SHARPENING THE FOCUS:

Report on a Seminar on the Simons Committee Report

11 July 1997, Canberra

October 1997
INTRODUCTION

In June 1996 the Minister for Foreign Affairs commissioned an independent Committee to conduct a review of the Australian overseas aid program. The Committee of Review (hereafter called the Simons Committee) comprised Mr Paul Simons AM (Chairman), Ms Gaye Hart AM, and Professor Cliff Walsh. The Committee's report, One Clear Objective: poverty reduction through sustainable development was presented to the Minister for Foreign Affairs on 2 May 1997.

In releasing the report, the Minister advised that there would be a three month period of public comment to allow for community response to the report. To assist this consultation, a number of public seminars were to be held to provide further opportunities for discussion. In this context, the Minister wrote to the Joint Standing Committee following the release of the report, requesting that the Committee hold a seminar on the Simons Report as part of this public comment process. The Minister further indicated that, taking into account public views, the Australian Government would then carry out whole-of-Government consultations and prepare a formal response to the report.

The Committee was pleased to hold a seminar on the Simons Report, having held a most successful seminar some twelve months previously on the Australian aid program. The Committee was conscious, however, that a number of such seminars were to be held and that given the breadth and depth of the Simons Report, not all issues would be covered in a one day seminar.

The Committee was very pleased that all three members of the Review Committee were able to attend and speak in various sessions during the day. Mr James Michel, Chair of the Development Assistance Committee of the OECD was also visiting Australia at the time of the seminar and kindly agreed to speak. The Committee was also pleased to have the Director-General of AusAID, Mr Trevor Kanaley and a number of his staff present for all of the discussions. In addition, the seminar was attended by departmental officers, academics, members of a wide range of non-government organisations, members of the diplomatic corps and members of the general public with an interest in development issues. Regrettably it is very difficult to get a true cross-section of the Australian community at such seminars. While there was some excellent discussion during the day, it was unfortunate that more business and professional organisations did not participate and give us the benefit of their views and experience. The Committee would like to place on record its thanks to all who participated in the seminar.

The seminar displayed that considerable consensus exists about many of the findings of the Review Committee. Where there was dispute, it was largely on matters of emphasis and priorities. With limited funds available to the Australian aid program, there will inevitably be variations in emphasis and priority among the various 'stakeholders' associated with the official development assistance program. It is essential that the debate continues, however, and the Committee would encourage the dialogue between all the various groups to continue and be a feature of the Australian development assistance scene.
Given that the seminar was held to provide an opportunity for debate and public discussion, the Committee has sought to confine its recommendations to a minimum; this was not a full inquiry and the Committee would not presume to say that it had thoroughly tested a number of the Simons Committee's recommendations. However, there are a number of issues the Committee believes should be given further consideration by government and these are highlighted. The views of participants are quoted in this report, but should not be taken to represent the views of the Committee unless specifically noted.

This report provides a brief summary of the seminar and contains, as Appendix 2, a full transcript of the day's proceedings.
CONCLUSIONS AND RECOMMENDATIONS

The Joint Standing Committee supports the concept that the prime motivation for a development assistance program is humanitarian. The Committee is concerned, however, that too narrow a definition of poverty may be adopted. Development assistance encompasses a range of activities designed to improve the standard of living of people in developing countries, whether through infrastructure projects, educational activities, assistance to micro enterprises as well as immediate assistance to those suffering from hunger and homelessness. The Committee agrees that assistance should be through sustainable development activities. The Committee also acknowledges that other policy objectives may be met through the aid program, without detracting from its fundamental purpose.

The Committee supports the view put by the Simons Committee that a target should be set, against which Australia's commitment to official development assistance might be measured. Where that target is set is ultimately a matter for government, but should be higher than the current ratio and achievable in a medium time frame.

**Recommendation 1:** That the Australian Government determine an ODA/GNP target, and establish a timetable for meeting the revised target by 2002.

The Joint Standing Committee endorses the proposed geographic emphasis for the aid program as set out in the Simons Report. The Committee accepts the logic of the argument that says greater impact can be made by focussing Australia's comparatively modest development assistance funds to a greater extent than has been the case. Australian assistance through NGOs and the multilateral development agencies will still permit some assistance to be given to countries that do not meet the criteria established by the Simons Review.

**Recommendation 2:** That the Australian Government use the criteria of relative need, effectiveness, efficiency and other donor involvement, as well as geographic factors, in determining the development assistance program.

The Joint Standing Committee believes that a range of tools need to be available in the delivery of an effective development assistance program. The ultimate decision on the introduction of a new untied concessional loans scheme should be made after balancing the cost effectiveness of such a scheme against other delivery mechanisms. The views of the commercial finance sector will be particularly relevant. The Committee is generally supportive of the introduction of such a scheme, provided that these assessments have been undertaken.

**Recommendation 3:** That the Australian Government introduce a new soft loans scheme once it has evaluated the cost effectiveness of such a scheme against other delivery mechanisms.
The Committee does not support the conduct of an independent study to look at the implications of untying the Australian aid program further than it is. However, the Committee believes that AusAID should make a greater effort to identify what aspects of the Australian aid program are in fact tied.

**Recommendation 4:** That AusAID institute new record keeping procedures to allow it to identify more accurately the extent of tying in the Australian aid program. AusAID should report on its efforts to do so and the extent of tying in its next annual report.

The Committee was not convinced by the argument that untying Australian aid would mean a loss of Australian identity in the aid program. This view assumes that Australian companies are uncompetitive internationally, an idea rejected by representatives of several consultancy firms who attended the seminar.

The Joint Standing Committee believes that there would be benefit in AusAID and the NGO community reviewing the whole range of their current consultation mechanisms, with a view to streamlining these processes.

**Recommendation 5:** That AusAID and the NGO community review the range of current consultative mechanisms, disbanding those that are no longer effective, and examining ways in which NGOs' experiences might enhance policy considerations within the aid program. AusAID should report in its next annual report on progress in this area.

The Committee supports the Simons Committee's recommendation regarding an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation, believing that just as AusAID will benefit from greater exposure and assessment, so too will the NGO community. The openness of the NGO community to such scrutiny will also assist in reassuring the public that the money donated by the Australian community is being well-targeted and maximised for development purposes.

**Recommendation 6:** That AusAID include in its next annual report advice on progress with an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation.

The Joint Standing Committee agrees with the view put at the seminar that NGOs already make a contribution to the sharing of costs. The Committee believes that any further extension of the cost-sharing principle should be considered on a case by case basis, after the implications of such cost-sharing are taken into account.

**Recommendation 7:** That the further extension of cost-sharing principles be considered by AusAID on a case by case basis.
The Joint Standing Committee believes that the NGO community has a vital role to play in representing community views on the aid program and assisting in improving the general community's understanding of development issues.

**Recommendation 8:** That AusAID and the NGO community examine ways in which together they might improve the general community's understanding of development issues.

**Recommendation 9:** That AusAID, in conjunction with ACFOA, examine ways in which coordinated research into public support for development assistance might be implemented, as recommended by the Simons Report in Recommendation 19.3.

The Joint Standing Committee encourages AusAID to improve its performance in the area of management information systems, as it will have significant benefits for the management of the overall aid program.

**Recommendation 10:** That AusAID report as part of its next annual report on progress in improving its management information system.

The Committee acknowledges the dual roles of AusAID (as development agency and as part of the Public Service) and believes that a well-resourced central office will need to be maintained if both roles are to be met successfully. While there may be some potential for decentralisation of AusAID, especially if the program is more tightly focused geographically, the Committee is concerned about the possible costs involved in such a move. The Committee queries whether any significant decentralisation would be possible given the level of resources currently available to the organisation. Any proposals for decentralisation should be subjected to cost-benefit analysis to ensure that the premium for placing staff overseas is not out of proportion to the benefits to be gained.

**Recommendation 11:** That AusAID investigate the cost involved in any proposed decentralisation, and report on this matter in its next annual report.

**Recommendation 12:** That the Australian Government review the budget process in regard to the allocation for development assistance, and consider introducing a three-year rolling program approach or a trust fund arrangement.

The Joint Standing Committee remains concerned about the obvious resource implications (both staffing and budgetary) for AusAID implicit in the recommendations arising from the Simons Review.

The Joint Standing Committee supports the establishment of an independent Office of Evaluation within AusAID, as one mechanism to improve evaluation and assessment within the agency. The criteria for evaluation also need to be clearly defined, and include the benefits for the people in the recipient country, the benefits to Australia, the extent to which the
project has contributed to social and economic development in the region, and whether it has achieved the long term national goals of the recipient country and Australia.

The Joint Standing Committee believes that the establishment of an Advisory Board would be a useful means by which guidance could be given to AusAID management. However, it is less convinced about the utility of a development charter, believing that such a charter may be long on rhetoric and short on practicality.

**Recommendation 13: That the Australian Government establish an Advisory Board to assist AusAID management in the direction of the development assistance program.**

The Committee believes that the Australian aid program needs to be determined first of all in accord with Australia's national priorities, but in determining the nature of the program, care needs to be taken to avoid undue duplication of effort with other donors.

**Recommendation 14: That the Australian Government continue to work in international forums for greater policy coherence and coordination among donor countries.**

While much of the debate on conditionality and partnership perhaps can be summarised as semantics, the Joint Standing Committee believes it is important to stress that development is a process that occurs between a number of participants. Each has a vital role to play; each has expectations of what the process will achieve, and benchmarks by which the activity will be judged. For those involved, future projects are then assessed against past experience. In all development assistance, the input of the recipient country is vital if the project is to proceed.

The Joint Standing Committee has not attempted to make an assessment of the relative merits of aid delivery through bilateral or multilateral channels. However, the Committee would like to see greater public discussion of the merits and deficiencies of each system so that more informed judgements might be made in the future.

**Recommendation 15: That AusAID undertake an evaluation of the relative merits of aid delivery using bilateral or multilateral channels, and report on its progress in its next annual report.**
SECTION 1
OVERVIEW OF THE SIMONS REPORT

Introduction

1.1 The report of the Review Committee, chaired by Mr Paul Simons AM, is the first comprehensive review of the Australia's official overseas aid program since the Jackson Committee's report in 1984.\(^1\) The Simons Committee was asked to present a report ... on the overall priorities, objectives and focus of the aid program. It will examine how the aid program can best contribute to lasting poverty reduction, while also serving Australia's interests.\(^2\)

1.2 The Simons Committee, in its report, made 79 specific recommendations and a range of other suggestions on issues ranging from the objectives of the aid program and its geographic priorities, to specific programming and policy issues such as the role of tied aid, multilateral assistance, development education and specific management issues for AusAID. A number of these issues were covered in the seminar, and are discussed in some detail in subsequent sections of this report.

1.3 Overall, the Simons Committee found that Australia's official overseas aid program:

... has suffered from the lack of a clear objective, leaving it open to being pulled in different directions. The aid program is also in need of renewal – not just to accommodate the rapidly changing international environment, but also to shake out the habitual, to injecting greater vitality and rigour and to sharpen the focus on the pursuit of excellence ... [The Review Committee did] not advocate revolutionary change. The basic arrangement of the aid program is sound ... While ... AusAID is a professional organisation dedicated to managing a complex and difficult task, substantial change is nevertheless required in the Agency's approach and operation.

The essential challenge for AusAID is to reorientate the program to focus more consistently on outcomes.\(^3\)

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One Clear Objective

1.4 According to the Simons Committee:

... the first and most fundamental change that we recommend is for the aid program to focus on a single and unambiguous objective: to assist developing countries to reduce poverty through sustainable economic and social development. ... At present, the managers of the aid program struggle to satisfy multiple objectives driven by a combination of humanitarian, foreign policy and commercial interests. The intrusion of short-term commercial and foreign policy imperatives has hampered AusAID's capability to be an effective development agency.\(^4\)

1.5 The Jackson report some 13 years earlier had defined the aims and objectives of the program as primarily humanitarian, that is for the alleviation of poverty through economic and social development. It had stressed the importance of growth with equity, noting that 'aid policy should be focused on helping developing countries achieve growth that alleviates poverty and improves income distribution'.\(^5\) The Jackson report also saw the other policy objectives and benefits of the aid program – strategic, economic and foreign policy interests – as complementary but ones which should not jeopardise development objectives.\(^6\)

1.6 The statement by the Simons Committee that poverty reduction should be the one objective of Australia's aid program has been widely welcomed, particularly by those who felt that Australia's aid program had been compromised to some degree in the past by trying to meet a number of policy goals.\(^7\)

1.7 The Minister for Foreign Affairs, in an address at an earlier seminar on 12 June 1997 noted that 'The fundamental starting point for Australia's overseas aid program is that it should be effective in reducing poverty. There is no single approach to poverty reduction and effective aid must encompass a variety of approaches – both working directly on the problem of poverty and helping to foster the economic growth which will ensure each developing country is better able to tackle the problem itself.'\(^8\)

1.8 At the July seminar, Professor Cliff Walsh argued that what the Review Committee was trying to do was to:

... peel away some of the layers of confusion that have beset the program. By having the so-called triple mandate in which foreign policy, trade policy and developmental issues were argued to be, if not of equal importance, at least all weighed in determining the direction of the program, our judgment was and remains that that was very

\(^{4}\) ibid., p. 2.
\(^{5}\) Jackson, op cit., p. 3.
\(^{6}\) ibid., pp. 22-23.
\(^{7}\) see, for example the debate at the Committee's earlier seminar, reported in *The Australian Aid Program, report on proceedings of a seminar, 31 July 1996, Canberra*.
\(^{8}\) Downer MP, Hon A., *The role of Aid in Development: Adjusting to Realities*, Address given to a public seminar on the role of overseas aid in the late 1990s on 12 June 1997 at Becker House, Canberra.
much a source of confusion. It was potentially a cause of ... a lower standard of excellence in the delivery of aid as directed at poverty alleviation as a result of that confusion. So we are very keen to rip away those layers and to say that we focus on poverty alleviation, essentially through economic and broader community development, as the fundamental objective.  

1.9 The Simons Report does not say that there is no place in the aid program for foreign policy and trade objectives. However, as Professor Walsh argued at the seminar:

The aid program is being asked to bear the burden of a huge number of different goals ... [but] there are some things which are clearly a global agenda ... [and are not] strictly associated with the aid program ... Let us be very clear about the distinction and make sure the only burdens which the aid program is asked to bear are those that are associated with that.

1.10 The Joint Standing Committee supports the concept that the prime motivation for a development assistance program is humanitarian. The Committee is concerned, however, that too narrow a definition of poverty may be adopted. Development assistance encompasses a range of activities designed to improve the standard of living of people in developing countries, whether through infrastructure projects, educational activities, assistance to micro enterprises as well as immediate assistance to those suffering from hunger and homelessness. The Committee agrees that assistance should be through sustainable development activities. The Committee also acknowledges that other policy objectives may be met through the aid program, without detracting from its fundamental purpose.

The Aid Budget

1.11 In 1997-98, expenditure on Official Development Assistance (ODA) by Australia will amount to an estimated $1 430 million, a decrease of one per cent in nominal terms on 1996-97 outlays. The 1997-98 allocation is equivalent to just over one per cent of Commonwealth Government outlays and 0.27 per cent of Australia's gross national product (GNP).

1.12 At the time of the Jackson report, Australia's aid contribution was 0.55 per cent of GNP. Jackson suggested that Australia should seek to maintain its position, about midway in the aid league table, and that it should 'not allow the share of GNP allocated to aid to fall'. Successive Australian governments have committed themselves to meeting the 0.7 per cent target as quickly as possible. However, 0.55 was the highest ratio Australia attained, and since 1984 the level has slipped to a low of 0.27 per cent. Although there have been real increases in the Australian aid budget over the past decade, the increases have not kept pace

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9 Walsh, Transcript, p. 13.
10 ibid., p. 37.
12 Jackson, op cit., p. 45.
with the growth in Australia's GNP, and hence the ODA/GNP ration has continued to decline.\textsuperscript{13}

\textbf{1.13} Australia is not alone among the OECD countries in registering a declining ODA/GNP ratio, and remains above the average of other donor countries (approx. 0.25 per cent).\textsuperscript{14} As the Joint Standing Committee noted in its 1996 report on aid:

Global Official Development Assistance (ODA) declined in 1995, continuing a trend that had been consistent throughout the eighties. ... In 1995 aid fell as a proportion of GNP in 14 out of 21 DAC member countries.\textsuperscript{15}

\textbf{1.14} A number of speakers at the seminar commented that while there was a downward trend in international ODA levels, net financial flows from developed to developing countries have increased significantly over the last few years. Mr Trevor Kanaley, Director General of AusAID, quoted the following figures:

Total global ODA has fallen from $58.8 billion in 1995 to $55.1 billion in 1996 ... Net financial flows from developed to developing countries now stand at over $US300 billion, which is up from $232 billion in 1995. This includes $US234 billion in private flows ... [However] ... The private flows are quite heavily centralised. Around 70 per cent of all private flows go to 12 countries. One of the key tasks for ODA at the moment is to really create an enabling environment in those countries that are not recipients of private capital flows.\textsuperscript{16}

\textbf{1.15} The Simons Report noted that the question of aid volume was not included in the Committee's terms of reference and was ultimately 'a matter for governments to determine in the Budget context'. However, the Minister for Foreign Affairs asked the Review Committee to 'take into account' the views of the Joint Standing Committee which in its 1996 report recommended that the Government reaffirm its commitment to achieving the ODA/GNP target of 0.7 per cent.\textsuperscript{17} The Simons Committee ultimately recommended that:

\textit{Recommendation 4.4:} The long held commitment to the aid volume target of 0.7 per cent of GNP is no longer credible. An achievable 3-5 year ODA/GNP target should be set in its place.\textsuperscript{18}

\textbf{1.16} At the seminar on 11 July, there was some limited discussion of aid targets and volumes. There was no strong advocacy from any of the participants at this seminar for the explicit retention of the 0.7 target. The Committee, however, supports the view put by the Simons Committee that a target should be set, against which Australia's commitment to

\begin{itemize}
\item \textsuperscript{13} Simons Report, p. 37.
\item \textsuperscript{14} AusAID, \textit{Aid Budget Summary 1997-98}, p. 1.; Kanaley, Transcript, p. 22.
\item \textsuperscript{15} JSCFADT, op cit., p. 2.
\item \textsuperscript{16} Kanaley, Transcript, pp. 22-23.
\item \textsuperscript{17} Simons Report, p. 82; JSCFADT, op cit., p. 10.
\item \textsuperscript{18} Simons Report, p. 82.
\end{itemize}
official development assistance might be measured. Where that target is set is ultimately a matter for government, but should be higher than the current ratio and achievable in a medium time frame.

Recommendation 1: That the Australian Government determine an ODA/GNP target, and establish a timetable for meeting the revised target by 2002.
SECTION 2
REFOCUSING THE AID PROGRAM

Geographic Focus

2.1 Some 80 per cent of AusAID's bilaterally programmed assistance goes to 62 countries. Of this 80 percent, 95 per cent is directed to only 22 country programs. When looking at the totality of the Australian aid program (ie the bilaterally programmed, plus Australian aid managed by agents other than AusAID), the number of countries involved in the Australian aid program increases to 108. In other words, while 22 countries benefit from 76 per cent of the Australian aid program, the remaining 24 per cent is spread amongst 86 countries. The comparative allocation across geographic areas for 1996-97 and 1997-98 is shown in Table 2.1.

2.2 The Review Committee proposed that the geographic focus of the aid program be sharpened for two reasons:

- there are costs in terms of efficiency and effectiveness if AusAID does not have a 'critical mass' of funds and activities in each of the countries in which it operates;
- if Australia is to be regarded by recipient governments as a meaningful development partner, this will only happen if Australia is able to provide a significant amount of assistance. Small contributions from Australia mean that many of the 108 recipients of Australian aid cannot regard Australia as a significant player, or dialogue partner, in development policy issues.

2.3 The difficulty of achieving a tight geographic focus was acknowledged by the Review Committee, as were the 'considerable sensitivities in winding back aid programs to particular countries'. However, the Review Committee argued:

... It would be better if Australian aid funds were concentrated in a much smaller number of countries, in each of which a substantial volume of activities could be established and AusAID could put into effect more considered country program planning. Countries that no longer receive bilaterally programmed aid would still be eligible for other forms of aid within Australia's program, such as emergency and refugee assistance, and through NGO funding and multilateral agencies.

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1 Simons Report, p. 84.
2 ibid., pp. 84-85.
3 ibid., p. 85.
**TABLE 2.1:** Australian Aid Flows 1996-97 and 1997-98
2.4 The Simons Report also noted that a number of other donor countries, including the UK, Canada, Denmark, Finland, Austria, Belgium, Germany and the Netherlands are adopting a sharper geographic focus in their aid programs.\(^4\)

2.5 The Review Committee agreed that the geographic allocation of Australian aid 'must reflect Australia's long-term foreign policy interests and our primary responsibilities to countries in our own region'.\(^5\) In addition, other criteria proposed by the Review Committee are to provide a new framework for deciding the allocation of Australian aid. In summary those criteria are:

- relative need
- effectiveness
- efficiency
- other donor involvement.\(^6\)

2.6 The Committee supports these criteria as one way of evaluating the various calls on Australia's limited development assistance budget.

**Recommendation 2:** That the Australian Government use the criteria of relative need, effectiveness, efficiency and other donor involvement, as well as geographic factors, in determining the development assistance program.

2.7 The Simons Committee argued in its report that:

... In keeping with international and domestic expectations of Australia's role in the region, the Committee believes that PNG and the Pacific, and East Asia should continue to be the highest priorities for the Australian aid program. Carefully targeted assistance should also continue in South Asia and Africa, and resources should be redirected to these regions as countries in East Asia graduate.\(^7\)

2.8 At the July seminar, Ms Gaye Hart, a member of the Review Committee, saw the central issue not so much as geography (ie which countries or regions within countries should receive priority) as maintaining the tightness of the geographic focus, and moreover, stressed that the comments of the Review Committee were directed at the government rather than at AusAID as the implementing agency. Ms Hart went on to note that the recommendation to reduce the number of countries supported would be controversial, but also stated that the Review Committee had seen this as 'an inexact science, not least of all because the various criteria pull, and will continue to pull, sometimes in different directions from each other'.\(^8\)

2.9 Mr Kanaley, while agreeing in principle with the recommendations and views of the Simons report with regard to country programming and geographic focus, stated that these

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\(^{4}\) ibid., p. 86.
\(^{5}\) ibid., p. 88.
\(^{6}\) ibid., p. 89.
\(^{7}\) ibid., p. 83.
\(^{8}\) Hart, Transcript, p. 43.
are sometimes difficult to determine, as AusAID's role is to implement the policies of the
government of the day.9

2.10 Given Australia's relatively small aid budget and geographic position, the Simons
Committee acknowledged that Australia has a significant role to play in terms of providing
development assistance to our immediate neighbours. This was an opinion generally
confirmed during discussion at the July seminar. The point was also made that, outside the
Pacific sphere of influence, Australia was a relatively small player in international
development terms.10

2.11 Bill Armstrong, President of ACFOA and Executive Director of Overseas Service
Bureau, commented that while he agreed in general with the spread referred to in the report,
he would have liked the report to have put aid in a much broader context of international
development cooperation, taking into account other financial flows and their impacts.11

2.12 Mr Armstrong also commented on the multilateral/bilateral distribution of
Australian aid program funds. He suggested that if the Simons Report recommendations are
implemented, meaning a possible reduction in the amount or focus of bilateral aid, then
Australian involvement with and contributions to multilateral aid programs become more
important. Mr Armstrong agreed with the Simons Review recommendations that Australia's
bilateral aid focus be narrowed but that there still be a concentration on working with
developing countries not just in terms of welfare but in terms of cooperation and
partnership.12

2.13 The Joint Standing Committee endorses the proposed geographic emphasis
for the aid program as set out in the Simons Report. The Committee accepts the logic of
the argument that says greater impact can be made by focussing Australia's
comparatively modest development assistance funds to a greater extent than has been
the case. Australian assistance through NGOs and the multilateral development
agencies will still permit some assistance to be given to countries that do not meet the
criteria established by the Simons Review.

Graduation

2.14 At present Australia does not have a formal policy on aid graduation, the process
by which aid to a developing country is phased out. The Simons Committee believes that
there is a need for a more systematic approach to graduation strategies, "... particularly in view
of the rapid growth which many of Australia's traditional aid recipients in East Asia are now
enjoying"13 Ms Hart also mentioned during discussion the matter of graduation from
programs by developing countries, and cited this as a significant recommendation which will
enable some redirection of resources over time.14 Professor Walsh remarked that graduation

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9    Kanaley, Transcript, p. 17.
10   Hart, Transcript, p. 44.
11   Armstrong, Transcript, p. 46.
12   ibid., p. 47.
13   Simons Report, p. 95.
14   Hart, Transcript, p. 43.
is politically a 'tricky' issue as the purpose of an aid program was to 'do itself out of business'.

2.15 Professor Walsh agreed that with regard to graduation, it was of critical importance that as aid is gradually reduced and removed, bilateral relationships are being built on other bases, reinforcing the comments made by Mr Armstrong earlier about the need to build partnerships with countries.

**Flexibility**

2.16 Issues of flexibility of the aid program were discussed during this session of the seminar when concern was expressed that a tight geographic focus might override the need to respond to a critical humanitarian emergency. Ms Hart referred to the relative generosity of the Australian public in responding to news of humanitarian crisis, and observed that in the matter of an emergency situation in more than one place, a geographic focus would be the preferred response:

In terms of support for an emergency outside our immediate region or outside those priorities, the Australian public is a relatively generous public; it will respond ... [The report] does not say it should not; it simply says that in an either/or situation, the geographic focus that we recommended is in fact a preferred focus.

2.17 The point was also made by Professor Hughes, that while Australia might respond to humanitarian crises outside of the geographic focus as set out, the issue of longer term development assistance was another matter, and that in looking at where to direct those resources, the criteria set by Simons, including considerations of good governance, would be more relevant:

I think we need to distinguish between relief and development assistance. I absolutely agree that you might give relief to people in Burma because they are starving, or in Rwanda and Burundi, but you would not give any of those countries development assistance, because it would be stupid to do so in the present circumstances.

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**Sectoral Emphasis: Expertise and Focus**

15 Walsh, Transcript, p. 51.
16 ibid.
17 Hart, Transcript, p. 52.
18 Hughes, Transcript, p. 39.
2.18 The Simons Report recommended that, within the context of country programming, the Australian aid program should ‘give priority to education, health, infrastructure and rural development in recognition of the critical importance of these sectors to poverty reduction through sustainable development’. In addition,

... [these] should be used as a guide rather than as a prescription for allocating fixed proportions of the program to particular sectors. Sectoral choices and policies need to be complemented by close attention to economic management and good governance since both are crucial determinants of development success ...  

2.19 The Simons Report recommended that AusAID improve its sectoral expertise, to ensure that its systems for considering sectoral issues and its access to specialist policy and project advice ‘are excellent’. It was the conclusion of the Review Committee that ‘currently they are not.’ Recommendations to redress this included amalgamating existing sectoral units, and forging stronger links with centres of sectoral expertise throughout Australia.

2.20 Ms Hart emphasised that while arguing for an improved sectoral focus, the Review Committee clearly reaffirmed the primary importance of country programming. As the Report stated:

In making recommendations for more or less support for particular activities, the Committee is not suggesting that this override or compromise country programming. The recommendations are strategic advice to country program managers to consider the implications of sectoral analysis in the unique circumstances of particular developing countries.

2.21 Mr Bill Armstrong commented that while he agreed in principle with the recommendations for sectoral focus in the report, he wanted to add that those sectoral areas be used as part of capacity building at local community and rural areas of countries. The importance of capacity building in recipient countries was also emphasised by Mr Simons, noting that the aim would be to train ‘people from the recipient countries to carry on the work which aid agencies previously have been expected to do and then withdraw’.

2.22 Ms Gaye Phillips, UNICEF, welcomed the sectoral focus of the report from the point of view of public perceptions and the role of her NGO to raise individual donor funds in a constituency somewhat cynical about the purpose of foreign aid when balanced against

20 ibid., p. 119.
21 Simons Overview, p. 16.
22 Hart, Transcript, p. 44.
24 Armstrong, Transcript, p. 46.
domestic difficulties in Australia. Ms Phillips thought that the clear focus of the report would help to strengthen the confidence of the Australian community in the aid program.26

2.23 The Simons Report recommendations regarding sectoral expertise raise a number of management and organisational issues for AusAID and these are dealt with in Section 5 of this report.

26 Phillips, Transcript, p. 49.
SECTION 3
FINANCING DEVELOPMENT ASSISTANCE

Grants and Concessional Loans

3.1 The Simons Review found that 'grants and concessional loans each have a legitimate role to play as tools of development assistance ...'.\(^1\) Australia currently provides only grant aid, '... although it does indirectly finance lending through its support for the multilateral development banks.'\(^2\)

3.2 The debate about the comparative merits of various forms of finance in the context of development assistance has been complex and has evolved over the years. The Simons Report noted that while loans offer developing countries access to larger amounts of development finance and may instil closer scrutiny of aid funded projects than grants, they come at a cost of debt accumulation and future repayment obligations. As they do not have to be repaid, grants are sometimes viewed more favourably by recipient countries. However, for many countries the value of the grant has been that it can be provided as the concessional element of a larger loan. The use of loans and grants differs as well. The Simons Report refers to DAC-OECD findings that a large component of grants tended to go to social infrastructure and services, including education, health and water supply, whereas aid loans tended to be concentrated on economic infrastructure.\(^3\)

3.3 In looking at international trends in concessional financing, the Simons Review found that:

... loans have been falling as a percentage of total bilateral assistance for much of the last two decades ... largely caused by the ongoing fallout from the debt crisis ... An obvious exception to the trend away from loans has been in the area of tied aid mixed credits ... diverting resources from untied to tied lending. This growth was mainly driven by developed countries using aid to position their companies to meet growing demand for infrastructure in Asia.\(^4\)

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1 Simons Report, p. 193.
2 ibid., p. 195.
3 ibid., pp. 193-197.
4 ibid., p. 198.
3.4 The DAC introduced the 'Helsinki Guidelines' in 1992 in an attempt to prevent aid-disguised trade subsidisation, and to prevent the use of tied aid credits to support commercially viable projects capable of being financed by the private sector. The Simons Report notes that since then there has been an 'apparent trend away from tied aid mixed credits', including the end of Australia's Development Import Finance Facility.\(^5\)

**DIFF and Beyond**

3.5 The Development Import Finance Facility (DIFF) was cancelled in July 1996 and since then Australia has not had a concessional finance element in its aid program. The Joint Standing Committee does not propose to revisit the question of whether DIFF should have been maintained or not. That question has been well canvassed by the Senate Foreign Affairs, Defence and Trade References Committee\(^6\), and elsewhere.

3.6 The Simons Committee supports the abolition of the DIFF scheme, and instead recommends that a new untied concessional loans scheme be introduced. The new mixed credit scheme, the report argues, would be a useful tool for AusAID because such concessional loans schemes:

- allow access to larger volumes of development finance to countries that can afford to service them;
- can be designed to direct private finance into high-priority development areas where it would not otherwise go;
- involved more risk sharing between development partners, leading to closer scrutiny and more careful prioritisation of loan supported activities;
- can be used to harden progressively the terms on which aid is provided to countries progressively graduating from Australian aid.\(^7\)

3.7 The Review Committee believes that an Australian concessional loans scheme should be:

- discretionary;
- located within country program frameworks;
- available only to countries not likely to experience debt management problems; and
- based on internationally open competitive bidding to select suppliers.\(^8\)

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5 ibid., pp. 198-199.
6 Senate Foreign Affairs, Defence and Trade References Committee, *Inquiry into the Abolition of the Development Import Finance Facility*, October 1996.
7 Simons Report, p. 198.
8 ibid., p. 207.
The report went on to set out additional parameters for the scheme, covering loan targeting, sources of funds, loan program management, risk management, loan terms and conditions, and procurement. 9

3.8 A range of views were expressed at the July seminar on the recommendation for a new soft loans scheme. Professor Hughes in opening discussions on the subject, made the following observations:

- the demand for loans as opposed to grants has been falling. Countries are reluctant to use concessional loans for social projects;
- countries that can borrow, prefer to borrow commercially because they prefer the money without the lecture; and
- risk management on the supply side is a considerable and very real cost. 10

3.9 Professor Dowling supported the introduction of a new scheme, on the basis that 'to have another window somewhere between grant and market rates of interest, financed with the help of the Australian banking system, would give countries another choice in terms of borrowing at concessional rates, borrowing at commercial rates, or choosing grant finance.' 11

3.10 The benefit of concessional soft tied loans was noted by Mr Stephen Wolkowicz, from Austenergy, who noted that without these type of loans his organisation would have found it difficult to establish itself in a number of other countries:

... without the facilitation of finance, we would not have a chance to get it in. Furthermore, not only do we establish a credibility within the recipient country, but also on a multinational company basis we establish credibility within the group itself. 12

This view was also supported by the MTIA, which advised that its members said that:

... they cannot get a seat at the negotiating table for major international contracts unless they can have access to competitive finance. It does not matter how competitive their product is in terms of design and quality; it is the competitive finance that will get them a seat at the table. 13

3.11 Mr Wolkowicz, following discussion on the matter during the seminar, went on to note that he did not think '... there would be any complaint if the equivalent financing scheme

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9 ibid., pp. 207-209.
10 Hughes, Transcript, pp. 57-58.
11 Dowling, Transcript, p. 60.
12 Wolkowicz, Transcript, p. 63.
13 Filling, Transcript, p. 66.
were available under another portfolio. It is the fact that it is not available under the other ones.\textsuperscript{14}

3.12 A strong counter argument to the use of concessional financing under the Australian aid program to assist Australian firms into markets was made during the course of the seminar:

... what we are doing is providing what is in effect an export market subsidy or an export market development grant through the aid program .... (and)... if we want to get into the business of export or trade subsidies, let us do it as an explicit program which is available for any business that wants to get into this in any market that it wants to get into. Let us not do it through overburdening yet again the aid program with an objective that it should not have that possibly has nothing to do with poverty alleviation.\textsuperscript{15}

3.13 Professor Walsh pointed out that the Review Committee had set a number of design parameters on which to judge projects and that if it is too expensive to justify then the project should not proceed.\textsuperscript{16} In relation to loans in particular, Professor Walsh stressed that the report says explicitly that '... if cost effectiveness and risk management options are not available, do not get into it.'\textsuperscript{17}

3.14 Mr Kanaley raised the issue of economies of scale, and that a loans program of at least $100 million of grant financing, would be a minimum.\textsuperscript{18}

3.15 The Joint Standing Committee believes that a range of tools need to be available in the delivery of an effective development assistance program. The ultimate decision on the introduction of a new untied concessional loans scheme should be made after balancing the cost effectiveness of such a scheme against other delivery mechanisms. The views of the commercial finance sector will be particularly relevant. The Committee is generally supportive of the introduction of such a scheme, provided that these assessments have been undertaken.

Recommendation 3: That the Australian Government introduce a new soft loans scheme once it has evaluated the cost effectiveness of such a scheme against other delivery mechanisms.

Tied Aid

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14 Wolkowicz, Transcript, p. 70.
15 Walsh, Transcript, p. 68.
16 ibid., p. 64.
17 ibid., p. 68.
18 Kanaley, Transcript, p. 68.
3.16 The Simons Committee observed that the 'major components of the Australian aid program which are tied include the purchase of consultancy services; the provision of most food aid; aid-funded Australian tertiary scholarships; and until its abolition in July 1996, the Development Import Finance Facility.' Based on data from the DAC, in 1994 this amounted to 44.8 per cent of Australia's total bilateral aid (32.2% of the total program).19

3.17 Despite this figure, the true extent to which the Australian aid program is tied currently is unclear. Since the release of the Simons Report, AusAID has indicated that the data they provided to the DAC, and which was used in the report, overstated the extent of tying. AusAID, in this context, noted that:

- many Australian bilateral activities which have been reported as tied actually have substantial untied components, such as local content in the recipient country and significant untied procurement components;

- current procedures for service contracts, whilst nominally tied, allow non Australia/New Zealand participants to form nearly 50 per cent of the project team;

- the Australian aid program has changed since these figures were reported to the DAC: the DIFF scheme has been terminated and the PNG program continues to move from budget support to program aid; and

- donors may not be reporting tied arrangements on a consistent basis; direct comparisons between donors are, therefore, difficult.20

3.18 Professor Walsh pointed out that, while the de jure procurement of goods and certain contracts may be untied, in practice preference may be given to Australian goods; in summary, 'there is ambiguity and confusion, including within AusAID, about what is truly tied and what is untied.'21 In commenting on the figures, Mr Kanaley noted that '... tying has not been a substantial issue in Australia previously. So the cost at the margin of putting in another 10 per cent work to try to refine data on tying simply has not been worth the toss of putting the money in.'22

3.19 Bearing these reservations about the figures in mind, in looking at the proportion of tied aid by other OECD countries, Simons reports that Australia has a higher proportion of its aid tied than any other country: 44.8 per cent compared with the DAC average of 22.1 per cent. While cautioning about the difficulties in interpreting the data, Simons concludes that Australia tied more than 40 per cent of its total aid for seven of the ten years between 1985

19 Simons Report, p. 182; and AusAID, Government Procurement and the Aid Program (single page handout).
20 AusAID, Government Procurement and the Aid Program
21 Walsh, Transcript, p. 73.
22 Kanaley, Transcript, p. 83.
and 1994. Internationally the DAC of the OECD has encouraged the untying of aid, with limited success. The Netherlands, Britain and Japan support greater untying of aid, while a number of countries remain to be convinced.

3.20 There are a number of arguments put forward in support of development assistance being tied to goods and services supplied exclusively by donor country businesses. These include:

- by tying aid to Australian procurement, Australia's export performance is improved, and business and jobs in Australia are created; and

- there is a need to maintain the national identity of the aid program and demonstrate commercial returns, in order to maintain public support for the aid program. Australians have a clear preference for aid to be identifiably Australian.

3.21 The counter argument is made by those who believe that by restricting the range of goods and services to those produced by the donor country's domestic market, the cost of the goods may be higher than international prices or of a lower standard. The Simons Report quotes OECD findings that tying aid reduces its value by an average of 10-15 per cent; extrapolated to the Australian aid program, even at a 10 per cent price premium, the cost penalty would be over $70 million. The report goes on to note that as far as the Review Committee was aware, there have been 'no comprehensive and rigorous studies completed on the costs of tying Australian aid' and that this should be redressed.

3.22 The Simons Report also argues that tying aid carries costs for donors as well as developing countries. By restricting exposure to international competition, innovation and productivity improvements may be minimised. The Review Committee also argued that tying the Australian aid program sits awkwardly with the trend towards trade liberalisation.

3.23 Introducing an international competitive bidding system (ICB) would have considerable costs for the Australian aid program. Professor Hughes warned:

It [an international competitive bidding system] is manageable for very large sums, but it takes a large administrative structure and it would mean raising the cost. That does not mean to say that there are not ways of encouraging much more competition ... There are ways of introducing much more competition without going to a full sort of international competitive bidding.

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24 ibid., pp. 184-185.
25 ibid., p. 187.
26 ibid.
27 Hughes, Transcript, p. 58.
3.24 A contrary view was put by Professor Malcolm Dowling, who argued that:

... despite the fact that the AusAID program is small, the costs would be lower to administer a system of this type, international competitive bidding, than it would be to continue a system where Australian suppliers were given exclusive rights to supply any of the inputs to the aid program.  

3.25 Mr Trevor Kanaley noted that 'very high administrative costs' would be involved in moving to an international competitive bidding framework, although he was unable to quantify it. Mr Kanaley also noted that the size of the contract would dictate if such a move was worthwhile ie for a project worth $20 million it might be sensible to go to ICB, but perhaps less so for contracts of $1 million or less. Difficulties with enforcement, and bad debts were also of concern.  

3.26 The Simons Report concluded by recommending an independent study of the costs and benefits of tying or untying the Australian aid program, and such a study would 'logically include the questions about whether international competitive bidding was itself unduly expensive'. The report also advocated full untying in the case of the least developed countries and partially untying elsewhere by allowing procurement of goods and services from recipient country suppliers where this proves to be cost effective. Mr Kanaley expressed some reservations about the worth of such a study, and was 'not sure it is going to be conclusive enough either to convince the doubters or to really support those who already believe the position.  

3.27 The Committee does not support the conduct of an independent study to look at the implications of untying the Australian aid program further than it is. However, the Committee believes that AusAID should make a greater effort to identify what aspects of the Australian aid program are in fact tied. 

Recommendation 4: That AusAID institute new record keeping procedures to allow it to identify more accurately the extent of tying in the Australian aid program. AusAID should report on its efforts to do so and the extent of tying in its next annual report.  

3.28 The Committee was not convinced by the argument that untying Australian aid would mean a loss of Australian identity in the aid program. This view assumes that Australian companies are uncompetitive internationally, an idea rejected by representatives of several consultancy firms who attended the seminar.  

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29 Kanaley, Transcript, p. 67.  
30 Walsh, Transcript, p. 72.  
31 Simons Report, p. 192.  
32 Kanaley, Transcript, p. 83.  
33 see for example, Wurcker, Transcript, p. 80; Kotvojs, Transcript, p. 81.
SECTION 4
NON-GOVERNMENT ORGANISATIONS IN THE AUSTRALIAN AID PROGRAM

4.1 Of the 11,000-12,000 non-government organisations (NGOs) that receive Australian Government funding, approximately 120 have an overseas development focus, with around 70 of those receiving funds from the AusAID program.\(^1\) Australian NGOs are a disparate group\(^2\), varying not only in size and emphasis, but also possessing differing capacities for the provision of aid-related services. It is estimated that of the NGOs involved in the Australian development assistance program, significant players number between 20 and 25.\(^3\) Australian NGO programs currently account for some seven per cent of the total aid program,\(^4\) compared to less than two per cent in 1985-86.\(^5\)

4.2 Funding arrangements vary greatly between organisations, as do areas of expertise. NGOs may receive grants of greater value because of the specialist nature of their work; their experience and focus may be of greater benefit to AusAID.\(^6\) The Simons Report noted that some concern had been expressed about the increasing reliance of NGOs on government funds, and while acknowledging that:

> ... individual NGOs face risks to their autonomy as they become more reliant on AusAID funding ... there is no reason why they should not be able to resist these influences so long as they maintain strong governing bodies, a firm commitment to their motivating values, and active links with the communities they represent.\(^7\)

4.3 The Committee believes it is vitally important that NGOs have their own source of funds, independent from the government. The Committee notes that NGOs have been successful in increasing the amount of funds raised from the general public. The Simons Report cites an increase from $88 million in 1988 to $166.2 million in 1995, while noting that government funding over the same period increased 100 per cent.\(^8\)

4.4 The Simons Committee observed with regard to the involvement and role of NGOs in the Australian aid program:

> Non-government organisations are more than convenient channels for official assistance. Clearer recognition should be given to their broader contributions to the development process. This includes

\(^1\) Simons, Transcript, p. 98; Hunt, Transcript, p. 108; and Simons Report, p. 261.
\(^2\) Tapp, Transcript, p. 93.
\(^3\) Hunt, Transcript, p. 108.
\(^4\) ibid., p. 89.
\(^5\) Simons Report, p. 262.
\(^6\) Hunt, Transcript, p. 108.
\(^7\) Simons Report, pp. 272-273.
\(^8\) ibid., p. 273.
representing community views on aid policy and program issues, their
collection to the development of civil society and their ability to
mobilise voluntary community contributions. However, NGO claims
to special advantages in areas such as cost-effectiveness and poverty
impact must be tested through independent evaluation of their
performance.9

4.5 The Simons Report recognises the growing cooperation between NGOs and
AusAID, and the valuable contribution made by NGOs to the Australian aid program. The
report also notes that NGOs and AusAID have had considerable discussions in recent years
about the role of NGOs in the aid program and the nature of their involvement.10

4.6 Discussion at the seminar focussed on the current roles and functions of
Australian NGOs, consultation between AusAID and NGOs, recommendations of the Simons
Report with particular resonance for NGOs, and public awareness and community support of
the aid program in general. There was a general consensus expressed throughout the seminar
that the discussion had been beneficial as an information sharing exercise. There appeared to
be general agreement between the Simons Committee and participants in the seminar
discussions that NGOs have an important role to play in the planning and delivery of the
Australian aid program.

4.7 Janet Hunt, Executive Director of ACFOA, presented a brief list of the strengths
and weaknesses of NGOs.11 Strengths of NGOs were listed in terms of abilities: to reach the
poor; to mobilise people locally; to mobilise local resources and organisations through which
the poor can participate in their own development; to go where governments cannot; to foster
the development of developed country communities in overseas development. Other benefits
offered by NGOs included relatively low cost service delivery, innovation and responsiveness
and flexibility, particularly in emergency situations and situations in flux.

4.8 Weaknesses of NGOs were identified by Ms Hunt as: the limited ability to scale
up successful projects; perhaps sometimes the lack of strategic perspective or understanding
of the broader context; the relatively limited managerial and organisational capacity and
relatively limited technical capacity for very complex projects.

4.9 Ms Hunt related the examination of the roles of NGOs to three key themes in the
Simons Report, as she identified them: poverty, sustainable development and good
governance. She offered several suggestions for the improvement of the role and function of
NGOs by increasing the utilisation of their strengths in these three areas.

4.10 In the area of poverty, Ms Hunt stated that through sharing experiences and
knowledge, Australian NGOs here and Australian and local NGOs in country should be able

9 ibid., p. 261.
10 ibid., p. 264.
11 Hunt, Transcript, pp. 88-89.
to participate at policy development and at project level to develop an aid program well targeted on poverty reduction.\textsuperscript{12}

4.11 Ms Hunt believed that the key to social sustainability is the participation of the people in the recipient country. Ms Hunt suggested that NGOs use their abilities to mobilise support in local communities. This mobilisation and participation would be particularly important and successful in social sector areas (for example, health and family planning, education, water supply and sanitation, rural development and agriculture). Ms Hunt believed that more shared learning and shared evaluation is required between AusAID, contractors and NGOs.\textsuperscript{13}

4.12 It was the opinion of the Simons Report and of participants in the July seminar that NGOs can play a unique role in achieving the aim of establishing and/or improving good governance. The Review Committee had broadly defined good governance as embodying principles wider than economic management and public administration. Good governance also includes issues of democratisation, participatory development and respect for human rights and the rule of law. According to Ms Hunt, in many cases these principles need strengthening in local communities – from the ground up. NGOs often have better access to these communities through their work than governments might obtain.\textsuperscript{14}

4.13 An example was given of NGO involvement in Vietnam and Cambodia. Politically, the Australian government was unable to work in those countries at the time, and through effective NGO programs very good bases for future bilateral relations were developed.\textsuperscript{15}

Recommendations of the Simons Report with Relevance for NGOs

4.14 There were a number of specific recommendations made in the Simons Report with particular relevance for NGOs, and which will be responded to by ACFOA, as the peak body, and by individual organisations as part of the public consultation process. Discussions during the seminar also referred to several of these specific recommendations.

4.15 The Simons Report's recommendations regarding NGOs included:

- Reexamination by AusAID of local NGO funding arrangements (Recommendation 17.1);
- The development of a formal statement of policy principles and objectives for AusAID's cooperation with NGOs (Recommendation 17.2);
- An independent study of NGOs to be commissioned by AusAID (Recommendation 17.3); and

\textsuperscript{12} ibid, p. 89.
\textsuperscript{13} ibid.
\textsuperscript{14} ibid., p. 91.
\textsuperscript{15} Armstrong, Transcript, p. 47.
• Rejection of any proposals for the wider application of cost-sharing (Recommendation 17.4)\textsuperscript{16}

The first three of these are commented on briefly below, with the issue of cost-sharing addressed in more depth later in this chapter.

4.16 The funding of local NGOs in developing countries is the fastest growing area of AusAID's NGO program, and the Simons report noted that it had received some submissions claiming some "... discrepancy in the level of scrutiny applied to the two sets of programs, [with]... lower accountability requirements for local funding programs."\textsuperscript{17}

4.17 It was generally accepted at the July seminar that reexamination by AusAID of local NGO funding arrangements in developing countries was required to ensure that rigorous standards of effectiveness and accountability are applied to these programs. Ms Hunt agreed that the funding of local NGOs does need to be addressed through consultation between AusAID and NGOs. It was suggested that other ODA models could be examined and compared, and other methods ensuring accountability requirements are met could be assessed.\textsuperscript{18}

4.18 With the second recommendation, regarding development of a formal statement of policy principles and objectives, as noted earlier, there has been considerable dialogue between the NGO community and AusAID in recent years and re-examination of their growing cooperation. However, despite significant advances in streamlining administration, improved accountability and performance measurement,\textsuperscript{19} the Simons Committee found there was still "... a lack of clarity in AusAID's NGO policies ...[and]... no cohesive policy statement outlining the role of NGOs in the official program, or the objectives for Government support."\textsuperscript{20} Ongoing discussion throughout the day concerned the consultation processes between AusAID and various NGOs.

4.19 The Simons Committee's recommendations regarding a statement of policy principles and objectives was welcomed by many. Charles Tapp noted that 'the NGO relationship with AusAID ... has been, and probably still is, very financially driven, budget driven both in relation to the allocation of funds and the whole issue of accountability. At times it has been pretty adversarial. In terms of being able to move that so it becomes more issue driven and more focused in that engagement between the NGOs and AusAID and the fact that there has been some movement in that area ...[is]... very encouraging."\textsuperscript{21}

4.20 Ms Hunt expressed agreement with recommendation 17.2 of the Simons Report; to work with AusAID on a statement of principles covering the role of NGOs, voluntary community contributions to overseas aid and setting out special areas where the NGOs may uniquely be able to provide assistance. Ms Hunt observed:

\textsuperscript{17} ibid., p. 265.
\textsuperscript{18} Hunt, Transcript, pp. 87-88.
\textsuperscript{19} Simons Report, p. 265.
\textsuperscript{20} ibid., p. 266.
\textsuperscript{21} Tapp, Transcript, p. 95.
... ways need to be found for both Australian NGOs here and Australian and local NGOs in country to participate at a policy development level, as well as at a programming or project level, in developing an aid program well targeted on poverty reduction.22

4.21 Mr Kanaley, from an AusAID perspective, stressed that a considerable amount of consultation between AusAID and NGOs was already taking place, and tabled a document23 outlining opportunities for consultation between AusAID and Australian NGOs. This list includes formal, consultative mechanisms, less formal discussions, ongoing project meetings and many other ad-hoc meetings with NGO representatives. Mr Kanaley also made the point that consultation was not without cost, and felt that AusAID was not in a position to '...tolerate just adding new layers [of consultation] on top, while existing layers, if they are not delivering the goods, are simply rolling on into the indefinite future.' He made the further point that the extent of consultation possible and its utility was often related to the size and capacity of individual NGOs.24

4.22 In response, Ms Hunt said that she had not meant to imply there was not sufficient consultation. Rather:

I was really trying to look at the policy basis for involvement of NGOs in the program, what we might discuss in developing an NGO policy and why AusAID or any other development cooperation program might seek to involve NGOs in its work among other development partners ... I do think that we need to look at the current consultation mechanisms. They do need to be sharpened and improved.25

4.23 The Joint Standing Committee believes that there would be benefit in AusAID and the NGO community reviewing the whole range of their current consultation mechanisms, with a view to streamlining these processes.

Recommendation 5: That AusAID and the NGO community review the range of current consultative mechanisms, disbanding those that are no longer effective, and examining ways in which NGOs' experiences might enhance policy considerations within the aid program. AusAID should report in its next annual report on progress in this area.

4.24 With regard to Recommendation 17.3, seminar participants welcomed the Review Committee's proposal that AusAID commission an independent study of NGOs. It was readily agreed that NGOs should be just as open to principles of accountability as any other part of the aid process. It was further felt that an independent review was long overdue, and it

22 Hunt, Transcript, p. 89.
23 Reproduced in Transcript, pp. 103-104.
24 Kanaley, Transcript, p. 105.
was the general view of seminar participants that there was a requirement for an ongoing review system, including the monitoring and evaluation of projects and general expenditure.

4.25 Mr Charles Tapp, CARE Australia, also highlighted the need for the assessment of the developmental impact of aid projects and policies. He stressed that a qualitative rather than the current quantitative approach should be taken.26

4.26 The Committee supports the Simons Committee's recommendation regarding an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation, believing that just as AusAID will benefit from greater exposure and assessment, so too will the NGO community. The openness of the NGO community to such scrutiny will also assist in reassuring the public that the money donated by the Australian community is being well-targeted and maximised for development purposes.

Recommendation 6: That AusAID include in its next annual report advice on progress with an independent study of the relative cost-effectiveness of NGOs as a channel for development cooperation.

Cost-Sharing

4.27 Cost-sharing already exists in the subsidy part of the Australian aid program, which constitutes approximately one per cent of the total aid program. The issue of further cost-sharing arrangements arose from, among other things, an AusAID Review of the Effectiveness of NGO Programs.27 There was a suggestion that extant cost-sharing arrangements in ANCP (AusAID-NGO Cooperation Program) activities should be extended to country windows and possibly emergency relief programs, where NGOs are involved.28

4.28 The Review Committee recommended that any proposals for the wider application of cost-sharing not be adopted. The question of cost-sharing was noted by Professor Walsh as being a difficult one for the Review Committee. They ultimately decided that cost-sharing was being offered as the wrong solution to the problems that may have needed addressing.29

4.29 Seminar participants widely accepted the Review Committee's recommendation against the wider application of cost-sharing. Mr Jim Carlton from the Red Cross argued strongly that the extension of cost-sharing beyond the ANCP programs into the country window programs and possibly humanitarian relief, would not be a sensible step. Mr Carlton noted that '...the sharing of costs is already substantial because of the overhead and in-kind costs that are incurred by the agency...[and for those operating in war zones and disaster zones]... you have to have a very expensive insurance arrangement.' To further cost-share in this situation would drastically reduce the capacity of the organisation to supply aid and aid-

26 Tapp, Transcript, p. 94.
27 Carlton, Transcript, p. 98.
28 Hunt, Transcript, p. 87.
29 Walsh, Transcript, p. 108.
related services. Ms Janet Hunt agreed that this was not a sensible proposal. Mr Lynn Arnold, World Vision, endorsed Jim Carlton's comments.

4.30 The Joint Standing Committee agrees with the view put at the seminar that NGOs already make a contribution to the sharing of costs. The Committee believes that any further extension of the cost-sharing principle should be considered on a case by case basis, after the implications of such cost-sharing are taken into account.

Recommendation 7: That the further extension of cost-sharing principles be considered by AusAID on a case by case basis.

Public Support and Community Awareness of Overseas Aid and the Role of NGOs

4.31 The Simons Report recognised that there is a broad but shallow support for overseas aid in the Australian community at large. It observed:

The aid program needs a public information regime that is based on accountability and openness. The Committee favours a greater level of support for development education and for research on aid and development issues than has been the case to date. Increased awareness of development issues should lead to greater community understanding of, and engagement with, the official aid program – and a better program as a result.

4.32 AusAID funds a number of public information and development education activities, with an expenditure of $1.88m in 1995-96. It was the general feeling of participants at the July seminar that there was a need for further education on the reasons for the aid program and the impact and outcome in general.

4.33 Ms Janet Hunt suggested that NGOs could act as a conduit in this situation, transmitting information to the wider general public through its network of community contacts. In this manner, the wider aspects of the aid program could be promoted and public opinion could be assessed. This would lead to a stronger understanding in the community on the need and effectiveness of aid.

... NGOs can also play a role with AusAID in promoting the wider aspects of the official program, particularly if that program does have a clear focus on poverty reduction. Community support will surely strengthen if the program can demonstrate that it is successfully achieving this goal and that it is doing it in a cost-effective way.

30 Carlton, Transcript, p. 99.
31 Hunt, Transcript, p. 88.
32 Arnold, Transcript, p. 107.
33 Simons Report, p. 291.
34 Hunt, Transcript, pp. 91-92.
NGOs are keen to work closely with AusAID to assess public opinion and to collaborate in efforts to build a stronger understanding in the community of the need for and the effectiveness of aid.\textsuperscript{35}

4.34 Mr Charles Tapp also stressed the need to get across to the public the effectiveness of the aid program. He suggested that the burden of responsibility for public awareness should rest with NGOs.\textsuperscript{36}

4.35 Mr Bill Armstrong said he wanted to see greater community participation, noting that the original idea behind the ANCP was to involve the Australian community. He expressed a fear that there was a global trend for NGOs to move more to being service providers, at the risk of neglecting other very important roles for NGOs such as building, supporting and maintaining awareness in the Australian community of the aid program.\textsuperscript{37}

4.36 The Joint Standing Committee believes that the NGO community has a vital role to play in representing community views on the aid program and assisting in improving the general community's understanding of development issues.

**Recommendation 8:** That AusAID and the NGO community examine ways in which together they might improve the general community's understanding of development issues.

4.37 The Simons Report noted that Australia was almost unique among DAC donors in not regularly monitoring public support for aid and aid expenditure.\textsuperscript{38} The report further noted that larger NGOs conduct very specific market-related research and most also engage in broader research into community attitudes, as does AusAID. There would appear to be common benefits in coordinating efforts in community attitudes research.\textsuperscript{39}

**Recommendation 9:** That AusAID, in conjunction with ACFOA, examine ways in which coordinated research into public support for development assistance might be implemented, as recommended by the Simons Report in Recommendation 19.3.

**Future Outlook**

4.38 Ms Janet Hunt expressed a concern that there is currently a misconception that NGOs are only doing small scale community development projects. In actual fact, NGOs are working on several projects of national and regional significance and which can shape national policy directions. For example, Ms Hunt cited programs currently in operation in Vietnam on vocational training, and in Cambodia on health, that are quite significant in providing models that can be applied far wider than the original project of the NGO.

\textsuperscript{35} ibid., p. 92.  
\textsuperscript{36} Tapp, Transcript, p. 94.  
\textsuperscript{37} Armstrong, Transcript, p. 106.  
\textsuperscript{38} Simons Report, p. 298.  
\textsuperscript{39} ibid.
4.39 Ms Hunt was extremely concerned that this knowledge and experience would be lost if a larger version of an originally small project was simply tendered out to a higher bidder or if the NGO was forced to scale itself up. She identified a need for further closer involvement on such projects to develop extended proposals. 40

4.40 There was a general willingness on the part of assembled NGOs to enter into fruitful discussions with AusAID on the recommendations of the Simons Report. There was a general acknowledgment that most of the suggested reforms were needed. Respect and appreciation for the report’s process and outcomes and the efforts of the Review Committee were expressed at many points throughout the discussion.

40 Hunt, Transcript, p. 90.
SECTION 5
OTHER ISSUES

AusAID Administration

5.1 The Simons Committee was not asked to undertake a comprehensive examination of aid management issues. The Terms of Reference, however, asked the Review Committee to '... consider the implications, if any, of its recommendations for AusAID's organisational structure and processes.'\(^1\) The Committee identified 'some new directions or approaches that the Government and AusAID should consider in the ongoing pursuit of excellence in aid delivery, and in the context of implementing new public service reforms.'\(^2\)

5.2 In commenting on the administration of AusAID, Mr Simons noted:

In our review of AusAID we saw no evidence at all that would suggest there was any sort of corruption or fraud or extravagance at the top levels, which I was quite pleased to see ... They run a fairly tight ship, it appears.\(^3\)

and

... by international standards, we concluded that AusAID is better than most and has done well in many ways, despite having to contend with a variety of conflicting objectives.\(^4\)

5.3 While noting that, compared to other donor agencies, AusAID was 'above average', Mr Simons went on to identify three major weaknesses in AusAID's management and structure:

- inadequate sectoral expertise in the areas of health, education, and civil engineering;
- a poor management information system;
- AusAID is overcentralised with most of the senior resource being based in Canberra.\(^5\)

Each of these was covered in some detail during the seminar, and is summarised in this section of the report.

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2 Simons Overview, p. 27.
3 Simons, Transcript, p. 8.
4 ibid., p. 12.
5 ibid., pp. 7-8.
Sectoral Expertise

5.4 The issue of sectoral expertise has been briefly addressed in an earlier section of this report (see paras 2.18-2.23). The Simons Committee argued in its report that AusAID must either have high quality in-house expertise in health, education, infrastructure and rural development, or alternatively the services of centres of excellence specialising in research and development in these key sectors. There was some disagreement within the Simons Committee itself on the issue of external centres of excellence with funding from AusAID.⁶

5.5 Mr Kanaley pointed out during the seminar that it was not viable for AusAID, as a public sector agency, to offer employment on the basis of sectoral expertise given the current staffing reductions across the agency. The question of AusAID, given current financial conditions, being able to offer a salary comparable and competitive with the private sector was also raised:

In a world where the agency staffing has gone through major reductions over time, it is clearly not a viable proposition to think we are going to employ sectoral experts as public servants. It is also quite clear that, even if we tried to, we probably could not offer salaries which would attract the best in the private sector to move across. That clearly implies that the model for sectoral expertise, whether it is centres of excellence or whatever, is going to be a model that is a contracting model of one form or another.⁷

5.6 Mr Kanaley further explained that the number of people who claimed to be expert in a development area who actually had had experience in a developing country was very small. Even though the sector itself in Australia may be very large and varied, it may have little or no hands-on knowledge or relevant experience with developing nations.⁸

5.7 Professor Walsh also noted that in moving to an outsourcing model for sectoral expertise, a mistake was often made in not recognising that a degree of in-sourced information expertise was required to effectively manage the process:

You need people who have sufficient expertise to be able to ask the right questions, interpret the answers and understand the advice of the model that is being offered.⁹

5.8 AusAID staffing has declined from 590 to 540 over the last few years, and will decline by another 10 in the current financial year to 530.¹⁰ As with other parts of the public service, there is continuing pressure on running cost allocations. This not only has implications for AusAID's ability to develop sectoral expertise internally, but also in its ability to expand its evaluation and assessment ability. As Mr Kanaley noted, one of the

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⁶ ibid., p. 9.
⁷ Kanaley, Transcript, p. 16.
⁸ ibid., p. 50.
⁹ Walsh, Transcript, p. 17.
hardest issues facing AusAID is in how it handles the increased resource requirements that quite clearly are implicit in many of the recommendations made by the Simons Committee.\footnote{ibid., p. 24.}

**Management Information System**

5.9 Mr Simons at the seminar made the point that in his view AusAID management is certainly hampered by an inadequate MIS or management information system and that needs urgent attention.\footnote{Simons, Transcript, p. 10.} The Review Committee noted the 'difficulties' it had in obtaining detailed and reliable statistics on Australia's aid program, suggesting that:

... the lack of an accurate, reliable statistical data base must compromise the day-to-day decision-making within AusAID. A data base must be comparable over time so that activity trends and expenditure can be accurately monitored and analysed. It must be able to produce reports for managers on different aspects or perspectives of the program easily and quickly.\footnote{Simons Report, pp. 311-312.}

5.10 In response, at the seminar Mr Kanaley noted that while the MIS is not complete, it would be of the order of some 75 per cent and the agency is working to improve the deficiencies that exist.

5.11 The Joint Standing Committee encourages AusAID to improve its performance in this area, as it will have significant benefits for the management of the overall aid program.

**Recommendation 10:** That AusAID report as part of its next annual report on progress in improving its management information system.

**Centralisation**

5.12 In arguing for decentralisation of AusAID, the Review Committee identified what it felt would be the benefits that would flow from such a restructuring:

- decisions made at the 'coalface' would have the benefit of local knowledge;
- there would be a quicker response to changing local conditions;
- management and employees would be more motivated; and
- it would build great depth in the strength of management who are building people and building capacity.\footnote{Simons, Transcript, p. 10.}

5.13 Under a more decentralised system, Mr Simons viewed the role of the central office as follows:

\[\text{\footnotesize 11 ibid., p. 24.}\]
\[\text{\footnotesize 12 Simons, Transcript, p. 10.}\]
\[\text{\footnotesize 13 Simons Report, pp. 311-312.}\]
\[\text{\footnotesize 14 Simons, Transcript, p. 10.}\]
It allocates capital, coordinates training, develops strategy, reports to the shareholders and, in this case, the Australian taxpayer through the government, and works the business network: the associations, the ODA and all of these other organisations that are involved in this business.\textsuperscript{15}

5.14 While arguing that there was a strong case for devolution in AusAID, Mr Simons noted that 'the extent of it is something for management and government to decide themselves.'\textsuperscript{16}

5.15 A range of problems with devolution were identified by a number of participants at the seminar. While acknowledging that there are some benefits from devolution, Mr Kanaley observed that with advances in technology and communication, while it is possible to devolve some functions, it is also easier to centralise some other functions.\textsuperscript{17} The issue of decentralisation of AusAID had been raised in discussion earlier in the day,\textsuperscript{18} and Ms Hart mentioned in this session of the seminar that a tighter geographic focus may provide part of the solution to the decentralisation debate, while recognising that this would also be problematic.\textsuperscript{19}

5.16 Mr Kanaley also made the observation that the Simons Committee put forward what was very much a business model. This, he noted, had '... implications for the nature and structure of the agency which ... at the moment is very much a Public Service agency ...'.\textsuperscript{20} Mr Kanaley went on to outline the various demands placed on the agency in providing advice to government and the minister. Mr Kanaley identified two parts to the work of AusAID, the ministerial service and the project work, which while related, have inherently different organisational implications.\textsuperscript{21}

5.17 In looking at the international experience of devolution, there appears to be no perfect model in existence. Several examples were given of donor organisations that have moved from a centralised structure to a more devolved structure, and had after several years, reversed the process. Professor Hughes observed that devolution was different depending on the size of the organisation, where economies of scale might be possible:

I would say that the experience is really two track. What the World Bank and the International Monetary Fund are doing [decentralising] is really very different because they are so large. What the national agencies ... are doing is centralising rather than decentralising.\textsuperscript{22}

\textsuperscript{15} ibid.
\textsuperscript{16} ibid., p. 11.
\textsuperscript{17} Kanaley, Transcript, p. 16.
\textsuperscript{18} See particularly comments by Mr Charles Tapp, CARE Australia, Transcript, p. 27.
\textsuperscript{19} Hart, Transcript, p. 44.
\textsuperscript{20} Kanaley, Transcript, p. 15.
\textsuperscript{21} ibid., p. 16.
\textsuperscript{22} Hughes, Transcript, p. 25.
5.18 Mr James Michel, Chair of the Development Assistance Committee of the OECD, observed, that while there are advantages to be gained from devolution:

The reality is that it costs about three times as much to have a staff person in a developing country as it does to have them in headquarters ... [I]t would really be an unfortunate thing if you started off decentralising then decided you could not afford it and turned around and recentralised. That would really be wasteful in terms of impact and the use of public resources.\(^{23}\)

5.19 The Committee acknowledges the dual roles of AusAID (as development agency and as part of the Public Service) and believes that a well-resourced central office will need to be maintained if both roles are to be met successfully. While there may be some potential for decentralisation of AusAID, especially if the program is more tightly focused geographically, the Committee is concerned about the possible costs involved in such a move. The Committee queries whether any significant decentralisation would be possible given the level of resources currently available to the organisation. Any proposals for decentralisation should be subjected to cost-benefit analysis to ensure that the premium for placing staff overseas is not out of proportion to the benefits to be gained.

Recommendation 11: That AusAID investigate the cost involved in any proposed decentralisation, and report on this matter in its next annual report.

Funding

5.20 The Simons Report noted that the aid program was '... constrained by relatively short-term political and budget cycles ... The aid program is appropriated annually, but most aid activities, by their very nature, need to be multi-year. There is an inherent tension in managing in an uncertain budgetary climate.'\(^{24}\)

5.21 Deficiencies in the current system included, as one seminar participant noted, 'an annual spending spree' towards the end of each financial year.\(^{25}\) Mr Simons also commented on the:

... impression given to us that towards the end of the financial year there is a rush to spend the money, as in most government departments, in order that they do not get a reduction in the following year's budget. I do not think that is good policy. There needs to be an agreement between the parties that this agency should have X amount of dollars ... there should be certainty in continuity, and on a rolling basis three years out possibly, or some period which is determined by the government.\(^{26}\)

\(^{24}\) Simons Report, p. 310.
\(^{25}\) Wurcker, Transcript, p. 15.
\(^{26}\) Simons, Transcript, p. 15.
5.22 While not making a specific recommendation on this matter, the Review Committee noted that 'It would be desirable for there to be a greater degree of predictability in future aid budgets ...[and]... financial carry-over mechanisms should be investigated, such as a three-year rolling program approach or a trust fund arrangement.'

5.23 The Joint Standing Committee believes there would be much to be gained from such an approach, providing as it would a measure of predictability in the aid budget.

**Recommendation 12:** That the Australian Government review the budget process in regard to the allocation for development assistance, and consider introducing a three-year rolling program approach or a trust fund arrangement.

5.24 At the July seminar, and as noted earlier in this report, there was some concern expressed about the impact of implementation of the Simons Report's recommendations on the AusAID budget. Professor Helen Hughes estimated that should all 79 recommendations be implemented they would quadruple the administrative costs of AusAID. While the Joint Standing Committee would not necessarily concur with the magnitude of that estimate, it is obvious that there are significant cost implications for AusAID arising from the Review Committee's findings.

5.25 In support of possibly greater expenditure on administration and evaluation, Professor Walsh argued:

... if it costs more to run the program but we get greater effectiveness from taking money out of program and project outlays and putting it into better evaluation, better administrative procedures, surely that is what we would want to recommend, and we would want to fight damn hard against the politicians who want to say otherwise.

5.26 At present, some 3.6 per cent of the aid budget is spent on running costs. The Simons Report recommendations, should they all be implemented, would see this figure increase. This, in the opinion of many at the seminar, would be money well spent if it improved the overall effectiveness of the Australian aid program.

5.27 The Joint Standing Committee remains concerned about the obvious resource implications (both staffing and budgetary) for AusAID implicit in the recommendations arising from the Simons Review.

**Evaluation and Accountability**

5.28 One of the major themes of the Simons Report was the issue of quality and outcomes. The Simons Report argued:

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28 Hughes, Transcript, p. 56.
29 Walsh, Transcript, p. 64.
30 Simons Report, p. 309.
Maximising the effectiveness of the aid program demands a continuous search for better ways of operating. Best practice must be pursued at all stages, from defining interventions and designing programs, through to project implementation and evaluation. A more analytical and evaluative culture needs to be built into the management and delivery of Australian aid, and this should start within AusAID.

AusAID must refocus on results. Perhaps the single biggest shortcoming in the administration of the aid program is the lack of priority afforded to evaluation ... A more rigorous assessment of results would enable the organisation to learn from its experiences.31

5.29 The Review Committee made a number of recommendations aimed at improving the quality and outcomes of the aid program and the mechanisms by which this can be achieved and monitored. These included the establishment of an independent Office of Evaluation within AusAID (recommendation 9.5); AusAID's senior executive to be given explicit responsibility for monitoring the performance of the Australian aid program against programming priorities and sectoral and cross-sectoral policies (recommendation 9.1); and greater and more consistent use of project analysis techniques, including both cost-benefit and cost-effectiveness analysis (recommendation 9.4).

5.30 No specific session at the July seminar was devoted to evaluation, although the Joint Standing Committee understands that it was addressed in considerable depth at other seminars held as part of the public consultation process. Some comments were made, however, reinforcing the need for an evaluative culture to be nurtured within AusAID and that '...mechanisms are put in place to keep that evaluative culture going and growing.'32 As Ms Gaye Hart observed, 'evaluation is fundamentally about a learning organisation that is seeking to continuously improve what it does and is prepared to look creatively for new ways of doing things ... I think we need a lot more debate on what evaluation and performance accountability mean.'33

5.31 The Committee is also concerned that the recommendations of the Simons Report be viewed in the context of a developing program. To this end, the Committee believes it would be useful for AusAID to review the findings and recommendations of the Jackson review some thirteen years ago, and the extent to which those recommendations were able to be implemented. Following this, it would be useful to then compare this with the areas identified by Simons as requiring attention, before government ultimately makes a decision on these recommendations.

5.32 The Joint Standing Committee supports the establishment of an independent Office of Evaluation within AusAID, as one mechanism to improve evaluation and assessment within the agency. The criteria for evaluation also need to be clearly defined, and include the benefits for the people in the recipient country, the benefits to Australia, the extent to which the project has contributed to social and economic

31 Simons Overview, p. 7.
32 Walsh, Transcript, p. 109.
33 Hart, Transcript, p. 116.
development in the region, and whether it has achieved the long term national goals of the recipient country and Australia.

Oversight of AusAID

5.33 The Simons Committee made a number of suggestions regarding the oversight of AusAID. The Committee recommends the creation of a Development Cooperation Advisory Board comprising experts in the fields relating to development, to provide an independent and ongoing review of the focus and effectiveness of the aid program for the Minister. Related to this is the creation of a legislatively based Development Cooperation Charter, as a way of encouraging greater multi-party support for the objective of the aid program, resulting in both a stronger political commitment to, and greater public understanding of, that objective.  

5.34 As noted earlier, a related recommendation is the proposal to establish an independent Office of Evaluation within AusAID, headed by a senior statutory officer reporting directly to the Minister, the Director General and the proposed Development Cooperation Advisory Board.  

5.35 There was no in-depth discussion of these proposals at the July seminar. However, in commenting on the Charter, Professor Walsh noted that 'The idea of a development cooperation charter is also closely integrated with that sort of focus [on encouraging an evaluative culture] and also with the building of bipartisanship and then development education and development research. 

5.36 The Joint Standing Committee believes that the establishment of an Advisory Board would be a useful means by which guidance could be given to AusAID management. However, it is less convinced about the utility of a development charter, believing that such a charter may be long on rhetoric and short on practicality.

Recommendation 13: That the Australian Government establish an Advisory Board to assist AusAID management in the direction of the development assistance program.

Donor Co-ordination

5.37 The issue of the importance of stronger donor coordination also emerged during discussion at the seminar, with examples being given of the waste that occurred when donor coordination was not apparent. Mr Simons, during the seminar, noted:

34 Simons Overview, p. 27.
35 Simons Report, p. 175.
36 Walsh, Transcript, pp. 109-110.
37 Simons, Transcript, p. 9.
We saw several examples of where there was a lack of communication between donors, so that one donor was providing this, another providing that and another providing something else again, none of which was coordinated ... [I]f donors ... carefully planned their joint efforts, there would be better outcomes.\(^{38}\)

5.38 Combined with improved donor coordination was also the concept of coherence, raised by Mr James Michel, Chair of the DAC. Mr Michel argued that it was important that:

... the industrialised countries have to look at their trade policies, their agriculture policies and their environment policies in terms of the opportunities that they are providing, so that you do not get a disconnect between trying to help a developing country build its capacity to do something and then maybe closing the market ...\(^{39}\)

5.39 The Committee believes that the Australian aid program needs to be determined first of all in accord with Australia's national priorities, but in determining the nature of the program, care needs to be taken to avoid undue duplication of effort with other donors.

Recommendation 14: That the Australian Government continue to work in international forums for greater policy coherence and coordination among donor countries.

**Good Governance, Conditionality and Partnerships**

5.40 In any evaluation of the effectiveness of development assistance, the role of the recipient country is central. Professor Helen Hughes, at the July seminar, observed:

... overall policy in a country is tremendously important. You can develop education, health, water, etcetera, only if the country is going in some sort of sensible direction. So the macro-economic aspects – macro in the overall economic directions – are very important because if a country has had very bad overall policies ... it is not going to grow.\(^{40}\)

5.41 This view was supported by Mr Simons who noted that it was vitally important that countries that are receiving aid firstly agree that 'the project is of high priority and, secondly, that they have policies in place which encourage later development, that they have law and order and good policing and good fiscal policies'.\(^{41}\)

5.42 The point was reinforced by Professor Ron Duncan who observed:

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\(^{38}\) ibid., pp. 9-10.

\(^{39}\) Michel, Transcript, p. 33.

\(^{40}\) Hughes, Transcript, p. 12.

\(^{41}\) Simons, Transcript, p. 12.
... most countries in the world that are receiving aid do not have good policies. So, in most of the countries in which AusAID people are going to be working, they are going to be dealing with priorities that we do not agree with. You just cannot take the countries' priorities ... It is going to be AusAID's primary task, in fact, to convince them that the policies are wrong.\footnote{Duncan, Transcript, p. 12.}

5.43 The Simons Report recommends that, in recognition of the links between good governance and sustainable development, 'AusAID should continue to give a high priority to activities within the country programming context that will bring about improvements in governance. Good policies and commitment to reform should be included in the criteria for determining the geographic allocation of Australian aid' (recommendation 13.1).\footnote{Simons Report, p. 230.} The report also notes that the key issue was the extent to which Australia can or should use conditionality to achieve its good governance objectives, particularly bearing in mind the Australia's influence is 'very modest'.\footnote{ibid., p. 228.}

5.44 Professor Walsh, in commenting about the strong case for conditionality of aid made in the Simons Report, noted:

Having decent economic policies, whether they are macro-economic management policies, or what we would call micro-economic policies, in relation to regulatory frameworks and so on is a condition precedent for countries actually benefiting from the development assistance that we give to them and we should find ways in which we increasingly encourage them to adopt those policy frameworks. If they are not willing to do so, then at the end of the day the Australian taxpayer would have a reasonable right in saying that the aid money was not being used in the way that the Australian taxpayer intended and that the ultimate objective was not actually being achieved.\footnote{Walsh, Transcript, p. 14.}

5.45 In looking at the partnership versus conditionality idea, Mr James Michel expressed some scepticism of the effectiveness of conditionality, observing that:

... If poverty reduction is not a priority for a developing country, your investment in it is not likely to produce very much that is worth while and then the aid program bears the risk of being found ineffective.

I would rather the partnership idea where you would have a dialogue and see if you have a basis for working together or not.\footnote{Michel, Transcript, p. 34.}

5.46 Professor Wash argued that making a sharp distinction between partnership and conditionality was somewhat overstated, seeing 'carrots as well as sticks involved in conditionality' and that this was not inherently contradictory in partnership.\footnote{Walsh, Transcript, pp. 36-37.} Professor
Hughes supported this view, seeing 'no difference between conditionality and partnership'.

Mr Armstrong, in commenting on this issue, agreed that 'any partnership is based on conditionality. Any partnership that is equal ... is based on conditionality. It is based on agreement between the partners.'

5.47 While much of the debate on conditionality and partnership perhaps can be summarised as semantics, the Joint Standing Committee believes it is important to stress that development is a process that occurs between a number of participants. Each has a vital role to play; each has expectations of what the process will achieve, and benchmarks by which the activity will be judged. For those involved, future projects are then assessed against past experience. In all development assistance, the input of the recipient country is vital if the project is to proceed.

Aid Delivery Mechanisms

5.48 The majority of Australian aid is bilateral aid. However, the multilateral programs are by no means insubstantial. In 1997-98 Australia will provide $230.8 million to the multilateral development banks to help with projects across a wide range of sectors in developing countries. In addition, Australia will provide $67.5 million to UN development organisations, and a further $9.3 million to Commonwealth development agencies.

5.49 The balance between multilateral contributions and other means of aid delivery was briefly addressed in the July seminar. Mr Kanaley advised that the issue of the bilateral/multilateral allocation was under fairly constant review, as was the effectiveness of aid delivered via these mechanisms. While not necessarily advocating this approach, Mr Kanaley suggested that one way in which Australia might maintain some involvement in development beyond the geographic focus suggested by the Simons Committee, might be through the multilateral system, which did not have the same administrative costs associated with delivery using bilateral means.

5.50 In discussion, it was also noted that in looking at the DAC members, about 70 per cent of the development assistance is spent bilaterally and about 30 per cent is provided through multilateral institutions.

5.51 The Joint Standing Committee has not attempted to make an assessment of the relative merits of aid delivery through bilateral or multilateral channels. However, the Committee would like to see greater public discussion of the merits and deficiencies of each system so that more informed judgements might be made in the future.

Recommendation 15: That AusAID undertake an evaluation of the relative merits of aid delivery using bilateral or multilateral channels, and report on its progress in its next annual report.

48 Hughes, Transcript, p. 39.
49 Armstrong, Transcript, p. 48.
50 AusAID, Aid Budget Summary 1997-98, p. 4.
51 Kanaley, Transcript, pp. 27-28.
52 Michel, Transcript, p. 29.