

**An Analysis of Aid Modalities and Identification of
Innovative Approaches Utilised by AusAID**

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August 2005

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Executive Summary

AusAID has made considerable effort to improve aid effectiveness through identifying and trialling innovative aid delivery and management mechanisms. Many of these innovations have led to improvements in partner government ownership of the activity and increased flexibility to respond to changes in priorities and circumstances. AusAID has continued to provide development assistance through project delivery mechanisms, although there has been an increase in the number and scale of support to partner programs and in a few examples, budget support. Many activities have built upon lessons learnt from all forms of aid and some activities have utilised a mixture of different approaches to form hybrids.

Internationally there has been a recent trend towards general budget support and programmatic approaches as the preferred aid modality however little work analysing and evaluating the relative success of this approach has been completed. AusAID's geographic focus on Asia and the Pacific amplifies the risks associated with general budget support, and current experiences in implementing sector support programs in Australia's largest recipient of development assistance, Papua New Guinea, highlight that partner governments do not always favour budget support as the preferred modality. What is key is the selection of the most appropriate aid modality for the specific circumstance rather than predetermining the modality to be used prior to a design being undertaken. This is an area of improvement that AusAID is currently focussing on. The utilisation of guidelines for forms of aid selection, the rapid reviews of quality at entry, peer reviews of designs and an increased awareness of possible options should continue to support this progress.

Based on a review of 22 activities this study found that AusAID's use of innovation has primarily revolved around implementation arrangements rather than specific aid modalities and these have included:

- The development and refinement of the Facility approach to Project support
- The implementation of partnership contracting
- Trialling of Delegated Cooperation with NZAID
- Reviewing the duration of activities
- Looking at alternative delivery organisations, and
- Implementing alternative financial arrangements including trust and imprest accounts.

However, the success of many of these innovations is not objectively know, with often only anecdotal evidence being used to support the decision for further adoption or roll out to other activities. For example, only one of the sample of activities demonstrated a formal framework for monitoring the success of the approach and provide detailed information and lessons to other sections of the agency.

Introduction

There are a variety of different methodologies for delivering overseas development assistance. These variations in forms of aid can impact on the role of donors and partner governments, the extent of ownership of partner governments, value of transaction costs, donor coordination and harmonisation and ultimately the effectiveness of aid and the achievement of sustainable benefits.

Selecting the most appropriate aid modality, delivery organisation and financing arrangement for each activity is an essential step in achieving the desired objectives. Particular attention needs to be paid to selecting the form of aid that best meets the partner countries characteristics, circumstances and preferences as well as the objectives of the Australian Aid Program. This decision should not be considered to be static, but should at a minimum be undertaken as part of the design process for all activities, and as circumstances and characteristics change, during the implementation of activities.

What are the different aid modalities?

There is no universally accepted definition or institutionalised terminology that underpins the concept of aid modalities. Although most development organisations accept that aid can be categorised into three different modalities:

1. Project aid – “individual development interventions designed to achieve specific objectives within specified resources¹”
2. Budget Support – a form of macro economic financial assistance in which aid is directly transferred into the partner government’s general budget. The resources may be used for a variety of reasons from supporting the balance of payments to supporting specific sectors with overall decision making in the use of the aid moves from the donor to the recipient.
3. Sector Support – where the donor(s) provide(s) support to the implementation of a partner government’s program (sectoral or issue based) through conditional budget support or projects. This approach often attempts to coordinate all interested donor’s efforts and pool resources.

The Australian Agency for International Development (AusAID) recent document “Forms of Aid – Guidelines for Selection²” defines the term ‘forms of aid’ as: “*the arrangements used to channel Australian aid resources to support approved activities*”. It is broken down into three elements³, namely:

1. Aid modality (AM) – a general descriptor of the relationship between the delivery of the Australian resources and partner government programs, systems and institutions;
2. Delivery organisation (DO) – who has primary responsibility and accountability for managing the delivery of Australian government aid resources; and
3. Financing arrangement (FA) – how the funds are made available.

The aid modalities are consistent with international definitions, but include a fourth category. They are:

¹ OECD, *Glossary of Key Terms on Evaluation and Results based Management*, 2002)

² AusAID Office of Review and Evaluation, *Forms of Aid – Guidelines for Selection*, June 2005

³ The analytical framework for examining these three elements is attached at Annex 6

1. Macro policy support – when aid is provided directly to support the implementation of a Partner Government’s macroeconomic or social policies, and primarily utilises partner systems and institutions.
2. Support to partner programs – when aid is provided to support a defined partner government program.
3. Project support – when aid is utilised for achieving a defined objective, in a defined period of time and often managed outside of Partner Government systems.
4. Non-standard & ad hoc assistance – any activities that do not fit any of the three previous categories.

It should be noted that these categories are not mutually exclusive, and an activity may fit into several of the categories at the same time. Examples of these ‘hybrids’ are common as can be seen in examples later in this paper and it is the development and method of implementation, in particular the selection of the delivery organisation, that is providing the greatest level of new approaches and innovation.

International trends⁴

Throughout the history of Overseas Development Assistance (ODA), both bilateral and multilateral organisations have continually strived to improve development outcomes and improve the efficiency and effectiveness of aid but with only limited success. Numerous studies and evaluations have highlighted the limited effectiveness of aid, and this has subsequently sparked changes in the way donors, design, distribute, manage, implement and evaluate their development assistance packages. Although these changes have been focussed on improving effectiveness, the majority of change has been in the refinement and modification of existing forms of aid (including AM, DO and FA), rather than the development of new modalities. Therefore the utilisation of aid modalities often appears to be cyclical moving from one to the other with only incremental adjustments to the delivery mechanisms and financing arrangements.

An example of this is Delegated Cooperation. This ‘new’ aid modality does not radically change the form of delivery (for example AusAID’s current implementation of delegated cooperation in the Cook Islands is implementing through Project Aid). Rather it attempts to improve coordination and harmonisation by donors, thereby reducing transaction costs for partners. The radical change or innovation is solely focused around how the donors relate to each other and subsequently how they collectively relate to the partner government rather than any fundamental change to the actual form of aid.

During the 1970s and 1980s, Australia (and the United States of America) were involved in the provision of budget support to Pacific nations⁵ with limited (if any) success at achieving sustainable outcomes. Subsequently Australia placed a greater emphasis on Project based delivery. More recently international concerns over coordination, transaction costs and fungibility led donors towards modalities that better supported coordination, harmonisation and partner government ownership.

⁴ This section draws on the report Kerri Elgar, Aid Modalities: An Overview of Current Trends, AusAID Post, Paris, May 2005

⁵ In particular, Australia was involved in Budget Support for Papua New Guinea and Tuvalu.

In the mid 1990s sector wide approaches (SWAP) became popular as a response to the fragmented and limited effectiveness of aid. Evaluations of SWAPs are highlighting that although benefits are being realised in partner government's capacity to plan and implement programs and improve donor coordination, SWAPs are also being criticised for taking the policy development responsibility away from government and into the hands of sector specialists (often consultants). Other criticisms have centred on the overestimation of the sector's capacity for the effective utilisation of the technical and financial resources provided by donors and that often complicated financial systems have been established, in parallel to the government. To address the concerns of limited effectiveness, donors have committed to improving development performance and governance through increasing coordination and harmonisation and improving national government planning systems. These principles were emphasised in the Paris Declaration on Aid Effectiveness.⁶

Development research literature has increasingly advocated the need to break the link between donor support and specific expenditure programs (be they project or support to partner program modalities). Following this literature's conclusions and the direct experience of donors, there has been a large scale shift in the way donors are delivering aid with a significant movement towards providing general budget support, and specifically support that is not un-earmarked towards any specific activity or sector⁷. Supporters of General Budget Support (GBS) highlight two main areas of change that a successful GBS activity should achieve. Firstly GBS should empower partner governments in relation to donors, whilst reducing transaction costs and improving the predictability of aid flows. Secondly, GBS should improve the capacity of national governments and strengthen the processes of democratic accountability.

This movement away from Project modalities is best highlighted by a Joint Statement issued by the member countries of the European Commission (EC) in November 2000, which clearly stated that whenever possible the EC (both the EC and member's bilateral programs) should reduce project delivery and move towards Budget Support and Sector approaches. This is an extremely significant statement as the EC accounts for more than 50% of all ODA and the shift has resulted in significant changes for partner governments with GBS support reaching more than 50% of contributions in countries such as Uganda. In 2001 the DAC embraced the decision of the EC, although notably Germany, France and Belgium were very cautious supporters of the approach. At the Practitioner's Forum on Budget Support in May 2005, Germany demonstrated their increasing confidence with the approach by announcing that a minimum of 25% of its financial aid in 2006 would be in budget support with the possibility that this would increase to 50%.

This recent trend towards general budget support⁸ has differed from previous forms of budget support, or program aid where support was provided to assist governments bridge specific short term financial gaps (such as food aid) or act as an incentive for policy reforms. Now GBS is provided to directly support the implementation of a country's Poverty Reduction Strategy Paper (PRSP) over the medium term.

⁶ High Level Forum, *Paris Declaration on Aid Effectiveness*, February and March 2004.

⁷ Kerri Elgar, *Aid Modalities: An Overview of Current Trends*, AusAID Post, Paris, May 2005

⁸ Development organisations implementing GBS include DFID, EU, Scandinavia, Finland, Netherlands, IMF and the World Bank.

Although internationally there has been a considerable movement towards the concept of GBS, there is also an increasing amount of criticism about the approach and in particular how it is implemented as well as concern about fiduciary risk and corruption. With increasing amounts of resources available there is a growing concern of how best to expend the resources in a developmentally sound manner and the supporters of GBS believe that GBS is the only current option.

Although a major focus of the Paris declaration is on improving donor coordination and harmonisation, all donors, (bilateral and multilateral) have their own agendas and approaches which in certain circumstances have limited their (donors') ability to implement activities that are not in accord with these requirements. There has also been evidence that although donors outwardly support the concepts of coordination and harmonisation, some donors are insisting on being involved in all decisions and in some instances are attempting to influence policies through the 'back door'. Subsequently there is a real concern that transaction costs are not being reduced and in fact partner government ownership and influence is not increasing.

Subsequently a more balanced approach where the aid modality chosen is matched to the specific circumstances is now being adopted by the Development Assistance Committee (DAC). This appears to be directly in line with current AusAID practises.

Evaluation of different aid modalities

Although there has been extensive work internationally looking at aid effectiveness and specifically identifying the circumstances and approaches that lead to successful development⁹, few direct comparisons between different aid modalities has occurred. Drivers for change have instead been based on theoretical analysis and specific and cluster evaluations of activities. In 2003 the DAC commenced their first joint evaluation of GBS, with a specific aim of measuring the effectiveness of the modality against projects and program support. This study is yet to be finalised (due in January 2006) however it should provide valuable information to donors on how best to identify and select the most appropriate aid modality.

One completed example of an evaluation of different aid modalities was conducted by two International Monetary Fund (IMF) research officers. They developed a theoretical model to appraise budget support versus project aid¹⁰. This appraisal compared the effectiveness of conditional budget support and project aid as a modality for delivering a poverty reduction strategy. The appraisal found that the relative effectiveness of these two forms of aid depends crucially on the size of the program (relative to the recipient government's own resources) and the degree of misalignment between donors' and recipient governments' objectives. In particular it concluded that project support is a better modality to alleviate poverty than budget support when two conditions existed:

1. aid programs are relatively large with respect to the partner country's budget; and/or
2. recipient governments are relatively less socially committed.

⁹ For example, World Bank, *Assessing Aid - What Works What Doesn't and Why?*, 1998 Oxford University Press

¹⁰ Tito Cordella and Giovanni Dell' Aricca, *Budget Support versus Project Aid: a Theoretical Appraisal*, November 2001

These findings have significant implications for the Australian development assistance program, where a geographic focus on the Pacific ensures that Australian aid can make up a significant part of the partner governments Gross National Product (GNP).

AusAID experience

This study examined 22 recent AusAID activities to identify innovations in the choice of form of aid. The elements of the form of aid for 17 of these activities is summarised at Annex 1 while activity details are at Annex 2.

AusAID has continued to implement a majority of its activities through Project modalities although there has been greater movement towards supporting partner programs. AusAID has continued to identify innovations that increase the efficiency and effectiveness of the project approach as well as approaches that support partner programs. This innovation primarily takes the form of changes to implementation approaches, duration of activities, financial management, attempts to increase flexibility and the identification of improved contractor performance management.

Although this trend does not follow the international trend of moving towards general budget support, AusAID's directions needs to be considered in the context of the environment and circumstances under which it focuses its resources. With a specific focus on East Asia and the Pacific, AusAID contributes more than 76% (2003) of its aid volume to least developed countries (LDC) and low-income countries (LIC).

Discussion on aid modalities

Budget support

Over the last two decades, AusAID has had limited involvement in budget support activities. Although only a small part of the entire program, there are a few notable exceptions.

Trust Funds: Since 1987, AusAID has been involved in the establishment and implementation of a true trust fund, the Tuvalu Trust Fund (TTF). This support has included an initial contribution of A\$8 million and ongoing contributions to the trust as well as fulfilling a seat on the Board of Directors (currently this position is filled by the Development Counsellor, Suva). Revenue generated from the trust fund is available for reinvestment or for transfer into the recurrent budget and the expenditure and management of the fund is accountable to the Tuvaluan parliament. The success of this trust fund and the potential for long term sustainable income for a small island state has led to the development of a similar fund for Niue. The Niue Trust Fund is currently being established with contributions from Australia and New Zealand.

The success of the TTF provides valuable lessons on how small states, with limited economic growth potential, can become less donor reliant in the medium term, and provide a mechanism for donor coordination, harmonisation and partner government capacity building. An upcoming evaluation of the TTF should provide further valuable lessons to AusAID and the international donor community.

AusAID also contributed to the Transitional Support Program for East Timor. This Program provided bridging finance in the form of external budgetary and balance of payments support, to allow East Timor to pursue their development objectives prior to oil and gas revenues increasing to a level that allows the Government to independently finance their own expenditure programs. The program was supported by the World Bank, IMF and a variety of bilateral donors with a key feature being utilisation of a single monitoring and reporting framework to service all donor requirements.

Although not specifically a partner government budget support activity, AusAID's approach to providing core membership funding to the Pacific Regional organisations is worth noting in this section. In August 2002 AusAID changed its approach from providing funds for the implementation of projects to provide funding into the organisations' internal financial management systems for use in funding the implementation of programs articulated in the organisations annual strategic plans. It is envisaged that this approach will increase flexibility, lower transaction costs and minimise reporting requirements. This approach, although an evaluation is still being finalised, demonstrates an innovation in adapting aid modalities to different circumstances with similar intended results.

Support to partner programs

One of the more significant developments in AusAID's approach to development assistance is the move towards directly supporting partner government programs. Each approach has been customised to suit the current circumstances, and in several examples, enough flexibility has been available to adjust implementation to changes in circumstances, partner government capacity and other factors.

The decision not to implement a consistent approach to supporting partner programs and rather to customise and stage the progression to Government systems has been a key feature of the design approaches.

The PNG Health Sector is an excellent example of assessing the capacity and desire of the partner government in a move towards sector support and implementing the change at a pace suitable to the National and Provincial governments as well as AusAID. The program has attempted to match financial disbursements through the existing GoPNG systems, with capacity building activities (through the provision of extensive technical assistance) and the development of processes to support and encourage other donors to coordinate their efforts. The approach has also allowed enough flexibility to address emergent issues. For example concerns about fungibility at the provincial level led all parties to agreeing on new regulations for accessing resources from the trust fund. As of 2004, provincial governments have to allocate a minimum of 6% of their expenditure on health services. Ultimately the PNG Government would like to move towards a full sectoral budget support modality however recognise that their existing capacity to manage and expend the resources needs further development.

In a similar vein, at the request of the GoPNG, AusAID has recently moved away from a suite of discrete projects in the Law and Justice sector to an approach that seeks to support the sector as a whole. Unlike the health or education sectors, the Law and Justice sector is not as discrete and is made up of a number of autonomous organisations. Thus AusAID support is also directed at supporting the coordination and monitoring of the sector as a whole. The program was designed to completely align with GoPNG systems however following just over two years of implementation, the GoPNG has requested

that parallel systems be utilised, particularly in regard to financial management and procurement, as their existing systems do not have the capacity to implement the activity.

AusAID has also joined other donors in implementing sector support programs including partnering with the Government of Cambodia, World Bank, Asian Development Bank (ADB) and the United Kingdom's Department for International Development (DFID) to support the development of the Cambodian Public Financial Management. This activity features a major involvement by the Government of Cambodia in the development of the activity and the scope of work is fully consistent with the partner government's Public Financial Management Reform Program. This has successfully coordinated some donor efforts and resources are provided through a multi donor trust fund.

The Pacific Policy and Management Reform Fund has also been operating in support of Pacific Governments' own reform programs. The Fund was established to promote good governance throughout the Pacific and operates completely inside existing government systems. The approach of the Fund is to allow incentives (financial resources) to encourage Governments to implement reforms as and how they require in support of other donor activities or as stand alone activities.

Project approaches

By far the largest number of activities implemented by AusAID fit into the Project category. However AusAID has demonstrated its cognisance to the major criticisms of project approaches, namely lack of harmonisation of procedures, limited flexibility, poor country ownership, unpredictability of funding, reliance on parallel systems, and high transaction costs, by designing and implementing several innovative features.

Partially in response to the Asian Economic crisis, AusAID developed the Facility approach. This approach was designed to provide both AusAID and the Partner Government with a mechanism for designing and implementing activities that responded to Partner Government priorities consistent with an overall Facility objective. The Facility approach has had mixed success with a major criticism being the lack of focus and difficulty relating the activities to an overall developmental objective. However a number of Facilities, including the Technical Assistance Management Facility III in Indonesia, are now proving to be highly successful and effecting significant impact.

The Facilities ability to provide funding to a variety of smaller projects with a common objective provides several advantages over a series of stand alone projects. The ability of a flexible mechanism that is still strongly connected to the Partner Government's Priorities as well as AusAID's Country Program Strategy through a simple mechanism for selection and implementation, greatly enhances the responsiveness of a project approach. Transaction costs are reduced with one common (although parallel) management system, M&E systems are integrated and there is the ability for the partner government to coordinate activities at a single forum.

Recent innovations in how AusAID manage the contractual arrangements between the delivery organisation (managing contractors), partner governments and themselves, have attempted to increase the efficiency, effectiveness and transparency of delivery. This new partnership approach provides the opportunity for all partners to have equal decision making ability over financial allocations of the activity. This innovation, although only two years old, is showing potential to considerably increase the level of partner

government ownership of the project as demonstrated on the China Australia Governance Program and the Philippines Australia Governance Facility Phase II however no detailed evaluation of the approach has yet been conducted. This approach is also being trialled in support to Partner Program approaches such as the Fiji Health Sector Improvement Program and the PNG Capacity Building Support Unit.

The Government of Australia has also developed approaches for developing long term institutional linkages between Australian government institutions and their counterparts in developing countries. The provision of resources (through the Public Sector Linkages Program (PSLP), Government Partnerships Fund (GPF) and the Pacific Governance Support Program (PGSP)) to Australian Government departments and agencies to identify, design and implement projects with their corresponding organisation in developing countries has been used to achieve development objectives as well as foster long term relationships.

Support is also being provided to projects that are not directly linked to partner Government systems. The PNG Churches Partnership Program utilises existing AusAID mechanisms (the Australian NGO Cooperation Program (ANCP)) to support the development of partnerships between PNG Churches groups and their Australian counterparts. The GoPNG is involved in their capacity of national planning and the recognition that the Churches provide a complementary service in the delivery of essential services such as health and education.

AusAID is also currently undertaking a Delegated Cooperation activity with NZAID in the Cook Islands. The approach requires AusAID to provide their entire development assistance budget to NZAID for integration into the NZAID Country strategy, which consists of a number of stand alone projects. The rationale behind the approach is to reduce transaction costs for the partner country by streamlining the monitoring and coordination mechanisms and the need to liaise with only one donor.

AusAID has also adopted other approaches to address specific requirements on a case by case basis. Whole of Government (WoG) approaches have supported innovation to the delivery organisation with Australian public servants and government departments being directly involved in the implementation of activities such as the Regional Assistance Mission in the Solomon Islands (RAMSI), the East Timor Police Project and the Enhanced Cooperation Program in PNG.

Modified approaches to design and delivery has enabled AusAID to address immediate priorities in new sub sectors, whilst enabling further information to be collected and local partnerships to be developed, such as has been the case in Indonesia for the Learning Assistance Program for Islamic Schools (LAPIS). These modified approaches have also enabled opportunities for harmonisation and longer term commitment to regions and sectors for example in the Australia Nusa Tenggara Assistance for Regional Autonomy (ANTARA).

Hybrid approaches

In their attempts to maximise aid effectiveness and respond to the individual circumstances surrounding a particular problem, AusAID has developed and implemented hybrid approaches, with elements of some or all of the different aid modalities.

The Solomon Islands Machinery of Government (MoG) activity draws its overall strategic direction from RAMSI and as such, is part of a holistic approach to development of the Solomon Islands, particularly in regard to governance. Through its involvement with RAMSI, MoG has been involved in budget support (both debt servicing and resources to support recurrent expenditure requirements) and project based activities.

The Vulnerable Groups Facility in the Philippines was designed to provide immediate financial support to existing Government social development programs that had been affected by the Asian economic crisis. This budget support was complemented by a mechanism for the funding of emergent projects that were consistent with the overall Facility objective.

Approach to selecting aid modalities

As previously mentioned, AusAID's "Forms of Aid – Guidelines for Selection" provides a framework for selecting the appropriate aid modality and supports the shift away from using projects as the default mode of delivery. The guideline looks at when to make choices and how to make these choices. It appears to be a useful tool and its adoption in the development and design of future AusAID activities should be valuable. Quality at Entry (QAE) reviews assess the quality of the design and processes used in determining the form of aid. Lessons identified through the QAE reviews are being fed back into future design processes.

AusAID has also trialled a variety of different design techniques, from short fly in fly out design missions, to elongated in-country designs. An internal review of these design processes¹¹ identified that the intuitive perspective - a longer more detailed design provides a better product - is not necessarily valid. Subsequently the specific strategy for the design of an activity needs to be identified and selected on a case by case basis.

Why and how the form of aid including aid modality have previously been selected by AusAID is not easy to categorise as the rationale behind the decision for the sample group of projects was quite diverse¹² as summarised below.

The primary reasons for the identification of the activity fitted into four main categories (although it is important to note that these activities are only a small sample of all AusAID activities):

- a previous activity(s) (usually a project) was coming to an end and there was still a need for further support (China Australia Governance Program, PNG Law and Justice Sector Program, Fiji Health Sector Improvement Program, PNH Health Sector Program, Technical Assistance Management Facility III in Indonesia).
- the partner government approached the Australian Government directly requesting assistance, (Tuvalu Trust Fund and the Regional Assistance Mission to the Solomon Islands (RAMSI)) or in the case of the PNG Church Partnership Program, NGOs approached AusAID rather than the GoPNG.

¹¹ Ian Anderson, AusAID, Longer in country designs: Do they work? October 2003.

¹² A number of the projects reviewed could not demonstrate how or why the aid modality was chosen as either the desk officers were not involved in the early stages and/or documentary evidence was not available. However adequate responses were received and this subset of activities are discussed here.

- Donors were involved in an activity and were looking for improved coordination and involvement of other donors (Transitional Support Program in East Timor and Cambodia Public Financial Management).
- Other influences such as the Asian Economic Crisis and the desire to create Government to Government linkages (Philippines Vulnerable Groups Facility, the AIPRD Government Partnerships Fund, Public Sector Linkages Program).

The rationale behind the selection of the aid modality ranged from:

- Supporting approaches already being implemented/developed by other donors (Transitional Support Program East Timor, Cambodia Public Financial Management)
- Responding to partner government requests for a particular modality (Tuvalu Trust Fund and PNG Health Sector Program)
- Selecting the approach as part of the design process.
- Responding to concerns on the effectiveness of existing arrangements (Pacific Regional Organisations and PNG Sub National Initiative).

Although AusGuide requires activity designs to identify options for aid modalities that would maximise efficiency and effectiveness, the study sample identified that there was no documented evidence of the use of a consistent framework, nor consistent documented attempts to identify options that would maximise the developmental effectiveness of the activity. When options have been presented they have usually been in the form of an assessment of the other key elements of a form of aid, being delivery organisations and/or financial arrangements with an already determined modality, rather than assessment of different modalities themselves.

Anecdotal evidence presented during the interviews with AusAID staff supports the hypothesis that aid modalities are occasionally being selected on individual and organisational preferences and experiences rather than any robust technical or economic basis. However, AusAID's utilisation of peer reviews and appraisals to critique designs and approaches have created a forum where the appropriateness of the overall form of aid including the aid modality and rationale for selection is explicitly debated.

Utilisation of the revised Guidelines for Selection, to help identify the most appropriate aid modality for each given activity and an articulation of the rationale for the selection (existing circumstances, risks, assumptions and objectives) should greatly support the achievement of development objectives and provide a framework for the assessment of the appropriateness and performance of the modality.

Monitoring effectiveness and appropriateness of forms of aid

Currently no conclusive information is available on when different aid modalities are most appropriate and effective. Coupled with the desire to improve effectiveness and look at innovation, placing adequate emphasis on analysing and selecting the most appropriate aid modality, delivery organisation and financial arrangements is crucial to maximising the potential results of the activity.

Choosing the appropriate form of aid is an attempt to maximise aid effectiveness. The rationale and logic behind making this choice may not always prove to be valid due to the changing context and environment; hence implementation may not achieve the results as

intended. Therefore monitoring the efficiency and appropriateness of the form of aid becomes important, particularly when the form of aid is new to a donor or recipient country.

For example, the Cook Islands Delegated Cooperation Program with the New Zealand Agency for International Development (NZAID) set out to increase harmonisation between the two largest donors to the Cook Islands. It was expected that this would reduce transaction costs and the burden of donor servicing for the Cook Islands Government. This rationale was clearly articulated during the development of the program. To ensure that the form of aid is achieving the results intended, AusAID and NZAID have established a framework to monitor the success of the approach (separate from the individual project monitoring systems). It is intended that the system will inform AusAID on the value and level of success of the approach (not specifically the development objectives of the projects) not only for the Cook Islands but for future programs that are considering a similar form of aid.

Of the 22 AusAID activities analysed, the Cook Islands was the only activity that demonstrated a formal framework for assessing the appropriateness and effectiveness of the form of aid. Although both the China Governance Program and the PNG Capacity Building Support Unit both drew lessons from the partnership contracting approach first implemented on the Fiji Health Program. Unfortunately, evaluating the success of different forms of aid takes time, and often the decision to roll out an approach is made before accurate and verifiable information is available. The development and utilisation of Monitoring and Evaluation (M&E) approaches that identify progress towards achievement during the earlier stages of implementation, could provide earlier information on the effectiveness of different forms of aid.

Some Specific Areas of Interest

AusAID's modification of the standard project modality to address some of the weaknesses in approach, have proved to be highly successful and well received by partner governments. Lessons learnt from these innovations, in particular the use of facilities and partnership contracting may be of interest to other donors in their selection of the most appropriate aid modality to address the identified problem in the existing circumstances.

The lessons about transaction costs are less clear. Nearly all activities that involved support to partner programs or the implementation of any major innovation expressed a concern that transaction costs were high, both for the Partner Government and AusAID. Many of these programs are only relatively new, and as such it is not yet possible to tell whether the transaction costs will reduce the longer implementation continues. Although the level of transaction costs remained high, there was an impression that the quality of the engagement was often greatly improved.

There would appear to be a case for improved monitoring of aid modalities. Often new approaches to aid delivery are formulated and trialled for implementation. The success and failure of these approaches needs to be monitored and evaluated prior to decisions being made on their relative success or failure. AusAID has recognised this need for one of its new and more innovative approaches – the delegated cooperation activity for the Cook Islands.

AusAID has recognised that the selection of aid modalities is not a static decision and rather a decision that is made based on the Country's characteristics, the identified problem and other circumstances that exist throughout the implementation stage of the cycle.

Conclusions and Recommendations

Although AusAID continues to work towards maximising development effectiveness through adopting more innovative approaches to aid implementation, a number of recommendations, if implemented, would further improve the decision making processes. These recommendations have been drawn out of the detailed review and analysis conducted in the preparation of this report.

Recommendation 1: AusAID investigate the development of an M&E framework that can assess the success of different aid modalities (and implementation innovations) in the early to middle stages of implementation. This framework could then be used to objectively assess the suitability for further adoption and provide designers with appropriate lessons and pitfalls from the approach. An example of the value in this tool is the Delegated Cooperation Program to the Cook Islands where a monitoring framework is currently being developed that will inform AusAID and NZAID on the success of the approach. Another example is the Partnership contracting approach first tested on the Fiji Health program and later adopted in China, the Philippines and PNG.

Recommendation 2: AusAID establish a system for evaluating major innovations to assess their relative success and identify lessons that would be available for future adoption by AusAID and the broader development community. The frameworks for assessment should ideally be developed prior to the commencement of the innovation.

Recommendation 3: Continue the move towards identifying the most appropriate aid modality to match the specific problem and circumstances that exist, rather than predetermining the aid modality(s) that AusAID will implement. Consideration needs to remain as a minimum on:

- AusAID's overall objective for the aid program;
- The overall nature of the problem and role of the key players (including partner government);
- what the size of the aid program is in relation to the national budget;
- the nature, capacity and desires of the partner government;
- the level and scope of other donor involvement; and
- how the problem can be best addressed in a sustainable manner.

Recommendation 4: Ensure that there is a level of consistency in the use and understanding of terminology as it applies to aid modalities. Of particular note is the term 'program' which is being used interchangeably to relate to a collection of discrete projects, as well as for program support.

ANNEX 1 – Summary of forms of aid by activity

Activity	Aid Modality	Delivery Organisation	Funding Arrangement	Other Features
Tuvalu Trust Fund	Macro-policy support (budget support)	Recipient organisation with support from contractors	Revenue of trust fund can go into Tuvalu budget or reinvested	Multilateral agreement between Tuvalu, NZ, UK and Australia
Niue Trust Fund	Macro-policy support (budget support)	Recipient organisation with support from contractors	Revenue of trust fund can go into Niue budget or reinvested	MOU between Niue and New Zealand
Pacific Regional Organisations	Macro-policy support (budget support)	Recipient organisation	Direct to organisation	
Fiji Health Sector Improvement Program	Support to Partner Programs (Sector support)	Managing Contractor (MC)	To contractor	Program Charter, partnership contracting
Philippines Australia Vulnerable Groups Facility	Support to Partner Programs/Project Support (Facility)	Recipient organisation and contractors	Direct to Government of Philippines (GoP) Central Government Revenue accounts, Use of GoP systems	
PNG Law and Justice Sector Program	Support to Partner Programs	TA provided through a MC	Imprest Account for activities	Builds on attempts to coordinate the entire sector.
PNG Health Sector Program	Support to Partner Programs	GoPNG, MC provides capacity building support to provinces	National Trust Account with sub accounts at provincial level	Has progressively moved towards support to partner programs from project support
Cambodia Public Financial Management	Support to Partner Programs	GoC with support from donor secretariat.	All donors place funds in jointly executed Trust Fund at the World Bank	Other donors are World Bank, ADB and Dfid.
Public Sector Linkages Program	Project Support	Australian Government Departments	Through Australian Government Department	Funds from country programs
AIPRD Government Partnerships Fund	Project Support	Australian Government Departments	Through Australian Government Department	Develops long term institutional linkages
Indonesia: Technical Assistance Management Facility (TAMFIII)	Project Support (Facility)	MC	Imprest account	Facility governance through a Facility Board
China Australia Governance Program	Project Support (Facility)	MC	Imprest Account	Charter Board, partnership contracting, flexibility for other donors to join

Activity	Aid Modality	Delivery Organisation	Funding Arrangement	Other Features
Cook Islands Delegated Cooperation	Project Support	NZAID, then contractors	Through NZAID	Complete coordination between NZAID and AusAID
Pacific Policy and Management Reform Fund	Project Support	Recipient organisation	Direct to Partner implementing agency, used inside existing systems and procedures	Supports reform activities
LAPIS	Project Support	Project Director contracted to AusAID, MC for logistics	Imprest account	addresses immediate priorities in new sub sector, whilst enabling further information to be collected and local partnerships to be developed
PNG Church Partnership Program	Project Support	Australian NGOs	NGOs	Uses existing systems ANCP
Australia Nusa Tenggara Assistance for Regional Autonomy (ANTARA)	Project Support	Project Director contracted to AusAID, MC for logistics	Imprest account	Opportunities for harmonisation and long term commitment to the provinces

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Cook Islands Delegated Cooperation

Aid Modality: Projects, however promotes donor harmonisation.

How was the activity conceived and how was the aid modality determined?

In 2001 AusAID and NZAID embarked on a joint research project looking at harmonisation in the Pacific. The findings of the research were subsequently presented in the “Harmonising donor policies and practises in the Pacific” report. This report recommended among other things, that AusAID and NZAID pilot a single co funded program for the Cook Islands. As NZAID had a strong and ongoing association with the Cook Islands (and also the largest donor program) it was agreed that NZ would lead a joint program as a trial for two years (this has recently been extended for a further year). The delegated cooperation program is governed by a tripartite arrangement between the Cook Islands, Australia and New Zealand, and a donor funding arrangement between Australia and New Zealand. Although the Cook Islands were initially concerned that the attempt at harmonisation may lead to AusAID withdrawing completely, all parties are committed to the trial.

The Cook Islands do not currently have a national development strategy therefore the parties have agreed to use the NZAID country strategy until the Cook Islands develop their own strategy in 2006. At that time a new joint country strategy between AusAID and NZAID will be developed in alignment with the Cook Islands strategic plan.

What is innovative/different about this approach?

Harmonisation is achieved by both donors using the same development strategy and pooling resources to fund projects under this strategy. Monitoring, reporting and donor liaison is also harmonised with six monthly tripartite stocktake talks providing all required reporting, including financial. AusAID provides it’s annual funding allocation directly to NZAID, who then manage and disburse to the relevant activities (after a management fee is deducted).

What is the principal reason/logic behind the innovation?

The principal logic behind the approach is to improve aid effectiveness by reducing the Cook Island Government’s transaction costs and increasing the economies of scale by pooling resources.

What have been the main successes and weaknesses of the approach?

This activity only recently commenced and so little data is available to identify the level of success. However, AusAID, NZAID and the Cook Islands Government are currently finalising the implementation of a framework to monitor the effectiveness of the approach.

Fiji Health Sector Improvement Program

Aid Modality: Support to Partner Programs

How was the activity conceived and how was the aid modality determined?

In response to the two existing AusAID funded projects in the Health sector coming to a conclusion, and the health sector still seen as a priority, AusAID participated in a joint AusAID-WHO-GoF planning mission in August 2002.

The mission recommended the development of a program of support to align with the GoF's Key Result Areas in the corporate plan, and enable the MoH to take a lead role in directing the Program. This Program based approach supported other movements in the AusAID program to Fiji with both the Education and Law and Justice sectors taking a similar path.

What is innovative/different about this approach?

Although this approach is proving to be a successful model for sector program support, the main area of innovation is the use of a program partner approach (a modified version of alliance contracting). Under this model, a program charter representing the interests of all three parties (AusAID, GoF and the contractor) governs the delivery of the program. The charter articulates and allocates risks, and is the basis for all operations.

The selection of this approach was based on AusAID's desire to trial the identified strategy and the subsequent selection of the most appropriate pipeline activity based on a number of characteristics including partner government's interest and capacity, timing and size.

What is the principal reason/logic behind the innovation?

This approach aims to increase the involvement, accountability and equal participation of all key stakeholders, thereby increasing effectiveness and ownership.

What have been the main successes and weaknesses of the approach?

Several unstructured analyses have been undertaken on the success of the approach and the Program has developed a detailed performance monitoring and evaluation framework. Key areas of success and lessons learnt include:

- Improved on ground implementation and sustainability via improved decision making (in the interests of development effectiveness), resilience to senior staff changes, a high level of ownership and motivation by MOH and transparent "open book" financial arrangements.
- Servicing the charter board can be a time consuming exercise with some data pointing towards the potential for significant increases in transaction costs.

China Australia Governance Program

Aid Modality: Project (Facility)

How was the activity conceived and how was the aid modality determined?

AusAID has been providing support to Governance in China for several years. Two of the key activities, China Capacity Building Program (CCBP) and the Economics and Foreign Trade Training Project (EFTT) ended in 2003. The China Country Strategy 2002-2005 maintained a focus on governance with one of the two objectives being:

“Contributing to poverty reduction, directly and indirectly, by supporting improvements to governance at both central and local levels of government and with civil society”

A new program of support to this objective was then explored for development, with the result being the China Australia Governance Program (CAGP).

The design of the CAGP was undertaken over 16 months. The final design document includes a detailed analysis of design options considered, although this attachment of the PDD was not available for reference.

What is innovative/different about this approach?

Although named a Program, the CAGP is actually a Facility as defined by this paper. The CAGP is responsive and flexible to changing and evolving demands. It streamlines program management through the use of an imprest account to manage resources with tranches based on the identified pipeline of activities. This imprest account and the contract with the AMC also allows for other donors to join the Program with specific resources, although this was not a major aim of the design. Overall governance is arranged through a Charter Board and there is an intention for engagement to go for a minimum of seven (7) years rather than the standard five.

What is the principal reason/logic behind the innovation?

This approach is primarily designed to monitor and identify governance opportunities; increase ownership by the partner government; and ensure that all stakeholders have an equal say in the strategic and operational levels of the Program. Secondary reasons for the approach include capacity building of the partner government in development aid management through their involvement in the entire process including design, contracting, implementation and review.

What have been the main successes and weaknesses of the approach?

Although some activities are proving to be successful, management of the partnership is quite resource intensive, particularly for the partner government. The involvement of the Government officers in all stages of the Project including design and AMC selection has improved ownership but has also built understanding of the management of a transparent selection process.

Pacific Policy and Management Reform Fund

Aid Modality: Project (although implemented by the partner governments)

How was the activity conceived and how was the aid modality determined?

The Pacific Policy and Management Reform Fund was established in 1995/96 to support the recognition that sustainable development is achieved against a background of appropriate economic policy settings, implemented through an effective and efficient public sector.

PMR resources are allocated on a competitive basis and have been designed to provide incentives to promote and support reform. PMR resources in 2004/05 have been provided to a limit of \$6 million to fund thirteen approved activities. Proposals can be approved that support policy and management reform for individual countries, groups of countries or on a regional basis. All activities must meet at least one of the following aims:

- Increase the efficiency and effectiveness of government;
- Assist in the development of appropriate policy frameworks for foreign trade and investment; and
- The promotion of effective nation building and economic development.

What is innovative/different about this approach?

This approach provides direct support (in the way of financial resources) to the implementation agency(s) to be used inside existing systems and procedures. This reliance on the identification of projects by the partner governments promotes ownership and supports the opportunity for donor coordination of activities (as conceptually the partner government will only identify activities that are not already being supported)

What have been the main successes and weaknesses of the approach?

Having these resources available to support policy reform, widely across the region, has encouraged competition for reform. Although a number of activities have been completed and others are currently being implemented, there has been some difficulty in receiving quality proposals and designs for activities. However, activities that have been implemented have successfully utilised existing Government systems.

Philippines Australia Vulnerable Groups Facility

Aid Modality: Hybrid with elements of Support to Partner Programs and Project (Facility)

How was the activity conceived and how was the aid modality determined?

In response to the Asian Crisis of the late 1990s and the subsequent budget crisis facing the Government of the Philippines (GoP), the Philippines-Australia Vulnerable Groups Facility (PAVGF) was designed in 1999. The Facility aimed to support GoP efforts to provide basic social services to vulnerable groups by funding existing projects using GoP systems, policies, processes and procedures to account for and acquit Australian funds. The PAVGF commenced in January 2000 and was completed in December 2003. A comprehensive review of the Facility was undertaken in March 2003.

What is innovative/different about this approach?

The PAVGF focussed initial activities in supporting existing GoP activities, primarily through the provision of financial resources. This support included utilising GoP systems, policies and procedures with finances being channelled directly into the Central Government Revenue accounts.

The Facility also provided a mechanism through which other projects could be identified and funded as long as they reflected the priorities of the two governments and the overall objective of the Facility.

What is the principal reason/logic behind the innovation?

The approach was developed to provide a transparent mechanism to support the GoP in the delivery of its social welfare problems during a period of significant budget deficit. It had been envisaged that the approach would be quick to put in place, but in reality the start up time was similar to a traditional project. The approach was designed to provide sustainable benefits to the beneficiaries but not to provide a sustainable or long term funding resource to the GoP.

What have been the main successes and weaknesses of the approach?

The PAVGF proved to be a successful mechanism for implementing the identified projects, with low management costs (relative to the size of the activity) and a high level of objective achievement, for each sub project. Utilising GoP systems also proved to be a success with both GoA and GoP satisfied with the level of transparency and accountability.

However the approach highlighted the need for careful monitoring of delivery and clarity in the mechanisms for identifying and approving activities. PAVGF only ended up funding a limited number of projects with some criticism that this was not as intended. However the blend of sectoral budget support and Project delivery proved to be a successful model in this instance.

Learning Assistance Program for Islamic Schools (LAPIS)

Aid Modality: Project

How was the activity conceived and how was the aid modality determined?

AusAID recognised the extensive need for the further development of the education sector in Indonesia, particularly in the Islamic schools. These schools educate a large portion of the country's poorer citizens and in particular a disproportionate number of girls. Therefore, a highly flexible activity was designed that addressed the needs as variously described by the different stakeholders and provided an integrated and coherent Australian approach to this complex and new sub-sector for AusAID.

What is innovative/different about this approach?

The approach is proving to be innovative in that it has a broad objective however no prescribed outputs or activities, nor prescribed processes for identifying and selecting the areas of support. It is anticipated that this will enable the project to be responsive and flexible. The Project is being led by a Project Director, directly contracted and accountable to AusAID, with a separate MC contracted to provide required logistical and technical support.

The flexible approach will also allow AusAID to coordinate and harmonise with other donor activity, for example integrating with ADB and UNICEF work in the sub sector.

What is the principal reason/logic behind the innovation?

The AusAID approach was developed to respond to immediate pressing development needs in the Islamic education sub-sector, balanced with the need to develop local partnerships and increased knowledge about the sub sector.

What have been the main successes and weaknesses of the approach?

LAPIS is still in the very early stages of implementation and therefore little can be gleaned of either the successes or failures of the approach. Transaction costs have proved to be high for AusAID although it is not easily apparent how the approach is affecting the Indonesia counterparts. The long lead-in time has allowed for a thorough analysis of the sub-sector, including detailed institutional and financial analysis.

Pacific Regional Organisations

Aid Modality: Budget Support (in the form of core funding)

How was the activity conceived and how was the aid modality determined?

AusAID has been involved in funding eight (8) Pacific Regional Organisations (PROs) for a number of years. Prior to 2003 this support was provided directly to identified projects with the Desk providing a level of financial management. In August 2002 the idea of providing multi year program funding to the organisations was raised and subsequently adopted for 2003-5.

What is innovative/different about this approach?

The approach relies on the PROs to develop strategic plans and based on these plans, AusAID provides an allocation of funding for use in the implementation of the programs articulated within the plans. A three year Memorandum of Understanding (MoU) governs the approach with the multi lateral assessment framework identified as the mechanism for monitoring performance of the organisations. Finances are managed using the existing PRO financial management systems.

What is the principal reason/logic behind the innovation?

The approach is intended to increase the organisations' flexibility in utilising the funds; encourage PROs to be more strategic and outcomes focussed; lower overall transaction costs for both the PROs and AusAID; minimise reporting; and enable the PROs to better coordinate their activities with all donors.

What have been the main successes and weaknesses of the approach?

Limited analysis has been conducted on the relative success of the approach (an AusAID review is currently in progress), however some improved harmonisation with NZAID has occurred. Success has varied among PROs. AusAID underestimated appropriate lead in time for program funding implementation and the level of capacity building required within some PROs. A number of the organisations have stated that the approach enables them to better respond to emerging priorities in the region.

Tuvalu Trust Fund

Aid Modality: Budget Support

How was the activity conceived and how was the aid modality determined?

The Tuvalu Trust Fund was established in 1987 through a multilateral agreement between Tuvalu, New Zealand, the UK and Australia. The fund was initially capitalised with \$27.1 million in contributions (UK \$8.5, New Zealand \$ 8.3, Australia \$8, Tuvalu \$1.6, Japan \$0.7 and Korea \$0.03). It was set up to contribute to the financial stability of Tuvalu by providing an additional source of revenue for recurrent expenses and to set the country on a path towards greater financial autonomy.¹³

The Tuvalu Government conceived the approach and then submitted a proposal to donors of which five countries supported the approach.

*“A government which must regularly go cap in hand to donors cannot hope to achieve financial self-reliance or plan effectively for the long term future of it’s people”.*¹⁴

What is innovative/different about this approach?

The Tuvalu Trust Fund provides perpetual support to Tuvalu in the form of revenue into the national budget. Although this revenue is dependant on the investment income generated out of the Trust Fund, and the GOT’s decision on disbursement levels, the principal funds cannot be touched or diminished, thereby providing a long term sustainable income source to the country.

What is the principal reason/logic behind the innovation?

Tuvalu as a small island state will continue to find it very difficult to achieve economic growth. Subsequently identifying a perpetual income source to fund the countries budget is one of the only sustainable ways of ensuring long term security to national income. The trust fund has the ability to provide this.

What have been the main successes and weaknesses of the approach?

The main strength is the increased availability of income to Tuvalu. An additional strength, from AusAID’s perspective, is that AusAID’s position on the board of the trust fund has given it access to high level policy dialogue, particularly in regard to budget discussions and formulation. However although the trust fund appears to be reducing the dependence on outside resources (particularly from donors), some critics argue that dependence is simply moving from donors to the trust fund. In other words, the trust fund’s success may be discouraging Tuvalu’s attempts to develop economic growth outside of the trust fund. Perhaps the most important weakness is the unpredictable level of income available from the trust fund since the trust fund generates income based on investments.

¹³ Asian Development Bank, Trust Funds in the Pacific - Their Role and Future, 1995

¹⁴ Tuvalu Trust Fund Proposal

Niue Trust Fund

Aid Modality: Budget Support

How was the activity conceived and how was the aid modality determined?

In 2001 AusAID and NZAID embarked on a joint research project looking at harmonisation in the Pacific. The findings of the research were subsequently presented in the “Harmonising donor policies and practices in the Pacific” report. This report recommended that AusAID and NZAID pilot a co funded program for Niue and the Cook Islands. However, further analysis led AusAID, NZAID and the Niue to agree to the development and implementation of a development trust fund in Niue.

What is innovative/different about this approach?

The approach is modelled entirely on the Tuvalu Trust Fund with minor variations to the overall governance arrangements. The GOA is not signing the Trust Fund Treaty however, under the treaty, the GoA will receive the right to place a representative director to the Trust Fund Board. Australia’s contributions to and participation in the Trust Fund will be in accordance with an MoU currently being negotiated with the GoN.

While the Trust Fund is getting established and the capital increasing, bilateral programs will continue.

What is the principal reason/logic behind the innovation?

The approach will provide Niue with a continual and sustainable revenue stream that over time may grow to be a significant portion of the overall national budget.

What have been the main successes and weaknesses of the approach?

This activity is only just commencing.

Public Sector Linkages Program (PSLP)

Aid Modality: Project

How was the activity conceived and how was the aid modality determined?

The Indonesia Government Sector Linkages Program (GSLP) was developed in 1995/96 to support the Australia Indonesia Ministerial Forum (AIMF) process, particularly by supporting development of bilateral institutional linkages and stimulating joint activities between AIMF meetings. Based on the success of this program, the PSLP was developed to further promote institutional linkages between Australian public sector organisations and their Asian counterparts.

PSLP aims to improve public sector capacity for governance and management for nationally determined development outcomes in selected partner Asian countries. PSLP offers departments and agencies of Australian federal, state and territory governments, as well as Australian public universities, the opportunity to compete for grant funding that will:

- transfer capacity-building skills and expertise to their public sector counterpart institutions in partner countries
- support strengthening of sustainable development-focused public sector bilateral and regional linkages.

What is innovative/different about this approach?

The approach relies on eligible Australian organisations to create linkages and develop proposals for funding. The Program itself has no allocated funds for grants – these funds come from the relevant participating country program. Activity implementation is carried out completely by the successful applicant organisation with a Record of Understanding (RoU) articulating all reporting requirements.

What is the principal reason/logic behind the innovation?

Developing strategic alliances and linkages with counterpart organisations in Asia provides Australia excellent opportunities for improved understanding, knowledge sharing and learning.

What have been the main successes and weaknesses of the approach?

A monitoring and evaluation framework for this activity has recently been drafted and although a number of activities have been approved and implemented it is too soon to commence work on a consolidated assessment of effectiveness.

PNG Church Partnership Program

Aid Modality: Project

How was the activity conceived and how was the aid modality determined?

On approach from several Australian NGOs including ADRA and CARITAS, AusAID investigated the possibility of developing a program of support to strengthening the institutional capacity of PNG churches in their development efforts, and thereby contributing to governance at all levels.

Following discussions, AusAID finalised a program that utilised existing systems such as the AusAID NGO Cooperation Program (ANCP) to support accredited Australian NGOs to act as mediators and facilitators between seven PNG churches and their Australian church counterparts.

What is innovative/different about this approach?

The approach relies heavily on the concepts of partnership and collaboration. A framework document defines the overall concept of the activity and roles of all stakeholders, whilst a charter governs the interaction between the Charter Group Partners and with other stakeholders. NGOs and the Charter Group manage the program, meeting regularly in Australia, but also in PNG at a six monthly three day round table forum, to assess program achievements and direction, plan and coordinate activities and generally share knowledge and experiences.

What is the principal reason/logic behind the innovation?

Churches play an important role in PNG society, and their role as it applies to development and improved governance has been increasingly recognised by donors. Churches have an extensive network into rural and remote areas where government services have either deteriorated or have never existed. Supporting the churches, whilst maintaining a level of neutrality without any specific influence, has been achieved by linking PNG organisations with like minded organisations in Australia.

What have been the main successes and weaknesses of the approach?

Although still relatively early in implementation, the Church Partnership Program is starting to demonstrate how a number of separate organisations can work collaboratively, and effectively plan and implement together. It has highlighted comparative advantages of individual churches which could be tapped, opening up possibilities of resource sharing. A start has been made on strengthening existing links with Government. Six monthly meetings of the Program Coordination Group and the round table/forum provide an opportunity for Government officials to provide strategic oversight and policy input and to participate in program discussion and planing.

Australia Nusa Tenggara Assistance for Regional Autonomy (ANTARA)

Aid Modality: Project

How was the activity conceived and how was the aid modality determined?

Australia's Indonesia Country Program Strategy 2003+ responded to the implementation of regional autonomy in Indonesia by adopting a shift in the way it delivers its development cooperation program to a particular geographic area of Eastern Indonesia, beginning with Nusa Tenggara Timur (NTT) and subsequently be rolled out to Nusa Tenggara Barat (NTB).

The goal of the Australia- Nusa Tenggara Assistance for Regional Autonomy (ANTARA) program is to reduce poverty initially in NTT and subsequently to NTB, through sustainable and equitable social and economic development. The program objectives are to:

- Improve provincial and district governance
- Improve peri urban and rural income, and
- Improve access to and quality of delivery of basic services.

In pursuit of the above objectives, ANTARA will have a three-fold mandate:

- Improve coordination and cohesion among relevant current and future Australian development cooperation activities and help build greater synergy between these programs and the programs of other key donors so as to maximise their impact on poverty reduction
- Develop targeted new activities (for example, in areas such as local planning and budgeting and small business development), and
- Strategically invest in local and international initiatives with a proven capacity or strong potential for impact or scaling up.

What is innovative/different about this approach?

To achieve the above outcomes ANTARA will utilise a range of current and innovative delivery mechanisms and partnerships. Delivery mechanisms could include but are not limited to: technical advice, specialised training programs, more targeted formal training in Australia, and professional exchanges, either within Indonesia or with Australia. New, innovative partnerships will be established with both domestic and international organisations with a proven track record in effective program delivery.

The management of ANTARA is also designed to provide AusAID maximum flexibility through the separate appointment of a Program Director and a Management Support Team directly to AusAID.

What is the principal reason/logic behind the innovation?

The key driver for this innovation was the need to adopt a more multi-sectoral, more comprehensive approach to sustainable, socio-economic development within a specific geographic location. Therefore it needed to respond quickly and flexibly to changing and/or emerging local circumstances and priorities.

What have been the main successes and weaknesses of the approach?

This program is only very early in implementation with the Project Director only recently appointed therefore little assessment can be made on the strengths and weaknesses to date. However, the program over coming months will develop a comprehensive monitoring and evaluation framework which will guide program implementation and support regular and continuous review and improvements.

AIPRD Government Partnerships Fund

Aid Modality: Project

How was the activity conceived and how was the aid modality determined?

As part of the AIPRD funding package, the GPF was designed to further support the concepts implemented through the Public Sector Linkages Program (PSLP), with an aim of strengthening partnerships between Australia and Indonesia.

What is innovative/different about this approach?

The approach is developed from the PSLP model with some subtle difference including a limit on the organisations that can apply and a specific funding resource available. An existing Project (TAMF III, see below) has also been tasked to support the GPF.

What is the principal reason/logic behind the innovation?

The continued need to develop long term institutional linkages between Australian Government organisations and their Indonesian counterparts.

What have been the main successes and weaknesses of the approach?

The project is only in the early stages of mobilisation although is already demonstrating strong support from both GoA and GoI organisations.

Technical Assistance Management Facility (TAMF III)

Aid Modality: Project (Facility)

How was the activity conceived and how was the aid modality determined?

As a response to the Asian crisis of the late 1990s, a flexible support mechanism that could provide rapid assistance was required. A Facility model was developed with several core areas of support identified and a mechanism provided for identifying and approving the activities.

What is innovative/different about this approach?

A flexible approach has been provided that allows for a quick response to requests that fit into a larger development objective.

What have been the main successes and weaknesses of the approach?

The project has enabled a number of activities to be undertaken that have had significant developmental benefit. These activities have been designed and implemented recognising the work of other development actors. Overall Facility governance has been maintained by a functional Facility Board with representative of the GoI and GoA.

PNG Law and Justice Sector Program

Aid Modality: Support to Partner Programs

How was the activity conceived and how was the aid modality determined?

Assistance has been provided to the sector since 1988 with an initial phase of support to the police, followed by agency based institutional strengthening projects with a strong training focus. While Project support was successful in building the capacity of the main law and justice agencies from a very low base, fundamental weaknesses of governance in PNG undermined these investments. Emerging evidence from aid effectiveness work suggested that weak governance could not be addressed effectively through projects which work outside core government systems or that focus on technical solutions at the expense of tackling weaknesses of governance, public expenditure, planning, budgeting and affordability. As a consequence, aid program assistance shifted to working with the law and justice sector as a whole, rather than assisting individual Agencies through separate projects. Assistance shifted to providing support primarily to PNG sector policies and priorities, using existing PNG agencies and mechanisms. The fact that GoPNG had already commenced processes for sectoral coordination, policy and objective setting through the formation of a sector working group and the development of a sector policy was also a factor in the move to a sector program.

Subsequently the PNG Law and Justice Sector Program (LJSP) was developed, to assist improved sector coordination, support the formal law and justice agencies to meet the sector objectives, improve formal sector links with provincial and community-based law and justice organisations as well as directly assisting critical law and justice activities. A separate Justice Advisory Group (JAG) was also formed to: provide policy support to the sector; support the sector to monitor its performance; and to move to management based on performance information.

What is innovative/different about this approach?

By working in support of PNG's own sector policy and sector strategies the program reinforces planning, budgeting and resourcing decisions to be made clearly against PNG's own very sound objectives/priorities, rather than externally imposed ones. Having both PNG and Donor money working towards the same objectives has led to a significant increase in ownership and engagement of PNG. Assistance is also being provided to ensure civil society can effectively engage in the sector, in support of the Policy which seeks increased integration and coordination between the formal and informal sectors. The Community Justice Liaison Unit has been established to coordinate and facilitate the implementation of this aspect of the Policy. This reflects the need to identify and support community initiatives on crime prevention and restorative justice.

What is the principal reason/logic behind the innovation?

This agenda is very closely aligned with Australia's own objectives in PNG and by supporting PNG's own policy and strategy implementation we stand to achieve both positive outcomes for PNG in law and justice service delivery as well as build a more effective partnership with PNG by working explicitly towards their own objectives.

What have been the main successes and weaknesses of the approach?

While GoPNGs' sector-based framework is innovative and well conceived, it is also an ambitious undertaking, which will require significant financial, political and sectoral commitment as well as require a change in attitudes, policies and practices. Program implementation has been underway for around two years and has faced a number of challenges during this time. Weakness in financial management capacity and processes continue to provide challenges and need for targeted support. Capacity within some parts of the sector to meet accountability and process requirements for use of program funds also remains, requiring additional support in some of these areas of greater capacity deficiencies. The move to working through PNG systems has also required greater conceptual challenges for the managing contractor and some PNG counterparts than initially expected. Higher investments in both the managing contractor and PNG than expected have also lead to less bilateral engagement than expected in the early phases of the program.

Cambodia Public Financial Management

Aid Modality: Support to Partner Programs

How was the activity conceived and how was the aid modality determined?

A joint donor study, including strong representation from the Government of Cambodia (GoC) looked at the macro economic and budgetary issues being faced in Cambodia and the current and planned donor activity in the finance sector. One of the key recommendations from the study was the need to ensure harmonisation. The GoC, through the Ministry of Economics and Finance, strongly supported this recommendation and requested all donors to identify ways of adhering to the recommendation.

Although AusAID was not active in the sector, it recognised the need for support and offered to other donors rapidly mobilised TA (through the Cambodia Australia Technical Assistance Facility) to support their activities.

Concurrently the World Bank, ADB and DFid began working together in support of the review recommendations and in support of the DAC's classification of Cambodia as a pilot country for donor harmonisation, and commenced the design and subsequently implementation of a Program Based Approach. AusAID joined the development and implementation of the activity and have committed A\$1 million per annum.

What is innovative/different about this approach?

The approach requires all donors to place funds in a jointly executed trust fund at the World Bank. The program uses the GoC planning framework but selects specific activities to support and is coordinated through a donor secretariat that liaises with MEF and the Public Financial Management Technical Working Group. Another area of innovation is the desire to coordinate management based on a risk matrix.

What is the principal reason/logic behind the innovation?

The MEF are a relatively strong Ministry with the executives in particular having a high level of competence. The coordination and harmonisation of the development actors in the sector should increase effectiveness and reduce transaction costs.

What have been the main successes and weaknesses of the approach?

Implementation has only just commenced on the activity.

PNG Health Sector Program

Aid Modality: Support to Partner Programs

How the activity was conceived and how was the FoA determined?

During the early 1990s, Australia phased out budget support to PNG, and the aid program changed to providing project-based assistance. In the health sector, this led to over a dozen AusAID project activities being implemented by the late 1990s, each attempting to respond to a particular weakness of the PNG health system. At the same time, most other bilateral and multilateral donors were also implementing health projects. While in theory the Department of Planning was responsible for oversight and coordination of all donor activities, in practice the Government exercised little direction or control in the sector.

While appreciating the contribution of these project-based activities, the National Department of Health (NDOH), AusAID and some other donors recognised the potential benefits of changing the way development assistance was managed: having donor project activities in the health sector better coordinated with Government priorities and with each other; reducing the burden on Government of multiple donor activities; and working more within the PNG system to strengthen core health sector governance and service delivery systems.

This recognition by GoPNG and donors of the need for changes in aid delivery occurred in the context of emerging international discussion of Sector Wide Approaches (SWAPs) as an approach that attempted to address many of the issues being grappled with in PNG. Believing that there may be lessons to be learnt from some of the African experiences, AusAID (with support from some other donors) arranged for a group of PNG officials to visit Africa to study the experiences of the new SWAPs. This led to GoPNG deciding to develop its own version of a SWAP, which it named the Health Sector Improvement Program (HSIP).

What is innovative/different about this approach?

The approach was innovative in that it was the first SWAP that AusAID and the GoPNG became involved in. It has a high degree of donor coordination through biannual summits organised and chaired by the NDOH and attended by senior members of central agencies of the Government of PNG and all sector donors. Donors have used these summits to influence health policies, eg increasing recognition of HIV/AIDS. Between summits there are monthly business meetings to discuss day to day activities.

It takes a longer term perspective by operating under the Medium Term Expenditure Framework. This was developed through a highly consultative process and sets priorities for the sector which are accepted by all major development partners. These key priorities have been further developed in the current sector strategic plan.

It also allows donors to pool funding. The HSIP Trust Account provides a mechanism for donors to provide operational funds that can be used by national and provincial health departments while meeting donor requirements for transparency and accountability. Funding is provided in line with approved annual plans, and an HSIP Trust Account Secretariat located in the NDOH approves and scrutinises all expenditures.

A managing contractor also provides capacity building support to provinces and was contracted using a partnership approach.

What is the principal reason/logic behind the innovation?

The approach was designed in recognition of the wide range of weaknesses in the sector, and the recognition among donors and the GoPNG that their various interventions needed better coordination and greater GoPNG leadership if they were to have a lasting and significant impact.

What have been the main successes and weaknesses of the approach?

Movement towards the SWAP has been slow and at times uncertain, but the process has resulted in a greater depth of understanding by all parties, and often quite frank discussions between donors and Government about weaknesses in the sector. Donors have supported PNG's sector prioritisation processes, and have found ways to work with the Government to strengthen its sectoral reforms – for example using their financial influence to support elements of the NDOH policies designed to improve the provinces' service delivery.

Over this time, AusAID has progressively reduced the number of its health program activities (so that by 2005 there were 7 projects, including two that directly support PNG agencies) and increased its emphasis on strengthening PNG's own health system, for example by using national and provincial annual plans as the basis for project planning.

ANNEX 3 – Methodology of the study

The Terms of Reference called for a study into AusAID's use of new aid modalities and in particular:

- A brief summary of the international debate on aid modalities and aid effectiveness, including the broad intentions and major statements of the international donor community on different aid modalities;
- A review of AusAID's approach to selecting aid modalities for the major countries of our region;
- Discussion of innovative activities or programs, and general innovations in the way that AusAID approaches aid design and implementation, that might be of interest in the context of international debate, and that would be suitable to highlight in the White Paper, and
- Provide conclusive recommendations on Australia's approach to aid modalities in the medium term.

An initial desk review of documentation on the international trends for aid modalities and AusAID's current guidelines on Forms of Aid provided a platform for the development of the appropriate terms and definitions for the study. From subsequent discussions with AusAID officers from the Quality Improvement Section and White Paper secretariat, a list of twenty two (22) activities were identified, that potentially embodied new or innovative aid modalities, either in an international and/or AusAID context.

Data was then collected on each of the 22 activities. Three sources were used for this data collection:

- The Activity Management System (AMS) and in particular the FMA Reg 9's for each activity;
- Semi structured interviews with at least one key AusAID desk officer for each activity, and
- Review of key documents identified and provided by the Desk officer.

The semi structured interviews allowed for a fairly open framework which provided for focused, conversational, two-way communication. A list of general topics and prompts (see below) guided the interview process, with the interview format enabling detailed exploration of important issues on a case by case basis. Following the interviews, notes were analysed and written up into a standardised format.

During both the literature review and interview process a number of issues emerged that may have impacted on the quality of the data collected. Most noteworthy was that in the majority of interviews there was limited corporate memory of how the activity was initially identified and what determined the aid modality. Primarily this appeared to be due to the fact that the officer interviewed was not involved in the early stages of the activity cycle and there was limited (if any) documentation regarding these decisions.

Other findings of note that do not directly relate to the Terms of Reference are:

- Only on two occasions was the country program strategy mentioned as being a contributing factor to the development of the initiatives.
- On several occasions the fact that an existing project (or projects) in the same sector were ending was often mentioned as the basis for continued support in the sector.
- Many discussions indicated that there was a need for innovation and the adoption of innovative approaches. However anecdotal evidence suggested that the implementation or adoption of these innovative approaches was often not based on the potential to improve effectiveness, but rather to satisfy the requirements for innovation.

Topics and Prompts used for Semi Structured Interviews

1. How was the activity conceived?
2. How was the aid modality determined (including a definition of the aid modality from the desk perspective)?
3. What is innovative/different about this approach?
Issues to consider:
 - Duration
 - Form of Aid
 - Preparation process
 - Financing arrangement
 - Implementation arrangements
 - Coordination arrangements
 - Monitoring arrangements
 - Evaluation arrangements
 - Contracting
 - Partner government involvements
4. What is the principal reason/logic behind the innovation?
5. What have been the main successes of the approach?
6. What have been the main failures of the approach?
7. What is the perception of level of transaction costs associated with this activity (for AusAID, for the Partner Government, other stakeholders and as a whole)? High, medium or low?
8. Does the approach support increased harmonisation or coordination?
9. What value is achieved by the increased harmonisation/coordination?

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ANNEX 5 – List of people met

Sue Connell – Director Quality Improvement Section
Lynette Matthews – Quality Improvement Section
Graham Rady – Program Quality Adviser

Peter Versegi – ADG White Paper Secretariat
Andrew Edge – White Paper Secretariat

Anna Regnault – Fiji, Vanuatu & Nauru Section
Heather Dornoch – Fiji, Vanuatu & Nauru Section

Jan Gammage – PNG Branch, Canberra
Cathy Boyle – PNG Branch, Canberra
Kate Nethercott – PNG Branch, Canberra
Peter Lindermeyer – PNG Branch, Canberra

Suzanne Murray – Indonesia Program Section
Andrea Smith – Indonesia Programs Section
Angela Mercuri – Indonesia Programs Section

Iris Yam – North Asia Section

Rebecca Lannin – Regional Governance Section

Fiona Websdane – Polynesia & Regional Section
Jacqueline Clark – Polynesia & Regional Section

Michelle Vizzard – East Timor & Philippines Section

Sarah Goulding – Solomon Islands Section

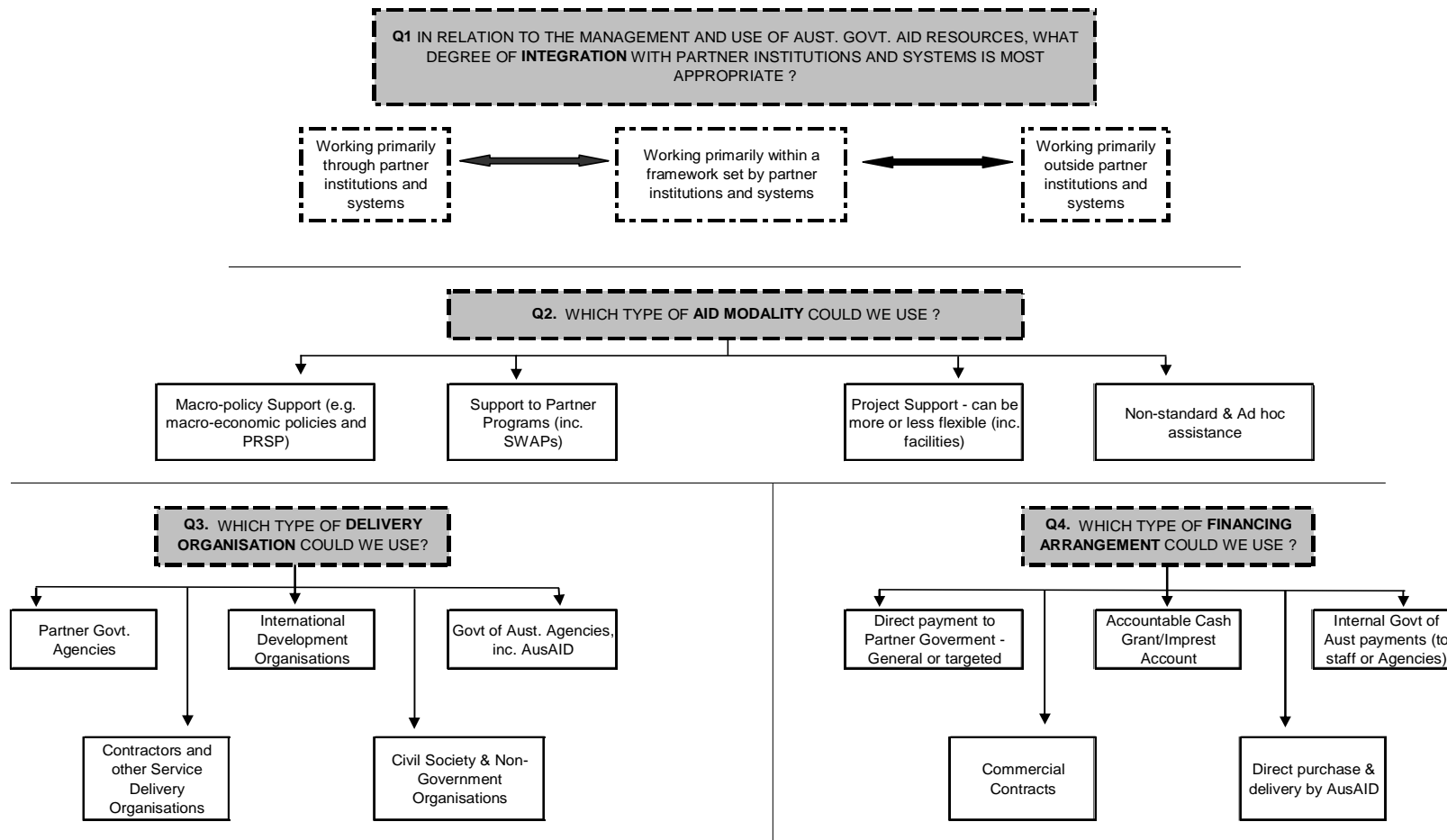
Tony Blythe – Asia Economic Section

Andrew Pope – Fragile States & Africa Section

Jennifer Lean – Cambodia & Burma Section

Mark Waltham – Adviser Group

Annex 6: Analytical framework for Identifying Appropriate Forms of Aid



Source: AusAID Forms of Aid – Guidelines for Selection