

SUBMISSION TO THE INDEPENDENT REVIEW OF AID EFFECTIVENESS

February 2011

Introduction

1. We believe there is presently a sub-optimal relationship between AusAID and the private sector and that this needs to be addressed if aid effectiveness is to improve¹, this is particularly important as aid volume scales up.
2. AusAID's influence on the Australian market in the last decade has resulted in a concentration of multinational engineering and project management firms for who the development assistance market is a very small part of their revenue and their values and purpose derive from a profit motivation.
3. We suggest that AusAID consider working more closely with small aid effectiveness and evaluation - oriented Australian firms that have practical experience in the evaluation of aid effectiveness as this may improve service delivery and augment the work of the Office of Development Effectiveness.
4. Through our research partnerships, associations with knowledge institutions, and our passion and commitment to excellence Sustineo is dedicated to improving the delivery and impact of the Australian aid program as an industry partner. We are grateful for the opportunity to contribute to this review, and would welcome any opportunity to clarify or expand upon the perspective presented in this submission.

Structure

Geographic / Sectoral focus

5. Private firms that focus on aid effectiveness issues, such as Sustineo, can help AusAID in the quest to improve aid effectiveness. For example, employees of Sustineo and its associates have developed an aid quality evaluation framework that is presently being used (by a major European donor) to assess the impact of country programmes on poverty reduction across three countries. This tool can also be used to improve aid allocation decisions by looking at absorptive capacity, the quality of public financial management, recipient country priorities, and conformance with the Paris Declaration amongst and other factors.
6. While there are a number of aid quality frameworks being developed, the framework developed by our employees and associates, is the only one we are aware of that is actually being used to assess the contribution to poverty reduction of an entire country programme, demonstrating its real practicality. This work is being undertaken for a major European donor, and AusAID has no equivalent method or initiative to analyse aid effectiveness at a country programme level that we are aware of. This tool can also be used to examine sectoral decisions through an analysis of intra-country sectoral needs, looking at what other donors are doing, and the extent of fragmentation, thus giving a truer understanding of development priorities and opportunities for harmonisation.
7. This cutting edge research and development knowledge is effectively excluded from being assessed or applied in the Australian aid programme by AusAID's limited engagement with private firms, and apparent rigid belief that private industry has limited value to offer. In many ways AusAID effectively 'shuts out' Australian firms, and has only slightly better engagement with European Community firms. If the

¹ We would like to refer the Review Team to the outcomes of the AusAID - Australian development industry forum, which sought industry feedback on the current issues and challenges with AusAID's design, procurement, and management of aid projects. We understand that the report of this consultation was completed in January 2010. The Review Team may find the observations and perspectives contained in this report illustrative.

Australian aid program is to avail itself of such cutting edge, and practical aid effectiveness knowledge it must proactively work with the private sector.

8. Sustineo is an innovative edge evaluation and aid effectiveness oriented firm that has access to some of the best international thinking and research in aid effectiveness, and we look forward to a more positive stance by AusAID and a recognition that there are values-based, knowledge oriented, and development outcome driven firms that can be valuable partners to the Australian aid programme.

Agency status

9. Given the large budget given to AusAID to deliver foreign aid, and the high risk of inefficiency, wastage, mismanagement, and corruption within the aid program, we suggest that AusAID should be an independent government department with a dedicated ministerial responsibility.

10. Hopefully this will nurture increased accountability through public scrutiny, more frequent ANAO audits, and ministerial oversight.

Costs and benefits of different forms of aid

11. The Review Team will be familiar with the different forms or 'modalities' of aid. Even the lay observer would understand that each form has strengths and weaknesses, and is more suited to a particular context and objective.

12. This is no less so for the use of Technical Assistance (TA). Yes, TA can be higher cost than other forms, but it is arguably suited to post-conflict or fragile states, and situations where the absorptive capability or public systems are inadequate to support other modalities. Because of our national interest and geographic location, these contexts generally comprise a higher proportion of the Australian aid program compared to other nations. This is a point that has been excluded from the public debate on the use of TA.

13. Another point that has been lost in the public debate on TA is that the examples of highly paid consultants highlighted in the media were AusAID appointees, and not sourced through a competitive market or industry mechanism. This effectively cuts out consultants from other regions who may have vast expertise; this seems to be at odds with AusAID's consistent call for more 'international' cutting edge knowledge.

14. Further, the 2010 Australian National Audit Office report noted that "...staff deployed from Australian Government agencies cost substantially more than the contracted consultants traditionally used" (para 5.11, page 108).

15. If Technical Assistance is the most effective means of achieving the development outcomes desired, then it should not be excluded by a misinformed and politically motivated debate. Rather if AusAID effectively engaged with the specialist aid industry, nurtured and supported a competitive marketplace for aid-related services and expertise, and ensured that due process and Australian Government procurement policy were followed, then much higher value for money would be achieved

Performance

Evaluation

16. The Office of Development Effectiveness must be a completely independent organisation outside of the direct influence and control of AusAID if it is to be effective. Further, aide from conducting evaluations

it must work more proactively to see aid effectiveness principles mainstreamed into project design and delivery.² Small aid effectiveness private firms could help with this task and bring international experience.

Openness

17. Currently AusAID publishes very few program reviews, designs, completion reports, or any other document relating to the delivery of aid. The publication of all materials, as is common practice within other Australian Government Departments and Agencies would create far better transparency for the Australian tax payer.

18. In addition, the reviews it does publish (generally through the ODE) are often two or more years out of currency. No meaningful response can be made to such a dated review. We refer the Review Team to the Swedish Development Cooperation Agency's 'Open Aid' initiative³ which is a best practice example of openness and transparency.

Industry relations

19. Through flawed project designs, poorly managed procurement, and a lack of commercial skill and understanding of market economics, AusAID has reduced the Australian industry to a very small handful of large multinational corporations. These corporations are purely focussed on commercial gain and do not represent a cultural or values affinity with the philosophical principles of aid provision. AusAID has blocked the ability of small to medium firms to compete in the aid market, reducing the market competitiveness and therefore the value-for-money AusAID receives.

20. Further exacerbating AusAID's lack of commercial and economic competence is its apparent cultural distrust of the private sector. This results in an inability to engage productively with industry, collaboratively develop better practice approaches, and enter into effective partnering approaches that deliver real, sustainable, and meaningful development impact.

Program efficiency & effectiveness

21. The ANAO audit report (AusAID's Management of the Expanding Australian Aid Program), highlighted some critical issues to be addressed if AusAID is to effectively manage the expanding aid program. We will not re-hash that report in this submission as the Review team is certain to have included the audit report in its research. Sustineo only wishes to assert its agreement with the deficiencies highlighted in that report, and note that it also missed many important issues - we have touched upon some in this submission.

22. Our experience with Australian aid projects indicates a significant lack of capability amongst AusAID staff with respect to project and program implementation. This has a wide range of downstream effects on program design, management, review, stakeholder relationships, and setting the strategic direction of the aid program. For example, the industry has many examples of program designs lacking a rigorous and analytical link to the development outcomes sought. This results from poorly drafted design team terms of reference, team member capabilities, and a flawed peer review process.

23. In short, we believe the following are critical and urgent factors to be addressed:

- Increasing the flexibility of designs, scopes of service, bases of payments, and activity management to allow the refinement of the approach against desired outcomes
- Reforming the approach to performance management and incentives in AusAID contracts

² Other major donors understand this requirement, for example: UK (<http://icai.independent.gov.uk/>); US (<http://www.usaid.gov/oig/>); Denmark (<http://www.um.dk/en/menu/DevelopmentPolicy/Evaluations/AboutTheEvaluationDepartment/>)

³ see: <http://www.sweden.gov.se/sb/d/13179>

- Implementing measures to ensure contracts are commercially sound, cost effective, and consistent with the activity design outcomes
- Raising the experience and capability of AusAID Activity Managers who have significant responsibility, influence, and impact upon the outcomes of aid projects
- Improving AusAID's engagement and understanding of aid activities from the design phase through to implementation. Currently the knowledge of many multi-year, large-scale programs is limited, resulting in poor strategic management, inflexibility to a dynamic and complex environment, and often poor relationships with recipient governments, industry partners, and other stakeholders.
- Reducing the micro-management approach taken by under-prepared and overwhelmed Activity Managers, while ensuring AusAID management systems deliver appropriate accountability, control, and risk management.

Organisational structure

24. Sustineo is concerned that as the Australian aid program expands, unless AusAID undertakes major organisational and cultural reform the risk of massive wastage, misdirected funds, and a disconnect between aid objectives and outcomes will increase. This will subsequently provide a political lever for those who are ideologically opposed to foreign aid, and risk the important continuing support to the world's least developed countries.

25. As noted above, AusAID's relationship and capacity to partner with the private sector is crucial – AusAID, with its current structure and resources, simply does not have the capacity, experience, or capability to implement and manage complex programs itself. Nor does funnelling funds through multi-lateral agencies strengthen the link between Australia's national interests and aid objectives, and this approach weakens Australia's influence and control over of our aid money.

26. The Review team (and AusAID) only need to look to other government donor organisations to see examples of a healthy and constructive partnering relationship with the private sector in delivering aid projects – for example, DfID, USAID, SIDA and many other European donors.⁴

27. However, there is a distinction between firms within the private sector. AusAID's influence on the Australian market in the last decade has resulted in a concentration of multinational engineering and project management firms for who the development assistance market is a very small part of their revenue and their values and purpose derive from a profit motivation. Other development-focussed firms, while they must remain profitable to be a sustainable and healthy business, are built around a genuine passion and commitment to development outcomes. These latter firms can provide cutting edge tools to enhance aid effectiveness, and provide a broader perspective while working synergistically with AusAID to add value to programme delivery by bringing the best international knowledge.

28. As the Australian aid programme doubles in size AusAID employees will struggle with their policy, administrative and ministerial accountability obligations and will simply not be able to keep up to date with the latest cutting edge aid delivery, management, and evaluation issues. Without a healthy dialogue and constructive partnering approach to industry, the only way AusAID can obtain this knowledge is via appointing individual advisors, at remuneration levels such as those highlighted in the Australian media in 2010.

Review and evaluation (ODE and other options)

29. This submission highlighted the generally tardy and abstract nature of current AusAID programme evaluations. If the expanding aid program really is to remain accountable and deliver the impact the

⁴ See <http://www.dfid.gov.uk/Media-Room/News-Stories/2011/New-DFID-Private-Sector-Department/>
<http://www.dfid.gov.uk/Media-Room/News-Stories/2010/DFID-confirms-new-board-appointments/>

government and Australian community expects, AusAID must scale up evaluations and make them more comprehensive in scope (e.g. country programme level) using such analytical tools as the one Sustineo and our associates have developed.

30. The ANAO expressed concern with the low level of morale and staff 'churn' in AusAID. One major impact of this is the loss, and inability to gain, corporate knowledge regarding effective aid delivery in local contexts. The best repository of that knowledge at the moment is within industry and those research institutions whose focus includes social and economic development. It is vital for such knowledge to be fed into program design and delivery to increase aid effectiveness. Development-focussed firms in the private sector could assist by centralising cutting edge evidence-based aid effectiveness knowledge, filtering that and providing it in a format that policy makers can use, in the same way that research to policy intermediaries do in other areas.