



Submission to the
Foreign Affairs, Defence and Trade References
Committee

Australia's overseas aid and development
assistance program



Contact:

Andrew Rowe
Managing Director
7 February 2014

1. INTRODUCTION

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.

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 want to work towards a more positive approach to aid delivery, and a recognition by DFAT (Australian aid program)¹ that there are values-based, knowledge oriented, and development outcome driven firms that can be valuable partners to the Australian aid programme.

It is our strong view that the Australian aid program is an important part of our global citizenship. Continuing Australia's commitment to reducing poverty through an effective, transparent, and accountable aid program will be of benefit to recipient countries and Australia's national interest.

Overall, we believe there is currently scope to improve the relationship and engagement between DFAT (Aid) and the private sector (specifically SMEs) to enhance aid effectiveness, value for money, and the proper functioning of the aid services market.

Development-focussed SME 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 firms can provide cutting edge tools to enhance aid effectiveness, and provide a broader perspective while working synergistically with DFAT(Aid) to add value to programme delivery by bringing the best international knowledge.

More broadly, Sustineo strongly agrees with ACFID's call for Government to *"...seek further ways to partner with civil society and the private sector and create opportunities to bring development actors together for dialogue and delivery"*.²

2. RESPONSE

Our submission responds to the first term of the Senate inquiry:

- Australia's ability to deliver aid against stated policy objectives and international commitments

Our recommendations to the Committee are aimed at improving the competition within industry, encouraging innovation, better value for money, and greater diversity. This will lead to higher quality aid programs, with more sustainable development for recipient countries and Australia.

In summary, these recommendations are:

1. Revise the structure and implementation of DFAT's engagement of private sector participation in the aid program with the aim of removing barriers to competition by SMEs
2. Establish an independent body that reports directly to Parliament to monitor, evaluate, and benchmark the activities delivered by the Australian aid program

¹ For brevity, henceforth referred to as DFAT(Aid)

² ACFID, 2014, "Benchmarks for an Effective and Accountable Australian Aid Program"

3. Improve program designs where the private sector is a delivery partner to ensure alignment between accountability, risk, and decision-making.

1. Equitable Private Sector Participation

The Australian aid program’s engagement of the private sector over the last decade has resulted in the domination by very large multinational infrastructure firms, and a drastic reduction in the ability of SME firms to compete. This has led to a reduction in competitiveness and diversity, in turn limiting innovation and value for money.

The Australian SME sector that has practical expertise and real capability in aid delivery, but there is currently limited avenue for DFAT(Aid) to access this knowledge and experience.

By engaging more closely and constructively with the SME sector, DFAT(Aid) would off-set the domination of large project and contract management firms, improve aid program design, encourage innovation, and re-establish competition in industry. DFAT(Aid) would benefit from exploring mechanisms to tap into the extensive knowledge and experience in the SME sector, as current approaches used to access industry knowledge and experience are inequitable and not representative of the full depth and breadth of the industry.

There are several reasons that account for the inequitable market in Australia for international development assistance technical services. These include an exemption from compliance with the Commonwealth Procurement Rules (CPR), a poor understanding of commercial imperatives and drivers, and a lack of internal accountability and control mechanisms.

The exemption from compliance with the CPRs, specifically the thresholds and requirement for competitive selection processes – the CPR threshold is \$80,000, compared to the DFAT(Aid) threshold of \$500,000. This has resulted in relatively high levels of direct sourcing, a concentration of industry into a very small number of large firms, and very high barriers to entry for new firms. Australian SME firms are particularly disadvantaged, meaning that the scope for innovation and greater diversity of services is severely inhibited.

DFAT(Aid) advised the procurement thresholds at an industry briefing in May 2013; these are shown in the table below in comparison with those thresholds required by the CPRs for other government agencies.

DFAT(Aid) policy ³	CPR requirements
Up to \$500,000 No competitive process required, no oversight by procurement section, no restriction on direct single sourcing	Up to \$80,000
\$500,000 to \$3M Direct single sourcing acceptable, some justification required	Over \$80,000 An approach to market is required
\$3M - \$50M Sourcing 3 proposals is required if using the AAS Panel, the procurement process is managed by the DFAT(Aid) procurement section	

To illustrate the issue, in 2013, a total of 99 contracts (\$12.4M) were awarded through the DFAT(Aid) Advisory Services Panel.⁴ Of these,

³ From notes taken during a briefing by DFAT(Aid) to the International Development Contractors meeting

- 93 contracts (\$7.1M) were less than \$500,000 with no requirement for competitive selection
- **45 (\$7.74M or 63%) were awarded to just 5 firms**
- **32 (\$5.7M or 46%) were awarded to just 3 firms**

This demonstrates the narrow range of private sector firms engaged by the aid program, resulting in a reduction in innovation and value for money through a lack of healthy industry competition.

Greater accountability within the aid program on how the private sector is engaged, with an emphasis on removing barriers to the SME sector, and a removal of the exemptions to the CPR will bring competition back into the industry. This will go a long way to removing the stranglehold by a small group of large multinational firms.

2. Development Effectiveness

At the country-programme and development strategy level DFAT(Aid) currently has no effective method of analysing, assessing, or benchmarking aid effectiveness.

The Office of Development Effectiveness (ODE) is formally responsible for monitoring and evaluating the impact of the aid program. However, there are a number of problems with the ODE as it is currently structured.

First, the ODE is not independent in any sense, reporting directly to the head of the aid program (formerly the Director-General of DFAT(Aid), now the DFAT Departmental Secretary).

Perhaps reflecting this, the ODE is largely ineffectual, producing only one report in 2013 for an estimated budget in the region of \$3M to \$4m.⁵ Many reports are not publicly released, or are so delayed that they become irrelevant or out of date. This lack of transparency is not in the interests of development effectiveness, limiting the ability to assess the relative performance of development initiatives.

In addition, the ODE is limited not only by a lack of internal capability, but also by the influence of internal stakeholders. ODE reports are often delayed and as a result are largely irrelevant to the context and delivery strategy at the time of publication.

With the scale and risk associated with overseas aid, there should be an independent body reporting directly to parliament that has an appropriate mandate and budget to examine the allocation and expenditure of the aid budget, the efficiency and effectiveness of aid delivery, and the performance of the organisation managing the Australian aid program. A useful and more appropriate model is the UK Independent Commission for Aid Impact (ICAI) whose independence is recognised as being central to its effectiveness as an accountability mechanism.

It is essential to achieving an appropriate level of accountability and performance that the monitoring and evaluation of the Australian aid program is rigorous and objective, with all evaluations and reports released fully and in a timely manner. This could also be extended to establishing a formal program of benchmarking to inform budget allocation and ensure integrity and performance within the aid program.

The ODE (or its successor) must be a completely independent organisation outside of the direct influence and control of DFAT(Aid) if it is to be effective. Further, aside from conducting evaluations it must work more proactively to see aid effectiveness principles mainstreamed into project design and delivery.

⁴ Obtained from an analysis of 2013 contracts recorded in AusTender

⁵ The OECD reported the budget for the ODE in 2010 as US\$3.7M.

3. Aid Program Design

A poor understanding in DFAT (Aid) of commercial incentives, the principles of organisational design, and the importance of the alignment of risk, accountability, and control has led to many structurally flawed program designs. These flawed designs include the managing contractors being held accountable for decisions and outcomes that are out of their control, DFAT (Aid) appointed 'senior advisers' with strategic decision-making roles who are not accountable for the implementation or implications of their decisions, and facility program designs where the allocation of funds and procurement of services is not managed in line with public expenditure principles.

Our experience with Australian aid projects indicates a general lack of capability amongst DFAT(Aid) 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 terms of reference, team member capabilities, and a flawed peer review process.

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 DFAT(Aid) contracts
- Implementing measures to ensure contracts are commercially sound, cost effective, and consistent with the activity design outcomes
- Raising the experience and capability of DFAT(Aid) Activity Managers who have significant responsibility, influence, and impact upon the outcomes of aid projects
- Improving DFAT(Aid)'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.
- Ensuring DFAT(Aid) management systems deliver appropriate accountability, control, and risk management.