

Submission to the Independent Review of Aid Effectiveness

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The appropriate geographic focus of the program, taking into account partner country absorptive capacities

Australia's aid program in some Pacific countries is small per head of population. This is particularly the case in Palau, FSM and RMI. The reason given for the small aid program in these countries is that the USA is a major donor. However, the US Compact funding is not development aid, as it is not directed at achieving development outcomes. Despite the funding from the US, these countries have major development problems as shown by poor education outcomes (eg in RMI, only one third of those entering the school system complete high school, and many of these graduates have to undergo substantial remedial training before being able to undertake a college credit course). Development assistance in the form of payment for literacy results at end of primary school and end of high school would be a highly effective way of addressing a major development goal for these two countries.

The appropriate sectoral focus of the program, taking into account Australia's area of comparative advantage and measured development effectiveness results

Education outputs (proportion of school age cohorts in education) and education outcomes (achieving international standards of literacy and numeracy) are weak in most countries in the Pacific. Australian aid should shift from funding inputs school buildings and instructional materials (the obvious responsibility of governments) to funding outcomes in terms of lifting the quality of education (now neglected by governments for a range of reasons). The latter requires good information about the gap between in-country results and international comparative data.

Aid funding and technical assistance to conduct in each country in the Pacific international surveys of literacy and numeracy such as the OECD's Program for International Student Assessment is one way to achieve a greater focus on improving education outcomes. Testing of literacy and numeracy at key points in the education system is also needed - this testing should be based on international testing protocols. Education aid should be conditional on countries agreeing to undertake this testing in a transparent way.

Data on other key development indicators are grossly lacking in most Pacific countries, as shown by the out-of-date sources for the information on the MDG targets in the SPC's summary of progress data on the MDGs. Australia has a particular strength in data collection and analysis capacities. In-country analytical capacity, both in government & external to government, is needed to create an evidence base for poverty reduction. In-country think tanks should be funded by the aid program through an independent fund run by a regional agency such as the Asian Development Bank. These in-country think tanks are needed to

create a critical, evidence-based, demand for effective policies to reduce poverty in all of its forms.

The relative focus of the aid program on low and middle-income countries

The aid program should be in part allocated on the basis of the number of population who are below the World Bank definition of per capita income poverty. Other criteria for allocating funds should be on the basis of other indicators of poverty. For example, the Republic of Marshall Islands has middle income status but also has the highest adolescent pregnancy rate in the Pacific by a considerable margin. Countries in the region should be ranked according to their status on key poverty indicators and aid funds allocated accordingly.

The relative costs and benefits of the different forms of aid, including the role of non-government organisations and the appropriate balance between multilateral and bilateral aid funding arrangements.

The perverse incentives generated by the use of for-profit contractors to deliver aid could be lessened by making more use of International and local NGOs. These non-profit organisations could deliver programs, provide in-country research facilities to undertake program evaluations or carry out in-depth sector studies. Their public commitment and accountability to their domestic constituencies makes them less susceptible to the perverse incentives that non-accountable for-profit agents are exposed to. However, NGOs, like other aid deliverers, are prone to operate as stand-alone entities without ties to government or community systems of service delivery. So NGOs, as service deliverers, would also need to ensure that their work is closely aligned to government priorities and is integrated where possible with government systems. They need to make sure that the services and assets they provide are part of the care and maintenance systems operated by communities and government.

AusAID is increasing in 2010-11 the funding for its AusAID-NGO Cooperation Program. This supports the development programs of over 40 accredited Australian NGOs to reduce poverty worldwide. It includes support for partnerships with the larger NGOs with significant Australian community support. However, at only \$69 million, it is a tiny fraction of the 2010 aid budget of \$4,349 million. It is also not clear how much this funding is for in-country programs and how much is for Australian-based campaigns to raise public awareness and support for the increased aid budget.

The performance of the aid program and lessons learned from Australia's approach to aid effectiveness.

Mark Baird, a former head of the World Bank in Indonesia, was commissioned by AusAID in 2009 to review 29 evaluations of AusAID projects delivering services to the poor. His report highlights, in his words, the 'fundamental tension between Australia's commitment to scale up aid...and the project model that still drives many of AusAID's business processes. He concludes that 'major changes in AusAID's mindset, processes and skills base are needed'.¹

Another recent report compares AusAID with other aid agencies. The highly respected Center for Global Development in Washington uses a range of indicators to rate the performance of the main development aid agencies.² AusAID funded in part the research on which the report is based.

¹ Mark Baird, 2009, Service Delivery For The Poor: lessons from recent evaluations of Australian aid, AusAid, Canberra, November, p vi.

² Nancy Birdsall & Homi Kharas, 2010, Quality of Official Development Assistance Assessment. Center for Global Development, Washington, 5 October.

A comparison of 31 aid agencies on four composite measures shows that AusAID performs poorly on three of these measures (see Table below). AusAID is ranked in the bottom third of agencies in terms of maximising efficiency (21 out of 31). AusAID also ranks poorly in terms of the fostering institutions in the recipient countries (19 out of 31). In terms of reducing the burden on the recipient countries, AusAID ranks in the middle (14 out of 31). However, on the measure of transparency and learning, AusAID ranks first. This last ranking must be questioned, particularly in the light of the poor rankings on the other composite measures. Transparency and learning means little if it does not produce better results in terms of efficiency and improved aid delivery systems in recipient countries.

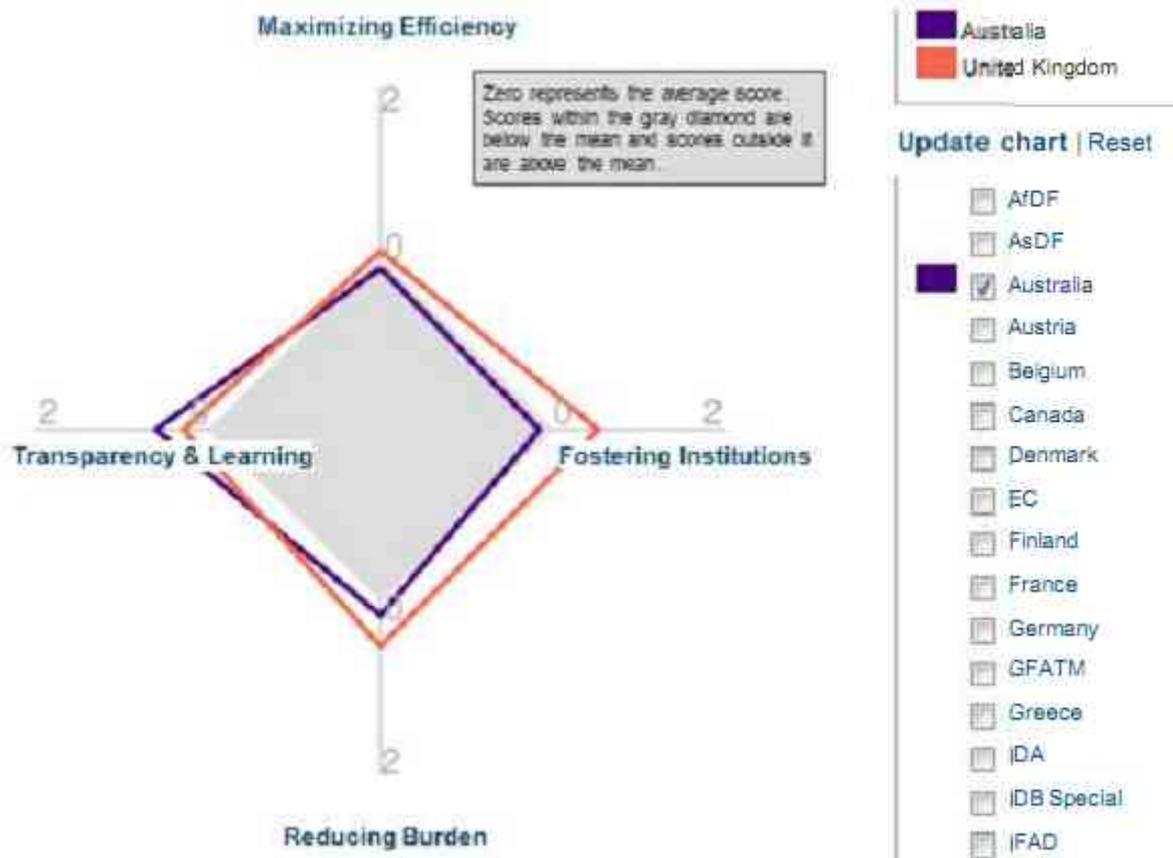
Comparing AusAID with the UK's aid agency (Department for International Development) shows that the UK aid agency performs much better on the three measures that matter (see diagram below).

This evidence indicates that a major reform of Australia's systems for delivering aid is needed. If AusAID disagrees with these indicators, because they omit key information or are out-of-date, then what performance indicators does AusAID propose? This form of scrutiny is essential to enable the public to judge whether AusAID is doing its job better and is able to manage effectively an expanded aid program?

Table 4: Rankings of Donors by Aid Quality Dimension⁶⁶

Donor	Maximizing Efficiency	Fostering Institutions	Reducing Burden	Transparency and Learning
Australia	21	19	14	1
Austria	25	29	29	14
Belgium	18	26	21	18
Canada	23	21	23	17
Denmark	13	5	10	4
Finland	16	10	5	12
France	20	17	17	21
Germany	28	14	18	11
Greece	29	31	22	28
Ireland	7	1	7	3
Italy	19	22	19	27
Japan	14	13	27	20
Korea	30	16	31	30
Luxembourg	8	27	15	22
Netherlands	17	6	6	9
New Zealand	10	23	13	6
Norway	24	9	20	7

Portugal	6	25	30	19
Spain	31	15	25	8
Sweden	22	11	16	15
Switzerland	26	24	26	26
United Kingdom	12	7	4	13
USA	27	30	28	24
AfDF	2	4	12	25
AsDF	3	3	10	29
EC	11	12	9	2
GFATM	1	18	11	10
IDA	9	2	2	5
IDB Special	5	8	3	31
IFAD	4	20	1	23
UN Select	15	28	24	16



An examination of the program's approach to efficiency and effectiveness and whether the current systems, policies and procedures in place maximise effectiveness.

AusAID is to spend \$500 million over five years on an education partnership with Indonesia (\$500m school deal for Jakarta, The Age, 3 Nov). But will this be money well spent?

Simply building new schools will not be enough if parents do not want to send their children (especially daughters) to school. Many countries have given incentive payments to parents to lift school attendance. However, school attendance itself is not the answer if other measures

are not taken to lift the quality of education. This requires ensuring that teachers are not absent, a major problem affecting learning in Indonesian public primary schools. It also requires that teachers have the skills to teach. The average reading ability of Indonesian students is far below that of high-income countries. Will the new schools produce better learning outcomes? AusAID needs to focus on delivering aid that produces measurable outcomes. Merely funding a series of inputs without asking to what end is a recipe for ineffective aid.

One of AusAid's objectives in Timor-Leste has been to fund job creation through labour-intensive public works. It has allocated \$8 million to the Youth Employment Promotion Program to the ILO (International Labour Organisation) in Timor-Leste over four years to January 2012. The objective is to provide 'more youth in rural areas with short-term jobs to build and maintain roads and other rural infrastructure'. By March 2010, some 35,000 month-long jobs had been created. Young job holders also receive some training in literacy and numeracy, HIV/AIDS awareness and family planning.

The short-term focus of the temporary job creation program means little or no attention has been paid to imparting skills to young people or linking them to other opportunities for work in construction. A mid-term evaluation of the program by the ILO says nothing about what happens to the young people after they finish their short-term jobs. Was the work experience of any benefit to them? Was the money given to each participant (about \$70) used to invest in an asset in their rural community? Or was it used to fund a trip to Dili to look for work? Was any follow-up help available and was it of any value to them? The lack of focus on outcomes means AusAID has little to show in terms of what has been achieved.

The appropriate future organisational structure for the aid program, including:

AusAID's organisational structure for aid delivery

I can identify five sources of AusAID's ineffectiveness in aid delivery. These stem from being a public agency with multiple objectives; being part of the Australian Public Service, with its particular shortcomings; and from being an aid agency operating extended lines of control with high staff turnover. Deficiencies also are caused by AusAID's major reliance on for-profit deliverers of aid and the lack of accountability this generates. Finally there is the Samaritan's dilemma, the situation that all aid agencies face. This refers to the widespread problem of the lack of leverage donors have on recipient governments to take ownership of the intervention, to continue funding it and to maintain the intervention as a community asset.

Problem of multiple objectives

First, AusAID's deficiencies as a deliverer of development aid stem from its structure as a large public agency with multiple objectives and weak internal accountability for results. These inefficiencies are generated by most public agencies because the multiple objectives often conflict with each other. They make it difficult to hold employees of the agency responsible for delivering clearly defined outcomes. Without clear lines of responsibility for employees, performance incentives in public agencies are often weak.³

Inherited inefficiencies from the APS

Second, AusAID also acquires inefficiencies from how the Australian Public Service (APS) operates. A feature of the latter is its overly reactive nature, operating within entrenched short-term time horizons, with little or no appreciation of strategic goals or direction.

³ Martens, Bertin; Mummert, Uwe; Murrell, Peter and Seabright, Paul 2002, *The Institutional Economics of Foreign Aid*, Cambridge University Press, Cambridge, UK, p 12-13.

According to the 2010 Advisory Group on Reform of the Australian Public Service:

Australian public servants are so overwhelmed by day-to-day demands they do not have sufficient time to think about the most important policy problems facing the government. That is to say, the public service needs to spend more time working on strategy. ... almost half of all [APS] employees and three in every four senior executives said one of the most important ways they could become more effective would be to spend more time on strategic planning - for example, on improving the delivery of programs and services.⁴

An independent benchmark study of the public services of ten similar countries found the APS performs poorly in three areas, being among the bottom third of public services compared. These three areas are:

- ability to produce coordinated, informed and strategic policy advice;
- its capacity to integrate external expertise and the views of citizens; and
- its ability to work within an overarching framework to address government priorities.⁵

The silo effect within the APS is also alive and well, resulting in weak collaboration between agencies. A survey of APS employees found that only half (53 per cent) believe that other APS agencies are willing to collaborate to achieve whole-of-government outcomes. The Advisory Group's report noted that the 'barriers to collaboration mean that there is no consistent approach to strategic policy across departments, with little sharing of lessons learnt or best practice'.⁶ Also lacking in the APS is an emphasis on 'evidence-based policy, including more rigorous research and data analysis'.⁷

The lack of a strategic focus within AusAID and poor use of evidence-based analysis is shown by the fact that in early 2009, the agency did not have country strategies for 11 of the top 20 countries it channels aid to.⁸ This reflects not only its internal lack of capacity but also the wider lack of capacity for strategic policymaking in the APS as a whole.

The aid program and Australia's military presence in Timor-Leste have no links between them in terms of joint initiatives. This lack of cooperation was demonstrated the refusal of AusAID to agree to a request from the commander of the International Stabilisation Force in 2008 for support for his efforts to set up a youth challenge competition. The reason given was that the request was not consistent with AusAID priorities! The wider lack of cross linkages at institutional level is confirmed by the signing of a 'Strategic Partnership Agreement' between AusAID and the Australian Department of Defence in Canberra on 30 April 2009.

Inefficiencies generated by being an aid agency

Third, AusAID suffers from the inefficiencies that stem from being an aid agency. The problem for public agencies of having to respond to many stakeholders and multiple

⁴ Davis, Glyn, 2010, 'Beyond the horizon; a better public service requires well-trained leaders with the time to work on long-term strategy' *The Age, Businessday*, 6 April, p 4

⁵ KPMG, 2009, *Benchmarking Australian Government Administration Performance*. November, p 2.

⁶ Advisory Group on Reform of the Australian Public Service, 2010, *Blueprint for the Reform of Australian Government Administration*. 30 March, p 16.

⁷ See Note 6

⁸ Australian National Audit Office, 2009, *AusAID's Management of the Expanding Australian Aid Program*. ANAO Audit Report No.15 2009-10, 26 November, para 24, p 18.

objectives is even more pronounced when the agency has to operate in two separate countries. Aid agencies have to not only respond to their own government, peak councils and community-based stakeholders.⁹ They also have to work with foreign governments at a number of levels, local non-government organisations and, less often, the beneficiaries of aid programs. Clarifying who these key stakeholders are and working with them in a multi-actor, multi-level and multi-owner operating environment is a complex undertaking for all aid agencies.¹⁰

The primacy of domestic stakeholders

However, another specific feature of how aid agencies operate is the primacy they give in their work to the demands of domestic stakeholders over and above the recipients of the aid. This is due to the latter's position as taxpayers or as taxpayers' elected representatives.¹¹ Aid agencies are more interested in a narrow accountability for the expenditure of funds rather than for results produced. As the information about the impact of the program is limited for a number of reasons, domestic stakeholders rely on accountability for inputs and the amount of expenditure incurred as the only means of judging the effectiveness of an aid agency.¹² This lack of a fundamental incentive for aid agencies to focus on results itself is a major cause of aid ineffectiveness.

High staff turnover

Another cause of aid agency ineffectiveness is high staff turnover.¹³ The recent Australian Audit Office performance review of AusAID notes unfavourably that half of the staff in AusAID in 2008 changed their positions within the agency. AusAID's external stakeholders have identified high staff turnover as a major obstacle to developing constructive partnerships in the countries where they work.¹⁴ The Audit Performance report notes that high turnover in assignments give staff little time to acquire the knowledge, skills and experience to perform their work well in difficult settings. This produces significant breaks in the management of aid activities as new staff take some time to understand what has gone before and to work how best to respond in a complex setting. High turnover in assignments overseas can also make new staff members highly dependent on contractors because of their local knowledge

⁹ The AusAID 2009 annual report notes that ...*The agency is also open to the views of outside organisations and provides opportunities for the community to contribute to developing aspects of Australia's overseas development program through consultations with: the Committee for Development Cooperation; state and territory governments; industry associations, peak bodies and organisations; companies and business people; non-government organisations and public interest and community groups; academic institutions; individuals seeking consultation; calls for public submissions; statutory authorities; foreign and strategic policy institutions; and Commonwealth agencies with relevant technical competencies.*

¹⁰ Gibson, Clark; Andersson, Krister; Ostrom, Elinor & Shivakumar, Sujai, 2005, *The Samaritan's Dilemma The Political Economy of Development Aid*. Oxford University Press, New York, pp 226-229.

¹¹ Martens, Bertin; Mummert, Uwe; Murrell, Peter and Seabright, Paul 2002, *The Institutional Economics of Foreign Aid*, Cambridge University Press, Cambridge, UK, p 14-15

¹² Martens, Bertin; Mummert, Uwe; Murrell, Peter and Seabright, Paul 2002, *The Institutional Economics of Foreign Aid*, Cambridge University Press, Cambridge, UK, p 14-15.

¹³ Australian National Audit Office, 2009, *AusAID's Management of the Expanding Australian Aid Program*. ANAO Audit Report No.15 2009–10, 26 November, para 2.31, p 48. For a discussion of the impact of high staff turnover in the Swedish aid agency SIDA, see Gibson, Clark; Andersson, Krister; Ostrom, Elinor & Shivakumar, Sujai, 2005, *The Samaritan's Dilemma The Political Economy of Development Aid*. Oxford University Press, New York, pp 143-149.

¹⁴ Australian National Audit Office, 2009, *AusAID's Management of the Expanding Australian Aid Program*. ANAO Audit Report No.15 2009–10, 26 November, para 2.34, p 49-50.

and relationship with the recipient government.¹⁵ The Audit Office report also notes that high turnover in positions is a major cause of weak internal collaboration in the agency in Canberra.¹⁶

This high turnover of staff in positions within AusAID is not a recent phenomenon. It has been a feature of how AusAID has operated at least since the mid 1980s when a review in 1986 noted that it was a problem then. A 1997 review of AusAID also pointed to the problem: it ‘depletes corporate memory, diminishes country knowledge and expertise, and causes inefficiencies through the need to constantly retrain staff’.¹⁷ However, AusAID’s 2009 Annual Report does not mention staff turnover as an issue. A staff survey revealed that three in four AusAID staff are satisfied with the agency and their current job and that satisfaction ratings are ‘well above the average results for APS medium-sized agencies, most notably in regard to career progression, staff recognition, satisfaction with AusAID as an employer and perceived importance of work’.¹⁸ These results suggest that high turnover is regarded by many AusAID staff as beneficial to their careers and job satisfaction.

Inefficiencies from relying on for-profit aid delivery mechanisms

Fourth, AusAID, like other aid agencies, relies heavily on for-profit aid deliverers. This reliance by the aid agency and the recipient government on contractors creates a number of perverse incentives in the delivery of aid. The consultant as deliverer of the aid has strong incentives to ensure that both parties continue to remain dependent. This has a number of consequences, not least is that it makes it difficult to get recipient governments to take long-term responsibility for the intervention to ensure that it is sustainable. Consultants possess important information advantages over the donor. They will have greater knowledge of actual conditions on the ground than aid agency staff, especially in light of high staff turnover. This can create a symbiotic relationship between agency staff and consultants, to the detriment of recipient government and direct beneficiaries. Consultant has a perverse incentive in terms of current remuneration and prospects for future work not to pass control to the recipient government or immediate beneficiaries, preferring instead to foster a long-term dependence.¹⁹

Hamstrung by mode of delivering aid

Fifth, the Australian mode of designing how aid is delivered is overly centralised. This control from Canberra, especially in relation to program design, makes it hard to incorporate local knowledge. The absence of systematic arrangements for independent program evaluations means there is no critical feedback loop about what worked and what did not. Australia does not have the equivalent of the US international NGOs with a strong capacity for in-country evidence-based analysis. This is particularly important for designing complex interventions, which applies to achieving most development objectives. For-profit companies delivering aid

¹⁵ See Andersson, K; & Auer, M, ‘Incentives for contractors in aid-supported activities’ Chapter 8, pp 160-170 in Gibson, Clark; Andersson, Kristin; Ostrom, Elinor & Shivakumar, Sujai, 2005, *The Samaritan's Dilemma The Political Economy of Development Aid*. Oxford University Press, New York.

¹⁶ Australian National Audit Office, 2009, *AusAID's Management of the Expanding Australian Aid Program*. ANAO Audit Report No.15 2009–10, 26 November, para 2.34, p 49-50.

¹⁷ H Paul Simons (chair) The Australian Overseas Aid Program: One Clear Objective poverty reduction through sustainable development. Report of the Committee of Review, April 1997, p 311.

¹⁸ AusAID, 2009, Annual Report, Management of human resources, box ‘Insights all-staff survey’.

¹⁹ Murrell, P; 2002, ‘The interaction of donors, contractors and recipients in implementing aid for institutional reform’, in Martens, Bertin; Mummert, Uwe; Murrell, Peter and Seabright, Paul 2002, *The Institutional Economics of Foreign Aid*, Cambridge University Press, Cambridge, UK, pp 89-111. See also in the same book, Martens, B; 2002, ‘Some policy conclusions regarding the organisations involved in foreign aid’ pp 183-184.

so not have this research or analytical capacity. Nor do they operate as public institutions with the transparency and accountability that entails.

US NGOs such as the Asia Foundation, the National Democratic Institute for International Affairs (NDI) and the International Republican Institute (IRI) have played a valuable role in Timor-Leste by producing high-quality analysis of major and sensitive problems areas. The Asia Foundation has produced 24 reports since 2000, many of which are in both English and Tetun. The topics of these reports cover governance and civil society and law and justice. The International Crisis Group has produced seven in-depth reports on Timor-Leste, covering the causes of the 2006 crisis, the elections, security reform and the role of the police.

Australia's aid focused organisations have no equivalent to the Asia Foundation. The Australian government has no mechanism to provide arms-length, long-term core funding to independent NGOs to ensure that a strong base exists for evidence-based policy analysis in countries in which its aid program operates. The Asia Foundation is not dependent on any one source of income. It builds on its core funding from its annual appropriation from the US Congress by also attracts funding from the private sector, foundations, individuals, and governmental organisations in the USA, Europe, Canada, Australia, and Asia.²⁰ In Timor-Leste, USAID, for example, funds a number of its programs in justice capacity building and providing citizens with access to the courts. In similar fashion, the International Crisis Group has diversified sources of funds. These are from governments (some 50 per cent), institutional foundations (27 per cent), and individual and corporate donors (23 per cent). Most funds (over 70 per cent) come in the form of long-term core funding.²¹

The National Endowment for Democracy, a body funded by the US Congress, provides funding for the National Democratic Institute for International Affairs (NDI) and the International Republican Institute (IRI). The latter received \$500,000 in 2008 from the Endowment to undertake a complex and politically sensitive project to 'strengthen the institutional and organisational capacity of political parties; develop political leadership skills; and enhance political party's constituent outreach through a combination of consultations, training, and polling.

These organisations are well placed to tackle complex projects because they have the capacity to undertake sophisticated research about local conditions and to publish their results in the local language. For example, the IRI first undertook in-depth assessment of each political party in Timor-Leste before working out how best to strengthen the institutional and organisational capacity of political parties as well as the ability of parties and officials to address the needs of constituents.

AusAID's funding of external research capacity is small in size, highly controlled in terms of the themes it proposes and is dispersed through yearly allocations. Research capacity in Australia on aid effectiveness is weak. This is the conclusion that one must draw from AusAID's feedback on the applications for the Australian Development Research Awards in the 2009. The feedback showed that only 13 applications were received under the topic of 'performance-linked aid'. Moreover, only one application was judged by the internal AusAID review team to meet the selection criteria and be suitable for external peer review.²² Particular weaknesses identified by AusAID in the research proposals were no clear link between the proposed research and performance-linked aid, and a lack of detail and rigour regarding the research methodology.

²⁰ Asia Foundation, 2009, *An overview of The Asia Foundation's Timor-Leste program*. 1 November.

²¹ <http://www.crisisgroup.org/home/index.cfm?id=208&l=1>

²² <http://www.usaid.gov.au/research/2009awards-shortlist.cfm#performance>

What is needed is more substantial and long-term funding dispersed through an independent mechanism to build up research capacity in Australia and in aid-recipient neighbours. A proposal for doing this is outlined in more detail below.

Suggestions for reform

The large planned expansion of the Australian aid program is open to challenge from taxpayers if AusAID is not more transparent about how it operates, more honest about the problems its programs encounter and more innovative about the changes needed.

Proposals for reform of the system of delivering aid can start from the simple and relatively easily achievable but they soon head in the direction of being more difficult to envisage within current arrangements. Clearly, innovative thinking that originates outside the box is needed to break with widespread practices and entrenched interests. The following recommendations start with a proposal for more and better information that could be easily generated by existing structures. However, proposals for new forms of funding require a culture of experimentation that has not been evident in the past.

Changes possible in the here and now: provide better and more timely information

1. The first recommendation is that AusAID should increase its information flow to the Timor-Leste government and the direct beneficiaries of specific aid programmes. It should do this by reporting publicly how much is being spent on what by whom, where and within what time frame. AusAID should provide quarterly data to the Timorese Government and make this available on the Internet. This recommendation is based on the accepted transparency practice of ‘publish what you fund’.²³ It is essential to do this using categories comparable with other donors and the Government’s budget planning process.
2. Second, program evaluations are a key way to overcome the broken feedback loop. A growing group of domestic taxpayers want more information about the impact of Australian aid. Knowledgeable groups of citizens, such as Australia-Timor-Leste friendship groups, are growing in size, in their networking capacity and in their political clout through local government and the churches. Many in these groups have had first-hand experience of the conditions in Timor-Leste and want to know more about the impact of the large-scale investment their government has made through the aid program. Media reports are also highlighting the high costs of technical assistance but with little evidence of the benefits to the recipient government.

It is recommended that AusAID fund an independent evaluation of every program it funds. The evaluation should take two forms. A process evaluation is needed to provide timely feedback on ways to improve performance while the program is still in its early stages. An impact evaluation is needed to show that the program has achieved its objectives. A commitment to publish the results is needed. One way to do this is to establish a register, listing each planned evaluation and the expected date of release of report.

Independent evaluations are needed. This requires acknowledging the perverse incentives that the system generates. Program designers may specify unclear objectives so that it is impossible to judge whether a program has succeeded or not. Evaluators have a strong perverse incentive not to give a full and proper account of what has happened. This may be due to a concern about winning more work from the aid agency; or if an employee of government, to ensure that they have good future career prospects in the aid agency.

²³See ‘Publish What you Fund: a Global Campaign for Aid Transparency’. <http://www.publishwhatyoufund.org/>

3. Third, it is recommended that the the Australian Government allocate some of the planned increase in the aid budget to set a Fund to develop a long-term and in-depth research capacity on aid effectiveness and the political economy of aid. This Fund should operate under the auspices of the Australian Parliament as a non-partisan mechanism for the disbursement of significant funding. The disbursement should be on a five yearly or longer basis. Universities and established NGOs in Australia and in countries where Australia has an aid program should be given initial funding to develop proposals to set up their own research programs into aid effectiveness. The best proposals should then be selected by nominated MPs on the basis of clear criteria and a transparent process.
4. Fourth, AusAID needs to commission in-depth analysis of the national conditions in each country which are likely to help or hinder the delivery of its country aid programs. This study should be a prerequisite for every country strategy. A good model for such an analysis are the 20 or so ‘drivers of change’ studies which the UK Department for International Development (DFID) has undertaken world wide.²⁴ DFID has made extensive use of these studies to improve aid performance.²⁵ However, AusAID has only commissioned one study using this framework, for one of the smallest recipients of its aid program in the pacific, Vanuatu.²⁶
5. In relation to capacity building, it is recommended that an alternative approach be trialled. Capacity building exercises need to be on-the-job and have a clear operational focus by starting at the points of service delivery. This involves forming teams, offering support in setting agreed short-term targets and then giving them the responsibility for achieving their agreed targets within a set period. These short-term targets enable praise to be given where it is due and corrective action taken where the targets have not been met.²⁷

coordination of Australia's ODA with other donors and institutions.

AusAID has acknowledged that more needs to be done to improve the delivery of its aid program in Timor-Leste to achieve better outcomes. In its statement in September 2008 to a major international conference in Accra on the theme of ‘Smarter Aid, Better Results’, AusAID foreshadowed a new approach aimed at improving aid delivery:

Working with Timor-Leste on issues of fragility and conflict. Our two countries just undertook a significant study to identify better ways to deliver aid and achieve results. We will now work on resolving the issues identified, including a better sequenced approach to implementing the reforms so as not to overload the resources within such a small country. We will also work to better align the many international donors in delivering aid to reduce the administrative burden and ensure Timor-Leste's systems and

²⁴ The countries to 2005 are: Afghanistan, Angola, Bangladesh, Bolivia, Georgia, Ghana, India, Kenya, Kyrgyzstan, Malawi, Mozambique, Nigeria, Pakistan, Russia, Sierra Leone, Tanzania, Uganda, Ukraine, Yemen, & Zambia.

²⁵ DFID Practice Paper, 2005, ‘Using Drivers of Change to improve aid effectiveness’, November, www.gsdrc.org/docs/open/DOC83.pdf

²⁶ Cox, M., et al; 2007, 'The Unfinished State: Drivers of change in Vanuatu', a study commissioned by AusAID to provide a better understanding of the obstacles to poverty reduction.

²⁷ The concept of a 100-day Rapid Results focus has been adopted successfully by the World Bank in West Africa to deliver major change. See Yongmei Zhou, R Hammad, B Ammari, 2006, ‘Sierra Leone: The Role of the Rapid Results Approach in Decentralization and Strengthening Local Governance’, *Findings, Poverty Reduction, Economic Management & Social Policy*, Africa Region, No 261, April, <http://www.worldbank.org/afr/findings/english/find261.pdf>

*policies support each other.*²⁸

However, the AusAID Country Strategy for Timor-Leste (January 2010) still highlighted this as a major issue that still needed to be addressed.

The appropriateness of current arrangements for:

review and evaluation of the aid program, including an examination of the role of the Office of Development Effectiveness and options to strengthen the evaluation of the aid program

AusAID in Timor-Leste has had little capacity to collect feedback on the successes and failures of programs or to set policy based on an understanding of local conditions. Without a country strategy in place, decisions about the allocation of funding have been made by relying on the recommendations of short-term visiting experts or in response to requests from multilateral agencies seeking funds. The AusAID role in-country has been reduced to monitoring programs. This has often resulted in staff intervening in programs a capricious way to engage in micro managing in a risk adverse way. This lack of capacity in the AusAID office in Dili to set strategic priorities was acknowledged in early 2009 with the appointment of more officials and the upgrading of the senior post.

AusAID in Timor-Leste had little capacity for engaging in ‘reflective practice’. With a small number of officials in-country, AusAID is reliant on outside experts, with often little background in the country, to make short visits to design or review programs. Given that AusAID is managing in 2009-10, over A\$60 million in bilateral program funds, a well-resourced analytical capacity is needed to monitor programs and evaluate program effectiveness. Improved statistical capacity is also essential for assessing national progress in reducing poverty. If the general rule of thumb is observed that up to one percent of a program’s budget should be spent on monitoring evaluation, it would create an amount of \$600,000 per year.

Development programs, especially those operating in uncertain conditions, should be based not only on established principles. They also need to make good use of a thorough assessment of the distinctive features of local conditions.²⁹ While quick-impact, top-down programs are justified in an emergency situation, the post-emergency move to addressing longer-term development goals requires a bottom-up approach. This should be based on initial and follow-up citizen consultations to provide a regular feedback loop. A bottom-up approach also requires giving program managers the authority to adjust program design in the light of this feedback.

This need to take account of local conditions and to engage in regular evaluation exercises requires that AusAID or donors multilaterally develop an in-country research capacity. This refers to people with the research skills to collect information through the use of a variety of research instruments, ranging from national surveys to anthropological fieldwork techniques. AusAID itself has to develop a culture based on cultivating learning through ‘reflective practice’ - experimenting with different approaches, accepting feedback and changing goals in the light of new information. This research facility needs to work closely with AusAID and other donors, allowing international/Timorese researchers and line managers in donor agencies to change roles every few years.

Data on the agreed performance measures under the agreement could be released regularly so

²⁸ AusAID website: Accra - Smarter Aid, Better Results.

²⁹ Manor, J (ed) 2007, *Aid that Works: Successful Development in Fragile States*. The World Bank, Washington DC, Chapter 1: Synthesising Case Study Findings, p 33.

official praise can be given where it is due and corrective action taken where problems are manifest. An independent joint agency should monitor and publish performance data on a six-monthly basis. This agency should also have the mandate and resources to commission impact and outcome evaluations and publish the results in the official and working languages of Timor-Leste. The proposed national research institute and civil society organisations could also be funded on a contestable basis to monitor and evaluate the effectiveness of programs.

The sanctions for poor performance by either party in implementing the agreement should be by ‘naming and shaming’ through public debate in each country’s parliament and by civil society. The independent joint agency should also have the funds to operate an up-to-date website, brief the media and to conduct public workshops in both countries. Other sanctions with more teeth could also be proposed by either parties and agreed. These might include a reduction in aid funds on Australia’s part. On Timor-Leste’s part, they might include the imposition of a monetary penalty for failure to meet agreed deadlines.

The management of fraud and risk in the aid program

The prime focus of the aid program should be on the delivery of outcomes, not on merely avoiding fiduciary risk. The 2009 Annual Review of Development Effectiveness points out that AusAID field staff’s concerns about fiduciary risk override other important considerations such as the risk of failing to deliver development results and upholding Australia’s reputation as a reliable donor. ODE’s proposed response, however, is merely to ask senior AusAID managers to give clear messages to staff to work out strategies for managing these different types of risk. Missing from the ODE report is a deeper analysis of why these senior managers have not been doing this to date.

AusAID needs to place greater emphasis on managing for results. The 2009 Effectiveness Review notes that the agency demands accountability from recipient governments but itself has weak systems of monitoring results and in using evidence to change its own practices. Again this begs the question of whether answering to an internal watchdog lets AusAID off too lightly? Why not ask AusAID to develop a small number of simple performance indicators related to these issues for each beneficiary country? To give credibility to these measures, independent body such as a well-resourced parliamentary standing committee needs to be set up to monitor the agency’s performance.

Aid effectiveness has to be more than delivering on narrow program objectives. In many countries in the region, aid dependence has produced resource curse effects. This causes governments and citizens to both lack the political will and the capacity to reform basic services such as education and health. An effective aid program in a weak state has to address this problem and provide evidence that it is doing so.

The delivery of aid needs to be radically transformed from how it operates now. A major circuit breaker is needed to reverse entrenched practices. Incremental changes cannot overcome the force of mutually reinforcing perverse incentives. The whole system of aid delivery has to change. AusAID has to give first priority to working with country stakeholders to produce long-term development outcomes. This has to replace the narrow accountability to Australian taxpayers of minimising fiduciary risk. The concept of cash-on-delivery aid aims to reverse these perverse incentives. Asking an aid-dependent government to accept responsibility for delivering a development outcome and to accept the consequences if they do not is the sort of transformation needed.