



Australian Government

Department of Foreign Affairs and Trade

Banking our aid: Australia's non-core funding to the Asian Development Bank and the World Bank

Office of Development Effectiveness

September 2015

Foreword

The growth of non-core funding in multilateral financing has helped create a more complex global aid architecture, characterised by a proliferation of organisations, and within established multilaterals, proliferation of trust funds. The introduction of the sustainable development goals will continue the impetus for a more issue driven approach to development assistance through new vertical funds and pooling mechanisms addressing specific goals. New institutions led by countries from the South further complicate this picture.

These trends have important implications for the current and future effectiveness of the multilateral system. On the positive side of the ledger, non-core funding has enabled multilateral organisations to address challenges not covered by their core resources or mandates, which were largely established in the post-war period. For example, it has provided substantial resources for addressing global, cross-border challenges. It has enabled collective responses to the needs of countries recovering from conflict or natural disasters, and increased aid to fragile states. For the development banks, it has provided a much needed source of funding for technical assistance, to support project preparation, and to provide analytical and advisory services, and the testing of innovative approaches. It has provided aid recipients with greater choice.

However, non-core funding also brings with it a number of risks: that it will fragment the multilateral system; that it will create a management headache for multilaterals and recipients; that it will, over time, reduce rather than enhance the effectiveness of aid, and the legitimacy of multilateral actors.

What this report makes abundantly clear is that the extent to which these risks are realised depends a great deal on how bilateral donors behave as partners. As with all partnerships, there are differences in operating models, incentives and organisational cultures that need to be overcome on both sides. As such, this report's focus on the motivations behind Australia's non-core contributions to two leading multilateral institutions, and their management and engagement with them addresses a somewhat neglected area.

The development banks are far from perfect institutions—I should know from a long career in one of them. However, what the report also makes clear is that there is much more bilateral partners can do to ensure effective engagement with development banks, thereby increasing the banks' development impact.

A handwritten signature in black ink, appearing to read 'Jim Adams', with a stylized, cursive script.

Jim Adams
Chair, Independent Evaluation Committee

Acknowledgments

This evaluation was conducted by a team of Office of Development Effectiveness (ODE) staff and consultants. It was led by David Slattery (ODE). Louisa Dow (ODE) was the evaluation manager and team member. John Evers and Helen Moriarty (Clear Horizon) were team members. Dereck Rooker-Smith, head of ODE, provided input and advice.

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The Office of Development Effectiveness (ODE) is an independent branch within the Australian Government Department of Foreign Affairs and Trade (DFAT). ODE monitors the Australian aid program's performance, evaluates its impact, and contributes to international evidence and debate about aid and development effectiveness. ODE's work is overseen by the Independent Evaluation Committee (IEC), an advisory body that provides independent expert advice on ODE's evaluation strategy, work plan, analysis and reports.

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Contents

Foreword	ii
Acknowledgments	iii
Executive summary.....	1
Management response	9
1 Background.....	11
1.1 Australian funding to the Asian Development Bank and World Bank	11
1.2 Core versus non-core contributions	12
1.3 Relative size of core and non-core contributions	13
1.4 Australia's preference for bilateral aid over core funding.....	15
1.5 Governance arrangements.....	16
1.6 Profile of non-core contributions.....	17
1.7 Motivations for non-core contributions	18
1.8 Non-core contributions' significance for the banks	20
2 The evaluation	21
2.1 Objective and evaluation questions	21
2.2 Scope	21
2.3 Methodology	21
2.4 Structure of the report	24
3 Objectives	25
3.1 Scale up without creating costly overheads.....	25
3.2 Increase policy influence.....	26
3.3 Overcome limitations in banks' budgets	27
3.4 Scale up within available administrative budgets	28
3.5 Balance budget predictability with flexibility	29
3.6 Conclusion	31
4 Effectiveness	33
4.1 Global and regional funds	35
4.2 Multi-donor responses to address disasters or conflicts	36
4.3 Umbrella funds.....	37
4.4 Recipient executed projects	42
4.5 Effectiveness of the MDBs compared to other partners.....	44
4.6 Conclusion	45

5	Design.....	47
5.1	Appraising potential projects.....	47
5.2	Ensuring partnership agreements are robust.....	53
5.3	Conclusion.....	56
6	Engagement.....	57
6.1	Matching administrative resources to projects.....	57
6.2	Supporting staff.....	61
6.3	Conclusion.....	65
7	Performance management.....	66
7.1	Quality of DFAT oversight.....	66
7.2	Quality of information provided by the banks.....	69
7.3	Consideration of execution arrangements.....	73
7.4	Conclusion.....	74
Appendix 1	Staff survey method and results.....	75
Appendix 2	Case analysis.....	90
Appendix 3	Analysis of performance ratings.....	97
Appendix 4	Impact of execution arrangements on performance ratings.....	99
Appendix 5	Profiles of the Asian Development Bank and World Bank.....	103
	Abbreviations.....	106
	References.....	107

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Executive summary

Introduction

Over the last 10 years, around 15 per cent of the Australian aid budget was spent through two multilateral development banks (MDBs): the Asian Development Bank (ADB) and the World Bank. Close to two-thirds of this was given as non-core funding (funding earmarked for a specific purpose or region). Through these contributions the aid program has supported work in a wide range of settings, from building bridges and roads in the Greater Mekong Subregion, reconstruction in Afghanistan, health sector development in Cambodia, and education reform in the Philippines.

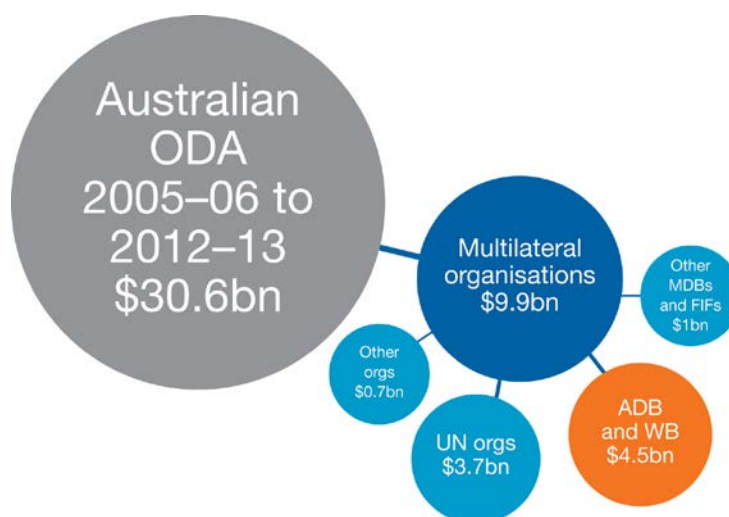
Australia's emphasis on non-core funding is stronger than most other donors, and has grown over time. In 2013–14, Australia provided almost 10 times as much non-core funding as in 2005–06. These contributions have grown in number as well as value; Australia's non-core contributions to the ADB and World Bank between 2005–06 and 2012–13 supported 325 projects worth \$4.1 billion.

Despite aid budget cuts, non-core contributions to MDBs are likely to

Non-core contributions to MDBs are likely to remain a prominent feature of Australia's aid program.

remain a prominent feature of Australia's aid program. The evaluation by the Office of Development Effectiveness (ODE) looked at what the Australian Government Department of Foreign Affairs and Trade (DFAT) can do to improve the way it manages its partnerships with the ADB and World Bank, to get the most out of these investments in the future.

The ADB and World Bank received almost half of the ODA that Australia provided to multilateral organisations between 2005–06 and 2012–13.



ADB = Asian Development Bank; bn = billion; FIF = financial intermediary fund; MDB = multilateral development bank; ODA = official development assistance; orgs = organisations; UN = United Nations; WB = World Bank

Source: DFAT

Terminology

Core contributions are multilateral organisations' membership dues. These basic operating funds are merged into a common pool and used at the discretion of the receiving organisation. **Non-core contributions** are discretionary additional funds provided on the condition that they are used for specific purposes, often tied to a specific geographical or sectoral area.

In **recipient executed** projects, funds are passed on to a third party (usually the recipient government) and the MDB plays an operational role, normally appraising and supervising activities. The MDB itself has spending authority over **bank executed** projects, which support the bank's own work programs.

The evaluation

ODE's evaluation assessed whether DFAT's non-core contributions to the MDBs are an effective and efficient vehicle for achieving Australia's aid objectives. The evaluation was guided by five questions:

- › Are the objectives behind Australia's non-core contributions to the MDBs resulting in aid that is coherent and effective?
- › Which kinds of non-core contributions have been more effective, or less, in which contexts?
- › Are DFAT's non-core contributions to the MDBs well designed?
- › Do institutional arrangements support the effective management of non-core contributions to the MDBs?
- › Does DFAT have an effective approach to accounting for and reporting on the performance of its non-core contributions, and using information from monitoring and evaluation (M&E) to manage performance?

The evaluation focused on the partnership between DFAT and the MDBs, the interactions between them, and aspects of project performance that are under the aid program's control or influence, rather than assessing the adequacy of the MDBs' own systems.

The evaluation focused on the partnership between DFAT and the MDBs.

The evaluation team, comprised of ODE staff and consultants, used several methods to collect and analyse data, including document and data analysis for a representative sample of 30 cases; interviews with bank and aid program staff; a literature review; analysis of aid program expenditure and performance data; and qualitative analysis of policy documents, annual aid program performance reports, agreements, and project performance ratings and reports. A survey of aid program staff was completed by 140 DFAT officers with aid management responsibilities (a response rate of approximately 41 per cent of the target group).

The framing of the evaluation reflects the fact that the ADB and World Bank have much in common. However, it should be recognised that of the two organisations, the World Bank was a much larger partner, in terms of both the volume of non-core funding, and number of projects funded (see Chapter 1). Effort was made in sampling methods to ensure the experience of working with both the ADB and World Bank is captured by the report. However, it was unavoidable that there would be greater discussion of non-core contributions to the World Bank than to the ADB, given the relative size of the two partnerships, and the effect this had on the availability of data.

The evaluation did not examine contributions to financial intermediary funds (FIFs), or core contributions.

Overall conclusion

The ADB and World Bank are leading development institutions. They have outstanding knowledge and technical capacity and are important sources of policy advice for developing countries. They can back up their technical strengths with financing on a scale Australia cannot hope to match. The size of Australia's contributions to them in core and non-core funding reflects their status as two of the most effective multilateral organisations supported by Australia.

Overall, ODE found that non-core funding to the ADB and World Bank is an effective and efficient way of delivering Australian aid. This conclusion is supported by the MDBs' performance ratings, aid program ratings, examination of selected cases, and independent evaluations. According to staff surveyed by the evaluation, about 80 per cent of projects that Australia funded were '*an effective vehicle for pursuing the aid program's objectives*'.

Of course, the projects funded by DFAT were not universally effective. Chief among the many factors that constrained effectiveness involved the capacity, ownership and leadership of recipient governments, followed by the performance of the banks in preparing, supporting or implementing projects. In combination, variations in these factors explain most of the difference in performance.

Non-core funding has also been effective from a narrower perspective of whether it satisfied the particular bilateral objectives that motivated entry into partnerships. Through non-core funding Australia has supported the banks to provide aid in places or to address issues that are central to Australia's policy interests, work they could not have done without Australian funding. Non-core funding has provided access to the banks' specialist expertise, and policy discussions with recipient governments. It has provided a secure vehicle for meeting aid commitments to countries or regions with a limited DFAT presence, and therefore not able to deliver aid through resource-intensive channels such as private contractors.

However, partnering with the banks has not been uniformly satisfactory in achieving bilateral objectives. At times, differences in the organisational cultures of DFAT and the banks and their respective incentive structures have resulted in a misalignment of interests or expectations that could not be resolved. DFAT has in some cases failed to allocate the resources required to engage to the extent necessary to effectively pursue Australia's interests. At times, the banks have failed to provide an adequate explanation of the results of partnerships, and value for money, especially with certain types of projects.

One final area of concern is about the big-picture risks of non-core funding more generally as an increasingly important feature of aid finance: that it will fragment the multilateral system; that it will reduce the effectiveness of important partners; and that it will result in aid driven by donor priorities, disconnected from the needs of recipients. To mitigate these risks, ODE considers that DFAT should adopt a more disciplined approach to its funding decisions, recognising that some of the attractions of non-core funding have little to do with its merits on grounds of aid effectiveness.

This evaluation indicates that there are a number of challenges DFAT needs to overcome to get the best results from non-core funding. These relate to the need to overcome organisational differences with the banks, improve staff engagement with projects, match funding strategies with these needs, and ensure there is a good understanding and management of the accountability risks of different types of partnerships. We make four recommendations to DFAT to address these challenges.

Key findings

Objectives for non-core funding

The motivations that drove non-core funding to the MDBs are important because they affect results, and also how these results should be considered. While motivations were diverse, they essentially fell into four categories.

The first and strongest motivation was to leverage the MDBs' specialist skills and relationships with partner governments to increase Australia's role in shaping recipient government policies. In this area, partnerships were viewed as highly successful: 79 per cent of respondents to ODE's staff survey said they were satisfied with the technical skills and qualifications of bank staff and their ability to engage constructively with partner governments. This was the highest level of satisfaction of any measure.

The second major motivation was to improve the banks' effectiveness by helping them to overcome institutional constraints, largely in their budgets for administrative costs and technical assistance, and in the rules that govern their budget allocations. On this, outcomes were most striking in the Pacific and Timor-Leste, where Australia's contributions have supported the banks to adapt their staffing and procedures to these remote and capacity-constrained environments. Bank staff consulted by ODE unanimously emphasised the value of Australian grants for extending the scope or improving the quality of their programs.

The third major motivation was to provide aid that was harmonised with other donors, and thus reduce administrative costs and complexity for recipients.

The final motivation reflects the attractiveness of non-core funding as a way to meet budget commitments within administrative resource constraints. ODE's staff survey suggests that around half of all projects were motivated by the attractiveness of non-core funding as a vehicle for *'achieving*

results with minimal involvement from aid program staff, while about one in five projects were motivated by the ability to *'provide aid in a geographical area where Australia has a limited presence'*. A further motivation was that bank funds provided scope to disburse surplus funds quickly in a responsible way, and thus manage growing aid budgets.

The prominence of this last motivation, and also that of harmonisation (to which it was often closely allied), raises a number of risks.

Firstly, it raises the risk that non-core funding will actually contribute to costly fragmentation and proliferation of aid projects, rather than address it.

Secondly, it raises the risk of suboptimal results from an Australian perspective. This was evident in the fact that partnerships motivated by administrative economies were closely associated with reduced satisfaction about results obtained and value for money, and about external recognition for contributions.

Finally, it raises the risk that the flexibility and ease of non-core funding as a disbursement mechanism will result in a less efficient use of aid than alternatives. This was evident in the growing disconnect between the amount of funding provided to the banks, and their ability to spend it. The resultant build-up of idle funds in partner bank accounts created a hidden cost to taxpayers in the opportunity cost of higher value investments foregone.

Overall, ODE considers these risks could have been better managed if fewer, larger non-core contributions had been made, with better resourced engagement. While the budget context is substantially different now than when the aid program was growing rapidly, these risks are still relevant and need to be managed.

Recommendation 1

To increase the effectiveness of partnerships with the Asian Development Bank (ADB) and World Bank, the Australian Government Department of Foreign Affairs and Trade (DFAT) should consolidate its portfolio of non-core contributions by:

- > reducing the number of contributions to projects that cannot be matched with appropriately sustained and substantive engagement
- > carrying out regular portfolio reviews with the banks, to promote mutual understanding of partnership priorities and the disciplined management of project portfolios so they reflect these priorities.

On this point, it is clear that the aid program must improve on its own record on gender, which has often been less than satisfactory (see, for example, the performance of projects delivered by other Australian Government departments, and recipient governments under direct supervision from the aid program in Figure 10). Given the level of Australian funding delivered through the banks, and evidence about the banks' performance on gender (especially the World Bank), priority should be given to increasing DFAT's dialogue with the banks in this area, to meet its commitment to ensuring that 80 per cent of its projects will effectively address gender issues in their implementation, regardless of their objectives.

Effectiveness

ODE found that non-core funding to the ADB and World Bank was an effective way of delivering Australian aid. While not every project has achieved its objectives, overall their rate of success is acceptable. Completion ratings for bank projects are either comparable, or better than the aggregate ratings for other partners. The one notable exception is effectiveness in promoting gender equality, where project performance ratings and staff satisfaction are relatively low.

Non-core contributions have achieved the best results when the aid program's partnerships with the MDBs have positively influenced national policies or administrative systems. The likelihood of success

has been affected in most cases by Australian financial contributions, but is also influenced by non-financial contributions. In particular, Australia's constructive relations with recipient governments have been crucial in informing judgments about how the aid program can add most value. Partnerships have generally worked best where Australia has been able to devote not only administrative and managerial resources, but also specialist expertise and country knowledge.

There was no evidence to suggest that some arrangements—single or multi-country; single or multi-donor—are intrinsically more or less effective than others. Rather, the effectiveness of different types of arrangements depends on how well they have suited their context, and on the level of alignment of the expectations and interests of DFAT and the banks.

The risks of tensions arising in partnerships have been significantly higher in the Pacific and Timor-Leste, where DFAT's in-country presence is significantly greater than the banks', and in other places where DFAT has been unable to support its staff to have well-informed and constructive engagement with the banks.

Design

The aid program has generally been diligent in considering the merits of non-core contributions to the MDBs.

The risk of partnership difficulties has been highest where there has been a misalignment of interests or expectations, the potential for which has been greatest in recipient executed projects where Australia was the main or only donor. This is where reputational risks and the pressure of negotiating and resolving partnership issues are not shared with other donors.

Underlying partnership tensions in these cases are differences in judgment about how much implementation support should be provided to executing agencies. In the Pacific, where institutional capacity is most limited, Australia has encouraged extra implementation support, and this has become the MDBs' usual practice. In ODE's view, it has been acceptable in most other contexts to keep implementation support to a minimum, and rely on regular supervision missions to identify whether additional support is merited. This is preferable to the risk of providing more support than is actually required, and undermining recipient government ownership.

ODE identified several areas that should be given greater attention when agreements are being negotiated. The internal resource requirements for new projects, although often significant, have been noticeably absent from consideration of project approvals. Expectations about the level and type of reporting should be clarified, and mechanisms for communication should be agreed. Finally, on grounds of prudent financial management, agreements containing multi-year commitments to partnerships should base all payments on actual cash-flow needs, unless there is a compelling reason not to.

Recommendation 2

To provide a stronger basis for management of partnerships with the banks, DFAT should ensure that:

- › requests for approval of new contributions clearly state their resourcing implications for DFAT, based on consideration of the execution arrangements; requirements for the level and quality of reporting; and expectations for DFAT involvement during implementation
- › agreements containing multi-year commitments should base payment schedules and payments on realistic estimates of the cash-flow requirements of multilateral development banks (MDBs), unless there is a compelling reason not to.

Engagement

Staffing requirements for partnerships with the banks vary. Some projects need intensive engagement from experienced staff and technical knowledge in different areas. Others (even some of the largest) require little skill or administrative effort to manage.

The match between staff allocations and partnership requirements has been adequate in a majority of projects; ODE's staff survey results suggest that about 70 per cent of projects received an appropriate and sustained level of internal interest and attention. Sixty-four per cent of staff felt they had been able to dedicate an appropriate level of attention to MDB partnerships.

However, there was a significant minority of projects with which DFAT's engagement has been more tenuous. The outcome of this has often been evident in a loss of verifiable effectiveness, influence and visibility of contributions.

Moving forward, DFAT should take a cautious approach to partnership models that are predicated on significant Australian input. The evidence from the evaluation is that these will only be satisfactory from an Australian perspective if DFAT is able to commit a sufficient number of skilled and well-supported staff to manage them. Bearing in mind that administrative resourcing has become more constrained DFAT needs to be far more selective in its choice of partnerships.

To ensure the best performance of staff that manage partnerships with the banks, more needs to be done to provide them with support, training and guidance. A strikingly low proportion of respondents to ODE's staff survey were satisfied with the training, guidance and advice they had received about partnering with the MDBs. Better support for staff is especially important given the evidence from the survey that staff that are well equipped and supported to manage DFAT's relationship with the banks are significantly more likely to agree that projects they manage are effective, allow DFAT to achieve results that it would otherwise not be able to, and represent value for money.

Support for staff should include, but not be limited to, the provision of training on how the banks operate; guidance on how to collaborate with the banks; and an appropriately resourced central unit through which staff who have a strong understanding of the banks can be connected with those who have not and can provide necessary support and assistance.

Recommendation 3

To improve the management of partnerships with the MDBs, DFAT should provide more support and guidance to aid program staff, including by strengthening the ability of a central point of contact to:

- › provide advice and facilitate connections between staff working on proposals for new contributions, in particular relating to internal resource requirements
- › coordinate with DFAT's learning and development and aid management areas to develop training for officers responsible for designing and managing non-core contributions
- › monitor DFAT's portfolio of non-core contributions, including difficulties during implementation
- › support elevation of matters of importance to DFAT, including cross-cutting issues (especially gender), through appropriate management avenues including high level consultations, board meetings, and liaison with country and regional offices.

Performance management

There are three main findings from the evaluation about performance management.

Firstly, placing a strong reliance on recipients' M&E systems affects the quality of information about progress and outcomes, which can make it difficult for DFAT to meet its own accountability requirements while projects are being implemented. However, in most cases, this problem is short-lived. DFAT's own project performance ratings support the view that improvements to M&E systems are more likely to be sustained when aid recipients are in charge, compared to when they are not. Importantly, by project completion, MDB projects executed by recipient governments are rated more favourably on M&E than projects implemented by private contractors. On this basis, ODE concludes that DFAT's primary focus in recipient executed arrangements should be on whether M&E systems meet recipient's needs, and whether they will ultimately provide a basis for accountability. As such, greater attention should be given to the quality of M&E arrangements, as with other aspects of project performance, at project completion.

Secondly, the findings of the evaluation suggest greater up-front attention should be paid to the quality of M&E arrangements in place for bank executed projects. We found that the risk of not being able to account for results and value for money is much higher for bank executed projects than it is for recipient executed ones. Given that DFAT engagement in this category of projects has been uneven, and sometimes weak, we also suggest that the quality of DFAT engagement should have greater prominence in internal performance reporting than it does.

Finally, the findings of the evaluation underline the need to be careful in comparing the performance of partners that use different implementation models. If comparisons are made, appropriate weighting should be given to final project ratings, rather than ratings of implementation, which may underplay the importance of factors such as ownership and sustainability. This is especially important given that new systems are being introduced to assess the performance of the aid program's key delivery partners and which strengthen the basis for comparison between partners.

Recommendation 4

DFAT should improve its monitoring of non-core contributions to the MDBs by:

- > giving greater weight to how well the M&E requirements of MDB projects meet recipient governments' needs where projects are implemented by recipients
- > paying much greater attention to the adequacy of proposed M&E arrangements for bank executed projects, and to the quality of DFAT engagement during implementation
- > using completion ratings as the primary basis for assessing the performance of projects and partnerships.

Management response

Recommendation 1

To increase the effectiveness of partnerships with the Asian Development Bank (ADB) and World Bank, the Australian Government Department of Foreign Affairs and Trade (DFAT) should consolidate its portfolio of non-core contributions by:

1.1 reducing the number of contributions to projects that cannot be matched with appropriately sustained and substantive engagement

1.2 carrying out regular portfolio reviews with the banks, to promote mutual understanding of partnership priorities and the disciplined management of project portfolios so they reflect these priorities.

Agree

DFAT is committed to streamlining its aid investments while maintaining a flexible approach to ensure we are still able to deliver critical, innovative and scalable projects and priority or catalytic small scale interventions in our region. DFAT will take a proportional and risk based approach to resource allocations when initiating small scale activities. DFAT will review co-financed activities through regular aid program review processes.

Recommendation 2

To provide a stronger basis for management of partnerships with the banks, DFAT should ensure that:

2.1 requests for approval of new contributions clearly state their resourcing implications for DFAT, based on consideration of the execution arrangements; requirements for the level and quality of reporting; and expectations for DFAT involvement during implementation

2.2 agreements containing multi-year commitments should base payment schedules and payments on realistic estimates of the cash-flow requirements of multilateral development banks (MDBs), unless there is a compelling reason not to.

Agree

DFAT acknowledges the importance of allocating staff resources in a manner that reflects the scale and risk of DFAT's investments. DFAT will carefully consider and discuss with the banks the level of involvement it intends to have during implementation and its program reporting needs, noting that a range of standardised reporting is already available from the multilateral development banks (MDBs). DFAT will manage the approval, implementation and funding of co-financed activities consistent with aid management guidelines.

Recommendation 3

To improve the management of partnerships with the MDBs, DFAT should provide more support and guidance to aid program staff, including by strengthening the ability of a central point of contact to:

3.1 provide advice and facilitate connections between staff working on proposals for new contributions, in particular relating to internal resource requirements

3.2 coordinate with DFAT's learning and development and aid management areas to develop training for officers responsible for designing and managing non-core contributions

3.3 monitor DFAT's portfolio of non-core contributions, including difficulties during implementation

3.4 support elevation of matters of importance to DFAT, including cross-cutting issues (especially gender), through appropriate management avenues including high level consultations, board meetings, and liaison with country and regional offices.

Agree in part

Effective engagement with the MDBs requires a strong understanding of the institutions, their roles and operating methods. There is no single area with responsibility for all of DFAT's engagement with the MDBs, there are a range of areas with responsibility and expertise required for effective engagement with the MDBs. Consequently responsible areas within DFAT will work collaboratively to ensure staff are provided with appropriate guidance and support. Responsible areas within DFAT will provide additional information to staff to support the understanding of how DFAT can best engage with the MDBs. However it will be the responsibility of all staff to ensure they have an appropriate understanding of the MDB with whom they intend to partner. DFAT will continue to raise Australia's aid priorities through high level meetings with MDBs. In particular DFAT will continue to raise performance and results on gender and engagement in the Pacific as issues of priority.

Recommendation 4

DFAT should improve its monitoring of non-core contributions to the MDBs by:

4.1 giving greater weight to how well the M&E requirements of MDB projects meet recipient governments' needs where projects are implemented by recipients

4.2 paying much greater attention to the adequacy of proposed M&E arrangements for bank executed projects, and to the quality of DFAT engagement during implementation

4.3 using completion ratings as the primary basis for assessing the performance of projects and partnerships.

Agree

DFAT acknowledges the important role recipient government executed programs play in supporting the development of skills and capacity. Relevant areas within DFAT will ensure staff are provided with guidance and support to help better their understanding, and inform their expectations of, recipient government executed programs consistent with DFAT's aid monitoring and evaluation standards. Relevant DFAT areas will work with the MDBs to ensure there is agreement upfront on proposed monitoring and evaluation arrangements and will maintain appropriate engagement during implementation.

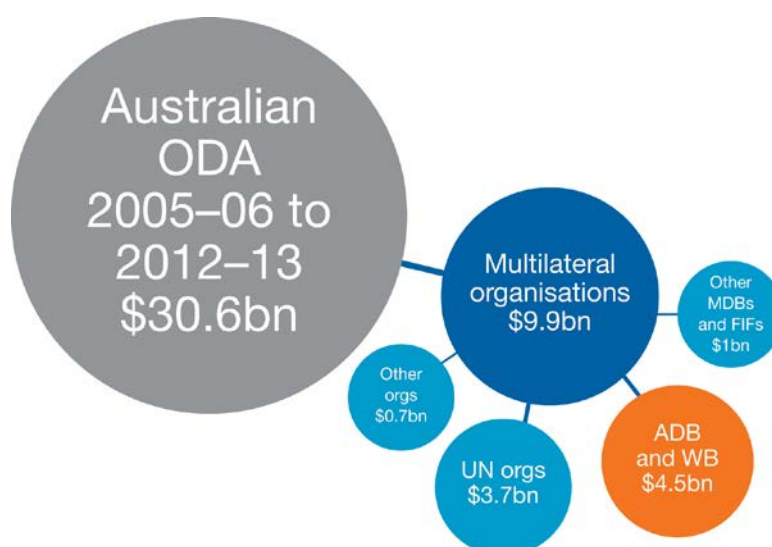
1 Background

1.1 Australian funding to the Asian Development Bank and World Bank

Between 2005–06 and 2012–13, the Australian aid budget almost doubled, and the amount of Australian official development assistance (ODA) delivered through multilateral organisations almost tripled, from \$552 million to \$1.6 billion per year.

Much of this growth was in contributions to the Asian Development Bank (ADB) and World Bank.* ODA delivered through these multilateral development banks (MDBs) grew from \$241 million in 2005–06 (9 per cent of total ODA) to \$678 million in 2012–13 (15 per cent of total ODA) (Figure 1).

Figure 1 The ADB and World Bank received almost half of the ODA that Australia provided to multilateral organisations between 2005–06 and 2012–13.



ADB = Asian Development Bank; bn = billion; FIF = financial intermediary fund; MDB = multilateral development bank; ODA = official development assistance; orgs = organisations; UN = United Nations; WB = World Bank
Source: DFAT

The size of Australia’s partnerships with the two banks reflects their status—the Australian multilateral assessment placed them in the top tier of 42 multilateral organisations for criteria related to organisational behaviour, results and relevance¹—and their efforts to supplement core funding with other resources.

* For simplicity, references throughout this paper are simply to the World Bank. More correctly, there are four main agencies included in the World Bank Group: the International Bank for Reconstruction and Development, International Development Association, International Finance Corporation, and Multilateral Investment Guarantee Agency. Each of the first three organisations manages non-core contributions from aid donors.

1.2 Core versus non-core contributions

Aid funds are provided to the ADB and World Bank as either core or non-core contributions.

Core contributions—the multilaterals’ basic operating funds—are merged into a common pool to be used at the discretion of the receiving organisation, under members’ agreed governance standards. Core contributions allow donors to support the mandates of organisations whose activities align with their interests. They require less administrative effort than either self-administered bilateral programs or non-core contributions. However, unless they are very large, core contributions provide donors with little opportunity to influence where and how programs are implemented, and visibility and attribution of the results of these contributions is usually low. How much to give partner organisations through core funding is one of the major decisions for any aid organisation. It affects the amount of money available to be spent through bilateral programs, which provide much greater control over how money is spent, but also require more resources to administer.

Core contributions are divided into ‘capital’ and ‘soft-loan’ contributions. Capital contributions essentially represent each member’s shareholding in the respective bank and act as collateral against which the MDBs raise money in international financial markets to fund their ‘hard-loan’ program.

Soft-loan core contributions afford the banks funding security for multiple years. Regular calls for funds usually begin with requests that donors maintain their historic ‘burden share’ by making contributions that correspond to the relative size of members’ economies, though donors have some discretion to either increase or decrease these. Australia’s core contributions have a legislative basis with treaty status. Unlike funding from bilateral country programs and sectoral budgets, soft-loan core contributions are negotiated by high-level delegations, and involve ministerial endorsement and parliamentary approval. This means that once they are approved, Australia’s multi-year core contribution commitments are technically locked in.

Non-core contributions—the focus of this evaluation—are provided on the condition that they are used for specific purposes, often tied to a specific geographical or sectoral area. Non-core funding is flexible and discretionary. Programs can select from a range of options to pursue desired outcomes, which sometimes involves working with MDBs to tailor responses that address their particular needs.

These contributions are funded from the bilateral sections of donors’ national aid budgets.* These funds become ‘multilateralised’ when the funds are passed over to multilateral organisations for spending, though their use may be tightly prescribed by the donor. These arrangements vary widely. Non-core contributions can be made to single or multi-donor funds, for projects in one or multiple countries, and be administered (‘executed’) by agencies within the recipient government, or by the MDB itself.

Terminology

Core contributions are multilateral organisations’ membership dues. These basic operating funds are merged into a common pool and used at the discretion of the receiving organisation. **Non-core contributions** are discretionary additional funds provided on the condition that they are used for specific purposes, often tied to a specific geographical or sectoral area.

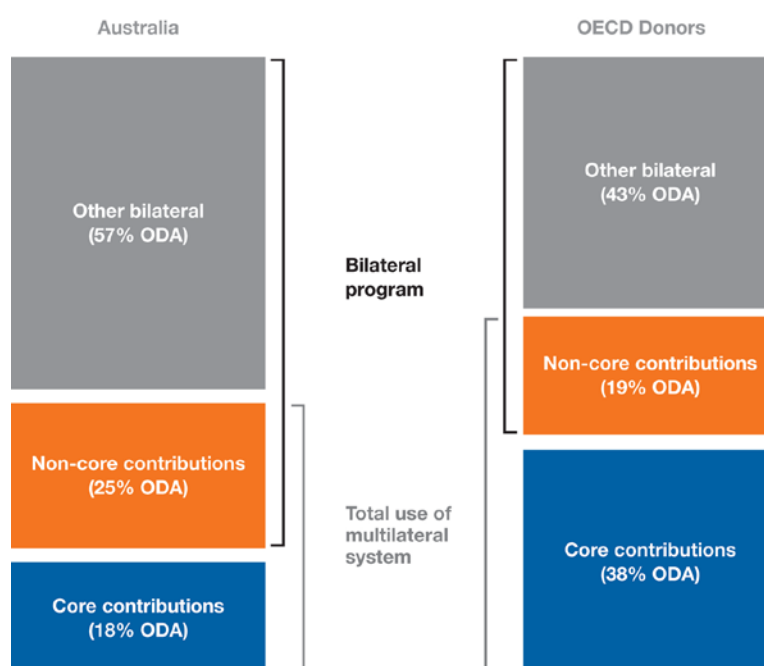
In **recipient executed** projects, funds are passed on to a third party (usually the recipient government) and the MDB plays an operational role, normally appraising and supervising activities. The MDB itself has spending authority over **bank executed** projects, which support the bank’s own work programs.

* This is why they are also referred to as multi-bi contributions.

1.3 Relative size of core and non-core contributions

Through a mixture of core and non-core contributions, over half of Organisation for Economic Co-operation and Development (OECD) donor aid flows are provided through multilateral organisations. Figure 2 shows that Australia uses multilateral organisations less than the rest of the OECD, and that within this provides much more of its funding as non-core rather than core contributions. As a result, Australia provides significantly more of its aid funding through bilateral aid programs in comparison to all OECD donors (82 per cent vs 62 per cent).

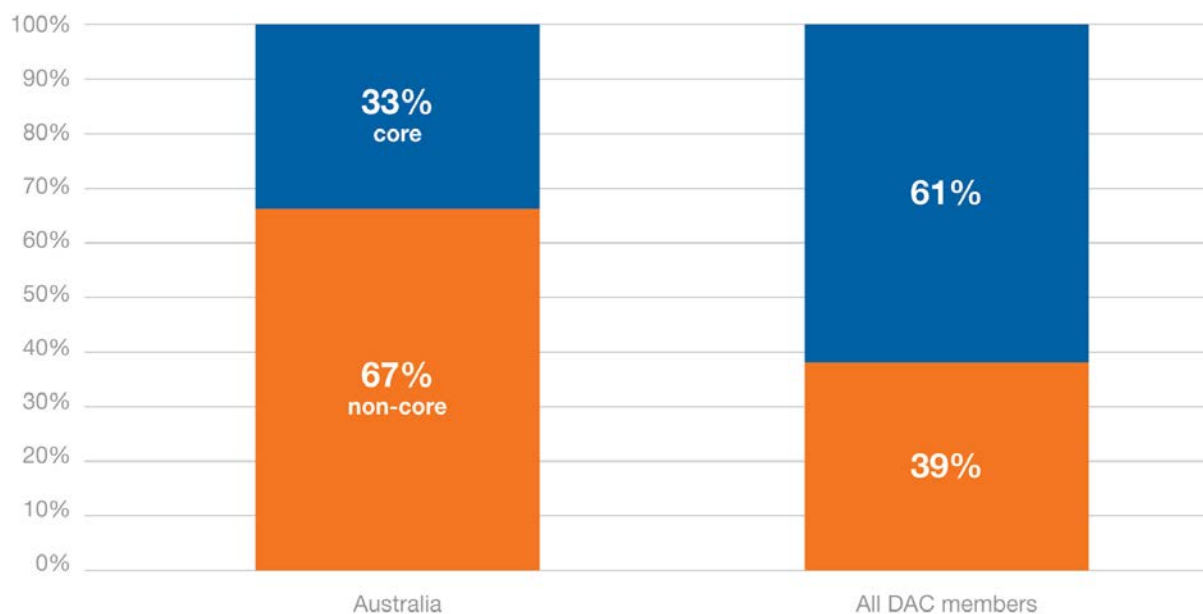
Figure 2 Compared to the total of OECD donors, Australia provides a higher proportion of its ODA as **non-core contributions**, but a lower proportion to multilaterals overall.



ODA = official development assistance; OECD = Organisation for Economic Co-operation and Development
 Notes: Data from 2012. 'OECD donors' includes Australia.
 Source: OECD Development Assistance Committee (DAC)

Australia's preference for providing aid through bilateral programs, and more selective participation in the multilateral system through non-core funding, is even more marked in Australian funding to the MDBs (which is overwhelmingly provided to the ADB and World Bank). In 2012, Australia provided two-thirds of its contributions to the banks as non-core funding, whereas OECD donors provided just over one-third (Figure 3).

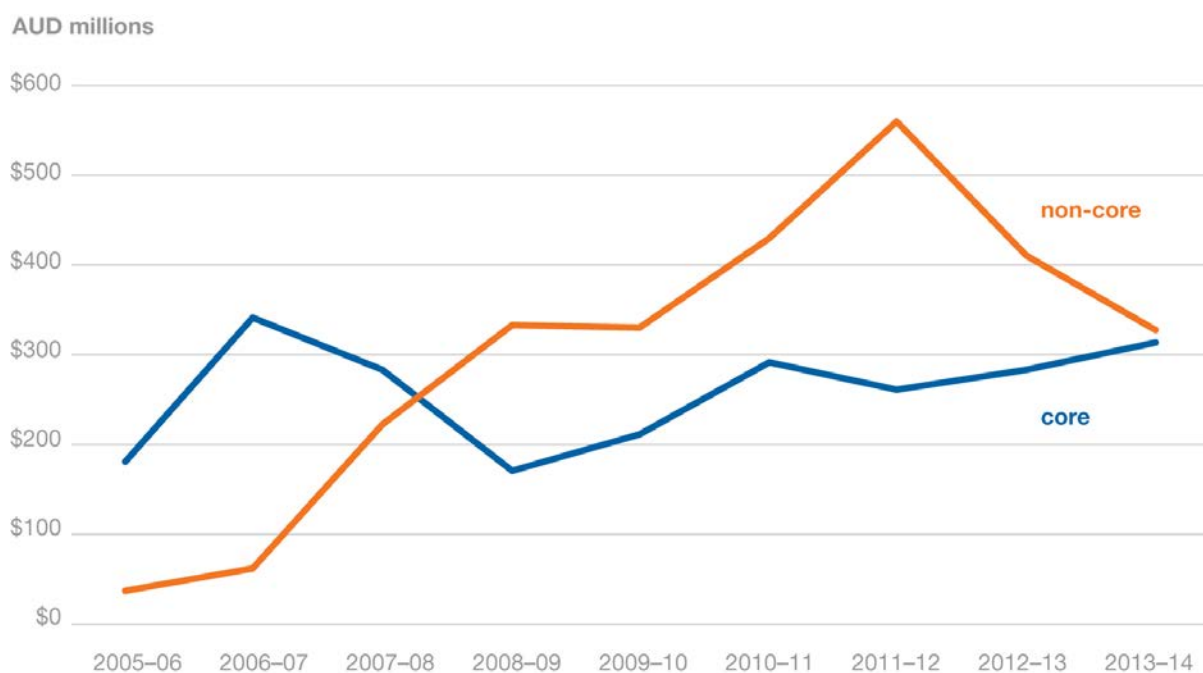
Figure 3 Compared to all OECD donors, Australia has a marked preference for **non-core contributions** to the MDBs.



DAC = OECD Development Assistance Committee; MDB = multilateral development bank; OECD = Organisation for Economic Co-operation and Development
 Notes: Data from 2012. 'All DAC members' includes Australia.
 Source: OECD DAC

Australia's preference for providing aid through bilateral programs is long-standing, but such widespread use of multilateral partners is a relatively recent phenomenon. Non-core contributions grew from a relatively minor part of the Australian aid program in 2005–06, overtaking core contributions in 2008–09. Though this declined after reaching a peak in 2011–12, at \$332 million in 2013–14 non-core contributions comprised more than half of Australia's total contributions to the MDBs—and almost 10 times the amount provided in 2005–06 (Figure 4).

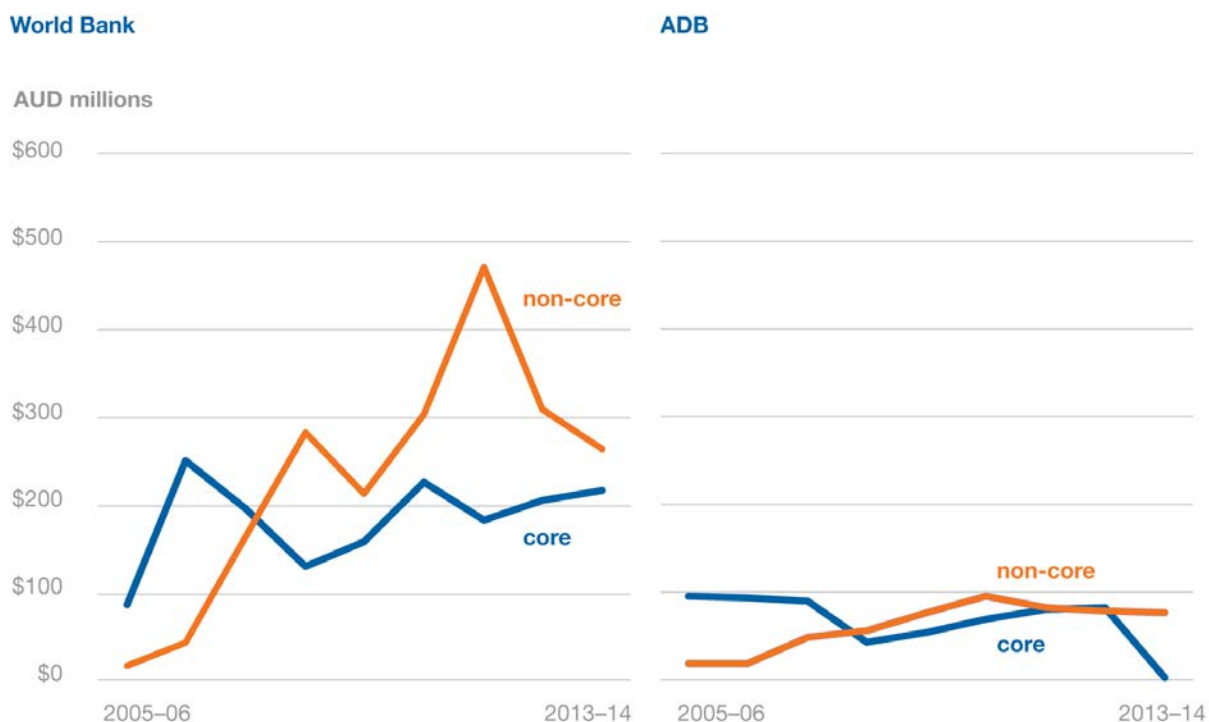
Figure 4 **Non-core contributions** to the ADB and World Bank grew rapidly between 2005–06 and 2011–12, and still account for around half of Australia's contributions to the MDBs.



Source: AidWorks

Most of this growth in the number and value of these partnerships was in contributions to the World Bank, many of which were for global and regional partnership programs initiated by policy or thematic areas that reflected a ‘sectoral’ approach. In part because it only works in the Asia-Pacific region, the increase in funding to the ADB was smaller (Figure 5). Taking both core and non-core contributions into account, Australia was the second largest contributor to the ADB, and ranked among the top 15 contributors to the World Bank between 2008 and 2012.

Figure 5 Contributions to the World Bank made up most of the growth in contributions to the MDBs, with non-core increasing much more than core contributions.



Note: Data does not include financial intermediary funds.
Source: DFAT

1.4 Australia’s preference for bilateral aid over core funding

Most major reviews of the aid program have endorsed Australia’s preference for bilateral aid over core funding of multilateral organisations, which is attributed to Australia’s geographical location and role in the region.*

In 1984, the Jackson committee observed that although Australia’s core contributions to multilaterals were much lower than the average for industrialised countries, this was ‘*appropriate given Australia’s regional obligations*’.² In 1997, the Simons Committee of Review of the Australian Overseas Aid Program suggested that multilateral organisations’ role in the aid program was at the lower end of the global spectrum because of a perceived lack of multilateral focus to complement bilateral aid in nearby countries in the Pacific and Asia.³ The major policy statement that preceded the recent expansion of Australian aid (the 2006 White Paper) reflected these sentiments, stating that rather

* The following explanation, from the Simons review of the aid program in 1997, is typical of this position: ‘Multilateral development institutions have been seen as having a valuable, but essentially limited, role in Australia’s aid program—a role limited and defined to a large extent by the perceived capacity of multilateral channels to complement bilateral aid.’ Simons, p. 215.
Dinham’s (2011, p. 10) study noted that: ‘Many multilaterals have a primary focus on Africa and tend to have less engagement in Asia and very little engagement in the Pacific. Those that do operate in these regions, and particularly in the Pacific, do not necessarily prioritise these areas either for core funding or for their best staff. This has driven a tendency for AusAID to use non-core funding as leverage, helping to influence the focus and performance of multilaterals in those areas to which it attaches greatest importance.’

than being an end in itself, supporting multilateral organisations was ‘*useful when it advances Australia’s development objectives*’. It committed the aid program to more proactively leverage Australian funding to focus the attention of multilaterals, particularly the ADB and World Bank, on ‘*issues of core interest to Australia*’.⁴

Five years later, the last major review of the aid program, the 2011 *Independent Review of Aid Effectiveness*, recommended a marked increase in core funding to multilateral organisations. The challenge of spending the then steeply expanding aid budget effectively and efficiently featured prominently in the arguments it put forward for this change of emphasis.* Consistent with the review’s recommendations, significant increases in core funding were announced,† prior to the change of government in 2013.

The current aid policy, *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, released in June 2014, is silent on the merits of core funding of multilateral organisations compared to delivering aid through bilateral channels, or working with the banks within bilateral programs. However, it does commit to strengthen the systems used to assess the performance of the aid program’s key delivery partners, to ‘better link partner performance with budget allocations so that funding increasingly flows to organisations best placed to achieve Australia’s objectives’.⁵ To do so, the system of partner performance assessments that was previously in place only for private contractors has now been extended to include bilateral partnerships with multilateral organisations.

1.5 Governance arrangements

The MDBs are governed at the highest level by Boards of Governors that meet annually. The Australian Treasurer is Australia’s Governor on both the ADB and World Bank Boards, and Treasury is intimately involved in managing Australia’s overall relationship with the MDBs, with a special focus on the fiduciary arrangements governing bank activity.

Both the ADB and World Bank also have resident Boards of Directors. Australia has a permanent representative on the Board of the ADB and a rotating representative on the Board of the World Bank.‡ Besides the Annual Meeting of the Board of Governors, Australian delegations meet with senior bank management at high level consultations to discuss the relationship once a year.

The Australian Government Department of Foreign Affairs and Trade (DFAT) takes a particular interest in soft-loan core contributions and non-core contributions, as both of these are funded directly from the aid program. The decision to enter into a non-core funding arrangement is governed by the same policies as other aid program activities, and is typically decentralised. DFAT’s country and regional programs and sector specialist areas have significant autonomy to manage their own budgets under broad direction from the government.

DFAT’s operational relationships with the MDBs are managed by the Banks and Funds Branch. This central unit is responsible for the aid program’s policies relating to engagement with the MDBs, the partnership frameworks that set out the aid program’s and the banks’ intent for collaboration,§ and coordinating DFAT input to high level consultations and bank board meetings.

The Banks and Funds Branch coordinates DFAT’s engagement with Treasury and the banks’ non-core contributions, which are decided at the executive level through negotiations with the MDBs and other donors. In contrast, decisions about non-core contributions are decentralised, and often devolved to posts. A large number of country and regional program teams and thematic policy areas have entered

* The review pointed to five advantages of increasing the level of core funding to multilaterals: 1. buy time for the Australian Government to build the capacity to manage greater quantities of bilateral projects or heavily earmarked programs; 2. reduce fragmentation; 3. take advantage of the emergence of new and/or more effective partners; 4. increase funding (efficiently) to Africa; and 5. provide support to other regions that do not warrant country programs (AusAID, 2011. *An effective aid program for Australia*, Australian Government, Canberra).

† For example, the government pledged up to \$629.3 million in March 2012 for the tenth replenishment of the Asian Development Fund (ADF XI, 2013–16), making Australia the second largest donor to the ADF.

‡ Strictly speaking Australia does have permanent representation on the Board of the World Bank. However, unlike with the ADB it does not have sufficient voting power to appoint its own representative. Rather, Australia is part of a constituency where the appointment of the board member rotates between constituents according to their voting shares.

§ Australia’s partnership frameworks with the ADB and World Bank came into effect in 2009 and 2011 respectively.

into non-core funding arrangements with the banks, within their own budgets and under the financial and risk management policies that govern bilateral aid. Though the Banks and Funds Branch offers support for these arrangements, it does not have a mandate to exercise direction over this particular form of investment.

DFAT and the banks use internal performance management systems to monitor their projects. Within DFAT, non-core contributions are subject to aid quality checks (AQC), which are required annually for projects that are worth over \$3 million, or are high risk (see Chapter 7 on performance management).^{*} Projects in this category are also expected to be independently evaluated at least once in their lifetime. Partners usually lead these evaluations where they involve non-core contributions.

1.6 Profile of non-core contributions

Table 1 shows the main categories of non-core contributions to the MDBs. Australia may be one of a group of contributors, or the sole or main contributor; and the project may be executed by the MDB, or by an agency of a recipient government under the bank's supervision.[†] The majority (71 per cent) of MDB projects that received Australian contributions between 2005–06 and 2012–13 focused on a single country, with the remainder having a multi-country focus, either in a specific region (19 per cent) or with a global focus (10 per cent).

Table 1 Non-core contributions are a critical source of funding for the banks. They can take many forms, but tend to fall into four broad categories.

Category	Justification	Examples
Global and regional fund – typically multi-donor	Deliver Australian aid to priority sectors in ways complementing bilateral programs Support and learn from MDB innovations in aid approaches	Infrastructure Partnerships Program; Water and Sanitation Initiative Global Programs; Global Disaster Recovery and Reduction; Global Partnership on Output-Based Aid; Private Enterprise Partnerships – Pacific; Greater Mekong Subregion Trade and Transport Facilitation
Fund for post-conflict or crisis reconstruction – usually multi-donor	Follow MDB leadership in crisis-affected situations	Palestinian Reform and Development Plan Trust Fund; Afghanistan Reconstruction Trust Fund; Pakistan Earthquake Reconstruction Program
Umbrella fund – typically single donor, or with Australia as the main donor	Increase Australian role in policy dialogue and system reform in alliance with MDB Supplement MDB budgets for overheads of operating in the Pacific and Timor-Leste	Philippines Development Trust Fund; World Bank Pacific Facility; Vietnam World Bank Partnership; Indonesia Infrastructure Initiative
Grant contribution to recipient executed project – either single or multi-donor	Increase Australian role in policy dialogue and system reform in alliance with MDB Contribute to MDB-designed sector-level projects	Indonesia National Program for Community Empowerment; Cambodia Delivering Better Health; Vietnam Southern Coastal Corridor; Cambodia Railway Rehabilitation; Philippines – Strengthening Public-Private Partnerships; Samoa Power Sector Expansion Project

Since 2005–06, Australia has made non-core contributions to a growing number of projects, many of which are relatively small in value. Between 2005–06 and 2012–13, Australia funded 325 projects with a total value of \$4.1 billion. The World Bank manages 235 of these,[‡] the ADB manages 78, and the ADB and World Bank each manage aspects of the remaining 12. More than half of Australia's non-core contributions are under \$5 million in value, and the 70 per cent worth less than \$10 million

^{*} Core contributions are exempt from this requirement.

[†] In some cases, distinctions between these categories are blurred; for example, contributions may fund combinations of MDB executed and recipient executed projects, and some nominally multi-donor funds receive contributions from just one donor.

[‡] The World Bank Group's International Finance Corporation, which provides finance for private sector development, manages 18 of these.

make up just 15 per cent of expenditure (Figure 6). The overwhelming majority of contributions less than \$5 million to the World Bank went to multi-donor projects. For the ADB, smaller contributions were dominated by technical assistance projects.

Figure 6 The 70 per cent of non-core contributions worth less than \$10 million make up just 15 per cent of expenditure.



Note: Data does not include financial intermediary funds.

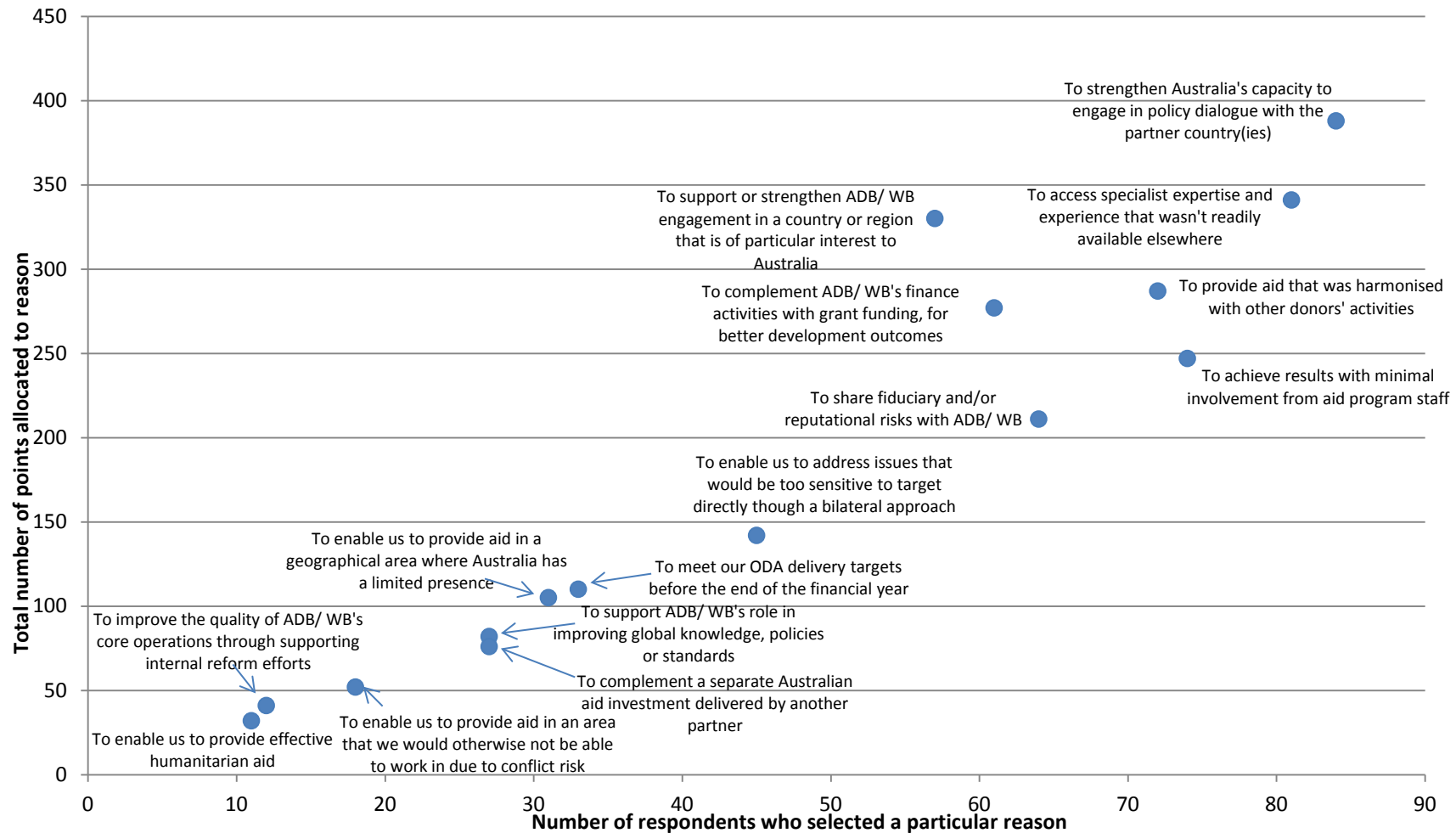
Source: DFAT

Australia also makes contributions to financial intermediary funds (FIFs, also known as global funds or vertical funds) such as the Global Environment Fund, Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Partnership on Education administered by the World Bank. The World Bank holds, invests and disburses funds from FIFs, but their use is overseen by implementing agencies. FIFs have therefore not been considered in this evaluation, and contributions to them are not reflected in the figures cited in this report, unless noted.

1.7 Motivations for non-core contributions

Partnership arrangements are established by country and regional programs, or policy areas in Canberra. They have some discretion in making investment decisions within the context of budgets allocated to them, although larger investments are usually referred to the Minister for approval. Theoretically investment decisions ought to be framed by aid investment plans (previously referred to as country strategies) or sector or thematic strategies. However, timing issues combined with difficulties finalising these plans has usually meant that until now they have had a marginal influence on investment decisions. The Office of Development Effectiveness (ODE) staff survey showed a range of motivations for non-core contributions (Figure 7).

Figure 7 DFAT staff reported a range of motivations for making non-core contributions



ADB = Asian Development Bank; ODA = official development assistance; WB = World Bank

Note: Respondents to ODE's staff survey were asked to identify the reasons they considered to be most important for making non-core contributions to the ADB/ World Bank and to distribute up to 20 'points' across these reasons to identify which were of the highest importance.

1.8 Non-core contributions' significance for the banks

Non-core contributions are a critical source of additional funding for the banks, complementing other resources for both lending and technical assistance. Both banks actively encourage these contributions.

In 2010, the World Bank administered around 1075 active projects funded by non-core contributions from over 200 donors.* Total assets in this portfolio at the end of 2011 were around US\$ 29 billion.⁶ According to the World Bank's Independent Evaluation Group, non-core contributions are valued within the bank as opportunities to:

- › scale up country operations, including through project level co-financing, and act as a convener among donors for interactions and dialogue with aid recipients
- › expand the banks' role in responses to global and regional problems, including issues such as avian flu
- › support analytical work and technical assistance, including the piloting of new or innovative approaches.⁷

Non-core contributions have also been a significant component of the ADB's operations. In 2014, they accounted for US\$ 9.2 billion out of its US\$ 23 billion of approved financing. As with the World Bank, the ADB sees non-core contributions as a way of mobilising additional resources to support its poverty reduction objectives, by extending the scale and reach of operations. It has long-standing policies of welcoming co-financing by other donors in its lending operations, and welcoming donors' funding of technical assistance operations, either in full or in combination with ADB funds. Recently, the ADB has added several "financing partnership facilities", to attract funds from donors to support ADB operations in designated high-priority sectors, ahead of their being allocated to specific projects or items of technical assistance.

For all their benefits to the banks, non-core contributions do come with some costs, including a loss of independence as the banks amend their strategic priorities to fit in with donors. Non-core funded projects can also impose a significant management impost on the banks, which can become a serious concern as the ratio of non-core to core funding rises. With these issues in mind, the World Bank is currently reforming its approach to non-core contributions, including by raising the investment threshold for new trust funds, establishing new cost recovery mechanisms, and forming a consultative group to harmonise negotiation with donors.

* The World Bank uses the term 'trust fund' to refer to its standard method of holding non-core contributions until they are disbursed. The ADB uses the same term only for non-core contributions it has accepted from donors with earmarking, but without a specific agreement for their use, until there is agreement on which ADB activities they will support. For simplicity, throughout this report ODE uses 'non-core contribution' or 'non-core funding' to refer to all contributions made to the banks on the condition that they are used for a specific purpose.

2 The evaluation

2.1 Objective and evaluation questions

The objective of the evaluation was to assess whether the management of non-core contributions to the multilateral development banks (MDBs) by the Australian Government Department of Foreign Affairs and Trade (DFAT) supports their effective and efficient use as a vehicle for achieving Australia's aid objectives. The evaluation was guided by five questions:

- › **Policy objectives:** Are the objectives behind Australia's non-core contributions to the MDBs resulting in aid that is coherent and effective?
- › **Design:** Are DFAT's non-core contributions to the MDBs well designed?
- › **Institutional arrangements:** Do institutional arrangements support the effective management of non-core contributions to the MDBs?
- › **Performance management:** Does DFAT have an effective approach to accounting for, and reporting on the performance of, its non-core contributions, and using information from monitoring and evaluation (M&E) to manage performance?
- › **Effectiveness:** What have been the results of Australia's non-core contributions to the MDBs? In which areas have results been most compelling? In which areas have they been least compelling?

2.2 Scope

The scope of the evaluation included Australia's non-core contributions to the Asian Development Bank (ADB) and World Bank Group (including the International Finance Corporation, IFC) from 2005–06 to the present (2014–15), with emphasis on ongoing or recently finalised projects. Inclusion of the IFC in the scope of the evaluation means that technically, references to the World Bank should actually be to the World Bank Group. However, given the small number of IFC trust funds assessed by the report, references throughout this paper are simply to the World Bank.

As noted previously, this report does not cover Australia's contributions to financial intermediary funds (FIFs), because each FIF has its own arrangements for governance and reporting on results, and because assessing those contributions adequately would have required more resources than were available for this evaluation. Nor does the evaluation assess core contributions, since that has been done by the Australian multilateral assessment and updates to it.

The Office of Development Effectiveness (ODE) recognises that some of the evaluation questions cover areas that are also the direct management responsibility of the banks. ODE's focus was on the partnership between DFAT and the MDBs. It concentrated on the interactions between DFAT and the MDBs, and the aspects of project performance that are under the aid program's control or influence, rather than assessing the adequacy of the MDBs' systems.

2.3 Methodology

The evaluation used several methods.

ODE analysed a representative sample of 30 projects by reviewing documentation and data on project expenditure and performance, and interviewing staff from DFAT and the banks that had played

significant roles in their design and/or implementation, as well as some limited consultation with recipient government representatives in Manila, Philippines.

A literature review synthesised evidence from aid program documents, academic literature, and publications from international institutions including the Organisation for Economic Co-operation and Development (OECD) and MDBs about the use and effectiveness of non-core funding.

ODE analysed aid program expenditure and the performance ratings for non-core contributions and other types of projects funded by Australia, and carried out qualitative analysis of policy documents, annual aid program performance reports, agreements, and aid quality check (AQC) reports for projects rated 'unsatisfactory'.

A survey of aid program staff administered by ORIMA Research was completed by 140 DFAT officers (a response rate of approximately 41 per cent).

The framing of the evaluation reflects the fact that the ADB and World Bank have much in common. Both support significant hard-loan and soft-loan programs and manage numerous programs financed by other donors. However, ODE is also mindful of the fact that there are important differences between the banks, including but not limited to those elaborated in Appendix 5. While the evaluation has taken care not to oversimplify its presentation of evidence, taking a broad view of this approach to delivering aid has necessarily resulted in a loss of granularity in reflecting differences between the banks in the reporting of results. Effort was made in sampling methods to ensure the experience of working with both the ADB and World Bank is captured by the report. However, it was unavoidable that there would be greater discussion of non-core contributions to the World Bank than to the ADB, given the relative size of the two partnerships, and the effect this had on the availability of data.

In several places, the evaluation refers to the economies in administrative resources which DFAT staff believe are obtained through non-core contributions to the MDBs. However, there is no body of data for comparing DFAT staff resources devoted to these contributions with other forms of aid. The evaluation's evidence about this is therefore confined to analysis of perceptions.

Table 2 contains a summary of the methods used in the evaluation, and an assessment of the strength of the data they provided. It should be noted that the evidence collected and used in this evaluation was weighted towards the perspective of the Australian aid program. ODE had greater access to aid program staff and documents than those of the MDBs, recipient governments, or other stakeholders. However, a conscious effort was made to ensure perspectives from outside of DFAT were considered and given due weight in coming to findings and conclusions.

In several places, the evaluation refers to the economies in administrative resources which DFAT staff believe are obtained through non-core contributions to the MDBs. However, there is no body of data for comparing DFAT staff resources devoted to these contributions with other forms of aid. The evaluation's evidence about this is therefore confined to analysis of perceptions.

Table 2 Summary of methods used in the evaluation

Method	Data source	Analysis	Credibility of evidence
Case analysis	<ul style="list-style-type: none"> › Program documentation, including project performance reports, mid-term reviews, independent completion reports, reviews and evaluations › Agreements between Australia and the banks › Interviews with aid program staff (n = 42); MDB representatives (n = 54 comprising ADB = 32; WB = 22); partner government representatives (n = 6); MDB Executive Directors (n = 2). Total: 104 	<ul style="list-style-type: none"> › In-depth review of 30 cases › Coding and analysis of content of project reporting documents. › Systematic review of interview notes 	<p>Satisfactory</p> <p>ODE had a high level of access to published documents from both DFAT and the MDBs, and internal, unpublished documents from the aid program, and these were thoroughly analysed. Efforts to triangulate evidence were constrained by a lack of access to internal, unpublished documents from the MDBs and by limited access to recipient government and other stakeholder perspectives on the projects.</p> <p>Case selection was weighted towards the largest projects.</p> <p>ODE interviewed senior aid program and MDB staff involved in managing most of the non-core funded projects identified for case analysis.</p>
Literature review⁸	<ul style="list-style-type: none"> › Aid program policy documents › OECD, ADB and WB publications › Academic literature 	<ul style="list-style-type: none"> › Non-systemic review of 44 references › Focus on describing Australia's experience with non-core contributions to the MDBs, common definitions and a framework for consideration of the topic 	<p>Good</p> <p>Though it was not systematic, the literature review covered a wide range of material. ODE notes a lack of available publications describing recipient government perspectives on non-core funded projects.</p>
Quantitative analysis	<ul style="list-style-type: none"> › AidWorks data › AQC data › Bank project data › OECD DAC reporting 	<ul style="list-style-type: none"> › Descriptive analysis of aid flows › Analysis of project performance reporting scores 	<p>Satisfactory (ADB) / Good (World Bank)</p> <p>Though the smaller projects are exempt from AQCs due to their size, AQC reports provided a rich data source that was thoroughly analysed. However, the relative size of the partnerships affected the availability of quantitative data for ADB projects. Specifically, there were insufficient ratings for ADB projects to support findings about ratings trends for the ADB, or to compare ratings for ADB projects using different execution arrangements.</p>
Staff survey	<ul style="list-style-type: none"> › Responses to closed and open-ended questions from 140 respondents, representing responses to 151 separate projects 	<ul style="list-style-type: none"> › Analysis of data with consideration of project and respondent characteristics › Analysis and coding of responses to open-ended questions 	<p>Good</p> <p>The survey was robust, and developed with input from specialist social researchers and after consultation with DFAT and the MDBs. The response rate was 41 per cent. Respondent characteristics were well aligned with key characteristics of the target population (e.g. ADB/WB, geographical focus, recipient/bank executed, seniority and experience), are unlikely to be strongly affected by systematic non-response bias, and can be interpreted as providing a broad indication of the views and experiences of relevant DFAT staff in dealing with MDBs (see Appendix 1).</p>

ADB = Asian Development Bank; AQC = aid quality check; DAC = Development Assistance Committee; DFAT = Australian Government Department of Foreign Affairs and Trade; FIF = financial intermediary fund; MDB = multilateral development bank; ODE = Office of Development Effectiveness; OECD = Organisation for Economic Co-operation and Development; WB = World Bank

Note: AidWorks is the information system used to manage Australia's aid investments.

2.4 Structure of the report

Chapter 1 provides the background to the evaluation, with an outline of the size and characteristics of Australia's non-core funding to the ADB and World Bank.

Chapter 2 describes the evaluation's objective, key questions and scope. It provides an overview of the methods used, and ODE's confidence in the credibility of evidence used in the evaluation.

Chapter 3 considers Australia's motives for entering into partnerships with the MDBs, and the extent to which non-core funding has been an effective vehicle for achieving the aid program's objectives.

Chapter 4 looks at the effectiveness of Australia's portfolio of non-core contributions with the MDBs, and presents a summary of what kinds of projects are most successful in particular contexts.

Chapter 5 focuses on project design, particularly DFAT's appraisal of new projects and the partnerships between Australia and the MDBs.

Chapter 6 considers how well the aid program has managed the challenge of developing staff capabilities and matching administrative resources to the requirements of MDB partnerships, and examines the impact of the integration of the Australian Agency for International Development (AusAID) and DFAT in 2013.*

Chapter 7 contains an assessment of the MDBs' performance management systems, DFAT's oversight over bank projects, and the implications of low resourcing and engagement.

* The evaluation was undertaken following integration of AusAID with the Department of Foreign Affairs and Trade (DFAT). Any references to AusAID in the report relate to the former agency; the report otherwise refers to the integrated Department.

3 Objectives

The Asian Development Bank (ADB) and World Bank were well placed to attract much of the additional resources that flowed from the scaling up of Australian aid from the mid-2000s. Their comparative advantages—convening power and influence, independence, technical depth and scale—were prominent in the policy statement that preceded this growth, the 2006 White Paper. They have also featured in the major statements and policies since released.

However, growth in the aid budget only partially explains the increase in Australian aid delivered through the multilateral development banks (MDBs). While official development assistance (ODA) doubled from 2005–06 to 2012–13, non-core contributions to the two banks grew from \$36 million to \$388 million, a more than tenfold increase. This chapter examines the effectiveness of non-core funding in terms of the motivations behind it. This includes the use of non-core funding to:

- › scale up without creating costly overheads for either Australia or recipient governments
- › increase Australia’s influence over partner government policies
- › overcome limitations in banks’ budgets
- › scale up within available administrative budgets
- › balance budget predictability with flexibility and responsiveness.

3.1 Scale up without creating costly overheads

When the Howard Government started scaling up Australian aid from 2005–06, it also committed to change the way it was delivered. The Paris Declaration in 2005 and dissatisfaction with stand-alone projects accelerated the growth in aid delivered through partner government systems, either directly or in concert with other donors. The major policy statement that preceded the expansion explained this as follows:

The significant increases in global aid budgets place a premium on accelerating efforts to coordinate and harmonise aid programs, both multilateral and bilateral. Excessive fragmentation of donor effort, in the form of duplicated missions and programs, reduces aid effectiveness and adds stress to already stretched partner government resources. Working more closely with other donors, for example through blending and co-financing arrangements, will reduce this burden ... Ultimately, harmonisation also entails delegating responsibility to other donors for the delivery of aid programs. This already occurs with support to multilateral organisations, particularly the World Bank and the ADB.⁹

Because only multilateral organisations have the convening power to manage multi-donor projects, they had a competitive advantage over managing contractors and other types of partners in attracting increases in aid. Underlining the importance of this objective, the Office of Development Effectiveness (ODE) staff survey suggests about half of all projects were motivated by the desire to *‘provide aid that was harmonised with other donors’ activities*.

Working through other donors can be an effective strategy for minimising the aid management and coordination burden on recipient governments. The case for doing so is especially compelling in fragile and conflict-affected states and as a way of providing coherent assistance to countries dealing with conflicts or national disasters. For example, through the Afghanistan Reconstruction Trust Fund,

Australia's contributions to national budget resources have imposed low transaction costs, with excellent transparency, and strong accountability.

Motivations for making non-core contributions

There were four donors in this space in a small country. By joining together under the ADB it reduced fragmentation of donor inputs and made it easier for the partner government.

ODE staff survey response

However, unless discipline is exercised, there is also a risk that non-core funding will result in multilateral organisations carrying out projects they would not otherwise have implemented, which can increase aid recipients' administrative costs and reduce their ownership over aid, rather than the reverse. Organisation for Economic Co-operation and Development (OECD) reports on the multilateral system have shown that non-core funding is prone to creating new 'financially insignificant aid relationships', which have grown by one-third over the last decade. The 2012 Development Assistance Committee (DAC) Report on Multilateral Aid noted that '*... it is obvious that the increased number of aid relations [in recent years] has led to increased fragmentation*'.*† The impacts of this increased fragmentation and complexity are difficult to assess as they are very context dependent. However, in some contexts, working through partners appears to have exacerbated the problems it was designed to address. This was certainly true in Timor-Leste, where ODE's 2013 evaluation found that:

[F]unding multiple projects managed by multilaterals, often in the same sector, may have actually exacerbated the problems with fragmentation and complexity that they were (in part) designed to address.‡

ODE considers the strategy of working through partners is eminently defensible, especially where the aid program has a limited presence on the ground. However, the harmonisation potential of working through partners is not a given, and would have been improved if there had been greater selectivity in funding decisions.

3.2 Increase policy influence

Motivations for making non-core contributions

To enable us to access, and influence the generation of, new ideas and approaches to development, of particular interest/relevance to us.

To enable us to contribute to and be involved in a policy reform area where on our own we would have very little influence or access.

ODE staff survey responses

The two motivations for engaging in non-core funding most frequently cited by survey respondents were to '*strengthen Australia's capacity to engage in policy dialogue*' (55 per cent of respondents) and '*access specialist expertise and experience not readily available elsewhere*' (54 per cent of

* OECD, Development Assistance Committee, 2012c: 16. The report went on to note that '*... multi-bi aid, or bilateral ODA channelled through multilateral agencies contributes to fragmentation and may render the delivery of resources more complex on the ground.*'

† Recognising this, aid quality indices on the Center for Global Development's Quality of Official Development Assistance reward donors that provide a higher proportion of their aid through multilaterals in the form of core contributions (Australia is ranked 30 out of 35 donors assessed on this criteria), while one commentator has coined the slogan 'don't harmonise, multilateralise'. See: <http://www.cgdev.org/page/quality-oda-quoda>

‡ Similarly, the 2010-11 annual performance report for Nauru observes that: 'Nauru benefits from a range of AusAID's regional and thematic programs, as well as through Australian core contributions to international organisations such as the Asian Development Bank, World Health Organization, United Nations Children's Fund and the United Nations Population Fund ... Increasing engagement by regional and multilateral organisations provides benefits in terms of increased access to technical assistance, analytical expertise and an expanded donor funding base. However, the expanding number of donor partners has significant transaction costs for the government, which absorb resources in coordination efforts.'

respondents). The technical skills and qualifications of bank staff was one of the top three predictors of staff satisfaction with the choice of banks as partners, further reflecting the importance of the banks as a source of expertise. A very high proportion of respondents (79 per cent) were satisfied with the technical skills and qualifications of bank staff (the highest level of satisfaction of any measure) and their ability to engage constructively with partner governments (those that were not satisfied were much more likely to be equivocal or dissatisfied than those that were satisfied with the choice of the ADB or World Bank as a partner).

The main challenge has been that seeking to exert policy influence directly or (to a lesser extent) to account for funding provided for this purpose is resource intensive, and its feasibility depends on contextual factors. Though the aid program invested in increasing its technical capabilities, it did not have the staff resources needed for substantive engagement in the large number of policy areas in which Australia was working with the banks. Interviews with DFAT staff revealed that at times, non-core contributions seemed to be helping the MDBs develop their own lending activities, rather than helping to strengthen Australia's engagement in policy discussions with partners.

Where DFAT seeks to influence the policies, spending priorities or implementation practices of recipient governments in partnerships with the MDBs, substantive engagement is usually required. Staffing changes arising from cuts to the aid budget and the integration of the Australian Agency for International Development (AusAID) with DFAT will make the challenges identified by this evaluation more pronounced in the future. The departure of a large number of experienced aid program staff was a prominent concern raised by survey respondents and interviewees.

Policy influence is difficult to evaluate. It has sometimes been difficult for the aid program to judge whether projects, individually or collectively, have represented value for money, especially in contexts where Australia struggled to engage with the banks' work in a substantive manner. DFAT must consider the aid program's objectives, the partners' capabilities, and DFAT's ability to commit to ongoing substantive engagement with a project to define and assess the level and kind of influence it might reasonably expect through non-core contributions.

3.3 Overcome limitations in banks' budgets

Another prominent motivation for non-core contributions was to increase the banks' effectiveness by helping them to overcome limitations in their budgets for administrative costs and technical assistance. Almost 40 per cent of survey respondents cited *'to support or strengthen bank engagement in a country or region that is of particular interest to Australia'* as a motivation for partnerships (see Figure 7 in Chapter 1). This motivation was apparent in all regions, but it was strongest in the Pacific and Timor-Leste where Australia has supported the banks to scale up their work and provide a counterpoint to Australia's dominance in the region. In Timor-Leste, the World Bank in particular relied heavily on Australian earmarked funding to maintain an active presence in the country during a period when transitional support funds had been exhausted, and the Timor-Leste Government was not willing to borrow.¹⁰

In the Pacific and Timor-Leste, this approach has been generally effective. Funding through a variety of avenues has also promoted improvement in the MDBs' commitment to this work and adaptation of their staffing and procedures to offset the remoteness and capacity limitations of Pacific countries. In doing so, Australia has exploited synergies between its role as a shareholder in the banks, and as a stakeholder in the region.*

In other contexts, the strategy of strengthening bank engagement was less about directly supporting administrative budgets, and more about supplementing the limited resources available to the banks. Non-core contributions are often actively solicited by the banks for various forms of technical assistance, as a complement to their lending resources. These contributions have supported the

* As a shareholder, Australia has successfully lobbied the banks to give preferential treatment to small island states in their resource allocation policies, efforts which have delivered substantial increases in the commitment of core bank resources to fragile and conflict-affected countries, and small island states. As a stakeholder, Australia has complemented this with investments such as the World Bank Pacific Facility and the Pacific Region Infrastructure Facility, which have provided a very important source of support for the banks to deliver resource increases, and to adapt their operations to the Pacific environment.

banks to do more and/or better quality project preparation and design, analytical and advisory work, project supervision and capacity development. Bank staff consulted by the evaluation team were unanimous in emphasising the value they placed on Australian grant funds in enabling them to extend the scope or improve the quality of their programs. It should, however, be recognised that proliferation of non-core funded projects makes it difficult for the aid program and the MDBs alike to identify how well, where, and how partnerships are working.

The risk that non-core funding arrangements may act as a substitute for the banks' core funds and obligations, instead of enabling work that is additional to these basic obligations,^{*} is not always adequately addressed. For example, Australia's 2009 \$1 million investment in an ADB multi-donor fund to support gender assessments and strategies was justified by references to leveraging the ADB's other (presumably core) resources, and the importance of piloting gender-related projects to demonstrate their value to recipient governments. However, neither the ADB's proposal, the aid program's request for approval for the project, or subsequent reporting to DFAT clearly differentiate how the fund's activities differ from those required under the ADB's gender policy. This states that gender and development 'will be actively promoted in both TA [technical assistance] and loan operations' as a matter of course.[†] To avoid the risk of substitution for core funds, DFAT has to carefully consider each project's planned activities before making investments, and commit to collecting and analysing information throughout implementation to identify the extent to which Australian contributions are delivering benefits over and above what the banks should be achieving by applying their existing policies. As discussed in Chapters 4, 5 and 7, this has not always been the case.

These issues of management complexity have been more apparent in Australia's relationship with the World Bank than the ADB. As a result, the need to address the proliferation of World Bank funds supported by Australia has been a focus of high-level discussions since 2012, framed in the context of continuing efforts by the World Bank to simplify and standardise its portfolios of non-core funded projects, and integrate them with country assistance strategies.

3.4 Scale up within available administrative budgets

Multilateral funds are an efficient way of delivering aid. Donors have many options when it comes to targeting their resources: a large number of specialised funds exist, and new funds can be established quickly when there is a defined need. With a growing aid budget, program areas needed to find efficient ways of disbursing increasing amounts of aid, which furthered the attractiveness of working with the MDBs. This is reflected in responses to ODE's staff survey. For example, almost half of all respondents cited '*to achieve results with minimal involvement from aid program staff*' as a motivation for initiating projects, and 42 per cent cited '*sharing fiduciary and/or reputational risk with ADB/World Bank*'. In addition, 20 per cent of respondents cited that their motivation was to '*enable us to provide aid in a geographical area where Australia has a limited presence*'.

These motivations were apparent in all regions, but were strongest in regions and countries that were lightly staffed, which was used to justify a partner-led approach. The South Asia Regional Strategy, for example, explained this approach as follows:

[T]hat working 'through' partners (including by investing in their existing programs and institutions) is more efficient, more effective and provides better value for money than does designing, managing and implementing stand-alone development programs.¹¹

^{*} There are numerous references in the aid literature—especially in reports produced by multilateral organisations themselves—of the problems that arise for recipient multilateral organisations from the provision of non-core funding, especially when its size relative to core funding rises to high levels.

[†] The ADB's Gender and Development Policy states that: 'ADB will promote the mainstreaming of gender considerations in projects, and gender concerns will be addressed at all appropriate stages of the project cycle from identification through postevaluation.' See <http://www.adb.org/sites/default/files/institutional-document/32035/gender-policy.pdf>

Motivations for making non-core contributions

Limited DFAT staff to design, contract and monitor/evaluate aid investments in South Asia, including Sri Lanka.

I think then AusAID was also very receptive to proposals from the [bank]—it made decision-making easier and often meant less time and effort on thinking through program design and more bang for buck in working as a team.

ODE staff survey responses

One problem with the partner-led approach is that it has proven difficult to account for the outcomes of contributions. The very strategy of making non-core contributions creates its own accountability risk; as the World Bank Independent Evaluation Group's evaluation of its trust fund portfolio suggested, there is less internal accountability over non-core funding than regular core resources.* This risk is compounded where Australia does not (or cannot) engage substantively in partnerships, especially those where it is the sole or major donor.

Another shortcoming of this approach is that some loss of recognition necessarily accrues from working through a multilateral partner, regardless of how hard they work to recognise donor contributions. There is an intrinsic limitation in the extent to which Australian contributions can be promoted in recipient executed projects, or projects involving multiple donors. Despite the presence of a donor's branding on infrastructure or documents, recognition of Australia's budgetary and other contributions to partner countries largely comes from DFAT's ability to participate meaningfully in projects. This is supported by one of the findings from a review of branding and visibility in multilateral partnerships:

It was outlined in the cables that bringing expertise to the relationship helps efforts to enhance visibility. The World Bank were seen as the 'experts' relative to AusAID staff. A greater injection of Australian expertise would help AusAID assert its 'rightful' place and enhance visibility.†

It is no surprise then that the region where resourcing constraints have been most acute (South and West Asia) was also where there was the least satisfaction with bank recognition of Australian contributions (including public recognition). An evaluation commissioned by Australia of two (ADB and World Bank) single donor facilities in South Asia noted that engagement with AusAID posts in South Asian countries on public relations opportunities had been difficult, and that '*Australian support ... would almost certainly get more recognition if embassy staff could attend high profile functions*'.¹²

3.5 Balance budget predictability with flexibility

Under pressure to expand bilateral aid rapidly, the ability of the aid program to disburse money in advance of the delivery of products or services was a particular motivation behind non-core funding. This kind of disbursement was efficient, often speedy, and administratively easy to manage. For many years, it has been the usual practice to make adjustments between and within country and regional programs towards the end of the financial year to meet budget targets. From a high-level financial planning point of view, this kind of flexibility is useful for a spending agency. Budget targets can be met more easily where there is scope to disburse surplus funds quickly in a responsible way. The growth in non-core contributions can therefore be seen as a pragmatic and effective response to delivering expanding aid budgets.

* For example, in a survey of sector managers, the Independent Evaluation Group asked: 'Is the quality assurance of trust-funded activities routinely exercised within your unit with the same degree of rigor as Bank-financed activities?' While half saw the quality assurance as equal, the other half saw quality assurance as inferior. See World Bank (2011), Trust Fund Support for Development: An Evaluation of the World Bank's Trust Fund Portfolio.

† This is probably less an issue of expertise, and more one of active and sensible engagement, in a manner proportionate and appropriate to the project being funded. One of the survey respondents described this as follows: '*we [are] not clear on what level of engagement [we should have in the] World Bank's project [and what expectations the bank's leadership has about] management style (hands on or hands off), it is difficult for us to be engaged. For some projects that are important for policy dialogue with [the] partner government, we want to be involved, but World Bank staff seem to be reluctant. Funding through World Bank, Australia's [input is not recognised] if we do not engage.*'

Motivations for making non-core contributions

The project exactly matched the geographical focus of the Australian aid program.

For Australia to be able to publicly announce how we were putting a very large sum of money into a global initiative where there was significant interest in the issue at the time (agriculture).

Political interest in the project from Australia and a need to find ways to spend increased bilateral budget—we needed an infrastructure project (or two)!

Spending imperative. The use of the World Bank Trust Fund is the quickest way to disburse funding.

Involving the ADB meant that we could manage our expenditure. For example, we can make payments early or late in the financial year depending on how our overall expenditure is tracking.

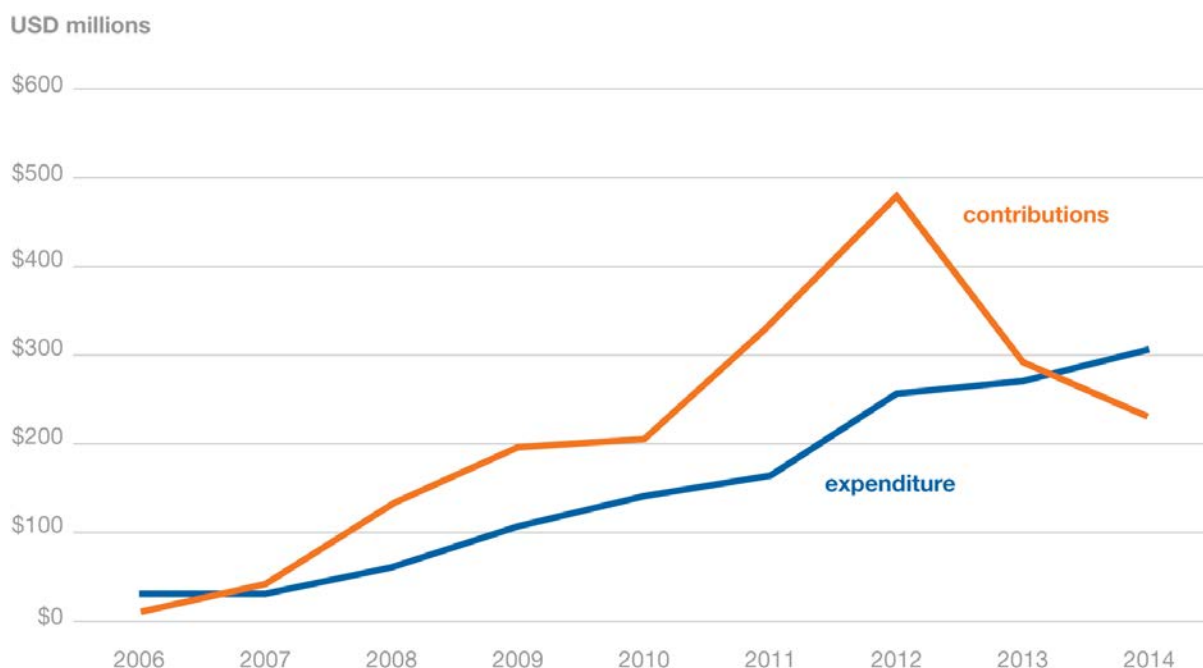
ODE staff survey responses

The problems created by the budget process used to scale up have been elaborated elsewhere* but central to these was uncertainty about forward budget allocations. This increased the risk that agency staff would choose non-core funding partnerships simply because they provide easier disbursement mechanisms, rather than other forms of aid delivery that might have been more effective at promoting development. Another risk is that there would be a build-up of large amounts of idle funds in partner bank accounts, creating a hidden cost to taxpayers in the opportunity cost of higher value projects foregone. While interest earned on advance payments is ultimately used for project purposes, its accrual may result in resources that are in excess of the project's requirements, especially where tranche payments are made before prior instalments are exhausted.¹³

Budget considerations were not the only factor, or even a major factor, in most investment decisions—only 22 per cent of respondents to ODE's staff survey cited the ability to '*meet our ODA delivery targets before the end of the financial year*' as a significant factor in the decision to contribute to projects. In particular, making payments to the banks irrespective of their cash-flow needs was routine, generally towards the end of the financial year (see also Chapter 5). As can be seen in Figure 8, from 2009–10 an inability to program fast enough resulted in a growing disconnect between payments to the World Bank, and its ability to spend them. This reflects the aid program's regular use of advance payments to multilaterals for budget management purposes, and the pressure managers felt to meet agreed budget targets. We assume that a similar pattern existed for non-core contributions to the ADB, but were unable to conduct this analysis due to time constraints.

* For example, in the last major review of the aid program: 'significant shortcomings' with the budget process in that it had created '*fragmentation, inadequate overall scrutiny and an imbalance between the crucial spine of predictability which is needed for multiyear aid projects, on the one hand, and the need for flexibility to respond to unpredictable events on the other*'. Independent Review of Aid Effectiveness (2011).

Figure 8 Contributions to World Bank non-core funded projects outstripped expenditure from them.



Source: World Bank data

Of course, these practices are not ideal. Without specific reference to DFAT, the Australian National Audit Office (ANAO) has questioned, for example, whether they are ‘consistent with the obligation to make proper use of Commonwealth resources’.^{*} However, the advantages of this approach have become apparent in the last two financial years, where the aid budget has had to absorb unexpected cuts. The level of non-core contributions declined substantially with the unanticipated requirement to absorb \$375 million from the aid budget for domestic processing of asylum seekers in 2012–13 and 2013–14. However, as can be seen in Figure 8, the build-up of funds prior to this point meant these cuts could be accommodated with little impact on the disbursement of these funds by executing agencies (either the bank or recipient governments).[†]

Clearly, the budget context in 2015 is substantially different from when the aid program was being scaled up. However, for the reasons outline above, non-core funding will continue to be an attractive proposition for reasons that go well beyond its intrinsic merits as vehicles for achieving aid outcomes. As such, there is merit to tighter monitoring of budget management practices for non-core funding agreements. We make a recommendation on this in Chapter 5.

3.6 Conclusion

The motivations that drove non-core funding to the MDBs are important because they affect results, and also how these results should be considered. While motivations were diverse, they essentially fell into four categories.

^{*} ANAO (2013), *Implementing Better Practice Grants Administration*, p. 86. The ANAO’s better practice guide on grants administration states: ‘There should be a demonstrated net benefit from making advance payments.’ It further observes: ‘A practice commonly adopted by agencies has been to pay a proportion of approved funding in advance upon execution of the grant agreement. In some instances, an initial payment of grant funding may be warranted in order to enable the grant recipient to initiate the project in a timely fashion. However, in other cases observed by ANAO, agencies have adopted a standardised approach under a granting activity of paying a proportion of grant funding upon execution of grant agreements regardless of the relevant project’s proposed timing and overall funding structure. In some cases, this approach has been used as a means of maximising program expenditure in a given financial year. However, it may not be consistent with the obligation to make proper use of Commonwealth resources.’

[†] It is not clear at the time of writing what impact budget cuts in the 2015–16 budget will have on non-core funding of multilaterals.

The first and strongest motivation was to leverage the MDBs' specialist skills and relationships with partner governments to increase Australia's role in shaping recipient government policies. In this area, partnerships were viewed as highly successful: 79 per cent of respondents to ODE's staff survey said they were satisfied with the technical skills and qualifications of bank staff and their ability to engage constructively with partner governments. This was the highest level of satisfaction of any measure.

The second major motivation was to improve the banks' effectiveness by helping them to overcome institutional constraints, largely in their budgets for administrative costs and technical assistance, and in the rules that govern their budget allocations. On this, outcomes were most striking in the Pacific and Timor-Leste, where Australia's contributions have supported the banks to adapt their staffing and procedures to these remote and capacity-constrained environments. Bank staff consulted by ODE unanimously emphasised the value of Australian grants for extending the scope or improving the quality of their programs.

The third major motivation was to provide aid that was harmonised with other donors, and thus reduce administrative costs and complexity for recipients.

The final motivation reflects the attractiveness of non-core funding as a way to meet budget commitments within administrative resource constraints. ODE's staff survey suggests that around half of all projects were motivated by the attractiveness of non-core funding as a vehicle for *'achieving results with minimal involvement from aid program staff'*, while about one in five projects were motivated by the ability to *'provide aid in a geographical area where Australia has a limited presence'*. A further motivation was that bank funds provided scope to disburse surplus funds quickly in a responsible way, and thus manage growing aid budgets.

The prominence of this last motivation, and also that of harmonisation (to which it was often closely allied), raises a number of risks.

Firstly, it raises the risk that non-core funding will actually contribute to costly fragmentation and proliferation of aid projects, rather than address it.

Secondly, it raises the risk of suboptimal results from an Australian perspective. This was evident in the fact that partnerships motivated by administrative economies were closely associated with reduced satisfaction about results obtained and value for money, and about external recognition for contributions.

Finally, it raises the risk that the flexibility and ease of non-core funding as a disbursement mechanism will result in a less efficient use of aid than alternatives. This was evident in the growing disconnect between the amount of funding provided to the banks, and their ability to spend it. The resultant build-up of idle funds in partner bank accounts created a hidden cost to taxpayers in the opportunity cost of higher value investments foregone.

Overall, ODE considers these risks could have been better managed if fewer, larger non-core contributions had been made, with better resourced engagement. While the budget context is substantially different now than when the aid program was growing rapidly, these risks are still relevant and need to be managed.

Recommendation 1

To increase the effectiveness of partnerships with the Asian Development Bank (ADB) and World Bank, the Australian Government Department of Foreign Affairs and Trade (DFAT) should consolidate its portfolio of non-core contributions by:

- > reducing the number of contributions to projects that cannot be matched with appropriately sustained and substantive engagement
- > carrying out regular portfolio reviews with the banks, to promote mutual understanding of partnership priorities and the disciplined management of project portfolios so they reflect these priorities.

4 Effectiveness

Non-core contributions are used to fund a wide variety of projects in many different contexts. Australia may be one of a group of contributors, or the sole or main contributor; the project may be executed by the multilateral development bank (MDB), or by an agency of a recipient government under the bank's supervision; and projects might take place in a specific country, or have a regional or global focus.

This chapter examines the effectiveness of four categories of contributions:

- › global and regional funds used to deliver Australian aid to a priority sector, or to support particular approaches to development
- › funds to respond to needs of countries recovering from disasters or conflict
- › umbrella funds to provide multisector support to MDB operations in a country or region
- › grants to support recipient executed programs.

The characteristics of these categories are described in Table 3.

Table 3 Focus and objectives of partnering with the ADB and World Bank

Arrangement category	Global and regional fund	Fund for post-conflict or crisis reconstruction	Umbrella fund	Grant contribution to recipient executed investment project
<i>Motivation</i>	Deliver Australian aid to priority sectors in ways complementing bilateral programs Support and learn from MDB innovations in aid approaches	Follow MDB leadership in conflict-affected situations	Increase Australian role in policy dialogue and system reform in alliance with MDB Supplement MDB budgets for overheads of operating in the Pacific and Timor-Leste	Increase Australian role in policy dialogue and system reform in alliance with MDB Leverage MDBs' loan resources or expertise by co-financing Support components and cross-cutting objectives in MDB-designed projects
<i>Focus</i>	Sectors or themes relevant to aid program objectives	Conflict-affected countries or regions and humanitarian aid	Multisector support for country or regional programs	Sectors within country programs
<i>Number of donors</i>	Typically multi-donor	Usually multi-donor	Typically single donor, or Australia is the main donor	Single or multi-donor
<i>Typical justification</i>	"[P]rovides a relatively straightforward and cost-effective means of gaining the expertise necessary to eventually implement output-based aid bilaterally, while in the meantime influencing where a large multi-donor partnership focuses its attention." (REF)	"The Afghanistan Reconstruction Trust Fund (ARTF) is the most reliable and lowest-risk vehicle for delivering international assistance through Afghan systems. It is currently the only feasible mechanism through which donors will meet international commitments to increase the use of government systems to deliver aid in Afghanistan." (REF)	"An umbrella trust fund is proposed to encompass all future co-financed activities with the Bank. This will reduce transaction costs and enable the leveraging of significant amounts of loan funding, while also increasing the visibility of Australian engagement with the Philippines Government and the Bank ..." (REF)	"An important consideration for Vietnam is to continue improving the way loans are deployed, for example into quality infrastructure where financing is most needed ... This will require a shift from supporting direct service delivery towards long-term partnerships and policy dialogue on emerging challenges."(Vietnam Country Strategy)
<i>Examples</i>	Infrastructure Partnerships Program; Water and Sanitation Initiative Global Programs; Global Disaster Recovery and Reduction; Global Partnership on Output-Based Aid; Water Financing Partnership Facility	Palestinian Reform and Development Plan Trust Fund; Afghanistan Reconstruction Trust Fund	Philippines Development Trust Fund; World Bank Pacific Facility; Vietnam World Bank Partnership; ADB & World Bank Partnerships, South Asia	Indonesia National Program for Community Empowerment; Cambodia Delivering Better Health

4.1 Global and regional funds

Global and regional funds objectives and the sorts of projects they finance are diverse. Some focus on generating knowledge, establishing standards and promoting global or regional responses to problems that require cross-boundary solutions. Others provide various forms of technical assistance to support projects, including for project preparation, analytical or advisory assistance, or capacity building. Others finance projects. Some do all three.

Australian contributions to these funds have been a straightforward and cost-effective way to deliver aid to sectors or themes that are relevant to aid program objectives and policy priorities.* Because they are usually multi-donor† there are constraints on whether their focus can be modified to address Australia's specific interests. However, offers of substantial contributions can influence the MDBs' management of them, particularly in their geographical focus. The high profile of the largest of the funds contributes to their generally strong accountability.‡ Contributing to these funds involves only modest reputational risks, because risks are spread over many projects and are also monitored by other donors. Unless the aid program expects to influence how the fund is managed, or its ability to establish links with bilateral programs, these funds require relatively modest engagement compared to alternatives.

The World Bank-managed Water and Sanitation Program (Box 1), which has received over \$34 million from Australia, is an example of a highly effective multi-donor fund with global and regional operations. It has made good use of the World Bank's global knowledge in this sector, strong relations with a wide range of stakeholders and credibility as an adviser on best practices.

However, it is also true that not all funds provide equal value for money. Some funds are created by MDBs to exploit donors' latest priorities, but turn out to be spent in very similar ways to core funding. Moreover, some of the MDBs' managers prove more adept than others, and monitoring and evaluation (M&E) is done more thoroughly for some funds than for others. As is discussed further in Chapter 7, a common problem with global and regional funds has been that it has frequently proven difficult to establish monitoring systems that provide funders with compelling evidence about their outcomes and value for money. Therefore, without careful selection and monitoring, it is possible that funds will be supported that have significant design weaknesses, or weak financial and organisational sustainability.¹⁴

The examination by the Office of Development Effectiveness (ODE) of large contributions to multi-donor funds shows they have been based on careful selection and have proven effective for the aid program's main purposes. But there have been many contributions of medium and small amounts since 2006—at least 20 between \$5–10 million, and at least 40 of less than \$5 million—and while these funds may have purposes aligned with aid program objectives, it is likely that the resources necessary to scrutinise their management have not been allocated, and that some have fallen short in design, operation or sustainability.

Moreover, some of the aid program's contributions to MDB-managed multi-donor funds, including large ones, have fallen short of their secondary objectives—of learning about innovative aid approaches, or making other links between MDB-managed and bilateral programs. In several cases that ODE examined, because of internal resource shortages or gaps in country-level communications, these objectives have not been realised.[§]

* Examples of these contributions are to the Water and Sanitation Program, Infrastructure for Growth Initiative regional funds—for East Asia and Pacific and for South Asia, Energy Sector Management Assistance Program, Global Road Safety Facility, Cities Alliance, Global Program for Output Based Aid, Extractive Industries Transparency Initiative, Global Facility for Disaster Reduction and Recovery, and Public Private Infrastructure Advisory Facility (all World Bank managed), and the Clean Energy Financing Partnership Facility and Water Financing Partnership Facility (both ADB managed).

† In most cases the aid program has contributed to existing multi-donor funds, but in a few cases it has arranged single donor funds of this kind, notably the regional (Pacific) Infrastructure for Growth Fund managed by the World Bank.

‡ This is a conclusion of the World Bank Independent Evaluation Group about World Bank-managed funds: see World Bank (2011), *The World Bank's involvement in global and regional partnership programs: an independent assessment*.

§ This observation is explained in detail in Chapter 6. Linking global and regional funds to bilateral programs has proved especially difficult in fragile and conflict-affected contexts.

Box 1 Water and Sanitation Program

This World Bank-managed multi-donor fund shows the value of analytical and advisory work on a global scale, informed by the World Bank's expertise, reach and convening power.

The Water and Sanitation Program (WSP) is focused on identifying and promulgating best practice in water supply and sanitation services to the poor in developing countries. It funds work to help governments improve policies for public and private expenditure in this sector, and guide aid agencies.

Australian Government Department of Foreign Affairs and Trade (DFAT) staff told the Office of Development Effectiveness (ODE) they have been impressed by the WSP unit's use of their freedom to range and experiment; for example:

- › work on benchmarking water utilities, which has helped to mobilise peer-group pressure
- › research on the health costs of open defecation, which has helped to motivate governments and development partners to give greater priority to sanitation¹⁵
- › work with non-government organisations (NGOs) to increase access for the poorest, which has helped to challenge conventional approaches
- › arranging for successful reformers in water utilities to be mentors over years in other utilities, helping their officials to keep pushing on.

Aid quality check (AQC) reports commend WSP for pioneering work on rural sanitation, for increasing domestic private-sector participation in water supply and sanitation, for a collaborative approach which contributes to sustainable results, and for strong advocacy of inclusiveness. A 2012 evaluation commissioned by the aid program commended WSP on all the specified criteria, and particularly for relevance, effectiveness, monitoring and evaluation (M&E), and analysis and learning.

Note: Information about WSP, its research and other activities that it funds can be accessed at <http://www.wsp.org/>

In summary, contributions to MDB-managed global and regional funds that have objectives closely aligned with those of the aid program are likely to be effective. The extent to which they are effective in addressing particular concerns or interests varies depending on whether initial negotiations and subsequent engagements can be appropriately resourced. From this stand-point, Australia should have been more selective in its choice of funds.

It is worth noting on this point that investments in MDB-managed funds with broad sectoral and geographical foci are quite similar to core contributions, which also provide an efficient means of delivering aid, as well as scope to influence the MDBs' geographical, sectoral and other priorities. This is especially true of the Asian Development Bank's (ADB's) Financing Partnership Facilities, which have a geographical focus that closely matches that of the Australian aid program.

4.2 Multi-donor responses to address disasters or conflicts

Contributions to multi-donor funds for reconstruction in post-conflict or disaster-affected settings allow the aid program to draw on the strengths of the MDBs in:

- › assessing post-conflict or post-disaster needs, on which priorities for assistance can be based
- › convening and leading collective responses to these needs
- › managing infrastructure projects, including incorporating standards for mitigating future natural disasters
- › managing fiduciary risks of working through local institutions

- › navigating political and social tensions, such as through consultative mechanisms and engagement with non-government organisations (NGOs).

Judgments are required in different contexts about how substantial these advantages are. Where physical and political risks are high and recipient governments have very low capacity, MDB-led multi-donor funds have usually been regarded as the only feasible mechanisms through which donors can contribute on a substantial scale. In other situations, Australia's relations with the country involved may mean that bilateral help is a viable or preferable alternative to supporting multilateral efforts. This was the case when Australia led the Regional Assistance Mission to Solomon Islands in 2003, and provided bilateral funding for the Indonesian Government's reconstruction in Aceh after the Indian Ocean tsunami of 2004 rather than through the very large multi-donor reconstruction funds being established at that time.

Examples of Australian contributions to MDB multi-donor funds for reconstruction are the World Bank-led Palestinian Reform and Development Plan Trust Fund, the World Bank-led Afghanistan Reconstruction Trust Fund, and the ADB-led Pakistan Earthquake Reconstruction Fund (Box 2). Australia's aid objectives have generally been well served by these contributions.

Box 2 Pakistan Earthquake Reconstruction Program

After Pakistan suffered a severe earthquake in October 2005, the Australian Prime Minister announced support for reconstruction, by providing Australian technical experts. The Government of Pakistan agreed to Asian Development Bank's (ADB) coordination of external contributions to reconstruction, and asked the ADB to help establish a new unit in the national government to coordinate reconstruction work among national ministries and provincial administrations.

An Australian Agency for International Development (AusAID) team visited in late 2005 and formulated a set of options for providing support. Drawing on the team's assessment, the aid program contributed to the ADB-managed reconstruction program, provided technical advisers to the new administrative unit under ADB direction, and funded a parallel United Nations Children's Fund (UNICEF) program for re-establishment of schools.

The ADB reconstruction program was completed successfully, although forming the government's new administrative unit increased the time taken for the reconstruction work, on top of other delays. Two Australian technical advisers were provided for about 18 months, after which it was agreed that they should hand over their tasks to the local program managers, in line with the ADB approach of seeking to sustain improvements in standards for constructing schools and health posts.

As one of many donors, the role of the Australian Government Department of Foreign Affairs and Trade (DFAT) within these large, MDB-led funds depends on its ability to engage with its partners. Though in some cases there may be scope to work with other donors to argue for changes to these funds, even if DFAT resources these programs well its ability to influence their management is constrained. DFAT must therefore ensure that multi-donor funds' governance and reporting structures are satisfactory before committing to join them.

4.3 Umbrella funds

Investments in umbrella funds have been made to increase Australia's role in policy dialogue, and improve the coherence of work undertaken and the quality of partnerships by bringing multiple smaller investments in different sectors under one management framework. In the Pacific and Timor-Leste they have been used to supplement the MDBs' administrative resources.

Umbrella funds have suited situations where the aid program has wanted an active, continuous role in planning with the MDBs where and how Australian funds would be spent and in monitoring the projects funded. Therefore, they have usually meant greater responsibilities for the aid program and closer engagement than in multi-donor funds. Examples include the Philippines Development Trust

Fund (World Bank), Indonesia Infrastructure Initiative (ADB and World Bank), Vietnam World Bank Partnership, and partnerships with the ADB and World Bank in South Asia.

Umbrella arrangements have been more common with the World Bank than the ADB, because the World Bank has had more resources for the kinds of projects involved, especially at country level.

Umbrella funds have been effective in supporting the aid program's objective of stepping up engagement in policy dialogue, through helping to provide analytical material and improve access to recipient governments' decision-makers. From the MDBs' perspective, umbrella arrangements have provided a substantial source of additional funding for technical assistance, which is in short supply within the banks. For these reasons, ODE found that aid program and MDB staff involved in umbrella funds support them strongly, and in the Philippines heard favourable accounts of umbrella-fund projects from senior government officials (Box 3).

Box 3 Assistance for the Philippines' conditional cash transfer system

Since 2007 the Australian aid program has been providing assistance in partnership with the World Bank to the Philippines Government's Pantawid Pamilyang Pilipino program, a national system of conditional cash transfers, managed by the Department of Social Welfare and Development (DSWD).

Australia has funded the World Bank to help develop a targeting system based on objective criteria, the underlying model, and an information system for DSWD designed to minimise opportunities for fraud. One strand of this program provides World Bank advice to DSWD, including through an in-country specialist, on impact evaluation. The World Bank helped DSWD to design and administer randomised control trials in 2011. This found statistically significant improvements in education for children aged 6–11 years (though not for those aged 12–14 years). In health, it found statistically significant improvements in use of antenatal and postnatal care, but not in attended births. The World Bank helped DSWD to commission and manage a second evaluation in 2013, which indicated more widespread improvements from conditional cash transfers.

These evaluation results have helped DSWD to make its case to Congress for funding the program, and to increase its scope to encourage schooling for children aged 14–18 years. The Secretary of DSWD and her colleagues told ODE in August 2014 that the Australian-funded World Bank advice has been very helpful, although implementing it has contained challenges for DSWD. The Secretary included among the strengths of the World Bank that at the same time as providing the framework for impact evaluation of conditional cash transfers, its advisers have built the capacity of DSWD staff to continue this work.

Note: A public presentation of the most recent impact evaluation results can be accessed at <http://pantawid.dswd.gov.ph/index.php/component/content/article/1-latest-news/379-pantawid-pamilya-is-effective-say-impact-evaluation-results>

The contextual requirements for partnerships in umbrella funds to be effective are that:

- › senior managers at aid program posts and World Bank country directors have responsibility for local programming*
- › host government agencies welcome and see advantages in the aid program and MDBs working together
- › working-level relations between aid program and MDB sector teams are frequent, substantive and on reasonably equal terms.

* Historically and through the evaluation period this could not be said of the ADB's in-country representative offices, however capable the individual members of their staff have been. During the last decade ADB senior management has assigned greater responsibilities to representative offices, but this has not yet led to their heads having discretion in programming comparable to that of World Bank country directors.

For these requirements to be met, the aid program needs to have appropriate expertise at post, and a significant, continuing program of investments in sectors that are also a focus for the MDBs. In the period covered by the evaluation, Indonesia, Vietnam and the Philippines in Southeast Asia, and Papua New Guinea and Solomon Islands fit this description.

Where umbrella funds are large relative to the MDBs' administrative budgets, there is a risk that they will weaken internal budget discipline and substitute for the MDBs' administrative budgets. This risk is compounded by the fact that the nature of MDB executed projects under umbrella funds makes evaluation of their effectiveness expensive or difficult. Upstream work on investment projects and support for their implementation are rarely evaluated separately from the projects themselves. And while the MDBs routinely prepare completion reports on even small projects, access to these does not provide an overview of a fund's contribution or an assessment of how much value it is adding. For these reasons, M&E has not been a strong feature of umbrella funds.*

We used the bank for its technical depth. Without access to our own technical expertise deployed in a consistent manner we struggled to influence the bank.

Our ability to engage and influence depends on having sufficient time and skills to bring to the table, particularly through specialist advisers and/or contracted consultants.

ODE staff survey responses

Australia as the main or only donor supporting bank engagement in the Pacific and Timor-Leste

In the Pacific and Timor-Leste, Australia's on-the-ground experience and resources tend to be greater than those of the banks. In these contexts a variation on the umbrella arrangements has been established, which in part deliberately supplements the MDBs' administrative budgets as well as their loan and grant resources. The recent partnerships involving large contributions are the World Bank Pacific Facility (Box 4), Pacific Region Infrastructure Facility (including both the ADB and World Bank), Private Sector Development Initiative (ADB) and Pacific Private Enterprise Partnerships (International Finance Corporation).

* The Indonesia Infrastructure Initiative is an exception: extensive evaluation work has been done and used to guide the selection of new projects. But this work relates to projects undertaken through the managing contractor, not the smaller amounts of work done through contributions to the ADB and World Bank.

Box 4 World Bank Pacific Facility (PF3)

The Pacific Facility with the World Bank was established in 1987, reflecting Australia's long-standing interest in increasing World Bank engagement in the Pacific. From 2006, the third phase of the facility, "PF3", received a substantial increase in funding (\$35 million) to offset constraints in the World Bank's global model for allocating International Development Association (IDA) resources and cater better for the very small Pacific Island countries. This effectively added about \$4 million a year, or about 40 per cent, to the World Bank's administrative budget for the Pacific Islands and Papua New Guinea.

This increase was central to a doubling of staff and an expansion of the bank's presence through an extra four offices in the Pacific (in addition to those in Sydney and Port Moresby), shared with the ADB.

An evaluation commissioned by the aid program in 2012 observed that Australia's support had not displaced funds that would otherwise have been provided by the bank's administrative budget, since that budget had risen steadily both in absolute terms and as a share of administrative budget for East Asia and the Pacific.

That evaluation concluded that Australia's funding had '*undoubtedly helped to improve the Bank's understanding of local conditions, and at times to improve responsiveness to implementation issues*'. This has been critical in a period when the World Bank portfolio in the Pacific has expanded very substantially. Comparing the three years 2002 to 2004 (pre-PF3) and the three years 2009 to 2011, IDA commitments increased from US\$ 27.7 million to US\$ 205 million (over sevenfold) and non-core funding commitments to the World Bank increased from US\$ 3.7 million to US\$ 66.6 million (18-fold). On this basis, the evaluation concluded that the 40 per cent increase in the World Bank administrative budget provided by PF3 had been paralleled by a far greater expansion in the portfolio.

In discussion with ODE, staff in the World Bank Pacific Office commented that one important result of the project was that it helped them to prepare infrastructure projects, such as to improve airport services, on a regional basis. They said this work is highly beneficial for small Pacific states, but would have been impossible to undertake otherwise.

Source: Independent Review of the Pacific Facility III Trust Fund (PF3), 2012, and ODE discussion with World Bank staff, 21 August 2014

From the perspective of the aid program, the main gains in effectiveness from these MDB partnerships arise from:

- > the expertise the MDBs bring, especially in economic and sector analysis and in applying best-practice approaches drawn from international experience
- > their reliability in managing financial risks
- > their capacity for coordinating the contributions of other donors.

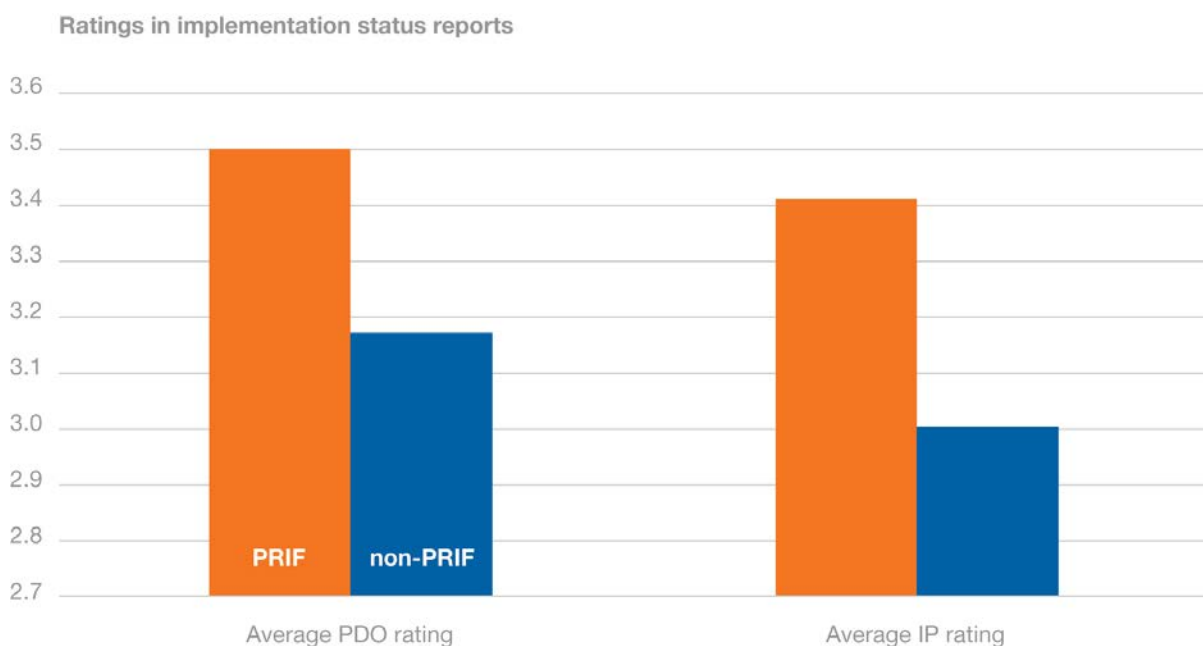
The aid program's contributions to the MDBs' administrative budgets and other resources have increased the scale and the effectiveness of their work for Pacific states and Timor-Leste. The MDBs have been able to apply more resources to economic analysis, and to consultation and capacity building among government agencies and private businesses. The MDBs have been able to identify and prepare investment projects more thoroughly.

Empirically, it is very difficult to establish the added value of these activities in terms of development outcomes. Notwithstanding this challenge, analysis conducted by the World Bank, comparing the performance ratings of projects funded through the Pacific Region Infrastructure Facility (PRIF) and non-PRIF projects of similar kinds in the Pacific, has indicated that projects with PRIF support were

implemented with fewer delays and made better progress towards their development objectives (Figure 9).^{*} The World Bank observed that:

This was most likely because, in addition to co-financing certain projects, the PRIF provides more funding for design and supervision of projects. Better project design, taking into account the capacity of the implementing agencies in the PICs [Pacific Island countries], helps the projects meet their development objectives. More funding for supervision also helps projects that are slipping behind in their implementation progress get back on track.¹⁶

Figure 9 World Bank ratings in the Pacific are better on average for PRIF supported projects than non-PRIF projects.



IP = implementation progress; PDO = project development outcome ; PRIF = Pacific Region Infrastructure Facility
 Source: WB 2014, Report on the Pacific Region Infrastructure Facility (PRIF) Trust Fund (2008–2012)

While these results are promising, it is difficult to draw strong conclusions from these data.[†] Also, it is important to acknowledge ongoing tensions between DFAT and the MDBs about how partnerships are operating in this region, particularly the extent and type of bank engagement.

Aid program staff expressed concerns to ODE about the banks’ operating arrangements in the Pacific and Timor-Leste, particularly a short-term-focused ‘fly in fly out’ management model. DFAT officers expressed a desire for bank involvement in the region, but noted that there is often a discrepancy between their and the banks’ interests in this regard. They observed that consistent in-country engagement is required to maintain momentum and draw together short-term projects under portfolios of non-core funded projects such as umbrella funds. ODE also heard that relationships with the recipient government are particularly important in fragile and conflict-affected contexts. In the absence of strong MDB representation in country, particularly where Australia is the lead or largest donor, DFAT posts have felt they needed to devote significant resources to managing aspects of these projects to ensure that they are effectively implemented, and that relationships between Australia and the partner government are maintained.

^{*} Similarly, according to ADB staff, while projects with support from the two financing partnership facilities (FPFs) to which Australia contributes have generally the same success as other projects, this in fact represents better performance because the FPF-supported projects are more innovative and complex than others.

[†] For reasons explained more fully in Appendix 3, this is because additional support for implementation may be achieving results through substituting for local capacity rather than enhancing it, which would reduce sustainability. More long-term evaluation that examines sustainability as well as implementation ratings data would help DFAT assess the value of this kind of investment.

ADB and World Bank ADB staff also find these partnerships challenging. The MDBs have occasionally struggled to reconcile the opinions of aid program staff at posts, staff in Canberra, and consultants working for them, particularly where generalist program managers are responsible for review missions carried out with help from consultants employed as sector experts. They have also sometimes felt that aid program managers have attempted to direct them as though they were contractors—presumably reflecting the historical dominance of contracting out for the delivery of Australian aid, and Australia’s position as the major donor in the region. Despite these recurring issues, MDB staff were positive about the assistance given by aid program staff at posts in navigating local issues in Pacific states, noting that this was a useful (and fortunately more frequent) feature of partnerships in this region.

4.4 Recipient executed projects

Grants to MDB-managed projects implemented by recipient governments (through their ministries or government-owned utilities) have been one of the most common types of partnerships between Australia and the MDBs. Australia has contributed to substantial development investments and the policy reforms that often accompany them. Of the 30 cases examined by ODE, 14 were recipient executed projects.* In several cases, Australia has funded the whole or almost all of small recipient executed projects managed by MDBs.

Australia’s contributions have been used for one or both of two purposes:

- › as part of the financing of the project, supplementing MDB funding
- › financing specific components of the program—such as incentive grants, advice to management, capacity building, support for better quality M&E, and work on gender or social and environmental issues—for which the recipient government wants to use grants rather than loans, or in which the aid program has a special interest.

The success of these projects has varied, and often been limited in fragile contexts, but the MDBs have generally rated them as at least moderately successful in terms of their development objectives. This is consistent with the aid program’s performance ratings for effectiveness and overall. In the 14 cases of this kind examined by ODE, aid program ratings for nine were satisfactory or better, and for three were less than satisfactory, while two programs were too small to be rated (Table 4). Where independent evaluations were done, they were in line with these ratings.

The aid program’s contributions over and above financing—for example, through influencing a project’s scope or helping with aspects of implementation—have ranged from modest to major, as shown in Table 4. This reflects the extent to which Australia’s contributions have gone beyond simply financing. Importantly, grant funds have not simply softened the financial terms of governments’ recourse to the MDBs, but have extended the scope or policy content of MDB-managed programs in ways of real value.

* This does not include a range of recipient executed projects, mostly on a small scale, financed through the umbrella funds described in previous sections.

Table 4 The effectiveness of Australian contributions to recipient executed projects has ranged from modest to major

Program (aid program funding)	AQC ratings for effectiveness – average and trend through time	AQC ratings for all criteria – average and trend through time	Non-financial contribution/s by aid program to effectiveness
Indonesia National Program for Community Empowerment (WB \$179m)	4.8 No trend	4.8 Rising trend	Major: collaboration on selecting and designing trials for Indonesian Government, and on methods of scaling up successes.
Indonesia Water and Sanitation for Low Income Communities Project (PAMSIMAS) (WB \$48m)	4.7 Rising trend	4.25 Rising trend	Major: collaboration on rolling out WB's water sector program and expanding the training of village facilitators.
Vietnam Southern Coastal Corridor (ADB \$45m)	4 Rising trend	4.33 Rising trend	Major: ensuring attention to environmental and social safeguards, HIV/AIDS and human trafficking, and to soft-soil problems when identified.
Philippines–Strengthening Public-Private Partnerships (ADB \$19m)	5 No trend	4.93 Rising trend	Major: technical advice during design and implementation, complementary funding for revolving fund to develop project proposals.
Cambodia – Delivering Better Health (WB \$54m)	4.8 No trend	4.45 No trend	Substantial: contributions to design and policy dialogue; complementary bilateral programs.
Philippines Basic Education SPHERE (WB \$41m)	4.9 Rising trend	4.0 No trend	Substantial: advice during design, technical assistance to support implementation.
Papua New Guinea Rural Primary Health Services Delivery Project (ADB commitment \$40m)	4 (for multiple programs)	4.2 (for multiple programs)	Substantial: advice during design, complementary bilateral programs.
Samoa Power Sector Expansion Project (ADB \$15m)	5.1 No trend	5.0 Rising trend	Substantial: advice during design, complementary incentive grant linked to sector reforms.
Solomon Islands Rural Development Program (WB \$9m)	3.5 No trend	3.62 No trend	Substantial: advice during design, complementary bilateral programs, cooperation on policy dialogue.
Tuvalu Public Financial Management (ADB \$0.4m)	No ratings (small amount)	No ratings (small amount)	Substantial: advice during design, complementary provision of full-time adviser.
Timor-Leste Health Sector Support Program (WB \$23m)	2.5 Rising trend	2.86 Rising trend	Modest: support in dialogue about sector priorities, contributions to re-scoping and implementation.
Kiribati Growth and Economic Management (ADB \$2.4m)	3.8 Rising trend	3.95 Rising trend	Modest: advice during design and implementation.
Cambodia Public Financial Management (WB \$1.5m)	4.1 Falling trend	4.3 Falling trend	Modest: inputs during IFAPER expenditure study, based on bilateral program experience.
Vietnam Land Administration (WB \$0.5m)	No ratings (small amount)	No ratings (small amount)	Modest: small but valuable additions in areas of interest to Australia.

ADB = Asian Development Bank; AQC = aid quality check; IFAPER = integrated fiduciary assessment and public expenditure review; WB = World Bank

As with umbrella funds, partnerships have worked best where DFAT has had enough country and sectoral expertise to place it on reasonably equal terms with the MDBs and recipient governments. A case illustrating this is the Delivering Better Health program in Cambodia. The aid program had substantial bilateral programs in the health sector, and therefore an extra objective of taking part in policy dialogue accompanying the World Bank program loan. For the World Bank, it was helpful to have the additional perspective and resources that the aid program brought to this policy dialogue,

and together they have contributed to informing expenditure decisions and administrative reforms in Cambodia's health sector.

4.5 Effectiveness of the MDBs compared to other partners

The great thing about [bank] projects is that they are recipient executed. The worst thing about [bank] projects is that they are recipient executed.

Bank staff member

Though there is strong evidence about the effectiveness of different types of partnerships with the banks, there is little on how these projects compare to those delivered by other types of partners. With this in mind, ODE compared the performance ratings DFAT gave to projects implemented by the ADB and World Bank to ratings given to projects implemented by other types of partners (see Appendices 3 and 4).

In aggregate, the direct comparison of ratings was distinctly unfavourable to the MDBs.* On the criterion of effectiveness, and all bar one of the other five performance criteria, projects delivered by the ADB and World Bank have been rated as worse performing than those delivered by other partners.†

However, further analysis (see Appendix 4), shows that this result is largely because of the MDBs' approach of delivering aid through recipient executed projects, which often results in more delays and difficulties during implementation compared to projects delivered through parallel systems. Moreover, there is good evidence that these drawbacks are offset by the better prospects that improvements or innovations will be internalised and development benefits sustained when projects are implemented by recipients, compared to when they are not. The general pattern revealed by this analysis is that ratings on all criteria improve during implementation, so that by completion the aggregate ratings for bank projects are on par with, or better than, aggregate ratings for other major delivery partners.

One notable exception to this point is performance on gender. The World Bank and to a lesser extent the ADB do not perform well in promoting gender equality compared to other major delivery partners on gender in project performance ratings, with the ADB performing much better than the World Bank in terms of the proportion of project ratings that were not satisfactory (Figure 10). Moreover, for gender equality there is no evidence of the pattern of improvement evident with other quality criteria (discussed in Appendix 3). ODE's survey of DFAT staff perceptions also reflected dissatisfaction with the MDBs' performance in promoting gender equality, where 35 per cent and 36 per cent of respondents were dissatisfied with the performance of the ADB and World Bank in this area respectively.

* Ratings in AQC (formerly 'quality at implementation') reports rate the performance of initiatives against six criteria—relevance, effectiveness, efficiency, M&E, sustainability and gender equality. Initiatives are rated on a six-point scale, where a rating of 1, 2 or 3 is considered unsatisfactory and a rating of 4, 5 or 6 is considered satisfactory. The analysis included ratings contained in 1756 quality at implementation reports completed from 2008 to 2014, covering 617 initiatives. Ratings assess the performance of projects rather than partners, and it is for authors' discretion whether they distinguish the performances of MDBs as supervisors, executing agencies and employed consultants.

† This was evident in the proportion of projects assessed as unsatisfactory, as well as high performing.

Figure 10 The World Bank and, to a lesser extent, the ADB do not perform well in promoting gender equality in aid program performance ratings.



Note: Results are from gender equality ratings in 1011 project performance reports completed since 2008 on projects delivered by one major partner, in one country.

On this point, it is clear that the aid program must improve on its own record on gender, which has often been less than satisfactory (see, for example, the performance of projects delivered by other Australian Government departments, and recipient governments under direct supervision from the aid program in Figure 10). Given the level of Australian funding delivered through the banks, and evidence about the banks' performance on gender (especially the World Bank), priority should be given to increasing DFAT's dialogue with the banks in this area, to meet its commitment to ensuring that 80 per cent of its projects will effectively address gender issues in their implementation, regardless of their objectives.

4.6 Conclusion

ODE found that non-core funding to the ADB and World Bank is an effective way of delivering Australian aid. While not every project has achieved its objectives, overall their rate of success is acceptable. This view is supported by the MDBs' performance ratings, aid program ratings, ODE's examination of selected cases, and independent evaluations. Eighty per cent of DFAT staff agreed that partnerships were *'an effective vehicle for pursuing the aid program's objectives'*. Overall, completion ratings for bank projects are either comparable, or better than the aggregate ratings for other partners. The one notable exception is effectiveness in promoting gender equality, where project performance ratings and staff satisfaction are relatively low.

Non-core contributions have achieved the best results when the aid program's partnerships with the MDBs have positively influenced national policies or administrative systems. The likelihood of success has been affected in most cases by Australian financial contributions, but is also influenced by non-financial contributions. In particular, Australia's constructive relations with recipient governments have been crucial in informing judgments about how the aid program can add most value. Partnerships have generally worked best where Australia has been able to devote not only administrative and managerial resources, but also specialist expertise and country knowledge.

There was no evidence to suggest that some arrangements—single or multi-country; single or multi-donor—are intrinsically more or less effective than others. Rather, the effectiveness of different types of arrangements depends on how well they have suited their context, and on the level of alignment of

the expectations and interests of DFAT and the banks. The risks of tensions arising in partnerships have been significantly higher in the Pacific and Timor-Leste, where DFAT's in-country presence is significantly greater than the banks', and in other places where DFAT has been unable to support its staff to have well-informed and constructive engagement with the banks. ODE's observations of how the effectiveness of different types of contributions relates to their contexts are summarised in Table 5.

Table 5 Effectiveness according to context of Australian non-core contributions

Australian contributions to funds, for global or regional operations in a high-priority sector or with a specialised or innovative approach	<ul style="list-style-type: none"> › Generally effective for larger contributions, especially where Australia has actively engaged. › Smaller contributions are likely in most cases to have been spent effectively, but where there are obstacles to or gaps in aid program monitoring, this cannot be confirmed. › Benefits of knowledge sharing within the aid program have been elusive, through shortcomings in MDB-post and internal communication.
Australian contributions to funds for reconstruction after conflict or natural disaster	<ul style="list-style-type: none"> › Effectiveness has been constrained by country situations, but these contributions have clearly been the most effective means available of serving aid program objectives, especially but not exclusively in contexts where Australia is not a lead donor.
Australian contributions to umbrella funds, for analytical and advisory work, project identification and preparation, or capacity building in one country or region	<ul style="list-style-type: none"> › Highly effective in the more important cases, which have been supported by large bilateral programs in sectors where the MDBs also operate. Running these programs has developed substantial aid program expertise at these posts, which has enabled working relations with the MDBs to be close and productive. › This favourable situation has existed in only a handful of countries, and restructuring of aid program staffing may affect where it exists in future.
Australian contributions to umbrella funds to supplement MDB budgets or grant resources for work in the Pacific and Timor-Leste	<ul style="list-style-type: none"> › Highly effective in general, now that the MDBs have adapted their staffing and procedures to Pacific conditions, and given the considerable support and inputs from aid program staff in Canberra and at posts. › Working-level frictions frequently figure in these partnerships: causes include a tendency for some in the aid program to micro-manage MDBs like contractors, and divergences of views within the aid program.
Recipient executed projects, funding a share of the project financing, or particular components, such as advice to management, capacity building, support for M&E, incentive grants	<ul style="list-style-type: none"> › Effective generally, but within the constraints of country situations and with some gaps in effectiveness. These contributions have potential for highly effective leverage of aid program resources by linking with strengths of the MDBs in specific contexts and the scale of their projects. But they contain numerous risks to effectiveness, particularly related to recipient execution, which the aid program may or may not be able to influence. › As with umbrella funds, these partnerships have been most effective where the aid program, through extensive operations for some years in similar sectors, has been able to engage with the MDBs with depth of expertise or at least country knowledge, and hence on reasonably equal terms.

5 Design

Before entering into non-core funding agreements with the multilateral development banks (MDBs), the Australian Government Department of Foreign Affairs and Trade (DFAT) needs to consider the likely costs, benefits and risks of projects in different contexts. This includes how they might differ depending on whether a project:

- › involves Australian funding only, or has multiple donors
- › is executed by the MDB or an agency within the recipient government
- › is conceived with global, regional or country-specific goals in mind.

This chapter examines DFAT's consideration of project design, the extent to which its agreements with the banks facilitate effective partnerships, and how DFAT's corporate knowledge could be better shared and applied when considering future partnerships.

5.1 Appraising potential projects

Choosing a partner

Deciding whom to partner with is an important decision for senior staff in DFAT's country and regional programs, and policy areas. Multilateral partners, managing contractors and non-government organisations (NGOs) can all be effective vehicles for delivering different kinds of projects, depending on the aid program's aims, internal capabilities and resources, and the geographical context. The importance of partner selection is reflected in the commitment made in the current Australian aid policy, *Australian aid*, to strengthen systems used to assess the aid program's main delivery partners.

Sixty-two per cent of respondents to the Office of Development Effectiveness (ODE) staff survey indicated that other partnering options had been considered before entering into an agreement with a bank. There are several reasons why DFAT would not have considered other options in the remaining cases. Chiefly, this would have been because particular attributes of the MDBs were needed, such as their convening power, existing roles with recipient government, particular technical expertise, or ability to operate at a large scale. Reflecting the importance of these attributes, 66 per cent of respondents to ODE's staff survey agreed that the MDBs had achieved results that could not have been achieved working through another type of partner. Only in a small number of cases were the banks found not to be the best choice of partner.

Appraisal of designs

ODE examined the comments of individual appraisers, records of appraisal review meetings, and approval minutes for a sample of 30 cases, which included most large (over \$20 million) partnerships with the MDBs (see Appendix 2).^{*} Aid program involvement in these designs varied. The aid program has approached potential partnerships with the MDBs in various ways:

- › making ad hoc or opportunistic contributions; for example, aid program staff asking an MDB to carry out a specific task (such as an analytical study), the MDB requesting funds to supplement

^{*} Examples of aid program participation in MDB-led designs are Pakistan Earthquake Reconstruction Program, Vietnam Southern Coastal Corridor, Indonesia Water and Sanitation for Low Income Communities Project (PAMSIMAS), Cambodia Delivering Better Health, Cambodia Public Financial Management, Solomon Islands Rural Development Program and Samoa Power Sector Expansion Project.

their own budget, or the recipient government requesting assistance with activities for which they are reluctant to borrow

- › 'shopping' for an existing multi-donor fund that closely matches Australia's objectives and is considered to be well managed
- › tailor-making arrangements; for example, single donor funds targeting sectors or themes, umbrella funds for analytical work across multiple sectors, or co-financed projects in particular countries, including identifying grant components of MDB-led projects.

At a minimum, officers reviewed the MDBs' designs. They were actively involved in developing the design in a significant minority of projects. When entering into established multi-donor global or regional funds, project documentation reflects efforts to ensure a focus on the Asia-Pacific or Pacific, with varying degrees of success.

Overall, ODE found that the aid program was conscientious in most of its appraisals of project designs: 74 per cent of survey respondents agreed with this assessment (only 8 per cent disagreed). ODE found program designs questionable in just two cases, with the benefit of hindsight. The World Bank-managed Timor-Leste Health Sector Support Program began with unrealistic ambitions which were later substantially downgraded. The Justice for the Poor East Asia and Pacific program, also managed by the World Bank, was to combine research and analytical work with end-user benefits. This was also unrealistic, especially given the short duration of the project's initial timeframe (2008–2011; see Chapter 7).

Box 5 Examples of aid program proactivity in design

In all World Bank/Asian Development Bank (ADB) co-financed programs I have been involved with, we have sought and obtained engagement in the IFI's [International Financial Institution] appraisal/peer review processes and where necessary we have made our funding contingent on identified weaknesses being redressed. Implementation was halted for a year until DFAT, in agreement with New Zealand and Samoa, were satisfied with the 'partnership and harmonisation framework' and management agreement outlining funding commitments from each party.

Australia also had very clear requirements around conflict-sensitive program management. This was not part of the initial design and we worked closely with the World Bank to develop a more appropriate approach. The World Bank design process did not initially consider gender or disability appropriately.

Through the partner-led design phase, Australia commissioned quality-at-entry appraisals and negotiated key changes with the ADB to the design's theory of change, its proportion of funding for technical assistance, and its approach to monitoring and evaluation.

We are taking our time designing this project and the co-financing arrangement with the ADB because Australia has been burned by complex ADB projects before.

I was a member of the design appraisal and supervision teams, representing the Australian aid program, but the team was under the leadership of the World Bank task team leader. So it was more than 'consultation' but we did not have primary responsibility for design (which was in the hands of the bank).

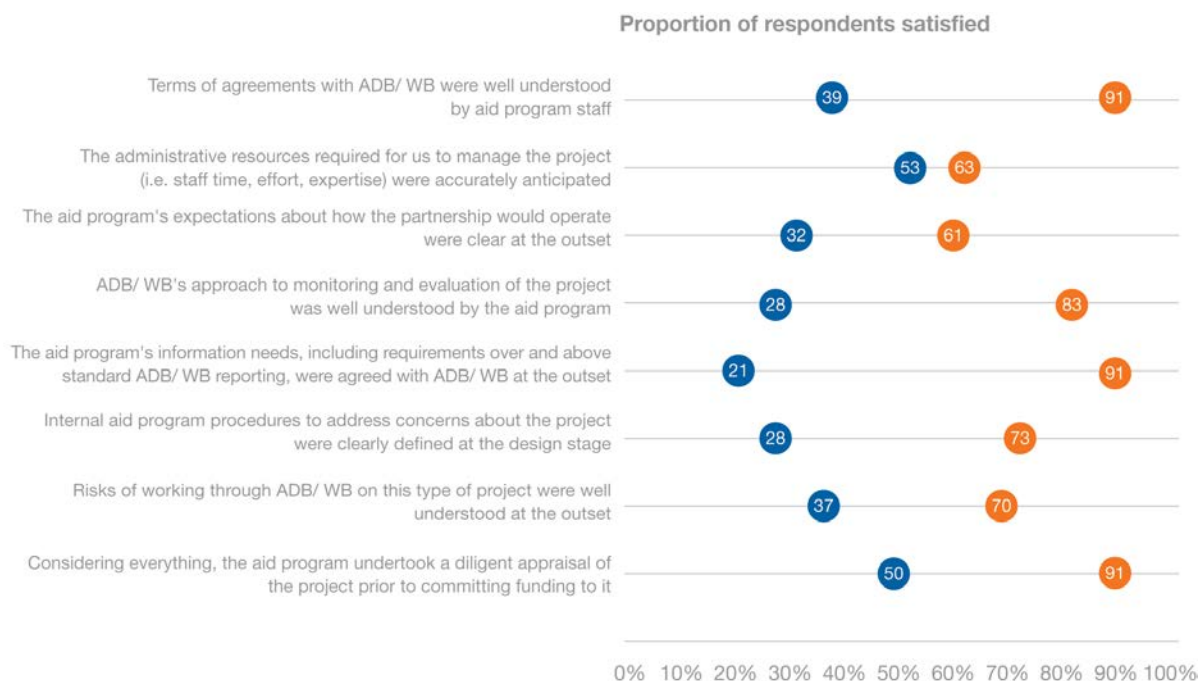
ODE staff survey responses

Anticipating risks of recipient execution

Investing in bank projects can be risky. Where they are executed by recipient governments, donors have less control over how they are implemented. There is an additional risk when these are single donor arrangements, in that all the pressure of negotiating and resolving partnership issues falls to Australia, and cannot be shared with other donors. Also, Australia is more exposed to reputational damage if anything goes wrong, because it cannot defuse criticism by arguing that it is only one part of a collective response by many donors.

Australia’s particular concerns about working in these arrangements are apparent in Figure 11. There was a striking contrast between DFAT staff’s perceptions of partnerships with the MDBs in recipient executed arrangements involving only Australia, and similar partnerships involving multiple donors.

Figure 11 When projects were implemented by recipient governments, there was much less satisfaction with aspects of project design when it involved Australia only, rather than multiple donors.



Source: ODE staff survey

ODE was unable to determine whether DFAT’s higher satisfaction with recipient executed projects involving multiple donors reflects the fact that they provide greater comfort in numbers, or whether they perform better than single donor arrangements. However, given that authoritative sources such as the World Bank’s Independent Evaluation Group have found no significant differences in the performance of country level trust funds with a single or multiple donors, this appears to be more a factor of comfort in number than quality.¹⁷

Beyond just single donor partnerships, issues with recipient execution—including perceived or actual poor MDB performance in assisting executing agencies—were the biggest contributors to the poor ratings in performance reports examined by ODE.* Similarly, in the 14 recipient executed projects examined by ODE as part of its case analysis, the main source of partnership difficulties was the combination of the MDBs’ varying successes as supervisor of the executing agency and consulting companies, with the aid program’s sense of responsibility for effective implementation, including attention to cross-cutting issues.

The likely adequacy of implementation support, taking into account recipient government capacity, is a central question for the aid program at appraisal. The MDBs’ own planning routinely includes assessing what support for implementation needs to be provided by consulting companies, and specifying this in the design and budget. In addition, MDBs might arrange to provide technical or training support directly to the government ministry or utility executing the project. This kind of support was funded (or even managed) by the aid program in a number of cases examined by ODE—Indonesia National Program for Community Empowerment (PNPM), Indonesia Water and Sanitation for Low Income Communities Project (PAMSIMAS), Pakistan Earthquake Reconstruction Program, Philippines Basic Education (SPHERE), Vietnam Southern Coastal Corridor and several others in the

* ODE analysis of the explanations for 53 unsatisfactory aid quality check (AQC) ratings for effectiveness covering 33 MDB projects.

Pacific, where greater than usual measures for implementation support have become a standard feature of MDB projects (Box 6).*

Box 6 Special support for implementation in Papua New Guinea

Since the ADB Rural Primary Health Services Delivery Project was approved in September 2011, its implementation arrangements have been strengthened. Monitoring and reporting is more frequent than usual—the project manager visited five or six times in the last year, and will continue to visit frequently. The project has a full-time “focal point” in the Papua New Guinea resident mission, as well as a project support unit with full-time consultants for each component.

In addition, there are four health mentors, including former senior officials of the national Department of Health, each of whom assists in two provinces. They support implementation committees in each province, in which provincial and district administrations are represented and encouraged to cooperate.

Implementation of the project is helped by related programs which DFAT manages in four provinces; these include training for health workers, and support for World Health Organization advisers and NGOs. However, staff at the Papua New Guinea Post have reported difficulties in coordinating these with the ADB program, and a lack of health sector specialists in the ADB resident mission.

Source: ODE interviews and communications with ADB staff, and communications with Papua New Guinea Post; see also http://adb.org/projects/details?proj_id=41509-013&page=overview

Substantially more support of executing agencies became apparent during implementation of three of the 14 recipient executed projects covered by ODE’s case analysis: the Pakistan Earthquake Reconstruction Program, Philippines Basic Education (SPHERE) and the Timor-Leste Health Sector Support Program.

ODE considers that relying on regular supervision missions and the MDBs’ readiness to respond to implementation problems was an appropriate and economical strategy for identifying and addressing unanticipated deficiencies in recipient government capacity. This view is supported by ODE analysis of aid program data, which shows there is usually a pattern of improvement in the ratings of recipient executed projects, so that by completion, only a small proportion are assessed as unsatisfactory (see Appendix 3).†

Attention to cross-cutting issues

The MDBs have extensive policies and capabilities in cross-cutting issues. However, when they approve projects the approach to these issues is usually set out only in broad outlines or frameworks, with much of the operational detail to be fleshed out during in-depth planning for implementation. Favourable initial appraisals by aid program staff are often followed by critical assessments that the agencies or consultants implementing or monitoring the safeguards are not doing so effectively.

Appraisals of MDB project designs have paid particular attention to cross-cutting issues: social and environmental safeguards, monitoring and evaluation (M&E), gender equality and, more recently, disability access. In roughly half of the 30 cases examined by ODE, aid program staff thought the way project designs dealt with cross-cutting issues could be improved. These suggestions were either turned into amendments to designs or carried forward into ‘to do’ lists for staff who attend donor meetings or monitor the implementation of projects and activities. In some cases, the MDB and the aid program planned to provide joint special supervisory attention and support to cross-cutting issues

* Other examples include: the Samoa Power Sector Expansion Project, where the way the ADB planned its project management unit reflected experience in a previous project that had provided too little technical and management support; and the Solomon Islands Rural Development Program, where aid program staff noted the issues likely to figure in implementation, including weakness in capacity of local institutions, insufficient qualified nationals (either in government or as advisers), and the need to provide adequate housing and work conditions at work sites—all issues that the World Bank design accommodated.

† An exception to the general trend in our sample of cases was the Timor-Leste Health Sector Support Program, which suffered from an overambitious design and serious issues with the capacity of the executing partner.

during implementation. In the Vietnam Southern Coastal Corridor project, significant staff time and funding was provided to ensure that these and other aspects of the project design would be adequate (Box 7).

Box 7 Aid program resources used to strengthen aspects of the Vietnam Southern Coastal Corridor project

The Southern Coastal Corridor is a highway linking Cambodia and southern Vietnam, with potential benefits for trade in the Greater Mekong Subregion. The ADB project involved mainly the upgrading of existing roads (with their bridges and culverts) to highway standard, and building new facilities at the Cambodia–Vietnam border crossing. This was one of three co-financing arrangements with the ADB and World Bank that were linked to the aid program’s large bilateral programs in Cambodia, Laos and Vietnam.

In mid-2007, Australia decided to contribute \$45 million, some as part funding of physical works and some as full funding for consultancy services. With co-financing from Korea Eximbank, the ADB undertook the project jointly with another project for similar works on the Cambodian section, which the aid program also co-financed.

The aid program contributed a senior aid staff member and a consultant to the ADB’s design mission (after participating in pre-appraisal or appraisal missions for all three). There were also inputs to the design from Australian advisers on environment, gender and HIV/AIDS.

According to the approval minute for the project, ‘financing consultancy services has enabled AusAID [Australian Agency for International Development] to make improvements to their scope, particularly in relation to M&E, HIV/AIDS mitigation programs, gender strategies, and incorporation of rural feeder roads’.

There is evidence of some gaps in attention to M&E and gender in project designs, and DFAT appraisal of them.

One of the primary reasons given for unsatisfactory aid quality check (AQC) ratings of M&E has been poor M&E frameworks, which are part of the design of most projects. Similarly, some of the reasons for unsatisfactory AQC ratings for gender equality arose from design weaknesses, including the absence of gender equality measures in M&E frameworks.* The fact that low gender ratings tended to be more persistent than those for other criteria highlights the difficulty in retrofitting action on gender into projects when it has not been identified and resourced in the design stage, particularly for projects executed by recipient governments.

It is important to recognise that the MDBs are far from alone in struggling to integrate gender equality concerns into their projects and ensure consistently high-quality M&E. These are the two dimensions of aid projects least likely to be rated as satisfactory across the Australian aid program, including in projects managed directly by DFAT and by partners other than the MDBs. In 2014, 26 per cent of all Australian aid projects were rated unsatisfactory in supporting gender equality, and 27 per cent were rated unsatisfactory for M&E. Moreover, ODE found that 22 per cent of internal performance reports overestimated performance on gender equality, and that these ratings have been less reliable than ratings on most other criteria.†

* Of the 26 projects (2009–13) with unsatisfactory AQC ratings for gender equality, design issues were perceived to be responsible in half (13), with nine of these indicating it as the single primary reason.

† See ODE (2014) Review and spot-check of quality at implementation reports (unpublished).

Considering alignment of interests

Successful partnerships depend on how well partners' objectives and interests are aligned. On DFAT's side, this means having a good appreciation of the strengths and limitations of different types of partnership arrangements.

DFAT's and the MDBs' incentives have been especially well aligned where government agencies in recipient countries have required both the particular analytical and technical expertise of the MDBs and the aid program's speed and flexibility. In Indonesia, recognition of the respective strengths of DFAT (then the Australian Agency for International Development—AusAID) and the World Bank by the National Planning Agency and other ministries has contributed to close cooperation among the MDBs and the aid program in the Indonesia Infrastructure Initiative (Box 8). Similarly, there is relatively strong alignment of incentives in the Pacific (including Papua New Guinea and Timor-Leste), where both MDBs are now committed to operating effectively and on a substantial scale. Persistent Australian influence and considerable Australian funding helped to bring this about.

Box 8 Collaboration supported by the Indonesia Infrastructure Initiative

The Indonesia Infrastructure Initiative (IndII) was initiated by the aid program in 2007–08 to provide analysis and advice to the Indonesian Government on improving infrastructure, especially water supply and sanitation and road transport.

In designing IndII, the aid program benefited from familiarity with the MDBs' activities in subsectors where it had bilateral programs, and from having former World Bank officers on its staff.

Most of IndII's funding of \$25.8 million has been channelled through a managing contractor for consulting work by infrastructure experts. But some has been directed to the MDBs for work such as policy analysis or project preparation, or in subsectors where the aid program is less involved.

This combination of activities has required particularly close coordination by aid program staff in the Jakarta Post, through a small board in which World Bank analytical and advisory work is discussed with the National Planning Agency, and through a larger board which oversees IndII projects in consultation with government agencies.

There are strong, shared motives for this cooperation in IndII, because its work is to identify and prepare projects that can be taken forward by government agencies, the private sector, or the MDBs themselves.

A similar confluence was observed in the multi-donor fund to support the Indonesian Government's National Program for Community Empowerment, through which donors including Australia have contributed to innovative pilot programs that the Indonesian Government hopes to mainstream and scale up using financing from the World Bank. Donors make identifiable contributions to pilots and the bank is committed for the long term as adviser and financier, in an arrangement that is more effective than if donors and the bank acted separately.

Partners' expectations and interests are not always well understood during project design. Fifty-nine per cent of survey respondents agreed that the aid program's expectations about how partnerships would operate were clear at the outset, and only 32 per cent agreed that this was the case for recipient executed projects where Australia was the only donor. This indicates a degree of mismatch between aid program staff's objectives and MDB staff's preparedness or ability to satisfy them.

This was most apparent in cases where the aid program's objectives implied new demands on MDB partners, such as wanting to play a strong role in national-level policy dialogue, sponsoring analytical or capacity-building work to improve Australian bilateral programs, or improving coordination. These ambitions were prominent in nine of the 30 cases examined by the evaluation (see Table A3 in Appendix 2), but it is likely that MDB staff were not fully prepared for the active, interrogative Australian role that these designs implied. Partnership frictions with the MDBs during implementation

were apparent in four of these cases,* despite the close collaboration that had taken place in preparing these programs.

There are also risks in persuading an MDB to undertake a project that does not correspond to its institutional strength, or expecting it to act as a substitute for a managing contractor. Among the cases reviewed by the evaluation, several components of large MDB-led projects, such as small-scale construction or training, could have been delivered effectively by other types of partners, such as managing contractors. One of the more prominent examples was the Philippines Basic Education (SPHERE) project, where the aid program and the World Bank had different views about how best to manage Australian-funded components for the construction of classrooms and learning centres in disadvantaged areas. This caused tensions during implementation, which led aid program staff to question the decision to partner with the bank.

5.2 Ensuring partnership agreements are robust

The most common source of advice from respondents to ODE's staff survey related to communicating clear expectations and reaching agreement about *all* aspects of the program or partnership (47 per cent of responses). The MDBs' status as multilateral organisations means there is a limit to the extent to which partnerships can be viewed from a contractual perspective. However, ODE considers that there are four aspects of agreements with the banks that would benefit from more attention when they are negotiated: anticipating resource requirements, clarifying reporting expectations, agreeing on mechanisms for communication, and linking payments to resource requirements.

Anticipating resource requirements

Responses to ODE's staff survey show that there was a strong correlation between anticipating internal resource requirements at the design stage and whether enough aid program resources were ultimately provided. In the 30 cases ODE examined, there was little evidence that the aid program had actively considered the impact of new demands on the aid program's internal resources. Minutes to approve funding commitments assured delegates that risks had been identified and would be managed. However, they rarely noted the resource requirements of new partnerships, even when they would involve commitments beyond routine administration (such as strategic guidance or sectoral expertise). Instead, approval minutes conveyed almost universal optimism that the aid program would be able to contribute whatever administrative resources would be required to achieve its particular objectives.

Though these partnerships can offer opportunities to economise on DFAT's internal resourcing, there was a collective underestimation of the administrative and expert resources required to manage them effectively. Only 59 per cent of DFAT staff thought that the resource requirements of partnerships were accurately anticipated. As discussed in Chapter 6, this led to weak engagement and poor outcomes in some partnerships. While it is understandable that proponents of individual new MDB partnerships would be optimistic about meeting their future management demands, it is less understandable in the aggregate. From 2005–06 onwards many new MDB partnerships were being undertaken, collectively representing a large proportion of the aid budget. It is striking that foreseeable administrative demands, and corresponding risks, were not given greater attention.

Clarifying reporting expectations

Clarifying expectations and agreeing on reporting requirements reduces the risk of disagreements over the adequacy of project performance reports. There was a correlation between how well staff

* As recorded in AOCs by aid program staff; for example, Indonesia National Program for Community Empowerment (PNPM): progress slow, not enough attention to gender equality; Philippines Basic Education (SPHERE): implementation slow, gender analysis and policies should be improved, World Bank procurement rules rigid; Vietnam Southern Coastal Corridor: lack of systematic monitoring, including collection of gender disaggregated data and gender analysis; Pacific Region Infrastructure Facility: slow setting up secretariat, difficulties arranging ADB co-financing, need for better reporting.

understood the MDBs' M&E approaches at the outset, and their ultimate satisfaction with the quality of information provided by the MDBs about progress and outcomes.*

On paper, DFAT has usually accepted the MDBs' standard reporting arrangements, in line with Australia's commitment to 'simplify procedures and share information to avoid duplication' under the Paris Declaration, and to improve coordination under the Accra Agenda for Action. ODE's examination of 20 agreements covering most of the largest partnerships with the banks confirmed that of 15 agreements signed between 2003 and 2009, only three included clauses that mentioned specific M&E or reporting requirements beyond the generic wording about regular progress reports. This mirrored the findings of an earlier independent review of 23 multilateral funding agreements commissioned by the aid program, which recommended agreements specify minimum contents in reporting but recognised that the banks would be unlikely to vary their templates to meet the needs of individual donors.¹⁸

Acceptance of standard bank reporting arrangements is something to be commended, but only if sufficient attention is given to sensibly accounting for the results of contributions, especially if they are particularly large. As is discussed in Chapter 7, the MDBs' approaches to M&E differ depending on several factors, including execution arrangements, size and geographical focus, and this needs to be taken into account when entering into agreements. Though the aid program has made efforts to improve reporting provisions in agreements,[†] documentation and interviews suggest there is still not enough clarity at the outset about how results will be measured and reported.

The result of failing to take different approaches into account has sometimes been that DFAT staff have requested additional reporting in formats and to schedules that had not been agreed prior to project implementation.[‡] When this has occurred, it has inevitably resulted in frustrations on both sides of partnerships.[§]

Agreeing on mechanisms for communication

The standard arrangements between the MDBs and their contributors include a number of formal means to raise concerns.^{**} Where these avenues prove unsatisfactory, aid program managers can address their bank counterparts directly, or ask for an issue to be raised in higher-level meetings with the bank.

DFAT staff have generally not understood these arrangements well. For example, only half of the staff surveyed agreed that internal aid program procedures to address concerns about projects were well understood at the outset. Even fewer of those referring to single donor, recipient executed projects agreed. A minority of aid program staff (35 per cent of respondents referring to an ADB project and 44 per cent referring to a World Bank project) reported having had a good understanding of how the MDBs' organisational structure would affect implementation. As with reporting requirements, ways to address aid program concerns were often worked out during the life of the partnership.

* Three-quarters of the respondents who were satisfied with the quality of information provided by the banks also thought the banks' approach was well understood at the design stage. Conversely, 71 per cent of the respondents who were not satisfied with the quality of information provided by the banks did not think the banks' approach was well understood at the outset.

† See, for example, the Australian Multilateral Engagement Strategy and the World Bank Engagement Strategy, which both seek an increased emphasis on including reporting frameworks in agreements.

‡ ODE interviews with MDB and DFAT staff.

§ The Multilateral Development & Partnerships Division is in the early days of integrating recent reforms to agreement negotiations and content into their outreach program.

** For multi-donor funds, regular reports and meetings with donors; for single donor funds, supporting multiple projects, periodical reports, and meetings—at least annually—to discuss progress and plans; and for projects, supervision missions and follow-up meetings with executing agencies, in which Australia (and any other co-financiers) would be invited to participate.

Being ready to raise concerns

A lot of assumptions were made by the aid program about how the bank would manage the program going forward. Some of these turned out to be inaccurate, so it was good relationships, rather than a detailed design process, that made it work as the program shifted to implementation.

This project was designed as a partnership between Australia and the World Bank, following an action-learning model ... as it was an unusual project model (in terms of aid program–World Bank interactions), expectations and approaches necessarily evolved and solidified as the project moved from design into implementation.

We underestimated the World Bank's approach to the program. We might have communicated, possibly on many occasions, what we intended to achieve from funding the project, but this did not resonate or sink in. After one year of implementation, and two years after the design process, we needed a significant intervention to reboot the relationship.

ODE staff survey responses

Linking payments to resource requirements

Agreements for multi-year projects involving more than a few million dollars have usually specified payments in annual tranches.

The payment schedules included in agreements have often overestimated the MDBs' cash-flow needs, including in several of the projects included in ODE's case analysis.* Only one of the cases ODE examined contained a schedule of instalment payments in which the second and subsequent instalments were subject to conditions relating to the MDB's or project's cash-flow needs.†

Despite disbursement progress often falling short of expectations, budget pressures have often led aid program staff to continue to make scheduled payments, regardless of actual cash-flow requirements. Overestimation of the amounts of funding required early in implementation was also widespread. In particular, it was very common for substantial initial payments to be made after signing administration agreements, in spite of the long lead-times usually required for MDBs to negotiate agreements with the recipient governments before disbursements can begin. (This often takes up to a year or more, and was a significant contributing factor in low AQC ratings for efficiency.) These practices led to a build-up of idle funds in many partner bank accounts, the aggregate results of which are reflected in Chapter 3.

ODE is not suggesting that payments should be conditional on satisfactory MDB performance, as assessed by the aid program. However, more should be done to prevent the build-up of idle funds in partner bank accounts, as this is not an efficient way to manage aid funds. Moreover, it has the potential to create unrealistic expectations about progress against which the banks will be judged, and therefore a negative impact on relationships, as well as sending the wrong signals to the banks about why they are considered valuable partners.¹⁹

* For example, Infrastructure Partnerships Program—especially ADB-managed funds Clean Energy Financing Partnership Facility (CEFPF) and Water Financing Partnership Facility (WFPPF); Indonesia PAMSIMAS; WB Infrastructure Support Trust Fund, within Indonesia Infrastructure Initiative; Cambodia Delivering Better Health; SPHERE and the Philippines Umbrella Trust Fund.

† The Pakistan Earthquake Reconstruction Program's inception agreement stated that later payments would depend on capacity to absorb funding. The aid program made its second and subsequent contributions to the Afghanistan Reconstruction Trust Fund through agreement amendments; these were made approximately annually, and presumably afforded opportunities to review progress and forecasts of disbursement.

5.3 Conclusion

ODE found that the aid program has generally been diligent in considering the merits of non-core contributions to the MDBs.

The risk of partnership difficulties has been highest where there has been a misalignment of interests or expectations, the potential for which has been greatest in recipient executed projects where Australia was the main or only donor. This is where reputational risks and the pressure of negotiating and resolving partnership issues has fallen to Australia, and cannot be shared with other donors.

Underlying partnership tensions in these cases are differences in judgment about how much implementation support should be provided to executing agencies. In the Pacific, where institutional capacity is most limited, Australia has encouraged extra implementation support, and this has become the MDBs' usual practice. In ODE's view, it has been acceptable in most other contexts to keep implementation support to a minimum, and rely on regular supervision missions to identify any need for additional support. This is preferable to the risk of providing more support than is actually required, and undermining recipient government ownership. There are several areas that should be given greater attention when agreements are being negotiated. The internal resource requirements for new projects, although often significant, have been noticeably absent from consideration of project approvals. Expectations about the level and type of reporting should be clarified, and mechanisms for communication should be agreed. Finally, on grounds of prudent financial management, agreements containing multi-year commitments to partnerships should base all payments on actual cash-flow needs, unless there is a compelling reason not to.

Recommendation 2

To provide a stronger basis for management of partnerships with the banks, DFAT should ensure that:

- › requests for approval of new contributions clearly state their resourcing implications for DFAT, based on consideration of the execution arrangements; requirements for the level and quality of reporting; and expectations for DFAT involvement during implementation
- › agreements containing multi-year commitments should base payment schedules and payments on realistic estimates of the cash-flow requirements of MDBs, unless there is a compelling reason not to.

6 Engagement

*Initially our understanding of how the partnership would operate, and the resource[s] we would need to commit, were somewhat naïve—but ultimately, we did commit significant staff resources and expertise to the program, which was necessary both in defining the nature of the partnership (and ensuring Australia's interests) and improving the outcomes. Partnerships like this, if they are to be genuine, are invariably labour intensive, but can be worthwhile—but **we need to avoid entering into agreements with the banks ... thinking that this is an 'easy' way to spend the aid program funds while saving on staff time. Almost always, it is not.***

People sometimes think MDB programs will keep ticking on with or without their input.

ODE staff survey responses

Getting the best results from partnerships with the multilateral development banks (MDBs) requires an appropriate level of engagement from staff. While the demands on staff vary, experience has shown that they should not be taken lightly. Ideally, staff dealing with the banks should have a good understanding of their policies and delivery arrangements, and they will often need advice, guidance and training to support their work in negotiating, influencing and overseeing partnerships. Moreover, if the Australian Government Department of Foreign Affairs and Trade (DFAT) has an expectation that its staff will engage with the banks and recipient governments on policy matters, it needs to have people with sufficient specialist skills and experience for its voice to carry any weight.

This chapter considers how well the aid program has managed the challenge of developing staff capabilities and matching administrative resources to the requirements of MDB partnerships.

6.1 Matching administrative resources to projects

Resourcing engagement with partnerships

Staffing requirements for partnerships with the banks vary, as do the levels of engagement and skill or administrative effort required. Providing an appropriate level of aid program resources to projects funded by non-core contributions has proved to be a challenge.

The need for DFAT staff input will depend on a range of factors, including Australian objectives and expectations for the project, partners' comparative advantages and expertise, and the project design. On the one hand, partnerships such as the Australia–Philippines Umbrella Trust Fund have required a significant involvement and investment of time from DFAT staff in addition to the minimum commitments required by the aid program (such as routine monitoring, review missions and donor meetings), including expert inputs, high-level representation, or internal coordination between thematic units and country posts. At the other extreme, some large but low-risk investments require little skill or administrative effort. For example, just 50 per cent of one officer's time was allocated to the World Bank's Global Partnership on Output-Based Aid (GPOBA), which was a \$50 million project.

Three-quarters of survey respondents advised their DFAT colleagues to engage well and often with the MDBs.

DFAT should not [just] play the role of fund contributor, but also be engaged in the key stages of implementation.

Continuously engage your counterparts in the World Bank team to keep abreast of progress with implementation, possible risks and measures to address risks.

Make sure you have the capacity to engage—managing a [multilateral organisation] is not necessarily a less staff-resource-hungry process than a DFAT-led design, particularly if the investment goes astray. You also still need the time to undertake policy dialogue.

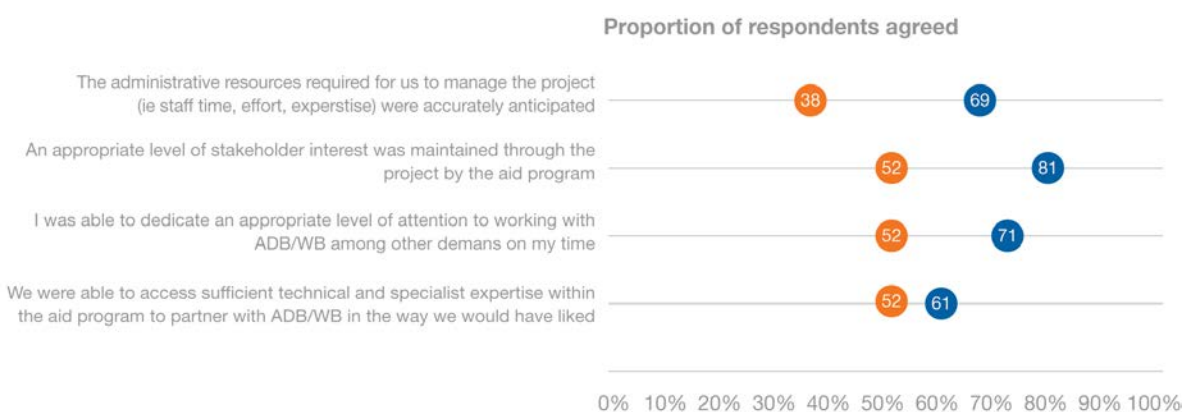
ODE staff survey responses

Overall, staff engagement has been adequate. The Office of Development Effectiveness’s (ODE’s) survey of managers of MDB partnerships suggests about 70 per cent of projects received an appropriate and sustained level of internal interest and attention from DFAT, while 60 per cent were allocated adequate administrative resources. Sixty-four per cent of survey respondents said they had been able to dedicate an appropriate level of attention to the project they managed.

However, the survey and case analysis show that DFAT’s engagement has been more tenuous on a significant minority of projects. In eight of the 30 cases reviewed by ODE, DFAT officers and/or external reviewers identified deficiencies in engagement.

Survey responses suggest that internal resourcing gaps have been particularly acute for multi-donor programs managed by the banks (Figure 12). In ODE’s view, this reflects a tendency to invest minimal staff time where there is a perception that other donors can be relied upon to engage well with the project, or that low engagement will not increase reputational risk. In part, the reputational risks are considered low because they are shared with other donors. In part, this is because a significant proportion of multi-donor funds are global or regional in scope, which means that donors are one step removed from the contexts in which they are implemented.

Figure 12 When projects were implemented by the MDBs, there was much less satisfaction with aspects of engagement with the project when it involved multiple donors rather than Australia only.



Source: ODE staff survey

Largely as a result of DFAT’s failure to adequately resource multi-donor projects managed by the banks, many of the objectives that were prominent when justifying entry into global and regional funds were not achieved (Table 6).

Table 6 Examples of internal demands on time from participation in global and regional funds

Project	Internal demands on aid program	Comments
Infrastructure Partnerships Program	<ul style="list-style-type: none"> > Closer engagement with the Australian Agency for International Development (AusAID) country programs to enhance effectiveness and partnerships > Build our presence in areas where we have limited involvement, such as urban development, public-private partnerships and output-based aid 	These objectives appear to have been achieved only to a limited extent.
WASH (water, sanitation and hygiene) Global Partnerships	<ul style="list-style-type: none"> > Share global knowledge on water supply and sanitation > Provide linkages with and build on bilateral Water and Sanitation Initiative programs 	Appraisal of the design said an engagement strategy would be formulated for each partnership, to include addressing what resources AusAID will require for engagement at headquarters and on the ground.
Extractive Industry Transparency Initiative (EITI)	<ul style="list-style-type: none"> > Promote EITI uptake and implementation in the Asia-Pacific, especially Indonesia, Papua New Guinea and Timor-Leste > Obtain complementarities with other investments 	These objectives appear to have been achieved only to a limited extent.
Global Partnership on Output-Based Aid (GPOBA)	<p>Increase AusAID's understanding and expertise in output-based aid, from almost none initially, by:</p> <ul style="list-style-type: none"> > bringing aid program experience as inputs > disseminating GPOBA knowledge products > workshopping with staff on possibilities for GPOBA 	Managing units flagged these as tasks, but without noting which Australian staff would be responsible for them. These objectives appear to have remained largely unfulfilled.
Justice for the Poor (J4P)	<ul style="list-style-type: none"> > Coordination of bilateral programs at post with single-country MDB executed projects in Indonesia, Timor-Leste, Solomon Islands and Vanuatu > Coordination between aid program headquarters, World Bank headquarters, World Bank country offices, and aid program posts on regional activities 	Mid-term review in 2011 and aid quality checks (AQC) refer to multiple problems, including poor communication between aid program posts and Canberra, and between the aid program and the World Bank.

Source: ODE case analysis—see Appendix 2 for details

A prominent example of this pattern of under-resourcing was Australia's \$21 million investment in the World Bank executed Justice for the Poor program (J4P). J4P comprises country-focused programs in Indonesia, Papua New Guinea, Solomon Islands, Timor-Leste and Vanuatu, and a regional program focused on gender, land and development. Though this is nominally a multi-donor project, Australia provides the bulk of the funding to support activities in this region. In its initial phase (2008–2011), the component of J4P funded by Australia performed well in the countries where more aid program resources were devoted to it (Solomon Islands and Vanuatu), but poor communication between the partners and a low level of Australian input into the project led an independent review to conclude that in other countries and overall the aid program and the World Bank had 'failed to maximize the opportunities presented by the J4P partnership' during this initial phase.*²⁰

Implications of light engagement

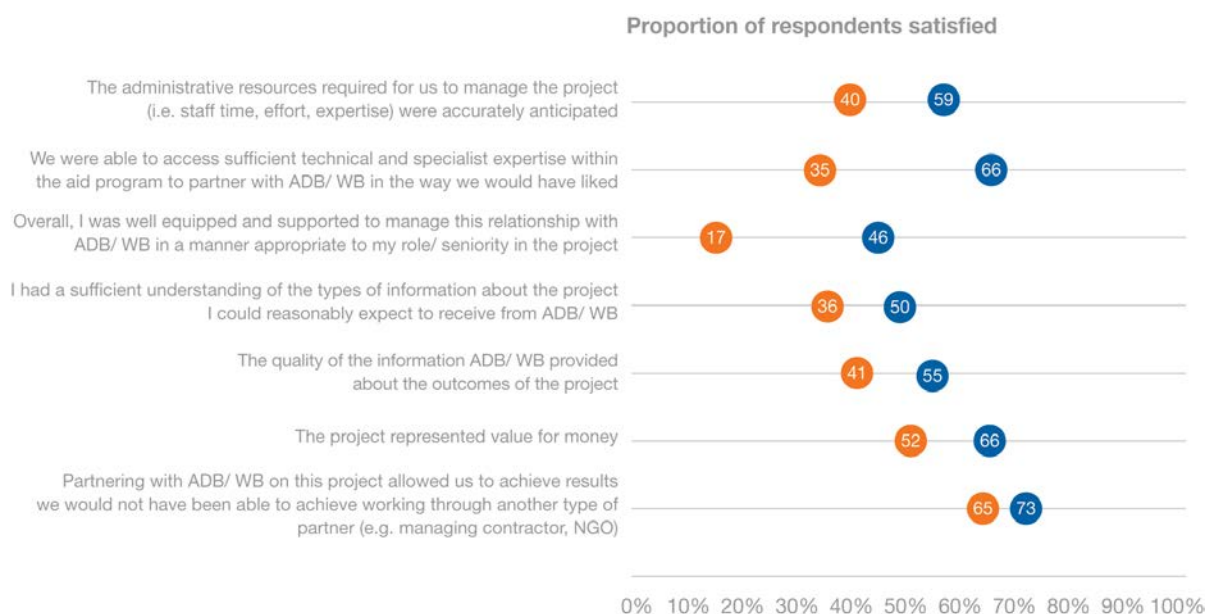
The implications of low engagement are best illustrated by the aid program's experience of partnering with the banks in South and West Asia. Although there is variation within as well as between regions,

* ODE notes that since this time the aid program has increased the level of attention paid to J4P.

South and West Asia was perhaps the most lightly resourced for the task of managing partnerships with the banks, due to a low level of resources available inside the aid program, as well as the relatively small size of Australia’s investments in the region compared to both other donors and recipient governments.

DFAT staff in South and West Asia were more likely than others to feel that the failure to anticipate resource requirements and an inability to access required technical expertise meant they were ill-equipped to manage the partnership (Figure 13). They often had a poor understanding of the information they could expect from the banks, and were frequently dissatisfied with the information they received about project outcomes.

Figure 13 South and West Asia program staff struggled to meet the banks on equal terms compared to staff working in other regions; they were also less confident about value for money, but given the context felt there were few practical alternatives.



Source: ODE staff survey

It is unsurprising then, that South and West Asia staff were less likely than others to agree that the project they managed represented value for money. The fact that over half did reflects the strong view expressed by staff in interviews with ODE, that given the context, there were no other alternatives for achieving the type of results being pursued. Ninety per cent of survey respondents from South and West Asia agreed that other delivery options were considered before deciding to partner with the MDBs, compared to 57 per cent of respondents from all other regions and country programs.

The trade-offs associated with a strategy that prioritises administrative efficiency was highlighted by a review of a partnership facility with the World Bank in South Asia, which observed:

The PFSDS [Australian Agency for International Development (AusAID)–World Bank Facility for Decentralisation, Local Governance and Service Delivery] was intended to be an administratively light mechanism to deliver results aligned with AusAID’s priorities ... It was assumed that the trade-off between administrative efficiency and verifiable effectiveness would be balanced by the advantages of the ‘light touch’ approach of partnering with the World Bank. However, the minimalist approach adopted to records management, partnership engagement and monitoring has made it difficult to determine the effectiveness of PFSDS in delivering results, value for money, or ‘leveraging’ outcomes from the partnership. **A fundamental lesson for AusAID is that as an agency it needs to be cognisant of these trade-offs, and consider whether such a light approach can be adopted if AusAID is to meet its commitments to enhanced aid effectiveness, accountability, and effective partnership.**²¹

6.2 Supporting staff

Addressing support needs

Over 60 per cent of survey respondents advised their DFAT colleagues to better understand the MDBs

Understand where decisions are made within [the MDB] ... and make sure you maintain relationships with the right people.

Understand the structure of bank financing and operations. Most bank projects involve multiple partners ... we do not understand our relative importance in the scheme of things, and we almost never understand how to track financial aspects of project financing through bank systems.

Understand [bank counterparts'] drivers and incentives, and the reasons behind why they might be doing things.

You need to learn how [the MDB] works, and learn to speak their language. If you cannot navigate their terms and processes it will be a hard slog.

ODE staff survey responses

Historically, the aid program relied on managing contractors and non-government organisations (NGOs) to deliver services on its behalf. Working with the banks has provided a different set of challenges than the ones aid program staff have been used to. In particular, partnerships with the banks provide much less scope to exercise control over outputs and timeframes compared to private contracts, in part but not only because bank projects are frequently executed by recipients.

The importance of supporting staff to work effectively with the banks was reflected in ODE's staff survey, which showed that survey respondents' satisfaction with the guidance, training and advice provided by the aid program was positively associated with their assessment of the project's overall success.* The 41 per cent of staff who agreed that they were well equipped and supported to manage DFAT's relationship with the banks were significantly more likely to report that the project:

- > was an effective vehicle for pursuing the aid program's objectives
- > represented value for money
- > allowed DFAT to achieve results that it would otherwise not have been able to (Figure 14).

Figure 14 Respondents who agreed they were well equipped and supported were more likely to assess partnerships favourably than other respondents.



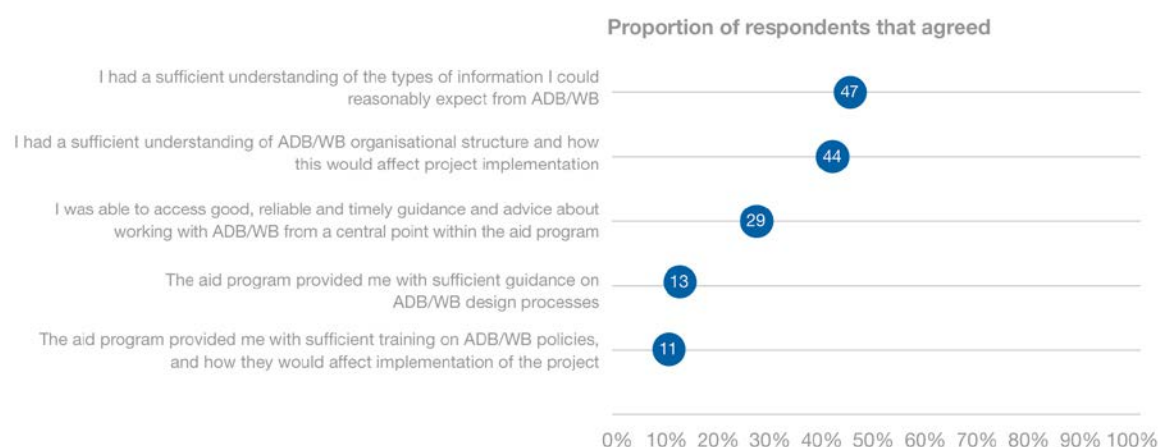
Source: ODE staff survey

* Reflecting this, the last major review of Australian non-core funding to the banks—carried out in 2002, when a far smaller proportion of Australian aid was delivered this way—recommended that staff working on these projects 'should be briefed on MDB activity cycles, internal clearance systems, relationship to partner government and other fundamental institutional differences'. AusAID (2002) *Review of Co-financing in the Australian Aid Program*.

On this basis alone, ODE considers that increasing DFAT staff’s understanding of the banks would deliver significant improvements to the effectiveness of partnerships, through better informed choices, management, and interpretation of evidence about performance. This would also help both organisations to identify partnership issues that should be escalated through their respective corporate hierarchies, leading to more productive discussions at a senior level between organisations.

However, fewer than half of the survey respondents agreed that the aid program had provided them with a sufficient understanding of the types of information they could expect from the banks and their policies. Even though some may not have felt a need for this support, the proportion of staff that were satisfied with the training, guidance and advice they had received was strikingly low (Figure 15). This reflects a lack of resourcing of the DFAT unit responsible for partnerships with the MDBs to provide training, advice and support for staff administering bilateral partnerships with the banks. (These have largely been absorbed with the non-negotiable tasks of supporting high-level partnership meetings and core funding replenishment negotiations.)

Figure 15 Relatively few staff were satisfied with their understanding of the banks, or the training and guidance provided by the aid program.



Source: ODE staff survey

Most survey respondents felt that access to information, training and guidance on working with the MDBs could be improved

I was ... surprised at how little training or guidance was offered.

I don't think there was any central point for accessing guidance.

I have never been briefed or trained to understand World Bank organisational structure, policies, design processes, information, etc.

Any information I received about working with [the MDB was] from [MDB] staff themselves, nothing from the aid program.

I think this is an area of particular weakness ... Would be good to provide this information more systematically—particularly to post staff on how [MDB] systems work to ensure staff are equipped to engage effectively.

The banks section could consider offering more support in this regard in terms of a 101 of what engaging with the bank is likely to be—the pros and the cons.

ODE staff survey responses

Though learning through experience is more valuable than formal instruction, providing officers who work with the MDBs with training on how they operate, and strategies for managing relationships effectively, would go some way towards addressing the issues highlighted by the evaluation. This training would ideally be integrated into a program of advising on new partnership arrangements and

support and facilitated networking for staff working on non-core funded projects. The proximity of the ADB and World Bank offices in Sydney offers unexploited opportunities for working together and formal training that could improve DFAT staff's capability to more effectively work with the banks.

Accessing specialist advice

For a generalist organisation like DFAT, partnering with the MDBs is a sensible strategy for accessing specialist skills and expertise. The banks have a demonstrated capacity to design, finance and supervise the implementation of large infrastructure projects. Their cadre of specialists (including engineers, project managers, and social and environmental safeguard specialists), comprehensive policies and guidelines, and well-developed grievance mechanisms enable them to deliver large and high-risk projects. Given that Australia cannot hope to match these capabilities, there are compelling reasons to depend heavily on the banks for certain types of work.

The ADB has good policies in place (particularly around safeguards) and has good technical people to check that project implementation is meeting those policies.

ODE staff survey response

However, throughout the evaluation, aid program staff consistently cited the importance of having access to specialist expertise internally, especially at post, in order to engage with and influence the banks, where this is an objective. The implications of not having access to sufficient specialist input are illustrated by looking at the aid program's experience of working with the banks on gender.

DFAT officers' dissatisfaction with the banks' performance in promoting gender equality (a key objective of the aid program) appears to stem in part from a lack of staff capacity (both in terms of expertise and time) to influence project designs and make appropriate and workable recommendations to the banks. Though in a minority of cases the aid program was proactive in instigating specific solutions to improve projects' focus on gender inequality, including funding gender advisers and seeking in-house advice, DFAT has generally responded to concerns in this area by providing 'encouragement' to the banks (Table 7).

Table 7 Management responses to poor AQC ratings for gender generally focus on providing 'encouragement' to the banks

Type of action	Mentions in management responses
Will encourage the banks to incorporate/pay more attention to gender equality concerns	14
Were successful in constructive change/adding resources	7
Sought additional data for AQC/progress reporting	4
Sought in-house gender advice or support	4
Provided additional specialist technical assistance to the implementation team	2

Source: ODE analysis of AQCs for 26 projects given unsatisfactory ratings for gender between 2006 and 2013

Although seven of these 14 projects later reported that the aid program's concerns had been addressed, Australia's influence on the banks in this area has been constrained by its ability to provide substantive expert input, including in some large and strategically important projects (Box 9). Such input is seen as particularly important to ensure the implementation of cross-cutting issues (such as gender) that recipient governments tend not to include in their projects.

Box 9 Influencing the banks on gender: the Afghanistan Reconstruction Trust Fund

The World Bank-administered Afghanistan Reconstruction Trust Fund (ARTF) received unsatisfactory aid quality check (AQC) ratings for gender over four consecutive years. This was despite the World Bank committing to and achieving improvements in response to donors' concerns.

The bank responded to Australian concerns about ARTF performance on gender—and encouragement to improve its focus on gender equality—by establishing a working group to solicit ideas on inputs on gender mainstreaming and reporting. The aid program committed to join and directed its gender specialists to provide input. However, the working group was not attended consistently by donor representatives with the capabilities and seniority required to participate substantively; a bank staff member commented that Australia and others had contributed little, with only a few junior participants present.

The bank communicated to donors that the working group would need their consistent participation by representatives capable of substantive discussion. Bank staff note that engagement has since improved, with more helpful and fruitful discussions taking place on a regular basis.

We needed to push for a more appropriate approach to M&E, conflict-appropriate programming and gender ... in the end we were pleased with the result.

ODE staff survey response

Going forward, it will be important to recognise that constraints on access to specialist inputs have become tighter in recent times, with the departure of significant numbers of officers with specialist skills.

In the future, DFAT needs to be more selective in its choice of partnerships, including pursuing partnership models and objectives that can be resourced appropriately.

Projects predicated on a significant level of aid program input will be satisfactory from an Australian perspective only if DFAT is able to commit a sufficient number of skilled and well-supported staff to manage them. Unless more efficient ways to achieve partnership objectives can be found, DFAT will need to accept a reduction in its level of influence over the projects it funds. Australia will need to carefully consider the kind of engagement it will be able to maintain in the future, and adjust its expectations accordingly. Resource-intensive arrangements (such as where Australia is the sole or main donor) will need to be used judiciously, and plans for ongoing resourcing taken into account in business unit planning.

Many survey respondents referred to the effects of integration on MDB partnerships

Prior to integration we were developing the capabilities and workforce resources [we needed] ... Recent staffing reductions and loss of specialist skills are making this increasingly difficult.

Levels of resourcing and internal attention and specialist support were initially sufficient, but changes to post structure, and loss of specialist support in Canberra are becoming an issue post-integration.

[Since integration] we have lost key technical expertise, particularly economist positions and experienced senior staff able to engage knowledgeable, which ... is making it difficult to maintain the same quality of engagement.

ODE staff survey responses

6.3 Conclusion

Staffing requirements for partnerships with the banks vary. Some projects need intensive engagement from experienced staff and technical knowledge in different areas. Others, even some of the largest, require little skill or administrative effort to manage.

The match between staff allocations and partnership requirements has been adequate in a majority of projects; ODE's staff survey results suggest that about 70 per cent of projects received an appropriate and sustained level of internal interest and attention. Sixty-four per cent of staff felt they had been able to dedicate an appropriate level of attention to MDB partnerships.

However, there has been a significant minority of projects where DFAT's engagement was more tenuous, often evident in a loss of verifiable effectiveness, influence and visibility of contributions.

Moving forward, DFAT should take a cautious approach to partnership models that are predicated on significant Australian input. The evidence from the evaluation is that these will be satisfactory from an Australian perspective only if DFAT is able to commit a sufficient number of skilled and well-supported staff to manage them. Bearing in mind that administrative resourcing has become more constrained DFAT needs to be far more selective in its choice of partnerships.

To ensure the best performance of staff that manage partnerships with the banks, more needs to be done to provide them with support, training and guidance. A strikingly low proportion of respondents to ODE's staff survey were satisfied with the training, guidance and advice they had received about partnering with the MDBs. Better support for staff is especially important given the evidence from the survey that staff that are well equipped and supported to manage DFAT's relationship with the banks are significantly more likely to agree that projects they manage are effective, allow DFAT to achieve results that it would otherwise not be able to, and represent value for money.

Support for staff should include, but not be limited to, the provision of training on how the banks operate; guidance on how to collaborate with the banks; and an appropriately resourced central unit through which staff who have a strong understanding of the banks can be connected with those who have not and can provide necessary support and assistance.

Recommendation 3

To improve the management of partnerships with the MDBs, DFAT should provide more support and guidance to aid program staff, including by strengthening the ability of a central point of contact to:

- › provide advice and facilitate connections between staff working on proposals for new contributions, in particular relating to internal resource requirements
- › coordinate with DFAT's learning and development and aid management areas to develop training for officers responsible for designing and managing non-core contributions
- › monitor DFAT's portfolio of non-core contributions, including difficulties during implementation
- › support elevation of matters of importance to DFAT, including cross-cutting issues (especially gender), through appropriate management avenues including high level consultations, board meetings, and liaison with country and regional offices.

7 Performance management

This chapter examines whether the combination of multilateral development bank (MDB) monitoring and evaluation (M&E) and Australian Government Department of Foreign Affairs and Trade (DFAT) oversight are providing assurance that the aid Australia provides through the banks is efficient and effective. We identified three main factors that affect DFAT's ability to positively influence the performance of the projects it has funded, and to account for results. These are:

- › the quality of DFAT's oversight of the projects it has funded
- › the quality of information flows from the banks to DFAT about progress and outcomes
- › DFAT consideration of how execution arrangements affect information flows.

7.1 Quality of DFAT oversight

As the banks are not contractors, DFAT has no real authority over bank decision-making. However, DFAT is able to influence the projects it funds by taking advantage of opportunities to monitor implementation, and to communicate any concerns to bank management and escalate them if they are not addressed locally. How it is able to do so varies depending on the nature of partnership arrangements, which determine the potential scope of engagement by donors (Box 10). It also depends on DFAT's ability to overcome the significant differences between it and the MDBs in terms of operating models and cultures, and technical capabilities.

Box 10 Oversight opportunities

DFAT's options for oversight of non-core contributions depend on the types of arrangements it enters into.

For **multi-donor projects which support portfolios of MDB activities in different countries**, opportunities for oversight are usually limited to participation in steering committees or management meetings. These are opportunities for information gathering and input on management issues, which the banks can use at their discretion. Working together makes it harder for any one donor to directly influence decision-making, but building a constituency among like-minded donors can improve the likelihood that suggestions are taken up.

For **multi-donor projects which support MDB activities in one country**, opportunities for oversight include participation in steering committees or management meetings, and may also include participation in supervision missions. This brings donors much closer to implementation issues, but still involves the limitations of there being multiple donors.

For **recipient executed projects** the banks act as the intermediary between the aid program and the implementing agency. These projects are subject to well-established rules, which limit the extent to which financing partners are able to influence how they are implemented. Where Australia is the only other financier, there is more opportunity to participate in the project design and in oversight activities in the form of regular supervision missions. Nevertheless, the agencies executing these programs need to respond to their government's priorities—recipient governments, who are often receiving loans from the banks on hard-currency terms, rightly expect that their priorities are paid

proper attention. The involvement of three stakeholders (DFAT, the bank and the recipient government) can lead to difficulties in setting shared priorities.

In contrast, **single donor projects** administered by the banks are able to be more flexible in accommodating Australia's particular needs or interests, and the capacity to influence implementation is much higher.

Reducing the chances of dissatisfaction with the MDBs' responsiveness requires an ability to maintain an appropriate level of engagement in MDB projects, without treating the banks as contractors, or micromanaging. We received conflicting views from DFAT staff through our survey about how much engagement and oversight was appropriate for different types of projects, which shows how hard it is to get this balance right (Box 11).

Box 11 DFAT staff views on matching oversight with risks

Unlike agreements with other partners, [this agreement] has no milestones or triggers upon which payments are to be made. The World Bank doesn't need to 'do/achieve' anything to receive payment ... This means there is no legal ability for AusAID [Australian Agency for International Development] to withhold funds to encourage action or better performance by the bank ... Our experience is that non-legal mechanisms do not allow AusAID to effectively manage poor performance or provide the necessary certainty and incentives for the World Bank to respond to our needs in a timely way.

The project was massively over-resourced but often attention was a case of 'all care and no responsibility'. We ended up over-engineering decisions and micromanaging elements of the project, setting unhelpful precedents for future engagement.

The project was running virtually 'under the radar' of the aid program. We had contributed funding a number of years ago and then we let it run.

Whilst overseeing the implementation of this project, I was also overseeing the implementation of 12 other programs so there was not always time to dedicate the appropriate level of attention to it though the counsellor and locally engaged staff did support me to do so when required. Canberra really only took an interest in the project during AQC [aid quality check] season and as a part of overseeing budget disbursement.

Australia has invested an enormous amount of funding into this project (at the global level), but almost no resources into monitoring its project activities directly. It is incredible the amount of scrutiny we provide on some programs/projects, as compared to the minimalist way it has been conducted on this project.

ODE staff survey responses

As discussed elsewhere, DFAT engagement in partnerships with the banks has varied. At one end of the spectrum, DFAT engagement has been quite limited.* More usually, DFAT has been an engaged partner, especially in projects where there are significant Australian interests and risks. The nature of DFAT's engagement is reflected in annual aid program performance reports (APPRs), which are the main vehicle for internal reflection and debate on aid performance at the program level. These flag issues for management attention and document responses to them (Box 12).

* One-quarter of DFAT survey respondents indicated they had played a more passive role in 'monitoring' implementation, largely through unspecified means, or by simply receiving reports. This approach has been apparent in projects that are relatively low risk, such as multi-donor funds addressing global or regional issues.

Box 12 Actions taken or planned as described in APPRs appeared to be mostly appropriate and comprehensive

Annual aid program performance reports (APPRs) between 2008 and 2013 described the aid program as:

- › advocating for or undertaking more intense M&E (10 projects)
- › increasing direct engagement with MDB management/elevating engagement (nine projects)
- › investigating possibilities for, or adopting, more efficient/effective partnership mechanisms (six projects)
- › increasing in-country staff/resources (five projects)
- › conducting a review before proceeding further (four projects)
- › developing more detailed performance assessment frameworks (three projects)
- › taking steps to improve visibility (three projects)
- › withholding payments until performance improved (two projects)
- › facilitating MDB–partner government relations (two projects)
- › increasing direct activity management and oversight (two projects)
- › seeking to improve donor coordination in a multi-donor funding arrangement (two projects).

Source: APPRs

In addition to the management responses above, the aid program has often contributed additional technical assistance to address issues of concern, most commonly M&E and gender equality (see discussion in Chapter 5). Box 13 contains an example of DFAT's proactive approach to addressing performance issues on a high-risk project where significant additional resources were provided.

Box 13 Example of DFAT performance management: rehabilitation of the railway in Cambodia²²

Implementation issue

The Royal Government of Cambodia's capacity to implement the projects remained limited and the [Asian Development Bank's–ADB's] approach to managing projects through regular monitoring missions did not always provide the support required by the government. Resettlement remains a sensitive issue ... AusAID cannot wholly transfer responsibility for execution or risk management to implementing or co-financing partners.

Management response

We will work closely with the ADB and government to ensure satisfactory resolution ... Australia took decisive action in 2012: AusAID provided additional in-country resources to complement the bank's monitoring and management of the projects. In particular ... additional Australia-based and overseas-based positions were approved in the infrastructure sector, and safeguards monitoring was increased [including providing] safeguards training to bank personnel [and] providing additional funds for resettlement (\$2 million) to resolve the issues. Additional funding is being programmed on a range of small activities that are likely to improve living conditions at the resettlement sites ... Managing these complex issues has had serious workload implications.

Outcome

Senior management endorsed a policy paper in August 2012 calling for funding to be fast-tracked to break bottlenecks in civil works, and to end our engagement in the civil works component of the project by December 2013.

Ongoing management

Further attention is planned in 2013 for activities where M&E relies on multilateral and joint-government M&E systems in the infrastructure, health, and law and justice sectors. These include policy dialogue with government and multilateral partners ... [and] improvement of quality and performance of the program. 1. A range of due diligence assessments, 2. Closely monitor the implementation of relocations ... and continue seeking improved conditions at resettlement sites.

As a result of these sorts of efforts, more than half of the respondents to the Office of Development Effectiveness (ODE) staff survey that were involved in funded projects during implementation indicated they were able to influence performance in some way.* How much this can be credited to DFAT is debatable, but over half of the 280 unsatisfactory ratings in project performance reports (aid quality checks–AQC) across all criteria between 2006 and 2013 became satisfactory within one or two years. This indicates that most of the reasons for unsatisfactory performance are responded to or accommodated to DFAT’s satisfaction (the one exception being action on gender equality, where reasons for perceived poor performance remained unresolved for longer). MDB staff told ODE that it was useful to have another pair of eyes on projects, but did not consider DFAT’s extra effort in these areas was critical.

While just over half of survey respondents reported that they were satisfied with MDB responsiveness to DFAT concerns, one-quarter were not. For those not satisfied, there are two possible explanations. One is that DFAT had reasonable expectations about what the banks could or should have done to address its concerns, but couldn’t persuade the banks (or in some cases through them, recipient governments) to address its concerns. The other is that DFAT had unreasonable expectations. The risk of tensions arising in partnerships because of unreasonable expectations is increased by DFAT staff’s only moderate level of understanding of the banks. One illustration of this is that about one-third of respondents to the staff survey reported that they did not understand the ADB or World Bank’s approach to M&E; were not confident about the information they could reasonably expect to receive from the banks; and did not have a good understanding of the ADB or World Bank’s organisational structure and how it would affect project implementation.

7.2 Quality of information provided by the banks

The extent to which DFAT is in a position to satisfy its accountability requirements and exert a positive influence on project performance depends a great deal on the quality of the project M&E arrangements, and the information they provide about progress and outcomes. M&E is primarily the responsibility of the banks, shared with recipient government agencies in the case of recipient executed projects.

To assess the quality of project M&E arrangements, ODE analysed the data contained in AQC, which assess the performance of aid projects annually against eight criteria, including M&E (Box 14).

* This included a significant number who engaged directly in formal, routine reviews and (occasionally) in evaluations, where the most significant influence could be exerted. Other significant influencing opportunities included attendance at management meetings and steering committees, active monitoring, and direct oversight roles.

Box 14 DFAT's performance monitoring system

Australia's aid program is delivered through over 1000 individual projects. Project performance is assessed annually through AQC reports (formerly known as 'quality at implementation' reports). In these reports, which are mandatory for projects of \$3 million or more, or those assessed as high risk, managers rate project performance against eight criteria: relevance, effectiveness, efficiency, sustainability, gender equality, M&E, risk management and safeguards, and innovation and private sector. AQC reports justify these ratings, record how project management can be strengthened, and provide information about the results achieved. While they are internal reports, they are an important source of information for other reporting to the government and public on the quality of Australian aid.

ODE provides independent oversight of this performance reporting, assessing the robustness of ratings in a sample of AQC reports each year.

Project performance reports usually assess M&E of earmarked contributions as at least 'satisfactory'. Between 2008 and 2013, 70 per cent of ratings given to M&E of projects implemented by the banks were satisfactory or above. Similarly, half of the respondents to the ODE staff survey were satisfied with the quality of the information the banks provided to monitor progress and project outcomes (one-quarter were not).

Although ADB and World Bank projects are mostly rated satisfactory for M&E, they are rated unsatisfactory more often than projects that are implemented by Australia's other major delivery partners and are less likely to be given high ratings (of 5 or 6) (Figure 16). Moreover, poor monitoring of gender was associated with unsatisfactory gender ratings in several projects where M&E was otherwise considered adequate.* The implications of unsatisfactory ratings for M&E are evident in ODE's staff survey, which showed that DFAT staff were far more likely to be satisfied with value for money if they were also satisfied with the information provided by the banks about progress and results.

Figure 16 Projects implemented by the ADB and World Bank are assessed as the worst performing on M&E in comparison to Australia's other major delivery partners.



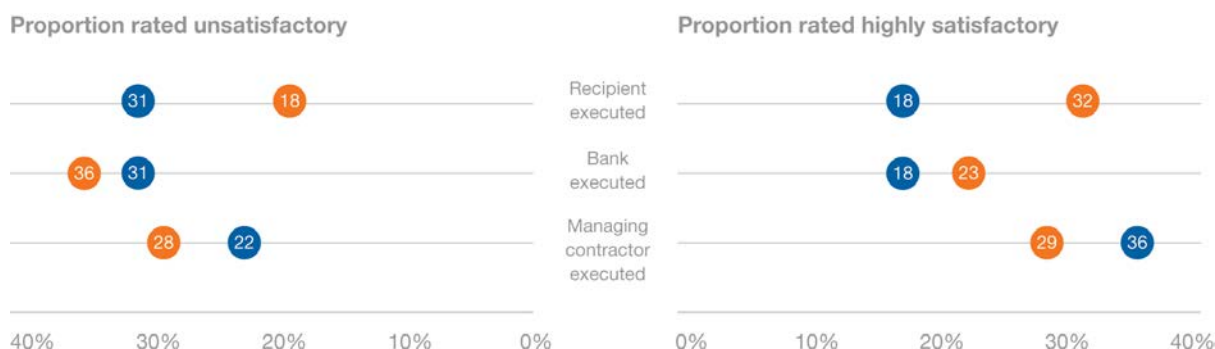
Note: Excludes global programs, which are particular to the World Bank.

Source: Program performance reports

* In addition, five recipient executed projects that *did not* have unsatisfactory AQC ratings for M&E reported unsatisfactory ratings for gender (which were related to poor monitoring), inflating the number of dissatisfactions with their M&E systems.

Further analysis of M&E ratings reveals significant differences in ratings depending on how projects are executed. Figure 17 shows that M&E ratings for World Bank projects were identical for bank and recipient executed projects during implementation.* However, by project completion, M&E ratings for recipient executed projects had improved significantly. By contrast, there was an increase in the proportion of bank executed projects that received unsatisfactory ratings for M&E on completion. Similar to this trend for bank executed projects, M&E ratings for projects implemented by managing contractors also deteriorated from implementation to completion, as indicated by the proportion of projects given unsatisfactory ratings for M&E, and those given highly satisfactory ratings.

Figure 17 M&E ratings for World Bank projects that were recipient executed improved on completion compared to implementation, while ratings for bank and managing contractor executed projects went backwards.



Note: Analysis covers ratings contained in 681 AOCs, including 450 addressing projects by managing contractors, and 231 addressing World Bank projects. Where projects contained components that were both bank and recipient executed, they were classified as either, depending on which modality was dominant in terms of project expenditure.

Source: ODE staff survey

These trends in project ratings provide a strong endorsement of the model of recipient execution used by both banks, and of the World Bank’s approach in particular. For M&E, data analysis supports the view that improvements to M&E systems are more likely to be sustainable when projects are implemented by recipient governments (as with other criteria—see Appendix 3).† Conversely, it suggests that projects not executed by recipient governments may provide better quality information while they are being implemented, but at the expense of establishing parallel systems that cannot be maintained after projects are finished.

There are several factors that explain the better results of recipient executed projects. Firstly, their scope is limited to one country and usually sector. Secondly, they are owned by recipient governments, which add another layer of accountability. Lastly, they are subject to standard bank policies and requirements for M&E, whereas bank executed projects are not. ODE analysis of unsatisfactory project performance ratings found that unsatisfactory M&E ratings at project completion usually reflect multiple interrelated capacity issues that go well beyond the scope of individual projects to resolve. Box 15 contains an illustrative example.

* This analysis covered World Bank projects only because there were insufficient numbers of ADB projects in different categories to produce robust findings.

† Similar findings may hold for the ADB, but there was insufficient data for us to test this.

Box 15 World Bank Health Sector Support Program, 2007–13, an investment with long running, unresolved M&E issues

The World Bank Health Sector Support Program was executed by the Government of Timor-Leste Ministry of Health (MoH). The program's M&E framework was based largely on the MoH's own results framework, which DFAT (then AusAID) considered inadequate for a range of reasons, including the irrelevance of some indicators (e.g. caesarean sections which are not performed routinely, if at all); omission of some indicators important to AusAID (e.g. drug stock-outs); indicators being too high level, missing changes at district and behaviour level and intermediate outcome indicators; lack of gender disaggregation; inadequate technical assistance monitoring; and difficulties in collecting district information.

An AusAID M&E adviser recommended refocusing program logic. It is not clear who undertook this refocusing; however, AusAID reported that a person in MoH was not identified and tasked with leading development of the program logic, and concluded the following year that despite World Bank supervision:

MoH does not own or understand the M&E. The project lacks a user-friendly explanation of its 'program logic' as the basis for an M&E framework that clearly links project activities ... to the overall achievement of [Project Development Outcomes].

This raises the question of whether the MoH had the capacity to conceptualise a fully explicated results chain approach to achieving Project Development Outcomes, which appeared to be what AusAID was advocating. The capacity of the M&E technical assistance to collaborate effectively with their MoH colleagues to develop this understanding was also raised obliquely in the AQC reports (improvements were noted following appointment of a 'new' adviser). In addition, AusAID noted the weak credibility of the management information systems (MIS) data—up until the second last year of the project—on which project M&E was based. In the absence of more credible and sustainable M&E capacity, perhaps a more modest approach to measuring a few key indicators—which, while not necessarily satisfying AusAID's reporting needs—may have been an appropriate middle ground that could have formed the basis for solid capacity development in a fragile state such as Timor-Leste.

These issues continued throughout the project, with five unsatisfactory M&E scores given over its seven years, leading the aid program to conclude that it and the World Bank 'have different institutional motivations driving reporting requirements which are difficult to resolve'. The aid program also noted its own contribution to this situation as it had not been clear about its expectations for reporting or expected role in M&E. Notwithstanding, persistence from the Dili office resulted in some improvements, with World Bank supervision missions ultimately providing more detailed reporting on progress through aides memoires (rather than just the sparsely worded implementation status reports), and agreement reached on a results framework for the restructured project.

Source: AQC reports

In contrast, bank executed projects have some common features that make them very difficult to evaluate. For example, they often comprise large numbers of subprojects, and these are often spread across multiple sectors; and they often complement or support larger projects, so it can be hard to assess their value over and above the projects they complement. The problem of accounting for results for these types of projects is most acute in multi-country arrangements, where there is the added difficulty of presenting aggregate information about results obtained in heterogeneous contexts. As a result, over 36 per cent of M&E ratings of World Bank projects and 62 per cent of the ratings for ADB projects in this category were unsatisfactory. Similarly, the evaluation found that

umbrella funds, which have many of the characteristics described above, have not typically had strong M&E arrangements.*

7.3 Consideration of execution arrangements

ODE analysed the narratives that accompanied 68 negative AQC ratings for 32 MDB projects between 2008 and 2013 to assess what consideration DFAT gave to execution arrangements in assessing project performance.

Only a very small number of the unsatisfactory ratings were because of straightforward deficiencies in bank project management.†

Compared to bank executed projects, recipient executed projects were more likely to have multiple reasons for unsatisfactory M&E. What is noticeable about DFAT explanations for unsatisfactory ratings is the lack of reflection on the implications of recipient execution for the quality and availability of information about progress and outcomes and the needs of recipient governments. This is evident in the fact that the banks were generally considered responsible for poor reporting in projects implemented by recipient governments, indicating that the aid program expects MDBs will ensure recipient governments meet Australia's information requirements. It is also evident in the lack of consideration of work by the MDBs in helping recipient ministries to improve their information systems, including in some cases work to introduce sophisticated tools such as randomised control trials to test different policy settings.‡

In contrast, there were a significant number of references to project M&E arrangements failing to meet the aid program's standards and requirements, regardless of how they met recipient government needs. The aid program's concerns about accountability and meeting its own reporting requirements, though legitimate, may be less pressing for the recipient government agencies executing bank projects. Recognising this, the aid program has regularly committed additional resources to assist in having its reporting needs met.

Concerns about the quality of M&E in bank executed projects were primarily that they did not provide enough evidence about progress and results. This was associated with either the absence of M&E frameworks, or inadequate M&E frameworks. Although DFAT engagement in this category of projects has been uneven, and sometimes weak (see Chapter 6), there is little acknowledgment in project performance reports that the aid program may have had a role in contributing to inadequate monitoring.

* Similar findings to these have been raised by the World Bank's Independent Evaluation Group (IEG) in relation to the World Bank's global and regional programs, which have been a major focus of its evaluations. For example, a recent IEG paper observed that:

Partnership programs are not required to have results frameworks at inception and as a result often take many years to set them up. Moreover, partnership programs by their nature represent compromises between multiple partners. Partners agree on broad directions but often differ on nuances and priorities. As a result, programs are settled with vague or excessively broad objectives, resulting in weak links between programs' activities and their larger objectives.

IEG found that partnership programs have started to develop a culture of evaluation but that many programs regard periodic evaluation as a substitute for putting adequate monitoring systems in place. Periodic evaluations often result more from donor pressure than from program managers' desire to learn lessons to improve their effectiveness.

World Bank Group, *Opportunities and Challenges from Working in Partnership: Findings from IEG's Work on Partnership Programs and Trust Funds*, p. 13. https://ieg.worldbankgroup.org/Data/reports/opps_and_challenges_from_partnership.pdf.

† For example, AQCs noted specific instances where MDBs were in breach of their own agreements or stated policies, including not submitting progress reports to the aid program, not completing reports in agreed timeframes, not providing an independent mid-term review team, and not being proactive in sharing supervision mission schedules.

‡ Cases which illustrate this are the Afghanistan Reconstruction Trust Fund, Indonesia National Program for Community Empowerment (PNPM), Indonesia Water and Sanitation for Low Income Communities Project (PAMSIMAS) and Philippines Basic Education (SPHERE).

7.4 Conclusion

There are four main findings from this chapter. Firstly, the outcomes of engagement with MDB projects would be improved if staff had a better understanding of MDB M&E policies and arrangements, especially of the impact of different project execution arrangements.

Secondly, placing a strong reliance on recipients' M&E systems does affect the quality of information about progress and outcomes. This can make it difficult for DFAT to meet its own accountability requirements while projects are being implemented. However, in most cases, this problem is short-lived—DFAT's own project performance ratings support the view that improvements to M&E systems are more likely to be sustained when aid recipients are in charge, compared to when they are not. Importantly, by project completion, MDB projects executed by recipient governments are rated more favourably on M&E than projects implemented by private contractors. On this basis, ODE concludes that DFAT's primary focus in recipient executed arrangements should be on whether M&E systems meet the recipient's needs, and whether they will ultimately provide a basis for accountability. As such, greater attention should be given to the quality of M&E arrangements, as with other aspects of project performance, at project completion.

Thirdly, greater up-front attention should be paid to the quality of M&E arrangements in place for bank executed projects. We found that the risk of not being able to account for results and value for money is much higher for bank executed projects than it is for recipient executed ones. Given that DFAT engagement in this category of projects has been uneven, and sometimes weak, we also suggest that the quality of DFAT engagement should have greater prominence in internal performance reporting than it does.

Finally, it is important to be careful when comparing the performance of partners that use different implementation models.* If comparisons are made, appropriate weighting should be given to final project ratings, rather than ratings of implementation, which may underplay the importance of factors such as ownership and sustainability. This is especially important given that new systems are being introduced to assess the performance of the aid program's key delivery partners. These include a set of standardised criteria, which strengthens the aid program's ability to compare the performance of different partners against standardised criteria for the first time.

Recommendation 4

DFAT should improve its monitoring of non-core contributions to the MDBs by:

- > giving greater weight to how well the M&E requirements of MDB projects meet recipient governments' needs where projects are implemented by recipients
- > paying much greater attention to the adequacy of proposed M&E arrangements for bank executed projects, and to the quality of DFAT engagement during implementation
- > using completion ratings as the primary basis for assessing the performance of projects and partnerships.

* Australian aid: promoting prosperity, reducing poverty, enhancing stability, released in June 2014, commits to strengthen the systems used to assess the performance of the aid program's key delivery partners, to 'better link partner performance with budget allocations so that funding increasingly flows to organisations best placed to achieve Australia's objectives'. To do so, the system of partner performance assessments that was previously in place only for private contractors has now been extended to include bilateral partnerships with multilateral organisations.

Appendix 1 Staff survey method and results

A1.1 Research methodology

The Office of Development Effectiveness (ODE) commissioned ORIMA Research to help with the survey. ORIMA reviewed and refined the questionnaire developed initially by ODE and it was circulated within the Australian Government Department of Foreign Affairs and Trade (DFAT) and to the Asian Development Bank (ADB) and the World Bank for comment. Feedback was incorporated.

ORIMA programmed the questionnaire and undertook comprehensive testing and validation. A small pilot was conducted by selected DFAT staff to assess the ease of understanding the wording of the questionnaire, the reliability and usability of the online form, and the completion time. The online form was modified as a result of the pilot testing process.

The survey was sent to all staff identified as having potentially worked on ADB and/or World Bank projects over recent years with an email invitation containing the survey link and a unique password. Staff were given the opportunity to provide feedback for up to three separate projects.*

The survey was open between 4 and 30 September 2014. ORIMA sent two reminder emails to staff that had not yet responded to the survey.

In total, 140 staff responded to the survey, representing responses to 151 separate projects.† This represented an estimated response rate of 41 per cent,‡ which is acceptable for a survey of this type.

A1.2 Reliability of survey results

As this survey was a census, the survey is not subject to sampling error. It is, however, subject to non-sampling measurement error. Unlike sampling error, non-sampling error is generally not mathematically measurable. The main non-sampling error risk with this survey is the potential for non-response bias to affect the results. Non-response bias arises if the people who respond to the survey differ systematically to non-respondents in characteristics relevant to the survey.

The moderate estimated response rate for the survey (41%) suggests that some caution should be used in viewing the survey results as being representative of the broader population of DFAT staff who have been involved in projects with the multilateral development banks (MDBs). However, there are several points that support the reliability of the survey results:

- › A robust process was undertaken to encourage participation and to ensure that all invited staff had an equal chance to participate.

* To be eligible to provide feedback, respondents needed to indicate in the survey that they had worked on at least one project that involved non-core contributions to the relevant bank(s) in a non-administrative support role. If they had such involvement with more than one project and this involvement related to arrangements that spanned across ADB, World Bank and/or joint ADB/World Bank contributions then the survey provided them with the option of recording their feedback about one project under each of the arrangements that they had experience with.

† A total of 11 staff provided feedback about more than one project.

‡ Survey invitations were sent to 1680 staff members who were identified as potentially in-scope. However, ODE estimated (based on information from the reporting and financial management system, and staff departures following the integration of the Australian Agency for International Development—AusAID and DFAT) that only 364 of these staff were in-scope (able to respond to the survey with an informed view about non-core contributions to at least one of the banks) at the end of the fieldwork period. The response rate of 41 per cent was therefore calculated using an estimated population size of 364.

- › The survey platform used for the survey is well established in DFAT (and the former Australian Agency for International Development—AusAID) and has proven to be highly accessible to a broad cohort of staff over many surveys.
- › The non-sensitive topic of the survey and the strong confidentiality guarantees suggest that respondents would not be deterred from participation by the nature of their feedback.
- › A wide cross-section of in-scope staff responded to the survey, and feedback was also provided on a wide cross-section of projects. The details of these cross-sections are outlined below.

Though a larger number of respondents referred to World Bank projects compared to ADB projects, results for both banks are likely to be reasonable estimates of the perceptions of DFAT staff working on these partnerships. Overall, the survey results are unlikely to be strongly affected by systematic non-response bias and can be interpreted as providing a broad indication of the views and experiences of relevant DFAT staff in dealing with the MDBs.

A1.3 Profile of respondents and projects

Profile of respondents

Level of experience	Proportion of respondents
Up to 2 years' experience on one of ADB, World Bank (WB) or joint ADB-WB projects	29%
3 or more years' experience on one of ADB, WB or joint ADB-WB projects	21%
Up to 4 years' experience on ADB & WB, or ADB & joint WB-ADB, or WB & joint ADB-WB projects	16%
5 or more years' experience on ADB & WB, or ADB & joint ADB-WB, or WB & joint ADB-WB projects	15%
6 or more years' experience on ADB, WB and joint ADB-WB projects	19%

Most senior position at the time of the project	Proportion of respondents
APS 5 or 6/ Second or Third Secretary/ locally engaged equivalent	36%
EL1/ First Secretary/ locally engaged equivalent	38%
EL 2/ Counsellor/ locally engaged equivalent or above	26%

Location during project	Proportion of respondents
In Canberra	26%
At Post	65%
Both in Canberra and at Post	9%

Stage of involvement	Proportion of respondents
Involved at the design and planning stage of the project	55%
Involved during the implementation stage of the project	83%
Involved at the 'tail-end' of the project	23%

Profile of projects

Bank	Proportion of respondents
ADB	28%
World Bank	68%
Both ADB and World Bank	4%

Branch/ Section – project design responsibility	Proportion of respondents
The Branch/ Section had primary responsibility for designing the project	18%
The Branch/ Section was consulted during the design phase	54%
The Branch/ Section was not involved at all in designing the project	13%
Other	15%

Donor contributions	Proportion of respondents
Multiple donors	54%
Only Australia	41%
Other	5%

Grant funding to primarily complement an ADB or WB loan	Proportion of respondents
Yes	58%
No	42%

Project implementation type	Proportion of respondents
Partner government with support and supervision from ADB/ WB	51%
ADB/ WB	37%
Other	12%

Country specific/ multi-country	Proportion of respondents
Country specific	77%
Multi-country with a regional focus	18%
Multi-country with a global focus	5%

Country/ region	Proportion of respondents
Pacific and Timor-Leste	39%
East Asia	31%
South and West Asia	17%
Indonesia	14%
Other	6%

A1.4 Screener questions

How many projects have you worked on that involve the aid program's non-core contributions to the Asian Development Bank and/or the World Bank: Asian Development Bank (ADB)?

	ADB	WB	Overall
None		59.2	41.1
One	45.2	22.3	28.5
Two	21.4	6.8	11.3
Three	7.1	2.9	4.0
Four or more	26.2	8.7	15.2

How many projects have you worked on that involve the aid program's non-core contributions to the Asian Development Bank and/or the World Bank: World Bank (WB)?

	ADB	WB	Overall
None	26.2		7.3
One	14.3	36.9	30.5
Two	23.8	32.0	29.1
Three	14.3	10.7	11.3
Four or more	21.4	20.4	21.9

How many projects have you worked on that involve the aid program's non-core contributions to the Asian Development Bank and/or the World Bank: ADB-WB arrangement?

	ADB	WB	Overall
None	71.4	86.4	78.8
One	19.0	10.7	15.2
Two	7.1	2.9	4.6
Four or more	2.4		1.3

Which of the following best describes your level of experience working with the ADB?

	ADB	WB	Overall
Administrative support (such as AidWorks management)		7.1	3.4
Up to two years' experience on one or more projects	57.1	66.7	59.6
Three or more years' experience on one or more projects	42.9	26.2	37.1

Which of the following best describes your level of experience working with the WB?

	ADB	WB	Overall
Administrative support (such as AidWorks management)	9.7		2.1
Up to two years' experience on one or more projects	48.4	51.5	50.0
Three or more years' experience on one or more projects	41.9	48.5	47.9

Which of the following best describes your level of experience working with joint ADB-WB arrangements?

	ADB	WB	Overall
Up to two years' experience on one or more projects	66.7	57.1	59.4
Three or more years' experience on one or more projects	33.3	42.9	40.6

Number of years' experience working with ADB, WB and/or joint ADB-WB projects.

	ADB	WB	Overall
Up to 2 years' experience on one of ADB, WB or joint ADB-WB projects	19.0	35.0	29.1
3 or more years' experience on one of ADB, WB or joint ADB-WB projects	11.9	26.2	21.2
Up to 4 years' experience on ADB & WB or ADB & joint WB-ADB or WB & joint ADB-WB projects	26.2	11.7	15.9
5 or more years' experience on ADB & WB or ADB & joint ADB-WB or WB & joint ADB-WB projects	16.7	14.6	14.6
6 or more years' experience on ADB, WB and joint ADB-WB projects	26.2	12.6	19.2

A1.5 About your project

Was this project primarily a partnership with:

	ADB	WB	Overall
ADB	100.0		27.8
World Bank		100.0	68.2
Both ADB and World Bank			4.0

To what extent was the aid program Branch or Section responsible for managing the project involved in the project design?

	ADB	WB	Overall
The Branch/Section had primary responsibility for designing the project	14.3	18.4	18.0
The Branch/Section was consulted during the design phase	50.0	55.3	54.0
The Branch/Section was not involved at all in designing the project	16.7	12.6	13.3
Other	19.0	13.6	14.7

Did the project primarily provide grant funding to complement an ADB or WB loan?

	ADB	WB	Overall
Yes	69.0	52.9	58.0
No	31.0	47.1	42.0

Did this project involve contributions from:

	ADB	WB	Overall
Multiple donors	58.5	49.5	54.0
Only Australia	36.6	44.7	40.7
Other	4.9	5.8	5.3

Was this project implemented by the:

	ADB	WB	Overall
Partner government with support and supervision from ADB/ WB	57.1	46.6	51.0
ADB/ WB	31.0	40.8	37.1
Other	11.9	12.6	11.9

Was this project:

	ADB	WB	Overall
Country-specific	78.6	74.8	76.8
Multi-country with a regional focus	21.4	17.5	17.9
Multi-country with a global focus		7.8	5.3

Country/ region

	ADB	WB	Overall
Pacific and Timor-Leste	54.8	30.5	39.2
East Asia	35.7	30.5	31.5
South and West Asia	9.5	20.0	16.8
Indonesia	9.5	16.8	14.0
Other	2.4	8.4	6.3

Please indicate the stages of the project in which you had significant involvement. (multiple response)

	ADB	WB	Overall
Involved at the design and planning stage of the project	48.8	57.3	55.3
Involved during the implementation stage of the project	75.6	85.4	82.7
Involved at the 'tail-end' of the project	29.3	20.4	22.7

Which of the following best describes the most senior position you held during your involvement with the project?

	ADB	WB	Overall
APS 5 or 6/ Second or Third Secretary/ locally engaged equivalent	41.5	35.6	36.5
EL1/ First Secretary/ locally engaged equivalent	41.5	36.6	37.8
EL 2/ Counsellor/ locally engaged equivalent or above	17.1	27.7	25.7

Where were you located during your involvement with this project?

	ADB	WB	Overall
In Canberra	26.2	27.2	26.5
At Post	69.0	63.1	64.9
Both in Canberra and at Post	4.8	9.7	8.6

A1.6 Design stage of the project

Other delivery options (e.g. managing contractors, non-government organisations—NGOs, partner government budget support) were considered before deciding to partner with ADB/ WB.

	ADB	WB	Overall
Strongly Disagree	6.3	5.9	7.0
Disagree	12.5	29.4	25.4
Neither Agree nor Disagree	12.5	3.9	5.6
Agree	43.8	37.3	38.0
Strongly Agree	25.0	23.5	23.9

Terms of agreements with ADB/ WB were well understood by aid program staff.

	ADB	WB	Overall
Disagree	17.6	12.1	12.7
Neither Agree nor Disagree	23.5	19.0	19.0
Agree	47.1	53.4	54.4
Strongly Agree	11.8	15.5	13.9

The administrative resources required for us to manage the project (i.e. staff time, effort, expertise) were accurately anticipated.

	ADB	WB	Overall
Strongly Disagree	5.3	3.6	3.8
Disagree	21.1	17.9	22.8
Neither Agree nor Disagree	10.5	16.1	13.9
Agree	57.9	51.8	50.6
Strongly Agree	5.3	10.7	8.9

The aid program's expectations about how the partnership would operate were clear at the outset.

	ADB	WB	Overall
Strongly Disagree		3.5	3.7
Disagree	15.0	24.6	23.5
Neither Agree nor Disagree	10.0	14.0	13.6
Agree	75.0	43.9	49.4
Strongly Agree		14.0	9.9

ADB/ WB's approach to monitoring and evaluation of the project was well understood by the aid program.

	ADB	WB	Overall
Disagree	23.5	36.4	32.9
Neither Agree nor Disagree	17.6	18.2	18.4
Agree	58.8	38.2	43.4
Strongly Agree		7.3	5.3

The aid program's information needs, including requirements over and above standard ADB/ WB reporting, were agreed with ADB/ WB at the outset.

	ADB	WB	Overall
Disagree	21.1	30.9	27.3
Neither Agree nor Disagree	21.1	10.9	13.0
Agree	47.4	45.5	48.1
Strongly Agree	10.5	12.7	11.7

Internal aid program procedures to address concerns about the project were clearly defined at the design stage.

	ADB	WB	Overall
Strongly Disagree		1.9	1.3
Disagree	20.0	25.0	23.7
Neither Agree nor Disagree	35.0	21.2	25.0
Agree	35.0	36.5	36.8
Strongly Agree	10.0	15.4	13.2

Risks of working through ADB/ WB on this type of project were well understood at the outset.

	ADB	WB	Overall
Disagree	20.0	18.2	19.0
Neither Agree nor Disagree	15.0	21.8	19.0
Agree	60.0	47.3	51.9
Strongly Agree	5.0	12.7	10.1

Considering everything, the aid program undertook a diligent appraisal of the project prior to committing funding to it.

	ADB	WB	Overall
Disagree	5.6	7.3	7.8
Neither Agree nor Disagree	27.8	16.4	18.2
Agree	44.4	56.4	53.2
Strongly Agree	22.2	20.0	20.8

A1.7 Internal collaboration and resourcing by the aid program

The aid program resources committed to managing and monitoring the project (including time spent on the project, and level of senior executive involvement) were commensurate with its size and risk.

	ADB	WB	Overall
Strongly Disagree	7.9	2.1	4.3
Disagree	13.2	23.7	21.3
Neither Agree nor Disagree	23.7	11.3	14.9
Agree	44.7	52.6	48.2
Strongly Agree	10.5	10.3	11.3

An appropriate level of internal stakeholder interest and attention was maintained throughout the project by the aid program.

	ADB	WB	Overall
Strongly Disagree	2.6	1.0	1.4
Disagree	17.9	14.6	16.3
Neither Agree nor Disagree	15.4	12.5	12.8
Agree	51.3	64.6	60.3
Strongly Agree	12.8	7.3	9.2

I was able to dedicate an appropriate level of attention to working with ADB/ WB among other demands on my time.

	ADB	WB	Overall
Strongly Disagree	2.6	3.2	3.6
Disagree	28.2	19.4	21.9
Neither Agree nor Disagree	7.7	12.9	10.9
Agree	53.8	51.6	52.6
Strongly Agree	7.7	12.9	10.9

The aid program project team at Post received appropriate support from Canberra.

	ADB	WB	Overall
Strongly Disagree	5.6		2.5
Disagree		23.1	15.1
Neither Agree nor Disagree	30.6	30.8	29.4
Agree	58.3	38.5	44.5
Strongly Agree	5.6	7.7	8.4

Different units within the aid program (e.g. country program, thematic areas, multilateral organisations) worked well together to effectively support the project.

	ADB	WB	Overall
Strongly Disagree	5.3		2.3
Disagree	15.8	16.9	16.5
Neither Agree nor Disagree	28.9	24.7	26.3
Agree	42.1	49.4	46.6
Strongly Agree	7.9	9.0	8.3

We were able to access sufficient technical and specialist expertise within the aid program to partner with ADB/ WB in the way we would have liked.

	ADB	WB	Overall
Strongly Disagree	2.8	5.4	5.3
Disagree	22.2	24.7	23.3
Neither Agree nor Disagree	11.1	9.7	9.8
Agree	47.2	49.5	49.6
Strongly Agree	16.7	10.8	12.0

A1.8 ADB/ WB performance

The project was able to access sufficient aid program senior management attention to support the project in the way we planned.

	ADB	WB	Overall
Strongly Disagree	5.6	1.1	2.2
Disagree	8.3	7.6	9.7
Neither Agree nor Disagree	25.0	19.6	20.1
Agree	52.8	60.9	58.2
Strongly Agree	8.3	10.9	9.7

ADB/ WB's ability to engage constructively with the partner government(s).

	ADB	WB	Overall
Very Dissatisfied	2.7	2.1	2.9
Dissatisfied	24.3	10.5	13.8
Neither Satisfied nor Dissatisfied	16.2	12.6	13.0
Satisfied	51.4	56.8	55.8
Very Satisfied	5.4	17.9	14.5

ADB/ WB's capacity to facilitate coordination among other stakeholders, including bilateral donors.

	ADB	WB	Overall
Very Dissatisfied	8.1		3.0
Dissatisfied	21.6	18.5	19.3
Neither Satisfied nor Dissatisfied	24.3	18.5	19.3
Satisfied	40.5	51.1	48.1
Very Satisfied	5.4	12.0	10.4

The clarity and effectiveness of communication about the project between the aid program and ADB/ WB.

	ADB	WB	Overall
Very Dissatisfied	7.9	5.2	6.5
Dissatisfied	26.3	17.7	19.4
Neither Satisfied nor Dissatisfied	21.1	18.8	18.7
Satisfied	44.7	46.9	47.5
Very Satisfied		11.5	7.9

ADB/ WB's adaptability and flexibility during implementation.

	ADB	WB	Overall
Very Dissatisfied	5.7	6.5	6.7
Dissatisfied	28.6	19.4	20.9
Neither Satisfied nor Dissatisfied	25.7	22.6	23.1
Satisfied	40.0	43.0	42.5
Very Satisfied		8.6	6.7

The quality of ADB/ WB's analytical and advisory work on the project.

	ADB	WB	Overall
Very Dissatisfied	2.9	1.1	1.5
Dissatisfied	14.3	8.4	10.4
Neither Satisfied nor Dissatisfied	28.6	16.8	20.0
Satisfied	45.7	47.4	45.9
Very Satisfied	8.6	26.3	22.2

The technical skills and qualifications of ADB/ WB's staff working on the project.

	ADB	WB	Overall
Very Dissatisfied	5.6	1.1	3.0
Dissatisfied	8.3	2.1	3.7
Neither Satisfied nor Dissatisfied	16.7	13.8	14.1
Satisfied	58.3	55.3	55.6
Very Satisfied	11.1	27.7	23.7

The quality of the information ADB/ WB provided to monitor the progress during the project.

	ADB	WB	Overall
Very Dissatisfied	9.1	6.6	6.9
Dissatisfied	15.2	22.0	19.2
Neither Satisfied nor Dissatisfied	18.2	26.4	24.6
Satisfied	51.5	37.4	41.5
Very Satisfied	6.1	7.7	7.7

The quality of the information ADB/ WB provided about the outcomes of the project.

	ADB	WB	Overall
Very Dissatisfied	9.1	2.2	3.9
Dissatisfied	21.2	23.1	21.7
Neither Satisfied nor Dissatisfied	21.2	22.0	22.5
Satisfied	48.5	47.3	48.1
Very Satisfied		5.5	3.9

ADB/ WB's promotion of gender equality.

	ADB	WB	Overall
Very Dissatisfied	2.9	3.4	3.2
Dissatisfied	29.4	21.8	23.0
Neither Satisfied nor Dissatisfied	32.4	39.1	37.3
Satisfied	23.5	32.2	30.2
Very Satisfied	11.8	3.4	6.3

ADB/ WB's responsiveness to Australian interest in and/or concerns about aspects of the project.

	ADB	WB	Overall
Very Dissatisfied	2.7	3.2	3.6
Dissatisfied	24.3	18.9	20.3
Neither Satisfied nor Dissatisfied	27.0	17.9	19.6
Satisfied	35.1	49.5	45.7
Very Satisfied	10.8	10.5	10.9

ADB/ WB's recognition of Australia's contribution to the project (e.g. through public acknowledgment).

	ADB	WB	Overall
Very Dissatisfied	5.6	1.1	2.3
Dissatisfied	16.7	15.9	16.9
Neither Satisfied nor Dissatisfied	19.4	23.9	21.5
Satisfied	52.8	46.6	47.7
Very Satisfied	5.6	12.5	11.5

Considering everything, how satisfied are you with ADB/ WB's supervision and/or implementation of the project?

	ADB	WB	Overall
Very Dissatisfied	5.7	1.1	3.0
Dissatisfied	22.9	20.2	20.0
Neither Satisfied nor Dissatisfied	20.0	17.0	17.8
Satisfied	48.6	50.0	49.6
Very Satisfied	2.9	11.7	9.6

Considering everything, to what extent were you satisfied that ADB/ WB's policies and procedures supported the efficient and effective implementation of the project?

	ADB	WB	Overall
Very Dissatisfied	5.9	3.2	4.5
Dissatisfied	26.5	19.1	20.3
Neither Satisfied nor Dissatisfied	26.5	22.3	22.6
Satisfied	38.2	48.9	46.6
Very Satisfied	2.9	6.4	6.0

Reasons for making non-core contributions.

	Proportion selecting this reason		
	ADB	WB	Overall
To support or strengthen ADB/ WB engagement in a country or region that is of particular interest to Australia.	18.0	37.0	57.0
To support ADB/ WB's role in improving global knowledge, policies or standards.	2.0	24.0	27.0
To improve the quality of ADB/ WB's core operations through supporting internal reform efforts.	4.0	8.0	12.0
To complement ADB/ WB's finance activities with grant funding, for better development outcomes.	24.0	36.0	61.0
To strengthen Australia's capacity to engage in policy dialogue with the partner country(ies).	13.0	66.0	84.0
To access specialist expertise and experience that wasn't readily available elsewhere.	17.0	62.0	81.0
To enable us to provide aid in a geographical area where Australia has a limited presence.	5.0	25.0	31.0
To enable us to provide aid in an area that we would otherwise not be able to work in due to conflict risk.	2.0	16.0	18.0
To enable us to provide effective humanitarian aid.	3.0	8.0	11.0

To provide aid that was harmonised with other donors' activities.

To enable us to address issues that would be too sensitive to target directly through a bilateral approach.

To achieve results with minimal involvement from aid program staff.

To share fiduciary and/or reputational risks with ADB/ WB.

To meet our official development assistance (ODA) delivery targets before the end of the financial year.

To complement a separate Australian aid investment delivered by another partner.

Apart from the reasons in the above list, were there any other key reasons underpinning the decision to make this non-core contribution to ADB/ WB?

	ADB	WB	Overall
Yes	52.9	45.7	47.11
No	47.1	54.3	52.89

A1.9 Individual interactions with ADB or WB

I had a sufficient understanding of ADB/ WB's organisational structure and how this would affect project implementation.

	ADB	WB	Overall
Strongly Disagree	2.7	4.3	3.7
Disagree	40.5	28.3	31.3
Neither Agree nor Disagree	21.6	21.7	20.9
Agree	32.4	40.2	38.8
Strongly Agree	2.7	5.4	5.2

The aid program provided me with sufficient training on ADB/ WB policies, and how they would affect implementation of the project.

	ADB	WB	Overall
Strongly Disagree	20.0	11.4	13.3
Disagree	51.4	60.2	58.6
Neither Agree nor Disagree	17.1	17.0	17.2
Agree	11.4	11.4	10.9

The aid program provided me with sufficient guidance on ADB/ WB design processes.

	ADB	WB	Overall
Strongly Disagree	20.0	10.6	13.6
Disagree	42.9	51.8	49.6
Neither Agree nor Disagree	22.9	24.7	24.0
Agree	14.3	12.9	12.8

I had a sufficient understanding of the types of information about the project I could reasonably expect to receive from ADB/ WB.

	ADB	WB	Overall
Strongly Disagree	8.1		2.2
Disagree	35.1	30.4	31.3
Neither Agree nor Disagree	10.8	23.9	19.4
Agree	43.2	42.4	44.0
Strongly Agree	2.7	3.3	3.0

I was able to access good, reliable and timely guidance and advice about working with ADB/ WB from a central point of contact within the aid program.

	ADB	WB	Overall
Strongly Disagree	7.9	8.0	8.4
Disagree	42.1	36.4	39.7
Neither Agree nor Disagree	21.1	25.0	22.9
Agree	23.7	27.3	25.2
Strongly Agree	5.3	3.4	3.8

Overall, I was well equipped and supported to manage this relationship with ADB/ WB in a manner appropriate to my role/ seniority in the project.

	ADB	WB	Overall
Strongly Disagree	7.7		2.2
Disagree	20.5	24.2	23.0
Neither Agree nor Disagree	33.3	34.7	33.8
Agree	35.9	35.8	36.7
Strongly Agree	2.6	5.3	4.3

A1.10 Overall value of the project

The project was an effective vehicle for pursuing the aid program's objectives.

	ADB	WB	Overall
Strongly Disagree	2.7	2.2	3.0
Disagree	8.1	6.6	6.8
Neither Agree nor Disagree	16.2	7.7	9.8
Agree	51.4	54.9	53.4
Strongly Agree	21.6	28.6	27.1

The project represented value for money.

	ADB	WB	Overall
Strongly Disagree	2.9	3.2	3.8
Disagree	17.1	10.8	12.0
Neither Agree nor Disagree	22.9	19.4	20.3
Agree	45.7	48.4	48.1
Strongly Agree	11.4	18.3	15.8

Partnering with ADB/ WB on this project allowed us to achieve results we would not have been able to achieve working through another type of partner (e.g. managing contractor, NGO).

	ADB	WB	Overall
Strongly Disagree	7.9	1.1	3.7
Disagree	18.4	9.9	11.9
Neither Agree nor Disagree	21.1	17.6	17.9
Agree	28.9	35.2	33.6
Strongly Agree	23.7	36.3	32.8

Would you like to provide feedback on a project you worked on with ADB/ WB?

	ADB	WB	Overall
Yes	25.0	12.1	17.7
No	75.0	87.9	82.3

Appendix 2 Case analysis

A2.1 Selection of cases

The 30 cases selected for examination are listed in Table A1 in this appendix. Their selection was based on:

- › **materiality** covering the bulk of Australian aid spent through non-core contributions to the ADB and World Bank during this period, by including nearly all the projects in which more than \$20 million was contributed
- › **representation** of the wide range of locations and types among the projects that have been financed by these contributions.

The mid-sized and small cases (Groups B and C in Table A1) were selected from a sample frame of 109 projects that had started during or before 2010–11 and which had not been closed by early 2014. This was done in order to ensure that cases were contemporary, but had been in place for long enough to be instructive about DFAT's recent experience working with the MDBs. The cases were chosen to match the overall frequencies of:

- › which MDB was the partner in the project
- › whether the geographical scope of the project was one country, a region or global
- › the proportion of total funding provided by Australia
- › to what sector the program was directed.

During the evaluation a few changes were made to the original selection, to offset the effect of a misclassification of the Philippines Anti-Corruption project and to accommodate offers of meetings at ADB headquarters to discuss Papua New Guinea health services and the Philippines Public-Private Partnership (PPP) Centre.

Thirty cases were chosen for analysis. Though this is an unusually large sample for in-depth analysis, ODE determined that this would be necessary to cover the diversity of partnership arrangements within the scope of the evaluation.

In addition to the 30 cases chosen, the evaluation team looked at extra cases when necessary to explore individual aspects further.

A2.2 Focus

Analysis of cases focused mainly on how the aid program contributed in MDB partnerships beyond providing funding, and on interaction between the aid program and the MDBs through all stages of non-core contributions. However, in the light of evidence gathered through other methods in the evaluation, in later stages added attention was given to whether certain issues were anticipated at the design/appraisal stage, and to the aid program's and the MDBs' different approaches to monitoring and evaluation (M&E) and to gender equality.

A2.3 Method

Each case analysis followed the method described in the evaluation plan:

- › analysis of documents
- › formulation of preliminary findings
- › exploration and testing of findings.

The analysis of documents identified as far as possible for each project:

- › the stated objectives of the project that Australia funded or helped to fund through its non-core contributions
- › other Australian aid objectives, stated or implicit, associated with the financing (e.g. rapid disbursement, economy in administration, or influence on aspects of ADB/WB management of the project)
- › information about disbursement of the Australian contribution/s
- › information about where Australian aid staff and consultants focused their monitoring of the project and their influence on it
- › performance ratings for the program, wherever held
- › information relevant to other evaluation questions (e.g. information about disagreements with ADB/WB, shortages of resources, or Australia's visibility).

Preliminary findings were triangulated with evidence from quantitative analysis and ODE's survey of DFAT staff. This focused the subsequent work of case analysis to answer the main evaluation questions, and helped to identify patterns among cases involving various countries, regions, sectors or types of partnership with ADB/WB.

A2.4 Discussions with MDB staff

The Manila field visit provided opportunities for discussion not only with ADB staff at their headquarters (and by videoconference) and aid program staff in the embassy, but also with World Bank staff in their country office. Questions about cases in the Pacific were pursued with World Bank staff by visiting their Sydney office, and questions about six other cases in phone conferences with World Bank staff members.

Discussions were held with 32 ADB officials and 22 World Bank officials.

Table A1 Projects selected for case analysis

Code/s	Project name	\$m spent 2005–06 to 2011–12	Partner/s			Geographical type			Sector in Aidworks
			ADB	WB	BOTH	SINGLE	REGIONAL	GLOBAL	
1	INH 855 INI 510	Afghanistan Reconstruction Trust Fund		x		x			Multi
2	INI 506	Indonesia National Program for Community Empowerment (PNPM)		x		x			Social/welfare
3	INH 466	Infrastructure Partnerships Program, funding: <i>WB single donor funds</i> • East Asia and Pacific (EAP) IFGI Trust Fund • South Asia Region (SAR) IFGI Trust Fund <i>WB multi-donor funds</i> • Public-Private Infrastructure Advisory Facility (PPIAF) • Energy Sector Management Assistance Program (ESMAP) • Global Partnership on Output-Based Aid (GPOBA) • Global Road Safety Facility (GRSF) • Cities Alliance (CA) <i>ADB multi-donor funds</i> • Clean Energy Financing Partnership Facility • Water Financing Partnership Facility			x			x	Water supply and sanitation (WSS)
4	INI 132	Pacific Region Infrastructure Facility (PRIF)			x			x	WSS
5	ING 741	Cambodia Delivering Better Health		x		x			Health
6	INI 391	Indonesia Water and Sanitation for Low Income Communities Project (PAMSIMAS)		x		x			WSS
7	INH 651	Vietnam Southern Coastal Corridor	x			x			Transport
8	INI 030	Global Partnership on Output-Based Aid (GPOBA)		x				x	WSS
9	ING 912	Philippines Basic Education (SPHERE)		x		x			Education

Code/s	Project name	\$m spent 2005-06 to 2011-12	Partner/s			Geographical type			Sector in Aidworks
			ADB	WB	BOTH	SINGLE	REGIONAL	GLOBAL	
1 0	INI 632	Philippines Development Trust Fund		x		x			Education
1 1	ING 600 ING 855	Private Enterprise Partnerships – Pacific, funding: • Private Sector Development Initiative (ADB) • Private Enterprise Partnership – Pacific (International Finance Corporation, IFC)				x		x	Business support
1 2	INH 582	Indonesia Infrastructure Initiative (IndII)				x	x		WSS
1 3	INI 691	Water and Sanitation Initiative Global Programs / WASH Global Partnerships, funding: • Water and Sanitation Program (WB)		x				x	WSS
1 4	INH 592	Timor-Leste Health Sector Support Program		x		x			Health
1 5	INJ 231	Global Facility for Disaster Reduction and Recovery		x				x	Humanitarian
1 6	INJ 858	Papua New Guinea Health and HIV Multilateral Partnerships, funding: • Rural Health Services Delivery Project (ADB)*	x			x			Health
1 7	INI 976	World Bank Pacific Facility		x				x	Multisector
1 8	ING 453	Pakistan Earthquake Reconstruction Program	x			x			Reconstruction
1 9	INJ 766	Philippines – Strengthening Public-Private Partnerships	x			x			Infrastructure
2 0	INH 917	Justice for the Poor - East Asia and Pacific Fund		x				x	Governance

* World Bank projects funded from this initiative were not examined.

Code/s	Project name	\$m spent 2005-06 to 2011-12	Partner/s			Geographical type			Sector in Aidworks
			ADB	WB	BOTH	SINGLE	REGIONAL	GLOBAL	
2 1	INH 315	Samoa Power Sector Expansion Project		x			x		Energy
2 2	INH 207	Extractive Industries Transparency Initiative						x	Governance
2 3	INH 615	Solomon Islands Rural Development Program			x		x		Rural development
2 4	INJ 585	Greater Mekong Subregion Trade and Transport Facilitation	x					x	Governance
2 5	INI 174	Pacific Labour Mobility Seasonal Worker Pilot Scheme			x			x	Governance
2 6	INJ 383	Kiribati Growth and Economic Management	x				x		Governance
2 7	INF 863	Cambodia Public Financial Management			x		x		Public sector management
2 8	INI 403	Vietnam Land Administration			x		x		Government administration
2 9	INI 264	Tuvalu Public Financial Management	x				x		Public sector management
3 0	INH 248	Global and Regional Anti-Corruption	x					x	Public sector management

Table A2 Comparison of sample frame and projects selected for case analysis

	Target frequencies from sample frame	Frequencies in selection of 30 cases
Partner		
ADB	8	9
World Bank	18	17
International Finance Corporation (IFC)	2	0
Mixed	2	4
Geographical focus		
Africa	1	0
East Asia	13	12
Global	4	5
Latin America/Caribbean	0	0
Pacific & Timor-Leste	9	11
South & West Asia	3	2
MDB contribution / project total		
The major component	20	10
A major component	4	8
A minor but significant component	6	12
Sectoral focus		
Education	2	2
Health	2	3
Infrastructure	9	9
Governance	11	9
Environment and natural resource management	1	0
Humanitarian/reconstruction	1	2
Other (multisector, social welfare and private sector)	2	4
Rural development/ food security	1	1

Table A3 MDB partnerships where Australian ambitions implied demands on MDBs to accommodate them

Program	Bank	No. of donors	Features
Indonesia National Program for Community Empowerment (PNPM)	WB	Several others	<p>Direct management of advisers contracted to assist apex management in government ministries</p> <p>Ensure adequate design and implementation of the other Australian-funded components (capacity building for subnational governments, scaling up of the <i>Generasi</i> pilot,* microcredit for the poor, and additional M&E)</p> <p>Improve the gender strategy of PNPM</p> <p>During implementation, provide anti-corruption and public finance specialists for government ministries</p>
Indonesia Water Supply and Sanitation for Low Income Communities Project (PAMSIMAS)	WB	Australia only	<p>Ensure adequate design and implementation of Australian-funded components (training, capacity building, consultant services, and village and district grants)</p>
Indonesia Infrastructure Initiative (IndII)	ADB and WB	Australia only	<p>Participate, together with ADB and WB, in dialogue with government ministries on policies in transport and water supply and sanitation sectors</p> <p>Increase collaboration with ADB and WB on identification and preparation of loan projects</p>
Philippines Basic Education (SPHERE)	WB	Several others	<p>Gain a place in policy dialogue with Department of Education and other ministries on national, system-wide reforms</p> <p>During implementation, influence Department of Education and WB to increase emphasis in education-sector policy on gender equality and disability access</p>
Philippines Development Trust Fund	WB	Australia only	<p>Participate, together with WB, in dialogue with government ministries on macroeconomic and sectoral policies</p> <p>Influence WB towards activities supporting bilateral programs as well as WB loan programs</p>
Pacific Region Infrastructure Facility (PRIF)	ADB and WB	Several others	<p>Promote coordination among ADB, WB, New Zealand Aid Programme (NZAID) and AusAID/DFAT in programming</p> <p>Promote sharing of analytical and advisory work as a “common platform”</p>
Cambodia Delivering Better Health	WB	Several others	<p>Participate, together with WB, in dialogue with government ministries to encourage funding of health sector recurrent costs and higher priority for maternal and child health, reproductive health and non-communicable diseases</p>
Vietnam Southern Coastal Corridor	ADB	Initially Australia only, later also Korea Eximbank	<p>Ensure adequate design and implementation of Australian-funded components: M&E, HIV/AIDS awareness and prevention, human trafficking prevention, gender strategies, and incorporation of rural feeder roads (later dropped, with soft-soil treatment added)</p>
Pakistan Earthquake Reconstruction Program	ADB	Several others	<p>Provide Australian experts, through the ADB Reconstruction Facility, to assist the Pakistan Government’s reconstruction authority</p> <p>Ensure adequate design and implementation of other Australian-funded components (capacity building in reconstruction authority), gender equality strategy and environmental safeguards</p>

ADB = Asian Development Bank; AusAID, Australian Agency for International Development; DFAT, Australian Government Department of Foreign Affairs and Trade; M&E, monitoring and evaluation; WB = World Bank

* A community-based conditional cash transfer program that uses performance-based block grants to increase community utilisation of basic health and education services.

Appendix 3 Analysis of performance ratings

A3.1 Background

DFAT assesses the performance of aid projects annually against six criteria—relevance, effectiveness, efficiency, M&E, sustainability, and gender equality. This generates an aid quality check (AQC) report which rates the project's performance against each criterion with accompanying text to justify the rating. Projects are rated on a six-point scale, where a rating of 1, 2 or 3 is considered unsatisfactory and a rating of 4, 5 or 6 is considered satisfactory. Over the period covered by the analysis, AQC reports were mandated only for those projects that have a value of over \$3 million or are otherwise considered significant.

A3.2 Purpose

The purpose of the analysis was to:

- › compare performance ratings given to ADB and World Bank implemented projects with ratings given to projects implemented by other types of partners
- › compare ratings for projects with different characteristics, including execution arrangements and geographical focus.

A3.3 Scope

The analysis covers ratings in AQCs lodged in DFAT's aid management information system, AidWorks, covering the calendar years 2008 to 2013. To provide a reliable basis for comparison of assessed performance between partner categories, performance ratings were excluded for the following:

- › Projects that were delivered through more than one major partner,* and therefore could not be assigned to a single partner category. This was done to ensure performance ratings reflected exclusively the performance of one implementing organisation, rather than a mixture of entities, which could muddy the waters.
- › Projects that are delivered exclusively through one type of partner, but not others. This was done to ensure a like-for-like basis for comparison. This included core funding to multilateral organisations, as well as scholarships to study in Australia, and volunteers.

To further ensure a reliable basis for fair comparisons, projects were categorised according to their geographical focus. That is, projects were categorised as either focused exclusively in one country, or in multiple countries. For the latter, projects were classified as being either regional in focus, or global in focus. These distinctions were made because it was hypothesised that the geographical focus of projects would affect the perspective of the assessors. This was revealed to be true, as evidenced by significant differences in the ratings given to projects in these three categories, on each of the AQC criteria.†

The resulting ratings data covers 708 projects and 1972 AQC reports completed for those projects. Within this population:

* Defined as being where less than 80 per cent of initiative spending is delivered through one partner.

† On three of the five criteria examined (effectiveness, efficiency, sustainability), global programs are roughly half as likely as single country programs to be rated as unsatisfactory in AQC reports. They also do better than regional or single country programs on three of the criteria on the proportion of highly satisfactory ratings.

- › 1396 AQC reports, covering 475 projects, were focused on a single country, while the remainder were either regional or global in focus
- › 277 AQC reports covered 95 World Bank projects
- › 93 AQC reports covered 25 ADB projects.

A3.4 Limitations of the analysis

The main limitation of the analysis was that there were insufficient projects and associated ratings for ADB projects to provide a basis for assessing trends in ratings between implementation and completion, or the effect of execution arrangements on ratings. As such, we were limited to assessing the ADB ratings against different criteria in aggregate, rather than on the basis of execution arrangements, or by stage of implementation.

The other limitation is that AQCs are designed to capture project rather than partner performance. However, given the number of projects and ratings involved, it is reasonable to assume there is a correlation between project performance ratings and the categories of partners implementing them.

Appendix 4 Impact of execution arrangements on performance ratings

The great thing about [bank] projects is that they are recipient executed. The worst thing about [bank] projects is that they are recipient executed.

Bank staff member

The main advantage of recipient execution, which is the MDBs' standard approach to sector-wide program loans and large projects and is applied also in many smaller activities, is its theme of ownership by the recipient government, and the associated prospect that improvements or innovations will be internalised and development benefits sustained. The accompanying challenge of this model for the MDBs is to ensure that there is sufficient investment in preparation, and sufficient support for implementation, taking into account the capacity and commitment of executing agencies.

Reliance on recipient government institutions, often with weak capacity, to implement projects increases the risk of delays or shortcomings in implementation. Aspects of recipient execution are the biggest single cause of DFAT staff concerns about MDB partnerships (Box A1).

Box A1 DFAT dissatisfaction with MDB projects on efficiency and effectiveness grounds has much to do with their being recipient executed

The interaction between MDB responsibility and recipient government capacity and how it affects efficiency and effectiveness is difficult to disentangle from AQCs. Their authors sometimes focus on how the executing agencies or their consultants are performing, but at other times assume the MDBs should be able to fix any implementation problems. In fact, adequately designed projects may still contain difficulties related to government agencies' capacity, culture and appetite for change, which even with competent MDB supervision can lead to slower than expected progress.

Poor recipient government performance was predominantly perceived to be due to the low capacity of the implementing agencies or the staff within them, or the general lack of sufficient staff numbers dedicated to the initiative. When provided with assistance in the form of technical assistance, they were also perceived to utilise it inefficiently. Poor procurement processes featured, as well as poor financial management, and poor management by the project management unit/government department responsible generally—all of which can be considered subsets of the low capacity of implementing agencies where initiatives are situated. A general lack of political will to move things forward was also mentioned, often in association with reform processes implicit in the initiative, as well as diverting technical assistance to other non-project tasks.

The majority of sub-reasons given for inefficiencies related to *poor MDB performance*, and most often concerned their perceived weak supervision of projects, particularly when they are underperforming,

which is often associated by DFAT staff with a lack of adequate resourcing, either in-country or at headquarters.

For both recipient government and MDB issues, there were a very high number of separate yet interrelated reasons for unsatisfactory ratings on both criteria, indicating the variation in individual institutional settings. However, many of the impediments to efficiency and effectiveness are short term, and able to be addressed as program implementation advances. This is supported by the fact that over two-thirds of issues cited in AQC as causes for unsatisfactory ratings are reported as resolved within a year or two of reporting.

Source: ODE analysis of explanations of unsatisfactory performance ratings for efficiency and effectiveness given to projects managed by the ADB and World Bank

When ODE compared performance ratings given to projects implemented by the ADB and World Bank with ratings given to those implemented by other types of partners, the aggregate comparison was distinctly unfavourable to the MDBs.* On the criterion of effectiveness, and on almost all other criteria for performance ratings, projects delivered by the ADB and World Bank have been rated as worse performing than those delivered by other partners. This is evident in the proportion of projects assessed as unsatisfactory, as well as high performing (rated 5 or 6 out of 6). This pattern is most striking for the efficiency criterion (Figure A1).

Figure A1 On all but one criterion, investments delivered by the MDBs are the worst performing when performance ratings are considered in aggregate. These are the results for efficiency.



Note: Results are from ratings in 1274 AQC completed since 2008 on projects delivered by one major partner, in one country.

Other evidence, from the DFAT staff survey and examination of cases, indicates that this aggregate comparison is in large part because of difficulties associated with recipient execution in many of the projects delivered by the MDBs. This is supported by three further aspects of ODE's analysis of performance ratings: comparison of ratings for sustainability; differences between performance

* Ratings in AQC (formerly quality at implementation) reports rate the performance of initiatives against six criteria—relevance, effectiveness, efficiency, M&E, sustainability and gender equality. Initiatives are rated on a six-point scale, where a rating of 1, 2 or 3 is considered unsatisfactory and a rating of 4, 5 or 6 is considered satisfactory. The analysis included ratings contained in 1756 quality at implementation reports completed from 2008 to 2014, covering 617 initiatives. Ratings assess the performance of initiatives rather than partners, and it is for authors' discretion whether they distinguish the performances of MDBs as supervisors, executing agencies and employed consultants.

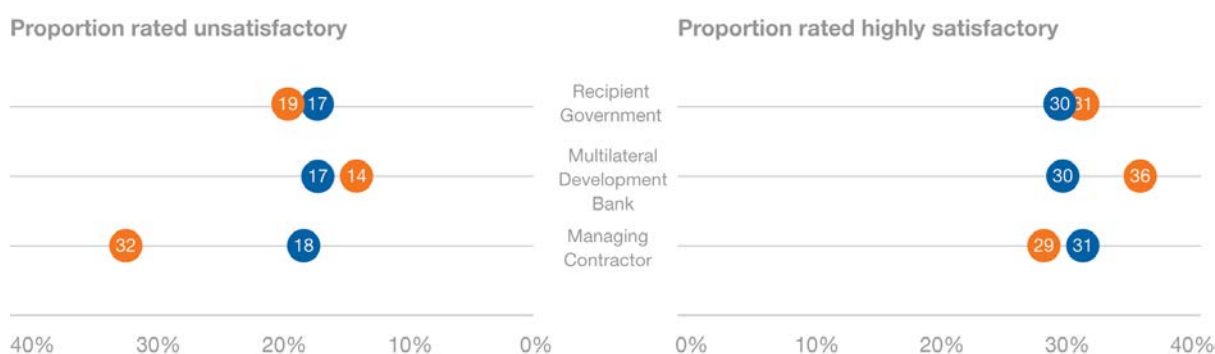
ratings during project implementation and ratings at project completion, and differences between ratings for recipient executed projects compared to bank executed ones.

Implementation progress in recipient executed projects could be expected to be slower than in projects executed by managing contractors or contracted non-government organisations (NGOs). But the expected pay-off from recipient execution is that it expands national officials' ownership of aid, increases self-reliance and improves capacity. This in turn could be expected to mean greater sustainability, so that projects will be more cost-effective in the long run. This trade-off in the MDBs working with government agencies is highlighted by the following quote from one project performance report:

Considering delays within [the project], delivery/implementation does not represent value for money when compared with traditional management contractor implementation models. However ... implementation by counterpart governments, rather than international contractors or the MDBs, is considered the best means to ensure sustainability. [INH666]

On the sustainability criterion, MDB projects outperform those delivered by other partners, albeit only by a small margin. But for the performance ratings given to projects in the year they close (in other words, when they are completed) the comparison becomes more favourable. In their final year, MDB-delivered projects show a modest increase in the number rated as high performing for sustainability, and a modest decrease in the number rated unsatisfactory. For projects delivered by managing contractors, the pattern is the opposite: in their final year, fewer are rated as high performing for sustainability, and more are rated as unsatisfactory (Figure A2). The same pattern, of improvement of performance ratings of MDB-delivered projects in their final years, holds for each of the other performance criteria.

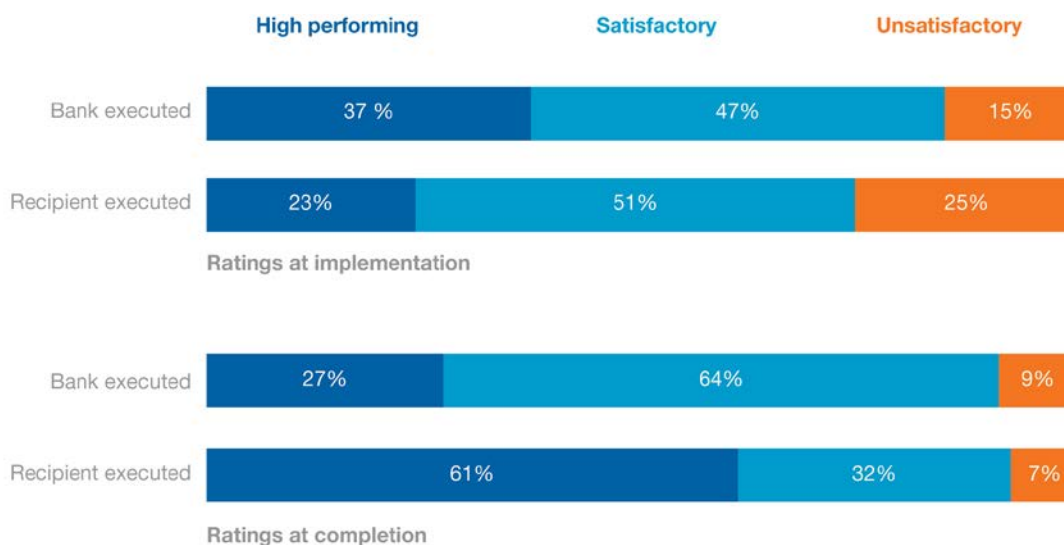
Figure A2 Ratings for MDB projects improved on completion compared to implementation, on all criteria (these are for sustainability). Ratings for managing contractors did the opposite.



Notes: Results are from ratings in 1274 project performance reports completed since 2008 on projects delivered by one major partner, in one country.
Highly satisfactory ratings = 5 or 6; Unsatisfactory = <4.

A limitation of this analysis is that not all MDB-delivered projects are recipient executed: some are MDB executed, and some are combinations of both types. To address this limitation, ODE used World Bank data to classify projects supported by Australian non-core contributions to World Bank as either World Bank executed or recipient executed. The same pattern of performance ratings improving on completion was evident (Figure A3), and more striking than in Figure A2 (which presents data distinguishing projects by partner rather than manner of execution). Again, this pattern was evident for all other criteria.

Figure A3 For the World Bank, ratings for recipient executed projects usually improved on completion compared to implementation, on all criteria (these are for effectiveness). Ratings for bank executed projects did not, and sometimes went backwards.



Notes: Results are from ratings in 231 project performance reports completed since 2008 on projects where the World Bank was the only partner.
 Bank executed projects were defined as those where over half of the disbursements were by the bank.
 Highly satisfactory ratings = 5 or 6; Satisfactory = 4; Unsatisfactory = <4.

This pattern of improvement means that at completion, performance ratings for World Bank-delivered recipient executed projects are better, in aggregate, than performance ratings for projects delivered through other partners. As for World Bank executed projects, their performance ratings on completion are, on average, similar to those of projects delivered by other partners.

The probable explanation for these patterns in performance ratings is that when the aid program delivers through other partners or through the MDBs' own execution of projects, there is a degree of control over implementation which makes it likely that projects will progress as expected and be rated well for efficiency and effectiveness. Contrastingly, when MDBs deliver Australian aid through recipient executed projects, there are more delays and difficulties during implementation, but these disadvantages are offset by greater recipient ownership and sustainability (at least in the views of DFAT staff that complete AQC reports).

Appendix 5 Profiles of the Asian Development Bank and World Bank

Excerpt from: McCawley, P. (2014), *Non-core funding for Multilateral Development Banks: A literature review*, unpublished study conducted for the Office of Development Effectiveness.

A5.1 World Bank

The World Bank is a leading global development agency; many development specialists would nominate it as the leading development institution in the world. The World Bank has around 10 000 staff and an annual administrative budget (including external funds, and other sources, for 2014) of around US\$ 3.6 billion.²³ It has a global reach. There is a very large literature discussing the role of the World Bank—not a small amount of which has been generated by the bank itself. However, it is not clear from this vast literature whether the World Bank is really best seen as a bank or alternatively, as many would argue, a ‘broadly based development agency’. The distinction is an important one it has a significant bearing on the services that the international community expects to be available from the institution and on the funding relationships that donors establish with the bank, including through trust funds.

The strengths of the World Bank, and the advantages to the Australian aid program of looking for ways to partner with the bank through the use of trust funds, are considerable. First, the bank has constantly worked hard to identify, and respond, to the perceived priorities of the global development community. In this—as is the case for many other development institutions—that bank has needed to adopt a Janus-like strategy, looking in two directions at once in order to respond to the priorities of both industrialised and developing countries. The management of the World Bank has no choice in this; the bank (as is the case with the ADB) is a state-owned enterprise, owned by the governments of the global community who have subscribed to the shares in the bank. Management, therefore, must listen carefully to the views expressed by the owners of the bank in both Northern and Southern countries.

In recent years, since the mid-1990s, the World Bank has placed strong emphasis on the ‘knowledge agenda’. This approach reflects the way that the bank has aimed to adjust to changes in the international financial environment and to identify the best role that it can play in the global development community. In recent years the Australian aid program has seen considerable advantages in cooperating with the bank in numerous areas, often through the provision of non-core funding, including in support of the knowledge agenda.

A second advantage of cooperation with the World Bank is that the bank is widely perceived as being a highly professional development agency. The bank places emphasis on the recruitment of staff with strong technical qualifications. Staff are encouraged to publish widely, including in peer-reviewed journals. The bank supports an active in-house publication program designed to emphasise its role as a leader in the production of knowledge which supports the global development agenda.

A third significant advantage for Australia in cooperating with the World Bank is that as a matter of policy, the bank has been responsive (although some would say too responsive) in cooperating with

donors to establish trust funds.* From the point of view of donor countries, therefore, the bank has been a useful partner to work with and has been flexible in responding to donor priorities.

The World Bank obviously has many critics. One that is particularly relevant for the evaluation is that the plethora of trust funds it supports distorts the operational priorities of the bank. The World Bank IEG [Independent Evaluation Group] review in 2011 reported some concerns about these matters (World Bank 2011: 65):

... trust funds have enabled the Bank to be a leader in the provision of coordinated support ... [But] each area of activity makes heavy demands on experienced Bank management and staff ... Since the topics of these issue-specific trust funds are selected mainly by donors, rather than through a systematic programming process, it is not possible to know if trust fund financing is supporting a strategic allocation of total available resources. Nor is it possible to know the extent to which trust funds are either driving Bank work in specific areas or leading the Bank to move resources out of an area (given resource fungibility).

In short, the evidence is that bank operations are indeed influenced by the resources available through non-core contributions. However, the overall impact of this funding is not clear.

A5.2 Asian Development Bank

The Asian Development Bank (ADB), established in 1966, is a leading regional development institution in the Asia-Pacific region. The total global lending program of the World Bank is, not surprisingly, considerably larger than that of the ADB, although within the Asia-Pacific region the annual lending programs of the two development banks are comparable.

Since both the World Bank and the ADB are state-owned development banks conducting rather similar operations in the Asia-Pacific region, the question sometimes arises as to why two separate banks are needed. The generally accepted answer—which, ultimately, is a matter of policy judgment on the part of the owners of the banks (that is, the governments of the member countries of the banks)—is that the banks provide similar but somewhat different services to both donor and borrowing member countries. That is, that the activities of the banks are complementary rather than competitive. Indeed the complementary nature of the approaches of the banks is reflected in the somewhat different types of arrangements they provide across the Asia-Pacific region.

The ADB—in organisational culture, staffing, and operational priorities—is sometimes said to be more ‘Asian’ than the World Bank. And certainly, in the overall program of activities of the ADB, considerable emphasis is given to the support of *regional* activities which extend beyond the ADB country strategies for individual country members. Indeed, from the earliest discussions about the possibility of establishing a regional Asian development bank, the emphasis was on activities which would promote regional trade liberalisation and the coordination of economic development programs.²⁴ The relatively small economic size of the economies in developing Asia was seen as a major barrier to growth in the 1960s. It was believed that the strengthening of regional links would expand the effective size of markets available for firms in the region and, thus, promote growth through facilitating new opportunities flowing from economies of scale.

Another difference between the two banks is that while the World Bank has, especially since the mid-1990s been ready to widen the operational development agenda, the ADB has tended to be more cautious. A considerable proportion of the ADB’s project work has remained focused on infrastructure-related activities. In contrast the World Bank has, over time, incorporated a much more mixed range of projects into the overall bank portfolio.

As is the case with the World Bank, some observers are quite critical of the work of the ADB. One criticism is that the ADB is too focused on a limited strategic agenda with a particular emphasis on regional programs and infrastructure. This criticism is heard not from developing countries but, rather,

* The World Bank provides extensive information about the non-core contribution portfolio managed by the bank. See, for example, the *2012 Trust Fund Annual Report* (World Bank 2012) and *Directory of programs supported by trust funds*, as of March 31, 2012 (World Bank 2012).

from Northern donor countries who would like to see the ADB more ready to align ADB activities with the global development agenda identified within the DAC [Development Assistance Committee] and the World Bank.

Another criticism has been that the ADB has not been active enough in promoting a knowledge agenda in the Asia-Pacific developing countries. However, while it is true that the World Bank has been especially active since the mid-1990s in promoting the idea of a knowledge agenda, it is difficult to argue that the ADB should have done more. The ADB has had a very active research and publications agenda during the past decade. Like numerous other multilateral development organisations, the ADB regularly issues a range of flagship annual reports, various sets of working papers, and many other surveys and documents.

A5.3 Different approaches to non-core funding

The overall approach to the mobilisation of resources through non-core funding has differed sharply between the World Bank and the ADB. On one hand, the World Bank has adopted a virtual open door policy towards accepting donor contributions through trust funds. On the other hand, until recently the ADB was more cautious in accepting financial contributions from donor governments through earmarked funding; rather, the firm preference of the ADB has been to accept non-core contributions into just a few funds with few conditions attached.

These differing approaches are reflected in the statistics relating to non-core funding from the two MDBs. In 2010, the World Bank administered around 1075 active trust funds entrusted to it by around 205 donors. Total assets in the World Bank Group's portfolio of trust funds at the end of 2011 were around US\$ 29 billion (World Bank, 2012b: xv). In contrast, in 2013 the ADB administered a much smaller group of around 50 trust funds.*

The impact on the operations of the two MDBs has been significantly different as well. According to the World Bank's Independent Evaluation Group (World Bank 2011: 11), *'From a modest start in the 1960s, the World Bank's portfolio of trust funds has evolved to represent a substantial part of the Bank's business.'* A significant share of the non-core funding that the bank receives, it should be noted, is used by the bank to cover internal administrative activities. In discussing the way the bank uses non-core funding, the IEG noted that *'Besides adding resources to Bank country operations, trust funds have influenced the shape of Bank business in three distinct ways'*. These are:

- › expanding the bank's role, by providing resources for certain activities that are outside the bank's on-going country programs
- › supporting an issue-focused business model in parallel with country-focused programs, by facilitating an increased focus on particular sectors or themes
- › establishing FIFs [financial intermediary funds] as a bank business line, through 16 active trust funds that received over US\$ 30 billion from 2002 to 2010.

In contrast, the ADB has relied far less on resources flowing through trust funds. Until around 2000, as a matter of policy the ADB largely resisted suggestions that it should take on the management of trust funds for donors. Of the 51 trust funds under administration in 2013 (excluding the special case of the large soft-loan Asian Development Fund facility), only 10 were established in the pre-2000 period.† However, during the past decade since 2000, there has been a significant expansion in the number of trust funds established in the ADB. It is not yet clear what the longer-term implications of this change in approach will be.

* The relevant ADB website (<http://www.adb.org/site/funds/funds>) contains more information on the funds administered by the ADB, including by year of establishment. The several Japan Funds, established to promote various types of activities, were among the first funds accepted by the ADB. An evaluation of the Japan Funds was prepared in 2007 (Asian Development Bank 2007).

† Details can be found on the ADB website: <http://www.adb.org/site/funds/funds>.

Abbreviations

AQC	aid quality check
ADB	Asian Development Bank
APPR	aid program performance reports
ARTF	Afghanistan Reconstruction Trust Fund
AusAID	Australian Agency for International Aid
DAC	Development Assistance Committee
DFAT	Australian Department of Foreign Affairs and Trade
DSWD	Department of Social Welfare and Development
FIF	financial intermediary fund
GPOBA	Global Partnership on Output-Based Aid
IEG	Independent Evaluation Group
IndII	Indonesia Infrastructure Initiative
J4P	Justice for the Poor
M&E	monitoring and evaluation
MDB	multilateral development banks
MoH	Ministry of Health
NGO	non-government organisation
ODA	official development assistance
ODE	Office of Development Effectiveness
OECD	Organisation for Economic Co-operation and Development
PRIF	Pacific Region Infrastructure Facility
WB	World Bank
WSP	Water and Sanitation Program
WSS	water supply and sanitation

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