

Strategic Choice

A future-focused review of the DFAT-AusAID integration

(Short version)

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Executive Summary

This independent review assesses the impact of the integration of AusAID into the Australian Department of Foreign Affairs (DFAT) in November 2013. It attempts to apply lessons to how Australia might approach international development in future. It draws on published reports and reviews and also on interviews with over 75 expert analysts, advisers and officials, including private contractors and non-government organisations.

As a result of integration, DFAT gained \$20bn to deploy for international development over 5 years. The review contends that how the department organises itself to deploy these resources determines the value it is able to create. Maximising this value has become more important in the changed geopolitical circumstances Australia now faces. The end of the first five-year phase of integration provides a useful vantage point to consider how best to deploy the department's resources in the next five-year period.

The review concludes that Australia's strategic interests in forging wider regional alliances; encouraging a convergence of values, views and interests consistent with its own; and developing deep relationships of trust; require a wholesale shift in thinking from aid as a burdensome boutique business to regional development as a foreign policy priority. To this end, the review has assessed the extent to which the policies, processes, budgets and performance systems - are aligned to support this shift.

Views about the impact of integration differ markedly. More than 1/3 of those canvassed see more gains than losses; while around a quarter believe its impact has been strongly negative. The remainder - close to 40% - believe that while basic systems continue to function adequately, risks are rising and opportunities are being missed. The review attempts to explain this divergence. It rates integration against 16 indicators, in four categories: 1) Government objectives; 2) Program performance and quality; 3) Aid management system; and 4) Whole of department impacts.

The positive story of integration is that after one of the biggest organisational changes in its history, DFAT has bedded down its new development cooperation business. Programs are being delivered and independently vetted results appear strong. Early morale problems have largely receded and many former AusAID staff have moved into new roles, including 20 in Head of Mission or deputy positions. Nine out of ten of the government's strategic targets have been met, helping to drive major shifts in aid allocations towards infrastructure and the Pacific. There are also examples of development goals being more strongly advanced through joined-up, whole-of-department efforts. This includes significantly enhanced Pacific policy, stronger private sector collaboration and improved humanitarian action.

However, a counter narrative points to a pronounced deterioration in skills and systems for preparing and managing bilateral activities. As the last generation of AusAID-built programs comes to an end, pipelines are drying up. More than half of new designs put to the Aid Governance Board for approval were returned for more work in 2018. DFAT is also contracting out core functions into mega-facilities that a recent evaluation concludes it is struggling to use effectively. Policy adherence is said to have become idiosyncratic and systems dependent on a dwindling number of highly experienced officers. Many development professionals feel their skills and expertise are not highly valued.

All agree that departmental capability is a critical issue - even if there has been some recent recovery. According to the former head of AusAID's human resources department, almost 1000 years of expertise left shortly after integration. Estimates suggest another 1000 years of experience has been lost since. Interviewees assess that the reduction in senior, locally engaged staff has had the biggest single impact on the quality of management of development activities. Much of the initial skills loss reflected a deliberate reduction of expertise arising from lack of experience of what is needed to plan, design, implement and manage successful development cooperation. As a senior official observed, "AusAID staff tried to tell us what was needed to run the program, but we just couldn't see it."

The department knows it has a major problem on its hands and is addressing it through a multi-faceted capability plan. Attempts to rebuild are underway. However, the capabilities needed must reflect the strategic aspirations held for the development program and these remain unclear. This results in uncertainty about the skills, systems and structures DFAT needs - and the supporting culture it must build. The review argues capability is needed, not just to deliver programs and manage risks, but also to set and prosecute a 21st century development agenda that joins Australia's interests tightly to those of its neighbours - and advances those interests globally. That will not happen by itself or through disjointed decision-making. It needs a systematic approach, starting with a clear statement of intent.

Post integration, authority was widely dispersed - and in geographic areas, redistributed to posts. This explains decision-making that is highly variable. Busy Heads of Mission in Asia and the Pacific suddenly received substantially more responsibility, while decision-making support was reduced in Canberra and at posts. The retention of many parts of the aid management system obscures the fact that the remnants of the development group lack influence. This explains their low morale and the difficulty in filling development positions. This is not to argue for a return to the old system, but for the building of a new one that more reliably integrates long-term development and diplomatic interests.

Australia's 2017 Foreign Affairs White Paper charts the changes in our strategic circumstances that require us to 'deepen and diversify' our regional relations. Unfortunately, while dealing more substantively with development cooperation than any of its predecessors, the White Paper missed the opportunity to provide a clear answer to the question of what is wanted from the closer foreign policy alignment that the AusAID/DFAT integration provided.

The review argues that the conventional foreign policy view of development cooperation as a 'tool kit' for miscellaneous purposes mistakes strategic opportunity. For Australia, regional development is not some far away utopian aspiration, but a real-time project in which we have fundamental economic and security stakes. This requires political and departmental leadership to position Australia unambiguously as a development leader in South East Asia and the Pacific. That then should determine the skills, systems and structures DFAT needs - and the policies it pursues. Fortunately departmental leadership is a strength. The Secretary and her senior team enjoy considerable respect. Her systematic, whole of department approach - that may make her its first real CEO - is needed.

The pathway to greater effectiveness has many interlocking steps, none of which will work in isolation. The review proposes a 5 point plan, with 18 recommendations designed to: 1) Improve strategic clarity; 2) Organise around relationships; 3) Build stronger capability; 4) Re-engineer decision making for strategic outcomes; and 5) Strengthen and better use the performance system.

The plan requires a rigorous statement that sets out Australia's strategic approaches to international development in the light of the White Paper. Pacific policy shifts in 2018 potentially represent a sea change - albeit one that will be very challenging to deliver. This has laid the groundwork in one critical area, but our Asian and global development interests also need to be clearly presented to avoid an unbalanced strategic posture. The review argues Australia should position itself close to the centre of a South East Asian middle-income developing region - and we should sharply define our global interests by prioritising regional public goods, especially clean energy generation and financing.

Australia's international development efforts must recognise that our partners have changed. They are more discerning in their search for best-fit solutions and more assertive about their interests. Almost none want to be 'aid recipients'. The term 'aid' is now a liability. In this sense, as one of Australia's most respected development advisers observed, the demise of the AusAID brand was timely. The review proposes that the term 'aid' should be restricted to emergency/humanitarian assistance - and direct, grass roots poverty alleviation projects. One way of clearly underlining this would be to present separate aid (humanitarian) and development budgets.

Above all, our partners demand greater respect. Numerous Asian and Pacific voices have reminded us recently that they will not be passive partners following our agendas. This means both our diplomacy and development programs must be rebuilt around deeper relationships. In *Has the West Lost it?*, former Singapore diplomat, Kishore Mahbubani, points out that regardless of political system, modern leaders must focus on improving living standards. This means our ability to be an intelligent and reliable policy partner is the key route to gaining long-term trust and influence. But we must recognise that money has been replaced by ideas as the primary development denominator. As one interlocutor stated, "If we can not bring the right knowledge to the table, at the right time, we will not be at it."

Feedback from partners, evaluations and departmental systems suggests that our access and influence on international development issues are at risk. To address this, our diplomats must choreograph deep development expertise, be across critical reform issues and take forward high-level policy dialogue. That is a big agenda and we can only do this well in a small number of countries and a small number of policy areas. We must focus sharply, particularly on issues of public financial management that are at the core of both national development planning and political decision-making. The considerable expertise we need is available from local, international and Australian sources - public, private and civil society. The department's task is to combine it artfully, under a clear Australian brand.

In tightly delineated priority countries, the review recommends a decisive shift to long-term partnerships, embedded in Ministerially led, political agreements that provide the expert advice countries increasingly want. This could include facilities, institutional twinning and government partnerships. The critical factor is to empower counterparts by providing support within their systems and structures, strengthening local leadership and decision-making. In key countries, rather than more than a dozen, relatively small partnership agreements, we might focus on 2-3, decade-long core governance partnerships, providing relationship continuity and resourcing predictability.

To develop and drive new approaches, the review recommends establishing a Directorate for International Development, within the Global Cooperation, Development and Partnerships Group. The Directorate would centralise development policy responsibilities and recombine them with those of the contracting and aid management division. Its task would be to position Australia at the forefront of rethinking development pathways and policies in South East Asia and the Pacific. A strong signal of this intent would be to rename DFAT - the Department of Foreign Affairs, Trade and Development.

The Directorate would create intellectual products, processes and fora to support long-term thinking and underpin strategic engagement and deep policy dialogue. It would house expanded world-class expertise, especially development economics, but also specialists in strategic studies, peace and conflict and regional cooperation to develop a high-powered, inter-disciplinary team to add to DFAT's capacity to think and work strategically between White Papers. It would be 'integration central'.

The Directorate would also better equip DFAT to interact with and lead whole-of-government international efforts. It would report to the Deputy Secretary of the Global Group, who would serve simultaneously as Australia's Chief Development Officer, responsible to the Secretary for all development policy and processes. To rebalance and achieve synthesis between development and diplomatic considerations, program commitments between \$50m and the \$100m threshold for Aid Governance Board consideration would require formal approval of the Chief Development Officer.

The second area where major structural reform is needed is in operations. The review recommends DFAT consider the creation of a small, ODA-funded, DFAT Technical Support Organisation to undertake operational tasks that the department is not well suited for. This would include program design, procurement and technical advisory functions to guide strategic management. The Organisation would be responsible to the Secretary through the Directorate of International Development. A feasibility

study could shape the concept to ensure clear and complementary responsibilities and build-in ongoing collaboration so that policy and operations are tightly aligned.

Core functions now being contracted out or delegated to others due to lack of expertise could be returned to Australian government management. The Organisation could overcome DFAT's difficulties in attracting and retaining the operational skills it needs, allowing it to move more quickly and confidently. Better-designed programs with clearer contractual requirements would allow DFAT to forgo micro-management to focus on strategic outcomes and high-level aspects of our foreign relations.

Given polarised views about the accuracy of development cooperation performance reporting, the review proposes a fully independent audit of development results every 3-5 years to strengthen confidence in the system. It also recommends that the head of the Office of Development Effectiveness should be an external appointee, on a non-renewable contract to maximise his/her independence. Development cooperation makes up almost two thirds of DFAT's ordinary annual expenditure. The review judges that this requires strengthened accountability in the form of dedicated Departmental Executive consideration of performance, twice annually. Senior Development Coordinator positions should be established at major posts to assist better decision-making.

The government should also consider a dedicated Australian National Audit Office program to report more frequently and thoroughly on the full range of Australian government overseas expenditure. With other government department spending rising rapidly, there is a strong case for increased independent scrutiny across the board, not just of diplomatic and development spending.

Integration has helped DFAT address chronic under-funding. Administrative and oversight resources have been harvested - as was intended. Split roles allow much more to be billed to the development program. This may explain why the aid administration ratio is over 60% higher than the long-term, pre scale-up average. That now imposes a ceiling, preventing the skills and capability scale-up that is required. A political decision is required to put diplomatic and development funding on a much sounder footing. DFAT should prepare a new comprehensive budget bid to this end.

In the first five-year phase of integration, DFAT has been learning the development business. It has positive and negative experience to reflect on. In the second phase, a higher bar will apply. Australia has a strategic choice about how it approaches regional development. It can do so episodically with variable performance, dependent on individuals and short-term, shifting priorities. The review assesses that approach will struggle to attract either public support or substantial new government financing.

The review argues that Australia's long-term strategic interests require regional development to become a foreign policy priority in its own right. It proposes that Australia strive to build a new, country-focused development cooperation model that is superior to that of other partners, including China. By doing so it could be a development leader in South East Asia and the Pacific - a trusted, influential, partner of choice. That will require a determined, systematic effort and much stronger policy and operational capability.

Integration scorecard

Category & Summary score	Sub-category	Rating (1-6)					
		1	2	3	4	5	6
Government Objectives							
<i>Key objectives in office</i> 6	Minister's signature initiatives					•	
	Foreign Policy alignment: Strategic targets X 10						•
<i>Redundant targets</i> 2	Efficiency: transparency: rigorous performance focus		•				
<i>Missing metric</i> 2	Foreign Policy alignment 2: Strategic posture		•				
Program performance							
?	Overall program performance					?	
	Reported quality				?		
	Pipeline quality	•					
	Policy dialogue/influencing		?				
Aid management system							
3	Policy architecture and implementation			•			
	Skills, systems & organisational capability	•					
	Structure, governance and accountability		•				
	Culture and incentives		•				
	Leadership					•	
Whole of Department							
5	Unexpected wins					•	
	Diplomatic impact				•		
	Budget infusion						•

[?] Denotes substantial debate/uncertainty over the accuracy of the data

Scorecard ratings: summary of supporting evidence/arguments

	Rating /6	Rating rationale (detailed evidence and argument in Annex 1)
Government objectives		
Minister's signature initiatives	5	<ul style="list-style-type: none"> • iXC impacts queried, but staff point to role as change agent, licencing experimentation • New Colombo Plan not aid initiative, but successful example of integrated operations and skills • Asia Pacific Health Centre, innovative model, melding expertise from public and private sources, but too soon to assess
Foreign policy alignment: strategic targets	6	<ul style="list-style-type: none"> • Targets framed to capture key commitments - Indo-Pacific Focus, aid for trade, gender etc. • List represents tests govt. set itself. Separate question whether more demanding targets needed • Departmental efficiency and transparency not directly included in targets. By definition, accorded less priority by govt. in its own scorecard. Therefore benchmarked separately, not as strategic priorities • 9/10 strategic targets met, incorporating major shifts in aid allocations towards Pacific & infrastructure & away from health, education and resilience
Efficiency	2	<ul style="list-style-type: none"> • Confused picture, requires more transparency • 2016-17 'Performance of Australian Aid' reports significant increase in efficiency at activity level (p.21) • Reasonable to assume substantial corporate efficiencies too, especially from reduced SES oversight • Admin ratio down from pre integration, scale-up peak, but 2/3 above historical average. Assess significant over-estimate due to accounting practices billing split roles to ODA • OECD reports DFAT cannot provide staffing numbers it sought (p. 71) • Risk of flying blind in terms of resources devoted to development policy and management
Transparency	2	<ul style="list-style-type: none"> • Rapid early decline, caught in 2015 stakeholder survey and transparency assessment • Improvement since then, especially restoration of detailed budget information • OECD criticised lack of project level reporting in 2018. DFAT looking to address • Issue is accountability, but also a proxy for openness and DFAT engagement with external partners and expertise
More rigorous performance focus	2	<ul style="list-style-type: none"> • Minister Bishop's most consistent pre-election policy when Coalition still committed to 0.5 target • No formal whole-of-program benchmarks introduced, but no budget increases either! • Interdepartmental mechanisms (Dev. Effectiveness Steering Committee; CAPF etc.) discontinued. • 2014 Performance Framework. More stringent performance measures incorporated in 4 areas - mutual obligations; effective partners; value for money; & combatting corruption • Targets largely achieved by 2016. New ones not yet set • Some evidence of soft line on mutual obligations - e.g. ODE PNG Transport sector study • No sign of strong departmental focus on performance. Occupies much less top management time
Foreign policy alignment 2: strategic posture	2	<ul style="list-style-type: none"> • Lack of overarching strategic vision for development, especially beyond aid. Australian interests in regional development not clearly articulated in White Paper but it could still be the framework • No compelling explanation of what foreign policy alignment should deliver means aid toolbox' concept reasserts itself. Overall coherence reduced. Numerous small silos. Overall Australian development brand less visible • Ambiguity leads to low priority for development, fuelling skills loss, undermining management • Degraded capacity to redesign development cooperation for a very different strategic environment • Weak departmental systems to translate strategic intent into policies, investments, staffing, skills etc. • On cusp of change? Strat. choices being made by line areas, but dept. needs to bring together
Development performance		
Reported results	?	<ul style="list-style-type: none"> • Three annual performance reports suggest results on a par or better than before integration • High level - and deep - scepticism from many closely associated with program delivery. Corrosive • Picture complicated by fact that most pre-integration systems still nominally in place & vetted by ODE and/or Independent Evaluation Committee • Working assumption is that up to mid 2017 (period captured by last performance report) there had not been a significant deterioration in program outcomes. So why contrary assessments?
Program quality	?	<ul style="list-style-type: none"> • Program quality also appears to have held up according to official reporting, but widely disputed • DFAT reporting of six quality indicators charts little change • OECD points to DFAT record of 94% of quality checks being undertaken, but not separately verified • Critics argue standards have declined • ODE & Independent Evaluation Committee reportedly detected over-rating of up to 40% of activities post integration. Since stated that more rigorous vetting has redressed the problem

Pipeline quality	1	<ul style="list-style-type: none"> Does not show up in formal reporting, but is subject of large amount of comment/criticism Maybe the 'missing link' that explains divergence over performance more broadly With 5-7 year life cycle, DFAT activity/program performance reporting to date has largely reflected past systems, skills and quality in design Today's reported performance is a lagging indicator. Pipeline quality indicator of what is coming Clear consensus pipeline in serious trouble. Considerable design delays. Half activities sent back for more work by Aid Governance Board in 2018. Many newly designed activities in implementation struggling, especially large facilities. However some recent signs of turnaround e.g. PNG Gov. facility.
Policy dialogue & influencing	?	<ul style="list-style-type: none"> Formal and informal feedback from a number of nation states; multilateral organisations and OECD partners suggesting a decline in strategic engagement and influencing Similar suggestions from several reports - e.g. Facilities review and economic partnerships evaluation Internal health checks also said to have raised the issue Need for formal monitoring and reporting to increase the evidence base
Aid system		
Policy architecture & implementation	3	<ul style="list-style-type: none"> Policy patchwork with several strong elements, but variable and judged to be individually driven 2014 Aid Policy not anchored in strategic vision for development. Very broad and of limited usefulness in setting priorities, especially given big budget cuts that came later. Doubts about status Pacific Policy a standout by end of 2018. Emphasis on relationships, including efforts to increase economic integration. Labour mobility key win. But big risks. Deep development capability needed Other policy wins too, especially the enabling environment for private sector collaboration, economic partnerships, gender equality and humanitarian action, but matching capability not always available South Asia policy and programs frequently cited as very good strategic mix. Also Indonesia and Sols Weak policy adherence in practice. Numerous reports of policy freelancing with individuals deciding what the rules will be. Source of frustration and inefficiency
Skills, systems & organisational capacity	1	<ul style="list-style-type: none"> Big skills loss at integration & subsequently, especially senior LES and internationally recruited experts Misunderstanding of what is needed to design and deliver activities; create development and diplomatic value and underpin influential policy dialogue Showing up in a) pipeline deterioration; b) poor management practices; c) difficulties with partners and d) rising multilateral program share Hard to restore capability in absence of a strategic vision - capability for what? Recent improvements but delivering strategic impact for Australia & partners needs big step up
Structure Governance and accountability	2	<ul style="list-style-type: none"> DFAT integration model rare and risky. Highly dispersed without strong centre Fragmented policy responsibility weakens system Global Group has potential, but development profile currently obscured Important institutional features such as ODE maintained and Aid Governance Board with independent chair established. Well regarded as key checks and balances but many see need to strengthen further Major issues around transfer of decision making authority to HOMs - support systems and accountability inadequate
Culture and incentives	2	<ul style="list-style-type: none"> DFAT culture understandably built for diplomacy. Dept. initially wary of change Development cooperation programming has different business needs built around long time frames and large amounts of public money Big, debilitating divide around knowledge - what sort, how much and how to organise Perceived low value accorded development cooperation and associated skills behind difficulty filling development roles. 50 applicants for US/UK/Euro posts, 2-3 (sometimes 0) for some regional posts
Leadership	5	<ul style="list-style-type: none"> Seen as a strength, especially whole-of-department approach which still has a way to run Made effective use of senior and junior talent Challenges remain, including driving cultural change and convincing development specialists they have equivalent career paths to others and are as well placed for promotions and placements More frequent and prominent high level intellectual leadership of international development would be highly valued, internally and externally
Whole of dept.		
Unexpected wins	5	<ul style="list-style-type: none"> DFAT 2013 resisted change but it has come regardless in the form of more diverse staff & skills Some areas of superior managerial technology have been fitfully transferred including finance and IT and there are welcome signs of interest in developing a broader evaluation culture Consultation and collaboration habits are said to be gaining ground The whole of department approach is at early stage but pushed along by deep integration
Diplomatic impact	5	<ul style="list-style-type: none"> More diplomats with development experience will change some of Australia's regional conversations Diplomatic cohort that is younger and more gender balanced Some spontaneous examples of Heads of Mission seeing and pursuing opportunities to pursue high level development goals as a strategic platform
Budget infusion	6	<ul style="list-style-type: none"> Development program has provided budgetary resources for under-funded DFAT May explain how activity efficiency up, but dept. dev. spending much higher than long term average Not viable long term strategy for funding either development or diplomacy Gov. must fund a new strategic budget strategy to adequately resource all elements

Australia as a development leader in South East Asia and the Pacific: A 5 point plan

1. Improve strategic clarity

- 1.1. Advance White Paper goals through a comprehensive **development statement** that simultaneously sets a **vision**, establishes a **policy framework** and provides a **strategy** to position Australia as a development leader in South East Asia and the Pacific
- 1.2. Break the charity mindset by presenting a humanitarian **aid budget and a separate international development budget** to advance shared national, regional and global interests
- 1.3. **Do a small number of things exceptionally well** to establish a clear Australian brand as a highly reliable, respectful and responsive partner, focused on:
 - **Well functioning Pacific states, with strong economic and political linkages** to Australia, New Zealand and each other
 - **ASEAN policy partnerships**, underpinned by expanded, knowledge-based cooperation and a new **Centre for Middle Income Asian Development**
 - **Clean energy policy and financing** to support rapid development with low carbon emissions
- 1.4. Underline Australia's serious intent to be a development leader by **changing DFAT's name to the Department of Foreign Affairs, Trade and Development**

2. Organise around relationships

- 2.1. Ensure development cooperation in tightly defined priority countries is embedded in **high level partnership frameworks agreed at Ministerial level** and supported through expanded, on-going, Head of Mission-led policy dialogue
- 2.2. Develop new approaches to underpin long-term, **deep institutional relationships of trust** and influence, including through:
 - A **technical assistance charter** that commits us to working jointly, in locally led, integrated arrangements that empower counterparts and respect local authorities
 - **Large, decade-long government-to-government partnerships** - potentially involving federal, state or local authorities
 - And similar, if smaller, **platforms for other institutions and civil society organisations**
- 2.3. Institute an ongoing program to **track** and report publicly on **how Australia is seen by its Pacific and Asian neighbours**

3. Build stronger capability for results

- 3.1. Seek cabinet approval for a **strategic budget framework** that adequately funds the substantial expansion in diplomatic and development activity the White Paper requires
- 3.2. Restore the position of **Minister for International Development and the Pacific** and complement it with the appointment of Deputy Secretary GPG as **Chief Development Officer** whose approval would be required for major activities

3.3. Better amass, organise and utilise the skills needed to deliver the improved diplomatic and development results Australia seeks by:

- Creating a **Directorate for International Development** to oversight a unified system of development cooperation management and make it more fit for purpose; and
- Undertake a feasibility study into the establishment of a small, **DFAT Technical Support Organisation** to provide operational services for development cooperation

3.4. Provide greater support to Heads of Mission as principal development decision makers by creating dedicated **Senior Development Coordinator positions at priority posts**

3.5. Do more with L.E.S. (Locally Engaged Staff)

- Recruit and make full use of senior, skilled locally engaged program managers as a bridge to external expertise and local authorities

4. Reengineer decision making for strategic outcomes

4.1. Better equip development cooperation to deliver what is wanted by building strategic **foreign policy considerations into every stage of policy and programing**, from design to monitoring and evaluation

4.2. Implement **mechanisms to allow the right balance** between flexibility/responsiveness and long term development - for example:

- Adopt an **80/20 indicative split between attention to long and short term** priorities as part of strategic planning
- Reintroduce **dedicated as well as split roles** so that core diplomatic and development functions are always adequately resourced

5. Strengthen and better use the performance system

5.1. Prepare a new, **integrated performance framework** that focuses on whether strategic objectives are being achieved and

- Hold **dedicated twice-yearly development cooperation performance discussions** between the Departmental Executive and Heads of Mission in priority posts, informed by strategic, program and pipeline indicators

5.2. Further **strengthen confidence in the integrity of the performance system** by

- Appointing an **external head of the Office of Development Effectiveness on a fixed-term, non-renewable contract**
- Undertaking a fully **independent audit of development results** every 3-5 years

5.3. Commission and fund ODE to undertake a **rolling program of country and program assessments** to provide a much clearer and more consistent picture of the results of Australia's international development efforts over time

5.4. Cabinet consider establishing a **dedicated Australian National Audit Office program** to track and report the results of rising **international expenditure across all parts of government**