

Australasian Evaluation Society

Assessing Aid Effectiveness in a changing world: The Annual Review of Development Effectiveness

John Davidson and Cate Rogers¹ September 4, 2009

Development aid aims to support partner country efforts to improve the lives of their citizens. The environment in which aid operates is complicated and becoming more so all the time. This makes the job of trying to assess aid effectiveness dynamic and challenging. Demands for better information on the results of aid are increasing in line with global aid budgets. Publicly, results are expected to contribute to higher level outcomes codified in the Millennium Development Goals. But assessing the effectiveness of aid as one of many factors that influence outcomes at the MDG level, is problematic. Managing public expectations with quality evidence that can influence improved aid policy and delivery is a further challenge.

Given this, what are we looking at when we talk about aid effectiveness and how will we know when we have achieved it? Australia is one of only two bilateral donors that attempt to regularly answer the question: how effective is our aid program?

The first Annual Review of Development Effectiveness (ARDE) was tabled in 2008. It has been cited as a good practice example internationally by the OECD and domestically in a recent Public Service Commission Report on performance and accountability. This presentation will focus on the ARDE, its evidence base and its role in contributing to improving the effectiveness of Australian aid.

The complex operating environment for development aid

Development aid aims to support partner country efforts to improve the lives of their citizens. It aims to bring additional resources to countries which are not making sufficient headway on their own. However, the environment in which aid operates is complicated and becoming more so all the time. This complexity is illustrated by considering the growing number of agents involved in aid delivery. For example, there are now around 230 multilateral agencies. This is more than the number of donors and recipients combined. In addition, it is estimated that there are around 18,000 non-government organisations operating across international borders (Kharas 2007b). Private

¹ John Davidson is the Head of the Office of Development Effectiveness, an independent unit within the Australian Agency for International Development, that reports on the effectiveness of the Australian aid program. Cate Rogers is Director, Evaluation in the ODE.

philanthropy organisations are also now major players. The Bill and Melinda Gates Foundation, for example, is endowed with \$US70 billion and plans to disburse \$US 6 billion over the next two years (Severino and Ray 2009).

Another major change is in the way that donors transfer resources to developing countries. The so called “vertical” funds, which have mandates to work on a particular development issue, add to the complex operating environment in recipient countries. The best known of these are the Global Fund for AIDS, Tuberculosis and Malaria and the Global Environment Facility. In 2005, these funds provided \$US1.8 billion in aid (Kharas 2007a).

This multiplicity of donors, agencies, organisations and funds has vast practical implications for partner countries. On average, each recipient country must deal with more than 25 official donors (Riddell 2007). In East Timor a recent stock-take undertaken as part of the State of the Nation report found that since 2002 over 300 donor reports had been produced in the infrastructure sector alone (Governments of East Timor and Australia 2008).

Of course, a dynamic operating environment with many new participants can be good for innovation, and can encourage agencies to think about whether they are delivering their aid effectively and efficiently. It could also be argued that the large number of aid agencies may offer partner governments the option of shopping around if they are unhappy with the performance of a particular donor or agency. These kinds of pressures on donors help to ensure that they remain focused on delivering effective aid. However, donors operate in countries where, almost by definition, administrative systems are weak – overburdening these systems with multiple donors and multiple donor reporting requirements soon sees the donor community cast as part of the problem, not part of the solution.

In September 2000, Heads of State committed to rid the world of extreme poverty and, in particular, to halve the proportion of the world's poor (based on 1990 figures) by 2015. In 2001 the Millennium Development Goals (MDGs) were developed out of this commitment². These eight goals became the international goals against which most aid efforts were to be judged (Riddell 2007). This is a major shift in the aid operating environment.

It has been argued by Severino and Ray (2009) that in accepting targets which they know that developing countries cannot meet on their own, donors have accepted a role for themselves in the provision of basic social services through

2 Millennium Development Goals include : (1) Eradicate Extreme Hunger and Poverty which involves halving between 1990-2015 the proportion of people whose income is less than \$1 a day and who suffer from hunger; (2) Achieve universal primary education; (3) Promote gender equality and empower women; (4) Reduce child mortality; (5) Improve maternal health; (6) Combat HIV/AIDS, Malaria and other diseases; (7) Ensure environmental sustainability; and (8) Develop a global partnership for development.

long term financial transfers. This implies that development flows have moved from being an investment in the potential of another country to grow, into being more like long-term social redistribution from rich countries to poor (Severino and Ray, 2009. p10). For donor agencies, having high level MDGs as their ultimate aim provides a whole range of methodological and political challenges in terms of measuring progress and in determining attribution of impact.

Aid Flows

The quantum of aid is another major factor in the operating environment for aid. Official Development Assistance (ODA) from Development Assistance Committee (DAC) member countries to poor countries grew from \$US 63 billion in 1995 to around \$US107 billion in 2005. Over the same period there was an increase in private aid flows, typically from philanthropic institutions located in DAC countries. This type of aid is estimated to account for \$US 37-44 billion per year (Kharas 2007b). Researchers have tried to determine what portion of ODA is available for direct longer term poverty relief. After deducting costs associated with technical cooperation, humanitarian and food aid, debt relief and administration costs, the residual in 2005 was \$US 38 billion. This implies an increase from 1995 to 2005 of \$US10 billion in what Kharas refers to as "net development aid" (Kharas 2007b).

Although aggregate aid levels are increasing, there is a view that it will be insufficient to allow the world to meet the MDGs (Sachs 2005). The shortfall of resources is highlighted in the 2009 *Education for All Global Monitoring Report* which notes that overall aid for education is stagnating and there has been a particular slow down in growth of aid for basic education.³ The Report shows that over half of all commitments to basic education came from three donors and that these same three donors provided 60 per cent of all aid to basic education in low-income countries⁴. In 2006 there were 75 million children of primary school age out of school. Of these, 55 per cent were girls. The Report projects that based on current trends, there will still be 29 million children out of school in 2015. The world will therefore fall far short of the Millennium Development Goal of achieving universal primary education.

Factors affecting the measurement of Development Effectiveness

In development economics an argument continues about the impact of aid on economic growth. In many respects this has become a proxy for a debate around aid effectiveness. Cross-country research has focused on establishing a connection (or not) between aid and growth. The research is premised on the

³ UNESCO (2009) *Education for All Global Monitoring Report 2009: Overcoming Inequality; why governance matters. Summary.* Paris 2008

⁴ Netherlands, UK and International Development Association of the World Bank.

view that if a clear link between aid and economic growth can be established it will settle the argument on whether aid is effective. The results of these studies were summarised in a paper by Roodman (2007) who concludes that aid's impact on growth probably cannot be detected due to the 'limited and noisy data' (Roodman 2007, Abstract). At the other end of the spectrum are influential writers like Amartya Sen who focus less on the macroeconomic impact of aid and argue that even if funds spent on judicial development through aid programs '...were not to contribute one iota to economic development..., even then legal and judicial reform would be critical parts of the development process' (Sen 2000,p.10).

Aid and development are not synonymous; there are many far more important influences on development than aid. These include factors such as geographical attributes, foreign trade, stability of the government, the absence of conflict and investment in social sectors. There is however a level of agreement that aid works best when it is applied to well-governed countries and is highly focused. Unfortunately (for those wishing to understand the effectiveness of aid) these are not the countries where we tend to invest most heavily. It is also believed that aid can play an important role in stabilising poorly governed countries and those emerging from conflict (ODE 2007). And numbers of people living in such circumstances are not insignificant – Paul Collier argues that they number around 1 billion people (Collier 2007).

Aid equates to less than 10 per cent of public expenditures in more than 70 per cent of recipient countries (Picciotto 2007). Aid volumes, while significant are not therefore the major resource available to partners to realise their development aspirations. Long term sustainable development can only come about through the effective utilisation of the entire envelope of financial and human resources available to any country. In this sense, aid flows can be seen as additional to a country's own resources and should be used to leverage other expenditures or to alleviate bottlenecks to the effective use of resources. The following table compares Australian aid flows to total net disbursements of Official Development Assistance in two of Australia's largest aid recipients, Indonesia and Papua New Guinea.

Table 1: Aid flows as a proportion of GDP for Indonesia and Papua New Guinea

Country	GDP 2005 (current \$US billion)	ODA received 2005 (net disbursements current \$US millions)	Percentage of GDP	Australian aid flows as a percent of ODA
Indonesia	287.2	2523.5	0.9	7.3
Papua New Guinea	4.9	266.1	5.4	87.8

Sources: OECD www.oecd.org/dac/stats and <http://hrdstats.undp.org/buildtables>.

Table 1 shows that for Indonesia in 2005, net official development assistance (ODA) was the equivalent of less than one percent of Indonesia's gross domestic product. Of the total net disbursements of ODA, Australia's contribution was 7.3 per cent. In Papua New Guinea (PNG), ODA amounted to the equivalent of 5.4 per cent of GDP, and the Australian contribution represented a much higher proportion than for Indonesia, contributing 87.8 per cent to net disbursements of ODA.

Analysing the potential impact of Australia's aid is an important consideration in framing the strategy for engagement in each country. The example above shows that there can be large variations in the magnitude of Australia's aid relative to a country's own resources. This makes it difficult to develop a uniform approach to assessing the effectiveness of the Australian aid program.

In addition to the issues outlined above, there are a range of practical limitations that make it difficult for donors to measure effectiveness. One of the most important of these is the absence or poor quality of data. This can include data on anything from poverty, provision of basic services, budget information and national accounts data. In reality this lack of data means that donors and partners often have little means with which to identify priority areas for interventions and are implementing programs to reach the poor in some cases without knowing how many poor they are targeting or where they live. In terms of assessing effectiveness, paucity of data means that quite often there is no baseline against which to measure the effectiveness of a program or intervention.

Data issues also come up with respect to the MDGs. If donors are to measure their performance against MDGs they need accurate and reliable data on progress. However, the role of donors in collecting this data is contentious. From a development effectiveness perspective it is accepted that recipient

countries should lead data collection and analysis. This is to ensure that the data collected covers entire sectors and regions as opposed to just those receiving donor assistance. However, often this doesn't happen because recipient countries lack capacity and/or incentives to do so. Just what donors should do when partner governments do not prioritise data collection is an ongoing problem.

Establishing the counter-factual is difficult in the best of circumstances. In the case of development assistance and in the absence of quality data it is a major problem. Aid takes many forms. For example, aid delivered to relieve chronic hunger and malnutrition is tightly targeted and delivered with fairly immediate impact. On the other hand, aid provided to train more health professionals may take years before it results in improved health outcomes. Similarly, it may be that rural roads or improved security are the single most important variables in improving health outcomes – yet these are unlikely to be the primary objectives of a health activity. Thus, commenting on the overall effectiveness of aid is made much more difficult by the many different forms of aid and the different time spans in which results are expected to be achieved.

If aid is disaggregated by its purpose, for example short-term humanitarian versus long term development aid, there are also problems for measuring effectiveness. At the activity level in many cases there is a lack of baseline information and hence an inability to comment on the counterfactual. Also, not all activities are subject to independent evaluation and even if they are, there are issues around what constitutes success. Riddell (2007) raises a number of questions about the way we judge what makes a successful aid project. These include; should aid be deemed to be successful if it all seems to be working at the end of a project, but the effects quickly dissipate? Is a project successful if it was channelled to those who would make best use of it rather than the poorest?

There are a range of other issues with project level evaluation that need careful consideration, not the least of which, is how you accommodate the changing views on what constitutes a good approach to aid when assessing an activity that may have been designed many years before? Is it fair for example, to judge a project as unsuccessful for not using government systems when it was not initially envisaged that it should?

Aid is no longer simply about donors implementing discrete projects. As aid agencies move more towards implementing program based approaches - where a donor contributes to the funding for an entire sector within the framework of a partner government's agreed plan or budget process - the task of evaluation and drawing conclusions on effectiveness becomes more complex.

In this context, it is questionable whether individual donors should conduct their own evaluations. Ideally, these program-based approaches call for joint reviews and evaluations, where the government and its development partners evaluate program implementation. In this scenario though, it is not possible, nor is it desirable to try and tease out the components of success that can be directly attributed to each individual donor. This makes it difficult to assess the effectiveness of donors against traditional measures of delivering results through a series of activities and outputs. Instead, what is called for is some means of evaluating donor behaviour within the relationships it has built with partner governments and other donors. A donor may therefore be evaluated for their success in influencing partner governments to pursue common goals and against the level and type of support they provide. Donors may also be evaluated against the levels of cost they impose on partner governments in terms of the administrative burden they create.

Importantly, aid is not solely about measurable technical inputs. Fundamentally, aid is about politics in that it seeks to influence the processes that determine how resources are produced, used and distributed. Rarely will donors fully understand these processes, far less their influence over their inputs, with consequent confounding issues for measurement.

What we do know about development effectiveness?

Research has allowed the international development community to identify a number of factors that are known to impact on aid effectiveness, some of these are within the capacity of donors to influence and others are not. Examples include:

- Volatility of aid flows: can make it difficult for recipient governments to plan for longer term development as it limits their capacity to estimate resources available to them in future years.
- Fungibility: refers to the situation where aid is viewed by recipient governments as a substitute for government funding. Where this frees government resources to address other development priorities there is no problem. A negative impact on development effectiveness may arise if the priorities funded do not support long-term sustainable development.
- “Dutch Disease”: refers to the situation where aid flows have been shown to impact on exchange rates and reduce the competitiveness of the export sector. In this scenario, aid may have a negative impact on development effectiveness.
- Absorptive capacity: is a particular problem for highly aid dependent countries. Research on absorptive capacity suggests that aid has a positive effect up to a certain point and then diminishing marginal returns set in (Riddell 2007). This is because after a certain point both the financial systems and the human resources in the

recipient country administration are stretched to their limit. This is a particular problem where aid is not coordinated.

Many of the factors that have been identified as potentially impacting on development effectiveness can be addressed through coordinated action among donors. Aid flows can be made more predictable, the impact of aid on the exchange rate can be ameliorated through changing how aid funds are expended in-country. Similarly, absorptive capacity constraints can also be dealt with through identifying where the problem lies and building capacity (Riddell 2007).

The principles on aid effectiveness captured in the Paris Declaration on Aid Effectiveness (2005) and more recently through the Accra Agenda for Action (2008), seek to encapsulate what is considered to be best practice for donor behaviour and should therefore lead to effective aid. These focus on improving the quality of the delivery, management, and use of aid in order to maximise its development impacts.⁵ Essentially these principles advocate that donors work much more in partnership with developing countries. To the extent that it is possible donors should work within partner governments systems and coordinate with other donors. The Paris Principles include:

- Ownership: developing countries to exercise leadership over their development policies and plans.
- Alignment: donors to base their support on countries' development strategies and systems.
- Harmonisation: donors to co-ordinate their activities and minimise the cost of delivering aid.
- Managing for results: developing countries and donors to orient their activities to achieve the desired results.
- Mutual accountability: donors and developing countries are accountable to each other for progress in managing aid better and in achieving development results.

The Development Assistance Committee (DAC) recognises that the principles should not be applied automatically and requires an understanding of the context; this is particularly the case in 'fragile states'⁶. Consistency of the Paris Principles with recipient governments' policy priorities can create some tension. However, despite this, they do provide an important framework for assessing aid effectiveness. They also form the basis on which Australia's aid program is to be evaluated in future DAC peer reviews.

The Paris Principles provide a new framework for helping to assess how effectively donors are implementing aid at a macro-level. However, an

⁶ The DAC defines Fragile States as those failing to provide basic services to poor people because they are unwilling or unable to do so.

important limitation in using them as a framework for evaluating effectiveness is that they focus on the behaviour of donors and how they organise their business, not on how effective their aid actually is. In order to determine how effective aid is, it is necessary to draw on performance and evaluation information.

How do we evaluate development effectiveness?

Until recently, development evaluation concentrated on the links between aid inputs and development outcomes of discrete activities. To a large extent, this is still the case. However, there has been a gradual transition to country programs as being the main unit of account for effectiveness purposes (Picciotto 2007). More donors now conduct country program or country strategy evaluations in order to try to capture data on effectiveness at this level. In these kinds of evaluations, the whole of effectiveness is more than the sum of its parts - which in this case are the individual activity level results. This means that it is no longer sufficient to simply measure the effectiveness of discrete project activities. These are now expected to fit within a coherent country strategy that has been framed in consultation with the partner government and has objectives that are aligned with partner government's own development goals.

Picciotto (2007) refers to the "micro-macro" paradox whereby activity level evaluations tend to show that aid projects mostly meet their objectives and are therefore effective. The paradox comes into play because country level results often diverge from the project level results. Difficulties emerge in trying to evaluate the performance of an aid program against country strategy objectives. This is because the interaction of all aid related activities involving the donor agency and their interplay with partner countries' own systems must be considered. This includes policy discussions with the government, modes of delivery, engagement with other donors and other ways that donors may contribute to development in the country.

In the absence of any agreed approach, donors have generally taken to establishing a set of criteria against which to judge their performance. For some donors, AusAID included, these rest on the DAC evaluation criteria of relevance, efficiency, effectiveness, impact and sustainability - to the extent that they can be incorporated into a strategy evaluation. Picciotto (2007) suggests specific criteria that include:

- selectivity - whereby donors have chosen to support areas that relate well to what the government and other donors are doing.
- the right form of aid is being used for the context

- the design of operations should be grounded in dialogue with partner countries and should take account of other partners comparative advantage and interests
- project implementation should be in line with donor country policies.

Some donors also choose to integrate some or all of the Paris Principles into their assessment criteria for effectiveness of country level performance.

Country strategy evaluations also provide the opportunity to assess performance against ever changing range of issues that are known to impact on development effectiveness. Hence issues such as fungibility and aid volatility can be explored at the strategy level.

Underneath the county program level evaluations sit those that look at a specific sector. These, like country program level evaluations, require good partnership and cooperation, since achieving a long-term objective such as the MDGs can be dependent on a range of donor, government and non-government organisations. Tools such as medium term expenditure frameworks and sector plans that are based on country ownership and partnership should be well suited to this kind of scenario. Yet, this approach has not been as successful as hoped (DAC 2000). Donors still operate with many constraints on their ability to adopt a collaborative approach to developing country performance frameworks, including through issues such as policy priorities from their own governments and rules around reporting.

Underpinning country strategy level evaluations and sector evaluations sit activity level evaluations. These are often conducted at the end of the activity. Project level evaluations are typically done on a sample of activities. In AusAID, there is a policy of mandatory evaluations for activities over \$3 million in value or that have been identified as being significant in some other way. Given the restrictions on the sample of activities evaluated in AusAID, and issues around compliance, it is not currently possible to generalise from these evaluations to comment on the overall effectiveness of Australia's aid.

So why produce an Annual Review of Development Effectiveness?

The Australian Government faces many choices as to where and in what form future aid flows are best put to maximise their productivity. For Australia to maximise the effectiveness of its aid effort will require a shared understanding of country contexts of aid partners and a coherent policy and operational response across the entire Australian Government. The Annual Review of Development Effectiveness (ARDE) aims to assist in bringing a shared understanding to the Australian Government and people of major effectiveness issues and the performance of the Australian aid program. It is also fundamental to encouraging a culture of constant improvement.

Australia is unique in the international donor community through its proximity to its major development aid recipients. This characteristic is central to our national thinking, as reflected in the overall objective of the Australian aid program: to assist developing countries to reduce poverty and achieve sustainable development in line with Australia's national interest. (Australian Government 2009). In reaffirming the Australian Government's commitment to increase ODA to 0.5 per cent of Gross National Income by 2015-16, the Government recognises that increasing the volume of aid will not, on its own, necessarily improve development outcomes or achieve Australia's national interests. In reporting on the effectiveness of the aid program and developing a shared understanding of major effectiveness issues, the Annual Review of Development Effectiveness can be an important reference point in the scaling up of the volume of Australia's aid.

The evidence base for the Annual Review of Development Effectiveness

The Annual Review of Development Effectiveness is designed to comment on the performance of the entire Australian aid program. It aims to provide an accessible overview of results and to identify areas for further in-depth analysis (ODE 2007). At a practical level, the review rests on the new performance assessment system for the Australian aid program that was developed over 2006-07. This is broken into two components, the activity level and the country or sectoral level.

Activity Level

Activity-level reporting applies to activities which are valued at \$3 million or more of ODA or are of strategic importance. The Quality Reporting System generates reports on the quality of activity design, implementation (on an annual basis), and at completion. Activities are rated against quality criteria, including achievement of objectives, sustainability of results and usefulness of monitoring and evaluation systems. The success of activities is rated on a six-point scale, with a score of 4 and above deemed to be satisfactory, and a score of 3 and below deemed to be unsatisfactory. Activities rated 1-4 at entry or during implementation are classed as requiring further improvement.

Quality-at-entry assessments of activities are independent. They aim to assess the quality of activity design against a range of operational factors deemed important to aid quality. However, as this is the newest part of the Quality Reporting System, the number of activities that have been through this process is still small.

The main sources of information generated by the Quality Reporting System are quality-at-implementation reports—self-rated reports produced at least annually for each monitored activity. To test the credibility of the ratings ODE

undertakes an independent spot check of a sample of reports on an annual basis.

Though fewer in number, independent completion reports also offer an overview of activities' quality. These end of activity evaluations are conducted by independent evaluators and rate Australian aid activities against eight criteria⁷. Importantly, they also seek to draw out lessons that will be useful for improving the effectiveness of other activities.

The data generated through the quality reporting system is a rich source for analysis to identify trends that may have implications for aid effectiveness. Data can also be generated on whether program areas are following quality processes. Whilst measures of the quality of implementation of the Agency's processes do not tell us much about aid effectiveness, they do help us to form a picture of the overall quality of the aid program.

Country and sector level

The next level up the quality reporting hierarchy in AusAID is the country level and sector level performance reports. These are designed to pull together all the available performance information on the program into one document and relate it to the strategic objectives for that year. They draw on a range of information sources, including activity-level quality information as well as program performance frameworks. They present the results of the aid program—assessing the achievement of program objectives, the overall quality of the activities that contribute to those objectives, and the management implications of this assessment. This process should enable managers to make decisions for future programming and management, and provide senior managers with information across the whole aid program, which helps to identify agency-wide priorities and areas for attention. Reporting on the effectiveness of aid program strategies for countries and sectors has substantially expanded since it was first trialled in 2007, and now covers almost all ODA delivered through AusAID.

The Office of Development Effectiveness attends peer reviews on country and sector level reports in order to comment on the quality of the contestability of the process. In addition, further analysis is conducted of the performance reports – commenting on the quality of the evidence base contained in the reports and on how they report against specific effectiveness issues.

Office of Development Effectiveness (ODE) evaluations

⁷ The eight criteria are: Relevance, Efficiency, Effectiveness, Sustainability, Impact, Analysis and Learning, Monitoring and Evaluation and Gender.

In addition to the information that the Office of Development Effectiveness is able to draw from AusAID's Quality Reporting System, information is drawn in from evaluations that ODE conducts or commissions. Across 2008-09 these have included evaluations of service delivery in health, basic education and water supply and sanitation. These evaluations cover a range of countries in which Australia provides aid including East Timor, Indonesia, Papua New Guinea, Lao PDR, Solomon Islands and Vanuatu. ODE-led evaluations enable a more in-depth assessment of the context in which aid is delivered and the opportunity to anchor performance information that comes through via the quality reporting system on evidence collected by independent evaluators.

The feedback loop from the Quality Performance System, to the evaluation program of the Office of Development Effectiveness, is a deliberate strategy to ensure that evaluations are relevant and provide systemic lessons. This approach also ensures that recommendations are grounded in the reality of what is happening on the ground in partner countries. ODE evaluations are also important for testing the aid program against a range of development effectiveness issues as they emerge in international research.

Recent changes to the operating environment with the entrance of many new actors in the development scene and different ways of working exacerbate the challenges in measuring development effectiveness. In the absence of an internationally agreed approach to measuring development effectiveness, the approach taken by the Office of Development Effectiveness is one which aims to ensure that we can comment to the extent that it is possible on:

- how the aid program performs against issues known to impact on effectiveness
- issues of quality of aid implementation
- performance data on aid activities underway
- information on results of aid activities
- information and results at the country level (to which AusAID may have contributed to some extent)
- assessments of performance at the country and sectoral level
- in-depth assessments of effectiveness at the country level and across different countries in particular sectors.

The 2007 Annual Review of Development Effectiveness

The first Annual Review of Development Effectiveness was published in 2008. It noted that the performance system in AusAID was very new and so the information base of the ARDE was limited. With this caveat, it concluded that:

- Australian aid activities are well managed and achieving some good

results, with more than three quarters on-track to achieve their objectives in 2006-07. However, it is difficult to demonstrate the links between well-managed activities and better outcomes for the poor. To help measure the outcomes of Australian aid activities, the quality of monitoring and evaluation needs to be improved.

- Country programs exhibited strong management, were responsive and had established good links with partner governments. A notable change is that Australian aid is becoming more consistent with partner government policies and is more aligned with the efforts of other donors. But it can be hard to detect whether programs are on track to meet their strategic objectives. In part this is due to the poor definition of objectives and, on occasion, weak commitment to change in partner governments (ODE 2007).

The 2007 ARDE identified five opportunities to strengthen aid effectiveness these included the need for AusAID to develop a better understanding of local social and political systems and a greater degree of realism in settings its expectations in fragile states.

Technical assistance was also highlighted as an issue, in particular where it was provided in large quantities to fragile states. The review recommended that more work be done to strengthen the performance orientation of the aid program, in particular through working with partner governments to strengthen their system and establishing consistent approaches across the Australian government. The review noted that reducing gender inequality would require a clear assessment of the potential impediments to change, both within partner countries and within the Australian aid program.

How has the government responded to the issues identified in the 2007 ARDE?

The areas identified in the 2007 ARDE need sustained attention, and with this in mind, action taken during 2008 included the following:

- Broadening engagement with fragile states: Engagement with Papua New Guinea and small Pacific island countries was broadened through the new Pacific Partnerships for Development. This included collaboration between AusAID and Pacific countries to produce Tracking Development and Governance in the Pacific, compiled to inform partnerships and allow for joint monitoring.
- Performance orientation: A new performance assessment and evaluation policy was implemented. Under the policy, annual performance reporting was rolled out across AusAID, and quality-at-entry reporting was introduced.
- Getting the most from technical assistance: Work on making technical assistance more effective is ongoing. Work in 2008 focused on improving

AusAID's understanding of and approaches to capacity development, a key objective of most technical assistance interventions.

- Meeting gender equality commitments: A Principle Advisor (Gender) has been recruited, along with an Advisor on violence against women who is responsible for coordinating the response to the recommendations of ODE's report 'Violence against Women in Melanesia and East Timor: Building on Promising Approaches'. Tailored gender training was developed for staff based in Canberra and overseas, and a gender capacity coordinator was recruited to manage the rollout of this training. New reporting and accountability processes are being introduced, allowing program areas to monitor performance on meeting gender equality principles.

The 2008 Annual Review of Development Effectiveness

The 2008 Annual Review of Development Effectiveness was framed in the context of the Global Recession, with some uncertainty about what this would mean for many developing countries.

The 2008 ARDE found that Australia is changing the way it manages and delivers aid to improve its effectiveness and to reflect international as well as Australia's own experience. This involves a move from a heavy dependence on stand-alone projects to approaches that are more closely owned by partner countries, aligned with their systems and harmonised with other donors. There are many examples of where the aid program is successfully adopting these new ways of working and the recent peer review of the Australian aid program by the OECD Development Assistance Committee commented positively on progress in this regard.

Nevertheless, there is a need to maintain the pace of these reforms. Particular areas for attention include:

- strengthening the aid program's approach to policy dialogue with partners
- moving more consistently towards program-based approaches to delivering aid
- developing approaches to risk management that are more suited to the newer ways of working, particularly delivering assistance through partner country systems and processes.

The aid program also needs to provide more predictable and focused support as well as strike a balance between large, multi-year programs and small, responsive activities that provide an opportunity to experiment and develop partnerships. Nevertheless scaling up should be based primarily on larger activities rather than a larger number of activities.

Scaling up effectively in a changing global environment

To meet the challenges of an expanding aid program and demands emerging from the deteriorating environment for economic growth, action is required on three fronts:

1. Ensure the aid program protects gains in poverty reduction

Australia can play a leadership role in helping partner countries in the Asia-

Pacific region to identify the implications of, and respond to, the global recession, particularly to prevent the poor and near poor slipping into deeper poverty. The responses are likely to include:

- short-term measures to protect the poor and vulnerable, such as social protection programs and finance for essential public services; and,
- investing in programs to establish the longer term conditions for broad-based economic growth and employment of the poor.

Such responses may require the aid program to readjust plans and provide assistance in some areas where it has had limited experience. It would be timely to strengthen the evidence base on the effectiveness of aid activities designed to protect the vulnerable and promote pro-poor economic growth and employment.

2. Update the aid program's operational framework

The program would benefit from a more systematic approach to the way aid is delivered that embeds effectiveness principles and draws on Australia's own experiences. This would require the aid program's operational framework to be updated to:

- set clear directions and criteria for determining the way aid should be delivered and when and how to work more closely with partner countries, including delivering more aid through partners' systems as circumstances permit
- provide guidance on risk management to support the new ways of working
- allow for more predictable funding levels to partner countries
- apply a more rigorous approach to selecting programs and consolidating program portfolios, and to reduce the number of small-to-medium-sized activities.

This is a challenging agenda, with implications for capacity and skills in areas such as policy analysis, public financial management and risk management.

3. Redefine engagement with civil society

Communities and civil society organisations can be important in delivering basic services, increasing government accountability, broadening ownership of the development process and making government systems work better for the poor. The aid program needs to gain a better understanding of ways to engage effectively with communities and civil society organisations to inform program strategies (ODE 2008).

Future Annual Reviews of Development Effectiveness

The Annual Review of Development Effectiveness is still relatively young. In seeking to comment on the effectiveness of the Australian aid program, it is a confronting but necessary document. As the Australian aid program scales up to 0.5 per cent of GNI by 2015, the ARDE will become an increasingly important reference point on how the aid program is performing.

The expansion of coverage in the AusAID Quality Reporting System means that in future years ODE will have a wider and deeper pool of data from which to make assessments about performance and effectiveness issues. It is also anticipated that as the general level of understanding about aid effectiveness

issues increases, the ARDE will be able to generate greater discussion within and outside of the Australian government on how to best support partner country efforts to improve the lives of their citizens.

References

- Collier P (2007) *The Bottom Billion: why the poorest countries are failing and what can be done about it*. Oxford 2007.
- DAC Working Party on Aid Evaluation (2000). Results Based Management in the Development Co-operation Agencies: A Review of Experience Executive Summary, DAC
- Governments of Timor Leste and Australia (2008). A Balancing Act: Implementation of the Paris Declaration in Timor-Leste Background Paper for the Third High Level Forum on Aid Effectiveness: Roundtable 7: Aid Effectiveness in Situations of Fragility and Conflict Session 3: Improving the delivery of international assistance for the reduction of fragility and conflict.
- Kharas H (2007a) "The New Reality of Aid" Session I Fighting Global Poverty: Who'll be relevant in 2020? Brookings Blum Round Table August 2007.
- Kharas H (2007b). Trends and Issues in Development Aid Working Paper 1, Wolfensohn Centre for Development November 2007.
- Picciotto R (2007). Development Effectiveness at the Country Level Research Paper No. 2007/81, UNU-WIDER
- Office of Development Effectiveness (2008). *Annual Review of Development Effectiveness 2007* Canberra, Commonwealth of Australia 2008
- Office of Development Effectiveness (2009) *Annual Review of Development Effectiveness 2008* Canberra, Commonwealth of Australia 2009
- Riddell R.C (2007). *Does Foreign Aid Really Work?* Oxford, Oxford University Press
- Roodman D (2007). Macro Aid Effectiveness Research: A Guide for the Perplexed – Working Paper Number 134, Centre for Global Development December 2007.
- Sachs J.D. (2005). *The End of Poverty: economic possibilities for our time*, The Penguin Press
- Sen, A (2000) "What is the role of legal and judicial reform in the development process?" World Bank Legal Conference, 2000.
- Severino, J-M and Ray, O (2009). The end of ODA: Death and Rebirth of a Global Public Policy - Working Paper Number 167, Centre for Global Development March 2009.