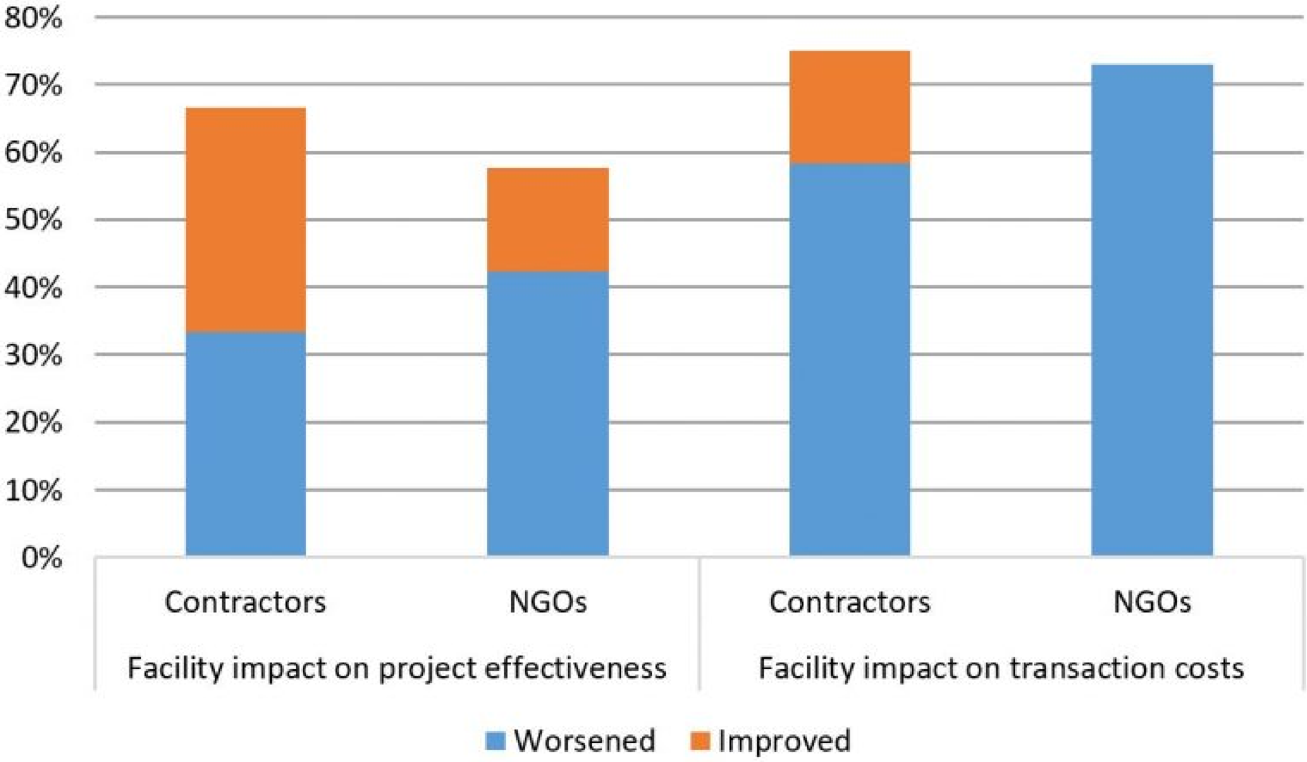


The problem with facilities, and aid

By Stephen Howes

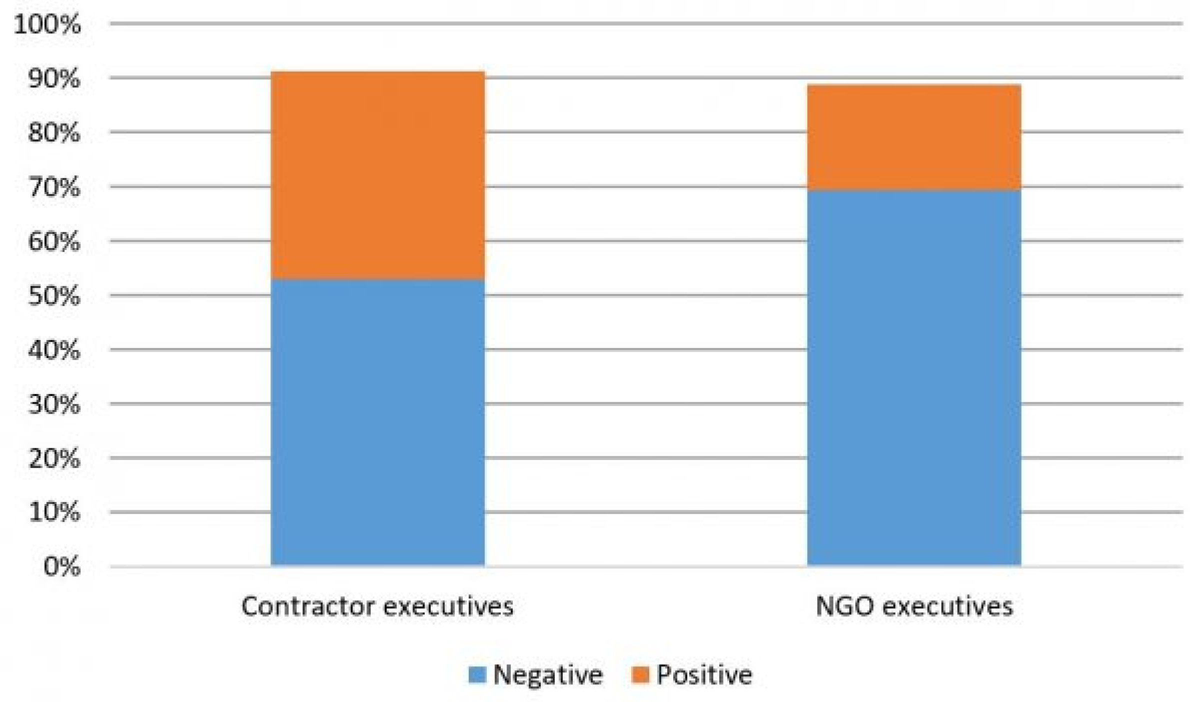
The increasing reliance on facilities – large, multi-faceted programs run by consulting or so-called "contracting" companies – has become controversial in the Australian aid program. It is not surprising therefore that facilities have started to feature on the Devpolicy Blog. Since November 2017, we have run three articles about facilities (here, here and here). They all provide interesting insights, arguments and contributions. That these three articles are all (overall) positive about facilities is understandable given that they are all written by people working for companies who run them. What is odd is that no one has bothered to write us a critical article on facilities.

What we see in relation to facilities is a good example of Bill Easterly's characterisation of aid as a "cartel of good intentions." Everyone wants to advertise how good their aid project is; no one wants to criticise the aid projects of others. It might give aid a bad name, or give you a bad name, and make your own funding less secure. That's one reason why we see many more articles on our blog promoting particular aid projects than ones criticising them.

This is also why we run the aid stakeholder survey every three years. It provides those implementing the aid program – both private sector contractors and NGO executives – with a safe space to make known their views on the aid program. In our most recent 2018 survey, we asked a number of questions about facilities. They did not come out looking good.

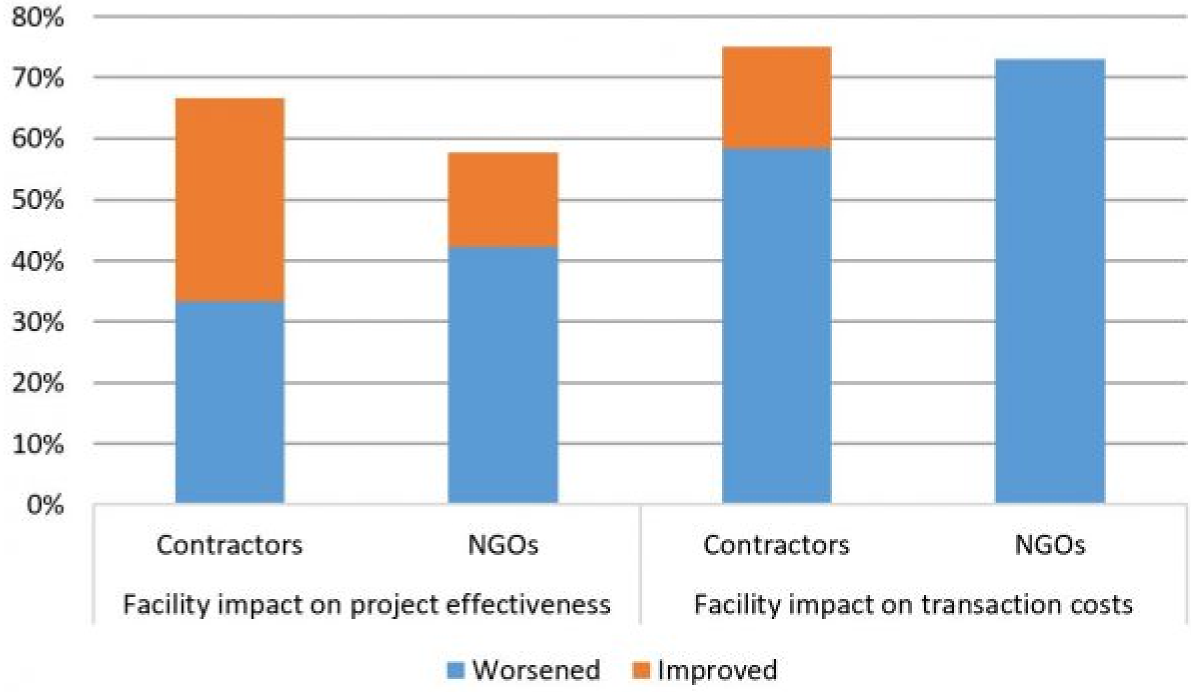
As the graph below shows, a majority of both private sector contractors and NGO executives agreed that the emphasis on facilities in the management of Australian aid has had a negative effect on the quality of Australian aid.

Are aid facilities having a positive or negative impact on aid effectiveness?



This unhappiness might be dismissed as sour grapes. A small group of large contracting firms run DFAT's facilities. Perhaps others are simply unhappy about the resulting squeeze. To get around this problem, we also sought the views of those directly managing aid projects at least some of whose funding comes via facilities (just under half of those we surveyed). Contractors were equally divided between those who thought the facility improved their project's effectiveness, and those who thought it made things worse. Among NGOs, the great majority was in the latter (negative) group. We also asked the same respondents about transaction costs. A solid majority of both groups thought facilities increased their transaction costs; very few thought they reduced them.

The impact of facilities on projects (according to those who are funded by them)



Colin Adams, the author of the most recent Devpolicy piece on facilities, mentions these findings in passing, but summarises them as "mixed feelings," which to me is an understatement of their negativity. Adams goes on to provide two examples of good facilities, but does acknowledge that the facility model can be improved, since the current approach "constrains flexibility and innovation." Jacqui de Lacy also has a good discussion of the risks facilities can give rise to.

Over recent years, as a minor aid implementor myself, I have observed a mix of pros and cons of being funded via a facility. Some of my experiences have been quite positive, but when I think about the negative response of most stakeholder survey participants, two cons come to mind. One is that having to work through an intermediary can delay decision making. That's not surprising. Unless there is a high level of trust, getting agreement among three parties (the implementor, DFAT and the facility) is probably going to be more difficult than getting agreement among two. The other is that the expiry date of the facility can become a major complicating factor in the life of the smaller implementing partner. Sub-contracts are shortened to fit in with that expiry date. Or, after that point in time, the implementing partner might be transferred to the care of another contractor – if the latter wins the facility contract this time. The new contractor might have quite different conventions, understandings and requirements. The result is an increase in both uncertainty and transaction costs.

What are the solutions? There will always be some reliance on large, contractor-managed programs, but the question is whether the pendulum has swung too far. DFAT could hire more staff. It could then shift back to more bilateral arrangements and to smaller facilities. But will the government allow DFAT to hire more staff, and will DFAT, a generalist organisation, be comfortable with a larger number of aid specialists?

Adams puts forward a different solution. He says a partnership model is needed, and to get there he wants the performance of both parties – DFAT and the contractor – to be assessed, not just the performance of the contractor. I don't see that happening. DFAT is the principal. The contractor is the agent. As long as DFAT is the government agency paying the bills, and the contractor is a private sector entity that has to bid for DFAT contracts, then there is not going to be a relationship of equals in which the performance of both parties is assessed.

A radical but perhaps workable alternative to both of the above would be to establish a state-owned implementing aid agency. Germany implements its aid program in large part through GIZ, a state-owned company with a global reputation for excellence. That might seem unimaginable in Australia, but remember that we ask ACIAR to manage aid investments in agricultural research. We don't require it to bid for contracts or to work through intermediaries. Bidding for contracts sounds like a way to promote efficiency, but, as I mentioned earlier, the DFAT-contractor relationship is inherently bound by the inflexibility of a contract: basically, a fixed amount of money for a fixed number of years, with all the stop-start and uncertainty that that involves. A within-government DFAT-implementor relationship may be the only way to deliver the longer-term, more flexible, more trusting approach that Adams is right to acknowledge we need. (It might also avoid the problem of contracting out policy dialogue which facilities can give rise to.) At the very least, the idea of emulating the ACIAR approach more broadly across the aid program is worthy of consideration, especially if DFAT doesn't want to go on an aid-specialist hiring spree.

Whatever the solutions, the latest stakeholder survey suggests that are some major problems to be addressed. The six-page review of facilities put out by DFAT tells us that the Department is thinking about the issue, but is hardly an adequate response.

In the meantime, here at the Devpolicy Blog we will continue to welcome well-informed articles about both aid successes and aid problems. And we will keep running the Australian aid stakeholder survey as our modest contribution to disrupting Easterly's cartel of good intentions.

Notes: The graphs don't add to 100%, because "no effect" responses are omitted. Find out more about the 2018 and earlier stakeholder surveys, including the detailed 2018 responses which this blog summarises.

About the author/s

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