



The Fred Hollows
Foundation

ACN 070 556 642

Level 2, 61 Dunning Avenue
Rosebery NSW 2018

Locked Bag 5021
Alexandria NSW 2015
Australia

Tel +61 2 8741 1900
Fax +61 2 8741 1999

Donation Line
1800 352 352

Email fhf@hollows.org
Website www.hollows.org.au

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The Hon Julie Bishop MP
Department of Foreign Affairs and Trade
R.G. Casey Building
John McEwen Crescent
Barton ACT 0221

Dear Minister,

Response to DFAT Consultation Paper: Performance Benchmarks for Australian Aid

Thank you for providing The Fred Hollows Foundation (The Foundation) with the opportunity to respond to the Department of Foreign Affairs and Trade's consultation paper regarding the development of rigorous performance benchmarks for the Australian aid program.

Your recent announcements on a new era of aid represent an exciting opportunity for deepening the impact of Australia's aid programs and a clear opportunity for organisations which demonstrate real impact. The Foundation builds into its programs many elements identified in your recent statements; creating jobs by working with local partners in both public and private sectors, developing sustainable capacity to deliver eye health, exploring innovative financing mechanisms such as development impact bonds and the use of loans rather than grants to ensure sustainable outcomes, expanding access to education by addressing blindness and vision impairment in children in the school setting, and directly addressing disability by preventing and treating avoidable blindness and vision impairment, thus opening the door for people to fully participate in their country's economic development.

The Foundation supports proposals to enhance the effectiveness of aid delivery contained in ACFID's report *Benchmarks for an Effective and Accountable Australian Aid Program*. This letter provides additional proposals and observations in response to the consultation paper.

In summary, we propose:

- Achieving greater efficiency and effectiveness of Australia's aid dollar by focussing Australia's aid spending on **clearly articulated themes** and, where possible **leveraging global initiatives**.
- Selecting providers who **support local economic development** by employing and training in-country staff, working with local Partners and procuring locally and regionally where it makes sense to do so.
- At a whole of aid program level, consider **using the MELF to report performance across all components of Australia's aid delivery**, broadening its use beyond ANCP NGOs and setting targets on key strategic measures in line with the 'hurdles' developed through this process.

- To manage performance at a program or provider level, rather than expanding the MELF to become a provider-management tool, **complement the MELF with contextually valid and specific performance management frameworks**, relevant to that program or provider.
- **Implementing pay-for-performance mechanisms cautiously**, to manage the very real risks which arise and to test whether pay-for-performance is effective and cost-effective in achieving better outcomes – the evidence so far is mixed.
- Supporting NGOs to **develop alternative funding mechanisms**, such as Development Impact Bonds which help NGOs to access new sources of funds and manage some of the risks associated with pay-for-performance. Other new mechanisms include private sector support in the provision of loans to achieve agreed development outcomes, and the potential to explore taxation incentives for private sector participation in agreed development programs.
- Ensuring that there are ‘carrots’, not just ‘sticks’ built into the system, by offering access to an **innovation fund** for well-performing providers and **opportunities for increased funding** for well-performing initiatives.
- **Avoiding burdensome bureaucracies** and onerous data collection requirements, by choosing the right hurdles, benchmarks and performance systems, which can be addressed using routinely collected data within providers’ existing systems and expanding data collection only where it is cost effective to do so and adds real value.

The Foundation will be pleased to work with you to define workable hurdles and benchmarks over the coming months and to continue to enhance the effectiveness of Australian aid.

Targeting funding to priority themes

Development themes, which have been demonstrated as being drivers of growth, include **education, infrastructure, access to finance, participation by women, and health**¹. Within these areas, we encourage a focus on particular **priority themes**, in order that real progress can be both achieved and demonstrated across Australia’s aid investment. The Foundation can demonstrate the tangible outcomes of a clear focus on priority themes, by donors, governments and local partners. Our arrival in Pakistan 15 years ago has been recognised as the catalyst for a remarkable transformation in eye health services, with the prevalence of blindness dropping from 1.8% to 0.9% over this period.²

Priority themes could be selected to reflect a real possibility of achieving positive, cost effective development outcomes. The Australian Avoidable Blindness Initiative (ABI) is one such example, drawing on compelling evidence that eye health is one of the most cost effective health interventions. It is also an issue which disproportionately affects women – women account for 64% of all blind people globally³. Recent research undertaken for The Foundation by PwC shows a compelling economic case for further investment in ending avoidable blindness. For every \$1 invested in preventing or treating eye health problems in developing countries,

¹ DFAT, 2014, *Submission – Inquiry into Australia’s overseas aid and development assistance program*

² FHF, 2012, *Reaching the unreached – a 14 year Pakistan Program Report 1998 – 2012*.

³ Abou-Gareeb I, et al., 2001, *Gender and blindness: A meta-analysis of population-based prevalence surveys*, *Ophthalmic Epidemiology* 2001; 8:39-56

there is a very conservatively estimated direct economic benefit of at least \$4, with additional flow-on social and economic benefits for the community⁴.

Leveraging Global Initiatives

Greater impact can be achieved by leveraging the knowledge and expertise which comes from global initiatives to tackle particular problems. Almost all WHO member States are signatories to the global initiative to eliminate avoidable blindness, and therefore align their 'prevention of blindness' activities to global action plan 2014–2019 on universal eye health.⁵ The Foundation ensures that its in-country programs are aligned with national programs, and our activities support the implementation of the global action plan.

One such disease-specific initiative is the global strategy to eliminate Trachoma, co-ordinated through the International Coalition for Trachoma Control, in which The Fred Hollows Foundation is a leading member. Considerable investment is occurring on a global scale to map the prevalence of trachoma, design and test cost effective interventions, develop frameworks for measuring performance and set targets to achieve global elimination. Through the WHO-endorsed SAFE strategy (Surgery, Antibiotics, Facial Cleanliness, Environmental change), efforts are being co-ordinated across partners and sectors. Trachoma disproportionately affects women, with blinding trachoma (trichiasis) 1.8 times more likely to occur in women than in men⁶ and remains endemic in several countries in the Asia-Pacific region, including Fiji, the Solomon Islands and Kiribati. While other funders such as DFID, USAID and the Queen Elizabeth Diamond Jubilee Trust are supporting trachoma elimination, there is a need for additional funding in the Asia-Pacific region as well as Indian Ocean rim countries such as in parts of East Africa.

Supporting co-ordinated global initiatives such as this could produce real, demonstrable and cost effective outcomes for Australia's aid funding.

Supporting economic growth through local procurement and partnerships

In addition to targeting aid funding to the right themes, countries, and communities, economic growth could be further spurred by selecting providers who **support local economic development** by employing and training in-country staff, working with local Partners and procuring locally and regionally where it makes sense to do so. This philosophy underpins the work of The Foundation and significantly enhances the economic impact and sustainability of our work.

On a recent trip to Myanmar by Foundation representatives, the Director General of the Myanmar Ministry of Health singled out assistance with international procurement as one of the highest value initiatives The Foundation could assist them with and participate in.

We encourage DFAT to explore ways to build local input and procurement into programming considerations, or the value-for-money decision-making used to select NGOs and contractors.

⁴ PwC, 2013, *Investing in Vision – Comparing the costs and benefits of eliminating avoidable blindness and vision impairment*, Feb 2013.

⁵ WHO, 2013, *Universal eye health: a global action plan 2014–2019*. Accessible at: <http://www.who.int/blindness/EyeHealthActionPlanWHA66.pdf?ua=1>

⁶ The Carter Center et al, 2009, *Women and Trachoma: Achieving gender equity in the implementation of SAFE*. Accessible at https://www.cartercenter.org/resources/pdfs/health/trachoma/women_trachoma.pdf

Such an initiative is consistent with DFAT's ongoing efforts to increase the share of aid using partner systems by 30%⁷.

Using the right tools to measure performance

In DFAT's consultation paper, it is proposed that the MELF could be expanded to assess the performance of DFAT's NGO partners and potentially a mechanism to influence funding allocations to those partners. We see benefit in exploring whether the MELF could become a consistent reporting tool across all components of Australia's aid delivery, broadening its use beyond ANCP NGOs and settings targets on key strategic measures in line with the 'hurdles' developed through this process.

However, at the project or provider level, the MELF may need to be complemented with project or provider specific indicators in order to be effective in managing performance:

- The MELF is useful for demonstrating the reach of the ANCP program, but it was designed as a 'common reporting tool', not a performance management tool for individual providers, and in general is not sufficiently granular to act as a performance measurement tool.
- The MELF is focused on one-year quantitative outputs, rather than longer term outcomes and impact. At the provider level, numeric approaches towards performance measurement need to be balanced with wider information on quality, sustainability and longer term outcomes, which are unlikely to be able to be measured on an annual cycle.
- Some components of MELF appear more consistent with a 'direct service delivery' model of aid and could become less relevant as we move toward broader health-system strengthening to ensure sovereign governments can deliver their own services.

A broader set of indicators would be needed to reflect the breadth and depth of Australian aid and to offer real value in performance measurement. This may mean many providers collecting information not necessarily relevant to their performance. Further, we are concerned that expansion of the MELF, and indeed setting overall hurdles for Australia's aid program, may lead to expensive exercises to expand and disaggregate data collections, without adding value. Disaggregating data by disability status – a notoriously difficult issue to measure – is a current proposal for expansion of the MELF, and it is not clear that this is justified on pure cost-benefit terms.

Stringent assessment tools already exist to ensure NGOs have the capacity and systems to deliver high quality programs. These include obligations to comply with a comprehensive ACFID Code of Conduct, assessed annually, and the DFAT-led accreditation process, currently every five years. In addition, regular project reporting and evaluations are included in contracts with NGOs for Australian Aid funding. These mechanisms may require review, to reflect an agreed understanding between DFAT and the sector of what 'value for money' means, and the different factors that impact on this. Aligning benchmarks and hurdles at a whole-of-aid program level

⁷ OECD, 2013, *OECD Development Co-operation Peer Review Australia 2013*

with the 12 indicators defined under 5 broad dimensions within the Paris Declaration would also streamline data collection and performance measurement.⁸

For provider performance management, we encourage complementing the MELF with **existing global frameworks where they exist**, rather than developing a new parallel framework through an expanded MELF.

Frameworks existing at a global level can also be used to monitor thematic performance. In eye health, for example, this would include the benchmarks and targets being set by the International Coalition for Trachoma Control for the elimination of trachoma, and achieving agreed national and global indicators for the WHO Global Plan of Action for Achieving Universal Eye Health.

Cautious introduction of pay-for-performance

Pay-for-performance is an exciting opportunity for Australia's aid program and has the potential to redirect funds to well-performing providers and sectors, away from poorer-performing providers, and drive greater efficiency and impact. Nevertheless, pay-for-performance is as yet unproven⁹ and while the evidence in health is mixed, it suggests pay-for-performance has not yet been effective in improving the quality and efficiency of care.¹⁰ We therefore encourage DFAT to proceed with caution, recognising the considerable risks which pay-for-performance brings:

- Pay-for-performance may discourage projects that are harder to “measure” against a standard set of criteria/ with existing mechanisms, including longer term capacity building projects, innovative or new projects, projects in fragile states and riskier projects. Aid delivery could become risk averse, innovation stifled, and the ability to continually build new and effective ways of doing development will be limited.
- Programs may focus on short-term outputs at the expense of long-term goals, if performance measurement occurs over too short a timeframe.
- If outputs and activity, rather than outcomes, become the basis for performance measurement, then outputs and activity may increase without any discernable improvement in outcomes. This is a commonly cited problem when activity-based funding is introduced in health systems, and noted in DFID's review of existing pay-for-performance mechanisms.¹¹
- NGOs, who are less able to take on financial risk, could be shut out of aid contracts if pay-for-performance is introduced in high risk projects.

⁸ The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action. Accessible at <http://www.oecd.org/dac/effectiveness/34428351.pdf>

⁹ DFID, 2013, *Evaluation of Payment by Results: Current Approaches, Future Needs*, DFID Working Paper #39, January 2013

¹⁰ Eijkenaar F, et al., 2013, Effects of pay for performance in health care: a systematic review of systematic reviews. *Health Policy*. 2013 May; 110(2-3):115-30.

¹¹ DFID, 2013, *Evaluation of Payment by Results: Current Approaches, Future Needs*, DFID Working Paper #39, January 2013.

- If aid predictability declines as a result of pay-for-performance, the overall value of aid delivered may also decline - a recent OECD report noted that 'recent studies indicate that the value of aid reduced by 15% to 20% when it is unpredictable and volatile'¹².

If introducing pay-for-performance, we encourage a cautious approach including:

1. Ensure that lessons learnt from similar benchmarking or pay-for-performance efforts are clearly understood and reflected in the design. This might include agencies which have used benchmarks within their development assistance programs (for example, the World Bank, USAID, DFID), as well as other non-aid efforts with payment-by-results. Lessons learned should be captured from other government programs, including state and federal, who have introduced a pay-for-performance system.
2. Clearly assess the value-for-money of investing in the architecture required within the government and provider organisations to appropriately administer and monitor a pay-for-performance system. In health, we have observed considerable bureaucracies develop in an effort to manage pay-for-performance systems.
3. Limit pay-for-performance initially to a limited range of contracts for which outcomes can be clearly articulated and verified, and there is reasonable certainty of outcome. Importantly, these contracts should allow providers flexibility to achieve outcomes, rather than focussing on inputs such as percentage of costs going to administration.
4. Ensure performance measurement is cognisant of the influence of external factors on projects, particularly in fragile states, which can result in unintended consequences which impact on the delivery of a project.
5. Support NGO efforts to develop and access innovative funding sources, such as Development Impact Bonds, which will help NGOs to manage the financial risks associated with payment-by-results.
6. Ensuring that there are 'carrots', not just 'sticks' built into the system, by offering access to an innovation fund for well-performing providers and opportunities for increased funding for well-performing initiatives.

We welcome the opportunity to work with you as you develop and implement rigorous benchmarks to assess and drive the performance of the Australian Aid Program.

If there are any aspects of this letter you wish to discuss please feel free to contact me at bdoolan@hollows.org or our Global Lead: Development Effectiveness Ms Kirsten Armstrong on karmstrong@hollows.org.

Yours sincerely



Brian Doolan
CEO

¹² OECD, 2013, *Aid predictability* (website text), Available: <http://www.oecd.org/dac/aid-architecture/>