



The role of the private sector in Australian aid delivery

By Jonathan Pryke

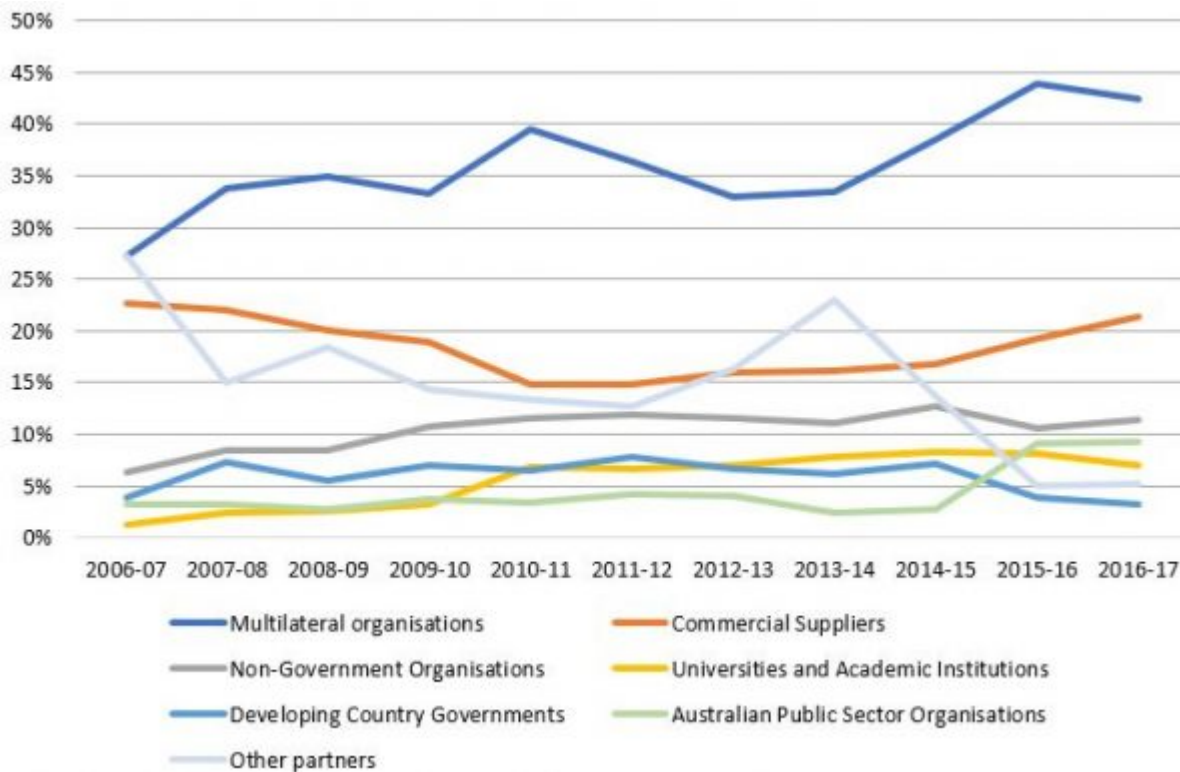
The role of the private sector in development has been hotly contested since the private sector first became engaged in development. In recent years in Australia the situation has become particularly acute, with revelations that just [ten companies](#) now manage close to 20% of the aid budget. The development NGO community and other groups are quick to criticise.

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Australian aid expenditure by mode of delivery



Source: Australian aid statistical summaries, DFAT.

The figure above illustrates, however, that even though aid delivered through commercial suppliers has been increasing since the merger of AusAID into DFAT, it was still 2% higher as a proportion of total aid expenditure in 2006-07. Since then, aid implemented by the private sector has increased, in nominal terms, from \$655 million to \$858 million, but overall aid has increased from \$2.88 billion to \$4.03 billion. The reality is that the private sector has had, and will continue to play, a crucial role in development. The Australian government should remain agnostic when it comes to modalities of aid delivery for any given aid project.

It should, however, be careful about the ways in which it engages the private sector, and what for. As capacity has thinned out within DFAT there has been a growing tendency to engage the private sector to handle more of the burden of project design, project review, and in some instances independent project

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oversight. The most recent case of this was the publicly-tendered [PNG Quality and Technical Assurance Group](#), worth \$3.7 million over three years, a project designed to contract a private sector party to provide oversight over two private sector facilities - The Justice Services and Stability for Development and the PNG Governance Facility. This project is no doubt born out of a necessity for these large projects demanding a larger degree of oversight than DFAT has the internal capacity to manage (especially given the already-high administrative ratio in the Australian aid program). But there must be a better way than having the aid program pay a private sector company to provide independent oversight over another private sector company implementing an aid program.

The Australian aid program has always relied on the private sector and consultants to varying degrees to supplement and provide as-needed independent reviews and assistance on project design. However, the volume at which this is happening under DFAT needs to be reviewed, and the department's in-house capacity needs to be rebuilt so that it does not run the risk of outsourcing its brain.

One solution could be to enhance the mandate of the Office of Development Effectiveness to include independent oversight of project design and implementation, as well as project evaluation.

Another topic that has received much attention within development circles is the role of private sector managed sector-wide aid facilities.

In late November 2017, Jacqui de Lacy, a widely respected aid professional formerly of AusAID/DFAT and now of Abt JTA Associates, wrote a persuasive [piece](#) for Devpolicy defending the role of facilities in development. Facilities, in essence, are private sector managed programs that take responsibility for all development activities in a particular sector in a recipient country. Facilities are justified on the terms of value for money (one overhead instead of many), efficiency (reducing demands on Embassy/High Commission time), and greater flexibility/responsiveness.

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Facilities are nothing new for the aid program. Sector-wide programs were implemented in the days of AusAID, and mature sector-wide programs are now in the third or even fourth phases. There are currently around 20 active facilities in the Pacific islands region alone, accounting for more than \$1.5 billion in aid commitments over a 10-year period. Jacqui pegged the figure at anywhere between 8 and 35% of the bilateral aid program as now being managed under a facility model. The appetite for facilities under DFAT continues to grow, and larger facilities have emerged in recent years.

As more of the bilateral aid program is channelled into larger facilities, there are mounting concerns that the rationale behind the facilities approach may not be transferring into practice. There is a clear efficiency dividend in the facility model, but it also puts more of our eggs into one basket, thereby enhancing implementation and performance risk. The larger the facility gets, the greater the risk that they become 'too big to fail'. And the larger the contracts become, fewer firms have the capacity to bid on or manage them. There is also a rationale that facilities can help free up DFAT staff to focus on strategy, relationship and performance. This only works if DFAT staff can appropriately distance themselves from the day-to-day micro-management of a facility, which may often not be the case in practice. Facilities can also potentially reduce the burden on partner governments by only having to coordinate with one project. Again, this is dependent on facilities being given the latitude necessary to engage directly with government, which may not be the case in all instances.

The performance of facilities is also varied. A recent independent review of the [PNG Transport Sector Support Program](#), one of the largest facilities, showed it to be working quite well. The Australian Government again should not take a dogmatic role on facilities. They have been a component of the aid program for some time. If we are to continue to invest in a smaller number of larger aid projects, however, we have to have a better understanding of when they work and why.

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The Department of Foreign Affairs, to their credit, have recognised these challenges and commissioned an [independent review](#) of facilities, which raises many of the concerns I have highlighted above, and has committed to resolving them. It has also committed to a deeper study of facilities through the Office of Development Effectiveness, which is also most welcome.

The private sector and facilities both have important roles to play in the aid program. More thinking is needed about what that role should be.

This is an edited excerpt from Jonathan Pryke's recent [submission](#) to the Australian Government Joint Standing Committee's inquiry into Australia's aid.

About Jonathan Pryke

Jonathan Pryke worked at the Development Policy Centre from 2011, and left in mid-2015 to join the Lowy Institute, where he is now Director of the Pacific Islands Program. He has a Master of Public Policy/Master of Diplomacy from Crawford School of Public Policy and the College of Diplomacy, ANU.

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