

## Some thoughts on Australian aid

**Author :** Mark Baird

**Date :** December 4, 2010



*This article is part of the [Aid Open Forum](#), a series of blogs to encourage debate, and the emergence of new ideas for the aid program. In this article, Mark Baird considers the challenge of doubling the size of the Australian aid program.*

**Australian aid has come a long way over the past decade.** Not only has the [volume of aid](#) more than doubled (from \$1.65 billion in FY00 to \$3.82 billion in FY10) but the way aid is delivered has also changed significantly. All Australian aid is now in the form of untied grants, making it easier to support the priorities of recipient countries and improve aid effectiveness (as measured by development impact). In Indonesia (the country I know best), Australia's response to the Boxing Day Tsunami in 2004 not only supported the rebuilding of devastated areas in Aceh and Nias, but also reshaped the whole country program in unexpected ways. New options for supporting sectoral programs (e.g. for education, infrastructure) and working through government systems – which can leverage the impact of aid – are now on the table. Australia's reputation as a pragmatic and responsive partner is a major asset and must be preserved in any revamp of the aid program.

**Yet the challenge of ramping up aid to 0.5% of GDP by FY15, which means more than doubling again the volume of aid, cannot be overstated.** It substantially changes what recipient countries and other donors expect from Australia. It also substantially changes the role of AusAID. From an agency which used to mainly provide technical assistance (TA) and implement projects through managing contractors, it is now expected to play a much more direct role in policy discussions with recipient governments and managing large sectoral programs. The staffing implications of this change in focus, as well as the budget costs of running a much larger aid program, should be an integral part of the Independent Aid Review.

**AusAID will also have to look for ways to run the aid program more efficiently.** One option that is available is to spend more money through multilateral agencies, such as the UN, the World Bank and Regional Development Banks. According to the latest [DAC Peer Review](#), the share of Australian aid channelled through multilateral organisations is relatively low (7% in 2007). By increasing this share, Australia can potentially harness the capacity of these organisations to manage Australian aid funds. Such decisions should be based on a careful analysis of the strategic priorities of these agencies, their track record for using resources effectively, and the scope for Australia to influence their decisions and hold them accountable. Funds can be channelled through global programs (such as the [IDA 16 replenishment](#) or the Education for All initiative) or through trust-funded programs at the country level (such as the Afghanistan Reconstruction Trust Fund).

**Australia has traditionally focused its aid resources on East Asia and the Pacific, and there are good**

**reasons for continuing to do so.** This is where Australia has the strongest country connections and the strongest mutual interest in successful development (for all sorts of trade, security and migration reasons). However, there has also been some regional creep in recent years: initially into the Middle East (Iraq and Afghanistan) and more recently into Africa. There is no doubt that Africa fits well with Australia's commitment to reduce poverty and achieve the MDGs. But the marginal benefit of relatively small sums from Australia has to be balanced against the added costs of trying to manage small programs in a number of African countries, where Australia has limited capacity on the ground. The goal of assisting African development could probably be achieved more efficiently and effectively by supporting multilateral efforts – for example, to provide basic health and education services to the poor.

**But East Asia and the Pacific is also a very diverse region, including some of the world's poorest and most fragile states, as well as some that are quickly moving into middle-income status.** Most Pacific countries are already highly aid dependent, so it's hard to see how they could absorb substantially more aid effectively. And, while the rapidly-growing economies of South East Asia (Indonesia, the Philippines and Vietnam) can easily absorb more aid, the case for giving Australian tax dollars to these countries still has to be made. I believe it can. While poverty rates have come down (showing real progress) poverty numbers are still high (showing residual need). Indonesia alone has 66 million people living below the international poverty line of US\$1.25 per day. These countries are also facing new challenges of sustaining growth and improving the quality of public services. This means that the MDGs have to be adapted to local country conditions and augmented in areas of relevance to middle-income countries (e.g. administrative reform, the investment climate, environmental management and higher education).

**How money is spent at the country level should primarily reflect recipient country priorities.** Of course, Australia will want to have its own say on where it chooses to spend its money – and speak up when it doesn't think public money is being well used. But this should happen in the context of discussing the country's development goals and plans, rather than Australia's aid preferences. Too much of Australian aid is allocated through thematic programs (a product of the [White Paper](#) budget process) and not enough around country programs. This shift will require a much more rigorous process of country strategy preparation and review – both with the recipient government and within the Australian government. Where there are genuine global or regional priorities (eg for climate change or trade facilitation), these should be handled through multilateral channels whenever possible.

**Technical assistance has come in for a lot of criticism, following the [Review of the PNG-Australia Development Cooperation Treaty](#) earlier this year.** A separate review of advisors is now underway. This is a welcome development, as all too often the high costs of TA have not delivered commensurate results. Other, more effective ways to develop capacity (rather than just fill gaps) have to be found. But it is also true that some of the best aid involves high-cost and high-return TA. In Indonesia, for example, Australia is providing world-class expertise in support of infrastructure development and reforms within the Ministry of Finance. High-level advisers within AusAID Country Offices are also needed to lead policy dialogue and manage large aid programs. So the challenge is find ways to channel TA resources more effectively, rather than blindly cutting TA – and risk throwing the baby out with the bathwater.

**Scholarships are also a large part of the Australian aid program.** It is common these days to see Australian-trained graduates holding senior policy positions throughout the East Asia and Pacific region. This is (hopefully) good for policy making in these countries and for their understanding of Australia's values and interests. But there will soon come a time when the focus should shift more towards building up the capacity of these countries to provide their own quality higher education. This is already evident in the middle-income countries, such as Indonesia and Vietnam. Even in the Philippines, which has more of a tradition of higher education, funding constraints are biting at public universities. Is there a role for Australian aid in supporting higher education in these countries? And what should be the balance between improving access (especially for the poor) and improving quality (for all students)?

**Managing a much larger aid program will require a new business model within AusAID.** The old "project manager" approach has to be replaced with more substantive in-house knowledge about development issues (and government systems) in recipient countries. This is already happening to some

extent with the expansion of country offices, and the recruitment of local staff and expert staff who are not part of the regular Australian civil service. Australia is lucky in that it has many bright, young university graduates who are well grounded in the language and culture of the East Asia and Pacific region. But there are indications that interest in these university programs is waning and AusAID has not always made the best use of these valuable resources. In my view, there would be a strong case for expanding programs that improve Australian knowledge of other countries in the region (including some, such as Vietnam and the Philippines, which have not been as high on the radar screen in the past).

**Part of the new business model will have to be a new attitude towards risk taking.** Development is not something that can be done in a linear way, following some tried and true rules. It is inherently a matter of trial and error, which means that mistakes will be made and money will be wasted. The real test of aid effectiveness is how well AusAID learns from these mistakes and uses them to design and implement better programs in the future. Tough decisions will have to be made on the pros and cons of working through (and improving) imperfect government systems, and how to respond to corruption cases. The key is to confront these issues head on, while keeping a keen eye on results and responding quickly when things don't work out as expected. Staff incentives have to encourage this kind of behaviour. And the Office of Development Effectiveness (ODE) has to evaluate programs with this aim in mind.

**So the [Independent Aid Review](#) comes at a good time.** There is a real opportunity to reshape Australian aid to deliver better results. This means both increasing aid volumes and changing the way aid is delivered. More aid should go through multilateral channels – when they can meet Australia's goals efficiently and effectively. Country programs should be focused on the East Asia and Pacific region, and reflect recipient country priorities. The needs of large middle-income countries will be very different to small island economies, and this diversity needs to be reflected in country strategies. AusAID's business model and staffing should be adapted to support policy dialogue and manage large aid programs. Budgets should be organized around country strategies. And staff should be encouraged to focus on results: taking risks, learning and adapting. A more effective aid program – which builds on Australia's reputation as a pragmatic and responsive partner – will be good for the region and good for Australia.

*Mark Baird was formerly Vice President and Country Director for Indonesia at the World Bank. He currently lives in the Bay of Islands, New Zealand where he works as a volunteer ambulance officer. He also continues to work on development issues, including for AusAID on various country programs (Indonesia, the Philippines) and thematic issues (anti-corruption, service delivery).*