

INSTITUTE FOR
INTERNATIONAL TRADE



THE UNIVERSITY
of ADELAIDE

Submission to DFAT Consultation Paper on

Performance Benchmarks for Australian Aid

by

Institute for International Trade
Level 6, 10 Pulteney Street
The University of Adelaide SA 5005

Phone: 08 8313 6900

Fax: 08 8313 6948

For further information or follow up please contact:

Jim Redden
Director, International Programs
Institute for International Trade
email: james.redden@adelaide.edu.au

February 2014

Executive Summary

The key aim of this submission is to highlight aspects the Institute for International Trade believes form the basis of targeted, sustainable and effective aid, as well as factors important to measuring the impact and performance of the Australian aid program. Increased engagement and consultation with the private sector, setting long term goals with appropriate funding cycles, inclusive economic growth and maintaining transparency and local ownership are all integral to the success of the proposed benchmarks.

General Submission

The Institute for International Trade

The Institute for International Trade (IIT) is a dedicated department within the University of Adelaide. It has a global reputation for excellence in training, strategic advice, research, technical assistance and capacity building relating to the practice of international trade, business investment policy and sustainable development strategies for both the private and public sector as well as for international intergovernmental organisations.

The Institute's work includes analysis of the implications of World Trade Organisation (WTO) law and other trade agreements, capacity building support and aid for trade programs in support of economic development in developing countries, analysis of the role of regional economic integration programs, and country-specific technical project assistance for business, government and civil society. IIT is unique in that its staff and associate experts have been practitioners in the field of international trade negotiations, the delivery of aid for trade (AFT), development aid and development programs, evaluations of the effectiveness of multilateral organisations, the development and implementation of public policy and research in a broad range of areas related to trade and development.

The Institute, headed by Mr David Morfesi, a former US senior trade negotiator, policy advisor and diplomat, has a rich network of associates and experts across the Asia Pacific region, the Middle-East and in North America and Europe. Jim Redden is the Director of International Programs and has managed extensive research and training programs in developing countries. He is a former advisor to the Australian Government on trade and development policy. Mr Keith Wilson is IIT's senior trade law counsellor with more than 10 years international organisation and regional consulting experience undertaking research on regional cooperation and the implementation of legislation, particularly in developing countries in the Asia Pacific region.

The Institute's rich network of associates includes for example, Professor Kym Anderson, leading economist formerly with the World Bank, renowned for his work on trade and agriculture, Associate Professor Andrew Stoler, former Deputy Director General of the WTO and international trade expert Peter Gallagher, former Australian Ambassador to the WTO.

The Australian Aid Program – Context for Benchmarking

IIT welcomes the Australian Government's focus on the integrated role of aid, trade and the private sector in tackling the complex challenges of poverty. This provides a welcome opportunity for a new and broad alliance between all sectors of the community concerned with global poverty reduction.

Encouraging greater private sector participation in poverty reduction makes very good sense. The potential of responsible and transparent private sector engagement to impact positively on training, jobs and incomes could, if properly harnessed, contribute to wealth creation in developing countries on a scale to which aid agencies alone could only aspire.

By assisting developing countries to build their capacity to trade through AFT, Australia will benefit from increased trade with developing countries both in our region and elsewhere, not only because we benefit economically due to the cost of production of goods and services, but importantly, as those economies develop and to further that development, they can and will buy Australian know-how and expertise, services, raw materials and agricultural products. Australian exporters can also benefit from cheaper inputs where inputs are currently sourced from developing country markets, such as China or South Korea.

Aid for trade drives self-reliance through building the capacity of the private sector and small and medium-sized enterprises to trade and benefit from the gains of specialisation in a globalised economy. AFT is particularly effective when it targets the cost of doing business in developing countries, often referred to as 'supply-side' constraints. Some critics of aid and AFT forget its powerful multiplier effect – apart from the humanitarian and diplomatic objectives of aid in general, aid and AFT opens doors for pro-business growth and commercial investment. Australia significantly already contributes to AFT with over 14% of the aid budget expended in this area last year. Based on recent IIT research on the impact and priorities for AFT in the Asia Pacific region, we have found that AFT drives self-reliance, not dependence.

An example of AFT in action is the Enterprise Challenge Fund (ECF) grant to Carnival Australia. The ECF was a six year (2007-2013) Australian Government pilot grant fund that provided funds directly to businesses in Asia and the Pacific. The fund ran competitions for private sector applications offering innovative solutions to address market failures and stimulate long-term, pro-poor economic growth. Businesses contributed at least 50% of the total project costs - and in most cases substantially more - and money was distributed against agreed milestones.

Carnival Australia is a cruise company operating in Vanuatu. Its passenger ships visit Port Vila, the capital of Vanuatu, on a regular basis and also call at locations in more remote areas of the country. With the support of the Enterprise Challenge Fund, Carnival was able to share the costs of improving infrastructure and services (by providing training to the local community) at various call sites to improve safety and comfort of passengers and provide increased returns to the island communities. The benefits of this program include substantially increased and diversified local incomes because of increased business and enhanced skills for local workers. In this case, due to the improved facilities and services created and made available under the ECF project, another cruise company has commenced calls at Mystery Island and Champagne Bay.¹

¹ Coffey International Development, *Enterprise Challenge Fund Website*, 'Carnival Australia' accessed: <http://www.enterprisechallengefund.org/index.php/project-profiles/vanuatu-carnival-australia>

While Australian aid and AFT should maintain the Indo Pacific region as a particular area of focus, we need a balanced global approach. Programs across Africa remain vital for Australia's diplomatic and trade interests. The continent contains some of the faster growing economies in the world and connects well with Australia's security, commercial and humanitarian interests and commitment. The private sector in Australia, especially mining and agricultural companies, but also those involved in educational services (such as IIT), have undertaken and will continue to undertake major investment activities in Africa and will benefit from aid and AFT activities that align with Australia's core business interests.

Overall, IIT believes there is a new aid paradigm evolving. In this new paradigm, developing countries now aid other developing countries. The growth of the middle-classes in Asia and Africa can be harnessed as agents for change and economic reform. Donors like Australia will need to develop a multipronged approach to our development aid; one which still accounts for the humanitarian needs of those living in extreme poverty, but one that simultaneously is tapping into the drivers of economic growth and the growing potential of low and middle income communities, in order to build real and sustainable self-reliance in developing and least developed countries.

IIT notes that China, India, South Korea and others, are spreading aid liberally in order to further their own economic and commercial diplomacy interests, allowing them access to new markets and resources, often at the expense of other market participants, including Australia. We need to strongly brand Australia's commercial objectives as complimentary to and in furtherance of our long held humanitarian ethics and commitment to global justice.

The role of benchmarking is important in that it is cognisant of the 'new aid paradigm'. Benchmarking aligns well not just with Australia's commercial and humanitarian interests, but is responsive to shifting patterns of global aid spending and demand driven needs.

Flexible benchmarking for the 'least measurable'

Benchmarks are an organisational performance assessment tool: a set of standards by which projects can be reviewed. It is imperative that the objectives must be clear before benchmarking is set. Benchmarks are best used within a flexible framework, and where they (the benchmarks) are themselves open to future reassessment and improvement, and where context is taken into account. This is especially important in relation to Overseas Development Aid (ODA), where each partner and project is unique. Benchmarks must be appropriately targeted in order to avoid restricting or limiting the effectiveness of aid and AFT projects.

We need to avoid being limited to those aid activities that are easily measured (such as hard infrastructure projects or some vaccination programs) rather than projects that have the potential to facilitate transformational change, such as leadership or governance programs, women's empowerment or long-term AFT projects aimed at building the skills and capacity of small and medium-sized enterprises to trade. We need to be alert to the risk that some development programs that are the most easily measured are the least transformational, and those programs that are most transformational are often the least measurable.

Long term impact

IIT believes that ideally most aid programs should be assessed on the basis of their long term impact towards poverty reduction and greater self-reliance for the community/country/region in question, as well as by appropriate, short-term performance indicators.

AFT specifically has clear short-term benefits: for example training to private or public sector officials that improve their technical skills. However, the most important impact occurs in the medium to long-term. Where possible, the wider impact of programs should be assessed and taken into account, including the multiplier effects on private sector activity and investment, trade performance, and other relevant trade and development indicators.

Institution-building (an important focus of many AFT projects) is cumbersome and often complex work that is difficult to measure, with projects often producing effects or results over a long continuum. As such, the time horizon for measurement of aid for trade, democracy and governance projects is difficult to estimate. A significant study by Andrew Natsios, found that “there were significant lagged effects for democracy and governance obligations, meaning that democracy and governance programs often take several years to mature and show results after funding has ended.”²

Difficulty in estimating and measuring results in the short term is not the only possible obstacle to the implementation of the most needed projects. Natsios found in the case of USAID:

“Development sectors that are more important to the transformation of countries, such as agriculture, can face strong domestic opposition from environmental groups (which do not like modern agricultural practices and products such as irrigation, genetically modified seed, chemical fertilizer, and pesticides) and domestic farm lobbies, which oppose agricultural development programs abroad for parochial or ideological reasons. Rule of law and good governance programs, which are much more difficult to observe or measure (particularly over the short term) and are therefore chronically underfunded at USAID, even though development theory almost universally describes rule of law and good governance as the most important factors in development”³

Australia might wish to ensure that its benchmarking criteria encourage rather than deter transformative programs which would appear to have led to what the above commentator has found to be ‘chronic underfunding’ of such programs in the USA.

Scholarship and international volunteer programs, such as the Australia Awards program, Australian Volunteers International and the New Colombo Plan can also play a very useful transformative role. Natsios states that similar scholarship programs run by USAID were among the most transformational and powerful programs. In the 1980s in the USA, 17,000-18,000 scholarships were granted to government officials and to civil society representatives to help build democratic and institutional reforms necessary for effective long-term development. USAID officers have repeatedly said that this was the most successful category of programs

² Andrew Natsios, 2010 ‘*The Clash of the Counter-bureaucracy and Development*’ accessed: http://www.cgdev.org/files/1424271_file_Natsios_Counterbureaucracy.pdf p8

³ Andrew Natsios, 2010 ‘*The Clash of the Counter-bureaucracy and Development*’ accessed: http://www.cgdev.org/files/1424271_file_Natsios_Counterbureaucracy.pdf p7-8

the agency ran, a point confirmed by agency evaluations.⁴ The purpose of scholarship programs such as the Australia Awards is to develop skills and knowledge, build enduring links with future leaders and policy makers and influence positive change in developing countries.⁵ In the same way, the New Colombo Plan can increase cultural understanding and knowledge, whilst deepening relationships on a personal and institutional level, by increasing the number of Australian students studying and undertaking internships overseas in the Indo-Pacific region.⁶

Public-Private Partnerships

Private sector engagement is essential for sustained economic development as it offers long-term investment, creates employment, develops infrastructure, often provides services that substitute for government services, provides income for local investors and contributes taxes and royalty revenue – some of the key enablers for economic development. The private sector is an integral part of the marketplace and society at all levels, whereas aid is policy driven and focussed primarily on poverty reduction and building community capacity, skills and good governance. The two come together where the private sector and aid agencies converge and share interests in better governance for investment and operational stability, for skills development leading to access to workforce and productivity increases, prudent financial management and investment in necessary hard and soft infrastructure.

Engaging with the private sector for development is a key priority for the Government⁷ and IIT therefore believes it would be useful to consider benchmarking aspects of the aid program in relation to the ability of programs to either involve the private sector in the design, planning, implementation and evaluation of the project or to target outcomes that are of benefit to the private sector in a particular developing community.

The Australian Trade and Development Group (ATADG), a group that has evolved from a 2013 IIT Dialogue on the role of the private sector in aid and AFT, is facilitating and exploring where the interests of the private sector working in developing countries and the interests of aid agencies such as DFAT, converge. ATADG promotes private sector involvement in the delivery of poverty reduction programs in developing countries.

Cooperation and collaboration with the private sector can result in leveraging private sector funds, mobilisation of increased expertise and the long-term engagement of private sector companies in job creation in developing countries. The role of the aid program, and institutions like IIT and ATADG, will be to assist in building effective public private sector partnerships for development. If benchmarking can assist in facilitating such partnerships, that would be significant.

⁴ Andrew Natsios, 2010 '*The Clash of the Counter-bureaucracy and Development*' accessed: http://www.cgdev.org/files/1424271_file_Natsios_Counterbureaucracy.pdf p10

⁵ Australia Awards website, 'About' accessed: <http://www.australiaawards.gov.au/Pages/about.aspx>

⁶ The Hon Julie Bishop, Address to New Colombo Plan Launch, 10 December 2013 http://www.foreignminister.gov.au/speeches/2013/jb_sp_131210a.html

⁷ The Hon Julie Bishop 6 February 2014 *Address to Australia-PNG Business Council Breakfast* Accessed: http://www.foreignminister.gov.au/speeches/2014/jb_sp_140206.html

Inclusive economic growth

Economic growth is a necessary precursor to development and poverty reduction; however economic growth alone is not sufficient for long term, sustainable poverty reduction. It is important to focus on how economic growth is managed (governance institutions and systems) and shared (distributional processes). Aid can help improve economic equality by ensuring the opportunities and benefits accruing from economic growth and international trade are extended to poor and marginalised groups (including women, people with a disability, indigenous peoples, minorities and the elderly).⁸

Aid and AFT can assist in creating appropriate governance and distribution conditions for inclusive economic growth to occur. AFT not only helps developing countries better participate in the global economy, it also improves governance systems, as trade reforms demand greater transparency and openness in legal and administrative rules and regulations.

AFT, by seeking to address poor distribution systems and lower the cost of doing business, can focus on key distributional issues such as on taxation systems, cross-border barriers to business or ensure the universality of regulatory legislation to ensure consumer protection and access to services. Aid and AFT can target grassroots projects which help low income communities overcome barriers to product development, exporting or importing.

Reducing inequality, and promoting inclusive and sustainable economic growth is important from a human rights perspective, but it is also the most effective means of poverty reduction. The Overseas Development Institute (ODI) found that inequality is a significant barrier to progress in poverty reduction; “at a growth rate of 2 per cent per head, and a poverty rate of 40 per cent, a country with low inequality could half poverty in ten years, while a country with high inequality would take nearly 60 years, or two generations”⁹

Benchmarking for inclusive economic growth is once again, not always easy to measure, but IIT would see this as essential criteria for economic growth to deliver poverty reduction.

Predictability and transparency

Predictable and transparent ODA has a better chance of achieving results. Uncertainty about future resource planning and program continuation negatively impacts on sustainable development and can complicate efforts to implement long-term projects with significant reform components, whether in trade or governance or other areas. Without transparency, it is more difficult for donors and recipients to harmonise efforts and collaborate to achieve mutual goals that contribute to lasting transformative change. Put simply, transparency and longer-term predictability of funding would serve as useful benchmarks for Australia’s ODA.

In addition, benchmarking procedures should ideally be implemented in an efficient manner to achieve the desired outcome without over-taxing the supplier. Monitoring and evaluation procedures that are important both short and long-term should be negotiated at the outset of the project and a common sense reporting and evaluation system established.

⁸ Australian Council for International Development, 2014, ‘*Benchmarks for an Effective and Accountable Australian Aid Program*’ p7

⁹ Australian Council for International Development, 2014, ‘*Benchmarks for an Effective and Accountable Australian Aid Program*’ p7

IIT, for example, manages a range of capacity building training programs funded by the Australian Aid Program. The evaluation and performance criteria currently in place are rigorous and often time consuming in the level of detail and reporting required. When well managed and mutually agreed, evaluation against appropriate benchmarks is vital and there is no doubt that suppliers do need to commit an appropriate amount of time for reporting and evaluation. However where the rationale for reporting, monitoring and evaluation is obscure and regularly changing, and long-term sustainability factors not taken into account, the benefits of evaluation and setting criteria are lost, and the cost becomes significant. Some AusAID project benchmarks are very well established and negotiated with suppliers and recipient governments – others are less well defined in terms of benchmarking and desired outcomes. The latter tends to lead to a range of ad hoc requests for information, which at times lack relevance and can be time-consuming and inefficient.

Evidence-based policy

Decisions about Australian ODA should be made based on an evidence-based approach, involving research, monitoring, evaluation and learning, in order to ensure that decision-makers are best able to choose projects that achieve success and manage risk. Recently, the Australian Foreign Minister emphasised that aid “is a portfolio of investments, and like any professional financier, the Government will apply a scientific and methodical approach to our investment decisions so we can achieve the greatest outcomes...”¹⁰ Expertise, evidence and innovation is central to identifying successes and potential for improvement required to achieve this, and deliver the best returns on the aid program.

IIT would add that this approach should also include ‘anecdotal evidence’ and ‘historical evidence whether oral or written’ that takes account of the complexity of some development situations, and places due importance on traditional and local knowledge. As mentioned above, programs that are often the most transformative are not the easiest to measure in the short-term, or in empirical terms.

Innovation and creativity are also essential to the development of new and improved approaches to delivery and management of ODA funds. Universities play a key role in undertaking research and creating future experts in developed and developing countries alike.

The Australian Development Research Awards Scheme (ADRAS), a competitive grants program designed to attract quality primary research on development themes informing aid and development policy, is leveraging Australian research expertise. In 2012, 33 of the 45 grants awarded were conducted through Australian institutions.¹¹ Support for research and innovation such as ADRAS ensures a better understanding of development and poverty. In addition, leveraging and supporting Australian expertise in development helps build future researchers and development practitioners, both Australians and nationals of developing countries, through programs such as the Australia Awards as well as training programs run by Australian institutions such as the IIT.

¹⁰ The Hon Julie Bishop, Wednesday 30 October 2013, *Speech to ACFID Chairs and CEOs dinner*, accessed: http://foreignminister.gov.au/speeches/2013/jb_sp_131030.html

¹¹ Australian Council for International Development, 2014, ‘*Benchmarks for an Effective and Accountable Australian Aid Program*’, p22

International Agreements and Local Ownership

New benchmarks should remain consistent with Australia's commitments to the various international agreements on Aid Effectiveness, including the Paris Declaration, the Accra Agenda for Action and the Busan Partnership. At the core of the international agreements on Aid Effectiveness is the principle of local ownership of development planning, and achieving the proposed benchmarks should not overshadow demand-driven community needs and priorities.

Assessment of the progress of partners (whether governments, or organisations) should reflect existing obligations contained in national development planning or organisational/corporate strategies in achieving mutual development goals, not only to avoid duplication, but also to ensure local ownership of the development process. Projects should demonstrate how the voices of the poor are heard and incorporated into project design. In countries or regions experiencing civil unrest, or where governance is weak, partnerships with grassroots community organisations can be effectively utilised to assist in ensuring projects are negotiated with the needs of the community foremost in mind.

References

Andrew Natsios, 2010 *'The Clash of the Counter-bureaucracy and Development'* accessed: http://www.cgdev.org/files/1424271_file_Natsios_Counterbureaucracy.pdf

Australia Awards website, 'About' accessed: <http://www.australiaawards.gov.au/Pages/about.aspx>

Australian Council for International Development, 2014, *'Benchmarks for an Effective and Accountable Australian Aid Program'*

Coffey International Development, *Enterprise Challenge Fund Website*, 'Carnival Australia' accessed: <http://www.enterprisechallengefund.org/index.php/project-profiles/vanuatu-carnival-australia>

The Hon Julie Bishop, Wednesday 30 October 2013, *Speech to ACFID Chairs and CEOs dinner*, accessed: http://foreignminister.gov.au/speeches/2013/jb_sp_131030.html

The Hon Julie Bishop, 10 December 2013, *Address to New Colombo Plan Launch*, http://www.foreignminister.gov.au/speeches/2013/jb_sp_131210a.html

The Hon Julie Bishop 6 February 2014 *Address to Australia-PNG Business Council Breakfast* accessed: http://www.foreignminister.gov.au/speeches/2014/jb_sp_140206.html