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# AusAID Independent Review of Aid Effectiveness

## Submission by the International Development Contractors<sup>1</sup> (IDC)

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<sup>1</sup> IDC Mission Statement: The IDC is recognised as the representative body for Australian private sector development practitioners through which development agencies, partners and members can share and access expertise, knowledge, learning and advice to improve development effectiveness.



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## **Introduction**

The IDC welcomes the opportunity to contribute<sup>2</sup> to AusAID's Independent Review of Aid Effectiveness. Efficiency and effectiveness of the aid program requires public and political support for development which in turn depends upon open, public and evidence-based scrutiny of all aspects of the development program which we strongly support.

Our submission seeks to represent the broad opinion of the private sector contracting community. Our private-sector perspective is focused on efficiency and effectiveness in the operational aspects of aid delivery drawing from our exposure and our experiences. This exposure to making aid work provides insights as to how policy might be better framed, and we take this opportunity to share those thoughts with the review. We have also sought to offer a broader constructive contribution to the independent review.

The following submission is organised with respect to the scope and terms of reference of the review.

## **General comments on the TOR**

The terms of reference are broad and far reaching and seek to understand the roles played by a broad range of development partners involved in the aid program. Indeed, aid is just one of several forms of assistance that Australia can offer to developing countries. The private sector is a key partner in the international development program and manages a significant proportion of agency funding. Overall the partnership between AusAID and the private sector has been a positive one, with the sector drawing from extensive networks in developing countries, as well as building experience applying different modes of delivery to create positive development outcomes. We support the view that the private sector will continue to be an important partner for delivering a scaled-up aid program. For this to happen, the IDC recognises the need for greater dialogue amongst its members, other partners in development and with donors on new approaches to aid delivery and we consider there are innovations we can bring to the table. IDC will continue to seek opportunities to share private sector experiences and engage in active dialogue on how to improve development outcomes.

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<sup>2</sup> Members of the Working Group that prepared this submission participated in a personal capacity and on a voluntary basis. The report of the Working Group reflects a consensus among the members listed. This report does not necessarily represent the views of the organisations with which the Working Group members are affiliated, the IDC, or the IDC's Executive.



## Comments on Objective

### **A. To examine the effectiveness and efficiency of the Australian aid program and make recommendations to improve its structure and delivery.**

IDC supports the OECD DAC recommendation which was strongly echoed in the AusAID Consultative Forum, that AusAID consider developing a new overarching statement guiding the aid programme. This might assist in finalising country strategies.

## Comments on Scope

### **A. The structure of the program**

Our general observation on the program structure is that it could include other forms of development assistance, such as openness to developing-country exports; policies that encourage investment; migration policies; environmental policies; security policies; and support for creation and dissemination of new technologies.

All and similar parallel support measures contribute to increasing development effectiveness.

**Recommendation:** AusAID engage in ongoing dialogue with the private sector through Chambers of Commerce and those engaged in trade in partner countries to identify the practical constraints to doing business such as foreign investment regulation, discretionary taxation and lack of transparency in dealings. Linking easing of these constraints or providing pathways for private sector cooperation with aid incentives are sustainable cost effective measures in development. Country program strategies and partnership agreements could place greater emphasis on the means by which AusAID's programs will engage with and strengthen a country's private sector.

#### ***a. The appropriate geographic focus of the program, taking into account partner country absorptive capacities***

There are many factors that influence the geographical targeting of Australian development assistance. We believe it is of particular importance that the extent of other donor programs in the same geography is considered to avoid overlap. Similarly, the promotion of a regional approach to support or compliment country-specific strategies and sectoral themes, for example promoting VET standards and qualifications across Asia-Pacific, could address absorptive capacity concerns as well as contribute to greater effectiveness of engagement.

Studies have shown that external factors can seriously constrain effectiveness, for example, the lack of flights to and from, or the lack of telecommunications within Pacific Islands. The impact of these and similar constraints unfairly reflect upon a geography's absorptive capacity but do need to be addressed in delivery.

**Recommendations:** AusAID to consider where there are overlaps with other donors and target programming to where Australia can make a contribution including where Australia offers a comparative advantage. AusAID to consider strengthening regional organisations, e.g. Association of South East Asian Nations (ASEAN), Pacific Islands Forum (PIF), as aid delivery partners. AusAID to consider the absorptive capacity of isolated small island states in developing effectiveness measures.



***b. The appropriate sectoral focus of the program, taking into account Australia's area of comparative advantage and measured development effectiveness results***

A partner government's national strategy should drive the sectoral development focus. As practitioners, we are very aware that where partner development priorities are not part of a program strategy, program impact is invariably reduced. This is not a surprising outcome, wholly consistent with the 2005 Paris Declaration on Aid Effectiveness and the subsequent Accra Agenda for Action. Therefore Australia's areas of comparative advantage should be assessed after the sector development focus has been determined and not used to create that focus.

But do we underestimate Australia's comparative advantage? AusAID could look to develop greater internal knowledge management and sharing systems across posts. This could be supplemented by more strategic engagement with delivery partners, including external private sector expertise, such as with panel members of AusAID's sectoral period offers. Many individual IDC members have and continue to welcome knowledge sharing exercises.

**Recommendation:** AusAID could better utilise private sector expertise. This knowledge is part of Australia's comparative advantage. Options for utilisation include: better use of sectoral period offers for strategy; active knowledge sharing programs; strategic engagement with external private sector experts.

***c. The relative focus of the aid program on low and middle-income countries***

Measures such as low and middle income status, while a useful guide, can hide areas of need both sectorally and geographically within countries, as well as failing to convey the trajectory of development over time within sectors or regions of a country.

**Recommendation:** AusAID to focus the aid program on these areas of greatest need within a country.

***d. The relative costs and benefits of the different forms of aid, including the role of non government organisations and the appropriate balance between multilateral and bilateral aid funding arrangements.***

In preparing this submission, members of the IDC considered their experiences with AusAID, as well as a range of other development assistance partners.

Members of the IDC considered that one of the strengths of the AusAID program is its focus on implementation of development activities that support policy and strategic efforts. These activities often operated across a range of levels (national, provincial, local, community development) illustrating an understanding of the complexities of effective development. In many developing countries one of the real challenges is to understand how to translate country policies and strategies into action at different scales. Many AusAID initiatives provide an opportunity to demonstrate good practices that local partners can build upon. Assisting counterparts to understand and implement principles of effective planning and reporting, undertake key actions and building the capacity of the governments, institutions and communities to continue to use these skills are essential elements of many AusAID projects.



Distinction needs to be made between different modalities or forms of aid (budget support, SWAPs, projectised support, etc.) and different implementing agencies (NGOs, multilaterals, the private sector, etc.). Each combination of modalities and range of implementing agencies has its own merits, and should be applied according to the intended aid program outcomes. The review could consider various SWOT research of each mechanism that would also be supported by quantitative efficiency data. Until such data are available, even in an indicative form, efficiency statements have no basis for comparison. IDC members have contributed to a number of studies and would be pleased to provide input into such an analysis.

Higher levels of program effectiveness could be achieved through a more rational balance of aid delivery modalities and implementers. AusAID and design teams could identify what are the benefits and disadvantages of certain modalities and deliverers and select the most suitable combination for the particular situation. There could be value in enhancing the design process by engaging potential implementers during the design process whose experiences could add value on both technical and procurement issues, both being elements impacting on effectiveness.

**Recommendation:** The review could look to present a comprehensive assessment of the comparative costs, benefits and risks of different modalities and implementing options utilised by AusAID. In each case, the assessment needs to identify the total transaction cost for comparable delivery.

### **B. The performance of the aid program and lessons learned from Australia's approach to aid effectiveness**

Assessing the "performance" of a program (i.e. the achievement of its objectives) necessitates the existence of a clear and coherent set of objectives for the program, and ideally, clearly defined evaluation criteria established at the program's outset. It will be challenging for the review to formulate an informed judgement about the aid program's performance in the absence of a prescriptive strategy to guide the program. The review could also examine and make recommendations on the relevance of the program, i.e. how appropriate are the program's objectives?

One means of undertaking this task may be to break down this part of the scope to deal with the performance of:

- the program as a whole
- different components of the program
- different modalities
- different implementing mechanisms.

The first, for example, would require a comparative assessment against other aid programs.

The shift in international development discourse from focus on measurement of activities and inputs to outcomes, impacts and results mirrors a shift from donor-led evaluation to country-led measurement against national development plans. AusAID could consider the extent to which it



seeks to measure its own results and the extent to which it focuses on measuring its contribution to development in each country.

Going forward, standardisation of methodologies for measuring effectiveness could be improved. Attempts across the Australian aid program for standard M&E systems have been made (eg. the Evaluation Capacity Building (ECB) standards being developed through AusAID in Jakarta) and in certain sectors international standardisation has been encouraged (eg. the DCED Standard for Result Measurement which has been successfully applied to market development programs M4P, challenge funds, value chains, business development, and business enabling environment projects).

With respect to the performance monitoring of different implementing mechanisms, there is little doubt that the Australian private sector undergoes intense scrutiny through such means as Contractor Performance Assessments, audits of operational and Imprest funds, TAGs, PMGS, QAIs etc. The evaluation of other delivery mechanisms, if not undertaken in a similar way, could be compared with those processes, leading to the development and application of standard methods of evaluation for all delivery modalities and mechanisms. The increased involvement of recipient countries in the evaluation of aid programs should be encouraged.

It is also important that performance is measured against relevant criteria. The structure of AusAID contracts and rigorous compliance mechanisms (for the private sector and presumably for others) requires the contractor to consider its performance more in relation to the specifications of the AusAID contract rather than the development needs of the recipient organisation. Other donors place a greater emphasis on the perspectives of the recipient organisations.

In the course of delivery of aid funds by managing contractors, a considerable amount of information is collected on the performance of individual projects and interventions. Rigorous M&E processes are incorporated into projects and programs and detailed reporting requirements are often required. This leads to the considerable documentation of lessons learned, which can be drawn on and integrated into broader programs. ODE and AusAID research programs have been good initiatives to draw these micro-level lessons into higher level recommendations at a program level. However, the mechanisms to ensure this research is integrated and implemented across the various geographies and amongst the numerous stakeholders appear to be ad-hoc at best.

For example, a program was commenced two years ago to look at the Top 50 projects/programs using the QAI and CPA system as a source of data. From these, the intention was to then highlight the key features of the “Top 10”. The IDC sees this type of approach as one way of communicating a broader view of the effectiveness of the development program and how it evaluates its activities. It provides an opportunity to learn the lessons from those projects/programs. These lessons can then inform future programs. By making the Top 50/10 a rolling program over the years, trends in successful development approaches will emerge.

Greater emphasis could be placed on knowledge sharing between the implementing partners, and with other donor programs, in line with the Paris Declaration and Accra principles. AusAID program designs could enhance this dialogue process by specifically allocating resources and designing activities that enable programs to undertake such efforts.



**Recommendations:** AusAID to consider IDC proposal for leading industry sectoral forums. These could be an arena for a range of implementing agencies (private sector, NGOs, civil society actors) to share evaluation and research findings and improve practice.

**C. An examination of the program’s approach to efficiency and effectiveness and whether the current systems, policies and procedures in place maximise effectiveness**

The ANAO made six recommendations aimed at improving AusAID’s management of the aid program, and strengthening accountability for aid funding and its results. The first recommendation was for AusAID to improve management of human resources by addressing levels of staff turnover and further increasing management of locally engaged staff. IDC members strongly support AusAID’s efforts to improve workforce development and decrease staff turnover as any implementation program requires long-term relationships of trust between donor, partner government and implementing partner (when engaged).

The program could also recognise the strengths and weaknesses of the different players in the aid program and play to those strengths. The IDC considers AusAID’s key role is effective policy dialogue with partners and the translation of policy into development programs. By their close interaction with recipient organisations and governments, implementing partners gain invaluable insight into recipient country dynamics. It is in everyone’s interests for these contacts and insight to be utilised effectively. Members of the IDC consider more collaborative efforts with AusAID posts could greatly assist effective policy dialogue.

Effective development comes from good program development and it also requires high levels of flexibility. While there is greater variation now in AusAID tendered programs, a number are still based upon prescriptive contracts and rigid compliance against pre-determined outputs and outcomes. These characteristics constrain the flexibility necessary for rapid and innovative development: they also divert attention away from development outcomes and towards both compliance demands and responses. The tendering process could be seen as an opportunity to generate innovations from the tenderers. Tendering broader ‘concept papers’, as is common with others donors such as DFID, will help to encourage innovation and in IDC members experience has led to more diverse consortia comprising national private sector companies, academic or research institutions and international and national NGOs.

A developing country’s private sector is the basis for stimulating economic growth and job creation. AusAID could look to explore, as part of its development effectiveness agenda, broader use of the private sector to help drive innovative funding models, and broader approaches to private sector development in partner countries. IDC members are involved in various partnership models that enable delivery of major programs in Australia and other developed countries, using innovative and evolving mechanisms such as alliance contracting and public private partnership arrangements. Drawing from this experience could help drive new approaches through which both international and domestic companies in partner countries are able to better promote development outcomes, and also create a more conducive environment for local businesses to flourish. It could also look at questions such as the circumstances when government service delivery is best contracted out, and



the role of the private sector in supporting new alternative service delivery models such as Independent Service Agencies and output based approaches.

**Recommendation:** AusAID to consider increased levels of flexibility including through tendering procedures to help stimulate innovative responses to the question of allocating resources to complex development problems. AusAID engage with IDC members on their experience delivering major programs in developed countries, and how such models may be adapted for delivery models in the developing country context.

#### **D. The appropriate future organisational structure for the aid program**

##### ***a. AusAID's organisational structure for aid delivery; / - arrangements for the coordination of ODA across the public service; and / - coordination of Australia's ODA with other donors and institutions***

AusAID has experimented with a range of partnership mechanisms with implementing partners. However, the ODE Annual Review of Development Effectiveness (2009) lacks detail on the broad range of implementing partners that AusAID works with to deliver the aid program. Similarly, the OECD DAC review of Australia's aid program has minimal reference to partners besides NGOs. The absence in spelling out the important role of other implementing partners can lead to a lack of understanding of the collaborative nature of implementing the development program that is essential to ensure success.

Certainly, broadening the involvement of different partners in the delivery of aid should be applauded. As budgets increase, it is likely that other mechanisms will be required to assure effective upsizing of the spend and maximise the achievement of development outcomes. AusAID will, however, need to consider how upsized programs are to be delivered and how smaller 'niche' implementers can best be engaged within these programs. IDC would be willing to contribute to discussions on this issue and assist in identifying any barriers to it occurring.

In-country coordination across various government agencies and other donors requires people who are skilled in complex negotiations and relationship building over time. Such coordination requires significant time to manage, and commensurate resources made available. Donor harmonisation is frequently cited as desirable, but invariably requires strong recipient organisations or governments to manage the process. Other donors can be less enthusiastic about recipients having a stronger say in how funding is allocated. It would be advantageous for AusAID to continue developing key staff with the skills and resources necessary to manage these challenges.

**Recommendations:** AusAID to consider how upsized programs are to be delivered and how smaller 'niche' implementers can best be engaged within these programs. IDC would be willing to contribute to discussions on this issue and assist in identifying any barriers to it occurring. AusAID to continue to develop staff with the skills and resources required for relationship management.



## **E. The appropriateness of current arrangements**

### ***a. Review and evaluation of the aid program, including an examination of the role of the Office of Development Effectiveness and options to strengthen the evaluation of the aid program***

The ODE is an important new contribution to AusAID's work. The range of reviews and notes that the ODE generates and releases for public circulation are particularly useful. As more attention is paid to the effectiveness of the whole program rather than individual parts of projects, the ODE will need to work with other donor programs to develop standard procedures and indicators.

**Recommendations:** AusAID could consider a number of other initiatives to further enhance the review, evaluation and transparency of the aid program:

- make all evaluation reports publicly available – AusAID commissions a number of implementing partners to deliver programs in a range of countries; evaluations from all of these programs can be made available; these can be listed on the AusAID site and made searchable by country and by sector
- make the results of internal meta-evaluations publicly available - AusAID has an internal meta-evaluation system – again, these larger conceptual bodies of work could be made available
- share and distribute the results of AusAID's Development Research Strategy more broadly – through conferences and events for example.

### ***b. The management of fraud and risk in the aid program***

The ODE Annual Review of Development Effectiveness (2009) makes an important point that is echoed in the IDC members' experience: AusAID's current approach stresses managing short-term fiduciary risk without appropriately balancing impact on development outcomes. The assessment and management of risk is a critical part of private sector business and managing contractors are particularly adept at managing financial, reputational and developmental risk. However, as stricter controls are applied, the opportunities for more imaginative and flexible developmental responses may be lost.

**Recommendation:** AusAID to examine risk management protocols including its own risk appetite.

## **Comments on broader international thinking on aid effectiveness**

The last independent public review of the aid program was in 1996. The aid and development landscape has changed significantly in this period: change of focus from managing activities to managing for development outcomes and results; shift towards mutual responsibility of both donor and recipient; and emphasising the importance of aid harmonisation for recipient countries and reducing transaction costs. All of these influences were acknowledged in the National Audit report of 2009.

Managing Contractors in Australia have also changed over this period. Almost all managing contractors in Australia are now part of larger international organisations. Australian managing contractors are connected and operate globally with almost all development donors. There remain



smaller organisations including those aligned with academia that now also bring global connectivity. Furthermore, with the untying of aid, managing contractors headquartered in other countries have bid on and been awarded contracts by AusAID. The impact is that aid delivery is increasingly benefiting from engaging with these international entities that are drawing from experiences globally.

The changes to the aid and development landscape have been accompanied by other macro changes that also affect development assistance, in particular the reduction in the proportion of ODA funding compared to all other sources, such as in the growth of the importance of remittances to developing country budgets, but more significantly, through the growth of direct foreign investment.

The combination of an increasingly large and global private sector network operating with potential sources of direct foreign investment provides ODA donor governments with the opportunity to piggy-back these much larger private sector resources. The outcome can be greater development effectiveness for the same aid investment, and we recommend that the focus be on the concept of development effectiveness, rather than aid effectiveness, recognising that development will result from efficient use of all funds and programs and that aid is a catalyst or facilitator<sup>3</sup>.

Thus development effectiveness results when a range of development partners (government, civil society and the private sector) cooperate to achieve positive and sustainable development outcomes, with a priority focus on the MDGs for its citizens.

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<sup>3</sup> Stern, Elliot D., with contributions from: Laura Altinger, Osvaldo Feinstein, Marta Marañón, Nils-Sjard Schultz and Nicolai Steen Nielsen, Thematic Study on the Paris Declaration, Aid Effectiveness and Development Effectiveness, 2008



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