



# **AID/WATCH Submission to the Independent Review of Aid Effectiveness**

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## **Objective of the Aid Program**

In reviewing the effectiveness of Australia's aid program, the panel must address its overarching objective.

The official objective of Australia's aid program is "to assist developing countries reduce poverty and achieve sustainable development, **in line with national interest**."<sup>1</sup>

Australia's aid program should focus on achieving poverty alleviation and sustainable development **in accordance with the interests of recipient communities**. However, greater importance is often attached to Australia's commercial and strategic interests, thus compromising the effectiveness of aid to combat poverty. For example:

- The 2010-2011 aid budget allocates about \$30 million over four years to controlling 'irregular' immigration and upgrading of detention facilities in Indonesia,<sup>2</sup> which is motivated by Australia's border security concerns.
- \$273 million of Australia's aid is funding a government campaign for the recognition of forest carbon credits at the UN, as a way of cheaply offsetting Australian emissions. The money is being spent on 'Reduced Emissions from Deforestation and Forest Degradation' (REDD) pilot schemes in Indonesia and PNG to demonstrate the offsets are viable and thus influence the international negotiating agenda for a post-2012 climate agreement.<sup>3</sup> Many NGOs and indigenous people's organisations argue REDD offset schemes are ineffective in reducing overall emissions, undermine the livelihood of subsistence farmers and displace forest-dwelling indigenous peoples.<sup>4</sup>

In addition, Australia is using its position as a major donor to the Pacific to negotiate the liberalisation of Pacific markets (through PACER-Plus) and push ahead Australia's trade interests. As AusAID states in its submission to the Productivity Commission review of trade agreements, "providing trade and development assistance underpins Australia's national interest," including "better access for Australian exporters".<sup>5</sup> The use of its position as a major donor to hasten PACER-Plus negotiations has raised concerns among Pacific Island governments and civil society organisations.<sup>6</sup>

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<sup>1</sup> Australia's International Development Assistance Program - Budget Statement, Stephen Smith and Bob McMullan, 2010, p.106 [Emphasis added]

<sup>2</sup> Australian Government, Budget 2010-2011, Budget Paper No. 2, Immigration and Citizenship. [http://www.budget.gov.au/2010-11/content/bp2/html/bp2\\_expense-15.htm](http://www.budget.gov.au/2010-11/content/bp2/html/bp2_expense-15.htm)

<sup>3</sup> Goodman, J. and Roberts, E. (2010) Australian REDD Aid to Indonesia – Ineffective and Unjust. In *Reality of Aid 2010, Aid and Development Effectiveness: Towards Human Rights, Social Justice and Democracy*, Reality of Aid, Manila, pp 53-60.

<http://www.realityofaid.org/roareports/index/secid/375/part/1>

<sup>4</sup> Ibid.

<sup>5</sup> AusAID Submission to the Productivity Commission Review into Bilateral and Regional Trade Agreements 2010, p. 10. [http://www.pc.gov.au/\\_data/assets/pdf\\_file/0006/96819/sub046.pdf](http://www.pc.gov.au/_data/assets/pdf_file/0006/96819/sub046.pdf)

<sup>6</sup> See for example: 2010 Civil Society Statement to Pacific Island Forum Leaders regarding PACER-Plus negotiations.

If the government truly believes that assisting developing countries to reduce poverty and achieve sustainable development is in Australia's national interests, then there is no need to include any additional clause on national interest.

**AID/WATCH calls upon the government to remove 'national interest' from the objective of the aid program, and end the practice of using aid to further Australia's national interest.**

### ***Sectoral focus of the aid program***

To improve the effectiveness of Australia's aid program there needs to be a shift in sectoral focus away from governance and towards health and education, and rural development sectors.

In recent years governance has represented the largest sectoral expenditure in Australia's aid program. While efforts to improve governance in some areas is important and necessary, the Annual Review of Development Effectiveness 2009 (ARDE) highlights that, "A great deal of support for public sector reform to improve governance is still undertaken with little reference to service delivery or human development objectives"<sup>7</sup> Moreover, the aid program's focus on governance has often been used to advance Australia's strategic interest through interventionist programs such as Regional Assistance Mission Solomon Islands (RAMSI).<sup>8</sup>

Given that many people in countries that currently receive aid from Australia still do not enjoy a decent standard of living, including adequate food, housing and access to basic services such as health care, education, water and sanitation, the Australian aid program should reorient its focus to supporting:

- **Universal access to good quality social services (e.g. health care, education, water and sanitation)**, which is essential to improving the lives of the poor and achieving the MDGs.
- **Food security and rural development** with particular focus on the role of small-scale farmers, the majority of whom are women.

The precise levels and means of support must be shaped by the priorities and needs of recipient governments and communities, and greater emphasis placed on reducing inequality (e.g. between rural and urban areas and between women and men).

Furthermore, greater attention needs to be paid to crosscutting issues that affect all sectors of the aid program such as **climate change**. In addition to increasing funding to climate change adaptation and mitigation initiatives (see below), the implications of

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<sup>7</sup> Annual Review of Development Effectiveness 2009 – Improving basic services for the poor, AusAID Office of Development Effectiveness, p 58.

<sup>8</sup> Anderson, T. (2008) *The Limits of RAMSI*, AID/WATCH, Sydney.  
<http://aidwatch.org.au/sites/aidwatch.org.au/files/RAMSIreport.pdf>

climate change need to be incorporated into the design of all aid initiatives.

*Fund additional climate aid to \$A2.1 billion per year*

The impacts of climate change are felt most harshly by the poor worldwide. As the ARDE 2009 highlights “unless the global community adequately addresses the challenges of climate change, it will be more difficult to achieve and sustain the MDGs, and the impacts of climate change will undermine development gains already achieved.”<sup>9</sup>

According to a 2010 World Bank report at least US\$70 billion is needed annually to help developing countries adapt to the effects of climate change:

**“the cost between 2010 and 2050 of adapting to an approximately 2°C warmer world by 2050 is in the range of \$70 billion to \$100 billion a year.** This range is of the same order of magnitude as the foreign aid that developed countries now give developing countries each year, but it is still a very low percentage of the wealth of countries as measured by their GDP.”<sup>10</sup>

Australia must pay its fair share of these costs. The Australian aid program, at about A\$4.3 billion, is about 3 per cent of the total global ODA (of US\$120 billion). If the government view is that this is a fair proportion of Australia's contribution to development aid, then the same should apply to climate aid. Thus Australian Government should commit to at least \$2.1 billion per year in climate aid, commensurate with Australia's contribution to global ODA.

Currently the small amount of funding provided by Australia to address climate impacts is double-counted as climate aid to the UNCFCCC, and as ODA to the OECD. This practice violates the UNFCCC requirement that climate aid be additional to ODA.

**Australian government must ensure that climate aid funding does not divert funds from other development priorities, and that it is aimed at primarily assisting the most vulnerable communities.**

### ***Different forms of aid***

The review must address key questions around the amount of aid that is channelled through Australian managing contractors, and the use of technical assistance.

Reliance on for-profit consulting companies has meant that significant portions of aid money has bypassed the people who need it most, instead funding Australian companies, consultants and advisers. Furthermore, the lack of transparency of aid activities managed

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<sup>9</sup> Annual Review of Development Effectiveness 2009 – Improving basic services for the poor, AusAID Office of Development Effectiveness, p9.

<sup>10</sup> World Bank (2010) *The Economics of Adaptation to Climate Change*, A Synthesis Report, Final Consultation Draft (August), World Bank, Washington, p 10. (emphasis in original)

by commercial contractors, including commercial-in-confidence agreements, makes it difficult to know how millions of dollars of aid money is being spent and what impact this is having on improving the lives of the poor.

While significantly reducing “dependence on managing contractor-delivered, technical assistance-oriented, stand-alone projects,” was one of the reforms outlined in *AusAID 2010: Director General's Blueprint*, managing contractors still play a significant role in delivering Australian aid. The 2009 ANAO report notes that 20 of Australia's largest managing contractors “were together responsible for delivering 70% of Australia's bilateral aid program expenditure.”<sup>11</sup>

A substantial amount of managing contractor-delivered aid is in the form of technical assistance,<sup>12</sup> which has been a source of considerable criticism due to its high cost and lack of effectiveness in building capacity. Noting the high cost and lack of impact on building long-term capacity, recent evaluations have rightly recommended that the aid program reduce its reliance on technical assistance.

**Australia must reduce the proportion of aid money going towards technical assistance to at least the OECD average. Furthermore, identification of TA needs should be led by aid recipients and use of local advisors prioritised over external advisors.**

There is also a tendency to focus aid efforts on government, with insufficient recognition of the important role that civil society organisations (CSOs) play not only in delivering basic services, but also in broadening country-level policy dialogue on development. Various evaluations have noted that CSOs are important advocates of the poor and can be highly effective in delivering sustained development outcomes through effective community engagement and empowerment.

**Increasing funding to CSOs that have a proven capacity to effectively engage and empower communities to realise their own development goals would make a significant contribution to improving the effectiveness of Australia's aid program.**

### ***Performance and approach of the aid program***

Australia has committed to increase the effectiveness of its aid program in line with principles outlined in the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008). AID/WATCH believes that Australia's aid program falls short of meeting the commitments outlined in these declarations.

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<sup>11</sup> Australian National Audit Office (2009) *AusAID's Management of the Expanding Australian Aid Program*, ANAO Audit Report No. 15 2009-10, p.87.

<sup>12</sup> ARDE (2008: 36) notes “ODE surveyed the program's largest contractors and found that technical assistance, in the form of personnel, accounted for almost 50 per cent of the contracts with these organisations.”

The latest ARDE also points to deficiencies, noting, “AusAID does not have an overarching strategy on implementing the aid effectiveness agenda and has not clarified how to report against aid effectiveness principles.”<sup>13</sup>

**More concerted efforts must be made to translate commitments into practice. In particular, there is a need to improve transparency and accountability of the aid program and strengthen local ownership of development initiatives.**

#### *Improving Transparency and accountability*

It is widely recognised that increased transparency and accountability of aid is crucial to improving the effectiveness of aid. AusAID is a signatory to the International Aid Transparency Initiative Accra Statement (2008), which commits it to:

- Share more detailed and up-to-date information about aid in an accessible format
- Be transparent about conditions attached to aid and expected project outputs and outcomes

AusAID has fallen short of meeting these commitments. As the Australian National Audit Office report (2009) highlights: “AusAID needs to develop better systems for capturing information on how Australian aid is delivered... 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.”<sup>14</sup>

There is also a need for greater transparency of commercial aid contracts. While AusAID publishes a list of aid contracts over \$100,000 in value on its website, this provides only vague, one-sentence descriptions. All parts of commercial aid contracts that do not satisfy Department of Finance and Administration's ‘Confidentiality Test’ as outlined in the Financial Management Guidelines<sup>15</sup> should be made publicly accessible over the Internet.

**AusAID must start translating its commitments to increase transparency and accountability into practice by providing up-to-date and detailed information about all aid programs, projects and initiatives to the public in a timely and accessible manner.**

#### *Strengthen local ownership of development initiatives*

As a signatory to the Paris Declaration on Aid Effectiveness (2005) and Accra Agenda for Action (2008) Australia has made commitments to better align development assistance with national development strategies and strengthen country ownership over

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<sup>13</sup> Annual Review of Development Effectiveness 2009 – Improving basic services for the poor, AusAID Office of Development Effectiveness, p 67.

<sup>14</sup> Development Assistance Committee Peer Review of Australia, Organisation for Economic Cooperation and Development, 2008/09, p 64. <http://www.oecd.org/dataoecd/38/29/42019772.pdf>

<sup>15</sup> Guidance on Confidentiality in Procurement, Financial Management Guidelines 3, Department of Finance and Administration, p10. [http://www.finance.gov.au/publications/fmg-series/docs/FMG\\_3\\_Final\\_for\\_Publication.pdf](http://www.finance.gov.au/publications/fmg-series/docs/FMG_3_Final_for_Publication.pdf)

aid delivery, including working in partner country systems. However, Australia's performance in adhering to these aid effectiveness principles has been below par.

For example, only 38 per cent of Australian Technical Assistance was carried out “in a way that enables partner countries to exercise leadership over the assistance provided.” This falls short of the donor (DAC) average of 59 per cent.<sup>16</sup> Similarly only 23 per cent of Australia’s aid is subject to partner countries’ procurement systems, which falls short of the donor (DAC) average of 44 per cent.<sup>17</sup>

**To strengthen country ownership, Australian aid initiatives must make greater use of existing partner government institutions and systems for implementing and managing public resources.**

Furthermore, local ownership of development initiatives cannot be limited to government, but must extend to other actors including CSOs and communities. **Australia must make a more concerted effort to engage non-state actors to ensure that local communities and CSOs have a greater say in determining the formulation, implementation and evaluation of aid projects and programs.**

## **Organisational Structure of aid program**

### *Separation of AusAID from DFAT*

AusAID currently sits within the Department of Foreign Affairs and Trade (DFAT), which has a primary objective of advancing Australia’s national interest. For the aid program to maintain a clear focus on poverty alleviation and avoid being used as a vehicle to promote Australia’s strategic and commercial interests, AusAID needs to be established as a separate department with a Cabinet-level minister.

### *Ensure policy coherence for development*

Australian government policies can have a significant impact on the development outcomes of aid recipient countries. Without a coherent approach, Australia’s policies on trade, investment, finance, migration, security and climate change could potentially undermine the poverty alleviation objective of Australia’s aid program, and the Millennium Development Goals.

**The Government needs to demonstrate how it is taking this ‘whole of government’ approach to promoting agreed development goals.** It should do this, for instance, by instituting a precautionary criteria-based approach that requires policy-makers in these

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<sup>16</sup> Australian National Audit Office (2009) *AusAID's Management of the Expanding Australian Aid Program*, ANAO Audit Report No. 15 2009-10, p. 90.

<sup>17</sup> Annual Review of Development Effectiveness 2009 – Improving basic services for the poor, AusAID Office of Development Effectiveness, p. 42.

fields to establish how their decisions promote poverty alleviation, gender equity and sustainable development.

**There also needs to be a mechanism to ensure that policies are assessed for their impact on poverty alleviation, gender equity and sustainable development.** For example, the role of the Office of Development Effectiveness could be extended to evaluate the poverty alleviation and sustainable development impacts of all government interventions and policies, as suggested by the OECD-DAC Peer Review of Australia's aid program.<sup>18</sup> Similarly, the scope and mandate of the Development Effectiveness Steering Committee could be enhanced so that it coordinates government interventions and policies towards coherence for development.

Having a Cabinet-level minister would also help policy coherence for development by ensuring development perspectives are taken into account in policy discussions and decisions at the highest level.

### ***Arrangements for evaluation – Make the ODE Independent***

To ensure the quality and effectiveness of the Australian aid program, independent monitoring and evaluation, including public release of all evaluations and reports, is critical.

The Office of Development Effectiveness (ODE) is the government body responsible for monitoring the quality and evaluating the impact of Australian aid. However, the ODE is answerable to the Director of AusAID, rather than the parliament. This undermines the ODE's ability to voice a genuine critique of Australia's aid program. In addition, the majority of ODE reports have not been made publicly available.<sup>19</sup>

By contrast, the UK Government has committed to establishing an Independent Commission for Aid Impact which “will be totally independent from Government”, “will report directly to Parliament” and “will have completely separate decision-making powers, staff and location from the Department for International Development.” The Commissions’ “reports will be published on their website directly – with no interference from Government.”<sup>20</sup>

**AID/WATCH believes that the Office of Development Effectiveness should be made into an independent body separate from AusAID, following the example of the UK's Independent Commission on Aid Impact.**

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<sup>18</sup> OECD (2009) AUSTRALIA - Development Assistance Committee (DAC) Peer Review, p. 37.

<sup>19</sup> Australian National Audit Office (2009) *AusAID's Management of the Expanding Australian Aid Program*, ANAO Audit Report No. 15 2009-10, p.150.

<sup>20</sup> ‘New independent commission unveiled’, United Kingdom Department For International Development, Media Release 29 October 2010, <http://www.dfid.gov.uk/Media-Room/News-Stories/2010/New-independent-commission-unveiled/>

## Summary of Recommendations:

AID/WATCH believes that the following changes are necessary to meaningfully improve the effectiveness of Australia's aid program:

- Remove 'national interest' from the objective of the aid program, and end the practice of using aid to further Australia's national interests.
- Shift sectoral focus away from governance and towards health and education, and rural development sectors. In particular supporting:
  - Universal access to good quality social services (e.g. health care, education, water and sanitation)
  - Food security and rural development with particular focus on the role of small-scale farmers, the majority of whom are women.
- Recognise that the impacts of climate change will drastically undermine development prospects for low-income countries:
  - Commit to at least A\$2.1 billion per year funding for climate aid, commensurate with Australia's contribution to global ODA.
  - Ensure that this climate aid is new money, not funds redirected from other development priorities and that it targets the most vulnerable communities.
- Reduce the proportion of aid money going towards technical assistance to at least the OECD average. Ensure that identification of TA needs is led by aid recipients and use of local advisors prioritised over external advisors.
- Increase funding to Civil society organisations (CSOs) that have a proven capacity to effectively engage and empower communities to realise their own development goals
- Translate AusAID's commitments to increase transparency and accountability into practice by providing up-to-date and detailed information about all aid programs, projects and initiatives to the public in a timely and accessible manner.
- Publicly release all parts of commercial aid contracts that do not satisfy the Department of Finance and Administration's 'Confidentiality Test'.
- Strengthen country ownership by ensuring Australian aid initiatives make greater use of existing partner government institutions and systems for implementing and managing public resources.
- Make a more concerted effort to engage non-state actors to ensure that local communities and CSOs have a greater say in determining the formulation, implementation and evaluation of aid projects and programs.
- Establish AusAID as a separate department with a Cabinet level minister responsible for international development in order to maintain a clear focus on poverty alleviation and avoid aid being used as a vehicle to promote Australia's national interests

- Establish a mechanism to ensure that all government interventions and policies are assessed for their impact on poverty alleviation, gender equity and sustainable development. For example, through the Office of Development Effectiveness.
- Establish the Office of Development Effectiveness as an independent body separate from AusAID, following the example of the UK's Independent Commission on Aid Impact.