

Delivering the aid program

- 9.1 The new Australian Government development policy aims to broaden engagement with the private sector. As the department responsible for implementing the policy, the Department of Foreign Affairs and Trade (DFAT) will have to rethink the way it does business. DFAT will need to find opportunities to leverage its networks, to build its capacity and fully embrace innovation and engagement with the private sector.

Limitations of current program delivery

- 9.2 Current procurement and contracting approaches provide some lessons for DFAT's future approaches to partnering with the private sector. Some evidence suggested that the current approach to delivery of Australia's aid program: reduces its effectiveness; stifles innovation; limits the pool of potential commercial providers; and impacts on the ability of a contractor to manage their own risks.
- 9.3 There have been limited opportunities for the private sector to contribute to the Government's broader understanding of the countries receiving Australian aid. Further, there was the view that 'the expertise of the private sector hasn't always been sought or reflected in the design and implementation of aid projects'; and that when consultation has taken

place, it has generally been after the key development decisions have been made.¹

- 9.4 Abt JTA reflected on DFAT's approach to selecting delivery partners, estimating that 'five years ago 45 per cent of [aid funding] was let under competitive tendering to private companies...that reduced to 16 percent'.² Abt JTA further suggested that DFAT's approaches to identifying partners favour NGOs:

The point I would like to make is, we are all implementing partners of the aid program and we all have our strengths and weaknesses...I think there needs to be a level playing field, and the aid program should partner with those who are best able to deliver the service or partnership they are looking for.³

- 9.5 DFAT's approaches to program design and contracting were raised in the evidence. Cardno Emerging Markets and METIS Analytics submitted that, in relation to DFAT:

Current aid delivery mechanisms stifle private sector innovation due to a culture of risk-aversion (fear of failure) resulting in highly prescriptive and inflexible designs/contracts, with few incentives for the private sector to innovate and provide new, cost-effective solutions to achieving development outcomes (as opposed to contractual compliance).⁴

- 9.6 Similar views were expressed in an Independent Review of the UK Department for International Development's (DFID) Private Sector Development programs, which stated:

Existing processes (such as the business case) do not properly support effective and timely decision-making. They currently

1 ASPI, *Submission 112*, p. 5, and see Australia Papua New Guinea Business Council, *Submission 71*, p. 3; Australian Centre for International Agriculture Research (ACIAR), *Submission 22*, p. 10.

2 Dr Jane Thomason, Chief Executive Officer, Abt JTA, *Committee Hansard*, Brisbane, 11 August 2014, p. 24. *The Performance of Australian Aid 2013-14* (p. 12) states that if ODA appropriated to other Australian Government departments and agencies is excluded, 21 per cent of the aid program in 2013-14 was competitively tendered.

3 Dr Thomason, Abt JTA, *Committee Hansard*, Brisbane, 11 August 2014, pp. 20-21.

4 Cardno Emerging Markets and METIS Analytics, *Submission 20*, p.1. See also Mr Marshall, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 33; Dr Danielle Logue, Senior Lecturer, University of Sydney, *Committee Hansard*, Sydney, 20 August 2014, p. 3.

place too much emphasis on the initial project design and relatively little on supervision and learning.⁵

- 9.7 To address these issues, GRM International suggested DFAT could explore how to be more flexible in design and contracting:

A more partnership approach rather than a strict contractual relationship would allow key people to contribute far more as the programs are developed, because these sorts of projects are always extremely complex, and sometimes that is not recognised. [DFAT] think there is a point in time where it is fixed, and there you go – ‘Go off and implement it.’⁶

- 9.8 Coffey encouraged DFAT to consider how to reconcile procurement and partnership requirements to achieve better outcomes:

In future, designs and contracts should look at ways of bringing more partners to projects and there needs to be flexible financial and institutional approaches in order to do so.⁷

- 9.9 Following a review that encouraged the Australian Centre for International Agriculture Research (ACIAR) to engage the private sector from the design stage to maximise impact, ACIAR advised that its preferred approach is partnership rather than procurement:

We occasionally have an open tender process for our programs. But that is not our preferred method for a number of reasons. In many cases it disadvantages countries where the capacity to tender is limited. It is also quite an expensive process. In many cases we do it through a commissioning and negotiation... Our job is to try and identify the sweet spot where there is benefit to Australia and developing countries.⁸

Reducing red tape for partnering

- 9.10 In its submission, Austrade noted ‘strong interest by Australian companies to participate in infrastructure and development projects’, but further submitted that ‘businesses, particularly SMEs, find identifying opportunities and tender processes both complex and resource intense.’⁹

5 Australian Council for International Development (ACFID), *Exhibit 73, ‘Independent Commission for Aid Impact – Report 35 – May 2014, DIFD’s private sector development work’* (UK), p. 35.

6 Mr Marshall, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 33.

7 Coffey, *Submission 35*, p. 7.

8 Dr Nick Austin, Chief Executive Officer, ACIAR, *Committee Hansard* 29 August 2014, p. 44.

9 DFAT, *Submission 21*, p. 69, Attachment D: Austrade Annexure.

- 9.11 Reflecting on its experiences, TAFE Directors Australia raised concerns at the practice of bundling aid tenders – a single tender for multiple services and education – which it claimed favours multinational professional service providers. TAFE Directors advised that rather than being because it had failed to meet the tender requirements or it was more expensive:

It is just that the tender often is for multiple services and education will be a segment of that service, so a TAFE institute would be unlikely to tender successfully for a multiple domestic service operation in, for example Cambodia...I have to say it is just not the experience of other countries, particularly our major educational competitors.¹⁰

- 9.12 Adam Smith International observed that, when DFAT does tender its programs, an outcome of DFAT's current approach is to limit the number of commercial contractors who deliver the aid program and suggested that this is a risk for the aid program.¹¹ It further noted:

I think there is definitely a trend in the Australian aid program to have either very small contracts or very big contracts and not an awful lot in between. I think there needs to be diversity in the contracts being offered to attract diversity in the suppliers as well. ... DFID has a much broader supply base and also a much easier procurement process which attracts specialist companies of all sizes as well as the really top players like McKinsey and KPMG.¹²

- 9.13 Both Coffey and Dr Tess Newton Cain also cautioned DFAT about overburdening the development stakeholder with red tape. Citing Dr Newton Cain in relation to the Pacific, Coffey commented more broadly that:

Donor programs are often administratively intensive and companies often have small management teams especially in smaller to medium enterprises where donors often target programs or in regions such as countries in the Pacific where the business environment is very small. Companies have limited capacity and tolerance for accommodating multiple teams of

10 Mr Martin Riordan, TAFE Directors Australia, *Committee Hansard*, Sydney, 20 August 2014, pp. 53-54.

11 Dr David Carpenter, Senior Adviser, Research and Evaluation, Adam Smith International, *Committee Hansard*, Sydney, 20 August 2014, p. 59.

12 Mr Jonathan Pell, Director, Asia Pacific, Adam Smith International, *Committee Hansard*, Sydney, 20 August 2014, p. 57.

consultants scoping, designing, monitoring and evaluating and often limited time to spend on reporting.¹³

- 9.14 The Committee believes the Australian Government needs to review Official Development Assistance (ODA) contracting practices. Despite pockets of innovation, DFAT's current contracting and procurement approaches are limiting who can participate in the design and delivery of aid contracts and the overall effectiveness of aid. While acknowledging the complexity of the environments in which aid is delivered, the Committee is of the view that current aid contracts do not have sufficient flexibility to permit contractors to adapt to the changing context in which they operate.
- 9.15 In addition, DFAT's approach to designing very large aid activities, with components that may then be sub-contracted, limits the ability for smaller, specialised firms and Australian institutions to directly engage or participate. This includes our TAFE sector.
- 9.16 Much innovation comes from small and medium size enterprises (SMEs) and specialist institutions, some of which will have no experience working with government, or capacity to meet extensive compliance requirements. The Australian Government needs to do more to enable SMEs to participate in Australian development projects.

Recommendation 23

The Committee recommends the Department of Foreign Affairs and Trade:

- **identify roadblocks and unhelpful red tape hindering optimal outcomes for existing contracts and partnership arrangements, in order to improve the flexibility and effectiveness for all of these arrangements;**
- **review existing contracting or sub-contracting requirements that currently limit the pool of potential aid delivery partners, including small enterprises, TAFEs and others with specialist skills; and**
- **foster expertise in building partnerships, including by shifting departmental culture toward a more positive approach to the private sector.**

13 Coffey, *Submission 35*, p. 4; Dr Tess Newton Cain, Lowy Institute for International Policy, *Submission 82*, p. 7.

Tied versus untied aid issues

9.17 Some submissions considered whether the Australian aid program should be restricted to Australian firms. The *2012 Business in Development Study* described untied aid, however, as a means of improving aid effectiveness and efficiency:

The policy of untied aid represents the Australian Government's long standing commitment to openness in trade and competition, and prohibits discrimination based on foreign ownership, affiliation or location.¹⁴

9.18 In its submission DFAT, noting Australia's untied aid policy has been in place since 2006, asserted that 'this ensures Australia has access to the best globally available goods and expertise at the most competitive prices'.¹⁵

9.19 DFAT argued that another perceived benefit of most OECD member countries having untied aid¹⁶ was that Australian businesses, and individuals, have the opportunity to tender for work funded by other donors.¹⁷ For example:

- Asian Development Bank (ADB) data indicated that in 2013, Australian companies were awarded contracts to the value of around \$78 million from a total of \$7 billion in procurement. The vast majority of the contracts awarded were for consulting services.¹⁸
- In 2010 World Bank Group listed major contracts awarded to Australian businesses, valued at around \$75 million.¹⁹
- The World Food Programme (WFP) identified that in 2013, \$5.6 million worth of commodities were purchased from Australia from a total of \$1.16 billion purchases made worldwide. Explaining its procurement

14 Accenture, *Exhibit 1, 'Business in Development Study 2012'*, p. 1.

15 DFAT, *Submission 21*, p. 30.

16 The OECD's Recommendation to Untie Official Development Assistance (2001) has supported adoption of the policy. The OECD also notes that Australia, Finland, France, Germany, Ireland, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom currently exceed the requirements of the recommendation. See OECD 'Untying Aid: the Right to Choose' <www.oecd.org/development/untyingaidtherighttochoose.htm>

17 DFAT, *Submission 21*, p. 30.

18 Asian Development Bank (ADB), *Asian Development Bank and Australia: Fact Sheet*, <www.adb.org/publications/australia-fact-sheet> viewed 15 April 2015.

19 Procurement under World Bank-financed projects results in the award of about 20-30,000 contracts with a total value of about \$20 billion each year. Of these, about 7,000 contracts (particularly large-value contracts) are reviewed by Bank staff prior to contract award, and are made publicly available after contract signature. World Bank Group, <www.web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:51565~pagePK:95864~piPK:95915~theSitePK:40941,00.html>, viewed 15 April 2015.

strategy, WFP indicated that it aims to buy ‘as close to where it is needed as possible’.²⁰

- 9.20 Austrade advised that in addition to assisting contractors to gain access to ADB or World Bank projects, its staff overseas ‘look for opportunities fuelled by third-country donors in markets where we are active’:

Japan has a big ODA program with a very strong focus across South-East Asia but also more widely. We have put a lot of effort into sending staff from our Japan office to a number of South-East Asian markets – Indonesia and Vietnam – to work with our local teams to look to access the Japanese contractors that could be competing to deliver or delivering those aid programs, as well as other commercial activity.²¹

- 9.21 Both the Development Policy Centre and World Vision Australia supported untied aid with recommendations that the Australian Government maintain the policy.²²
- 9.22 While there is evidence suggesting a range of benefits of untying aid, there are still questions as to the implementation of untied aid policies by various OECD member countries. A report by the Overseas Development Institute indicated examples of unlevel playing fields, lack of transparency as well as some data problems. It noted that ‘[u]ntying and tying practices rarely appear on the evaluation agenda and so opportunities to know more are systematically missed.’²³
- 9.23 The Committee notes that in the past Australia has gone well beyond the requirements of the OECD recommendations in relation to supplying untied ODA. Untied aid means that procurement of all goods and services by these agencies using our funds is open to any suppliers. The Committee considers that the ‘badging’ opportunity in these circumstances is lost.
- 9.24 There is also some concern that Australia’s provision of untied aid may not be in Australia’s, or the recipients, best interests. For example, in relation to the humanitarian program, Australia provides funding to

20 World Food Programme, <www.wfp.org/procurement>, viewed 15 April 2015. In the 2013-14 financial year, Australia contributed \$46 million to the WFP

21 Mr Laurie Smith, Executive Director International Operations, Austrade, *Committee Hansard*, Canberra, 25 June 2014, p. 7.

22 Development Policy Centre, *Submission 103*, pp. 28-29, World Vision Australia, *Submission 36*, p. 18.

23 Overseas Development Institute (2009), *Aid untying: is it working?*, p. 57; p. 59. The study was undertaken under the auspices of the Secretariat for the Evaluation of the Paris Declaration and the OECD/DAC.

multilateral organisations, such as the World Food Programme (WFP), which in turn procures agricultural products and other goods and services on its behalf.

- 9.25 Australian companies may tender to provide products to the WFP, but they may well be competing against businesses from countries that maintain domestic subsidies. In addition, while noting there is a UN purchasing portal through which Australian businesses can apply to register, there is neither a guaranteed qualification nor does it mean that once qualified the business will receive an invitation to tender. This is all at the discretion of the WFP. Australians need a level playing field to win a part of their own aid budget to supply product.
- 9.26 Many Australian businesses wish to tender for global aid supply and services contracts. Better systems are needed to ensure that Australian businesses and institutions are aware of opportunities and are able to navigate international, as well as Australian, procurement processes.
- 9.27 The Government should review its tendency to donate via untied aid. We should be aware of where our ODA funds go, to ensure it best supports our region, our aid objectives and our priorities.

Recommendation 24

The Committee recommends that, in line with its new aid paradigm, the Australian Government:

- **review its untied aid grants strategy;**
- **strengthen our representation, influence, and the articulation of Australia's interests through Australia's permanent representatives at multilateral organisations;**
- **inform the Australian Parliament of any significant changes proposed by multilateral organisations that could impact on Australia's interests prior to any decision being taken; and**
- **continue to prepare and publish an annual assessment of multilateral institutions to:**
 - ⇒ **determine how well they are meeting the objectives and intentions of Australia's aid program; and**
 - ⇒ **inform decisions on Australia's future funding contributions.**

Recommendation 25

The Committee recommends that the Australian Government:

- review development and humanitarian assistance with a view to increasing the proportion of in-kind aid to better meet our new national objectives; and
- streamline tender information and advertising processes so more Australian businesses can participate in supplying aid products and services.

DFAT's capacity to partner

9.28 The role of the Australian Government in development partnerships is different to that of traditional aid tender-procurement relationships in that the Government's level of influence and role in decision-making is not unilateral. There will be an increased need for respect, diplomacy and mutual understanding throughout the initiation and lifecycle of any such partnerships.

9.29 As the agency responsible for Australia's aid, trade and foreign policy, DFAT must have the ability 'to walk the talk' of the private sector – to understand its priorities and how to use these to drive development outcomes. DFAT also needs to:

- understand the barriers and business imperatives faced by the private sector;
- define and articulate where it can add value in private sector partnerships relative to other stakeholders; and
- be prepared to take calculated risks, and to do business differently compared with its previous untied aid to UN agencies or NGOs, or tedious red-tape bound, inflexible tender processes.

9.30 DFAT's capacity to engage and partner with the private sector was raised throughout the evidence. The North-South Institute stated that:

...realizing the full potential of collaborations with the private sector depends on the management and maintenance of the relationships between partners.²⁴

24 The North-South Institute, *Submission 85*, p. 3.

- 9.31 Accenture suggested that DFAT will need to invest in significant internal change management to succeed in engagement with the private sector, and noted that development agencies in UK and Sweden had initiated such processes:
- If DFAT staff do not understand the value proposition they are unlikely to engage or if they do engage they may not approach it in the most effective manner. Helping staff to understand the drivers and benefits and giving them the tools to be able to work with the private sector will be very important.²⁵
- 9.32 The Development Policy Centre reflected on the incentives for DFAT to work in partnership with the private sector. It noted that donors:
- ...exist fundamentally to allocate and distribute money through contracts and agreements...They have little inclination or capacity to work with private actors in ways that do not involve the disbursement of funds, or perhaps involve only small amounts of funding for third parties (e.g. NGOs).²⁶
- 9.33 This was a view shared by the Foundation for Development Cooperation:
- More partnerships with business will require a shift from conventional approaches to management of aid projects to more direct engagement of aid staff and an increase in their capacity to understand and manage these partnerships.²⁷
- 9.34 Further to the submission made referring to DFAT's capability, Coffey raised the issue of the readiness of DFAT to build and maintain relationships with the private sector:
- The private sector and the public sector often speak very different languages and effective engagement with the private sector will require a capability, culture and profile that can understand and respond to market and business imperatives.²⁸
- 9.35 Coffey further noted that the merger of AusAID and DFAT may have been beneficial in relation to DFAT's aim to increase engagement with the private sector.²⁹ URS suggested:

25 Accenture, *Submission 23*, p. 12.

26 Development Policy Centre, *Submission 103*, p. 21.

27 Foundation for Development Cooperation, *Submission 78*, p. 2.

28 Coffey, *Submission 35*, p. 9.

29 Coffey, *Submission 35*, p. 10.

...that the aid and trade arms of DFAT work together, with the private sector, to explore where existing private sector activity could be expanded for additional economic development and poverty reduction outcomes.³⁰

9.36 Austrade noted that they 'have a good understanding of Australian business, grounded in [their] interaction with many thousands of businesses every year' and that this understanding extends to other countries:

...it is clearly a high priority for us to develop very strong networks in market because they are networks we need to build out so that we can assist Australian companies to speed the time to market or to find the right sorts of partners offshore.³¹

9.37 Accenture encouraged greater private sector participation within DFAT, and suggested this may be done through 'hiring private sector people or setting up a corporate advisory unit.'³² Using their own organisational practices as examples:

- Accenture highlighted the value placed within its own organisation on having people who have worked both in the commercial practice and on international development, including with not-for-profit clients.³³
- Coffey suggested that while it uses technology to connect, it is 'also important to have a mobile workforce to develop people-to-people links encouraging team members travelling between locations to develop networks and share information'.³⁴

9.38 The Foundation for Development Cooperation suggested that DFAT build its capability by taking a comprehensive approach to engaging with the private sector, including:

...continued dialogue between government and business councils; exchanging information on aid projects and business investment plans; reviewing best practice of existing organisations with a private sector orientation; and exchanges and secondments of staff between the aid program and business groups.³⁵

30 URS, *Submission 19*, p. 4.

31 Mr Laurie Smith, Executive Director International Operations, Austrade, *Committee Hansard*, Canberra, 25 June 2014, p. 2.

32 Mr Joshua Kennedy-White, Managing Director - Health and Public Sector, Accenture Australia, *Committee Hansard*, 27 October 2014, p. 7.

33 Ms Morgana Ryan, Global Lead Organisational Strengthening, Accenture Development Partnerships, Accenture Australia, *Committee Hansard*, 27 October 2014, p. 1.

34 Coffey, *Submission 35*, p. 10.

35 Foundation for Development Cooperation, *Submission 78*, p. 2.

- 9.39 The Committee notes that capacity building can be achieved in various ways; through skill-transfer, by bringing in short-term external expertise, or providing existing staff with training or work experience outside the organisation. As much as this applies to Australia's aid program when trying to build a developing country's workforce capacity, it also applies to DFAT's internal change management objectives.
- 9.40 Reflecting on the large body of evidence about the need for DFAT to have a better – broader and deeper – understanding of the private sector, consideration should be given to mechanisms that would enable staff to undertake temporary assignments outside the department with commercial entities or NGOs that are working with the private sector.
- 9.41 Encouraging staff to identify opportunities for secondments through existing networks could kick-start the development of a structured program within the department. It may also be useful to consider best-practice in other government agencies within Australia or internationally. One such example is the Canadian Government's Interchange program.

Recommendation 26

The Committee recommends that the Department of Foreign Affairs and Trade:

- **support a structured program of secondment of key staff between selected private and relevant public sectors; and**
- **develop a best-practice strategy to support cross-department acquisition of networks, knowledge and expertise from targeted secondments.**

Resourcing of the new aid paradigm

- 9.42 In addition to the capacity of individuals within DFAT, ATAB and the IIT considered it important that DFAT devote appropriate resources to implement its priorities, as identified in the development policy. It also suggested that this be complemented through 'support for Austrade and relevant business networks'.³⁶

36 Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide, *Submission 111*, p. 27.

9.43 In 2012, the then Joint Standing Committee on Foreign Affairs, Defence and Trade in its inquiry into Australia's overseas representation recommended that Australia increase its overseas resourcing so as to capture emerging opportunities.³⁷ Accenture made a similar observation that appropriate resourcing needs to be in place in the countries where the aid program works:

Make sure that there are sufficient resources within DFAT empowered to work in this area to match the public commitments made to the agenda. This is not just in Canberra but in the countries that have been selected as priority countries for fostering poverty alleviation via business in development.³⁸

9.44 The North-South Institute also encouraged DFAT to consider the staff resourcing commitments required for partnerships:

Deeper integration among public, private, and non-profit actors can lead to greater value, but the management and maintenance of these engagements is a challenging task; benefits and costs of a potential partnership should be carefully examined.³⁹

Building a knowledge base

9.45 Appropriately skilled people and allocation of resources may set the foundation for engagement and partnering. However, harnessing the collective knowledge of DFAT and its partners was also highlighted as a necessary component.

9.46 Cardno noted that 'expanding the role of the private sector in development... is not an inherently new approach', and suggested:

DFAT and the Australian government have the advantage of lessons learned from many like-minded large bilateral donors pursuing similar policies over an extended period, USAID and DFID in particular, but also of course a range of initiatives from within DFAT's own portfolio.⁴⁰

9.47 Supporting the Foreign Minister's view that partnerships should be based on who can deliver most effectively, Dr Newton Cain encouraged DFAT

37 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Overseas Representation – Punching Below our Weight?*, October 2012, p. 14.

38 Accenture, *Submission* p. 12.

39 The North-South Institute, *Submission 85*, p. 3.

40 Mr Mark Pruden, International Development Business Unit Manager (Asia Pacific), Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, p. 18.

to take an 'agnostic approach to finding out what lessons have already been learned', including by:

...engaging strategically with current and possibly new partners around sharing of knowledge and brokering of knowledge. We think that will inform DFAT's thinking and policy. We think it will help remedy the deficits of expertise that might be there.⁴¹

- 9.48 DFAT's existing partners, including commercial contractors, multilateral organisations and NGOs also have experience working with the private sector.⁴² NGOs advised that some of their partnerships with the private sector are currently funded through the Australian NGO Cooperation Program.⁴³
- 9.49 The Committee was referred to a large body of material related to partnering with the private sector. Much of the material was developed by, or in consultation with, different types of private sector organisations, including Accenture/B4MD's *Business in Development Study 2012*, commissioned by Australia's aid program,⁴⁴ and Ernst & Young's *The Power of Three Together – governments, entrepreneurs and corporations can spur growth across the G20*. A full list of exhibits received by the Committee is available at Appendix B.
- 9.50 Submissions also referred to a number of global platforms on private sector development and private sector engagement, which DFAT either supports or is a member of, including the Donor Committee for Enterprise Development (DCED),⁴⁵ Business Call to Action (BCtA),⁴⁶ Consultative Group to Assist the Poor (CGAP),⁴⁷ and Devex Impact.⁴⁸
- 9.51 Evidence presented to the Committee demonstrated the breadth and depth of knowledge that is available in relation to engagement with the

41 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The new aid paradigm', *Speech*, delivered 18 June 2014; Dr Newton Cain, Lowy Institute for International Development, *Committee Hansard*, Canberra, 29 August 2014, p. 29.

42 ACFID, *Submission 52*, p. 23. Also see: Save the Children, *Submission 38*; Fairtrade Australia and New Zealand, *Submission 7*; Mr Mel Dunn, Chair, International Development Contractors Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 48.

43 World Vision, *Submission 36*, p. 8; Marie Stopes, *Submission 33*, p. 6.

44 *Exhibit 1: Accenture and Business for Millennium Development*, 'Business in Development Study 2012'.

45 The North-South Institute, *Submission 85*, p. [2]; see <www.enterprise-development.org> viewed 6 March 2015.

46 Business Call to Action, *Submission 124*, p. 1; and <www.businesscalltoaction.org/> viewed 6 March 2015.

47 The Springfield Centre, *Submission 67*, p. 4, and <www.cgap.org> viewed 6 March 2015.

48 Collabforaction, *Submission 80*, p. 9, and <www.devex.com/impact> viewed 6 March 2015.

private sector. DFAT also has relevant expertise. The Committee encourages DFAT to look to its counterparts and build mutually beneficial relationships to harness their collective knowledge for greater development impact.

Recommendation 27

The Committee recommends that the Department of Foreign Affairs and Trade develop and maintain close, consultative relationships with:

- **global forums on private sector development;**
- **the Australian Council for International Development, accredited Australian NGOs, and in-country NGOs;**
- **businesses, their associations and peak bodies, including those in developing countries; and**
- **commercial contractors to the aid program.**

Moving beyond procurement to partnership

9.52 Moving away from a relationship with the private sector that has to date been predominantly based on procurement brings challenges and opportunities.

9.53 Focusing on the private sector purely as an administrator of government funding clearly limits the ability of businesses operating in a range of sectors to contribute to development outcomes. Further, as a Commonwealth entity DFAT is bound by the *Public Governance, Performance and Accountability Act 2013*. The Act details rules relating to Commonwealth entities, including procurement and grants rules. However, the Act does note that rules may make different provisions for different entities.⁴⁹

9.54 In terms opportunities, RESULTS International Australia observed:

The early involvement of private sector partners in the design of aid projects, rather than acting as contractors which provide goods and services which meet a specification that the government

49 *Public Governance, Performance and Accountability Act 2013*, s. 101 – s.102.

agency has decided in advance, can lead to more effective and innovative project design.⁵⁰

9.55 Abt JTA suggested factors for DFAT to consider when assessing the value of a private sector organisation as a development partner, include:

... establishment of a case showing a clear benefit in utilizing a private sector partner for reasons such as physical presence in an isolated area, unique delivery capacity and opportunity to reduce cost of delivery through leveraging private funds.⁵¹

9.56 Australian Volunteers International proposed that DFAT adopt a checklist to 'ensure maximum innovation in the design and delivery of international projects':

A design and delivery checklist would become part of the procurement process demonstrating that all options have been considered. This could include: a) the different modalities available for delivery and their value in different settings b) the potential for international volunteering organisations and other non-government organisations as working partners with Australian public and private sector organisations.⁵²

9.57 Mr Runde from the US Center for Strategic and International Studies suggested that the usual donor arrangements '[are] often difficult to navigate for companies, with multiple entry points and confusing contractual processes'. Mr Runde suggested that DFAT consider USAID's Global Development Alliance as a more suitable approach.⁵³

9.58 Evidence received by the Committee described the Global Development Alliance program:

...established in 2001, [it] aims to address business and development objectives through a market-based business model for partnerships between the public and the private sectors. Alliances are established through a co-owned process whereby USAID and private sector actors work together to design, fund and manage projects so that risks, responsibilities and rewards are equally shared.⁵⁴

50 RESULTS International Australia, *Submission 58*, p. 7.

51 Abt JTA, *Submission 5*, p. 4.

52 Australian Volunteers International, *Submission 37* p. 18.

53 Mr Daniel Runde, William A Schreyer Chair in Global Analysis, and Director Project on Prosperity and Development, Center for Strategic and International Studies (CSIS), *Committee Hansard*, 2 October 2014, p. 2.

54 The North-South Institute, *Exhibit 10*, 'Models for Trade-Related Private Sector Partnerships for Development', p. 109.

9.59 Professor Howes from the Development Policy Centre proposed that DFAT establish frameworks for engagement and a facility whereby ‘you can deal with several companies rather than just having one-by-one bilaterals’.⁵⁵ Ms Callan, also from the Development Policy Centre, further commented:

I think that, with a framework and some programs like the Enterprise Challenge Fund, the government’s aid program is able to set up mechanisms that are very clear about what their target is, what their objective is and how they would measure success. If you can set up a mechanism and then have a contestable call for applications to be involved in that mechanism then it is a much easier area to work in.⁵⁶

9.60 After reviewing the evidence the Committee is concerned that processes through which the Government partners with the private sector have often been difficult for companies to navigate, with multiple entry points and confusing contractual processes. These problems need to be resolved.

Recommendation 28

The Committee recommends that the Department of Foreign Affairs and Trade:

- **establish an effective private sector and philanthropic communication and engagement unit which offers a clear participation pathway for potential partners, and that:**
 - ⇒ **provides a register of relevant aid projects, but is flexible and remains open to innovative ideas;**
 - ⇒ **has systems in place to capture contacts and manage relationships more effectively, including those generated by Australia’s overseas diplomatic representatives; and**
- **introduce a mechanism through which partnerships can be established in a co-owned process to ensure risks, responsibilities and benefits are understood and properly assigned.**

55 Professor Stephen Howes, Director, Development Policy Centre, Australian National University, *Committee Hansard*, Canberra, 29 August 2014, p. 30.

56 Ms Margaret Callan, Visiting Fellow, Development Policy Centre, Australian National University, *Committee Hansard*, Canberra, 29 August 2014, p. 30.

- 9.61 The Australian Government's new innovationXchange has been established to find and collaborate with new partners in new ways to co-create solutions to 'tackle our toughest challenges and seize the most exciting opportunities'.⁵⁷
- 9.62 While noting that a reference group has been established as part of the innovationXchange, the Committee consider that there may also be benefit in DFAT establishing a dedicated panel of independent expertise, which can critically analyse private-sector partnership proposals, review risk profiles and examine due diligence processes quickly and effectively.

Recommendation 29

The Committee recommends that the Department of Foreign Affairs and Trade establish a panel of independent expertise, which can:

- **advise and help facilitate private sector engagement; and**
- **provide independent and expert guidance on partnership proposals, review risk profiles and examine due diligence processes quickly and transparently.**

Principles to guide partnering

- 9.63 Submissions suggested principles for partnering with the private sector to promote greater participation by the poor in the activities of business:
- **Additionality** – donors should not finance activities that a business would have financed themselves or would have otherwise happened anyway. Use of public funds should not displace potential private sector investment, but instead should leverage, incentivise or support activities that would not have been made either at all or in a timeframe that would generate the most advantage.
 - **Neutrality** – support, financial or otherwise, should not provide one business with an unfair advantage over its competitors, nor distort markets in which the intervention is being targeted.
 - **Sustainability** – support should have lasting development impacts and lead to long-term commercial viability of a business. However, there needs to be acceptance of relatively high risk when operating in developing markets.

⁵⁷ DFAT, 'innovationXchange – About Us', <www.dfat.gov.au>, viewed 5 April 2015.

- Value for money – in addition to applying to all investments, in relation to the private sector, in order to address concerns around use of public funds to support business, the expected benefits need to be able to be demonstrated as providing outcomes higher than other possible approaches or partners.⁵⁸
- 9.64 The Development Policy Centre and GRM International also emphasised that government funds should be matched by co-investment and sharing of risks. It was suggested that ‘skin in the game’ or ‘hurt money’ is necessary to ensure that when a project is identified as failing, it is in the interests of all parties to make decisions quickly.⁵⁹
- 9.65 The North-South Institute suggested the partnership principles be captured in project guidelines and eligibility requirements for private sector partners.⁶⁰ Further, the North-South Institute submitted that private sector partners ‘bring different skills and capacities to the partnership, which should be valued and harnessed in project design, implementation and monitoring and evaluation.’⁶¹
- 9.66 The Development Policy Centre proposed an extra innovation principle for partnerships:
- They should capitalize as far as possible on private sector ingenuity to propose and develop projects. Ideally, donor funding should be used for purposes of the private sector proponents’ own devising within parameters determined by the donor.⁶²

Challenges of putting principals into practice

- 9.67 The Development Policy Centre argued that partnerships which fail to observe these principles are likely to be ‘short-lived, ineffective and wasteful, or even harmful.’⁶³ The Development Policy Centre went on to suggest, however, that ‘[d]etermining whether additionality will be or has

58 Development Policy Centre, *Submission 103*, p. 21; GRM International, *Submission 57*, p. [6]; Overseas Development Institute, *Submission 51*, pp. 6-7.

59 Development Policy Centre, *Submission 103*, p. 21; and Dr Alwyn Chilver, GRM Futures Group, *Committee Hansard*, Brisbane, 11 August 2014, p. 35.

60 The North-South Institute, *Submission 85*, p. 3.

61 The North-South Institute, *Exhibit 10*, ‘Models for Trade-Related Private Sector Partnerships for Development’, p. 14.

62 Development Policy Centre, *Submission 103*, pp. 20-21.

63 Development Policy Centre, *Submission 103*, p. 20.

- been achieved is a difficult and subjective matter'.⁶⁴ This was a point on which the Overseas Development Institute (ODI) agreed.⁶⁵
- 9.68 In relation to the collection of information, GRM International suggested that the Australian Government ensure that 'the vital verification and evaluation functions of public-private engagements are independent.'⁶⁶
- 9.69 Referring to the findings of a recent review of DFID, Australian Council for International Development (ACFID) encouraged the Australian Government to take heed of the lessons learnt with regard to working with the private sector:
- '[The report] says that DFID needs to accept that it is the companies themselves which drive development of the private sector and donors are adjuncts to that process, not the reverse. Sometimes governments can try to over-engineer where the private sector might be going in the aid space'⁶⁷
- 9.70 The Foundation for Development Coordination raised the potential of:
- ...inadvertent creation of a disabling, instead of enabling environment for business if government becomes too involved with the private sector in applying processes, procedures and other requirements⁶⁸
- 9.71 Identifying and implementing aid activities is not a new role for DFAT. However, the types of activities being undertaken and how they are delivered are likely to be different when working in partnership with more businesses.
- 9.72 There was general agreement across stakeholders, including DFAT, about the principles that should underpin partnerships with the private sector. However, many stakeholders had been stymied by overly bureaucratic processes which made them think twice about partnering with DFAT. This also prompted some to be wary of the effectiveness of any partnerships.

64 Development Policy Centre, *Submission 103*, p. 21.

65 Overseas Development Institute (ODI), *Submission 51*, p. 6.

66 GRM International, *Submission 57*, p. [6].

67 Mr Marc Purcell, Executive Director, *Committee Hansard*, Canberra, 14 July 2014, p. 1.

68 Foundation for Development Cooperation, *Submission 78*, p. 10.

Recommendation 30

The Committee recommends that the Department of Foreign Affairs and Trade develop clear principles for all partnerships with the private sector.

- These principles should:
 - ⇒ include clear enunciation of our objective of promoting gender equity, reducing poverty and promoting economic growth in the Indo-Pacific region;
 - ⇒ require close engagement with countries, building capacity and governance, and in particular, reducing corruption;
 - ⇒ be incorporated into eligibility requirements for partnerships, guidance to staff and in partnership agreements.
- These partnerships should be desirable processes with the minimum of red tape impediment.

Managing partnership risks

9.73 Delivering an aid program involves managing many risks. As the Australian Government's recent report on the performance of aid stated:

By their nature, aid programs operate in fragile, often dangerous and corrupt environments. Appropriate mechanisms need to be in place that mitigate the risks of fraud and corruption, but also support the achievement of the objectives of the Australian aid program.⁶⁹

9.74 In its submission, DFAT recognised that working with new partners in new ways could expose DFAT to new risks. It stated that its approach to risk management needs to meet 'the high expectations from the Australian public on the effective use of aid funding'.⁷⁰

9.75 However, GRM Futures Group maintained that working through for-profit partners is not dissimilar to working with the not-for-profit sector under the aid program, commenting:

⁶⁹ Department of Foreign Affairs and Trade (DFAT), *Performance of Australian Aid 2013–14*, p. 15.

⁷⁰ Department of Foreign Affairs and Trade, *Submission 21*, p. 36.

...there is an inherent sort of feeling that working with an NGO, or even working with a government, is okay and is safe and working with business is much, much riskier and much, much more dangerous, when actually the due diligence you need for both is basically precisely the same.⁷¹

- 9.76 Discussing potential risk from the perspective of the Government taking a position as small equity partner to encourage private capital, Impact Investing Australia suggested:

... that we do not always talk about the fact that we take quite a lot of risk when we make grants. The money is gone; we hope it is going to do good things, often with the best of intentions.⁷²

- 9.77 Adam Smith International agreed that working with the private sector carries no greater risk, but added the caveat 'as long as DFAT is adequately equipped to manage the program'.⁷³

- 9.78 In addition to DFAT's capacity to manage a partnership, partner selection is particularly important. The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) reflected on the risks of working with unsuitable partners:

No doubt there are unscrupulous companies and some whose only interest in working with an aid donor is to try and influence government spending decisions in their favour or indeed attract aid money to pay for what they would otherwise have had to do themselves.⁷⁴

- 9.79 Along these same lines, GRM International suggested that the Australian Government should be aware of the possibility that a business may seek an association with the Government primarily to 'enhance their perceived credibility and environmental or social responsibility'.⁷⁵

- 9.80 Control Risks, a global risk consultancy, recommended that DFAT's processes should include both an upfront assessment and a requirement for partners to have internal risk management processes in place:

71 Dr Alwyn Chilver, Director Growth Private Sector and Livelihoods, GRM Futures Group, *Committee Hansard*, Canberra, 11 August 2014, p. 33.

72 Ms Rosemary Addis, Co-founder and Executive Chair, Impact Investing Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 41.

73 Mr Jonathan Pell, Director Asia Pacific, Adam Smith International, *Committee Hansard*, 20 August 2014, p. 57.

74 Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT), University of Adelaide, *Submission 111*, p. 18.

75 GRM International, *Submission 57*, p. [7].

The government should have high quality risk management strategies and vetting procedures in place for assessing both Australian and local business partners to ensure they do not bring unnecessary risk to the government by virtue of their actions or reputation. The government's business partner risk management strategy should include a positive requirement on partner organisations to prove their organisations have sufficient risk mitigation programmes.⁷⁶

9.81 Suggesting that international development contractors are 'some of the most highly scrutinised actors in the Australian aid program', URS advocated for 'consistency in expectation of performance in the management of these risks across all implementing partners of the Australian aid program'.⁷⁷

9.82 Save the Children Australia agreed with this view and suggested that '[c]ommon standards for the use of Australian aid money should be uniformly applied including fraud control and performance reporting'.⁷⁸

9.83 There were concerns raised in the evidence about DFAT's ability to embrace the change in direction of the aid program due to a perceived culture of risk aversion within the organisation. GRM International, observed:

Risk management is absolutely essential to everything that we do, that DFAT does and so on, so that is completely accepted. I think over the last couple of years that has become really a driving force for decision making rather than just one of the key considerations in a program, which has made people very reluctant to innovate and take chances.⁷⁹

9.84 ACFID commended the Foreign Minister's comments on risk when announcing the new development policy as a means to addressing what it perceived to be DFAT's risk aversion. ACFID noted:

[DFAT's] management culture and structure which does not lend itself well to entrepreneurial activity initially in taking risks...if you are going to play in this private sector space with Australian companies or overseas developing-country businesses, you need to be able to have a higher tolerance for risk and what the private

76 Control Risks, *Submission 74*, p. 5.

77 URS, *Submission 19*, p. 5.

78 Save the Children Australia, *Submission 38*, p. 13.

79 Mr Kenneth Marshall, Regional Director, Asia Pacific, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 34.

sector might do, and then look at ways that you might align or support it.⁸⁰

- 9.85 The International Development Contractors Australia (IDC), which represents a number of the major contractors currently implementing aid funded programs suggested:

DFAT take up the long standing offer to engage with the IDC to get a shared understanding of the true cost elements of ensuring appropriate service delivery that mitigate key reputation, fraud, corruption and fiduciary risks to the aid program.⁸¹

The Australian Government's current risk management framework for the aid program

- 9.86 Describing its risk management framework, DFAT states:

DFAT considers risk at all stages of the aid management cycle...DFAT undertakes a range of risk management measures including fraud control, partner government system assessments, due diligence assessments, multilateral organisational assessments as well as the application of safeguards on environmental protection, resettlement and child protection.⁸²

- 9.87 One of DFAT's risk management measures is the process of NGO accreditation, which:

...provides DFAT and the Australian public with confidence that the Australian Government is funding professional, well-managed organisations that are capable of delivering quality development outcomes and are accountable to their stakeholders.⁸³

- 9.88 The process of accreditation:

...evaluates an NGO's structure, policies, links to the Australian community, partnership arrangements, program, financial and management systems, and how these are applied. Accreditation is

80 Mr Marc Purcell, Executive Director, ACFID, *Committee Hansard*, Canberra, 14 July 2014, p. 7.

81 International Development Contractors Australia (IDC), *Submission 11*, p. 1.

82 DFAT, 'Safeguards and Risk Management' <www.dfat.gov.au/aid/topics/safeguards-risk-management/Pages/default.aspx> viewed 6 March 2015.

83 DFAT, *Australian NGO Accreditation Guidance Manual 2014* <www.dfat.gov.au/about-us/publications/Pages/australian-ngo-accreditation-guidance-manual.aspx> viewed 12 March 2015.

not an assessment of the quality or impact of an NGO's development activities.⁸⁴

- 9.89 The Department's website states that 48 NGOs are accredited to receive funding under the Australian NGO Cooperation Program.⁸⁵ It also notes that the 'aid program directly funds more than 330 Australian, local and international civil society organisations and non-government organisations.'⁸⁶
- 9.90 ACFID noted that NGO accreditation process is 'a very rigorous system' and advised that DFAT does not have the same requirement for the private sector.'⁸⁷
- 9.91 With respect to commercial partners, DFAT stated that 'in accordance with Australian Government procurement guidelines, [Australian and international] companies are selected through rigorous and competitive tender processes.'⁸⁸
- 9.92 The Department's website provides information for commercial contractors who may wish to work with the aid program. The website includes the *List of Laws, Rules, Guidelines, Codes and Policies for Contractors undertaking Aid Activities for DFAT*.⁸⁹
- 9.93 In addition, the website includes the *DFAT Aid Statement of Principles*, which 'underpins a partnership between DFAT and commercial contractors supporting delivery of the Australian aid program to':
- Deliver lasting results and impact
 - Maximise value for money
 - Work collaboratively and facilitate effective two way communication
 - Be accountable and transparent
 - Effectively manage risk, fraud and corruption

84 DFAT, *Australian NGO Accreditation Guidance Manual 2014* <www.dfat.gov.au/about-us/publications/Pages/australian-ngo-accreditation-guidance-manual.aspx> viewed 12 March 2015.

85 DFAT, 'Who We Work With' <www.dfat.gov.au/aid/who-we-work-with/ngos/ancp/Pages/australian-ngo-cooperation-program.aspx> viewed 6 March 2015.

86 DFAT, 'Who We Work With' <www.dfat.gov.au/aid/who-we-work-with/ngos/Pages/non-government-organisations.aspx> viewed 15 March 2015.

87 Mr Marc Purcell, Executive Director, ACFID, *Committee Hansard*, Canberra, 14 July 2015, p. 6.

88 DFAT, *Submission 21*, p. 28.

89 DFAT, *List of Laws, Rules, Guidelines, Codes and Policies for Contractors Undertaking Aid Activities for DFAT* <www.dfat.gov.au/about-us/publications/Pages/list-of-laws-rules-guidelines-codes-and-policies-for-contractors-undertaking-aid-activities-for-dfat.aspx> viewed 12 March 2015.

- Support and implement DFAT policies and procedures.⁹⁰
- 9.94 To better understand the risks inherent in the Australian Government's new approach, the IDC suggested:
- [DFAT] establish a private sector development risk and investment committee to advise on risk and opportunity in private sector development initiatives. To ensure the broader focus of the aid program is considered, we suggest such a committee would benefit from representatives of Department of Foreign Affairs and Trade, the private sector, ACFID and the IDC.⁹¹
- 9.95 The Committee recognises that not all individuals or organisations are suitable partners for the aid program, nor are all projects suitable for funding from the Australian Government. Processes need to be in place to ensure DFAT pursues activities which achieve development outcomes but do not inadvertently work with partners which may not achieve objectives or which damage the reputation of the country.
- 9.96 While new partners and new types of activities expose DFAT to different risks, managing risk in the delivery of aid is not new. The Committee notes that for private sector organisations, requirements are currently embedded in procurement arrangements and contracts. DFAT should build upon existing due diligence, risk management, grant and contracting arrangements in developing any additional requirements for private sector partners.
- 9.97 Further, the Committee suggests that DFAT should engage with current partners, particularly commercial contractors, to hear their response to the effectiveness and cost of implementing current DFAT risk management measures including the implementation of safeguards.

Recommendation 31

The Committee recommends the Department of Foreign Affairs and Trade periodically assess, with their partners, the effectiveness and cost of current risk management measures including safeguards.

90 DFAT, 'Aid Statement of Principles' <www.dfat.gov.au/about-us/publications/Pages/dfat-aid-statement-of-principles.aspx>, viewed 12 March 2015.

91 Mr Mel Dunn, IDC Australia, *Committee Hansard*, Brisbane, 11 August 2014 p. 51.

Due diligence for private sector partners

- 9.98 The due diligence process helps to mitigate the risks associated with partnering. In its submission, DFAT stated that '[i]ts capacity to undertake adequate due diligence will need to reflect the huge diversity in potential new partners'.⁹² Evidence received indicated that this capacity already exists in some portfolio and aid delivery partners.
- 9.99 The Export Finance and Insurance Corporation (Efic) is Australia's export credit agency and one of DFAT's portfolio agencies.⁹³ Efic's General Counsel and Board Secretary advised of the due diligence processes it uses in working with the private sector:
- ...when we initially enter into a transaction, quite a lengthy due diligence process is undertaken in compliance with our OECD obligations to ensure: firstly, that the companies are aware of their obligations; and secondly, that we do enough due diligence to make sure that the people we are entering into the arrangements with are appropriate.⁹⁴
- 9.100 The International Finance Corporation (part of the World Bank Group) highlighted being able to rely on its processes as one of the benefits of partnering with the organisation:
- ...partners not only access over 50 years of development finance experience, but also benefit from IFC's thorough Integrity Due Diligence (IDD) procedures, comprehensive Environmental & Social Performance Standards and rigorous results measurement frameworks.⁹⁵

International instruments, principles and standards

- 9.101 Submissions proposed that underpinning DFAT's engagement with business, and therefore any associated due diligence process, should be an expectation about the conduct of businesses. In particular it was suggested that DFAT only partner with businesses that operate in accordance with the UN Guiding Principles on Business and Human Rights, and a range of

92 DFAT, *Submission 21*, p. 36.

93 'Efic provides financial services and financial solutions to ensure viable commercial export and international business have opportunities to succeed in international markets' – Mr Andrew Hunter, Managing Director and Chief Executive Officer, Export Finance and Insurance Corporation (Efic), *Committee Hansard*, Sydney, 7 November 2014, p. 1.

94 Mr John Hopkins, General Counsel and Board Secretary, Efic, *Committee Hansard*, Sydney, 7 November 2014, p. 5.

95 World Bank Group, *Submission 75*, p. 8.

other international instruments covering human rights, labour standards, the environment and anti-corruption.⁹⁶

- 9.102 Observing that the ACFID Code of Conduct is required for NGO accreditation, Union Aid Abroad - APHEDA suggested '[it] be adapted and applied to bilateral and private sector partner stakeholders.'⁹⁷ Others, including Save the Children Australia, suggested the 'Australian Government should assure itself of the commitment of private companies to doing business responsibly by adhering to global frameworks'.⁹⁸
- 9.103 Supporting a similar position, World Vision Australia noted that '[a] company's ability to create or extract value for communities, countries and their environment is closely correlated to their capability and commitment to embedding best practice standards'.⁹⁹ It also advocated for the use of global standards, as they:
- ...provide guidance to companies on the performance expected of them when operating internationally and in contexts with different legal, social and economic risks and drivers... They provide some rigour to what may otherwise be a subjective interpretation of the responsibility of business in society.¹⁰⁰
- 9.104 This view was also supported by ACFID who suggested DFAT:
- Utilise and build on existing global standards of good practice for private sector engagement including the OECD Guidelines for Multinational Enterprises; the UN Guiding Principles on Business and Human Rights and the 10 Principles outlined by the UN Global Compact.¹⁰¹
- 9.105 According to UN Global Compact Network Australia, in May 2014 there were over 8,000 business signatories to the Compact.¹⁰² The Network advised that there were 112 signatories in Australia – '30 corporates, over 40 SMEs, approximately four business associations, eight universities and some other academic institutions, and about 25 non-profits'.¹⁰³

96 World Education, *Submission 121*, pp. 1-2; ACFID, *Submission 52*, pp. 5-6; UN Global Compact Network Australia, *Submission 79*, p. 3. Human Rights Law Centre (HRLC), *Submission 118*, p. 7.

97 Union Aid Abroad - APHEDA, *Submission 46*, p. 8.

98 Save the Children Australia, *Submission 38*, p. 13.

99 World Vision Australia, *Submission 36*, p. 18.

100 World Vision Australia, *Submission 36*, pp. 18-19.

101 ACFID, *Submission 52*, pp. 5-6.

102 UN Global Compact, *Submission 79*, p. 1.

103 Ms Alice Cope Executive Manager, Global Compact Network Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 28.

- 9.106 Referring to the jointly developed UN Global Compact and UN Women *Women's Empowerment Principles*, the Network suggested:
- They provide a platform through which the Australian Government could help ensure that any expansion of the private sector's role in development has positive outcomes for women, men, children and communities.¹⁰⁴
- 9.107 Other principles and standards target specific sectors, in particular extractive industries and the financial sector, or investors. These include the Extractive Industries Transparency Initiative (EITI) and the Equator Principles.¹⁰⁵
- 9.108 The Chief Executive Officer of Oil Search responded to a question on the value of codes of conduct for business and participation in EITI by explaining:
- [t]his is not a tick box for us; this is not something that we do just because we can put a little plaque on the wall or put it in our sustainability report...I think that most sensible reasonable companies will do [participate in the EITI] and have an obligation to do it.¹⁰⁶
- 9.109 The Committee notes that the Australian Government is the leading financial supporter globally of the Extractives Industry Transparency Initiative, and that the Government is currently undertaking a pilot within the Australian resources sector. Evidence indicated strong cross-sectoral support for Australia to promote this measure, including from the Minerals Council of Australia and its members.

104 UN Global Compact Network Australia, *Submission 79*, p. 2.

105 Adam Smith International, *Submission 17*, p. 6, Transparency International, *Submission 41*, pp. 2–3, Oxfam Australia, *Submission 72*, p. 20; Mr Frank Maiolo, Managing Director, South East Asia and International Development, URS, *Committee Hansard*, 11 August 2014, p. 54.

106 Mr Peter Botten, CBE, Managing Director, Oil Search Ltd *Committee Hansard*, Canberra, 29 August 2014, p. 9.

Recommendation 32

The Committee recommends that:

- subject to a successful conclusion of the pilot, the Australian Government adopt and implement the Extractives Industry Transparency Initiative; and
- Australian aid engagement should prefer companies in the extractives sector which support the Extractives Industry Transparency Initiative.

9.110 Outlining its use of global standards and sector specific frameworks to guide its operations with the private sector, the World Food Programme advised:

The context for work with the private sector is provided by the United Nations Global Compact, which guides United Nations organisations in engaging with businesses while ensuring the integrity and independence of the United Nations system. The ‘Guiding Principles for Public–Private Collaboration for Humanitarian Action’ issued by the World Economic Forum (WEF) and the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) provides a complementary framework.¹⁰⁷

Global standards— implications for small businesses

9.111 While there was general support for the Australian Government to require that private sector organisations adhere to these high level operational standards, there were concerns that this could exclude some organisations, such as microenterprises and SMEs, particularly in developing countries, from working with Australia’s aid program. The IDC noted:

For larger businesses that are investing internationally these practices are often a core part of their business and they have the resources to comply with them. For the medium to smaller size businesses this task can be daunting and they require support to navigate the necessary requirements.¹⁰⁸

9.112 Control Risks also considered the implications for SMEs:

¹⁰⁷ World Food Programme, *Submission 90*, p. 3

¹⁰⁸ IDC, *Submission 11*, p. 17.

...the pre-entry barriers and the challenges faced post-entry are often beyond those that SMEs have the resources to handle alone... Control Risks suggests the government considers how it may be able to provide more assistance to SMEs in dealing with these risks.¹⁰⁹

Demonstrating commitment to standards

- 9.113 The Committee recognises that businesses can demonstrate their commitment to non-financial standards, including by:
- reporting on their goals using common standards such as those developed by the Global Reporting Initiative;
 - joining the UN Global Compact, which requires companies to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour hire, environment and anti-corruption, and to report on this commitment;
 - becoming a member of the BCtA; and
 - having their products certified as meeting international standards by organisations such as Fairtrade.
- 9.114 However, in order to be meaningful the compact, principle or standard must have value and relevance in the marketplace, and be able to reflect the performance of that enterprise or company.

109 Control Risks, *Submission 74*, p. 6.

Recommendation 33

The Committee recommends the Department of Foreign Affairs and Trade:

- ensure staff have a highly developed expertise in, and understanding of, international standards and guidelines for business operations, particularly in those sectors which are priorities for the aid program; and
- be able to identify opportunities and connect businesses in Australia and overseas to global platforms, processes and frameworks, for example, the UN Global Compact.

Monitoring and evaluating results

9.115 The need for effective monitoring and evaluation of aid activities was widely acknowledged. The North-South Institute drew attention to the ‘gap in the availability of information on the effectiveness of particular partnership models and their results.’¹¹⁰ It suggested that ‘the establishment of clear monitoring and evaluation criteria that can demonstrate the value added of collaborative efforts are critical.’¹¹¹

9.116 With respect to individual activities, Coffey observed:

It is also important to recognise that not everything that has been trialled has worked well, and in many cases there have been variable efforts at monitoring and evaluation. Projects are operating in challenging environments so it is important that any new programs have a strong monitoring and evaluation plan in order to learn lessons from both success and failure.¹¹²

9.117 In setting up frameworks to monitor programs and evaluate their effectiveness, a number of submissions urged the Australian Government to be realistic about what outcomes it can expect and the extent to which it is able to claim responsibility for those results. Cardno reflected on these issues in the context of growing the private sector:

This might seem an obvious point, but [DFAT’s] strategy needs to acknowledge explicitly the sheer size and scope of the economic

110 North-South Institute, *Submission 85*, p. [2].

111 The North-South Institute, *Submission 85*, p. 3.

112 Coffey, *Submission 35*, p. 5.

growth and private sector development endeavour relative to the limited resources that a donor has at its disposal for this purpose. In an endeavour as large and complex as private sector development, donors need to be comfortable with the many agents, risks and factors that they cannot control and that complicate the donor's ability to directly produce, measure and claim results.¹¹³

- 9.118 Stakeholders also expressed concerns that contracts and the criteria for assessment of outputs under the aid program should not focus on short term goals. For instance, Pacific Islands Trade and Invest commented on the time taken to achieve development goals:

Our final point urges Australian stakeholders to take a patient approach to economic growth and poverty reduction in the Pacific Islands. ... This is especially so when compared to high growth regions such as South or Southeast Asia that benefit from vast economies of scale not found in the Pacific Islands.¹¹⁴

- 9.119 Further to this, evidence suggested that long term evaluations (a five year period was frequently cited) followed by further evaluation one or two years later would allow for a more realistic assessment of effectiveness, reflective of development cycles.¹¹⁵

- 9.120 The Global Reporting Initiative (GRI) suggested that 'measuring the success of private sector development in enabling sustainable economic development must involve a transparent and accountable approach'. GRI argued for the adoption of international best practice.¹¹⁶

- 9.121 Outlining its intentions for monitoring and evaluation of private sector development programs, DFAT stated that it will:

... use fit-for-purpose monitoring and evaluation systems that enable the department to make faster and better decisions on what is working and what is not so it can respond accordingly.¹¹⁷

113 Mr Mark Pruden, Cardno Pty Ltd, *Committee Hansard*, Canberra, 15 August 2014, p. 18.

114 Pacific Islands Trade and Invest, *Submission 60*, p. 8.

115 Mr Geoffrey Schahill, General Manager, Abt JTA Pty Ltd, *Committee Hansard*, Brisbane 14 August 2014, p. 20; Ms Carly Stephan, Centre for Social Change, *Committee Hansard*, Canberra, 11 August 2014, p. 30; Mr Christopher Rowlands, Manager, Social Entrepreneurship and Economic Development Unit, World Vision Australia, *Committee Hansard*, Canberra, 15 August 2014, p. 12.

116 Global Reporting Initiative, *Submission 148*, p. 3.

117 DFAT, *Submission 21*, p. 3.

9.122 Rather than seeing monitoring as a report that is delivered once a year, GRM advocated for monitoring to become an integral way in which to improve the effectiveness of aid activities:

...generate really hard evidence as you go – this whole learning agenda, result measurement and result management in real-time... there are systems now in place, and GRM is adopting and adapting those across its portfolio...it is not the report at the end of the year that you submit to AusAID, or DFAT now, saying, 'We've done this; we've achieved this'; it has got to drive day-to-day decision making just like corporates do.¹¹⁸

9.123 Coffey also reflected on how donors involved in private sector development now have tools for monitoring:

Development practitioners now have the tools and experience to improve performance significantly. A number of good practice frameworks (including the [Donor Committee for Enterprise Development] DCED Standard) exist and programs are actively working to improve their monitoring. Both donors and companies benefit from investing in results measurement. Donors learn about the effectiveness of the partnerships, what works and do not, how partners should be selected. Companies access market information to inform their own performance and how it can be improved.¹¹⁹

9.124 The DCED Standard referred to by Coffey is explained below:

The DCED Standard is a framework to assist practitioners articulate their objectives and systematically set and monitor indicators which show whether events are occurring as expected. It consists of eight steps:

- Articulating the Results Chain
- Defining Indicators of Change
- Measuring Changes in Indicators
- Estimating Attributable Changes
- Capturing Wider Change in the System or Market
- Tracking Programme Costs
- Reporting Results
- Managing the System for Results Measurement.¹²⁰

118 Dr Chilver, GRM Futures Group, *Committee Hansard*, Canberra, 11 August 2014 p. 34.

119 Coffey, *Submission 35*, p. 9.

120 Summarised from: <www.enterprise-development.org/page/implementing%20standard> and *Guidelines to the DCED Standard for Results Measurement: Defining Indicators of Change* <www.enterprise-development.org/page/download?id=2132>, viewed 12 March 2015.

- 9.125 In parallel to corporate financial reporting requirements, Collabforaction noted developments in corporate non-financial reporting, and referred to two broad frameworks for reporting – the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and the International Integrated Reporting Council’s Integrated Reporting Framework.¹²¹
- 9.126 The Committee received evidence from the GRI Focal Point for Australia, stating that it ‘has established alignment with key frameworks and indices including CDP (formerly the Carbon Disclosure Project), UN Global Compact, OECD Guidelines and ISO 26000, among others’, and noted that the guidelines:
- ...are a practical tool for business to identify sustainability impacts through a multi-stakeholder engagement process, enhance their management and externally demonstrate accountability and transparency towards their stakeholders. The Guidelines provide measures across economic, environmental, social, human rights, labour practices and product responsibility aspects.¹²²
- 9.127 The GRI’s work is being used to help measure the contribution of business to the forthcoming Sustainable Development Goals:
- Given one of the Sustainable Development Goals will focus exclusively on the role of business, GRI has formed a partnership with the UN Global Compact and the World Business Council on Sustainable Development (WBCSD)...GRI’s role in the partnership is to support transparency and accountability convening measurement practices, reporting standards and certification schemes.¹²³
- 9.128 Business operations, organisations operating in different sectors, those addressing specific challenges, and those producing specific products have developed specialised reporting requirements and indicators to measure progress. Global platforms have also been working to improve measurement. BCtA described its recent efforts using a mobile-enabled data collection tool embedded in daily operations of member companies to collect data and allow donors, BCtA and the member company to track their economic and development impact.¹²⁴

121 Collabforaction, *Submission 80*, p. 2.

122 Global Reporting Initiative, *Submission 148*, p. 3.

123 Global Reporting Initiative, *Submission 148*, p. 3.

124 Business Call to Action, *Submission 124*, p. [3].

- 9.129 Using its operations as an example, IDH The Sustainable Trade Initiative provided details of its use of a combination of donor led and business led measuring and results reporting:

IDH developed its overall intervention logic in accordance with the Standard for Measuring Results in Private Sector Development of the Donor Committee for Enterprise Development (DCED). Programme performance is measured on four result areas and corresponding key performance indicators. These are based on (among others) GRI environmental indicators, ILO standards and OECD guidelines... impact and performance are assessed by credible, independent third parties... Through dissemination of publications, thematic studies, best practice documents and other types of outreach, IDH contributes to wider knowledge generation.¹²⁵

- 9.130 The Committee considers that measuring the performance of aid activities should take into account the long term nature of development, as well as meaningful short term goals. Appropriate indicators, particularly to assess the effectiveness of programs on gender outcomes, need to be developed. An effective system must ensure that indicators can be measured, including social outcomes, and partners have the capacity to do so.
- 9.131 In addition to information generated through partnerships or activities, the Committee notes that data collected by other organisations can also be very useful in determining the success or failure of Australian aid and in making decisions about future funding. DFAT needs to ensure its networks support the collection and use of this information.

The importance of data collection

- 9.132 The Minister for Foreign Affairs stated 'data is key – if you can't measure it you can't do it'.¹²⁶ Measuring outcomes from activities needs to be done in a way that is both meaningful and able to demonstrate value for money to Australians.
- 9.133 Noting the gap in available data in developing countries, the Minister for Foreign Affairs announced that one of the first initiatives of the innovationXchange would address this:

... a US\$100 million partnership with Bloomberg Philanthropies on 'Data for Health'... will build the capacity of governments in

125 IDH The Sustainable Trade Initiative, *Submission 84*, p. 7.

126 The Hon Julie Bishop MP, 'Address to 10th anniversary of WaterAid Australia', *Speech*, delivered 25 March 2015.

developing countries to collect and use vital health information to build better health systems. This focus on using information to drive decision-making is a traditional blind spot in development. It seems basic, but it can change everything if we have both the right data and the knowledge to use it properly.¹²⁷

- 9.134 However, in many developing countries across the Indo-Pacific collecting data is a real challenge, both in terms of availability and integrity. The Australian aid program should continue to contribute to improved data collection and use across the region. The new health data collection supported through our ODA will be of great assistance. As it matures, similar projects to collect data across other sectors should be considered.

Recommendation 34

The Committee recommends that the Australian Government:

- continue to support improved aid-related data collection and use in policy-making with governments of countries in the Indo-Pacific region, particularly in relation to gender outcomes; and
- evaluate the performance of the 'Data for health' initiative as soon as practicable with a view to replicating this model in other sectors inhibited by data paucity, for example education – school participation and attainment.

Coordinating effort between donors

- 9.135 A need for better co-ordination between donors and across programs was reflected in Carnival Australia's statement that DFAT should:

...find clearer points of differentiation with other governments and aid bodies (eg. NZAid) and help guide the private sector down the most appropriate path – where presently there exists mass confusion over responsibilities and jurisdictions¹²⁸

127 The Hon Julie Bishop MP, Minister for Foreign Affairs, Address to launch of innovationXchange, Canberra, *Speech*, delivered 23 March 2015.

128 Carnival Australia, *Submission 65*, p. 2.

9.136 With respect to programs aimed at supporting SMEs in the Pacific, the Foundation for Development Cooperation stated:

Ironically, the array of similar business and market-related programs offered by different agencies and governments intended to build the private sector, can be confusing and frustrating for business...but coordination and communication between initiatives is limited leading to a fragmentation of effort in engaging business, and presenting a challenge to business in identifying which program to support or participate in, and then keeping up with varying compliance requirements.¹²⁹

9.137 At the individual program level, GRM International observed that the lack of donor co-ordination could impact on effectiveness of aid activities:

Often well-intended support to local businesses or capacity development of service providers can distort local markets and undermine the development of sustainable services. Giving away free advice, products and other services may be well meant, but is rarely sustained and usually limits and delays the emergence of a healthy and sustainable market for those products and services. It is all too common for one market-friendly program to be undermined by a donor or charity that insists on direct, free provision. Ensuring intervention teams are alert to these risks, and encouraging coordination, discussion and debate of these issues amongst development actors is essential to ensure effectiveness...¹³⁰

9.138 With reference to the Pacific, Dr Newton Cain suggested 'we would hope to see a real commitment to donor integration and cooperation, as envisaged by the Cairns Compact [on strengthening development coordination in the Pacific].' However, Dr Newton Cain observed:

[t]here is certainly more scope for domestic actors (governments, business groups, civil society) to drive greater integration from their side of the fence and also lead by example ... However, the current reality is that this type of activity is not well established in Pacific island countries, whether in this arena or others.¹³¹

129 Foundation for Development Cooperation, *Submission 78*, p. 7.

130 GRM International *Submission 57*, p. 6.

131 Dr Newton Cain, Lowy Institute for International Policy, *Submission 82*, p. 7.

9.139 The Australian Strategic Policy Institute provided a practical suggestion to address this lack of coordination:

Since Australian businesses have complained they find the array of similar business and market-related aid programs offered by different bodies confusing, a register or prospectus of aid projects could be developed to discuss where businesses might add value.¹³²

9.140 The Committee recognises that Australia is well-regarded for its public service capacity building and private sector development activities, particularly in the Pacific. However, countries in receipt of Australian development assistance are sovereign nations; they determine and implement their own policies and programs and receive support from a range of other donors. The need to minimise duplication through effective coordination cannot be overstated.

Branding and communicating the contribution of Australian aid

9.141 Many Australians are not aware of the success stories of Australia's aid program. There was a strong consensus in the evidence that more needs to be done to badge our contribution in donor countries and to transmit information about the Australian Government's development activities to the Australian public and business community.

9.142 According to DFAT:

Branding remains a key mechanism for enhancing the visibility of the Australian Government's international development initiatives. It is a powerful tool in the diplomatic toolbox, one that demonstrates Australian aid in action, reinforces Australia's standing as a good neighbour, and strengthens the aid program's contribution to wider foreign policy objectives. It also gives the Australian public a tangible and clear indication of where taxpayer dollars are being spent.¹³³

9.143 Jacobs noted with respect to building projects funded by the Australian government, that:

¹³² Australian Strategic Policy Institute, *Submission 112*, p. 5.

¹³³ DFAT, *Submission 21*, p. 35.

From the projects I have visited on site over the last 10 years or so, I do not think there is a significant investment in building the profile of those jobs, where they come from and what they are trying to achieve...It is certainly not overtly built into the contracts uniformly that we would do. There is an opportunity, because a number of the things that we have done in the past have been high profile in a range of locations.¹³⁴

- 9.144 Several submissions highlighted that recognition of aid efforts goes beyond branding. Indonesia is the largest recipient of Australian Aid, yet the Australia and New Zealand Banking Group Limited advised:

... a number of the business leaders in Indonesia were saying that we were missing an opportunity to direct more of the activities of a substantial amount of money we deliver to that country into areas where we felt we could achieve a stronger influence in terms of outcomes and seeing that it was Australian money at work. We are probably less focused on showcasing what we do as a country for those countries than other aid donors who are more targeted and take more credit for what they do within country.

...

I am not saying that government-to-government they do not appreciate it. It is a question of how widely it is understood what our contribution as a country is. Certainly that was the feedback we were getting from senior Indonesian businessmen. We were highly regarded and highly effective in terms of what we do, but we go about it quietly.¹³⁵

- 9.145 Discussing how to ensure awareness of aid funding, Impact Investing Australia emphasised that it is 'about telling the story'. In the context of impact investing and social impact bonds Impact Investing Australia founder Ms Addis advised:

Around any of these things there is going to be a process, and there is an opportunity to badge that, I think, in the strength of the partnerships. If we are choosing partners effectively and working out how to work together, then not only will you build into it about it being respectful, where everybody is acknowledging the contributions, but also people will want to tell those stories, because everyone is still working out how to do this well, and so,

134 Dr Michael Shirley, Group Vice President, Infrastructure and Environment, Jacobs, *Committee Hansard*, 15 August 2014, p. 37.

135 Mr Graham Hodges, Deputy Chief Executive Officer, Australia and New Zealand Banking Group Limited, *Committee Hansard*, Melbourne, 15 August 2014, p. 26.

as to actually creating some demonstrations where the Australian government is in the mix.¹³⁶

9.146 As to more effective promotion of Australia's aid program, IDC suggested DFAT leverage its network of members:

Our Members and the private sector more generally, have a necessary requirement to positively promote their activities and their achievements. A more effective partnership-type approach to promoting the focus and achievements of the aid program and the efforts of those implementing the program's activities to achieve those results (private sector contractors in many cases) might benefit the public diplomacy imperatives of the Government, including domestic priorities.¹³⁷

9.147 Better branding is one method of enhancing the visibility of the Australian Government's international development initiatives, including with better signage, activity websites and documentation. The Committee recognises that requirements for Australian branding may differ across partners, project and countries. However, every opportunity should be taken to maximise the exposure of the good work of Australian aid. Periodic reviews on the effectiveness of existing approaches should be undertaken.

9.148 Noting that the aim of the aid program is to help move a country from aid dependence to being a trade and investment partner, DFAT should explore options to co-brand aid funded activities with the Building Brand Australia Program – Australia Unlimited, administered by Austrade.

Recommendation 35

The Committee recommends that the Australian Government market its aid effort in a more effective and powerful way, including by:

- **reviewing and improving the effectiveness of its current international signage and branding; and**
- **developing effective ways to co-brand 'Australian Aid' and 'Australia Unlimited' to maximise recognition and benefits.**

9.149 A better communications strategy for the aid program needs to be developed. The Committee is of the view that this strategy should

¹³⁶ Ms Addis, Impact Investing Australia, *Committee Hansard*, 15 August 2014, p. 43.

¹³⁷ IDC, *Submission 11*, p. 4.

recognise that there are a wide range of stakeholders with varying levels of understanding and interests in the activities of the aid program and the work of the DFAT. In developing the strategy, DFAT should consider whether the department is effectively reaching out to:

- the Australian public, including the business community and school children;
- stakeholders in countries in which the aid program operates;
- current and potential aid delivery partners;
- other donors; and
- those with in-depth knowledge of aid and development, e.g. think tanks and academics.

- 9.150 The Committee recognises the value of complementary approaches to ensuring the visibility of Australia's aid program. The Committee commends the release of the new DFAT publication – *Business Envoy* – as a means to capture business information from countries within the region and to engage with business.
- 9.151 With the integration of aid and the elevated role of the private sector, DFAT can use this magazine to gather feedback and information about the business sector, as well as include news and opportunities for and about business relevant to Australia's aid program.
- 9.152 The Committee notes that the aid publication *Focus* ceased at the time of the departmental merger. A dedicated aid publication, online or hardcopy, to replace this should be considered.
- 9.153 Specific stakeholders could also be targeted, for example by communicating aid program successes through global knowledge hubs, networks and groups of which Australia is a member.

Recommendation 36

The Committee recommends that the Department of Foreign Affairs and Trade develop and implement as a matter of priority a new communications strategy for the aid program. This strategy should recognise:

- **the wide range of stakeholders who have varying levels of understanding and interest in the activities of Australia's aid program; and**
- **that a key stakeholder is the Australian taxpayer.**

- 9.154 The Australian Government is committed to transparency across the aid program and there is a wealth of information available through DFAT's website. However, this can be difficult to navigate. Other donors including the US, Canada and multilateral organisations provide detailed program information and downloadable data.
- 9.155 Portfolio agencies appear to have clear entry points on the front pages of their websites for anyone interested in finding out more about the agencies' work and how the private sector can access or apply for program assistance, register and tender for projects.
- 9.156 The Committee concludes that DFAT should consider ways to increase visibility on its website both in relation to access to data, and 'how to engage with the department', and create a dedicated engagement portal.

Recommendation 37

The Committee recommends that the Department of Foreign Affairs and Trade make clear that 'Australia is open for business partnering' on its website. Specifically, the Department should:

- **increase cross-promotion with relevant portfolio agencies to engage with business and capture opportunities which target development;**
- **test the website on a range of stakeholders, particularly those outside the traditional base, to ensure value and ease of access; and**
- **monitor and report on the usage of the engagement portal with a view to continuous improvement.**

Hon Dr Sharman Stone MP
Chair
Foreign Affairs and Aid Sub-Committee
17 June 2015

Hon Teresa Gambaro MP
Chair
Joint Standing Committee on
Foreign Affairs, Defence and Trade
17 June 2015

