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Submission to:

Independent Review of Aid Effectiveness

Greg Vickery
Norton Rose Australia
Level 17, 175 Eagle Street
Brisbane QLD 4000
Tel: +61 (7) 3414 2847
www.nortonrose.com
Our ref: 2693941

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Submission to: Independent Review of Aid Effectiveness

Norton Rose Australia (NRA)¹ is pleased to present this submission to the Review. NRA has been, for the past seven years, an Australian Managing Contractor to AusAID overseeing the delivery of two successive programs in Indonesia – the Technical Assistance Management Facility (Phase III) and its replacement the Australia Indonesia Partnership for Economic Governance² (AIPEG). Our comments and observations are influenced by this experience in part, but also by our broader appreciation of development needs across the globe.

Greg Vickery, who is the NRA Managing Contractor Representative for AIPEG, has for the past 7 years been the National President of Australian Red Cross – so has had experience of working in the aid field (and often with AusAID) from an NGO perspective.

Our submission addresses what we believe are a number of key and fundamental issues that need to be considered in the future delivery of aid. Of necessity some backward examination is required as history does provide valid lessons for the future. Clearly, we do not wish to repeat past mistakes, or as importantly, lose sight of successful strategies.

Unfortunately, the term development aid often connotes in the public mind (and media) images of impoverished people suffering poor access to normal public services such as health and education. This leads to complaints at times about over priced contractors ‘ripping off the aid program’. Although a large component of the aid program is targeted to these areas of neglect, much is also directed to improving developing countries capacity at the higher policy end. Without a strong organic capacity to define appropriate policies, monitor and evaluate and improve these policies and delivery mechanisms, effective and efficient economic growth will not occur; and the underlying issues of poverty, poor health and education, and the absence of good infrastructure will not be abated.

Irrespective of whether a particular activity, facility, program or project is focused at the community level or at the level of provincial or national governments, it requires the right people with the right skills, qualifications and experience. Consequently, we believe a central theme to effective and efficient aid delivery is the need for differentiation across all levels of the aid program. One model or modality does not fit all circumstances. The modes and costs of delivery will vary. In delivery, the range and experience of the technical advisers (or consultants) needed to deliver the technical assistance and capacity development will also vary. And all this must meet the partner government’s needs and absorptive capacity.

We hope the following points will be informative and useful to the Review’s deliberations.

Economic Capacity Development

Australia’s aid should have major components of economic capacity-building. That does not exclude other activities, but all have economic objectives. This is because access to economic activity and economic incentives are the fundamental building blocks for development, employment creation and poverty reduction. For the activities that are *focused* on economic capacity-development, these increasingly should be strategic in their objectives, particularly in middle income countries such as Indonesia. That is, they should focus on activities that increase the beneficiary countries’ ability to:

¹ For the majority of this time we operated as Deacons before our Australian legal practice joined with the UK law firm Norton Rose. The Norton Rose Group is now the fourth largest legal practice in the world.

² Annexure A offers observations based on our Indonesian experience.

- (1) Improve economic governance so that the use and allocation of scarce public resources is more effective and targeted to high priority national development initiatives³;
- (2) Engage more effectively in trade in goods and services, facilitate increased domestic and foreign investment and create more jobs (in turn, reducing poverty);
- (3) Engage in forums on international trade, the economy and the environment in a fully informed manner and implement agreed actions, focusing on opening up markets for goods and services;
- (4) Develop effective infrastructure, utilities, transport and other services and encourage increased levels of competition – thus driving down input costs for SMEs, other businesses and consumers, while creating the conditions for improved service delivery;
- (5) Develop effective corporate and market regulation, legal systems, and global standards for service delivery, consumer protection and dispute resolution to create a better business environment⁴ ;
- (6) Adopt global standards of education, training and certification;
- (7) Develop robust public sector financial systems; and
- (8) Develop better bilateral business and investment links with the donor country.

We support in broad terms the involvement of AusAID in the delivery of infrastructure. Without good infrastructure, the community broadly is placed at a disadvantage, particularly the poor and rural sectors. However, we believe there may be an over-reliance on marketing the results of construction programs (for example, `... 2500 schools built and 9000 ... teachers trained (PNG), improved water supply and sanitation (East Timor/Indonesia)'. We acknowledge that hard projects offer a more easily digested and understood image of Australia's aid program, but a more balanced list of achievements is appropriate.

Relative focus on low and middle income countries:

Australia's aid program should continue to provide aid to *both* low and middle income countries, as both have ongoing needs for aid. It is in Australia's strategic interests to continue to assist both.

- (1) Middle income countries generally have high rates of economic growth and big populations, but poor institutional frameworks, under-developed market and regulatory systems and poor infrastructure. They need aid focusing on economic capacity-building as discussed in paragraphs above.
- (2) Low income countries usually have poor governance and under-developed (or non-existent) institutions, rudimentary infrastructure, poor education and health outcomes and low rates of growth. These countries require more fundamental infrastructure and capacity-building.

Low income countries are generally further classified into *least developed countries* and *post conflict countries* and differentiated approaches to aid program design and delivery are required.

³ This is aligned to Australia's comparative advantage. Australia has a world class reputation for public sector reform based and is a champion of economic governance.

⁴ It is notable that the Indonesian sector that says in surveys that it is impacted most by corruption is the SME sector.

In both low and middle income countries there are often regional variations between major cities and rural areas, and between regions. Again, aid program priorities and approaches need to take such variations into account.

Suggestions are made in some aid circles that once a country reaches MDC status, aid should cease. We disagree with this view, and simply achieving MDC status does not mean sound governance mechanisms are in place. Often the attainment of MDC status is a tipping point. Continued aid to ensure the ongoing development and enhancement of sound economic governance policies and mechanisms, will ensure that the past gains are embedded and that the country overall benefits from the better utilization of its national resources. Withdrawal of aid at this point could see loss of these past gains, and a reversion to poor government practices.

Commerciality of Australia's aid program

A major issue in the delivery of Australia's aid program – particularly in middle income countries – is that the preferred fee rates increasingly lack commerciality making it harder to hire specialised consultants and firms. At the same time the complexity of economic reform tasks are increasing, requiring individuals and firms with expertise in mainstream microeconomic reform and governance. The fee rates for international aid consultants are in most cases 50 per cent to 75 per cent lower than those paid in the Australian and international market to mainstream consultants delivering complex advice on sophisticated microeconomic reform and governance. The results are twofold:

- (1) Many firms and individual consultants that are Australian and international leaders in their field in aspects of microeconomic reform choose not to bid for AusAID funded projects.
- (2) Australian-funded consultants working on economic reform and governance in recipient countries are usually not the same firms or people who would be hired to conduct these assignments in Australia or other developed countries.

The result is that aid recipient countries in most cases are not accessing the same level of expertise that is applied to similar assignments for both government and the private sector in Australia. The recommended AusAID fee rates risk hampering the increasingly sophisticated development program that the Government seeks to implement in middle income countries. This matter is a potential hazard for Australia's aid program and there are risks that Australia's reputation could be damaged by 'selling' services to recipient nations that are lower quality than Australia uses itself and that in some cases are supplied by other donor nations. The reputational risk may flow-on to Australian expert services businesses that operate in the international market. Greater flexibility in fee structures is therefore required to meet market rates for specialised high-end reform consultants (appreciating that most consultants working in the aid field do discount their fees to some extent for aid work).

Media coverage of the high fee rates paid to consultants has resulted in a separate review of rates. Statements have been made about the absence of commerciality in these rates, that they do not reflect the market and so on. AusAID has been closely monitoring the majority of its aid delivery program for at least 20 years. All tenders are put out to the market, have been conducted in accordance with Government procurement policies and guidelines, bids evaluated against selection criteria including a technical/price (or value for money) assessment. The winning firm has been approved on this basis. Given this approach to contracting, the assertions being made that some rates are not commercial needs to be questioned.

Contracting Contractor Base

AusAID spent much effort in the late 90s/early 2000s seeking to boost the number of Australian firms tendering for its contracts. The Australian aid program, as with the UK, EU, and USA, has become untied. Yet the number of firms in the industry has fallen markedly. While the number of

foreign firms bidding is unknown, their success is limited, based on the number actually implementing programs. This situation should not be seen as unique to the Australian aid market. Few Australian (ie foreign) firms are successful in the UK, EU or USA aid market despite the untying of aid. Experience demonstrates that each country has natural impediments and firms are often unwilling to invest in the cost of bidding in a new market. Especially when the number of tenders coming on to the market is low and most firms have probably taken a purely commercial decision not to bid.

The contraction of the Australian contractor base is also likely to pose future problems for AusAID. From a commercial perspective, the risk/reward ratio of implementing an aid program does not offer a high return on investment compared to other commercial ventures. Over the last 20 years, the tendering and contracting approach of AusAID has become more complex and more costly.⁵ For every unsuccessful bid, tens of millions of dollars are lost and this has to be factored into any review of actual contractor margins. This has also been a likely cause of the contraction in the number of Australian firms. Small firms cannot afford to bid and either leave the market place, merge with or are taken over by larger firms. NGOs are often spoken of as the solution to aid delivery in view of their 'non-commercial' focus. We agree that NGOs have a place in the aid program. However, most are unlikely to have the management resources, funds or ability to implement large value, high risk infrastructure or economic governance activities. In the past, some NGOs established commercial arms in order to 'make money from the contracting side of the business'. Few of these firms were successful and all have disappeared from the market.

Partnership Approach

The new approach to aid arising from the Paris Declaration, Accra Accord etc is an appropriate-moral and political- engagement of counterpart governments to ensure consensus on aid priorities and focus. However, the partnership approach should not be construed to mean that the counterparts have the capacity or commitment to play a full role in the implementation of the assistance program. We should remain acutely aware that the limitations of skill in some counterpart governments to manage their problems is the reason for them seeking assistance in the first place, and that remains a limiting factor on their ability to fully understand the problem, identify solutions and to always be able to play a broader participatory role in the support program.

Sectoral focus

The sectoral approach was adopted to bring about parallel changes across sectors in concert to achieve greater efficiency and effectiveness; achievements which had been limited by the previous agency projects within sectors. (In the latter case, distortions occurred and an agency with aid support became more effective but it may have been working within a sector which was not of strategic importance.) The sectoral focus was complex, expensive and especially demanding on agency management which had largely an internal agency focus, against perceived competitors for often scarce government funding, and distrusting any collegial approach. Sometimes, sectoral approaches are too complex for developing countries and sufficient evidence exists to show limited achievements using this method. We recommend caution in returning to the sectoral approach.

Devolution

AusAID adopted a management approach of devolving decision making to in country Posts in order to make the understanding of needs in the design and delivery of program more relevant and timely. However, a high level of centralised control still remains, particularly in the tendering and contracts. We endorse the move to engage national staff to support the A-based AusAID officials. However, it is important that these staff receive sound training in the Australian Government's policies and procedures to ensure a consistency of approach. We suggest that consideration be

⁵ During the 1990s/2000s AusAID applied various new tendering and contracting models in an attempt to find a 'holy grail'. To our knowledge, no evaluation of the effectiveness of these models has been done by AusAID despite the cost implications to both AusAID and the contracting community.

given to a review of AusAID's incountry structure, personnel planning and induction and the balance of authority and responsibility, to ensure an effective and efficient management structure is in place and to maximise the benefits of local engagement.

Using National Experts

Related to the current issue of expatriate costs, increased use of national experts is advocated assuming national experts will always cost less. We agree that using national experts is a desirable approach assuming appropriately skilled people are available and is workable in some instances. Our program has routinely contracted national experts when appropriate. However, the fact that recipient governments are seeking technical assistance reflects that there is a limited pool of competent national staff to work as bureaucrats or as consultants. Those individuals who possess the requisite skills, qualifications and experience are highly sort after and demand fees reflective of this demand. In some cases these people are former civil servants. Care needs to be taken that demanding increased use of national experts does not come at the disadvantage of an already poorly staffed host government department. Acceptance is also required that the pool of national consultants who have the equivalent of international advisers is limited. Rates for these consultants will continue to rise as demand for them increases from the government, aid donors and the private sector. An alternative approach is to pair a highly competent international adviser with a less experienced national adviser to slowly build the pool of national talent. This approach also requires AusAID acceptance that the costs of implementation may be higher in the short term.

A key point, often ignored, is that counterpart agencies already recognise the absence of national talent, are seeking support to build their agency to international best practice and hence want outside expertise who can assist in this development. Engaging lesser qualified, less experienced international advisers may not satisfy the counterpart agency and result in a lower value outcome and have negative impact on Australia's and AusAID reputation as a donor which delivers. Some agencies have declined the offer of support from multilateral donors such as the World Bank and Asian Development Bank because they offer less optimal solutions, less well qualified consultants and prefer AusAID support.

Monitoring & Evaluation

Over the years AusAID has applied varying models of M&E. The Office of Development Effectiveness has taken the lead on these in recent times. From an industry perspective the results of this internal review are not totally satisfactory. Industry has had to bear the brunt of changes in the recommended AusAID M&E standards. Often these changes seem to result from the particular experience and opinions of new people in ODE. We are also concerned that sometimes AusAID appears to have a culture of 'borrowing' from other donors and applying systems and methodologies of other aid agencies, without fully testing and evaluating their usefulness or validity.

Summary Observation

AusAID has noted that 'many years of substantial technical assistance appears to have had little discernible impact in either creating stable states or improving services'. Of course, the technical assistance might have been intended to create stable states or to improve necessary services. Assuming this to be the case, the lack of impact might not be simply the result of technical assistance as the statement suggests but other factors may be responsible, such as poor focus, inappropriate modality, poor monitoring and lack of counterpart commitment.

Greg Vickery AIPEG Contractor Representative and Mike Halse AIPEG Facility Director

Annexure A- Economic capacity-building in Indonesia – some comments based on experience

Economic capacity-building in Indonesia should focus on building Indonesia's capability to develop and implement institutional and economic systems that move toward and eventually match systems in developed nations. Indonesia needs to fast track such initiatives to enable high rates of investment, growth in trade of goods and services, development of infrastructure and industry, and economic growth. Indonesia's rapidly growing regional and developing country leadership role adds urgency to the task of lifting its economic governance and performance.

From the experience of AIPEG, Indonesia will need ongoing and enhanced support in key aspects of economic governance if it is to meet all its reform goals. The required microeconomic reform and economic governance systems will be increasingly complex and sophisticated.