Reflections on the new aid paradigm, part 6: much obliged

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Australia’s Julie Bishop, like many contemporary foreign and development ministers, is prone to say donor-recipient relationships are things of the past which should give way to relationships of mutual respect, learning and accountability. She goes quite a bit further than this, in fact: they should become relationships of mutual obligation, with the specific obligations to be spelled out in tandem with the development of program-specific performance benchmarks by mid-2015 (Making Performance Count, strategic target 6).

While she would be unlikely to say as much, the Pacific Partnerships for Development, creatures of Kevin Rudd as chairman of the 2009 Pacific Islands Forum, are prototypes of what Ms Bishop is talking about—though the sentiment, if not the jarring term 'obligation', goes back at least as far as the Howard government's 2002 ministerial statement on aid (actually the latter does talk about two obligations: our moral obligation to provide aid, and our obligation to ensure it is effective). The parties formerly known as ‘donor’ and ‘recipient’ promise each other to do things, regularly account to each other for things done and not done and, in connection with the latter, enact consequences. The more unwelcome consequences mostly tend not to materialise, especially when the national interest is in play, as in the refugee-farming nations of Nauru, Papua New Guinea and soon Cambodia. In principle, though, the relationship is a quasi-contractual one.

This heightened emphasis on mutual obligations is ironic, given that the government’s performance framework for the aid program is, as discussed here yesterday, anything but demanding when it comes to administrator performance. Nevertheless, the government has said it will take on obligations, country by country, so what might these typically be?

For our part, according to the performance framework, it seems Australia will pledge to do nothing more than run good aid projects. As for our developing country ‘partners’, they will pledge to implement whatever programs of policy ‘reform’ they may already have (yes, that term does figure: *Making Performance Count*, p. 9) in areas bearing on agreed aid priorities. Our aid projects will help them in this endeavour, and by meeting their obligations they will help increase the impact of our aid projects—but it is inherent in this quasi-contractual logic that the two sides’ obligations are sufficiently independent that each can be held separately accountable for keeping its side of the bargain. While this is mostly quite unrealistic, since both obligations and accountabilities will be and in fact should be highly intertwined, there is a larger problem with this way of thinking about aid relationships.

The problem is not that such ‘mutual obligation’ agreements, sometimes called compacts, will drive our neighbours into the unconditionally loving arms of China—that would be vastly to overstate their significance. The problem is that such agreements are most likely to be created, and least likely to be genuinely mutual, where relationships are extremely unequal. A small country which depends on Australian aid for say 15 per cent of its Gross National Income (GNI) is a readier partner than one whose population and GNI utterly dwarfs our own, such as Indonesia. However, it is also less likely than Indonesia to focus on extracting a fair, proportionate *quid pro quo*. And the Australian government is rather unlikely to make a habit of offerig the things it most wants: truly predictable aid flows; focused, high-quality and long-term programs of support uncluttered by 'announceables' and the pet projects of various Australian agencies; financing through government systems for the national budget or sector investment programs; and a devolution of decision-making to country level. Turning this point around, reaching an agreement with a country like Indonesia while accepting only minimal obligations on our side will inevitably mean accepting minimal obligations on the other side too, resulting in both a vacuous agreement and an over-emphasis on aid in the relationship.

If compacts in practice underline sovereign inequality or over-emphasise aid, both of which outcomes are entirely contrary to their stated purpose, what is their attraction? Perhaps it is believed they provide a handy platform for hectoring. And it seems the central point on which the government would like to do some hectoring relates to the sovereign responsibility of recipient governments to provide services to their citizens, such as educational materials and pharmaceutical supplies (Australian Aid, p. 27, 'Test 3'). Donors, according to the government, should get out of this business in all but the most desperate places. However, if Australian aid is to 'engage with risk' and model better ways of managing health, education or other social programs in various contexts, it should not matter exactly what the Australian aid program pays for. Nor should we expect partner governments to pay for too much within the orbit of our more experimental interventions until such time as there are real runs on the board. Our aim should be to trigger a durable change in the way a recipient government operates, without fussing about which of its line items might be funded externally in the process.

If we want to move beyond donor-recipient relationships, in reality rather than at the level of rhetoric, the first thing we should do is jettison quasi-contracts of this kind and simply get behind things that are high priorities for recipient governments, represent good policy and need an injection of our capital or expertise.

Assuming for the sake of argument that some lesser obligation-satisfiers among aid recipient countries and organisations do actually experience consequences in the form of reduced aid allocations, where would the money go? If not back to consolidated revenue then, obviously, toward the over-achievers. And indeed Ms Bishop announced in June that a Performance Incentive Fund will be established at some point in 2015-16, presumably at budget time, to spur or honour good performance by distributing bonuses to selected partners—bilateral, multilateral and perhaps non-governmental.

This mechanism has the air of an afterthought to the new aid policy and, like another seeming afterthought, the DFAT 'Innovation Hub', is not mentioned in the core policy document, *Australian Aid*. We do not know how big it will be, though it can hardly be huge within an aid budget that is declining in real terms. Clearly it can only be created at all, in the current budgetary circumstances, by reducing allocations to countries and organisations regarded as either less worthy or, at a stretch, less needy. So, probably even before agreements are negotiated, we should be able to see how far sticks are likely to be wielded in order to fund carrots.

Genesis and specifics aside, the creation of this incentive mechanism is inconsistent with the notion of putting performance at the heart of resource allocation. A genuine effort to put money where it counts most, for example in determining allocations to multilateral organisations, would see budgets both increased and reduced for sustained periods following careful, multi-year monitoring of performance. Setting up an inevitably small fund to put icing on top of existing allocations to certain recipients, probably sporadically and without multi-year commitments, sends no effective signal. As was concluded by an AusAID evaluation of incentive mechanisms in the Australian aid program over ten years ago: 'any particular government as a whole is unlikely to seriously engage in reform for any amount of Australian aid money potentially on offer'. Fiddling with this mechanism will also will carry high transaction costs for both DFAT and recipient countries and organisations.

Money should certainly flow away from where it is demonstrably poorly utilised to where it is demonstrably better utilised but it should it should do so slowly and surely, with any increases for good performers sustained and not provided in ways that merely increase funding volatility and program fragmentation. Such flows increase the efficiency of resource allocation rather than creating significant incentives for the potential beneficiaries—a distinction usefully made in the old AusAID evaluation just mentioned. Most recipients would far rather have certainty about funding trajectories, one way or another, than access to a few glass beads.

Finally, a few words to wrap up this series of occasional reflections. The new aid paradigm is the old one with some new twists. It contains at least two potentially valuable elements in its emphasis on economic infrastructure and production and on research and innovation. It is lacking in its articulation of the rationale for aid and in its consideration of resource allocation trade-offs. It spawns an alarming array of earmarks, processes and reporting requirements, fizzles where aid effectiveness benchmarks are concerned (so many submissions, so little result), vagues up private sector engagement and trips up on the management of partner performance. But, even a year on, it is still early in the career of this government as steward of Australia's aid program. Holes will likely be filled progressively, and some ideas quietly left aside. Ms Bishop might reasonably charged with fiddling with the window-dressing of the aid program, but that is preferable to disembowelling it.

Robin Davies is Associate Director of the Development Policy Centre. This is the final in a six-part series of blogs examining the new aid policy, collected here.