

Submission by:
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INDEPENDENT REVIEW OF AID EFFECTIVENESS

Opening Remarks

The Government is to be commended for the timing of this review and the quality of the panel members.

This very brief submission has been prepared on the understanding that it will be read by the panel. I would appreciate advice as to what process is being followed on the handling of submissions.

By way of background, the writer was Deputy Premier and Treasurer of South Australia 1993-1997 following the State Bank financial crisis. He served as Australia's Alternate Director on the Board of the Asian Development Bank 1998-2001, as Team Leader on an AusAID governance and budget reform project in the Philippines 2005-2007, and as a financial consultant in the region. He has extensive knowledge/understanding of Australia's primary aid constituency namely PNG and Pacific Islands.

The Main Game

*Reading the **Scope** of the review, it is disappointing to note that its authors are consumed by process rather than outcomes. The **key** to this whole debate is about:*

- First – Clearly enunciating what Australia aims to achieve through its aid program
- Second - Judging performance (including strengths and weaknesses) against the stated aims and objectives of the program
- Third - Critically examining whether these aims remain as relevant as they may have been and analyse alternate approaches
- Fourth – Determine where changes would be beneficial

It would be useful as a starting point to establish how well the program has achieved the stated objectives of the 2006 White Paper. While domestic reviews of Australia's aid performance have been invariably favourable (as was the most recent one), the reality is otherwise. Australia and the majority of other developed countries struggle to make a sustained positive impact in the complex world of international aid. The Panel should seriously question:

- whether quantum improvements were achieved in the economic and social performance of our Pacific neighbours (particularly PNG) in which we invested
- the extent to which the adopted White Paper's recommendation to concentrate resources in the graft ridden infrastructure sectors of selected developing countries was achieved
- the extent to which the adopted White Paper's recommendation that Australia should seek to influence international aid/relationships through effectively combining with the multilateral agencies and major donors actually materialized.

An intimate discussion with senior bureaucrats in Foreign Affairs would reveal that their main objective is to fully disburse the aid budget so that the body politic can claim credit for the extent of dollars invested in international humanitarian and related effort. Underspend appears to be a far more serious issue than inability to achieve aid objectives/ investment quality.

To the future

The Government will be seeking to improve the quality of life in developing countries, to achieve value for money from its spending to gain international acclaim for its efforts, and to build stronger relationships with its allies and neighbours. In working through where Australia should concentrate its international aid efforts, perhaps it is useful to apply Q&A.

Where does Australia excel?

Australia continues to demonstrate its capacity to effectively respond to natural disasters in the region and further afield. We receive the gratitude of those assisted and acclaim from the international community. Our efforts can be further strengthened.

Australia's legal system/framework and its financial regulatory regime offers solutions to countries in the region grappling with nationhood and the global environment.

There is a burgeoning demand for English as a second language.

Primary industry (farming and fishing) remain key to employment and sustenance in developing countries – Australia has much to offer

Overseas scholarships are powerful tools for building knowledge, skill and regional ties - the schemes should be expanded and deepened

Where does Australia need to improve?

Our performance in PNG and other island nations endowed with natural resources deserves special examination. Suggestions include:

- an incisive strategy for promoting and educating women [women have a much stronger work ethic and are less corrupt than males]
- a ramped up combination of on-shore and off-shore education and training
- a key sector approach
- a smarter approach to incentives
- support for those NGOs committed to building stronger communities
- a built-in maintenance program for infrastructure programs (Pacific nations have failed to grasp the importance of regular maintenance)

A realistic assessment as to what is achievable in countries which are not reliant on Australian aid would be useful. Without the clout of a major nation or a multilateral institution we cannot expect to successfully apply other than modest conditionalities on aid programs. Sectors prone to high levels of rent seeking need to be avoided or, in the case of PNG and the Solomons, far better managed.

Greater effort needs to be made on environmental improvement. The region suffers from severe water shortages, severe pollution of air and water, and growing sanitation problems. The Indonesian fires are toxic! It would be useful to examine the performance of the Scandinavians (particularly Sweden).

Staff selection and training needs to be lifted. Officers with limited experience and field knowledge are often charged with responsibility for directing programs. This can lead to unwanted consequences and damage Australia's reputation.

Specific responses

In relation to the scope of the review, the following observations are made:

a. The structure of the program

Australia's chief responsibility is to its immediate neighbours and those Pacific States which it has nurtured post World War II. The main geographic focus is appropriate but the sectoral focus needs refinement – see comments above.

Ultimately it is the responsibility of the Federal Government to make judgment calls. Perhaps it needs an experienced sounding board which can give confidential advice 'without fear or favour'. One point needs emphasis – a significant increase in the aid program needs proper planning and a lead time of at least 3 years.

There is an unresolved tension between quantity and quality. Big ticket items often have significant leakages/losses associated with them. It has been strangely argued that a big project which is 40% effective contributes more than a small one which is 70% effective. Perhaps more trial (low cost) programs should be instituted to test different approaches prior to committing to a major program. A non-threatening process of post evaluation needs to be instituted along the lines of the PERR and PER by the World Bank.

The Australian Government has perhaps not fully grasped the great potential for using NGOs to increase aid effectiveness.

Working through multilateral institutions and with major international aid providers broadens the ability of Australia to deliver aid. Often the multilaterals can apply conditions which will improve the prospects of successful outcomes. Australia needs to determine which sectors and which countries it wishes to concentrate on to get the best out of its aid program.

b. see comments above

c. see comments above

d. Organisational structure

Perhaps arrangements have changed over the past 3 years? However when last in contact with the department the following observations were pertinent:

- Head office was, with some notable exceptions, a minefield of prevarication.....simple decisions could take weeks. Aid is very risky but there appeared to be a developed culture, perhaps fuelled by Ministers, that risk should be minimized or avoided. There was

paranoia about failure which seemed to stifle initiative and innovation. A new culture of 'worthwhile risk' needs to be developed.

- AusAID officers on overseas assignment may spend 2 or possibly 3 years in one country. This may suit the bureaucracy but it delivers third rate results.
- The organizational structure should be seriously examined in the context of delivery efficiency in a rapidly changing international environment.....the writer was unconvinced that the Department was properly geared to meet its international obligations. Each desk should have an official who has a solid understanding of the intricacies in dealing with in-country officials and organizations.
- It would be useful for the panel to have a quiet chat with senior Treasury and Finance officers as to their dealings with AusAID.
- There was conjecture as to the best way of managing overseas aid programs when a department other than AusAID was the major aid provider. While it is important that for example the Department of Defence takes responsibility for security related deployment, a workable intergovernmental working group is an essential liaison tool.

e. Oversight

A more robust evaluation process may improve the selection and management of aid programs. No real improvement in AusAID's performance has been reported to the writer who maintains occasional contact with a range of people involved in overseas aid. With sensible reforms far more could be achieved.

Thank you for the opportunity to provide my thoughts.

Yours sincerely

Stephen Baker
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