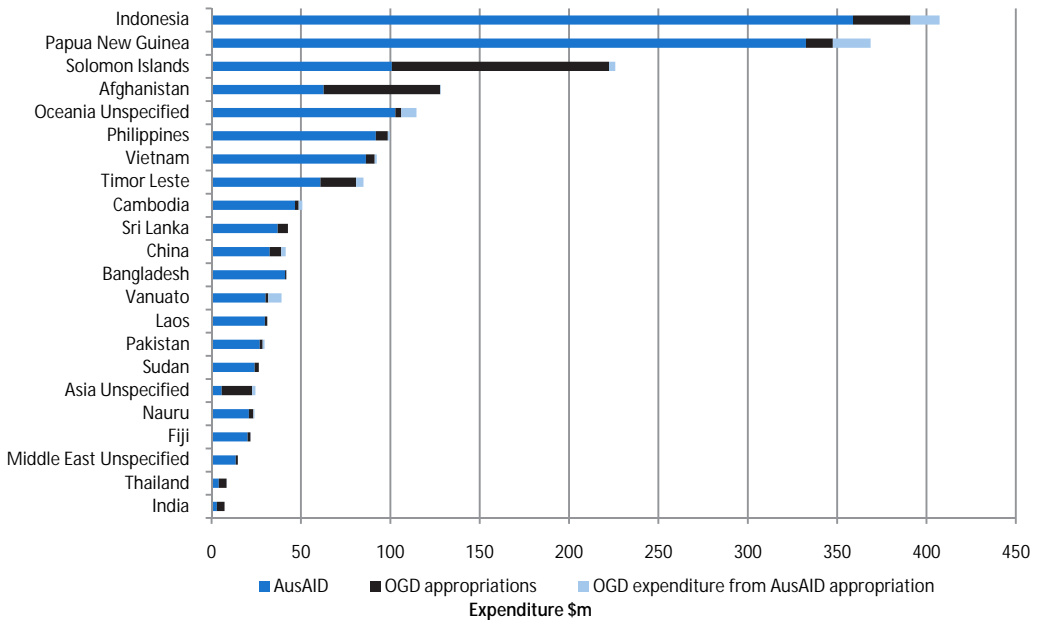
5.44 At a country level, the contribution of other government agencies to Australian ODA has been variable (see Figure 5.2). Reflecting Australia’s strategic and regional interests, and broadly consistent with the weighting of aid allocations by AusAID, the largest whole of government contributions in 2007–08 were made in Indonesia, Papua New Guinea, Solomon Islands, Afghanistan, and Timor Leste, including through major peace keeping and stabilisation missions. In other cases, contributions were large relative to aid provided by AusAID, including in the Asia region, Thailand, and India, reflecting provision of aid in support of bilateral relations. On the other hand, some large country programs (such as Vietnam, Bangladesh and Laos) receive relatively little ODA through other government agencies.

²²¹ Commonwealth budget statements 2002–03 to 2009–10. Excluding peaks in expenditure in 2005–06, 2006–07 and 2008–09 that resulted from one-off debt relief payments to Iraq administered by the Department of Foreign Affairs and Trade.

²²² In the case of the world’s largest aid donor the United States, the main aid agency USAID, is responsible for less than 40 per cent of total aid, and some 25 agencies pursue 50 development objectives, most of them independently. [Brainard, L., 2006, *Organizing Foreign Assistance to Meet Twenty-First Century Challenges*, in: Brainard, L., (ed.), *Security by Other Means: Foreign Assistance, Global Poverty, and American Leadership*, Brookings-CSIS Task Force on Transforming Foreign Assistance for the 21st Century.

Figure 5.2

Contribution of other government departments to country and regional program expenditure 2007–08



Source: ANAO analysis of 'AidWorks' data.

Note: ODG signifies other government departments.

5.45 In 2007–08 over 60 Commonwealth entities, as well as state, territory and some local governments, implemented 605 separate aid activities, at an average annual cost of \$891 023—well below the average activity size for the entire aid program of approximately \$1.4 million.²²³ These figures illustrate that aid delivered by government agencies other than AusAID has a broad focus, in line with the multiple purposes aid can serve.

5.46 While a degree of incongruity between aid delivered by other government agencies and the focus of country program aid may be expected, there is consistent evidence of scope for improvement in cohesiveness and selectivity of Australian aid. For example:

- An AusAID review of the Indonesia country strategy noted that between 2003–04 and 2005–06, 21 Australian Government entities

²²³ OECD 2008, *Compendium of donor reports on implementing the Paris Declaration, Volume 2: Donor self assessments*, p. 5.

undertook 165 different activities worth a total of \$92 million, and identified a 'widespread concern that in sum Australian aid engagement was too broad and needed greater coherence.'²²⁴ Reflecting these concerns, the 2007 Indonesian Annual Program Performance Report noted the importance of keeping engagement strongly aligned with the agreed country strategy.²²⁵

- The joint review of ECP (discussed in paragraph 5.28) found the initiative operated somewhat separately from other Australian programs of assistance to Papua New Guinea, and from the Papua New Guinea Government's own reform program.²²⁶ Similarly, a review of the Indonesia Government Partnership Fund found coordination with other Indonesian country program initiatives was not fully developed, leading to perceptions of inconsistencies between Australian aid initiatives.²²⁷
- An AusAID review of Australia's 2003–2007 framework for aid to Africa observed that pressure to extend the coverage of the program in line with national interest considerations had an adverse effect on the program, including in terms of costs and inefficiencies.²²⁸

5.47 The ANAO considers that improvements in selectivity of aid delivered by other government agencies, including better integration with aid delivered by AusAID, will require more effective use of existing mechanisms for whole of government engagement. In particular, establishment of the DESC as a

²²⁴ AusAID 2007, *Assessment of the Indonesia Country Program Strategy 2003–06*, p. 12. Concern about the broad focus of whole of government efforts was also evident in the findings of an AusAID review of the governance sector, which noted on the basis of reviews of whole of government programs in Indonesia and the Pacific that 'it [was] difficult to be confident about the contribution of the public sector linkages programs beyond the relationship strengthening dimension' and also that 'activities tended to be more supply than demand driven and not always directed at issues of the highest priority for either partner gov[ernments] or for Australia's own interests.' The review concluded that: 'Attention is also required to deepen whole-of-government engagement in order to support greater strategic coherence and sectoral integration'. [AusAID 2008, *Annual Thematic Performance Report 2007–08: Governance*, pp. 16 and 21.]

²²⁵ AusAID 2008, *Indonesian Annual Program Performance Report 2007*, p. 24.

²²⁶ The review further noted a need to pull together 'the disparate elements of Australian assistance relating to a particular objective or sector together in the context of [the PNG Government's] own reform agenda, reporting on progress and identifying gaps from a whole-of-aid perspective.' [Dixon, G, Gene, M., and Walter, N., 2008, *Joint Review of the Enhanced Cooperation Program*, p. 13.]

²²⁷ AusAID 2008, *Government Partnership Fund: Mid-Term Review*, p. 8.

²²⁸ AusAID 2007, *Review of AusAID's Africa strategy: Australia's 2003–07 framework for Africa*, p. 21.

strong gateway for ODA eligible budget proposals will support strategic consideration of their alignment with country and regional strategies. In turn, greater efforts are required to articulate the role of whole of government partners under country program delivery strategies, thereby helping to establish a common understanding of program objectives, and how they can be progressed in an effective way.

Conclusion—Selectivity of aid delivered by government agencies other than AusAID

5.48 The ANAO examined the selectivity of aid provided by other government agencies at a program-wide and country level, and in terms of aid activities under management.

5.49 The proportion of Australian aid delivered by other government agencies remains relatively contained, reducing the risk of aid fragmentation. However, the contribution of other government agencies' aid to total ODA is variable at a country level; there are a large number of Australian agencies involved in the aid program—overseeing many small activities; and evaluations of the aid program consistently identify weaknesses in selectivity of aid delivered by other government agencies.

5.50 These findings reflect the diverse mandates of Australian agencies involved in the aid program, the multiple objectives aid can serve, and provision of aid in line with Australia's national interest. However, they also indicate scope for improvement in the selectivity of aid delivered by other government agencies, and in the cohesiveness of the overall whole of government approach. Achieving gains in this area will require more effective use of existing mechanisms for whole of government engagement, including the DESC and country strategies.

6. Monitoring and evaluation

This chapter assesses AusAID's recent efforts to improve monitoring and evaluation of the aid program.

Performance orientation of aid agencies

6.1 Aid is provided to environments characterised by weak capacity, and may be more, or less, effective in achieving sought after results. To improve the outcomes of aid, it is necessary to thoughtfully manage implementation and learn lessons from work undertaken—through sound monitoring and evaluation. A strong performance orientation enables aid agencies to maximise the value for money provided by aid investments.

6.2 However, there is consensus among the international aid community that aid agencies have underinvested in monitoring and evaluation.²²⁹ This follows on from a weak feedback loop. The more common feedback mechanisms which serve to discipline most domestically oriented government agencies do not work in the case of aid agencies.²³⁰ Taxpayers in donor countries have little knowledge of the effectiveness of aid spending, while the intended beneficiaries (the overseas poor) have a strong interest in, but no direct political influence over, foreign aid providers.

6.3 The 2006 White Paper identified a need to strengthen the performance orientation of the Australian aid program. The White Paper established that monitoring and evaluation would be improved through more rigorous performance assessment of country strategies and aid activities, and by establishing an Office of Development Effectiveness (ODE) to monitor the quality and evaluate the impact of Australian aid. The following sections assess the progress of these reforms, and how well AusAID's monitoring and evaluation accounts for, and informs, growing aid budgets.

²²⁹ This consensus is reflected by the focus of the international aid effectiveness agenda, as embodied in the *Paris Declaration on Aid Effectiveness and Accra Agenda for Action*, on managing and accounting for results. It is also illustrated by evaluation findings; see for example, [Sayedoff, W.D., Levine, R., and Birdsall, N., 2006, *When will we ever learn? Improving lives through impact evaluation*, Report of the Evaluation Gap Working Group, Center for Global Development, Washington, D.C.]

²³⁰ Easterly, W., 2002, *The Cartel of Good Intentions: The Problem of Bureaucracy in Foreign Aid*, Journal of Policy Reform, Volume 5 (4); Svensson, J., *Absorption Capacity and Disbursement Constraints*, Chapter 10 in Easterly, W. (ed.), *Reinventing Foreign Aid*, MIT Press.

AusAID's performance assessment framework

6.4 Even if it is agreed that aid agencies require a greater performance orientation, the appropriate performance focus needs to be determined. It is necessary, though not sufficient, to monitor inputs and processes. If internal quality procedures are not adhered to, it is unlikely that quality results will be achieved. Beyond that, the main debate centres on whether individual projects or broad programs of support provide the most appropriate focus for evaluation of aid. AusAID considers that both are important, and performance should be assessed at the activity and program levels.²³¹

6.5 AusAID has taken a multi-layered approach to performance management with the development of its Performance Management and Evaluation Policy (PMEP). The PMEP, which was approved in December 2007, requires that new aid activities be subjected to peer and independent appraisal, and that aid results be assessed from three different perspectives—annual program performance, aid activity performance, and through evaluations (see Table 6.1).

6.6 At a framework level, the PMEP establishes a sound mix of approaches to generate and assess aid effectiveness. The policy is also well supported—detailed requirements are clearly articulated in procedural guidance, the framework is centrally overseen by the Operations Policy Management Unit, and its elements are regularly assessed by ODE. The following sections examine each component of the PMEP in practice.

Table 6.1

AusAID's performance management and evaluation framework

Report	Coverage	Role
Annual Performance Report	Country and regional programs <i>Annual Program Performance Report</i>	Describes the performance of the program over the year, rating progress against objectives, using information and approaches defined in the Country or Regional Strategy Performance Framework.
	Sector, global and cross-sector programs <i>Annual Thematic Performance Report</i>	Reports against the objectives set in the relevant sector strategy or policy document, or the program design. Also provides reporting against new policy proposals framed by sector.

²³¹ For a more detailed discussion on assessing aid effectiveness see: AusAID 2008, *Annual Review of Development Effectiveness 2007*, p. 38.

Quality Reporting System	All monitored activities	Reports and rates each aid activity according to a set of common quality principles at three different stages—entry, implementation and completion.
Evaluation	Country strategies, monitored activities, sectors and themes	In depth assessments (often independent) of programs or activities.

Source: AusAID 2009, *Performance Management and Evaluation Policy*, current to 31 October 2009.

Monitoring program performance

6.7 The importance of country and regional strategies to the formulation of coherent aid investments that address core development constraints is discussed in chapter three. Annual reviews of strategy implementation serve a number of purposes—to understand country level impacts, inform program refinements and future directions, and to feed into agency level thinking, strategy and reporting.

6.8 The 2006 White Paper established that country strategies will be upgraded, including by:

Providing a more rigorous performance framework [as part of the country strategy], which will articulate expectations at the country level more clearly and provide a better basis for assessing the impact of aid efforts.²³²

6.9 In explicitly incorporating annual program performance reporting as a core element of its performance management framework, AusAID put in place a prominent mechanism for regular reporting on country level outcomes.

Annual reporting has progressed well—but lack of centrality of country strategies has not helped

6.10 In 2007, seven country program areas completed trial annual performance reports as a first step towards implementing this complement of the PMEP. The following year, 19 country and regional program areas completed Annual Program Performance Reports (APPRs), covering almost all country program aid, rating their performance against over one hundred aid objectives. The annual reports assessed the results of the program, the quality of aid activities underway, and management consequences of the assessment.

²³² AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A White paper on the Australia Government's aid program*, p. 58.

6.11 Completion of APPRs for country and regional programs has required a concerted effort by AusAID staff. During fieldwork, country office managers commended the reports, as having provided a vehicle for close consideration of the rationale, coherence and performance of country program portfolios against higher level objectives. The ANAO reviewed several APPRs and found them to be informative. The reports provide a good summary of the developing country context, the objectives of Australian aid, and the achievements of work underway, drawing on internal and external reviews, and some quantitative information.²³³ APPRs are subjected to external peer review.

6.12 The format used, quality of writing, depth of analysis and logic of arguments in APPRs varies. While it is expected that large programs with strong capacity will produce more detailed reports, the higher order thinking called for by APPRs necessitates continued investment in staff skills throughout AusAID. The ANAO found similar variations in the quality of reporting at the aid activity level.

6.13 The usefulness of APPRs as a means of assessing performance depends on establishing sound country and regional program objectives, against which aid program results can be assessed. Australian development assistance is one of many factors that influence development outcomes, and often its impact is small relative to other causes. In discussing performance assessment, the 2007 ARDE recommended the aid program, 'set consistently realistic objectives addressing intermediate outcomes that Australian aid is expected to influence'.²³⁴

6.14 However, in completing APPRs, many program areas have found that program level objectives are poorly defined. An independent review of APPRs for 2008 found that 'objectives in APPRs still tend to be broad (unmeasurable) and/or overly ambitious (unrealistic)'.²³⁵ The ANAO identified the following examples of poorly defined objectives:

²³³ An independent review of APPRs for 2008 found 'In the majority of the cases with the country programs there was good use of a variety of information sources consulted to support the ratings given. These sources included a mix of external evidence (government surveys, recent independent reports, community perception and citizen awareness surveys) and internal evidence (i.e. self assessments, information from technical advisory group reviews).' [AusAID 2008, "Quality Review of Annual Program Performance Reports", August 2008, p. 6.]

²³⁴ AusAID 2008, *Annual Review of Development Effectiveness 2007*, p. 42.

²³⁵ AusAID 2008, *Quality Review of Annual Program Performance Reports*, August 2008, p. 8.

- Increase economic opportunities and rural livelihoods (Timor Leste);
- Strengthen the enabling environment (Laos);
- Reduce the impact of natural disasters (Laos); and
- Accelerating broad based economic growth, including for women and youth, and isolated communities (Tonga).

6.15 The principal cause of weaknesses in country program objectives has been non-completion of country strategies and their lack of centrality to program management (see chapter three). Given these factors, it is not surprising that as country and regional programs have commenced assessing performance against objectives, many have struggled to identify appropriate program goals. A related consequence is that country strategy performance assessment frameworks for many country programs remain underdeveloped.²³⁶

6.16 The ANAO considers that the robustness of country program performance assessments can be improved through completion of country strategies—incorporating realistic program objectives and practical means of assessing performance.

Performance monitoring can further drive program coherence

6.17 Annual performance reporting has led country program managers to more closely consider the relationship between country level objectives and aid activities underpinning their achievement. For example, the 2007–08 APPR for Cambodia noted that:

The Cambodia program is not on track to meet any of its key objectives from the existing 2003-2007 Development Cooperation Strategy. When current investments are examined at the activity level a reasonably positive picture emerges. However, there is apparently little systematic connection between progress at the activity level and achievement of higher-level objectives; or at least there is no substantial evidence to make this linkage.²³⁷

²³⁶ 'In 2007–08, only a limited number of reports [APPRs] drew on an established set of performance indicators and milestones to assess progress towards their program's objectives, reflecting the general 'work in progress' nature of program performance frameworks', [AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 56.]

²³⁷ AusAID 2008, *Cambodian Annual Program Performance Report: 2007–08*, p. 1.

6.18 Such reflection is likely to, over time, lead to establishment of more realistic objectives for Australian aid, and support stronger linkages between country strategies, aid investments and performance assessment. This was evident in the case of Laos:

The analysis in this report concludes that, while AusAID is performing well at activity level in Laos, the good results being achieved are not necessarily translating into progress towards the achievement of higher level objectives that can be readily measured.

The major means of addressing this issue is through the new Australia Laos Country Program Strategy (2008-2015). Activities implemented under the new Country Strategy will launch new ways of working for Australia in Laos – including playing a more active role in higher order policy dialogue, engaging in multi-donor approaches and encouraging new forms of aid. Performance reporting will become a stronger focus of all activities. Implementation of the Quality Reporting System across all significant activities in the program will assist us identify and address gaps in activity-level reporting on development outcomes.²³⁸

6.19 While annual performance reporting has focused the attention of managers on program coherence, further work is needed. Under the current format of APPRs, the relationship between program objectives and individual aid activities is not always readily apparent. The ANAO considers that listing all monitored²³⁹ aid activities underneath each objective they contribute to—for example, through presentation of aid activity quality report ratings, including forthcoming ratings on the relevance of activities to higher level objectives, would support greater consistency between country program objectives and aid activities, and provide a basis for phasing out poorly performing activities of limited relevance to higher level goals.

6.20 One of the main reasons for assessing performance is to use findings to inform future directions. However, to date, the outcomes of annual performance reports have not been central to the scaling up of ODA. This was evident in Papua New Guinea where there was a strong case to allocate

²³⁸ AusAID 2008, *Laos Annual Program Performance Report: 2007–08*, p. 2.

²³⁹ Quality performance reporting requirements apply to all monitored aid activities, that is, where expected Australian Government funding over the life of the activity is greater than \$3 million, or the value is less than \$3 million but it is significant to country or corporate strategies, or AusAID's partnerships. Monitored activities represent approximately 85 per cent of aid program funds.

increased resources to existing highly performing initiatives,²⁴⁰ but a clear pathway between these assessments and development of scaling up proposals was not apparent. Similarly, APPRs are not generally used as a means of identifying where additional resources are needed to underpin achievement of strategic objectives, or where current investments are not working and changes to investment priorities may be required.

6.21 Based on these findings, the ANAO noted that AusAID can make greater use of annual performance reports to rationalise country program portfolios, and influence scaling up of ODA.

Cross-program (thematic) reports

6.22 Annual Thematic Performance Reports (ATPRs) were introduced at the same time as APPRs in order to examine results of aid activities in different sectors across all countries.²⁴¹

6.23 Although they present an interesting discussion of sector issues, the ATPRs have not been well received by the thematic groups²⁴² that produce them, who perceive the reports as being of limited value. An internal review of the 2008 reports found 'there is a lack of clarity around the purpose and audience for these reports and the benefit to the agency did not justify the effort required to produce them'.²⁴³

6.24 The failure of ATPRs to gain traction reflects a disconnect between reporting and accountability. Thematic groups are not responsible for the delivery of sector initiatives, based upon which they describe performance.²⁴⁴ AusAID may be better served in applying its expertise from program enabling

²⁴⁰ For example, the Sub-National Strategy and Transport Sector Support Program.

²⁴¹ ATPRs were completed for the education, environment, governance, health and infrastructure sectors in 2008, as well as for humanitarian and multilateral aid. The ANAO did not review the latter two reports as humanitarian and multilateral aid were beyond the scope of the audit. The findings of this section do not apply to these reports.

²⁴² Thematic groups were formed in 2007 as part of Program Enabling Division to provide expert advice to program delivery staff in areas such as education and health.

²⁴³ AusAID 2009, Program Committee Minute, *Update of Performance Assessment and Evaluation Policy*, 5 January 2009, p. 2.

²⁴⁴ Principal Advisors and ADGs suggested that there was a fundamental conflict between internal management and external accountability functions which undermined the worth of the reports.' (AusAID 2009, Program Committee Minute, *Update of Performance Assessment and Evaluation Policy*, 5 January 2009, Attachment A)

areas to directly support annual reporting by delivery areas, and ODE's sector and thematic evaluations—particularly through more in-depth assessments of sector topics that deepen knowledge of participants.²⁴⁵

Monitoring aid activities

6.25 Aid activities are the delivery mechanism for country and regional strategies, and the principal unit of management of the aid program. It is therefore necessary to support the quality of these inputs through rigorous performance management.

6.26 The 2006 White Paper indicated that management of aid activities would be improved by strengthening monitoring and evaluation, including through more robust quality reporting.²⁴⁶

A new quality reporting system has been implemented but completion of requirements is variable

6.27 In April 2007 the AusAID Executive approved a new quality reporting system (QRS) to strengthen design, management and accountability for monitored aid activities. Activities are rated before commencement (on entry), once a year during implementation ('quality at implementation' reports), and on finalisation, against seven criteria—relevance, effectiveness, efficiency, monitoring and evaluation, sustainability, gender equality, and analysis and learning.²⁴⁷ The rating process normally involves self assessment by responsible managers. Quality at entry for monitored aid activities involves a peer review of the design concept, an independent appraisal of the design, and a peer appraisal of the design chaired by the responsible Senior Executive Service officer. Quality on finalisation of an activity is reported by preparing a

²⁴⁵ AusAID is proposing a different model for ATPRs in 2009 that relies more of performance information produced by delivery areas. The new format involves analysis and cross-program comparison of achievement of sector objectives from APPRs, reporting on new budget measure implementation, an in-depth component on a specific sub-theme, and analysis of the portfolio of sector initiatives using data generated from the quality reporting system [AusAID 2009, Program Committee Minute, *Update of Performance Assessment and Evaluation Policy*, 5 January 2009, Attachment A.]

²⁴⁶ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A White paper on the Australia Government's aid program*, p. 59.

²⁴⁷ The quality criteria are rated using a six point scale. Under its previous quality system AusAID used a five point rating scale, but found it encouraged reporting adequate performance and limited the ability to analyse marginally satisfactory cases.

final quality at implementation report. Where an independent evaluation has taken place on completion of the activity, its ratings are used.

6.28 Two years after introduction of the new QRS, the ANAO observed strong commitment to quality reporting during implementation of aid activities, with 90 per cent of monitored activities receiving assessments.²⁴⁸ These assessments have focused the attention of AusAID staff on the strengths and weaknesses of aid activities, and are an important input to APPRs.

6.29 However, completion of quality reporting requirements at the commencement of monitored aid activities, and on their finalisation, remains very low—as it was under previous performance monitoring systems. ANAO analysis indicated that for 166 new monitored aid activities commencing between March 2007 and October 2008, 55 per cent undertook none of the three design steps required by AusAID’s quality reporting guidelines, and only 16 per cent undertook all three steps.²⁴⁹ AusAID separately calculated that in 2007–08, only 15 per cent of monitored aid activities underwent quality reporting requirements upon their finalisation, which, until recently, required an independent evaluation.²⁵⁰ Low rates of completion of quality procedures partly result from the management burden of numerous relatively small monitored aid activities under management. As discussed in chapter three, AusAID needs to reduce activity proliferation to support manageability of the growing aid program.

6.30 A large number of activities receive exemptions from quality reporting requirements on their commencement and finalisation. However, at present, the reasons for exemptions are not readily apparent, and it is unclear whether activities not subjected to quality reporting requirements have otherwise undergone sufficient quality assurance. In response, AusAID recently undertook to clarify and strengthen exemption procedures. Taking account of reasons for non-compliance, AusAID can also consider whether having three separate assessment steps is an appropriate and efficient method to support quality in the design of aid activities.

²⁴⁸ AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 56.

²⁴⁹ ANAO analysis of data contained in: AusAID 2009, “Executive Minute: Performance Management and Scaling Up”, Attachment A, 5 January 2009.

²⁵⁰ AusAID 2009, *Annual Review of Development Effectiveness 2008*, p. 56.

6.31 More than 60 per cent of aid activities managed by AusAID, accounting for around 15 per cent of total aid program funds, are valued at less than \$3 million, and do not normally fall under quality reporting requirements.²⁵¹ In 2001–02, the ANAO recommended AusAID collect performance information on non-monitored activities when it is appropriate and cost effective to do so.²⁵² However, this recommendation has not been implemented, and there remains a scarcity of management information concerning non-monitored aid activities.

6.32 There would be benefit in AusAID undertaking analysis of the characteristics of small aid activities, how they come about, and their overall impact on program manageability and effectiveness. AusAID needs a strong understanding of the underlying drivers of activity proliferation in order to alleviate the problem.

Quality report ratings are not yet robust

6.33 An independent review of ‘quality at implementation report’ ratings (for achievement of objectives and monitoring and evaluation), commissioned by ODE in 2008, found that 32 per cent of assessed reports had overly-optimistic ratings for achievement of objectives, and 24 per cent had overly-optimistic ratings for monitoring and evaluation. Of the 50 ‘quality at implementation report’ ratings reviewed, no cases of under-rating were detected.²⁵³

6.34 These results indicate ‘quality report’ ratings need to be more realistic, and that peer review procedures implemented by AusAID to contest ratings are not working effectively. To support the reliability of subjective quality assessments ODE could continue to commission, and also publish, independent annual assessments of awarded ratings. Options to strengthen peer review procedures can also be explored.²⁵⁴

²⁵¹ *ibid.*, p 58.

²⁵² ANAO Audit Report No.59 2001–02, *AusAID Contract Management*, p. 98.

²⁵³ AusAID 2008, “Spot Check of Quality at Implementation Reports”. Over-optimism of report ratings has now been a problem for many years. A 2001–02 ANAO performance audit also found that ratings of many aid activities appear to be unreliable. [ANAO Audit Report No.59 2001–02, *AusAID Contract Management*, p. 97.]

²⁵⁴ Options include documenting peer review feedback in quality reports; and undertaking fewer, deeper peer reviews, thereby increasing the rigor with which they are undertaken.

6.35 In January 2009, AusAID decided to introduce a relevance criterion as part of quality reporting, although business system changes are required before it can be applied in practice. The introduction of a relevance criterion, which considers the strength of the connection between activities and higher level program objectives, is particularly pertinent in seeking to understand the relative importance of different activities and their achievements, and will support efforts to improve the coherence of country program portfolios.

Monitoring inputs

6.36 AusAID requires accurate data on the changing make-up of the aid program to adjust management approaches, and thereby support aid effectiveness. This includes breakdowns of funding (including commitments) by activity, sector and country; information on how aid is delivered—including use of technical assistance and partner government systems; and data on AusAID’s management costs. The ANAO identified weaknesses in each of these areas.

Data quality and completeness is low

6.37 AusAID’s aid management system, AidWorks, captures information on aid funding by country, sector, activity, and form of assistance, as well as related documentation (such as contracts) and qualitative information produced through the QRS.

6.38 Quarterly reporting to the AusAID Executive on AidWorks data has consistently identified its low quality—in February 2009 only 35 per cent of programs achieved the data quality benchmark of 80 per cent accuracy.²⁵⁵ In addition, over 48 per cent of APS respondents to the ANAO survey of AusAID staff disagreed that the information contained in AidWorks is accurate and complete (only 14 per cent agreed), and a recurrent theme of survey comments was that staff do not input all relevant information into the system. As a result of these weaknesses, reports generated by AidWorks are not reliable, and manual adjustments are necessary to produce information on forward

²⁵⁵ AusAID 2009, Executive Minute, “AidWorks Data Quality Report”, *Quarter 2, 2008–09*.

commitments, compliance with business procedures, and for external reporting.²⁵⁶

6.39 An important limitation of AidWorks is that the system does not capture accurate data on how aid is delivered, for example, expenditure through partner government systems, stand alone projects, joint initiatives with other donors, or in the form of technical assistance. As a consequence, AusAID cannot monitor progress against the commitments made by the Australian Government under the *Paris Declaration*, including goals to increase the use of partner government procurement and financial systems, and reduce the number of aid activities implemented outside of the partner country government.²⁵⁷

6.40 The ANAO also observed limitations in information available to AusAID on management inputs:

- Financial systems do not readily identify all post running costs (see chapter seven).
- AusAID’s human resource system ‘Aurion’ does not automatically capture details concerning locally engaged staff, even though they make up 35 per cent of all AusAID employees.²⁵⁸
- Information systems do not allocate staff time to aid activities or according to types of work. This makes agency efforts to undertake workforce planning, including better understanding job categories, more difficult.

AusAID has decided to invest in improved aid data

6.41 Under the AidWorks Redevelopment Project, approved by AusAID’s Executive in December 2008, AusAID’s aid management system will be upgraded to better capture information on the make-up of the Australian aid program, including on planned programming and how aid is delivered. The enhanced functionality is due to be fully delivered by 2012. This is well after

²⁵⁶ AusAID 2007, Executive Minute, “Introduction of AidWorks Data Quality Reporting Tool”, 11 December 2007.

²⁵⁷ Pilbrow, M., 2008, “Evaluation of the implementation of the Paris Declaration: Case study of Australia”, p. 26.

²⁵⁸ AusAID 2008, “Executive Minute: Issues Paper: Workforce Planning—Initial Steps”, 18 November 2008.

Paris Declaration targets fall due, and AusAID will be well on the way to substantially scaling up the aid program.

6.42 In the interim period, without sound macro level information on the make-up of the aid program, and how it is changing, it will be difficult for AusAID to plan for the workforce implications and resource the agency accordingly. Similarly, it will be difficult for AusAID to adjust the profile of Australian aid to progress commitments under the international aid effectiveness agenda. For these reasons, ANAO suggests that AusAID needs to consider expediting planned improvements in data capture.²⁵⁹

6.43 Improving the functionality of AidWorks is necessary, though not sufficient, to obtain more accurate data on the make-up of the Australian aid program. As indicated in paragraph 6.38, incomplete or incorrect data entry by staff has also been a driver of low data quality. To address these problems, business system changes may need to be accompanied by more rigorous assurance arrangements for how aid funding is attributed.

6.44 It is unlikely that AusAID will be able to collect all desired information on the make-up of the aid program using information systems alone. In each case the costs and benefits of systematic data capture can be considered alongside alternate approaches such as the use of surveys. For example, to generate improved information on technical assistance sourced through contractors, AusAID could require they provide additional information on a regular basis. Alternatively, the use of periodic surveys could be adopted.

Evaluation and the Office of Development Effectiveness

6.45 The 2006 White Paper indicated that performance management of the aid program would be improved by strengthening evaluation of aid activities, and creating the ODE to monitor the quality and evaluate the impact of Australian aid.²⁶⁰ The ANAO examined AusAID's progress in these areas, and their impact on the agency's evaluation output.

²⁵⁹ AusAID informed the ANAO that the AidWorks Redevelopment Project team is undertaking a gap analysis between the project schedule and any potential new business requirements brought about by the scaling up and aid effectiveness agenda, with gaps to be incorporated into the project schedule where resources allow. [AusAID advice to ANAO, August 2009.]

²⁶⁰ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A White paper on the Australia Government's aid program*, p. 59.

Evaluation of activities

6.46 In recent years, AusAID has required that an independent evaluation be conducted on completion of monitored aid activities (known as ‘independent completion reports’). However, the rate of finalisation reports has been low and dissemination of learning limited.²⁶¹ A major reason is the timing of ‘independent completion reports’, which are normally undertaken too late in the activity cycle to inform the design of subsequent phases of aid activities. Reflecting this, over 39 per cent of APS respondents to the ANAO survey of AusAID staff disagreed that AusAID makes good use of ‘independent completion reports’ to design its future work (28 per cent agreed). In this context, the ANAO observed that program areas tend to use independent evaluations of activity progress to better inform activity management and upcoming aid design work.

6.47 In November 2008, AusAID introduced a new independent evaluation policy for aid activities. Under the policy, monitored aid activities must be evaluated at least every four years. Where an activity has undergone an independent evaluation in the two years before its finalisation, a separate evaluation on completion is no longer required. This is a sensible change to activity evaluation requirements which takes account of the design cycle and is likely to result in increased levels of compliance. Importantly, the new evaluation policy also seeks to address historic weaknesses in activity evaluation by mandating a learning and dissemination plan, and a management response.

6.48 Despite the increased flexibility of the new activity evaluation requirement, it has not been given strong support by AusAID’s Program Committee.²⁶² The ANAO considers that without unambiguous Senior Executive drive, it will be difficult for AusAID to generate and sustain the momentum necessary to implement its independent evaluation policy for aid activities, and to institutionalise higher levels of compliance.

²⁶¹ AusAID 2008, *Quality Reporting System and Businesses Processes for Aid Delivery*, Interim Report, 30 May 2008, p. 11.

²⁶² AusAID 2009, *Program Committee Minutes*, 9 January 2009, p 5.

The Office of Development Effectiveness has helped improve AusAID's focus on performance

6.49 The 2006 White Paper established ODE as a small, high profile office within AusAID, separate from program management, and guided by the cross-agency DESC. The White Paper set out ODE's role to include:

- publishing an annual review of development effectiveness;
- acting as a resource for other government agencies delivering ODA;
- evaluating implementation of country strategies, policies and programs;
- reviewing performance monitoring systems; and
- advising on the development of new country strategies.²⁶³

6.50 The ODE has played a central role in increasing the performance orientation of the aid program since its commencement in 2006. The main achievements of ODE include publication of the inaugural and second ARDE, publication of three other in-depth evaluations, completing country strategy reviews, advising the DESC, and developing and reviewing AusAID's performance assessment framework. Fifty-eight per cent of respondents to the ANAO survey of AusAID staff agreed ODE had improved the performance orientation of the aid program (four per cent disagreed), while 54 per cent agreed ODE evaluations have had an important impact on the way AusAID works (seven per cent disagreed).

6.51 The ANAO reviewed the ARDE and ODE's major thematic evaluations and found them to be thorough (the ARDE is discussed in more detail in chapter seven). The evaluations need to be improved, however, by inclusion of management responses, as is required for independent evaluations of activities. Currently, the only articulated response to the findings of the ARDE is ODE's own forward agenda. It is not apparent how the agency as a whole intends to respond, nor is it clear how this response will be coordinated. Management responses to ODE evaluations would increase ODE's leverage

²⁶³ AusAID 2006, *Australian Aid: Promoting Growth and Prosperity. A White paper on the Australia Government's aid program*, p. 60.

with respect to program management and more clearly delineate its responsibilities from program delivery areas.²⁶⁴

AusAID's published evaluation output

6.52 To ascertain how ODE has affected AusAID's evaluative output, the ANAO examined the number and type of evaluations published by AusAID before and following its commencement. The analysis shows the published evaluative output is now improving, but from a low starting point.²⁶⁵

6.53 The ANAO compared the number and type of reports published by evaluation departments of selected bilateral aid agencies, relative to the size of country ODA. The number of published Australian evaluations was lower than Canada, Denmark and the United Kingdom per dollar of aid (see Table 6.2). That said, the role of ODE is broader than that of a traditional evaluation department, and its effort to produce the ARDE is considerable.

²⁶⁴ AusAID advised the ANAO that ODE's current suite of service delivery evaluations will include management responses. [AusAID advice to ANAO, August 2009.]

²⁶⁵ Between 1998 and 2006 AusAID published a series of 38 evaluations at an average of approximately four evaluations per year. Most of the evaluations covered a particular aid activity, or a specified theme common to a group of activities. This level of published evaluative output was fairly low for a broad aid program incorporating hundreds of activities. Following commencement of ODE, publication of these types of evaluations has continued at a similar rate. In addition, ODE has published the inaugural and second ARDE, three major thematic evaluations, a rapid analysis of Food Security in Africa, and two country strategy reviews.

Table 6.2**Comparison of bilateral aid agency evaluation department publications**

Country	2007 ODA \$m US	Annual published evaluations ²⁶⁶	Description
Australia	2,669	2 to 3	ARDE, thematic evaluations and country strategy reviews.
Canada	4,080	6	A mixture of country program, thematic and initiative level evaluations.
Denmark	2,562	6	Mainly country program and thematic evaluations.
United Kingdom	9,849	15	Around 10 thematic evaluations and five country program evaluations.

Source: OECD, 'Query Wizard for International Development Statistics', <<http://stats.oecd.org/qwids/>>, ODE website, Canadian CIDA website, Ministry of Foreign Affairs of Denmark Website, and Independent Evaluation in DFID Annual Report 2007–08 Annex 2.

6.54 The ODE business unit plan includes a target that three in-depth evaluations and two country strategy reviews are published in a financial year, achievement of which would mean ODE compares well with the evaluation departments of other bilateral aid agencies.²⁶⁷ To date, however, ODE has fallen short of this publication target, reflecting the breadth of its role, the necessity to help develop improved performance systems,²⁶⁸ production of many unpublished reports, and several in-depth evaluations remaining in draft form.

6.55 To help achieve its annual publication target, there would be benefit in the consultative development and publication of a proposed annual program of evaluations by ODE, against which evaluative output could subsequently be reviewed. Such an approach would allow the scope, selection and resourcing of proposed evaluations to be transparently considered, and could build upon

²⁶⁶ For Australia, an average has been taken of ODE publications in 2007 and 2008. For Canada, the number is the average of annual published evaluations between 2005 and 2007. For Denmark the number is the average of annual published evaluations between 2006 and 2008. For the United Kingdom, the figure represents published evaluations between November 2007 and October 2008.

²⁶⁷ AusAID 2008, *2008–09 ODE Business Unit Plan*.

²⁶⁸ Following a recommendation of an internal review of the aid program in early 2009, ODE is now stepping back from involvement in development of upgraded performance systems, which are now largely implemented. This is consistent with ODE's role of reviewing those systems, and will support greater focus on production of evaluations.

existing links between the contents of the ARDE and proposed evaluative work. In developing an evaluation program, ODE, while consulting as appropriate, needs to maintain independence through the right to select themes and activities to be evaluated. In addition, while publishing the core of its evaluation program, a degree of flexibility should remain to allow ODE to respond to evolving circumstances through production of ad hoc analytical work.

Conclusion

6.56 Since the 2006 White Paper was released AusAID has: implemented a robust performance assessment framework for aid investments, commenced valuable annual program reporting, strengthened its quality reporting system for aid activities, and established the ODE to monitor the quality and evaluate the impact of Australian aid. These efforts are focusing agency attention on the quality of country programs and aid activities, and the factors that lead to better development outcomes.

6.57 The strengthening of performance management in AusAID remains work in progress that requires long term commitment. Continuing focus is needed to ensure country strategies provide a basis of assessment and to raise compliance with activity quality requirements, and position the ODE to provide deep and sustained influence. Refinements are also necessary to align performance assessment at different levels and make quality reporting more rigorous.

6.58 The ongoing evolution of AusAID's performance orientation will require more strategic use of performance information, thereby informing program design and the scaling up of ODA. This means expanding on successful initiatives, identifying areas in need of further assistance, rationalising program portfolios and better understanding the resources required to deliver outcomes. To help make these links the quality of aid program data should be improved, particularly about how aid is delivered.

Recommendation No.4

6.59 The ANAO recommends that, in order to strengthen monitoring, evaluation, and management of the aid program, AusAID:

- reports on the quality of monitored aid activities against the country program objectives to which they relate;

- improves the quality of data captured on how aid is delivered;
- publishes management responses for all major Office of Development Effectiveness reviews; and
- publishes a proposed Office of Development Effectiveness annual program of evaluations.

6.60 AusAID response: *Agreed.* AusAID will continue to build on progress made in strengthening the performance orientation of the aid program. Improved delivery strategies (underpinning country strategies) will ensure a stronger alignment of activities to country program reporting.

7. External reporting

This chapter assesses external reporting on the aid program, including in the context of the performance information framework in AusAID's Portfolio Budget Statements.

External reporting meets public information requirements

7.1 There is strong public interest in making sure government funds are spent effectively, efficiently and ethically. In the case of aid, external stakeholders want to know the level of funding, where it is spent, on what, and whether it is having the desired impact. These information requirements can be met through transparent external reporting.²⁶⁹

7.2 A sound performance information framework provides the basis for agency accountability. Portfolio Budget Statements (PBS) set out performance information first, with results reported later in annual reports.

7.3 It is important that performance information used for external reporting, such as an annual report, is consistent with and linked to information collected and used for internal monitoring and reporting. Having performance information is not an end in itself—it needs to be analysed so that information is used not only to monitor progress but also to steer the agency more effectively.²⁷⁰

7.4 A good performance information framework has clear, precise and relevant indicators that are drawn from policies and plans for the agency. Such a framework contains a balanced set of measures that address all important aspects of agency performance, with accurate and reliable systems, methods and bases for reference, or comparison of performance.

7.5 Against this background, to assess performance information used by AusAID and external reporting on the aid program, the ANAO examined:

- reporting against the PBS framework in AusAID's annual reports to Parliament;

²⁶⁹ The Third High Level Forum on Aid Effectiveness in Accra, Ghana in September 2008 committed its participants, including Australia, to be more accountable and transparent. [*Accra Agenda for Action*, Joint Statement, 4 September 2008, pp. 5–6.]

²⁷⁰ ANAO *Better Practice Guide—Performance Information in Portfolio Budget Statements, 2002*, p. 33.

- other prominent aid program reports, including the Annual Review of Development Effectiveness (ARDE); and
- the transparency of aid program running costs.

Outcome reporting

AusAID's contribution to the aid program's outcomes

7.6 The Australian aid program has two outcomes. The first outcome 'to assist developing countries to reduce poverty and achieve sustainable development in line with Australia's national interest', relates to the majority of aid expenditure. The second outcome relates specifically to the Australia-Indonesia partnership for reconstruction and development, 'Australia's national interest advanced by implementing a partnership between Australia and Indonesia for reconstruction and development'.²⁷¹

7.7 AusAID receives administered and departmental funding to deliver each outcome. Under the first outcome, there are seven administered programs comprising country and regional aid, emergency, humanitarian and refugee programs, assistance to multilateral and other international organisations, and non-government organisation, volunteer and community programs. There is only one administered program under the second outcome.

7.8 The effectiveness of aid in reducing poverty is affected by a number of factors. A primary determinant is the quality of the government receiving aid, over which AusAID has some (albeit limited) influence by targeting aid at governance, and by directing more funds to better performing governments. A second determinant under AusAID's direct control is the quality of the individual aid donor. A third determinant is the way the aid business is organised, over which AusAID has some influence. AusAID needs to be able to specify its contribution to poverty reduction (Outcome 1), taking into account all of these factors.

Framework for reporting on contribution to outcomes

7.9 AusAID reports on its performance against both outcomes using a mixture of quantitative and qualitative assessments of progress (two of each

²⁷¹ Commonwealth of Australia 2009, *Portfolio Budget Statements 2009–10 Budget Related Paper No. 1.9 Foreign Affairs and Trade Portfolio*.

for each administered program). The two quantitative performance indicators used to assess aid program performance are the quality of aid activities and achievement of program level objectives. The basis for these assessments is as follows:

- The quality reporting system (QRS) assesses the quality of aid activities. QRS ratings are based on self assessments by activity managers and are subjected to peer review (for further discussion see chapter six). AusAID aims for a target of 75 per cent or more of monitored activities or organisations assessed as achieving or likely to achieve their objectives.
- Performance at the program level is assessed against strategy level objectives by program managers and reported in Annual Program Performance Reports (APPRs) for country and regional programs, and Annual Thematic Performance Reports (ATPRs) for multilateral and humanitarian programs, which are subject to external peer review (for further discussion see chapter six). AusAID aims to fully or partly achieve 75 per cent of program strategy objectives.

7.10 Qualitative assessments include narrative descriptions of ‘significant development results’ and ‘significant activity outputs’. While these provide useful colour to AusAID’s annual reports, they do not assist the reader to assess whether the number of these results or outputs (and by implication, AusAID’s performance), is increasing or decreasing.

7.11 The performance framework in AusAID’s 2009–10 PBS represents an improvement on previous years in two ways. Firstly, budgeting, and by implication, reporting for country and regional programs is disaggregated by broad region. Secondly, achievement of program level objectives has been included as a performance indicator for the first time. These changes will increase the depth of information contained in AusAID’s annual report and move towards more transparent country level budgeting and reporting, consistent with two important principles of aid effectiveness—that aid flows are predictable, and there is mutual accountability for results (between Australia and partner country governments).

Reporting on performance of departmental support

7.12 The 2009–10 PBS outlines three performance indicators used to assess the quality of AusAID’s departmental management:

- Increased awareness of, and support for, Australia’s international development assistance program among international, rural, regional and metropolitan audiences;
- Ministerial and Parliamentary Secretary satisfaction; and
- Implementation of the agency’s Performance Management and Evaluation Policy (PMEP), including the production of ARDE. This includes requirements associated with the appraisal of activity design, implementation progress, and outcomes.²⁷²

7.13 Of these three indicators, it is not clear how AusAID will assess the first two, since no objective measures are currently in place that are capable of assessing either. The third indicator has the potential to improve the transparency of AusAID’s annual reporting on agency compliance through the business procedures outlined in the policy, such as quality reporting and independent evaluation requirements for activities. To enable this to occur, AusAID will need to address ongoing issues associated with the quality of the data captured on compliance with quality reporting requirements (see chapter six).

Adequacy of AusAID’s PBS performance information framework

7.14 The ANAO considered the adequacy of AusAID’s PBS performance information framework from two perspectives: whether information used for external reporting is consistent with, and linked to information collected and used internally; and whether PBS indicators represent a balanced set of measures, drawn from policies and plans for the agency, and address key aspects of agency performance.

²⁷² In previous years AusAID has reported against a key performance measure for departmental management, as the number of activities managed. However, the reporting provided no indication of the number of activities that would be considered desirable, for example, whether an increase or decrease in the number of activities was the objective. [Commonwealth of Australia 2008, *Portfolio Budget Statements 2008–09 Budget Related Paper No. 1.9 Foreign Affairs and Trade Portfolio*, p. 109.]

7.15 The two quantitative PBS performance indicators used by AusAID to report program performance are consistent with information collected and used for internal monitoring and reporting. The QRS is now central to AusAID's management of individual aid activities, while annual reporting against program level aid objectives is central to program management.

7.16 However, the ANAO found the performance reporting framework set out in the 2009–10 PBS has limited influence in steering the agency effectively because it only addresses a portion of the key aspects of agency performance. In particular, current performance measures do not cover AusAID's contribution to how the aid business is organised.

7.17 The two quantitative performance measures used by AusAID focus primarily on the quality of aid provided by the agency, or its aid outcomes. They are inherently subjective. Staff will have varying perspectives on whether objectives are being fully or partly achieved, depending on their expectations, or view of what constitutes success. In the complex aid environment, it is not always possible to base these judgements on quantified indicators which can be externally verified. It would be beneficial to supplement these performance measures by a range of indicators which can be externally verified, and that reflect whether AusAID is following aid 'better practice', that is, those principles which the international aid community have endorsed as being vital for successful aid delivery, such as use of country strategies, selectivity of aid investments, how aid is delivered, and quality reporting.

7.18 Additional performance measures (either administered or departmental) can be drawn from policies or plans for AusAID, which will influence the agency's direction. For example:

- Country strategies play a critical role in guiding aid allocation decisions according to country level priorities, in order to maximise the effectiveness of aid (see chapter three). Historically AusAID has struggled to complete strategies for major country and regional programs. In response, AusAID is undertaking a program to upgrade and finalise country strategies (and Pacific Partnerships for Development). A new performance indicator could report the percentage of country programs with a current and approved strategy in place.
- Global proliferation of aid and the need for a manageable scaled up Australian aid program underscore the importance of aid investments

being selective (see chapter three). A key measure of aid proliferation is the number of individual aid activities under management. AusAID recently committed to achieving real reductions in activities under management to better support the scaling up of ODA. A new performance indicator could report on changes in activities under management, in relation to agency strategic direction.

- AusAID needs to develop better systems for capturing information on how Australian aid is delivered to inform progress against the international aid effectiveness agenda and support management of new forms of aid (see chapter six). As such systems are developed, related performance measures can be implemented. At present, in the absence of published information, it is difficult for AusAID to be held to account for commitments to change the way Australian aid is delivered.
- AusAID's 'quality systems' strengthen design, monitoring and evaluation of aid activities, and consequentially aid effectiveness. However, compliance with quality procedures on commencement and completion of aid activities has been low. A new performance indicator could report on compliance with quality reporting rules, such as the percentage of new aid activity designs subjected to peer review, and the percentage of aid activities that are independently evaluated.

Recommendation No.5

7.19 The ANAO recommends that, in order to strengthen external reporting and help steer agency direction, AusAID develop additional PBS performance indicators to provide a more balanced set of measures that address a broader range of critical aspects of agency performance.

7.20 AusAID response: *Agreed.* As acknowledged in the report, processes are in train to improve the quality of reporting against monitored aid activities.

7.21 Finance response: Finance supports Recommendation 5 relating to the development of additional performance indicators to provide a balanced set of measures upon which to assess agency performance.

Other reporting

7.22 Alongside the PBS and its annual report, AusAID publishes other Commonwealth budget documentation, and selected evaluations of the aid program, including the annual budget statement and ARDE.²⁷³ The ANAO reviewed these publications to further assess the transparency of Australian aid.

Annual budget statement

7.23 The Commonwealth budget statement, 'Australia's International Development Assistance Program' discusses aid program priorities, and provides a breakdown of the composition of ODA for each budget year by AusAID's country, regional and global programs; AusAID's departmental expenses; and aid expenditure of other government departments. ODA in the budget year is estimated by country and region, sector and sub-sector. For each country or region, or type of global program (such as multilateral engagement), a description is provided of the main areas of support. Overall, budget documentation gives the reader a good understanding of where Australian aid funds are directed by country, and the broad areas of focus within countries.

Publication of evaluations

7.24 Publishing evaluations improves transparency and accountability, and ultimately facilitates better performance. AusAID's PMEP released in December 2007 established public release of agency reports (such as annual performance reports and evaluations of aid activities) as AusAID's default position:

Performance of the aid program should be open and transparent to partners, beneficiaries and the public, both in Australia and partner countries. This can be achieved in a number of ways. Making all reports publicly available (while

²⁷³ Transparency and accountability are also critical. Australia will continue to publish comprehensive and detailed information about aid in a form that is easily accessible. [Commonwealth of Australia 2009, *Australia's International Development Assistance Program, A Good International Citizen*, Statement by the Hon. Stephen Smith MP, Minister for Foreign Affairs and the Hon. Bob McMullan MP, Parliamentary Secretary for International Development Assistance, p. 5.]

protecting the confidentiality of individual informants) is the default position.²⁷⁴

7.25 AusAID produces a large body of evaluative work, and since the PMEP was released there have been some positive developments in publishing more of this material.

7.26 Foremost among these has been the publication of ARDE, which is tabled in the Australian Parliament and examines AusAID's operating environment, the make-up of the aid program, the quality of activities underway, country level results, and how Australian aid can be made more effective. ARDE is highly commended by AusAID's external stakeholders for its transparent discussions on the aid program and how it can be improved. Such a sweeping review is uncommon among other bilateral donors. The United Kingdom Department for International Development produced a similar review of agency effectiveness in 2002, but has been unable to replicate the effort.

7.27 AusAID has also published the first two tranches of annual program and thematic performance reports (see chapter six), giving the reader significant insight into aid strategies, investments, and progress at a country level, and for specific sectors or themes. ODE has separately published three in depth evaluations, and two country strategy reviews since its beginning in 2006.

7.28 Beyond the publications identified in paragraphs 7.24 to 7.27, the ANAO notes that many other AusAID evaluations remain unpublished, in spite of the agency's stated policy that public release of reports is the default position. No evaluations of aid activities have been published since the release of the overarching independent evaluation policy in November 2008, and the majority of reports produced by the ODE since its commencement in 2006 have been finalised as internal documents only, including reviews of Australia's implementation of the *Paris Declaration*, country strategies, annual performance reports and the QRS.

7.29 In recent years, there has been a general trend towards donors being more transparent. For example, since the mid-1990's the World Bank and International Monetary Fund have moved from a tendency to withhold

²⁷⁴ AusAID 2008, *Performance Assessment and Evaluation Policy*, current to 31 August 2008, p. 3.

information to wide-reaching disclosure, including with respect to project, policy, strategy, and evaluation documents.²⁷⁵ AusAID would benefit from close examination of the disclosure policies of these institutions, and better understanding lessons learned by them during implementation of these policies. Using such an understanding, AusAID could give more attention to implementing its own policy of public release of agency reports.

Cost of running the aid program

7.30 Efficient delivery of the aid program is dependent on AusAID having a thorough understanding of running costs, and using this knowledge to regulate program management. In order to be held to account on efficiency, AusAID must publish complete information on the costs it controls.

7.31 The ANAO considered the framework for classifying expenditures of government agencies, changes in AusAID's approach to classifying expenses over time, and implications for accountability and transparency of aid program funding.

Classification of administered and departmental items

7.32 Money from the Australian Government consolidated revenue fund can be appropriated to bodies subject to the *Financial Management and Accountability Act 1997*, as either departmental outputs or administered expenses. Departmental outputs are the ordinary operating costs (or running costs) of government agencies, over which an agency has control, and typically include employee and supplier expenses. Administered expenses are items administered by the agency on behalf of the government, having regard to relevant legislation and/or government policies. They normally relate to activities governed by eligibility rules and conditions established by the government or Parliament such as grants, subsidies and benefit payments. Agencies have less discretion over how administered expenses are incurred.

7.33 Australian accounting standards require that government departments separately disclose administered income, expenses, assets and liabilities by major class because their effective and efficient administration is an important

²⁷⁵ World Bank 2009, *Towards Greater Transparency: Rethinking the World Bank's Disclosure Policy*, Approach Paper, Operations Policy and Country Services, January 2009 (consultation draft); and, International Monetary Fund 2005, *Review of the Fund's Transparency Policy*, Policy and Review Department, May 2005.

role that needs to be scrutinised.²⁷⁶ However, the level of disclosure for administered items is less than that for departmental items, for which income and expenses are reported by both major activities and major class.²⁷⁷

7.34 A further consideration is the Australian Government's efficiency dividend. First introduced in 1987–88, the dividend is an annual reduction in agencies' departmental funding, which was applied at 1.25 per cent in the 2009–10 budget. The efficiency dividend does not apply to an agencies' administered funding.

The distinction between departmental and administered expenditure is not always clear

7.35 The concept of control is central to the distinction between departmental and administered expenses. However, the Australian accounting standard, AASB 1050 recognises that making an appropriate judgment regarding expense classification based on control principles is not always straight forward, and requires a degree of judgment on the part of agencies and their auditors:

In some cases it may not be clear whether the government department controls amounts to be transferred to eligible beneficiaries. For example, amounts may be appropriated to a government department for subsequent transfer, but the government department can exercise significant discretion in determining the amount or timing of payment, the identity of beneficiaries and the conditions under which the payments are to be made. In such cases, preparers and auditors use their judgement in deciding whether the government department controls the amounts to be transferred.²⁷⁸

7.36 In exercising this judgment, a key source of guidance is an estimates memorandum released by the Department of Finance and Deregulation (Finance) on 26 June 2007,²⁷⁹ which articulates criteria for classification of departmental and administered accounting items when FMA agencies bring forward new policy proposals. The memorandum now forms the basis of the Finance Minister's Orders for Financial Reporting.

²⁷⁶ Australian accounting standard, *AASB 1050, Administered Items*, December 2007.

²⁷⁷ Australian accounting standard, *AASB 1052, Disaggregated Disclosures*, December 2007.

²⁷⁸ Australian accounting standard, *AASB 1050 Administered Items*, December 2007, p. 14.

²⁷⁹ Department of Finance and Deregulation 2007, *Estimates Memorandum 2007/29: Criteria for Determining Departmental and Administered Classifications*, 26 June 2007.

7.37 Based on a Cabinet decision, the memorandum established that Cabinet will determine whether items are departmental or administered in nature through consideration of new policy proposals, and that changes to classification of existing items require approval of Cabinet or the Finance Minister. Determinations are made with regard to the principles of control in AASB 1050, based on specified criteria.²⁸⁰ The two distinctions most pertinent to AusAID are that 'direct programme costs, being design and delivery costs' are administered, and 'items associated with the day-to-day operations and programme support activities' are departmental.²⁸¹

7.38 Following a recommendation of the major review of budget transparency undertaken by Senator Andrew Murray (Operation Sunlight: Overhauling Budgetary Transparency, or the Murray Review), Finance is developing revised guidance on classification of departmental and administered items. The Murray Review found the distinction between departmental and administered items can at times be artificial or contrived, and is not well-understood compared to discarded terminology like running costs.²⁸² The review recommended the distinction be revisited to improve transparency and consistency in budgeting and reporting.²⁸³

AusAID's approach to classification of expenses has evolved

7.39 When the 'outcomes and outputs' budgeting framework was introduced in 1999–2000 the aid program was predominantly delivered through managing contractors, multilateral and non-government organisations, and funding of these third parties to deliver goods and services to beneficiaries was classified as administered. Unlike other Australian Government agencies who employ overseas based staff (notably DFAT and the Australian Trade Commission), AusAID classified local staff salaries, as an

²⁸⁰ 'The Cabinet's criteria are based on whether items should be in the direct control of Government (administered), through Cabinet or the relevant minister, or have control delegated to the relevant Chief Executive (departmental).' [Department of Finance and Deregulation 2007, *Estimates Memorandum 2007/29: Criteria for Determining Departmental and Administered Classifications*, 26 June 2007, p. 2.]

²⁸¹ Department of Finance and Deregulation 2008, *Finance Minister's Orders for Financial Reporting 2008–09*, pp. 32–33.

²⁸² Murray 2008, *Review of Operation Sunlight: Overhauling Budgetary Transparency*, pp. 26–27.

²⁸³ *ibid.*, p. xii.

administered expense.²⁸⁴ Local staff were contracted under AusAID's terms and conditions and were responsible for day-to-day operations and program support, but were considered to be a distinct program element whose development built local capacity.²⁸⁵

7.40 Historically, for public sector agencies, there has been a clear expectation that departmental appropriations would be used to fund staff and related administrative costs. However, shortly after the introduction of the outcomes and outputs budgeting framework, AusAID began to make occasional use of its administered appropriation to pay for 'secondment' of APS employees to aid activities. The decision to use administered funding in this way was taken on the basis that an AusAID staff member could provide the same program design and delivery outcomes as an outsourced supplier could. Notably, the secondments to aid activities went beyond the direct provision of technical expertise to partner governments by AusAID employees, that is, they were at times some distance from the delivery of services to aid beneficiaries. Examples included secondments to multilateral development agencies; short-term (less than three months) provision of expertise to specific aid activities—such as design studies, monitoring visits and evaluations; and fixed-term specialist sector or policy adviser work.²⁸⁶

7.41 In April 2005 AusAID's Executive endorsed a proposal to extend these arrangements, by using the administered appropriation to pay for AusAID employees working in non-diplomatic aid delivery and program support

²⁸⁴ 'Previous testing of PSU [program support unit—locally engaged staff] funding by the ANAO (2000) required the Agency to ensure all PSU were covered by MOU [memorandum of understanding] arrangements [with the partner country]. It is unlikely that AusAID could in the future argue programme content for items that are not covered by MOUs.' [AusAID 2007, Executive Minute, "Administered v Departmental Spending", draft, April 2007, p. 6].

²⁸⁵ Building the capacity of local staff is, however, a by-product of their main responsibility, which is to support delivery of the aid program. An ANAO audit of the Australia-Indonesia Partnership for Reconstruction and Development (AIPRD) in 2005–06 found in relation to locally engaged staff: 'Some AusAID salary and administrative costs are being funded out of grant funding. It is not clear that this was envisaged at the time funding arrangements were originally developed—the Australian Government's stated aim was that the full \$1 billion of AIPRD funds be available for reconstruction and development. In this context, more explicit arrangements are warranted for these salary and administration costs.' [ANAO Audit Report No. 50 2005–06, *Arrangements to Manage and Account for Aid Funds Provided Under the Australia-Indonesia Partnership for Reconstruction and Development*, p. 19.]

²⁸⁶ AusAID 2005, *Scoping Study: Secondment of AusAID Employees to Aid Program Activities*, p. 6. Approaching 2005, AusAID employees were seconded into longer-term administrative and logistical support roles for whole of government programs where relevant expertise could not be found within the private sector.

roles.²⁸⁷ The decision facilitated a deliberate strategy to increase AusAID's own development capacity and rely less on managing contractors to deliver aid.²⁸⁸ Internally, the decision to use administered funding in this way was tentatively justified with reference to the definition of control in the then accounting standard:

'Control' is defined by the AASB [Australian Accounting Standards Board] as "the capacity of an entity to dominate decision making, directly or indirectly, in relation to the financial and operating policies of another entity so as to enable that other entity to operate with it in achieving the objectives of the controlling entity" As AusAID's administered item comprises Australia's entire overseas aid program, AusAID (arguably) does not have the capacity to dominate decision making in relation to the financial and operating policies of this 'entity' (i.e. the program) as decisions on what and how the money is spent are made jointly in partnership with foreign governments and in some cases with other Australian government departments. As mentioned elsewhere in this paper, AusAID's administered item comprises the cost of human resource inputs, as funds are not distributed in the form of cash payments or budget support to foreign governments. In comparing AusAID's administered item with that of other APS departments and agencies, AusAID is somewhat unique.²⁸⁹

7.42 In December 2006, the AusAID Executive clarified that where positions are funded from the administered budget, all expenses (such as accommodation, information technology and allowances) associated with the position should also be funded from the administered appropriation.²⁹⁰

²⁸⁷ Including: non-diplomatic aid delivery and program support roles in overseas offices; when training or building the capacity of locally engaged staff on a fixed term basis of less than two years; as advisors within AusAID (located either in Australia or overseas); and, to provide administrative, contracting and/or logistical support to designated programs such as the Enhanced Cooperation Program, the Regional Assistance Mission to Solomon Islands and the Public Sector Linkages Program. [AusAID, *Scoping Study: Secondment of AusAID Employees to Aid Program Activities*, 2005, p. 4.]

²⁸⁸ Key messages from the Executive in August 2004 identified the need for AusAID to enhance its own development capacity, enhance quality, and to reform its human resource policy to provide innovative deployment options. One way in which all of these needs can be met is through having AusAID employees engaged directly in aid program activities, where development knowledge can be retained within the organisation, and where in-country program experience can inform smart and relevant policy-making. While AusAID has taken some cautious steps in having some of its employees seconded into aid program activities, there is scope to increase the level of secondments within clear parameters, and thus reap rewards in terms of enhanced development capacity and quality. [AusAID 2005, "Scoping Study: Secondment of AusAID Employees to Aid Program Activities", p. 1.]

²⁸⁹ AusAID, *Scoping Study: Secondment of AusAID Employees to Aid Program Activities*, 2005, p. 13.

²⁹⁰ AusAID, *Executive Minutes*, 14 December 2006, p. 6.

7.43 The main event since that time that has influenced AusAID's determination of administered expenses was the release of 'Estimates Memorandum 2007/29' in June 2007. AusAID has used the criterion in the memorandum that administered items include 'direct programme costs, being design and delivery costs' to justify its classification practices.²⁹¹ Based on its interpretation of the memorandum, AusAID has also developed new internal guidelines on expense classification, to be 'considered both during the budget process when developing proposals for new funding and when attributing a commitment or expense to a particular cost centre'.²⁹² The guidelines state:

The basic concept is that expenditure which relate directly to program delivery or design is administered and expenditure which has an indirect relationship or a support or enabling purpose is departmental.²⁹³

7.44 AusAID's internal guidelines include a checklist to be used by staff in considering how to classify expenses is shown in Appendix 2. The checklist shows that AusAID allows use of the administered appropriation to extend some distance beyond the benefits received by developing countries, to costs that can be related to the production of those benefits. These include advisory inputs, information technology systems, communications, internal audits, accommodation, security, travel and policy development for aid activities.

7.45 Since the release of 'Estimates Memorandum 2007/29', AusAID has submitted a range of new policy proposals—incorporating employee and related administration costs as administered expenses, which have been approved by Cabinet as part of the budget process. AusAID also advised the ANAO that it communicated with Finance on numerous occasions, to clarify expense classification.²⁹⁴ AusAID provided one example of having done so in relation to overseas property expenses, and received the response that there was no compulsion to reclassify existing items until the Government revisited classification distinctions as planned under Operation Sunlight. Finance

²⁹¹ Estimates Memorandum 2007/29 also provides guidance that departmental items include 'all salaries and related employment costs, superannuation and other provisions for employees'.

²⁹² AusAID, Finance Directive 2009/03, *Classification of Expenditure as Administered or Departmental*, p. 1.

²⁹³ *ibid.*

²⁹⁴ AusAID advice, 18 September 2009.

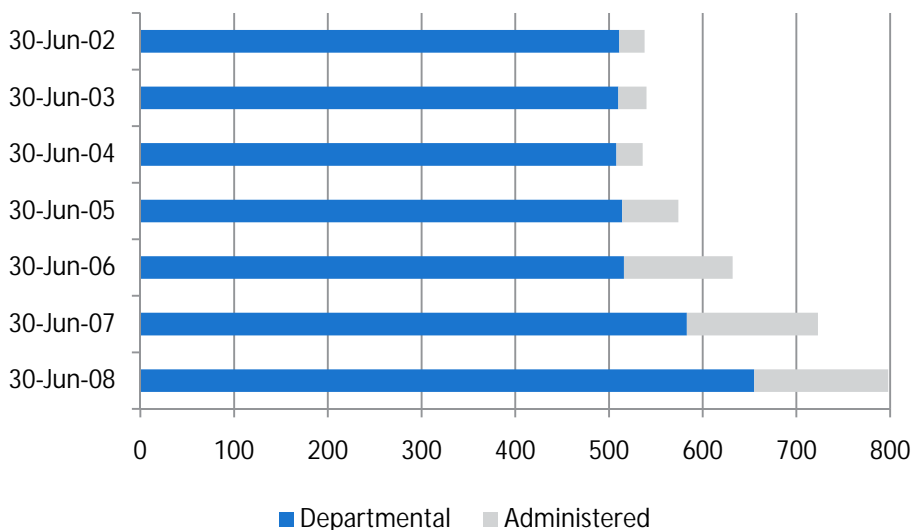
advised the ANAO that 'AusAID did not seek further clarification on the classification of overseas property expenses or other expenses'.²⁹⁵

The number of AusAID staff funded from the administered appropriation has increased considerably

7.46 The ANAO examined changes over time in AusAID's APS staff by funding source (see Figure 7.1). Between 30 June 2004 and 30 June 2008 the number of APS employees funded from the administered appropriation increased by 115, or 450 per cent. Although only making-up five per cent of total staff at 30 June 2004, staff funded from the administered budget contributed 44 per cent of the total growth in staff numbers between June 2004 and June 2008. During this period there was also a substantial increase in AusAID's locally engaged staff (also funded under the administered appropriation), up from 250 at the start of 2004 to 441 at end December 2008.²⁹⁶

Figure 7.1

AusAID's APS staff by funding source



Source: AusAID Annual Report for 2005–06 and onwards, data provided by AusAID for earlier periods.

²⁹⁵ Department of Finance and Deregulation advice, 4 November 2009.

²⁹⁶ Locally engaged staff numbers in 2004 were sourced from the Annual Review of Development Effectiveness 2007, p. 15. For December 2008, the number of locally engaged staff was determined using data sourced from AusAID's 'Aurion' human resource system.

7.47 Accounting information provided by AusAID to the ANAO's Assurance Audit Services Group indicates APS employee benefits paid out of the administered appropriation, rose from \$12.7 million in 2005–06 to \$23 million in 2008–09; and that \$6.6 million in administered travel expenses were incurred in 2008–09—with none classified as administered in 2005–06. AusAID was unable to provide a further breakdown of staffing and related administration expenses for locally engaged staff, which are managed at post and reported as part of total program expenses. AusAID has recognised a need to enhance its systems to report on this data in a disaggregated way.

7.48 The ANAO reviewed staff funded under AusAID's administered appropriation by business unit to assess their centrality to program delivery. The responsibilities of many of these staff fall some distance from delivery of services to aid beneficiaries. Some examples are APS contractors from the internal audit and communications sections, and several staff from the ODE—an area recognised as distinct from program management. Drawing on the criterion in the Finance Minister's Orders that direct program costs include 'design costs', a large number of staff in the Canberra based Operations Policy and Support Group are funded under the administered appropriation. These staff are primarily from teams responsible for procurement management and the provision of design and procurement advice.

AusAID's classification of administered expenses results in a lack of transparency and accountability

7.49 AusAID's approach to classifying costs is not in line with conventional practice and reduces the transparency of aid program expenditure, and the agency's accountability for costs that it controls. Staffing and other administrative costs paid for using the administered appropriation are not required to be disclosed in the same level of detail as departmental items in AusAID's financial statements. As a consequence, it has been difficult for users of these external reports to understand how the government's aid program is being spent: whether funding third parties to deliver goods and services; funding direct provision of goods and services by AusAID; or paying for AusAID costs associated with aid program management.

7.50 The ANAO identified several instances where flexibility in classification of expenses has been beneficial to AusAID. The most significant of these occurred during 2006–07 when AusAID encountered a possible overspend in its departmental budget allocation against employee expenses.

The potential overspend was caused by growth in staff numbers as AusAID commenced scaling up, and a pay rise under its collective agreement.²⁹⁷ As at mid-February 2007 AusAID forecasted that employee expenses would exceed the budget by 1.5 per cent or \$0.888 million for the financial year.²⁹⁸ In the following weeks, AusAID transferred salaries from the departmental to the administered budget through more rigorous application of internal guidelines on expense classification and the funding shortfall was reversed:

Employee expenses, which incorporates salaries, superannuation and leave allowances are currently on budget with a year to date expenditure of \$43.966m against a budgeted figure of \$44.991m (an underspend of \$995 000). It is expected that by 30 June 2007 Employee expenses will reach \$58.661m against a budget of \$59.988m representing a total underspend of \$1.326m on employee expenses. This shift in expenditure on employee expenses reflects the transfer of salaries from the Departmental budget to the Administered budget over the last few weeks.²⁹⁹

7.51 These examples illustrate AusAID's use of its flexibility to reclassify administered and departmental expenses.³⁰⁰ In response to the audit, AusAID emphasised its internal control mechanisms governing reclassification of expenses:

In the 2006-07 financial year, AusAID implemented new control mechanisms to ensure decisions regarding administered or departmental classifications are made consistently and appropriately. These include Senior Executive level sign off of any position (and associated costs) to be funded with administered appropriation and the release of internal guidance based on Department of Finance and Administration Estimates Memorandum.

7.52 However, in the absence of a rigorous external accountability framework, the ANAO considers there is a risk that AusAID will continue to

²⁹⁷ AusAID 2006, Executive Minute, *Financial Performance as at 31 December 2006: Departmental*, 15 January 2007.

²⁹⁸ AusAID 2007, Executive Minute, *Financial Performance as at 31 January 2007: Departmental*, 14 February 2007.

²⁹⁹ AusAID 2007, Executive Minute, "Financial Performance as at 31 March 2007: Departmental", 17 April 2007. The second instance occurred in 2007–08 when AusAID addressed an under spend in its departmental training budget by transferring across some administered training expenses. [AusAID 2008, "Departmental Financial Management Report", People and Planning Branch, January 2008; and, staff email 7 March 2008.]

³⁰⁰ AusAID advised that 'in accordance with the evolving guidance AusAID have made a number of reclassifications of positions and large expense items from administered to departmental'.

increase the proportion of the administered appropriation it uses for costs that more conventionally would be regarded as departmental—with limited external scrutiny.

7.53 Another important consequence of the considerable growth in AusAID's staff and administration costs, when classified as administered expenses, has been a lessening of the impact of the Australian Government's efficiency dividend, which has only been applied to AusAID's departmental appropriation. Because of the absence of available data on locally engaged staff costs, AusAID's information systems do not provide detailed information on all program running costs, limiting the agency's capacity to regulate program management to achieve efficiencies.

7.54 In one positive step to increase transparency, in 2005–06 AusAID began to publish a table in its annual report showing APS employees (by classification and gender) paid under the administered budget. However, AusAID's *2007–08 Annual Report* did not disclose the number of locally engaged employees, in contrast to other government departments with large numbers of overseas based staff.³⁰¹ During the audit, AusAID advised that it has 'increased transparency by publishing in its 2008–09 financial statements, the cost and number of staff funded from the administered appropriation'.³⁰²

7.55 Following discussion with ANAO and to address the issues identified above, Finance proposes to:

Work with AusAID in the short-term to clarify the classification of their expenses. The revised arrangements will be put in place from the 2010–11 financial year, to avoid practical and reporting implications associated with within-year changes.³⁰³

7.56 To the extent that current expense classification arrangements continue, the ANAO considers that additional transparency will be necessary, so as to provide external stakeholders with a clearer picture of how the government's aid program is being spent.

³⁰¹ The annual reports of the Department of Foreign Affairs and Trade, the Australian Trade Commission and the Department of Immigration and Citizenship explicitly state the number of overseas based staff employed.

³⁰² AusAID advice to ANAO, 16 October 2009.

³⁰³ Department of Finance and Deregulation advice, 4 November 2009.

Recommendation No.6

7.57 The ANAO recommends that, to improve transparency and accountability for aid program expenditure, AusAID:

- obtain clarification from the Department of Finance and Deregulation on its use of administered expenses for departmental purposes; and
- if the current approach to classifying administered expenses is to be continued, disclose, in its annual report, details of the program, role and cost of APS and locally engaged staff funded from the administered appropriation, as well as travel, accommodation, information technology and other administration costs paid for from this source.

7.58 AusAID response: *Agreed.* AusAID welcomes ANAO support in clarifying this issue.

7.59 Finance response: Finance supports Recommendation 6 relating to the transparency and accountability of aid expenditure.

Conclusion

7.60 There have been recent improvements to AusAID's PBS performance information framework, including adoption of program level measures, budgeting and reporting at a regional level, and embedding performance indicators as part of internal monitoring.

7.61 However, performance indicators do not yet provide a comprehensive set of measures that drive agency performance. To help do so, additional measures can be introduced covering completion of development assistance strategies, improvement in the selectivity of aid investments, compliance with quality reporting requirements for aid activities, and progress of changes in how Australian aid is delivered.

7.62 Since the aid program White Paper in 2006, AusAID has made good progress in increasing the transparency of the aid program through external reporting. In particular, it has begun publishing thorough annual effectiveness reviews, annual program reviews, and more in-depth evaluations. However, beyond these improvements, AusAID has not yet implemented its own policy that public release of agency reports is the default position—many ODE reviews and evaluations of specific aid activities remain unpublished.

7.63 An important area of aid program funding that is not yet transparent is program running costs. Since the introduction of the Outcomes and Outputs Framework in 1999–2000, AusAID has, based on its interpretation of government guidelines, increasingly funded staff and other administration costs using the administered appropriation, on the basis of their proximity to aid. AusAID’s approach to classifying expenses is not in line with conventional practices, and the extent of use of aid funds in this manner is not transparent. It is, therefore, difficult for external stakeholders to hold AusAID to account on the costs that it controls. Clarifying the classification of AusAID’s expenses would improve transparency and accountability of aid program expenditure, in a way that maintains the integrity of the budget system.



Ian McPhee
Auditor-General

Canberra ACT
26 November 2009

Appendices

Appendix 1: Formal Comments from AusAID and the Department of Finance and Deregulation

Formal Comments from AusAID

AusAID's response to audit report: AusAID's Management of the Expanding Aid Program

1. AusAID welcomes the ANAO's report: *AusAID's Management of the Expanding Australian Aid Program* and the contribution it makes to the ongoing reform processes currently underway in AusAID. In particular, the ANAO's analysis of the complex set of issues around creating a larger, more effective and efficient aid program will help Australia achieve the international development goals set by Government.
2. By drawing significantly on AusAID's own internal reviews (such as the *Annual Review of Development Effectiveness* reports and *Building on the 2010 Blueprint – A Reform Agenda for 2015*) the report helps to identify work in progress within AusAID's reform process and provides a useful external perspective on how this should be addressed. Similarly, the findings are consistent with other external reviews of the aid program, such as the OECD's *Development Assistance Committee Peer Review of Australia*, that confirms the robustness of AusAID's monitoring and evaluation system and whole-of-government approach that facilitates policy coherence for development.
3. AusAID has already moved forward on significant reforms to address a number of the suggested changes. These include:
 - strengthening AusAID's operational policies to support effective expansion of the aid program and articulating this clearly for all staff through the development of an Operational Policy and Management Framework.
 - advancing workforce planning reforms, based on a detailed analysis of business needs, to provide a clear framework for attracting, selecting, recruiting and training staff.
 - confirming the role of the Development Effectiveness Steering Committee as the central body providing both policy coherence and a stronger whole-of-government focus on effectiveness in aid strategy and implementation.
4. How international development can contribute to Australia's foreign policy agenda could have been explored more fully in the report. For example, some of the conclusions tend to see whole-of-government engagement more in terms of the delivery of aid than in terms of how the aid program supports national priorities, such as the Government's commitment to regional stability.
5. As a consequence of focusing on country level aid delivery rather than global and regional engagement, the report tends to over-play the role of country strategies as the primary vehicle to achieve aid selectivity and effectiveness. The aid program's support of global issues, such as climate change, is difficult to address purely at country program level.
6. The report helps identify some of the risks associated with implementation of one of the Australian Government's most complex programs. Increased aid volumes and new ways of working endorsed in the report will require a re-thinking of traditional risk mitigation approaches.
7. Set out below is AusAID's response to ANAO's specific recommendations.

Recommendation**No. 1****Para. 2.67**

The ANAO recommends that, in order to better support program management, AusAID refine its approaches to human resource management, including by:

- regularly monitoring, and analysing the key drivers behind staff turnover and developing strategies to increase the length of time staff spend in roles; and
- increasing management responsibilities of locally engaged staff, where appropriate, including in relation to management of APS personnel.

AusAID response: Agree.

Comment: AusAID will continue to invest in strategic workforce planning approaches, processes and practices. In March 2009, AusAID established the Workforce Planning Steering Committee to lead the process of change, including the development of an evidence-based planning methodology supported by improved systems for data collection, analysis and forecasting.

Recommendation**No. 2****Para 3.61**

The ANAO recommends that, in order to make country and regional strategies more central to aid allocation decisions, and thereby improve selectivity of aid investments, AusAID:

- completes strategies for all major country and regional programs and keeps them up-to-date; and
- builds on the framework provided by Pacific Partnerships for Development, by including indicative multi-year resource allocations in all country and regional strategies.

AusAID response: Agree with qualification.

Comment: Country and regional strategies are already an important part of aid allocation decisions. Ensuring they are completed on time and increasingly reflect the Pacific Partnership for Development model is accepted. The use of multi-year allocations needs to be balanced with the need to remain flexible and be able to reflect the changing priorities of the Australian Government and changes in the global environment.

Recommendation**No. 3****Para 4.51**

The ANAO recommends that, in order to facilitate increased use of partner government systems in delivering aid, and improve the effectiveness of the approaches adopted, AusAID develops policies that address:

- the benefits of using partner government systems and the

lessons learned to date;

- how decisions to use partner government systems are reached, including through assessment of potential development benefits and associated risks; and
- how the more significant risks of using partner government systems are managed by AusAID.

AusAID response: Agree.

Comment: Whilst country strategies play a fundamental role in focusing AusAID's engagement in the region, managing a scaled up aid program demands consideration of all aid contributions, and not exclusively bilateral spending. To this end, AusAID is developing a new and more integrated business model to manage scaling up across all programs of support. Guidance will be articulated in the Operational Policy and Management Framework (OPMF), due for implementation in early 2010. The OPMF will build on the significant changes already underway in the way AusAID does business, including working more often in a harmonised way with a range of different development partners.

Recommendation

No. 4

Para 6.59

The ANAO recommends that, in order to strengthen monitoring, evaluation and management of the aid program, AusAID:

- reports on the quality of monitored aid activities against the country program objectives to which they relate;
- improves the quality of data captured on how aid is delivered;
- publishes management responses for all major Office of Development Effectiveness reviews; and
- publishes a proposed Office of Development Effectiveness annual program of evaluations.

AusAID response: Agree.

Comment: AusAID will continue to build on progress made in strengthening the performance orientation of the aid program. Improved delivery strategies (underpinning country strategies) will ensure a stronger alignment of activities to country program reporting.

Recommendation

No. 5

Para 7.19

The ANAO recommends that, in order to strengthen external reporting and help steer agency direction, AusAID develop additional PBS performance indicators to provide a balanced set of measures that address a broader range of critical aspects of agency performance.

AusAID response: Agree.

Comment: As acknowledged in the report, processes are in train to improve the quality of reporting against monitored aid activities.

**Recommendation
No. 6
Para 7.55**

The ANAO recommends that, to improve transparency and accountability for aid program expenditure, AusAID:

- obtain clarification from the Department of Finance and Deregulation on its use of administered expenses for departmental purposes; and
- if the current approach to classifying administered expenses is to be continued, disclose, in its annual report, details of the program, role and cost of APS and locally engaged staff funded from the administered appropriation, as well as travel, accommodation, information technology and other administration costs paid for from this source.

AusAID response: Agree.

Comment: AusAID welcomes ANAO support in clarifying this issue.

Formal Comments from the Department of Finance and Deregulation

Finance supports Recommendation 5 relating to the development of additional performance indicators to provide a balanced set of measures upon which to assess agency performance.

Finance supports Recommendation 6 relating to the transparency and accountability of aid expenditure.

Appendix 2: Involvement of other government agencies in the aid program

The mandate, range and depth of involvement of government agencies in the delivery of Australian aid varies according to the relevance of their skills to the needs of Australia's aid recipients, their capacity to support international work, and directions from government. Overall, their involvement is extensive—over 60 Australian Government entities, as well as state, territory and some local governments contribute to the aid program.

In terms of financial and operational involvement, the largest whole of government contributors to Australia's ODA are: the AFP (\$540 million of ODA expenditure between 2005–06 and 2007–08) and the Australian Defence Force (\$182 million of ODA expenditure between 2005–06 and 2007–8), through their involvement in major peace-keeping deployments in a number of countries, and the Australian Centre for International Agricultural Research, a statutory authority that operates as part of the Australian Government's development cooperation programs (\$149 million of ODA expenditure between 2005–06 and 2007–08).³⁰⁴ The source of ODA funding for these agencies is primarily from their own annual budget appropriations.

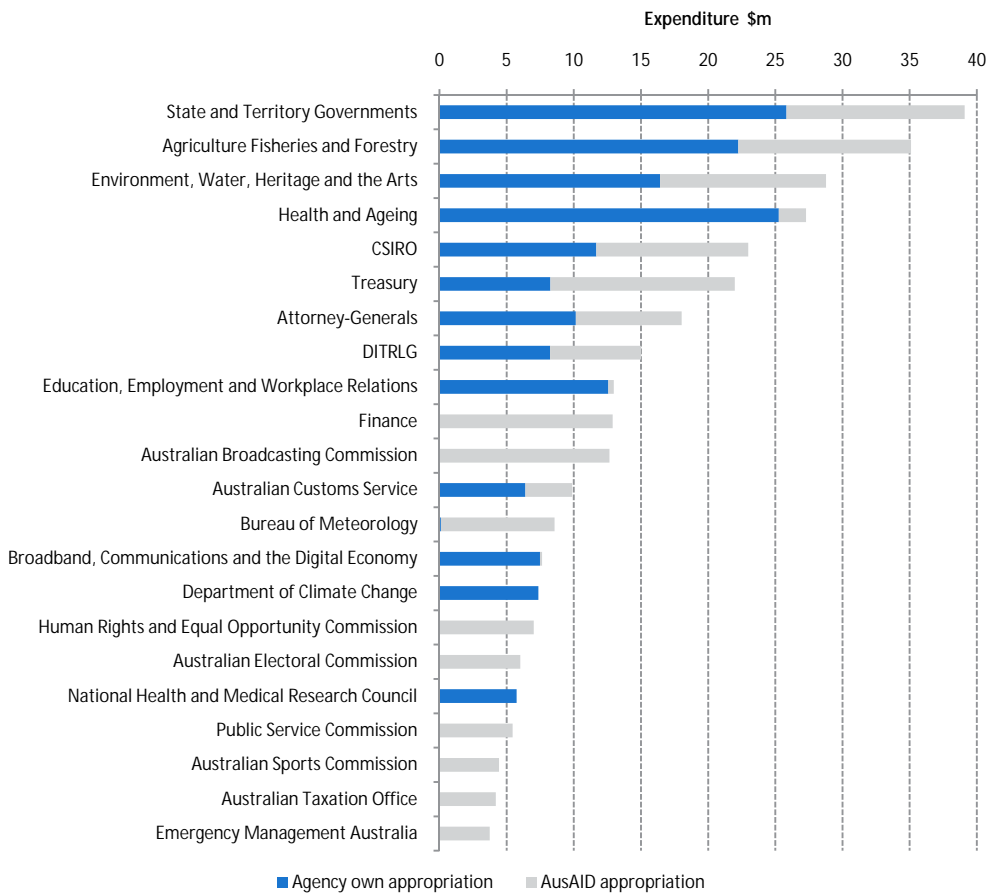
In addition to these major contributors, there is a wide range of Commonwealth, state and territory government agencies that also make material contributions (see Figure A 1). The level of reliance of these agencies on AusAID funding to support their involvement varies. Some agencies, such as the Human Rights and Equal Opportunity Commission, the Australian Electoral Commission, the Australian Broadcasting Commission, and Finance, rely solely on financial support provided by AusAID through specific whole of government initiatives such as 'Strongim Gavman Program' in Papua New Guinea, the 'Government Partnerships Fund' in Indonesia, and the 'Pacific Governance Support Program'. Other agencies receive some or all of their ODA funding directly through their own budget measures (not through AusAID), meaning AusAID is not central to the chain of accountability.

³⁰⁴ Substantial ODA eligible expenses have also been incurred by the Department of Immigration and Citizenship, as a result of its implementation of Australia's humanitarian refugee settlement program, and the Department of Foreign Affairs and Trade, as a result of its provision of debt relief to various countries. While these constitute significant components of Australia's total ODA expenditure, they have very limited operational implications in terms of the management of ODA delivery.

These differences in the mandate and funding of government agencies in the aid program mean that AusAID needs to approach the task of engagement and coordination in different ways. The 2006 White Paper on the aid program established several mechanisms for this engagement, to make sure it did not lead to a loss of coherence in, or accountability for aid expenditure.

Figure A 1

Aid expenditure by government agencies other than AusAID, 2005–06 to 2007–08



Source: AusAID, survey of whole of government ODA expenditure and 'AidWorks' data.

Appendix 3: AusAID Internal Guidance Checklist to Assist in Classifying and Expense

Departmental Characteristics	Administered Characteristics
Finance function (domestic and overseas)	Specialist and technical advisors
IT infrastructure costs incurred for the benefit of the agency as a whole	Residential and office accommodation for unattached development program specialist staff at post
IT systems and software procured or developed for the benefit of the agency as a whole	IT systems or specialist infrastructure which is implemented specifically for use by a designated part of the agency whose role is primarily program design or delivery (e.g. scholarship systems)
Human Resource support costs (payroll, recruitment etc) – domestic and overseas	O-based staff due to the economic and capacity building benefit for the recipient country (including their travel and specific O-based directed training costs)
General policy development relating to various initiatives or activities or corporate policy development.	Policy development relating directly to an initiative or an activity.
In-house training provision	Travel for the purposes of contribution to aid design or delivery, partner negotiations for aid delivery or development specific contributions (e.g. Malaria reference group attendance or United Nations meetings where decisions or commitments are being made relating to aid delivery)
Corporate Reform and Planning	Secondments into external aid related organisations which contributes directly to aid design and delivery (erg. World Bank)
Ministerial and Parliamentary support costs	Humanitarian assistance (and associated coordination and preparation expenses)
Communication and public relations not incurred specifically for a specific development initiative	Any payment to a Non-Government Organisation (NGO), multilateral organisation, partner government etc for which a developing country is the beneficiary
Property costs (domestic and overseas) which are not specific to a particular initiative(s) – e.g. chancery costs and national office costs	Whole-of-government program implementation costs – including all costs of providing in-line staff to partner governments and implementation of the program
Security – domestic and overseas (where not initiative specific)	Staff working specifically to design or implement (deliver) a development initiative(s) whether based in Canberra or overseas.
Security – risk assessments and planning (domestic or overseas)	Entering into arrangements (and all associated contracting, travel, legal, tender, etc. costs) for the delivery or design of aid initiatives
Internal audit (excluding the cost of an audit directly attributable to a specific initiative or similar group of initiatives)	
Management and Executive staff (and all related support costs) both domestic and overseas	
Representation and official hospitality – as the beneficiary is AusAID and its relationships.	
Travel for the purposes of training, management and oversight, inter-governmental relationship building or corporate support.	

Source: AusAID Finance Directive 2009/03, Appendix A.

Index

A

Administered, 10, 16, 22, 25, 120, 144, 145, 147, 151–162, 173
AidWorks, 7, 10, 58, 59, 77, 79, 121, 134–136, 172
Annual Review of Development
Effectiveness (ARDE), 8, 22, 62, 78, 79, 86, 91, 98, 117, 125, 127–128, 132, 138–141, 144, 146, 149–150, 157
AusAID 2010
Director General's Blueprint, 8, 33–34, 38–39, 45–47, 52, 56, 80, 83, 98, 102
Australian Federal Police (AFP), 85, 107–108, 117, 171, 179
Australian Public Service (APS), 6–8, 17, 23, 25, 38–43, 49, 51, 53–56, 59–61, 80, 105, 134, 137, 154–155, 157–158, 160–161, 181

C

Cambodia, 73, 90, 97, 128
Country program, 5, 7, 13, 16, 17–18, 21, 24, 31, 37–39, 41–43, 47–50, 53, 60, 62–67, 69–81, 85, 87, 95, 98, 100, 103, 108, 112–114, 120–123, 126–130, 134, 140–147, 155
Country strategies, 14, 18, 20–21, 63–68, 70–71, 80–81, 92, 103, 109, 112–114, 118, 123–124, 126, 128–129, 138, 141–142, 147, 150

D

Department for International Development (DFID), 8, 39, 95, 98–99, 140, 150
Department of Finance and Deregulation (Finance), 6, 8, 22, 25, 85, 110–111, 148, 152–153, 156–161, 166, 170–171, 173, 178
Department of Foreign Affairs and Trade (DFAT), 8, 56–57, 107, 110, 114–115, 120, 153, 160, 171, 179
Departmental, 10, 16, 25, 111, 144, 146–147, 149, 151–156, 158–161, 173, 178
Development Effectiveness Steering Committee (DESC), 8, 20, 33, 110–112, 117–118, 122–123, 138

Devolution, 5–6, 10, 14, 17, 36–41, 43–46, 49–52, 54, 60

Director General, 8, 33–34, 38, 43, 45, 47, 51–52, 55–56, 79, 81, 83, 110, 112

F

Fragmentation, 14, 18, 62–63, 69, 105, 123

G

Global program, 15, 17, 31, 35, 40, 42, 60, 64, 120, 149
Governance, 180
Gross National Income (GNI), 8, 13, 30

H

Honiara, 42, 57

I

Indonesia, 35, 49, 53, 62, 73, 75, 77, 90–92, 97, 108, 116, 120–122, 144, 154, 171

J

Jakarta, 57, 91

K

Kiribati, 87, 114

L

Laos, 77, 90, 97, 120, 128, 129
Locally engaged staff (LES), 6–7, 16–17, 23, 25, 39–40, 42, 51–56, 60–61, 135, 154, 155, 157–158, 160–161

M

Millennium Development Goals (MDGs), 8, 13, 29, 33, 63, 119
Myanmar, 65, 75

O

OECD, 7, 9, 22, 38–39, 49–52, 65, 68–70, 73–74, 76, 78, 85, 90, 94, 96–97, 107, 110–111, 121, 140

Office of Development Effectiveness (ODE), 6, 8, 16, 20–22, 24, 50, 62, 77, 86, 113, 117–118, 124–125, 131, 133, 136, 138–142, 150, 158, 161

Official Development Assistance (ODA), 7–8, 13, 17, 20–21, 29–32, 35, 37, 40, 60, 63–64, 66, 68–69, 77, 79, 85–86, 92, 111–113, 116–118, 120, 122–123, 129–130, 138–141, 148–149, 171–172

P

Pacific Partnerships for Development, 14, 23, 34, 66–70, 82, 92, 96, 114, 147

Papua New Guinea (PNG), 15, 35, 50, 53, 58, 62, 73, 75, 85–86, 88–90, 92, 97, 102, 105, 114, 120, 122, 129, 171

Paris Declaration on Aid Effectiveness, 6, 14, 34–35, 68–69, 72, 84, 90, 94–100, 102, 112, 121, 124, 135–136, 150

Partner government systems, 5, 15–16, 18–19, 24, 34, 36, 67, 83–84, 93–103, 134–135

Performance Management and Evaluation Policy (PMEP), 9, 125–126, 146, 149–150

Philippines, 15, 35, 50, 53, 73, 75, 77, 90, 92, 97, 117

Port Moresby, 14, 34, 42, 57, 66

Proliferation, 14, 16, 18, 72, 77–79, 81, 105, 119, 132–133, 147

Q

Quality reporting system (QRS), 9, 20, 131–132, 134, 141, 145, 147, 150

R

Regional program, 7, 23, 45, 63, 65–66, 71–72, 77, 82, 121, 125–128, 145, 147

S

Samoa, 85, 87

Scaling up, 10, 15, 17–18, 21, 30, 35–37, 40–41, 54–56, 58, 60, 62–64, 68, 70, 72, 75–76, 78–81, 101, 104, 129–130, 136, 141, 148, 159

Selectivity, 5, 10, 14, 18, 20–21, 23, 62–63, 70, 75, 77, 80–82, 106, 119, 121–123, 147, 161

Solomon Islands, 9, 50, 58, 73, 85, 87–89, 91–92, 102, 105, 107–108, 114, 116, 120, 155, 178

T

Technical assistance (TA), 5–7, 15, 18–19, 31, 33, 36, 83–93, 97, 102, 108, 134–136

Timor Leste, 19, 50, 65, 73, 85–89, 93, 102, 107, 120, 128

Tonga, 76–77, 87, 128

Turnover, 6, 16, 23, 48–50, 54–55, 61

V

Vanuatu, 75, 85, 87, 89, 92, 102

Vietnam, 15, 35, 51, 53, 73, 75, 90, 92, 95, 97, 100, 120

W

White Paper 2006, 14, 16, 19–21, 33, 38–39, 62, 65–66, 75, 83, 91–92, 106, 110, 112, 117–118, 124, 126, 131, 136, 138, 141, 161, 172

Whole of government, 5, 15, 19–20, 33, 35, 40, 66, 70, 87, 88, 93, 105–120, 122, 123, 154, 171, 172

Series Titles

ANAO Audit Report No.1 2009–10

Representations to the Department of the Treasury in Relation to Motor Dealer Financing Assistance

Department of the Treasury
Department of the Prime Minister and Cabinet

ANAO Report No.2 2009–10

Campaign Advertising Review 2008–09

ANAO Audit Report No.3 2009–10

Administration of Parliamentarians' Entitlements by the Department of Finance and Deregulation

ANAO Audit Report No.4 2009–10

The Management and Processing of Annual Leave

ANAO Audit Report No.5 2009–10

Protection of Residential Aged Care Bonds

Department of Health and Ageing

ANAO Audit Report No.6 2009–10

Confidentiality in Government Contracts – Senate order for Departmental and Agency Contracts (Calendar Year 2008 Compliance)

ANAO Audit Report No.7 2009–10

Administration of Grants by the National Health and Medical Research Council

ANAO Audit Report No.8 2009–10

The Australian Taxation Office's Implementation of the Change Program: a strategic overview

ANAO Audit Report No.9 2009–10

Airservices Australia's Upper Airspace Management Contracts with the Solomon Islands Government

Airservices Australia

Department of Infrastructure, Transport, Regional Development and Local Government

ANAO Audit Report No.10 2009–10

Processing of Incoming International Air Passengers

Australian Customs and Border Protection Service

ANAO Audit Report No.11 2009–10

Garrison Support Services
Department of Defence

ANAO Audit Report No.12 2009–10

Administration of Youth Allowance
Department of Education, Employment and Workplace Relations
Centrelink

ANAO Audit Report No.13 2009–10

2008–09 Major Projects Report
Defence Materiel Organisation

ANAO Audit Report No.14 2009–10

Agencies' Contract Management
Australian Federal Police
Austrade
Department of Foreign Affairs and Trade

Current Better Practice Guides

The following Better Practice Guides are available on the Australian National Audit Office website.

SAP ECC 6.0

Security and Control	June 2009
Preparation of Financial Statements by Public Sector Entities	June 2009
Business Continuity Management	
Building resilience in public sector entities	June 2009
Developing and Managing Internal Budgets	June 2008
Agency Management of Parliamentary Workflow	May 2008
Public Sector Internal Audit	
An Investment in Assurance and Business Improvement	Sep 2007
Fairness and Transparency in Purchasing Decisions	
Probity in Australian Government Procurement	Aug 2007
Administering Regulation	Mar 2007
Developing and Managing Contracts	
Getting the Right Outcome, Paying the Right Price	Feb 2007
Implementation of Programme and Policy Initiatives:	
Making implementation matter	Oct 2006
Legal Services Arrangements in Australian Government Agencies	Aug 2006
Administration of Fringe Benefits Tax	Feb 2006
User-Friendly Forms	
Key Principles and Practices to Effectively Design and Communicate Australian Government Forms	Jan 2006
Public Sector Audit Committees	Feb 2005
Fraud Control in Australian Government Agencies	Aug 2004
Better Practice in Annual Performance Reporting	Apr 2004
Management of Scientific Research and Development	
Projects in Commonwealth Agencies	Dec 2003
Public Sector Governance	July 2003

Goods and Services Tax (GST) Administration	May 2003
Building Capability—A framework for managing learning and development in the APS	Apr 2003
Administration of Grants	May 2002
Performance Information in Portfolio Budget Statements	May 2002
Some Better Practice Principles for Developing Policy Advice	Nov 2001
Rehabilitation: Managing Return to Work	June 2001
Building a Better Financial Management Framework	Nov 1999
Building Better Financial Management Support	Nov 1999
Commonwealth Agency Energy Management	June 1999
Controlling Performance and Outcomes	Dec 1997
Protective Security Principles (in Audit Report No.21 1997–98)	Dec 1997

