Submission to the Senate Inquiry into Australia's overseas aid and development assistance program

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[2] This is the 2013 budget figure, and does not reflect subsequent aid cuts.
[3] For a more extended analysis, and sources, see pp. 3-5 of 'Separated at birth?—How to tell Labor and the Coalition apart on aid and development', Policy Brief No. 6, Development Policy

1. Introduction and summary of recommendations

This submission is made under three headings:

- aid volume and allocation (Section 2),
- policy and strategy (Section 3), and
- aid management post-integration (Section 4).

Our submission is relevant to all four of the specified items within the Inquiry's terms of reference:

> Item (a): Australia's ability to deliver aid against stated policy objectives and international commitments;
> Item (b): Australia's ability to maintain its international development priorities, including sectoral, regional, bilateral and multilateral international relationships;
> Item (c): the integration of AusAID into the Department of Foreign Affairs and Trade and the freeze in international development assistance funding; and
> Item (d): any unintended consequences of these changes.

The context for our submission is the change in the medium-term aid budget outlook, the within-year reduction of the 2013-14 Official Development Assistance (ODA) budget by about $650 million and the ongoing integration of the Australian Agency for International Development (AusAID) into the Department of Foreign Affairs and Trade (DFAT).

The election of the Coalition government in September for the most part triggered these changes, though the aid budget outlook had already shifted substantially by August 2013 under the former Labor government. Labor imposed cuts to the forward estimates in 2012 and 2013 and made one large within-year reallocation in 2012. We discuss these decisions together with those of the present government.

We note items (a) and (b) of the terms of reference are difficult to address as written because they assume clear and static policy objectives and priorities. However, we do address related questions of broad policy and strategy, highlighting areas where we consider clarity is most acutely needed.

Broadly our approach is to summarise what has happened under each of the three headings above—budget, policy and management—highlighting implications and areas of substantial uncertainty, and to make selective recommendations as to how various questions might be answered in favour of effective aid.

We draw upon and provide references to past Development Policy Centre analysis where appropriate, without repeating it in detail. In particular, we draw upon an Australian aid stakeholder survey conducted in 2013, and our analysis of it released in December 2013, to inform our discussion and recommendations throughout. The survey represents the views of some 350 stakeholders in the Australian aid program, many of them senior and in leadership roles. It is an ideal mechanism for the Inquiry to gauge the views of those who have an interest in Australian aid and the survey report is therefore attached as Appendix 1.

Our overall conclusion is that neither the recent within-year aid budget cut nor the decision to integrate AusAID into DFAT will necessarily have negative long-term consequences. While more could be achieved with more aid, Australia will still be a substantial donor with a $5 billion aid program. Managing aid policy and programming from a foreign ministry is common, feasible and could deliver some efficiencies and also advantages in terms of policy coherence.

On the other hand, much could have been improved about the way the budget cut and the integration were managed. There will be some potentially serious short-term impacts flowing from the decision to impose a large, within-year budget reduction in 2013-14 and the decision to reduce staffing numbers quickly in tandem with integration. And if appropriate policies and structures are not put in place, there will be long-term impacts as well.

A **summary of our recommendations,** under our three main headings, follows below:

Aid volume and allocations

> ***Recommendation 1****: In line with its continued commitment to a 0.5 per cent ODA/GNI target, and to maintain Australia's generosity while recognizing the federal deficit reduction imperative, the Government should adopt the target of keeping constant the current ODA/GNI ratio of 0.33 per cent. This would require increasing aid volumes at an average amount of $300 million per year over the next four years, rather than the $100 million required to adjust aid only in line with inflation.*
>
> ***Recommendation 2****: The allocation for emergency and humanitarian purposes should be restored to approximately 2012-13 levels in the 2014-15 budget.*

Aid policy and strategy

> ***Recommendation 3****: A multi-year budget strategy along the lines of the CAPF should be put in place in line with the recommendations of the Independent Review of Aid Effectiveness.*
>
> ***Recommendation 4****: The Government aid strategy include a statement that, while the government believes that the aid program is good for Australian business, it does not seek to use the aid program to subsidise Australian business, and will not seek to 're-tie' aspects of the aid program earlier untied.*
>
> ***Recommendation 5****: The government should determine how much of the funding appropriated to Department of Immigration and Border Protection*

in both 2012-13 and 2013-14 was or will be used for aid-eligible purposes. Appropriations in future years should continue to be capped, and made on the basis of eligible costs. Given that an offshore processing regime is in place, and that aid funding can only be used for onshore costs within the first year of an asylum-seeker's arrival, future appropriations should be expected to fall rapidly. Aid funding should not be used to finance community detention in either Nauru, PNG or elsewhere.

Recommendation 6*: In its forthcoming aid policy statement, the government should state that it is prepared to use the aid budget to help fund at least certain categories of action on climate change in developing countries, including adaptation programs.*

Recommendation 7*: There is a range of other policy measures requiring clarification from the new government. The government should address them in a standalone policy statement or in the May budget statement, both through its articulation of the overall objective of the aid program and through its articulation of specific priorities.*

Aid management post-integration

Recommendation 8*: In addition to elaborating a revised DFAT structure which maintains a strong core of aid policy and management functions and recognizes the international policy capabilities of former AusAID senior executives, the government should give consideration to establishing unified oversight of aid policy and management within the DFAT Executive and engaging external sources of advice on the implementation of the integration agenda.*

Recommendation 9*: DFAT should be renamed the Department of Foreign Affairs, Trade and Development, its mission statement should no longer be cast solely in terms of the promotion of the national interest, and its priorities should be rearticulated to give appropriately greater emphasis to the aid and development goals for which DFAT now has responsibility.*

Recommendation 10*: A rigorous professional capability stocktake and workforce planning process should be undertaken post-integration.*

Recommendation 11*: Staff turnover was too high in the aid program prior to integration and will increase with integration. It should be monitored and targeted for improvement. In any new system of performance benchmarks, staff turnover should be a critical indicator.*

Recommendation 12*: The aid program should itself commission and publish on a regular basis a stakeholder survey as a source of vital, external feedback on its performance.*

Recommendation 13*: Performance benchmarks should be defined within the three-tier framework already adopted for the 2012 CAPF, and should, for a variety of reasons, give greater weight to process benchmarks vis-à-vis 'headline' policy-related or 'results' benchmarks, with an emphasis on the consistent and demonstrated application of key aid management systems.*

Benchmark assumptions and data should be reported in detail, for both targets and performance against targets. Performance benchmarks should be used for redistributive purposes, not to determine aggregate aid levels.

***Recommendation 14**: The Transparency Charter adopted by the previous government should be endorsed by the present government, and given wider application so as to increase the amount of activity-level information available to the parliament and the public.*

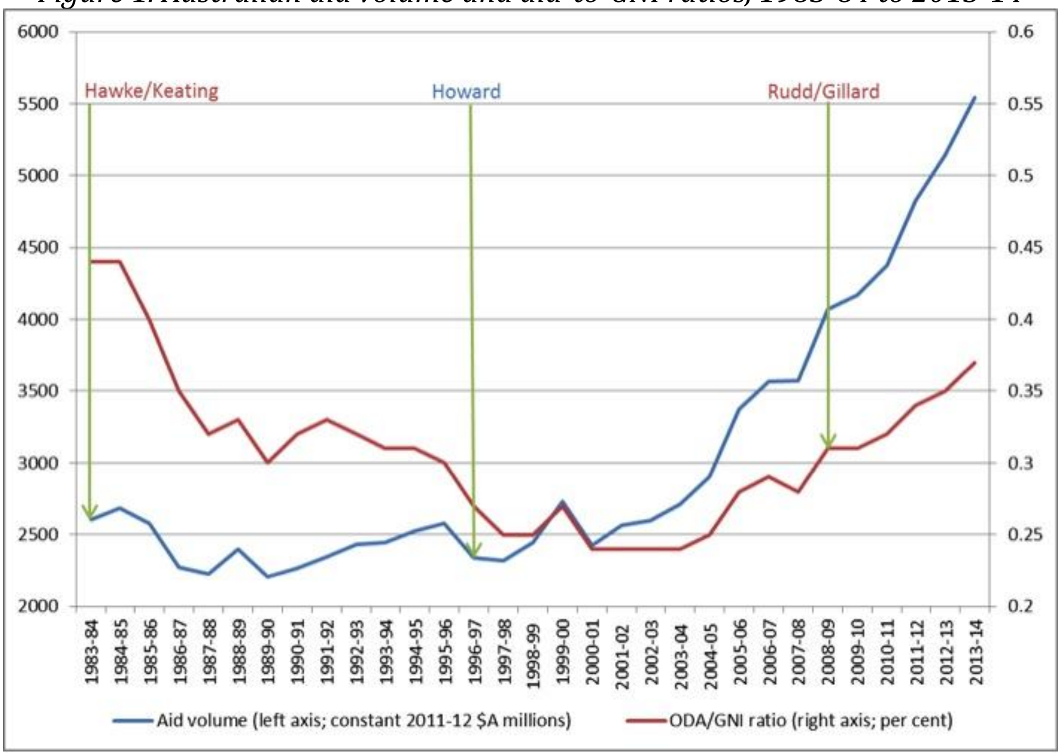
2. Aid volume and allocation

We provide below a summary of the shift in the aid budget outlook which has occurred over the last two years (Section 2.1) and discuss its implications for Australia's standing among official aid donors (Section 2.2). We then analyse the implications for Australia's ability to meet its policy objectives and honour its international commitments, first in general terms (Section 2.3), and then more specifically in relation to this year's cuts (Section 2.4), and future years' (Section 2.5).

2.1. Volume cuts

Australia's aid volume, considered both in absolute, real terms and as a proportion of Gross National Income (GNI), showed strong growth over the decade from 2003-04 to 2013-14 under both Coalition and Labor governments (see Figure 1). In real terms, aid volume doubled over this period and the ODA/GNI ratio increased from 0.24 to 0.37 per cent (the ratio of all OECD aid to total OECD GNI is currently 0.29 per cent).[2]

Figure 1. Australian aid volume and aid-to-GNI ratios, 1983-84 to 2013-14



[2] This is the 2013 budget figure, and does not reflect subsequent aid cuts.

Note: These are the numbers from the 2013 budget, and do not reflect any subsequent aid cuts or GNI adjustments.
Source: *Australia's International Development Assistance Program, 2013-14*, Table 7, p. 145.

In earlier budget years, the Labor government had delayed the approach to 0.5 per cent several times while not altering the target date. However, in the 2012 budget the Labor government pushed back the target year for the achievement of 0.5 per cent by one year, to 2016-17 (one year outside the forward estimates period) and removed $2.9 billion from the forward estimates for the aid program.[3] At this point the bipartisan commitment to the 0.5 per cent target fractured. The Coalition argued that the slope from 2015-16 to 2016-17 had become too steep to climb. A commitment to the 0.5 per cent target was retained by the Coalition, but it was no longer time-bound.

Subsequently Labor further reduced the forward estimates for aid in both the 2013 budget ($1.9 billion) and the August 2013 Economic Statement ($0.9 billion). In the 2013 budget Labor again pushed the target year for the 0.5 per cent commitment one year outside the forward estimates period, to 2017-18. This brought the cumulative reduction to the forward estimates since the 2012 budget to $5.7 billion.

In addition, in December 2012, midway through the financial year, Labor abruptly reallocated $375 million within the aid budget to meet onshore costs associated with asylum seekers in the community waiting for their claims to be assessed. This funding was transferred from AusAID to the immigration portfolio, necessitating an average reduction of seven per cent in allocations to programs managed by AusAID and other agencies including the Australian Centre for International Agricultural Research (ACIAR) and the Australian Federal Police (AFP). A further $375 million was allocated from the aid budget to the immigration portfolio for onshore asylum-seeker costs in the 2013 budget.

Just before the 2013 federal election, the Coalition announced that, if elected, it would further reduce planned aid spending by a total of $4.5 billion over the period 2013-14 to 2016-17.[4] While the decision was presented as reducing the rate of aid growth to that of inflation, rather than cutting aid, it included a $656 million reduction in the 2013-14 appropriation. This was a cut in aid given that funding reductions applied at such short notice must affect activities already in implementation or in the final stages of planning. That aside, the cut took aid volume about $100 million below its 2012-13 level, and therefore constituted a real cut of about five per cent relative to 2012-13. As a percentage of GNI, aid is now projected to be 0.33 per cent, down from 0.35 per cent in 2012-13 and from the budgeted 0.37 per cent for 2013-14.

The bottom-line effect of the above series of decisions, by both Labor and the Coalition, is that the aid budget peaked in 2012-13 at $5.1 billion after a decade

[3] For a more extended analysis, and sources, see pp. 3-5 of 'Separated at birth?—How to tell Labor and the Coalition apart on aid and development', Policy Brief No. 6, Development Policy Centre, Australian National University, August 2013.
[4] The Development Policy Centre's analysis of these cuts, with links to sources, was published on 6 September 2014.

of strong growth, and will now, if the Coalition government abides by its volume commitment, stabilise at just over $5 billion in real terms for several years.

This is not the first time that aid has been cut during the first term of a new government. There were sharp cuts to the aid budget under Hawke in the mid-1980s and under Howard in 1996. However, it would be a mistake to underestimate the importance of the current changes. From a historical perspective, we would say that we are entering a new era of aid. In the first era, prior to 2000, aid was a small and little noticed part of Australian public policy. Aid volumes fluctuated with fiscal constraints, around a total of $2 billion in today's prices, for several decades. In the second era, which began around 2000 and has just ended, aid became a much more important part of public policy, enjoyed bipartisan support and sustained large increases. In the third era, which has just begun, aid volumes are set, once again, as in the first era, to increase only in line for inflation. However, in this era, unlike the first, aid seem to still be an important part of public policy, and one on which there are now quite partisan views.

2.2. International comparisons

The Development Policy Centre has analysed the impact of the aid volume 'freeze' (as it is described in the Inquiry's terms of reference) on Australia's international standing as an official donor, drawing on statistics compiled by the OECD's Development Cooperation Directorate for the OECD Development Assistance Committee.[5]

To summarise the situation briefly, following the Coalition government's aid cuts Australia's position in terms of aid volume will probably fall from eighth to ninth among OECD donors (or tenth if Norway's performance improves, as seems likely) and will probably remain at thirteenth in terms of aid as a proportion of GNI, even though this proportion will fall from a budgeted 0.37 per cent in 2013-14 to about 0.31 per cent by 2017-18 (see Figure 2).

Aid per head of donor population is a non-standard measure—because per capita income varies among donors—but one cited by foreign minister Julie Bishop[6] and the foreign editor of *The Australian*, Greg Sheridan[7], in recent times. On this measure, Australia was most recently ranked tenth at $215 per head but will now join a pack of donors just below the $200 mark (Ireland, France and Germany), so that our ranking might now be anywhere between tenth and fourteenth.[8] Thus Australia is not, as the foreign minister has said, 'one of the most generous per capita aid donors in the world'.[9]

[5] This interactive chart is a particularly useful resource.
[6] Address to chairs and CEOs of the member organisations of the Australian Council for International Development, October 2013.
[7] Here.
[8] Information on aid per capita is derived from DAC tables 1 and 38 here.
[9] The quoted statement was in its context quite clearly made about Australia's official aid effort. While not true of that effort, it is true of Australia's collective effort as a source of private donations to NGO programs.

Essentially, with a $5 billion aid program Australia is making a contribution that is roughly commensurate with its standing among world economies.[10] Its aid-to-GNI ratio (currently about 0.33 per cent) is slightly above the weighted average for the OECD (0.29 per cent) though well below the average of individual countries' efforts (0.47 per cent). The government's budget cuts, provided they are not followed by further cuts in the 2014 budget or subsequently, do not substantially change Australia's position among OECD donors. The cuts might not affect Australia's ODA/GNI ranking at all, though this is in part because the next-ranked country, Canada was some distance below Australia at 0.32 per cent, and has further decreased its aid recently.

2.3. Australia's ability to achieve aid policy objectives and international commitments

The Committee's terms of reference require it to address 'Australia's ability to deliver aid against stated policy objectives and international commitments.' We consider these in turn, and in reverse order, starting with international commitments.

Aid is an area of government activity where donor countries are invited to offer up their own targets. The closest there is to a common international target is the long-touted but rarely achieved 0.7 per cent ODA/GNI target. Only five countries have so far achieved this target (a sixth, the UK, has budgeted to achieve it this year), and Australia has never regarded it as more than aspirational.

Australia's 0.5 per cent target is of a different nature, and was a much more serious international commitment (like the 2010 $4 billion target before it). The then bipartisan aid volume commitment to achieve 0.5 per cent of GNI by 2015-16 was heavily advertised during Australia's 'we do what we say' campaign for a seat on the UN Security Council[11], to which it was elected in October 2012.

In recent years, actions first by Labor and then by the Coalition have undermined this international commitment, to the point where it is becoming irrelevant. Under Labor, despite successive delays in the scaling-up, there were large real increases in aid, and the ratio of aid to GNI did edge up, as shown in Figure 1. Under the Coalition's current policy, the ratio of aid to GNI will fall. On current assumptions about inflation and growth, it will fall from 0.35 per cent last year to 0.33 per cent this year, to 0.31 per cent by 2017-18, and to 0.28 per cent by 2022-23.

The foreign minister recommitted the Coalition to the 0.5 per cent target in her October 2013 address to the heads of member organisations of the Australian Council for International Development. This commitment is not credible if the actual movement is in the opposite direction for a sustained period of time. Under current policy settings, the 0.5 per cent target will quickly achieve the same sad status that the 0.7 per cent target has had in Australia, that is, as a

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[10] In terms of nominal GDP, Australia was ranked twelfth in the world in 2013

[11] See here. In fact the 'double-doubling' was given greater prominence in this context than the 0.5 per cent commitment, since the latter tends to sound weak in a UN context, where the talk is always of 0.7 per cent.

target that is only of rhetorical value and not a credible guide to policy. The current settings will also mean that, over time, we will give less aid both as a share of our national income and per capita (in real terms). That is, our generosity will decline rather than stabilize or increase.

In relation to 'Australia's ability to deliver aid against stated policy objectives', we provide a detailed treatment of the current-year and future-year cuts in the next two sections. This section provides a higher-level treatment, and begins with the recognition that aid is an unusual area of government activity when it comes to funding.

Aid funding is determined not on the basis of amounts needed to meet affordable policy objectives, but on the basis of an arbitrary target or rule. This seems unsatisfactory to most observers, but there is no other way. Global poverty and suffering are such enormous problems, and there are so many worthwhile aid projects, that, in a well-run aid program, the benefits should greatly exceed the costs of the marginal aid project. This makes aid quite different from most other areas of government spending where, though we would often lack the knowledge to make a precise determination, we would at least in theory expect costs and benefits to be equalized at the margin. It is the basis for supporting increases in aid, provided they are planned for methodically and spent effectively.

Could more aid be spent effectively? Assessing aid effectiveness is an extremely difficult proposition, but the lessons of recent Australian experience suggest a positive answer to this question. In our view, as close observers and at times participants in the aid scale up, Australia today is giving both more and more effective aid today than it was ten years ago. A positive dynamic has been established of 'more and better aid.' This was very much the philosophy of the 2006 White Paper which drove the early scaling up of aid. And it was of course the rationale for the recommendations of the 2011 Independent Review of Aid Effectiveness, which was established precisely to guide the latter phase of the scale-up.

Compared to ten years ago, Australian aid is—we speak here of the aid program as it stood when inherited by the present government—not only much larger but also delivered by more expert and professional staff. It is delivered with greater decentralisation to country offices, resulting in more country knowledge and flexibility. It is delivered with better quality processes more firmly in place. It is subject to more monitoring and evaluation, and more transparency. It is delivered through a wide range of modalities and with more innovation. It is delivered with greater attention to results, and less use of default modalities, reverted to even when ineffective.

That is not to say that all progress has been positive. It has not, and the aid program has suffered in some respects from an indiscipline of spending, and from an over-bureaucratisation. As we outline in Section 4, many aid reform challenges still need to be addressed and, with the integration of AusAID into DFAT, some of those challenges may well, or have already, become more pressing.

The proposition that, despite remaining challenges and some areas of regress, overall aid effectiveness has improved is supported by the 2013 Australian Aid Stakeholder Survey. The 356 stakeholders we surveyed on average thought that Australia's aid program was improving, and that the scale-up has had a positive not a negative impact on aid effectiveness. Views were similar across various groups of stakeholders. While the groups we surveyed were sympathetic to aid in general, they had some quite strong, negative views on other aid issues, as discussed later.

While we are therefore confident that more aid could be delivered more effectively, it should also be noted that there are real benefits to funding predictability. Assurance about future funding prospects is critical for a methodical, orderly approach to aid planning and management. Labor's repeated cuts to the forward estimates and its deferrals of the target date for achieving 0.5 per cent caused enormous uncertainty. There will certainly be aid effectiveness benefits if the funding predictability promised by the present government is realised.

It should also be said that a $5 billion aid program is by no means small for a country of Australia's size and global economic standing. It contains within it considerable flexibility to accommodate new priorities within a year or two, or faster if resources are reallocated within the DFAT portfolio or between portfolios (particularly between DIBP and DFAT). Maintaining a $5 billion aid program in a tight fiscal context, and when worldwide aid volumes are stagnant or declining,[12] while hardly an inspirational result, cannot be regarded as a disaster.

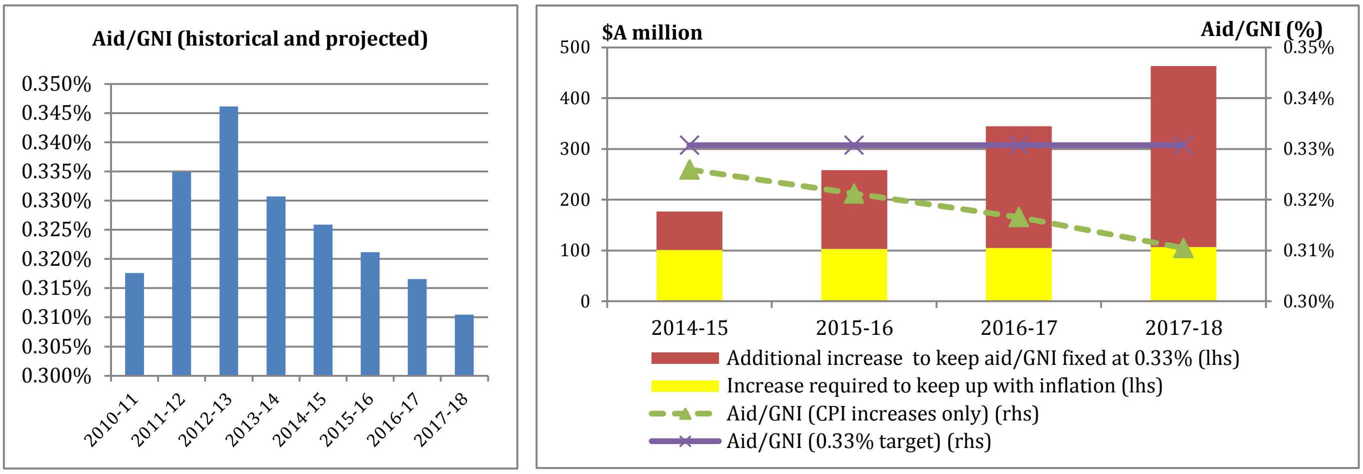
That said, as we have shown through the discussion above, restricting aid to grow only in line with inflation will inevitably reduce Australia's ability to achieve its commitment to its stated policy objectives of reducing poverty and will make our still bipartisan international commitment to achieve 0.5 per cent of GNI completely irrelevant by moving aid in the opposite direction, making us less generous as a country over time.

Is there an alternative? As noted, the Coalition is still committed to the 0.5 per cent target but has said that fiscal constraints prevent it from achieving that target in the short-run. A more credible response to the need to balance the twin objectives of 0.5 per cent and fiscal correction would be to target not real aid but the ODA/GNI ratio.

Keeping the ratio at the level it is now (0.33 per cent of GNI) would require annual increases of $300 million over the next four years, rather than the annual increases of $100 million required to keep pace with inflation. It would mean that as a country we were saying, while we enter a period of fiscal adjustment which prevents us becoming more generous, we will at least become no less generous. It would not move us toward meeting our international commitment, but it would at least keep that commitment alive.

[12] As we discuss in our 2013 Policy Brief 'Global aid in 2013: a pause before descending'

Figure 2. Aid/GNI and annual increases required for different aid targets



Note: In the left-hand graph, historical figures are used for aid/GNI up to 2013-14 (i.e. including most recent cuts) and projected figures for 2014-15 onwards. CPI is assumed at 2.75% in the current year, and 2% thereafter as per the 2013 MYEFO. GNI is obtained from the latest ABS data up to 2012-13. Nominal GNI is assumed to grow at the rate of GDP, which is assumed to be 3.5% for 2013-14 and 2014-15, as per the 2013 MYEFO; and then 3.5% for 2015-16 and 4% thereafter, assuming some recovery.

Recommendation 1*: In line with its continued commitment to a 0.5 per cent ODA/GNI target, and to maintain Australia's generosity while recognizing the federal deficit reduction imperative, the Government should adopt the target of keeping constant the current ODA/GNI ratio of 0.33 per cent. This would require increasing aid volumes at an average amount of $300 million per year over the next four years, rather than the $100 million required to adjust aid only in line with inflation.*

2.4. The 2013-14 budget cuts

The Development Policy Centre has, on the basis of the very limited information made available by the government on 18 January 2014, analysed the implications of the within-year cuts to the 2013-14 aid budget.[13]

The net cuts were marginally smaller than forecast before the 2013 election, at $638 million[14] relative to the amount budgeted by Labor in the 2013-14 budget, but they were applied almost entirely to programs managed by DFAT—even the

[13] The Development Policy Centre's analysis of the government's announcement.

[14] The difference between the original and revised 2013-14 aid budgets ($5.666 billion and 5.042 billion respectively) is actually $625 million, and this is also the total of the savings shown in the body of the government's spreadsheet. However, the government has claimed the total figure for savings and 'reprioritisations' is $650 million, closer to its original commitment to cut the budget by $656 million. A fuller, leaked version of the government's spreadsheet contains a note identifying savings additional to the $625 million figure, from departmental allocations and allocations to other government departments, principally the AFP (see the Development Policy Centre's technical note on this.) These additional savings total $13 million, taking total savings to $638 million. A further $12 million is shown as having been reallocated within the aid budget, taking the total for savings and reallocations to $650 million. The government effectively announced the latter figure through an exclusive report by Greg Sheridan of *The Australian* while, in Julie Bishop's press statement, putting the revised bottom line at $5.042 billion rather than $5.028 billion. It is unclear which figure is correct.

$375 million allocation to the Department of Immigration and Border Protection (DIBP) for onshore asylum-seeker costs, heavily criticised by the government in opposition, was ruled out of bounds. As a consequence, DFAT actually had to reduce allocations to its programs by an average of 15 per cent.

On the whole, geographical and other allocations were not significantly reduced relative to the 2012-13 spending outcome, and some (for example, those to Indonesia, Fiji, Mongolia, and the principal NGO subsidy mechanism) were increased, though in each case by less than Labor had planned. The required overall reduction relative to 2012-13 (just over $100 million) was essentially achieved by cutting the allocation to Africa and the Middle East by almost 40 per cent relative to the 2012-13 allocation, from $329 million to $200 million. The emergency and humanitarian allocation also suffered a substantial cut, falling by 16 per cent or $26 million relative to 2012-13, to $137.4 million.

Despite suggestions[15] before the 2013 election that multilateral funding would be reduced, it has so far been maintained, with the predictable exception of funding to the International Labour Organisation (which in any case had only received about $7 million per year, for two years, under Labor). Contributions to recent replenishments of the World Bank's concessional financing arm and the Global Fund have reflected a business-as-usual approach. It appears certain the government will reverse decisions of the previous government to join the African Development Bank and rejoin the International Fund for International Development.[16] These reversals will contribute toward the overall savings extracted from the forward estimates but yield no reduction in multilateral expenditure relative to 2012-13.

At this point it is difficult to conclude that the government's 2013-14 budget adjustment will severely constrain its capacity to maintain substantial and diverse programs of assistance within the Asia-Pacific, or continue partnerships with broadly the same group of multilateral and regional organisations, and Australian non-government organisations, which have received support in the recent past. It is approximately true that the cuts affect planned growth in the program rather than the program as it is.

The cut to emergency and humanitarian funding, however, could constrain Australia's ability to respond appropriately to crises—as evidenced by Australia's surprisingly small contribution to the UN's January 2014 Syria appeal.[17] Conversely, where there is overwhelming pressure for Australia to respond to a major crisis, most likely within the Asia-Pacific, such a response

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[15] The Treasurer said, 'You'll see a focus more on support for non-government organisations than investment in multilaterals'. This was not articulated in the Coalition's pre-election foreign affairs policy, but that policy did imply greater selectivity (p. 5).
[16] The 20 August 2013 report of the Senate Foreign Affairs, Defence and Trade Standing Committee's inquiry into the provisions of the African Development Bank Bill 2013 contained this dissenting report from Coalition senators. Likewise the 26 November 2012 report of the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into the International Fund for Agricultural Development Amendment Bill 2012 contained this dissenting report from senators and members of the House of Representatives.
[17] See this Development Policy Centre in-brief report.

might need to be partially funded by bilateral and regional programs at the expense of long-term development activities.

Recommendation 2: The allocation for emergency and humanitarian purposes should be restored to approximately 2012-13 levels in the 2014-15 budget.

More generally, there must be some very substantial impacts in the present financial year on activities in the final stages of planning, and in some cases on activities in implementation. The intention to cut over $650 million from the 2013-14 budget was announced several months into the financial year. The allocation of the cuts was not determined until over six months into the year—too slow by any measure. Much negotiation and backpedalling must still be going on, none of which is currently visible. This would be particularly difficult to manage in sub-Saharan Africa, where aid is being reduced far below last year's level and where at least some ongoing programs must therefore be facing termination or dramatic trimming.

To the extent that the committee wishes to explore any negative impacts of the government's 2013-14 budget cuts, the real question is what planned activities will not proceed, what ongoing activities will be cancelled or reduced in scope in 2013-14, how choices are being made and how decisions are being implemented. The same questions might well be asked in relation to activities affected by Labor's similarly abrupt December 2012 within-year reallocation of $375 million—the impact of which was never satisfactorily explained at activity level.

2.5. Longer-term impacts of a constant real aid budget

Impacts of the budget freeze in 2014-15 and beyond will for the most part depend on how far the government is willing and able to finance shifts in aid priorities with the uncommitted, or least the more flexible, resources available to it within country, regional and global programs. Financing its priorities in this way would entail a relatively slow start to the implementation of them, if those priorities should differ markedly from those of the previous government. It might well be up to two years before there is enough headroom in many programs to permit implementation of new priorities on any substantial scale.

A faster start would require the further 'taxation' of country, regional and/or global programs in order to unlock resources—which would ultimately flow back to those programs, but with a potentially very different distribution. For example, if resources were massed from across the aid program to support a new private sector development initiative of some kind, those resources would likely flow back to a small subset of the countries or partnerships that were taxed to mobilise them.

It should also be noted that any substantial shifts between aid channels—bilateral, multilateral and non-governmental—will now involve absolute rather than relative trade-offs. That is, an increase in funding for one channel means a decrease in funding for another, rather than merely a lesser increase. Assuming country and regional programs remain fairly stable as a share of total aid[18], the main trade-off is between NGOs and multilateral organisations. However, it should not be assumed they must compete for so-called 'core' funding, that is, funding that is made available without restriction as to purpose. In reality there is little scope to reduce core funding to multilaterals in favour of funding for NGOs. But there might be scope within country programs to change the mix of implementing partners, reducing reliance on co-financed multilateral projects to absorb funds, and increasing support for activities managed by NGOs.

Finally, it is notable that the government, like Labor[19], has budgeted essentially nothing for global and cross-regional climate change and environment programs in 2013-14. In cash flow terms, it is likely that little or nothing is needed.[20] However, the government will shortly (March 2014) need to determine Australia's contribution to the sixth replenishment of the Global Environment Facility, which will generate costs from 2014-15 on, and at some point in the next two years will face calls to contribute either to the initial capitalisation of the new Green Climate Fund, or to a replenishment of the existing Climate Investment Funds (managed by the World Bank). Even if the government contributes less than Labor might have, and earmarks its contributions for specific purposes (e.g. climate change adaptation, or disaster risk reduction), we judge that it would be unlikely to contribute nil. It will therefore need to carve out space for any such contributions from country or global programs, or thematic programs in other sectors.

3. Policy and strategy

In this section, we first establish the importance of a new aid policy framework being established in a timely and thorough manner (Section 3.1). We then consider three particularly important areas of aid policy at the current time: commercial considerations in Section 3.2; the use of aid to cover asylum-seeker costs in Section 3.3; and the use of aid for purposes related to climate change in Section 3.4. Finally, in Section 3.5, we consider a range of other aid policy issues which require clarification.

3.1. A framework for aid

At the present time, the 'stated policy objectives' and 'international development priorities' referred to in the terms of reference do not really exist—at least not in any clear and complete form. We assume they will be articulated in some sort of policy framework either before or in the context of the May 2014 budget.[21]

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[18] Australia's share of bilateral aid in total aid is very high, at 84 per cent in 2012 (see here).

[19] Labor had allowed a total of $6 million for global and cross-regional climate change and environment programs; the government has reduced this to $0.5 million.

[20] Multilateral funding commitments are in some cases extremely 'lumpy', with a large amount being committed to a multilateral organisation or fund at a certain point to fund disbursements by that organisation or fund over quite long periods of time. Cash payments to multilateral organisations and funds, pursuant to such commitments, are much more evenly distributed in time. For this reason, some multilateral contributions are reported on a cash flow basis.

[21] We note that Labor, following its election in November 2007, did not release a policy framework for the aid program until the May 2008 budget. And it did not produce a full policy to underpin its scaling up of aid until 2011.

Having the strategic clarity that such a policy framework can provide is, like funding predictability, a bedrock of effective aid. That said, this is not a process in our view that needs to be hurried: what is most important is that objectives and priorities be carefully defined, based on a consideration of what is actually wanted and needed at country level, and linked to resource allocation.

The so-called Blue Book (the forward-looking annual statement on Australia's international development assistance program, released as part of the budget documentation) has for a very long time been the principal vehicle for linking priorities to resource allocation for current financial years.[22] In some years, as in 2008 after the last change of government, it also serves as a vehicle for articulating changes in overall aid policy directions. We expect it will continue to be produced in its current form. It would certainly be very unfortunate if it were discontinued or diminished in scope and depth, as it is a valuable, widely used communication and accountability tool.

The previous government's Comprehensive Aid Policy Framework (CAPF), released in May 2012, was the first attempt to link priorities to resource allocation over a longer (four-year) period. Its relevance was rendered questionable after only six months, with the unexpected December 2012 reallocation of $375 million within the aid budget to meet onshore asylum-seeker costs. The CAPF's relevance was reduced to nil following subsequent cuts to the forward estimates in May and August 2013. Nevertheless, if there is to be aid budget stability over the several years ahead, something like the CAPF should be considered by the present government. In fact one would expect it to be, given the Coalition's support for the recommendations of the Independent Review of Aid Effectiveness.[23]

Recommendation 3*: A multi-year budget strategy along the lines of the CAPF should be put in place in line with the recommendations of the Independent Review of Aid Effectiveness.*

3.2. Commercial considerations

A major policy question which needs to be resolved, at the level of the overall objective of the aid program and also at the level of activity design and procurement, is to what extent and in what ways Australia's aid might be used in direct support of Australia's international commercial objectives.

There are various levels at which this could happen, and there are reasonable arguments for it to happen at some of those levels. For example, few governments would see reason to resist using their aid programs to help partner governments implement bilateral or regional free trade agreements that benefit Australian importers and exporters. No governments, as far as we know, provide untied scholarships

[22] The publication in approximately its present form has been produced annually since 1988 with online versions available for the 1999-2000 and subsequent budgets.
[23] Recommendation 24 of the review was that 'The government should develop and implement a Cabinet-endorsed four-year strategy for the entire aid program, for policy and funding clarity.' The CAPF was the former government's response to this recommendation.

The starkest question in this area is whether Australia will return to the practice of tying procurement to Australian (and New Zealand) suppliers of goods and services, or else establish a specific mechanism or mechanisms to provide subsidies to Australian companies wishing to gain entry to or expand within developing country markets.

The practice of tying procurement was abandoned by the Howard government, which also abolished mechanisms that subsidised Australian exporters.[24] It would be a large step for the present government to reverse the policy of the Howard government on these points. As yet, the government has said nothing specific to indicate that it might be contemplating such a step.

It should be noted, however, that there is something of a trend toward self-interest or mutual-interest rationales for aid at present. Canada is reportedly allocating resources to countries with an eye to their commercial importance, and also assisting Canadian mining companies to undertake licence-to-operate programs.[25] The UK government, though bound by law not to use aid for commercial ends, now speaks of using aid in a general way to the UK's economic advantage.[26] And there are unconfirmed reports the government of Japan intends to review its ODA Charter in response to increase the usefulness of its aid program to Japanese exporters.

In an era of fiscal restraint, and with the emergence of non-traditional donors who use aid aggressively to expand market access for their nations' firms, none of this is surprising. But it is important for any government to be clear about what they mean by using aid for their nation's advantage, and to take care that such a policy does not generate inefficient, low-quality aid interventions.

Recommendation 4: The Government aid strategy include a statement that, while the government believes that the aid program is good for Australian business, it does not seek to use the aid program to subsidise Australian business, and will not seek to 're-tie' aspects of the aid program earlier untied.

3.3. Asylum seekers and aid

The budget pain in 2013-14 would have been lessened substantially if the government had reversed the previous government's decision to allocate $375 million to DIBP for onshore asylum-seeker costs. Had such a reversal been made last September, presumably some three-quarters of the amount, or more, could have been returned to the aid budget—or rather counted toward the intended reduction in the aid budget. In other words, probably more than $250 million that was shaved from DFAT-managed aid appropriations could have been left undisturbed if the DIBP appropriation had been reduced. [27] Such a

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[24] The Development Import Finance Facility and the Private Sector Linkages Program. At the policy level the Howard government removed commercial considerations from the objective of the aid program. As one consequence of this, it ceased the practice of undertaking 'commercial benefits' studies on Australia's bilateral aid programs.

[25] See this Development Policy Centre in-brief blog post:.

[26] See this recent speech by the UK's international development minister, Justine Greening:.

[27] DIBP indicated in May 2013 that it was likely to underspend against the initial $375 million allocation provided to it in December 2012 (see p. 34 of this transcript, and this Development

reduction would have been in line with the Coalition's view, when in opposition, that using aid for onshore asylum-seeker costs is 'outrageous' and 'inappropriate'.

In reality, of course, the government would simply create a funding headache for itself if it returned any DIBP funds to the aid program, or cancelled the DIBP allocation and counted the savings toward the aid budget cuts. Under current policy settings, the DIBP costs would still need to be met, and were not otherwise provided for in the government's pre-election costings statement. Thus we fully expect DIBP to retain the aid funds in 2013-14, and assume that, even though it has not said as much, the Coalition has reversed its view on this issue.

Even conceding this, however, three important questions remain.

The **first** is whether those funds will in fact be fully utilised for aid-related purposes and, if not, whether any underspending will be quantified and subtracted from Australia's aid spending as reported retrospectively to the OECD. It is important for reasons of public accountability that this question, and the same question in relation to the 2012-13 allocation, be pursued.[28]

The **second** important question, for the medium-term, is what the government intends to do about this category of costs in the 2014-15 budget and beyond. Even if the government does again transfer funds to DIBP to meet onshore asylum-seeker costs, it is currently unknown what the bill might be for that subset of asylum-seekers who live in the community and arrived not more than one year before reportable costs were incurred.[29] One would expect the bill to be much smaller in 2014-15 than in the previous two years, given that a thoroughgoing offshore processing regime is now in place. The smaller the bill is, the more funding should be available for other aid priorities within the $5 billion aid envelope.

The **third** and final important question concerns the other ways in which aid can be deployed in support of Australia's asylum-seeker management regime. While aid cannot be used to fund detention, it might be used for related purposes such as capacity building for immigration agencies and improvement of local infrastructure and services in the vicinity of detention facilities. More broadly, the overall level of aid to a country, and the allocation of aid within a country at the sub-national level, might be influenced by its willingness to house asylum seekers, as in the cases of Papua New Guinea and Nauru.

It is a regrettable reality that Australia's determination to deter asylum seekers affects country-level aid allocation decisions and constrains Australia's ability to

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Policy Centre blog post on the subject:). There is nothing on the public record to indicate whether, or to what extent, DIBP did in fact underspend. This potentially represents a shortfall against the previous government's aid spending commitment for 2012-13, or otherwise raises questions about the utilisation of unspent funds which might have been reported as ODA but not used for the intended purpose.

[28] It should be noted that the 2013 DAC peer review of Australia's aid program was critical of the $375 million allocation and called on the former government to clarify the purposes for which the aid funds were to be used.

[29] The one-year limitation was agreed by OECD donors when DAC statistical reporting directives were first amended to allow reporting of onshore refugee and asylum-seeker costs.

engage in policy dialogue with Papua New Guinea and Nauru over governance problems. However, without disturbing this reality it would be feasible and desirable at least to achieve consistency between the treatment of onshore and offshore costs in the case of asylum seekers outside detention facilities. By this we mean that, should 'community detention' be practiced offshore, this should not be a charge to the aid program. Were aid funds made available for this purpose, this would create an incentive to move people out of detention facilities into potentially underserviced environments, and in some cases would expose them to danger.

While this might appear to be a theoretical scenario at this point, it should be noted that Labor in August 2013 allocated $236 million over four years for 'support for unauthorised maritime arrivals living in community based arrangements' in Papua New Guinea.[30] Given the studied vagueness of this language, and the fact that these funds were unlikely to be used for resettlement purposes within the relevant timeframe, we consider it likely that there was an unstated intention to use aid to finance community detention in Papua New Guinea. The government should not only resist this practice (which we judge to be contrary to DAC guidelines) but also reassess the funding allocation just mentioned, which presumably remains in place at present.

Recommendation 5: The government should determine how much of the funding appropriated to Department of Immigration and Border Protection in both 2012-13 and 2013-14 was or will be used for aid-eligible purposes. Appropriations in future years should continue to be capped, and made on the basis of eligible costs. Given that an offshore processing regime is in place, and that aid funding can only be used for onshore costs within the first year of an asylum-seeker's arrival, future appropriations should be expected to fall rapidly. Aid funding should not be used to finance community detention in either Nauru, PNG or elsewhere.

3.4. Aid and climate change

The government's position on providing aid for action on climate change in developing countries is confusing, and unlikely to stand up for long. Essentially the government is opposed to market-based approaches to climate change mitigation, which involve the international trading of emission reduction permits.[31] On that basis, the government seems to have ruled out support for any global financing mechanism that might support mitigation measures, such as the Green Climate Fund—even though some such measures, including measures to reduce deforestation, might well have the character of 'direct action' interventions without any connection to the generation of tradeable permits.

Longer ago, in 2010, Julie Bishop as shadow foreign minister also opposed the use of aid for climate change adaptation, arguing that this was inconsistent with

[30] For more detail, see this Development Policy Centre blog.
[31] The Prime Minister is reported to have said that meeting Australia's emission reduction commitments would be 'by far the biggest wealth transfer from Australians to foreigners that's ever been contemplated'.

the commitment in the Copenhagen Accord that climate aid would be additional to existing aid.[32] In practice, all donors regard adaptation as a legitimate call on aid funds, in part because it generally confers multiple benefits. And most interpret the Copenhagen additionality commitment very loosely.

As for mitigation, it would seem inconsistent to support direct action domestically but not internationally[33], and climate change mitigation is a global public good that will particularly benefit developing countries.

Sooner or later, a capacity to support adaptation and at least direct action on mitigation will need to be accommodated within the aid program, possibly including support for multilateral mechanisms such as the nascent Green Climate Fund.

These things are very high priorities for a number of Australia's partner countries. But it is also in Australia's interests to see greater action on climate change by developing countries. And it is universally recognized that a necessary precondition for that will be increased funding by developed countries. That principle was made concrete in the Copenhagen Agreement which committed developed countries to mobilise $100 billion in public and private funding to support climate change mitigation and adaptation in developing countries by 2020. Given the paucity of carbon markets through which private funding might flow, inevitably aid funding will have to play a large part in enabling developed countries to at least meet some part of that commitment. Australia will stand isolated among developed countries if it refuses to meet its climate change funding obligation (its 'fair share') which has been estimated to be $2.4 billion in 2020.[34]

Finally, it should be noted that an expected increasing funding obligation in relation to climate change is another reason why it is unsatisfactory to restrict the aid budget to avoid any real growth.

Recommendation 6: In its forthcoming aid policy statement, the government should state that it is prepared to use the aid budget to help fund at least certain categories of action on climate change in developing countries, including adaptation programs.

3.5. Other policy priorities

It is to be hoped that the government's policy framework for the aid program, when it is produced, will go some distance beyond remarks currently on the public record about a range of policy priorities and 'dispriorities'. Considerably greater clarity is needed about the government's position on a number of points. In some cases, it is also to be hoped that the policy framework will, if only implicitly, moderate some of those remarks.

[32] See, for example, this.
[33] In fact the environment minister Greg Hunt, shortly before the 2013 election, said the Coalition in government would use Australia's G20 presidency to pursue large-scale, practical action on deforestation, particularly in the Asia-Pacific, as a climate change mitigation strategy.
[34] See this Devpolicy blog:

In this section, we briefly identify the key areas in which we believe clarity is needed, suggesting in each case what might be the most desirable sort of clarification from an aid effectiveness perspective.

We know from various public statements that certain things are high on the government's aid agenda. Those things include the Asia-Pacific, infrastructure, 'aid for trade', private sector development, the engagement of the Australian private sector in development and support for effective Australian NGOs. We know also that other things are lower on the agenda. Those things include action on climate change, support for activities and organisations associated with the trade union movement and 'international citizenship' as a rationale for supporting multilateral organisations.

In all of the areas just listed, it is not currently possible to know what practical actions the government intends to take. However, we offer below some brief remarks which either identify what we see as important questions to be addressed or outline what we would consider a sensible way forward in each area, subject in some cases to the availability of a sufficient level of resourcing.

i. **Asia-Pacific**. Greater geographic concentration of bilateral aid in our region will improve manageability and impact, even if the extent of the geographic dispersion of aid funding has been rather exaggerated in recent aid policy debates. Australia's bilateral aid is more effective where our bilateral relationships are more comprehensive and where it can be managed by larger and better-resourced diplomatic missions. Australia's multilateral contributions already flow in large part to sub-Saharan Africa. A more pressing allocation question is how Australia's bilateral aid should be divided between the Asia-Pacific region's poorer and more fragile states and its larger middle-income countries with substantial populations of poor people. The rationale for providing substantial aid to countries like Indonesia and the Philippines needs to be clearly articulated. A second pressing allocation question is how funding should be divided between government and local non-government partners. The case for a high share of government-to-government aid is questionable in some cases, most notably that of Papua New Guinea.

ii. **Infrastructure**. It is presently unclear what the government's priorities might be infrastructure-related aid. Major infrastructure projects cannot easily be accommodated within bilateral aid programs and are best undertaken in partnership with, or simply left to, multilateral development banks or other donors who already specialize in infrastructure, such as China. Attempts to run major bilateral infrastructure projects as 'flagships' can tie up resources, waste grant funds on activities for which governments might have been willing to borrow, and entangle donors in debates about social and environmental safeguards. Smaller, local level infrastructure projects such as road rehabilitation are an appropriate use of bilateral aid. Specialised advice to partner governments in connection with the design and implementation of public-private partnerships for infrastructure (ports, toll roads, power generation and distribution facilities, and the like) can also be valuable, particularly where it draws on state-level experience within Australia.

iii. **Aid for trade**. This term is often used fairly loosely, sometimes with reference to international trade but sometimes also with reference to domestic trade within partner countries—in which case it becomes almost synonymous with 'private sector development'. Its appearance in the Coalition's pre-election statements about aid aroused some suspicion in the NGO sector that Australian aid might be used to promote Australian exports, as it was in the pre-Howard government era. In fact the term has an established meaning, going back to the aid for trade initiative launched in 2005 at the Hong Kong WTO ministerial meeting.[35] Australia already reports providing around 17 per cent of its sector-allocable aid for trade-related purposes, which percentage might be expected to increase if the share of infrastructure in aid increases. It would be desirable to clarify in any policy statement that aid for trade is essentially about building partner countries' international trading capacity, and not about subsidising Australian exports.

iv. **Private sector development**. The Australian aid program currently does rather little in this category. Australia's Enterprise Challenge Fund for the Pacific and Southeast Asia, a six-year pilot program established by Alexander Downer as foreign minister in 2007, showed some positive results. Resources permitting, the government should given serious consideration to following it up, not with an identical or centralised program, but with challenge programs that support local enterprise development on a country- or region-specific basis. Julie Bishop announced on 19 December 2013 a new Pacific Business Fund, with $15 million over five years, 'to provide business advisory services to over 250 companies in the Pacific ... to grow and diversity their operations'. It is unknown how this will operate but stand-alone business advisory services do not have a strong track record, especially in the Pacific. The need in that region is more likely to be for active venture capital partners.[36]

v. **Business partnerships**. The foreign minister has spoken in a number of places about 'leveraging private sector involvement in the aid program'. Presumably the intention is to give effect to the development of the kind of 'business engagement' agenda recommended by the Independent Review of Aid Effectiveness and subsequently embarked upon by the previous government.[37] This is certainly desirable. The government

[35] A WTO fact sheet says that aid for trade includes the following: 'Technical assistance — helping countries to develop trade strategies, negotiate more effectively, and implement outcomes. Infrastructure — building the roads, ports, and telecommunications that link domestic and global markets. Productive capacity — investing in industries and sectors so countries can diversify exports and build on comparative advantages. And adjustment assistance — helping with the costs associated with tariff reductions, preference erosion, or declining terms of trade.'
[36] See this Development Policy Centre blog post by Andrea Iffland, Regional Director of ADB's Pacific Liaison and Coordination Office in Australia.
[37] Recommendation 21 of the review was that 'the power of business should be harnessed and business innovation should be encouraged, including through an annual consultative forum'. The

would do well to mount fewer all-in round table discussions with business representatives, which were the main feature of the previous government's business engagement efforts,[38] and instead explore a small number of practical poverty reduction partnerships with businesses. These might involve using business systems for aid delivery, or they might involve measures to encourage businesses to change their operating models for the benefit of poor people as suppliers, employees or consumers. Some measures of the latter kind were supported by the Enterprise Challenge Fund mentioned above but these sat uneasily beside measures to promote local enterprise development. Consideration should be given to establishing a new challenge program for this specific purpose. Such a program would aim to reduce the transition costs associated with moving to more pro-poor business models, but without providing direct subsidies to businesses. It would not support corporate social responsibility programs, nor speculative market entry efforts.

vi. **NGOs**. While funding through NGOs has increased very substantially in recent years[39], it is mostly provided through the central subsidy mechanism—still listed as the 'AusAID'-NGO Cooperation Program (ANCP) on the DFAT web site—and the emergency and humanitarian budget line. It remains mostly very small within country program allocations. There is undoubtedly scope to provide more support for NGO-managed activities within country programs, through both grants and contracts. At the same time, it might be timely to re-examine the ANCP funding model from first principles. Under the ANCP, government funding is provided on a matching basis, subject to an overall cap (and a further cap on the level of funding available to the largest NGO, World Vision Australia). However, NGOs currently get some four-fifths of their funding from private donations, which are tax deductible and therefore already in a sense matched by revenue foregone. Thus ANCP funding is both a relatively minor source of income for NGOs and arguably duplicative. In addition, it comes with an onerous accreditation regime attached. There is a case for moving toward funding NGOs for specific purposes, country-based or thematic, and moving away from the current entitlement-based system. However, this would have to be weighed against the greater transaction costs involved in such an approach. In any case, current accreditation arrangements should not be jettisoned but might be streamlined.

vii. **Union-associated assistance**. It is an unfortunate tradition that Coalition governments strike out programs associated with organised labour, while

previous government accepted this recommendation and responded along the lines outlined here.

[38] For one example, see this.

[39] According to Table 24 on p. 33 of the 2011-12 'Green Book' of statistics on Australian aid, aid through NGOs increased from $137 million in 2005-06 (five per cent of total aid) to $566 million in 2011-12 (almost 12 per cent of total aid).

Labor governments tend to support them uncritically.[40] The government's revised budget for 2013-14 includes a zero allocation for the International Labour Organisation, which had received $15 million in funding for specified programs over the previous two years under a strategic partnership agreement. The specified programs looked to be of variable quality but included the well-regarded Better Work Programme[41] and a favourably-reviewed youth employment program in Timor-Leste. Such programs are in fact instances of effective business engagement, a priority for the government. More generally, the ILO is a tripartite body, bringing together governments, business representatives and organised labour. In Australia's case, ILO governance and programming engages not only the Australian Council of Trade Unions (ACTU) but also the Australian Chamber of Commerce and Industry (ACCI) and the Australian Industry Group as 'social partners'. In fact the ACCI was working with the ACTU in the design and implementation of one of the specified programs mentioned above, in the Pacific. Given these points, further support for effective ILO programs in our region should not be ruled out. There are few other avenues for supporting improved labour standards and strengthening labour markets for the poor. The same is true of activities run by APHEDA, the aid arm of the ACTU. These should be considered on their merits.

viii. **Multilateral organisations**. As noted under section 2.3, the government has hinted at absolute reductions in funding to multilateral organisations[42], and has clearly stated an intention to be more selective about support for such organisations. However, its early decisions—on contributions to recent replenishments of the World Bank's concessional financing arm and of the Global Fund to Fight AIDS, Tuberculosis and Malaria, did not indicate any undue determination to extract savings from the multilateral budget. The decisions were appropriate to the current scale of the program and recognised the quality of the organisations concerned. Contributions to some other organisations and funds might well be reduced somewhat in the future, but such reductions will yield very little by way of savings. The government can reasonably claim that by not proceeding with Labor's decisions to join the African Development Bank[43] and rejoin the International Fund for Agricultural Development it has already demonstrated selectivity and made savings relative to Labor's forward estimates. The government should not strive to find sacrificial lambs. It should, however, strive to embed the Australian Multilateral Assessment process established by the previous government in response

[40] This is not purely an Australian tradition. The UK's Multilateral Aid Review, conducted under a Conservative government, made generally credible findings but produced a surprisingly damning assessment of the International Labour Organisation, which led to the cancellation of all aid program funding for that organisation.
[41] See, for example, here.
[42] Greg Sheridan of *The Australian* appears to believe that substantial cuts lie ahead:.
[43] We do not suggest that Labor's decision was wrong. On the contrary, it was right in the budgetary circumstances. We supported it in this submission to the relevant parliamentary inquiry. Labor's decision to rejoin IFAD was, by contrast, not well-reasoned.

to recommendation 17 of the Independent Review of Aid Effectiveness.[44] It should continue to prepare annual scorecards on the performance of Australia's multilateral partner organisations, drawing heavily on feedback from DFAT posts in our region, and use the resultant performance information in both constructive and punitive ways. It should work with other donors on joint assessments of multilateral aid effectiveness, especially through the increasingly sophisticated Multilateral Organisation Performance Assessment Network (MOPAN). Over time, one would hope to see a rational redistribution of resources between multilateral organisations. It should be noted, however, that Australia's core support for the multilateral system is already extremely low, second only to that of the US, at around 15 per cent. And it should be noted that multilateral organisations do serve to deliver economies of scale and have a particular role to play in the provision of global public goods. For these reasons, performance information would preferably be used for redistributive purposes.

Recommendation 7: There is a range of other policy measures requiring clarification from the new government. The government should address them in a standalone policy statement or in the May budget statement, both through its articulation of the overall objective of the aid program and through its articulation of specific priorities.

4. Aid management post-integration

Two weeks after announcing that it intended to reduce the aid budget to about $5 billion and keep it there, and 11 days after the 2013 election, the government announced on 18 September 2013 that it would abolish AusAID as a standalone agency (it had become an Executive Agency in 2010) and integrate it into DFAT with effect from the end of October 2013. A month later, the government further indicated its intention to reduce substantially the staffing of its aid administration—though the extent of that reduction was not specified and is still, at the time of writing, unknown.

In this section, we consider the challenges posed by integration (Section 4.1). We focus on staffing in particular (Section 4.2) and on other challenges to aid operational and organisational effectiveness in DFAT's management of the aid program (Section 4.3). We conclude with a discussion of benchmarks, given the importance given to them by the new government (Section 4.4), and of transparency, given its fundamental importance for effectiveness and the risks to transparency in the current environment (Section 4.5).

4.1. Integration

The integration announcement was unexpected. No convincing rationale has been provided for it. The government has said little more than that it wishes better to align 'the aid and diplomatic arms of Australia's international policy agenda'. As the principal media commentator on this decision, Greg Sheridan of

[44] 'Core funding to multilateral organisations should be linked to performance and relevance to Australia through the introduction of a multilateral rating system.'

The Australian has portrayed AusAID as an agency which had developed a mind of its own, prone to allocating resources without regard to Australia's broader international policy objectives.

The Development Policy Centre has published much analysis of and commentary on the integration decision, which we shall only summarize here.[45] The main general point to be made about it is that AusAID was in fact no less under the control of its minister than was DFAT. An Executive Agency does not have the freedom and independence of a statutory authority. Examples of poor decision-making—most notably the increased geographic footprint of the program during the UN Security Council campaign—generally reflected ministerial imperatives or senior diplomats' views about what was needed to give effect to those imperatives. In other words, they indicated a high degree of responsiveness to the priorities of the government of the day.

A more rational move, in our view, would have been to cancel AusAID's Executive Agency status and return to an arrangement under which it was a semi-autonomous part of DFAT. There was certainly a case for merging generic corporate services functions, standardizing terms and conditions for employees across the foreign affairs and trade portfolio and re-engaging the senior leadership of DFAT in the oversight of the aid program. However, all these things could have been done while retaining an identifiable, specialised aid organisation. This was the approach to integration that we urged immediately following the announcement in October 2013, but ultimately the government, through the Secretary of DFAT, made it clear that a much more thoroughgoing or 'deep' integration was in prospect.

Clearly at this point it must be accepted that the decision to adopt a far-reaching approach to integration has been taken. The resulting administrative arrangements will not be unusual by any means. Many OECD donors house aid policy and/or administration in their foreign ministries. There are broadly speaking three possible approaches to the overall management of aid and development policy and aid programming:

(i) the one now being taken in Australia, which vests responsibility for aid policy and delivery in a foreign ministry,
(ii) an approach that vests responsibility for aid policy in a ministry (usually a foreign ministry) and responsibility for aid delivery in a separate organisation (usually a sort of statutory authority), and
(iii) the one previously taken by Australia from 2010 to 2013, which vests responsibility for both aid policy and delivery in a single, dedicated ministry or other type of organisation.[46]

There are strong arguments for both the first and third of the approaches above, and there is no reason why, in principle, these approaches could not work equally well if sensibly implemented. Thus the government's shift from the third to the first is not inherently problematic. A shift to the second of the above

[45] See in particular this piece. For a wider selection of perspectives, see here.
[46] For a detailed description of the range of possible approaches to aid management, which uses a slightly more elaborate classification scheme, see this OECD DAC report.

approaches might have been problematic, and was presumably among the options considered in the immediate aftermath of the government's announcement, but now seems well off the table.

It should also be acknowledged that the relatively dramatic nature of the change could help to clear away the dead weight of process that tends to accumulate in any organisation over time.

The priority now should be to preserve the structures, processes and professional skills most needed to ensure aid effectiveness. It will be particularly important to recognise that in geographical areas of DFAT people are likely to cycle in and out of aid-related roles. This substantially increases the importance of having central, specialised and stable units with responsibility for the provision of advice to geographic desks on aid planning, delivery and review.

While the final structure of the integrated department might not be known until mid-2014, senior DFAT staff have made encouraging observations about their determination to maintain core areas of specialisation. Based on these observations, it appears likely that geographic and some multilateral functions will be fully integrated into pre-existing DFAT divisions, while functions relating to aid quality and procurement, sectoral policy, humanitarian and emergency response and aid evaluation will continue to exist. This is appropriate, and is broadly the approach adopted by the Canadian government in the implementation of a very similar integration agenda in 2013.[47]

It is unknown to what extent senior staff from the former AusAID will occupy geographic or general policy roles in the new structure. We note that in the Canadian case, a number of senior staff of the former Canadian International Development Agency (CIDA) were placed in such roles, which is likely to have reduced the perception of a clash of cultures between the merging organisations.

It is also unknown whether there will be a single senior position, perhaps at Deputy Secretary or (preferably) Associate Secretary level, specifically and exclusively responsible for the oversight, across DFAT, of aid policy and administration. It is clearly desirable that there should be such a position, for reasons of coherence and accountability. Again, we note that there is a position of this nature in the merged Canadian Department for Foreign Affairs, Trade and Development.

To take the Canadian parallel one step further, we note that the foreign minister has not appointed any external advisory group to advise on the implementation of the government's integration agenda and to monitor the integrated department's performance in delivery on the government's development-related policy priorities, including the maintenance of high standards of aid effectiveness. The Canadian government has appointed such a body, in recognition of the complexity of the integration process and the associated risks. Whether or not a standing advisory body is appointed, some sort of arm's-length

[47] This is based on the Development Policy Centre's analysis of the Canadian integration process, including its similarities with and differences from the Australian process.

take on the integration process, during and following implementation, merits consideration.

Finally, we note that the OECD Development Assistance Committee has identified twelve broad lessons for effective aid management, derived from peer reviews of member countries' aid programs over a long period of time. Quotes from five particularly pertinent lessons are provided below.

- **Lesson 5**: 'Task a sufficiently senior and publicly accountable figure with clear responsibility at the political level for the delivery of effective development co-operation.' This approximates our recommendation that there be a senior officer within DFAT, other than the Secretary, with responsibility for oversight of aid policy and management matters across all divisions.
- **Lesson 6**: 'Rationalise bilateral aid structures to facilitate coherent action at country level.' This end should, in principle, be well served by the decision to integrate AusAID into DFAT.
- **Lesson 7**: 'Promote greater coherence between those responsible for different aspects of multilateral aid.' Integration should also be beneficial here, to an extent. There will still be some distance to go on this front as responsibility is spread across a number of government departments.
- **Lesson 8**: 'The decentralisation of responsibility to the field level can be beneficial, but it needs high-quality, lean supporting systems.' Integration will see an effective increase in the decentralisation of decision-making—to heads of mission. Decisions will need to be informed by high-quality supporting advice, in most cases centrally provided. And local implementation capacity will need to be maintained at an adequate level.
- **Lesson 12**: 'Peer reviews … point to the benefits, in any system, of maintaining a reasonable level of core staff, recruited with the expectation that they will spend a large portion of their career on development issues.' This would apply primarily to sector and process specialists but might also have some application to people wishing to specialize in small, fragile and/or conflict-affected states, as some DFAT personnel already do.

Recommendation 8: In addition to elaborating a revised DFAT structure which maintains a strong core of aid policy and management functions and recognizes the international policy capabilities of former AusAID senior executives, the government should give consideration to establishing unified oversight of aid policy and management within the DFAT Executive and engaging external sources of advice on the implementation of the integration agenda.

The above are recommendations for how the aid function should be managed with the Department into which it has been integrated. Another important point about the integration is that it should not just be about how DFAT can effectively discharge its new responsibility for Australia's foreign aid. For the integration to succeed, it cannot be business as usual for DFAT beyond aid. This would marginalize aid, and not give it the importance it deserves.

Again Canada provides a good example. There, the department's name has been changed to the Department of Foreign Affairs, Trade and Development.[48] Its statement of priorities includes prominently aid and development priorities. By contrast, DFAT's 'issues' web page currently contains few which have an aid or development angle, and none which reflect the aid program's global development goals.

Interestingly, Canada's DFATD describes its role as one of 'ensuring the Canada's foreign policy reflects true Canadian values and advances Canada's national interests'. This is far more satisfactory than DFAT's statement that its role 'is to advance the interests of Australia and Australians internationally.' Australia's aid program does advance Australia's interests but that is not its sole rationale. The aid program is as much an expression of Australian values as of Australian interests. DFAT, now that it has responsibility for Australian aid, should rewrite its mission description reflect this.

These might be dismissed as cosmetic changes, and indeed they will only be important should they come to symbolize a fundamental change in the way DFAT priorities are set, changes which are required to extract full value from the recent merger. The prospect of Australian diplomatic assets being put to work on development causes, whether in our neighbourhood and worldwide, could be an exciting upside of DFAT integration, but it is a prospect which will be realized only if it is accepted that the integration will not change the way aid is managed, but will change DFAT too.

Recommendation 9: DFAT should be renamed the Department of Foreign Affairs, Trade and Development, its mission statement should no longer be cast solely in terms of the promotion of the national interest, and its priorities should be rearticulated to give appropriately greater emphasis to the aid and development goals for which DFAT now has responsibility.

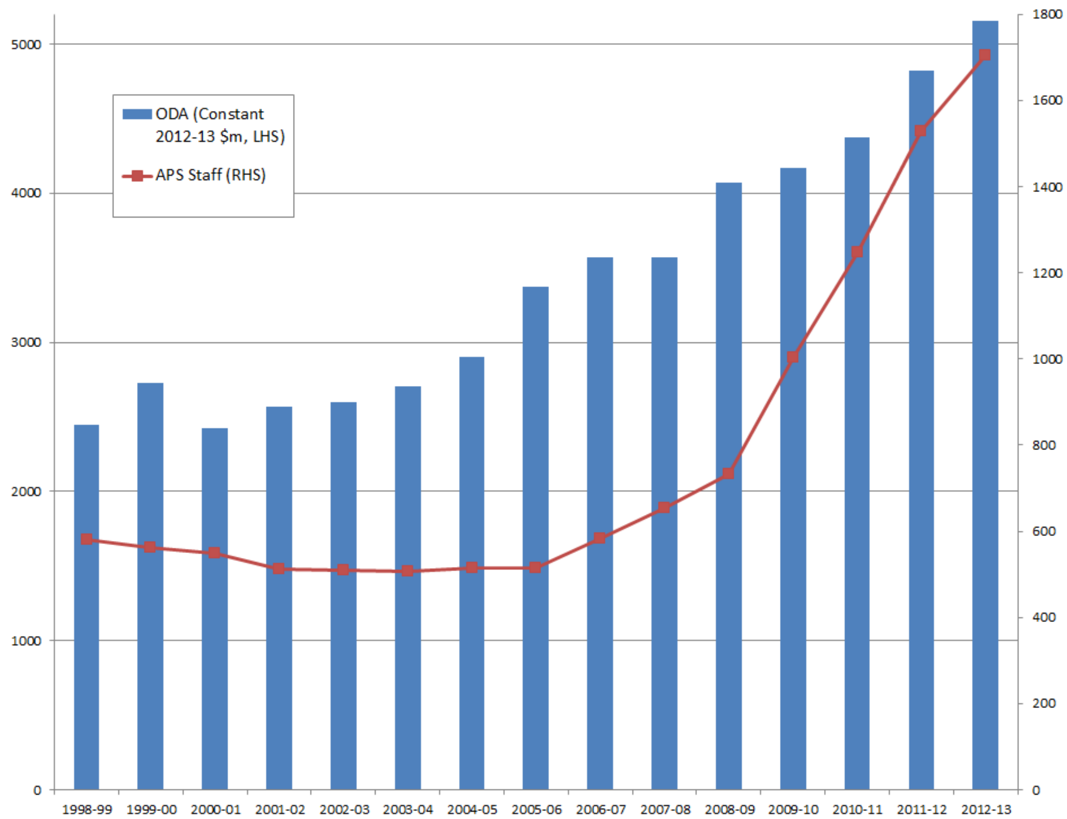
4.2. Staffing

The fact that integration is being undertaken in tandem with staffing reductions creates some substantial risks. Uncertainty about roles, structures, budgets and policy priorities, combined with an awareness that a large number of positions will have to be shed, will tend to diminish morale and create incentives for at least some good staff to leave DFAT, with or without a voluntary redundancy packages. This could lead to a damaging loss of professional skills and experience, or in some cases of raw talent. If we look to the Canadian precedent again, we find that budget and staffing reductions preceded integration, such that former CIDA staff could have a high degree of confidence that roles would exist for them in the integrated structure.

[48] Not only should Australia's DFAT change its name. Likewise, if there is to be no separate aid minister, the Minister for Foreign Affairs should be the Minister for Foreign Affairs and International Development, as recommended by the Independent Review of Aid Effectiveness. In fact Ms Bishop indicated shortly after her appointment (in the course of her ACFID October 2013 speech) that she carried these two ministerial titles—foreign affairs, and international development. However, there has been no official registration of the second of these (for example in the current list of ministers in the Abbott Government)

We do not argue against staffing reductions. They are to be expected. AusAID was, in accordance with a policy which had bipartisan support from 2010 to mid-2012, gearing up to design and deliver programs to the value of well over $8 billion within a few years. Perhaps the staffing scale-up (shown in Figure 3) was premature given the signs, described in Section 2, that the scale-up to $8 billion would be achieved only with a delay if at all. It is certainly surprising to learn that staff increased from 1528 to 1704 in 2012-13 (a 12 per cent increase), by which time the 0.5 per cent target was fast losing relevance. In any case, by mid-2013 staffing levels were significantly higher than required to deliver a $5 billion program, and were probably at about the level required to plan for and deliver an $8 billion program.

Figure 3. AusAID staffing and the aid budget



Source: This Development Policy Centre blog.

There is no simple international benchmark for determining what is an appropriate level of staffing for an official aid organisation. Countries' aid programs differ in their management intensity, particularly where they differ in their reliance on multilateral and NGO channels, and where there are differences in the characteristics of their bilateral partners (aid to small island states, for example, tends to relatively management intensive). However, a very rough comparative analysis suggests that AusAID was by mid-2013 probably several hundreds of positions above the level necessary to administer a $5 billion program.

While there is certainly a case for shedding staff, there is a danger that the wrong staff will be shed. If there are staff who simply disagree with the policies of the government on aid volume, allocation and management, then of course they should leave. But there is likely to be a larger group of staff who will contemplate leaving not for policy-related reasons but simply because of the uncertainties they face, combined with the opportunities they have elsewhere.

Compounding the effect of uncertainty is the availability of voluntary redundancy payments. While in principle these should not be provided to high-quality, early- to mid-career staff, it is possible DFAT will be unable to allocate them judiciously owing to the sheer number of positions needing to be shed at considerable speed. There is a particular risk that not enough senior experience and leadership ability will be retained.

In short, it is important that staffing reductions be implemented carefully and strategically, and that care is taken to provide incentives for strong specialist and senior staff to stay with the new organisation. Among other things, this would involve, as in Canada, ensuring that some former AusAID senior executives are placed in leadership positions whose responsibilities extend beyond aid.

Once the staffing reductions have largely been made, it will also be important to take stock of the skills base that remains, and develop a workforce planning strategy for plugging any gaps that may have opened up.

Recommendation 10: A rigorous professional capability stocktake and workforce planning process should be undertaken post-integration.

Overly rapid turnover of staff is a problem that has long troubled the aid program and reduced its effectiveness. A lack of staff continuity will undermine any government program, but it is especially damaging to aid given the heavy knowledge burden any aid program has to bear (simply by the nature of it operating in many countries and sectors).

Our 2013 stakeholder survey posed to stakeholders 17 attributes which the 2011 Independent Review of Aid Effectiveness had found to be important for effective aid. The one that was seen as the greatest weakness was, by far, staff turnover. It, or rather staff continuity, was the only one to be seen by a majority of respondents, not just as a moderate weakness but a great weakness. More than half of those engaged with the aid program (the majority of respondents) reported that their manager had been in place for less than a year; one-third said that the manager had not been in place long enough to be effective.

It is guaranteed that with the merger with DFAT staff turnover will increase in the short run. That must now be regarded as a price that must be paid for the integration. But it will be important that this is, as it has been in recent years, monitored and targeted to improve. We discuss performance benchmarks further in Section 4.4. Whatever else is benchmarked, staff turnover should be a critical benchmark.

Recommendation 11: Staff turnover was too high in the aid program prior to integration and will increase with integration. It should be monitored and targeted *for improvement. In any new system of performance benchmarks, staff turnover should be a critical indicator.*

4.3. Operational and organisational aid effectiveness post-integration

Staffing is obviously critical for DFAT's effectiveness in its new role as an aid management agency, but it is not the only issue. The aid program has at least seven major management systems in play, aside from the overall results-setting, monitoring and reporting system itself:

i. developing, reviewing and modifying **country strategies**;
ii. assuring **individual activity quality** at the point of entry to the portfolio and during implementation;
iii. undertaking post-completion **impact evaluation** of activities, clusters of activities and country strategies;
iv. undertaking **partner performance assessments** of implementing partners and agents (multilateral organisations, NGOs, contractors and, on occasion, partner governments);
v. achieving **value for money** through management efficiency measures, due diligence processes and the competitive, transparent selection of implementing agents;
vi. **managing fiduciary risk**; and
vii. developing and maintaining the **professional capacity** of public sector aid policy advisers, sector specialists, process specialists and general administrators.

DFAT's **operational aid effectiveness** will depend crucially on how well it maintains the first four of the aid management systems identified above. Those systems relate to country strategy development and review, quality assurance of individual activities at entry and in implementation, evaluation of the impact of activities and programs and completion of partner performance assessments of implementing partners and agents.

In most cases these systems are already well-developed and robust. If anything, they would benefit from some streamlining and simplification rather than further complexification. This is particularly true in relation to country strategy development processes, which we understand are likely to be simplified. The priority should be to ensure that DFAT has staff with the right skills to make them work, and that there are appropriate incentives and sanctions in place to ensure that they are consistently used, and are seen to be consistently used.

DFAT's **organisational effectiveness** as an aid management agency—that is, its effectiveness in managing finances and personnel—will likewise depend crucially on how well it maintains the other three aid management systems identified above. Those systems relate to achieving value for money, managing fiduciary risk and maintaining the professional capacity of relevant personnel.

Again, existing systems in the first two of the areas just mentioned are robust and the priority should be to ensure they do not fall into disuse.

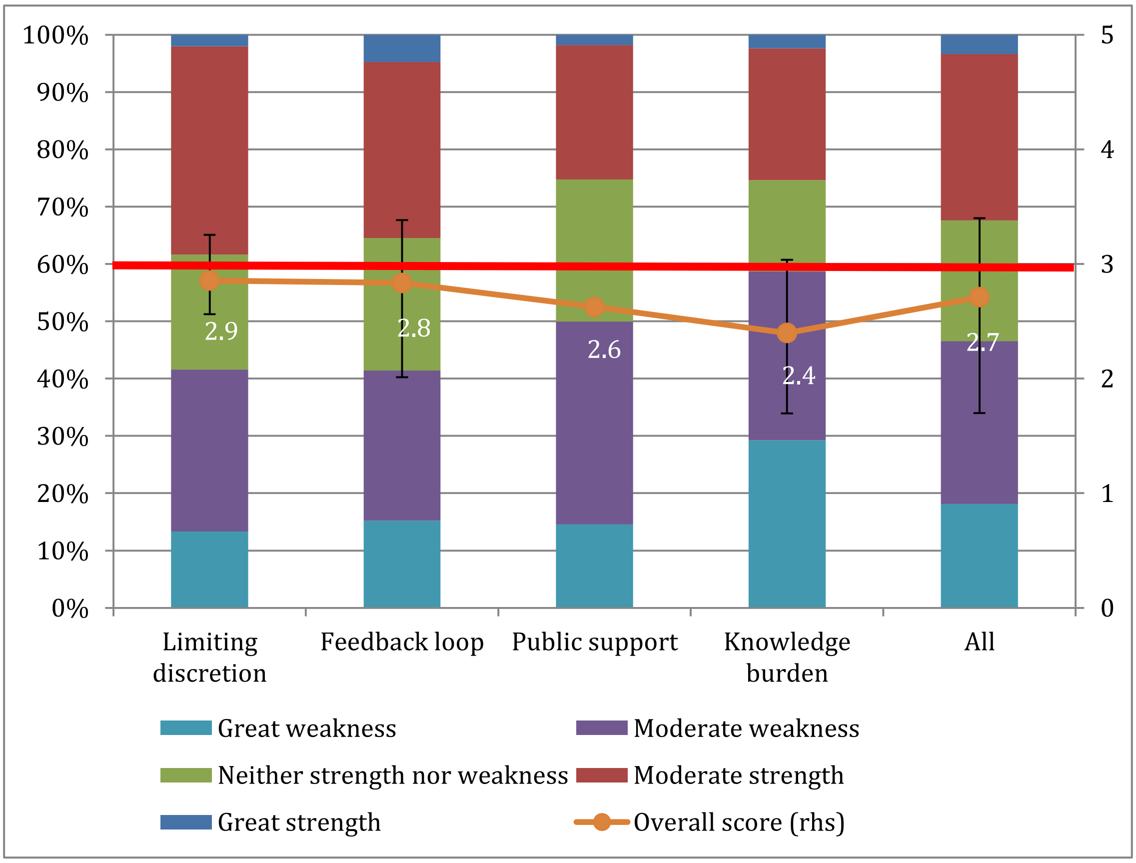
As for developing and maintaining the professional capacity of personnel, as we have already discussed, this will be a major challenge in light of the anticipated departure of a large number of experience personnel, combined with what is likely to be an aversion on the part of professional diplomats to spending more than short periods working on aid matters, probably early in their careers. As noted above, it will be important to take stock of the skills base in about mid-2014 and develop a workforce strategy that strengthens that base and provides incentives for specialisation in the most essential areas.

Our 2013 aid stakeholder survey is particularly useful in identifying aid management strengths and weaknesses. As part of the survey, we asked respondents about 17 attributes identified by the 2011 Independent Review of Aid Effectiveness as important for aid effectiveness. They can be grouped into four categories of aid challenges:

- **Enhancing the performance feedback loop**: ensuring better feedback, and that the systems and incentives are in place to respond to that feedback.
- **Managing the knowledge burden**: ensuring that you have the staff and the partnerships to cope with the massive knowledge demands (across countries and sectors) that effective aid requires.
- **Limiting discretion**: ensuring that aid-funded efforts aren't spread too thin.
- **Building popular support for aid**: ensuring that political leadership and community engagement is in place.

By taking the average score for the attributes within each of the four categories, we can rate how well the aid program is doing in in each of these four areas. The columns in the figure below show the averages for each of the four categories for the proportion of participants responding with each of the 5 options available in relation to each of the 17 aid program attributes: a great weakness; a weakness; neither a weakness nor a strength; a strength; or a great strength. We also assign each response a score from a great weakness (1) to a great strength (5). Averaging across all respondents gives us an average or overall score, where 5 is the maximum, 1 the minimum and 3 a bare pass – indicated by the red line. These scores are shown by the line graph in the figure below. The error bars show the ranges for individual attributes within each of the four categories.

Figure 4. Average responses across the four aid challenge clusters (all respondents)

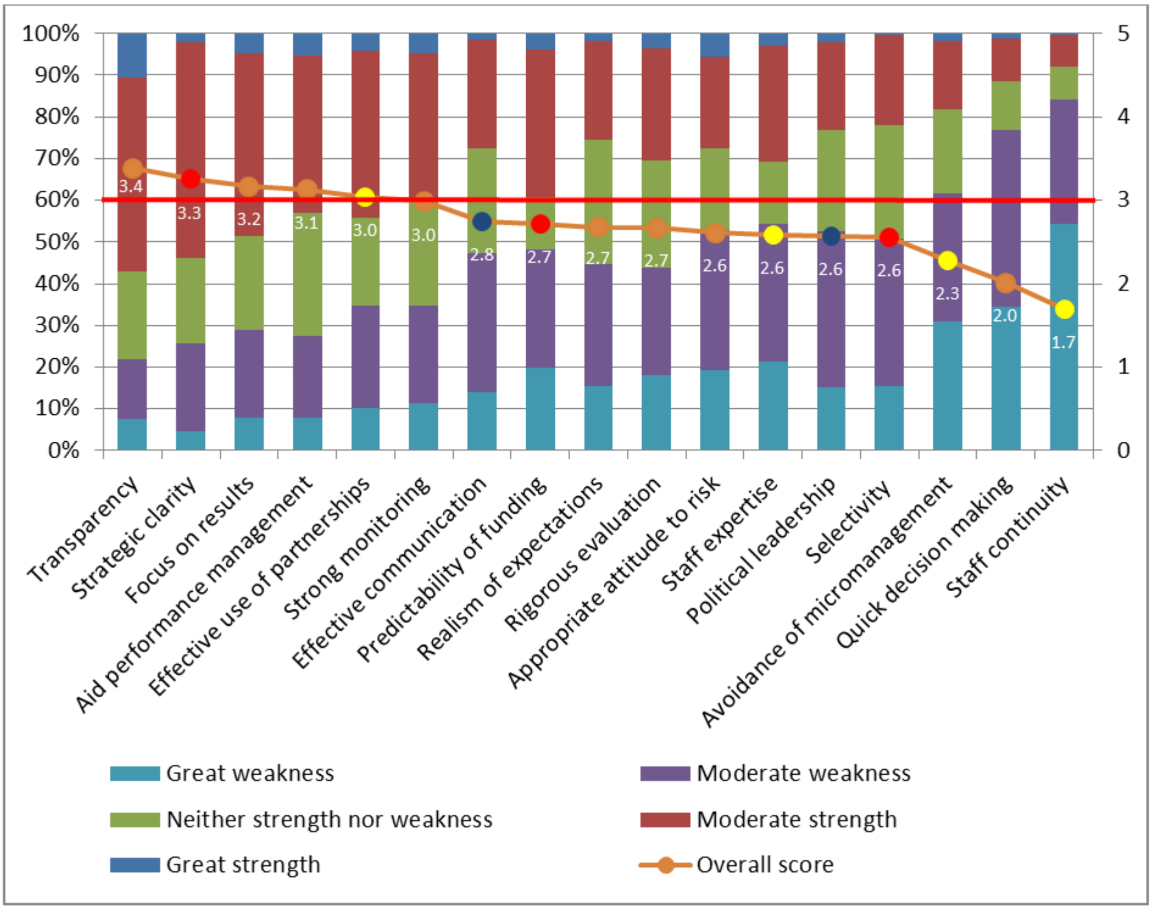


Note: See the text above this graph to understand how to read it.

As can be seen, none of the four categories achieved an average score of 3, a pass mark. The worst-performing was managing the knowledge burden, which achieved a mark of only 2.4, but even the best, limiting discretion, got an average score of only 2.9. The average across all 17 attributes was just 2.7.

The next graph shows the scores for each of the 17 attributes. The one viewed as the greatest strength of the aid program was transparency, which got a score of 3.4, but only six got a score of 3 or above. 11 got a score below 3. Staff continuity was seen as the biggest weakness with a score of only 1.7.

Figure 5. Views of all respondents on the 17 aid challenges



Note: See the text above Figure 4 to understand how to read it. Tan markers are in the enhancing performance feedback loop category (8 attributes); red are in the limiting discretion category (3 attributes); yellow are in the managing knowledge category (4 attributes); and blue are in the building support category (2 attributes).

It is interesting to analyse which attributes did better than others, and also to look at differences across stakeholder groups (and all of that is in our report). Overwhelmingly, however, the message from the survey given by all stakeholder groups (whose ratings and rankings are quite similar) is that we have a long way to go on the aid effectiveness front.

Of course, a stakeholder survey is only one instrument to gauge how well an aid program is working, but it is a very informative one. After all, through such a survey one is asking the views of those with whom the Australian government partners to run our aid program, including by entrusting them with Australian taxpayers' money. We should heed their views. The information obtained from the 2013 survey provides a very useful benchmark against which to judge subsequent changes.

Recommendation 12: The aid program should itself commission and publish on a regular basis a stakeholder survey as a source of vital, external feedback on its performance.

4.4. Performance benchmarks

The government does not accept that the previous government ever adequately defined for the aid program the kind of benchmarks or 'hurdles' that figured in recommendation 39 of the Independent Review of Aid Effectiveness. It has signaled a very firm intention to rectify this shortcoming by developing benchmarks against which the performance of the aid program, including that of its implementing partners (countries, international and non-government organisations and commercial contractors) will be judged.

It will be recalled that the previous government, in the 2012 Comprehensive Aid Policy Framework (CAPF), asserted that it had met or would meet all 'hurdles' set out in the Independent Review of Aid Effectiveness, and that the results framework contained in the CAPF in fact went 'much further' (section 4).

The results framework established in the CAPF and subsequently reported against in the 2013 Annual Review of Aid Effectiveness include three tires. First-tier results related to overall development progress in partner countries, second-tier results captured the specific contribution of Australia's aid effort and third-tier results related to aid management measures. First-tier results were to be monitored but no accountabilities applied. Second- and third-tier results constituted Australian government commitments for which the government accepted accountability.

This approach broadly reflected best practice among international development agencies, particularly the multilateral development banks (MDBs). The MDBs now all undertake regular development effectiveness reviews, usually making use of quite standardised scorecards. Their approach is as described above except that they usually operate with four tiers of results rather than three—because they assess aid management effectiveness in two dimensions: operational effectiveness and organisational effectiveness. Operational effectiveness indicators relate to the quality of program management; organisational effectiveness indicators relate to the quality of human resource and financial management, and of organisational governance.

While the Coalition in opposition did not elaborate in detail on what was deficient in that results framework, three problems in its formulation and use are apparent. First, the framework contained in the CAPF was excessively oriented toward highly aggregated headline results, without a sufficient emphasis on efficiency and effectiveness at the level of country programs, specific activities and delivery partnerships.

To take one striking example, the 2012 CAPF contained no commitment to achieve or exceed a minimum proportion of activities with quality ratings of satisfactory or better. This is a standard aid quality commitment, with the canonical proportion being a somewhat arbitrary 75 per cent. As a result, the 2011-12 ARAE did not report the value of this indicator (though, oddly, AusAID's 2011-12 Annual Report did).[49]

[49] For a more detailed discussion of this point, see this Development Policy Centre blog..

Second, reporting against the CAPF (in the 2013 Annual Review of Aid Effectiveness) was anodyne, suggesting that there were no problems at all with Australian aid.

Third, and this seems to have been particularly disagreeable to the Coalition, the consequences of not meeting any benchmarks were never articulated.

Against this background, we make five general suggestions about the development of performance benchmarks for the aid program.

i. **Clarify consequences**. The IRAE's recommendation 39, concerning 'hurdles' was premised on the availability of large annual aid increases until 2015-16. The consequence of failing to meet hurdles was to be a reduction in the rate of growth of the aid program as a whole. The situation is now very different: there will be no growth in the program in real terms for several years. The government therefore needs to clarify whether its $5 billion aid volume commitment is conditional on the achievement of hurdles or benchmarks, such that aid might be reduced below $5 billion if certain of them are not met. Such a scenario of reduction is in fact contemplated in the government's discussion paper on benchmarks.[50]

   While it could, perhaps, be argued that the rate at which aid was scaled-up should be linked to the ability of the program to meet ever-more demanding benchmarks, there is no case for using benchmarks to influence total aid when aid is not increasing. Not only would this create an unwelcome unpredictability, and would it make us unique among aid donors: no other donor is known to have threatened to abandon a volume commitment if it fails to achieve certain outcomes or meet certain aid management benchmarks. But, fundamentally, we already have a good aid program, where, on average and at the margin, benefits are much higher than costs.

   What would be more productive, and what is certainly much more common, is the use, also flagged in the government's discussion paper, of performance information for redistributive purposes, usually within broad categories of partnership. For example, performance information might not determine a donor's total allocation to multilateral organisations or NGOs, but increasingly it does inform decisions about the allocation of resources among multilateral organisations or NGOs. This approach has the obvious advantage that it creates a climate of competition among peers, whether they be countries, international organisations or NGOs. In short, it important to be clear about what are the consequences, and within what domain, of failing to meet hurdles or benchmarks.

ii. **Stick to what we control**. Benchmarks for aid quality and impact are one thing. Benchmarks for partner governments' own policies and

[50] See paragraph 4, p. 2, of the consultation document.

governance practices are quite another. The government's discussion paper on benchmarks distinguishes these things but still brackets them together. In general there is no reason to think that varying countries' aid allocations up or down can, by itself, have any lasting influence on their governments' policies or governance practices. These things are essentially beyond Australia's control. This is why the standard approach to articulating results frameworks contains a top tier of development results for which donor accountability is not accepted. However, where poor policies or practices degrade the effectiveness of jointly agreed activities, there is clearly a case for aid to be reallocated either to other purposes within the country—possibly purposes less reliant on partnership with the government—or to another country. Thus benchmarks for partners should relate to second-tier and third-tier results, not first-tier results. Broad aid 'compacts', involving high-level commitments on both the donor and partner government side and mutual accountability, might in some cases serve a useful purpose. But attempts should not be made to link the fulfillment of compact-style commitments by the developing country party to the overall level of aid provided by the donor party.

iii. **Give due weight to process**. While output and outcome targets are useful both for aid management and for communications purposes, process-related measures are in fact more likely to yield information about the effectiveness of aid, and are of course necessary for assessments of efficiency. This is for several reasons, but the fundamental one is that it is intrinsically difficult, if not impossible, to assess aid's results in any rigorous way. Much better then, to monitor what one can observe, which are effective processes, since one can be confident that effective processes will lead to effective aid. While this message can be misinterpreted as a counsel of despair and defeatism, in reality to ignore it is to abandon control over aid's policy levers: its delivery mechanisms.

The importance of focusing on process is underlined by the fact that the whole 'aid effectiveness' agenda of the OECD Development Assistance Committee, while registering the importance of being guided by desired results, is dominated by process indicators. Given the difficulty of measuring development outcomes and attributing them to aid inputs, let alone the inputs of single donors, this is not surprising. In addition, process benchmarks are by nature more constant and readily monitorable and comparable over time, whereas outcome indicators tend to shift as geographical priorities and sectoral preoccupations shift. Thus, in any performance framework, it is important to delineate clearly a class of policy-independent process-related benchmarks that yield information relevant for assessments of aid quality, alongside policy-dependent outcome indicators.

iv. **Avoid perverse incentives**. Input-based benchmarks can be quite problematic. For example, an arbitrary commitment to increase spending on X to a certain dollar amount or share of the program over a certain period of time might turn out to be unimplementable, or else might distort the shape of country programs and lead to the development of programs that do not have the full support of partner governments. Likewise, a commitment to increase the number of NGOs eligible for subsidies, or to send a certain number of volunteers overseas each year, can lead to suboptimal resource allocation. Benchmarks of this nature are sometimes useful and appropriate, but only if constructed on the basis of a consideration of what is actually needed and possible—that is, if they are constructed in a bottom-up rather than top-down fashion. It is tempting but not desirable to drive implementation of new policy priorities by setting top-level targets. A better approach is to pursue new priorities by making modest levels of additional funding available to receptive country programs for pilot activities, or reallocating existing country program resources in cases where partner governments are particularly amenable. High-level targets can then be estimated as the product of activities for which there is known demand and feasibility.

v. **Stay above the detail**. Benchmarks can obviously operate at many levels, and they need to. Each individual activity should have clearly articulated goals and strategies for their achievement. But at the level of the aid program as a whole, the positive impact of benchmarks will fall away rapidly as their number and complexity increases. A sensible approach here is, wherever possible, to focus benchmarks at the 'systems' level. As noted in the previous section, there are at least some seven systems In each case, rather than setting a series of specific, fine-grained benchmarks, a better approach might be to commit to the consistent application of well-designed systems, with such commitments tested regularly through independent processes, including ANAO performance audits, and through ODE's own annual review of performance systems, which should be continued.

It is not our purpose here to propose specific benchmarks, but there are many specific areas in which process benchmarks might be expected to yield performance information about both DFAT and its partners and agents. A number of these are outlined below, with asterisks against those that did in fact figure to some extent—though often in quite a partial way—in the results framework contained in the 2012 CAPF.

- Degree of aid predictability (program-specific volume stability, and continuity in programming)
- *Degree of aid fragmentation (activity size)
- *Completeness and consistency in the application of quality assurance systems for activities at portfolio entry, in implementation and post-completion
- *Adequacy of portfolio (country and thematic) strategy development and review processes, including timeliness
- *Level of information transparency

- *Rigour of partner quality assessment processes (relating to partner government financial systems and to multilateral, NGO and contractor performance)
- Rigour and timeliness of ARAEs
- Appropriateness of administrative costs as a share of aid
- *Efficiency and openness of procurement, and adequacy of fiduciary risk management and loss recovery systems
- *Independence, quality and coverage of evaluations
- *Appropriate skills and gender mix among aid-focused staff
- *Adequate continuity of staffing in aid-related areas

Benchmarks might also be established in other areas, but would best not be for the reasons set out above under the 'perverse incentives' heading:

- *Arbitrarily determined process targets achieved (e.g. 'at least 50 accredited Australian international development NGOs participating in ANCP by 2015–16')
- Certain levels of joint programming with other donors, or 'trilateral' cooperation with other donors and partners countries, achieved

As suggested above, consideration should be given to setting broad benchmarks at the level of DFAT's main aid management systems—essentially giving a commitment that each system be used, either as it is or following reform, and stating what accountability processes will apply—rather than seeking to define benchmarks for each specific point (such as those listed just above) on which performance information might be desired.

Wherever possible, benchmarks should be sourced using objective and public data. Unlike practice to date in Australia, but as observed elsewhere, the basis of calculations and the mix of data and assumptions that goes into them should be made transparent, both for targets, and for performance against targets.

Performance in terms of perceptions in the eyes of key stakeholders should also be considered as benchmarks.

However benchmarks are ultimately elaborated, it will be important that once determined they are used consistently in key policy and accountability documents, such as the CAPF or equivalent, Annual Program Performance Reports, the ARAE or equivalent and the DFAT Annual Report.

Recommendation 13: Performance benchmarks should be defined within the three-tier framework already adopted for the 2012 CAPF, and should, for a variety of reasons, give greater weight to process benchmarks vis-à-vis 'headline' policy-related or 'results' benchmarks, with an emphasis on the consistent and demonstrated application of key aid management systems. Benchmark assumptions and data should be reported in detail, for both targets

and performance against targets. Performance benchmarks should be used for redistributive purposes, not to determine aggregate aid levels.

4.5. Transparency and accountability

The foreign minister has indicated she intends to apply particularly high standards of transparency and accountability in the management of the aid program.[51] At this point the Transparency Charter adopted for the aid program by the previous government has an uncertain status. It is still described as an 'AusAID' charter and, while it can be found on DFAT's web site through a keyword search, it is not highlighted there or linked to anything else that is.

Transparency commitments are perhaps the most powerful source of self-discipline in achieving aid effectiveness, provided underlying aid management systems are well-designed. Transparency is the best way of ensuring the systems are actually used. There appears no reason why the Transparency Charter should not be endorsed as it stands by the government. This is our recommendation.

Going a step further, we would urge a higher standard of transparency than prevailed under the previous government in relation to activity-level information. Australia, admittedly, does better than most donors on this score. Nevertheless, it is still surprisingly difficult to gain a clear view of the fine structure of most country programs or partnerships, and it is often difficult also to obtain basic documents such as program designs, reviews and evaluations.[52]

Finally, the integration of AusAID into DFAT clearly increases both the difficulty and the importance of tracking administrative expenditure carefully and reporting in transparently. It needs to be clear that aid is used only for aid-eligible purposes, as determined by agreement among the member countries of the OECD Development Assistance Committee. There is a substantial risk, at a time when many commentators are decrying what they see as the under-resourcing of Australia's diplomatic network[53], that aid funds in the departmental expenditure category will be used to subsidise diplomatic infrastructure and salaries. This is presumably a matter in which the Department of Finance will take an ongoing interest.

Recommendation 14: The Transparency Charter adopted by the previous government should be endorsed by the present government, and given wider application so as to increase the amount of activity-level information available to the parliament and the public.

[51] See the remarks reported here.
[52] For more information on this point, see this recent assessment.
[53] For example, here.

Appendix 1: 2013 Australian Aid Stakeholder Survey

The Development Policy Centre report *Benchmarking Australian Aid: Results from the 2013 Australian Aid Stakeholder Survey* is available here and is submitted as Appendix 1 to this submission.

As noted in the submission itself, this independent survey of 356 stakeholders in the Australian aid program is highly relevant to the current Senate Inquiry. The aid program should itself be conducting surveys of its stakeholders.