

An overview of Australia's aid program procurement

by Huiyuan Liu

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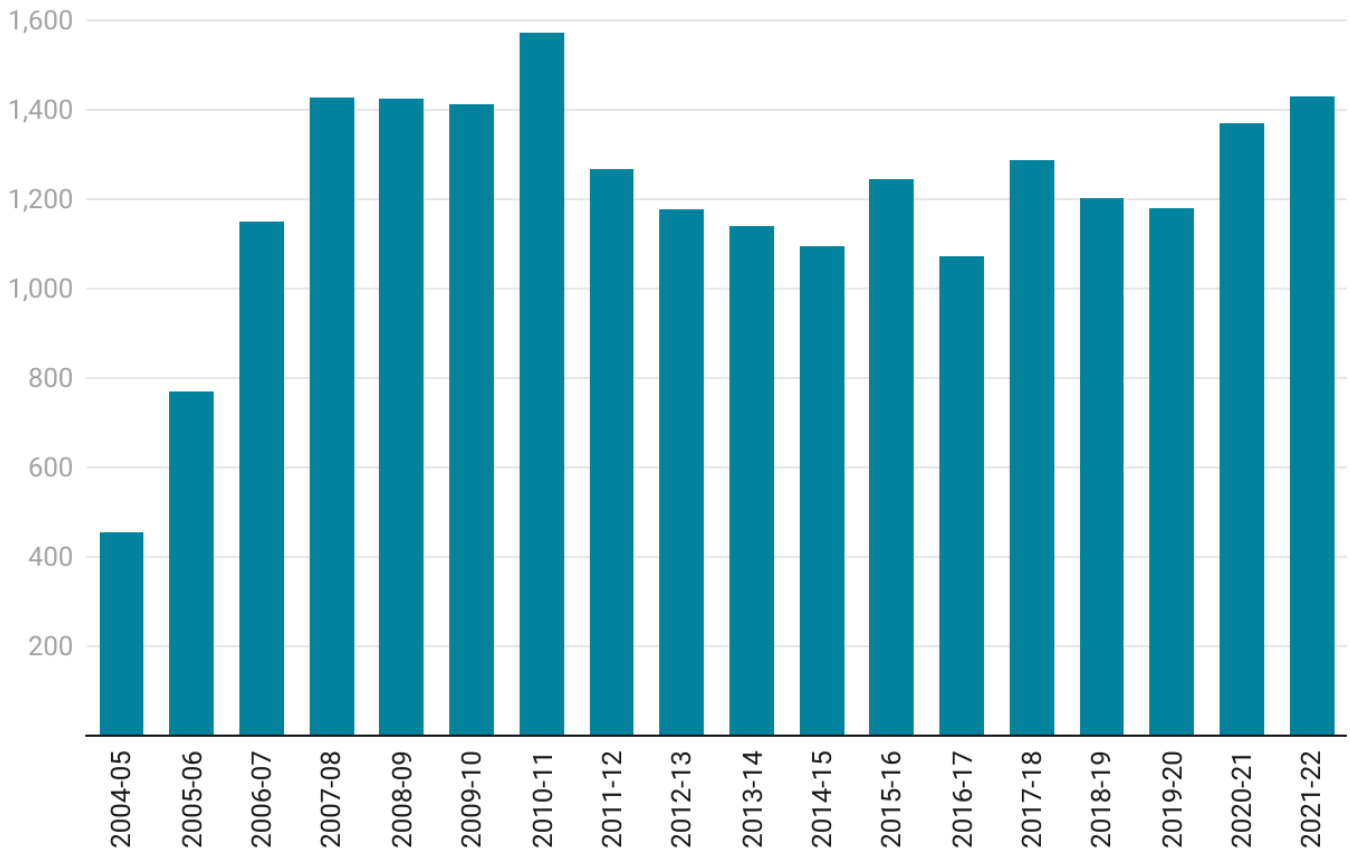
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A significant amount of Australian aid is delivered by private sector contractors. This blog asks two key questions. What share of contracts go to Australian contractors? And how competitive is the contracting market?

The blog is based on my analysis of procurement data for the Australian aid program from [AusTender](#), from 2004-05 to 2021-22. In 2020-21, the estimated annual procurement value (adjusting for the fact that nearly half of the contracts are multi-year) was \$1.37 billion, or about 30% of Australia's aid budget. This is larger than the official figure of aid flows to commercial suppliers (21% in 2020-21) due to differences in calculation methods, as the latter is calculated by adding up total value of new contracts awarded in the year and extensions of past contracts.

Figure 1. Value of procurement contracts from 2004-05 to 2021-22

AUD millions



The average annual value is used for multi-year contracts.

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This gives us some assurance that the data is comprehensive. The analysis that follows is conducted in terms of total contract value rather than imputed annual amount unless otherwise stated. We define an Australian supplier as a supplier registered in Australia.

The share of contracts awarded to Australian suppliers dropped significantly after the [Australian government officially untied its aid](#) and allowed international tenders, in April 2006. It reached a low point in 2012-13, when Cowater International from Canada and Research Triangle Institute from the US received 33% of the total value of contracts awarded. However, the share of contracts going to Australian suppliers soon picked up again and has remained above 90%. Companies registered in developing countries have received only about 1.2% of total contracts each year over the past decade.

Figure 2. Share of new Australian aid contracts awarded to Australian suppliers

As a percentage of total value of new contracts



Australian suppliers are defined as individuals or companies registered in Australia. Awarding year is defined as the starting year of the contract.

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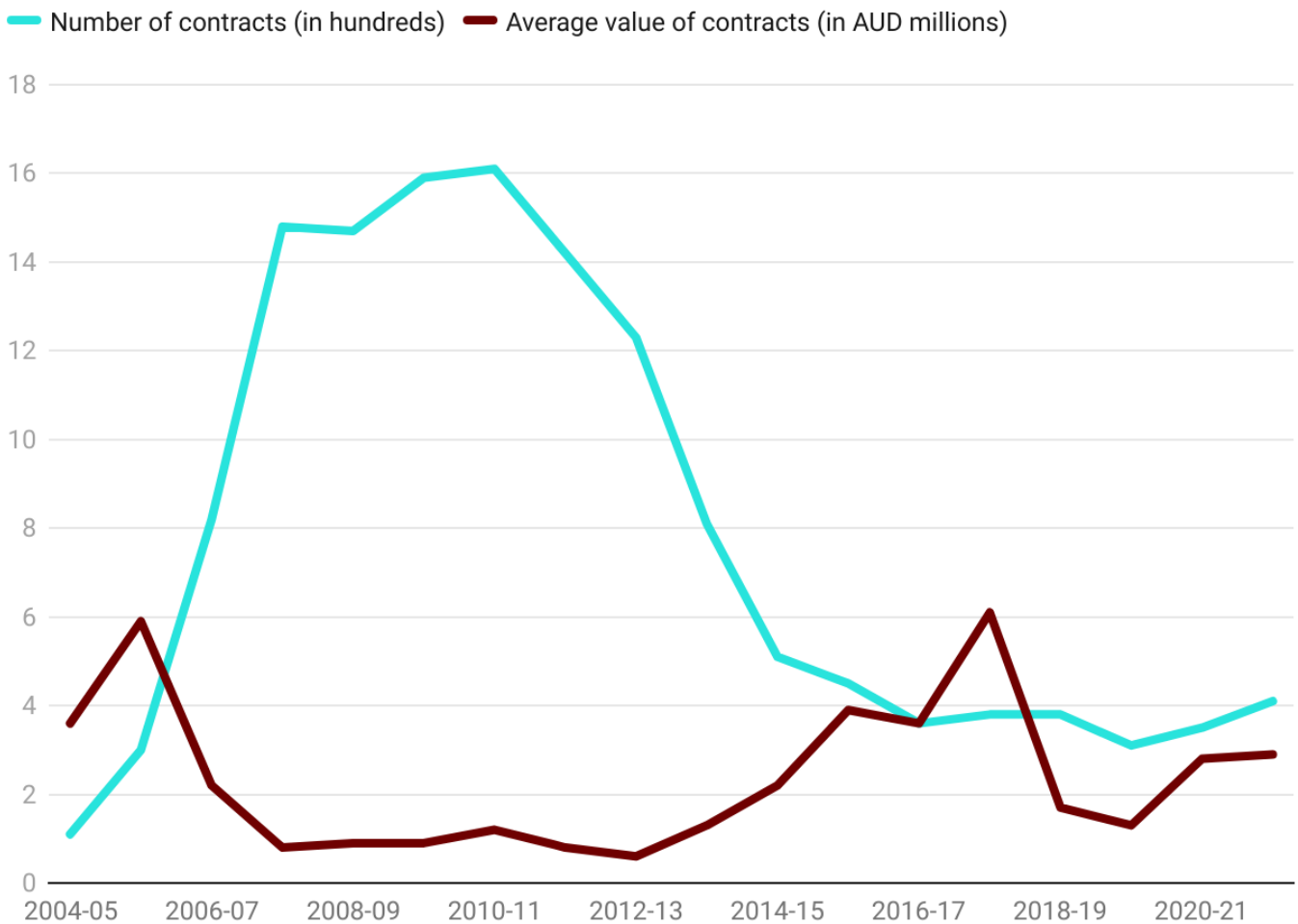
Compared to other DAC (Development Assistance Committee of the OECD) donors, Australia has a high share of contracts awarded to domestic suppliers. While such a high share is often associated with the formal tying of aid, in Australia this is not the case. In principle, Australian aid is untied: all suppliers are allowed to participate in tendering regardless of where they are registered. So why are Australian-registered companies more likely to win the contracts?

There are three reasons. Most Australian aid is **provided to the Pacific Islands and Southeast Asia**, where Australian companies have a lot of experience. The Australian government has also increasingly preferred to tender large aid contracts (see below), which advantages national suppliers. Finally, many Australian aid contractors are now affiliated with international partners or are themselves multinationals.

In 2014, the **Australian government set the target** of reducing the number of individual investments by 20% by 2016-17 in an effort to reduce fragmentation, cut administrative costs, and improve the operating efficiency of the aid program.

Facility arrangements were increasingly used to group together multiple investments into a facility under a single contractor. As a result of this change and overall aid cuts, the number of new procurement contracts awarded each year since 2014-15 was only a quarter of the pre-announcement level. Meanwhile, contracts became bigger and longer. The average contract value more than quadrupled from 2013-14 to 2017-18, before falling again, perhaps because facilities fell out of favour.

Figure 3. Number and value of new procurement contracts



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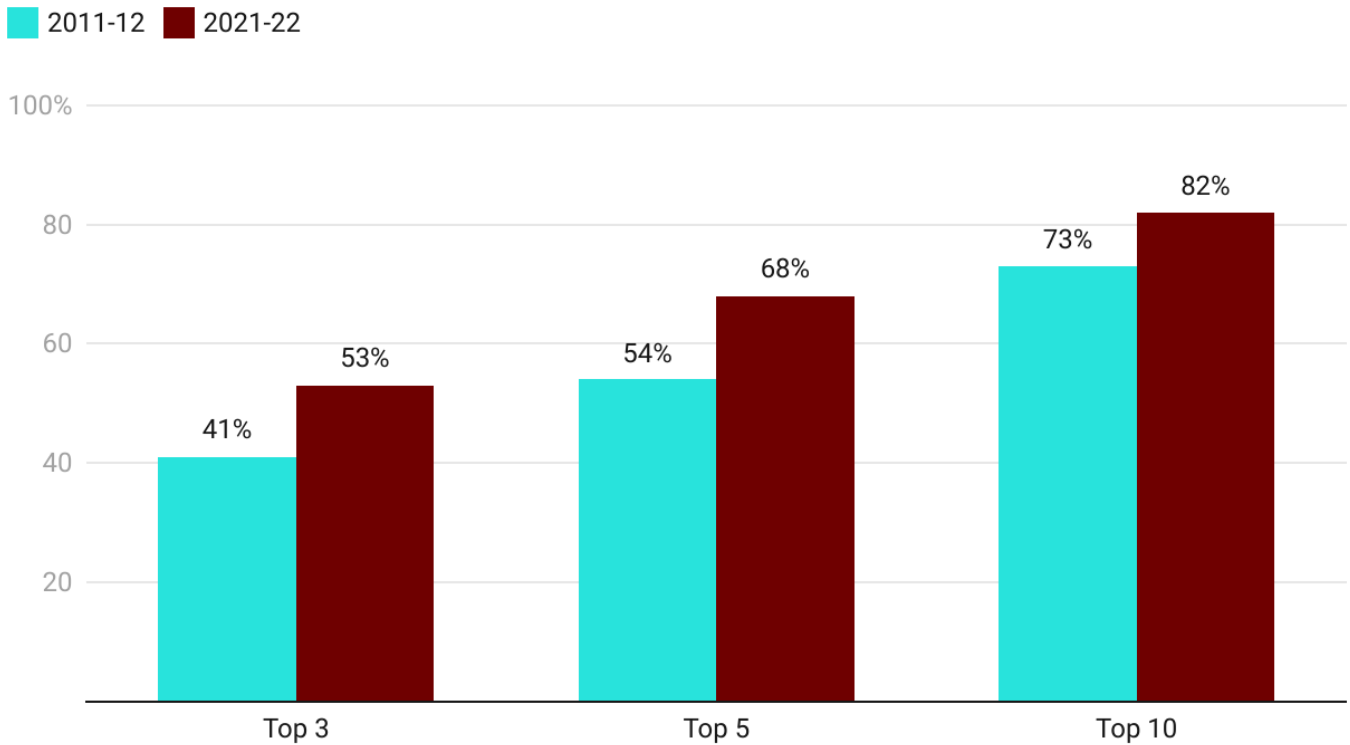
A direct result of the shift to larger contracts and use of facilities has been the increased concentration of the aid contracting market. Concentration of the contracting market has also occurred through mergers and acquisitions. The competitive landscape has changed considerably as the number of contracted suppliers with active contracts dropped from 900 a decade ago to around 250 in 2021-22.

The growing number of large contracts favouring large contractors, and mergers and acquisitions between companies, have made the big players a lot more powerful. From 2011-12 to 2021-22, the market share of the top three suppliers

increased by 12%, the top five by 14% and the top ten by 9%. And in 2021-22, the top ten out of a total of 255 suppliers accounted for over 80% of the market.

Figure 4. Share of active contracts held by top suppliers in 2011-12 vs 2021-22

As a percentage of total value of all new contracts



To reduce the cyclical impact of multi-year contracts on contract amount and to reasonably compare market concentration across financial years, I included all active contracts in the financial year regardless of their starting year and used the average annual value for multi-year contracts.

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Although there is churn among the smaller suppliers, over the past decade, four of the top five suppliers have maintained their leading positions in the aid contracting market. These are Abt, Cardno (now DT Global), Coffey (now Tetra Tech) and Palladium. Two of them had portfolio values from all their active contracts in excess of \$1 billion in 2021-22, well above the rest of the suppliers, with Abt almost hitting the \$2 billion threshold.

Table 1. Top 10 suppliers by portfolio value of active contracts in 2011-12 and 2021-22

Rank	2011-12	AUD millions	2021-22	AUD millions
1	Coffey (now Tetra Tech)	1,101	Abt Associates Pty Ltd	1,993
2	Palladium International	999	Cardno (now DT Global)	1,426
3	Cardno (now DT Global)	963	Tetra Tech	995
4	SMEC	683	Palladium International	684
5	Abt Associates Pty Ltd	571	GHD Australia	402
6	Vocational Education and Training (QLD) t/a Sunshine Coast Institute of TAFE	423	Australian Volunteers International	290
7	AECOM (now DT Global)	348	The Whitelum Group (now Alinea International)	249
8	Charles Kendall & Partners Ltd	189	TAFE Queensland	211
9	Sinclair Knight Merz (now Jacobs Group)	166	Scope Global (now Palladium)	197
10	IDSS Pty Ltd	159	CowaterSogema International	197

To properly reflect the importance of these suppliers in the aid program, I included all active contracts regardless of their starting year and used the total contract value for multi-year contracts. A company is considered as a separate company if it had not been merged/acquired at the time the contract was received. Note that contract value also includes funds transferred to NGOs through contractors. For example, Alinea transferred a large amount of funds to NGOs under the Australian Humanitarian Partnership (AHP) and its AHP contracts have a total value of 191.8 million AUD in 2021-22.

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Two clear conclusions can be drawn. First, a remarkably high share of Australian aid contracts goes to Australian-registered companies. And second, the Australian aid contracting market is becoming increasingly dominated by a small group of firms.

Disclosures:

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Link: <https://devpolicy.org/overview-of-australias-aid-program-procurement-20221214/>