

# **Strategic Choice**

## **A future-focused review of the DFAT-AusAID integration**

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# CONTENTS

<b>EXECUTIVE SUMMARY AND RECOMMENDATIONS</b>	<b>I</b>
<b>INTRODUCTION</b>	<b>1</b>
METHODODOLOGY	1
REVIEW STRUCTURE	1
<b>1. INTEGRATING 'FOREIGN AFFAIRS': AUSTRALIA AS AN OUTLIER, TWICE OVER</b>	<b>2</b>
1.1. DEVELOPMENT COOPERATION AND DIPLOMACY - 'SAME, SAME, BUT DIFFERENT'	2
1.2. DFAT'S DEEP INTEGRATION TEMPLATE	4
1.3. ALTERNATIVE INTEGRATION MODELS	5
1.4. THE CANADIAN EXPERIENCE	6
<b>2. INTERVIEWEE PERSPECTIVES</b>	<b>7</b>
2.1. ASSESSMENT CLUSTERS - A SPECTRUM OF VIEWS	7
<b>3. INTEGRATION SCORECARD: DIVERSE RESULTS, DISGUISED DETERIORATION</b>	<b>9</b>
3.1. ASSESSMENT FRAMEWORK	9
3.2. SCORECARD RESULTS	9
3.3. JOINING THE DOTS	12
3.4. WHAT'S WORKING AND WHAT'S NOT?	12
3.5. RESOURCING UNCERTAINTY	18
3.6. DEPARTMENTAL ASSETS	18
<b>4. TABLES TURNED: A MORE DEMANDING FUTURE</b>	<b>19</b>
4.1. CONTEXT SHAPERS	19
4.2. WHAT FUTURE FOR DEVELOPMENT COOPERATION?	21
4.3. THE CASE FOR STAYING HEAVILY ENGAGED ON ASIAN DEVELOPMENT	21
4.4. THE OPPORTUNITY TO RETURN TO ODA'S COMPARATIVE ADVANTAGES	22
4.5. IMPLICATIONS FOR AUSTRALIA	23
<b>5. AUSTRALIA AS A DEVELOPMENT LEADER IN SOUTH EAST ASIA AND THE PACIFIC: A 5 POINT PLAN</b>	<b>25</b>
OVERVIEW	25
5.1. IMPROVE STRATEGIC CLARITY	25
5.2. ORGANISE AROUND RELATIONSHIPS	28
5.3. BUILD STRONGER CAPABILITY FOR HIGH PERFORMANCE	30
5.4. REENGINEER DEVELOPMENT PROCESSES FOR STRATEGIC OUTCOMES	35
5.5. IMPROVE AND BETTER USE THE PERFORMANCE SYSTEM	36
<b>6. CONCLUSION</b>	<b>37</b>
<b>ATTACHMENT A: TERMS OF REFERENCE</b>	<b>38</b>
<b>ANNEX 1: Detailed Assessment of Integration Scorecard Ratings</b>	<b>39</b>

## Preface

This review originated in conversations between the author and various development professionals about value of standing back after 5 years and assessing the impact of the 2013 AusAID-DFAT integration. The intent was to inform the next phase of Australia's international development work so that it can be as effective as possible. As neither DFAT, nor other parties were planning a stocktake, the author committed to do so on an intermittent basis in the second half of 2018.

The review did not commence with an anti-integration bias. Fifteen years ago, the author proposed a study of AusAID-DFAT integration options to the Lowy Institute's inaugural Executive Director, seeing potential for enhanced, integrated policy work to underpin both Australia's regional diplomacy and its development efforts.

The review does not proceed from misplaced nostalgia. AusAID was facing large challenges in 2013 with an over-extended global remit and policy and operations spread over more than 30 business lines. It was struggling to amass and use the skills it needed. However, as several interviewees observed, it was perhaps three-quarters of the way towards realising its potential as a policy-based development agency. DFAT now faces the same challenges and many new ones, in a more demanding context. This is why it needs to think through its approaches.

The review was informed by the views of over 75 people, all of whom have first hand experience of Australia's development cooperation efforts - most of it recent, as well as historical and the majority of it bilateral. The cohort was largely at the senior manager level, whether in government, private enterprise, academia or civil society. While a different population would no doubt yield different insights and make different assessments, this group was particularly well placed to make judgements about integration's impact on Australia's international development efforts.

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## Executive Summary

This independent review assesses the impact of the integration of AusAID into the Australian Department of Foreign Affairs (DFAT) in November 2013. It attempts to apply lessons to how Australia might approach international development in future. It draws on published reports and reviews and also on interviews with over 75 expert analysts, advisers and officials, including private contractors and non-government organisations.

As a result of integration, DFAT gained \$20bn to deploy for international development over 5 years. The review contends that how the department organises itself to deploy these resources determines the value it is able to create. Maximising this value has become more important in the changed geopolitical circumstances Australia now faces. The end of the first five-year phase of integration provides a useful vantage point to consider how best to deploy the department's resources in the next five-year period.

The review concludes that Australia's strategic interests in forging wider regional alliances; encouraging a convergence of values, views and interests consistent with its own; and developing deep relationships of trust; require a wholesale shift in thinking from aid as a burdensome boutique business to regional development as a foreign policy priority. To this end, the review has assessed the extent to which the policies, processes, budgets and performance systems - are aligned to support this shift.

Views about the impact of integration differ markedly. More than 1/3 of those canvassed see more gains than losses; while around a quarter believe its impact has been strongly negative. The remainder - close to 40% - believe that while basic systems continue to function adequately, risks are rising and opportunities are being missed. The review attempts to explain this divergence. It rates integration against 16 indicators, in four categories: 1) Government objectives; 2) Program performance and quality; 3) Aid management system; and 4) Whole of department impacts.

The positive story of integration is that after one of the biggest organisational changes in its history, DFAT has bedded down its new development cooperation business. Programs are being delivered and independently vetted results appear strong. Early morale problems have largely receded and many former AusAID staff have moved into new roles, including 20 in Head of Mission or deputy positions. Nine out of ten of the government's strategic targets have been met, helping to drive major shifts in aid allocations towards infrastructure and the Pacific. There are also examples of development goals being more strongly advanced through joined-up, whole-of-department efforts. This includes significantly enhanced Pacific policy, stronger private sector collaboration and improved humanitarian action.

However, a counter narrative points to a pronounced deterioration in skills and systems for preparing and managing bilateral activities. As the last generation of AusAID-built programs comes to an end, pipelines are drying up. More than half of new designs put to the Aid Governance Board for approval were returned for more work in 2018. DFAT is also contracting out core functions into mega-facilities that a recent evaluation concludes it is struggling to use effectively. Policy adherence is said to have become idiosyncratic and systems dependent on a dwindling number of highly experienced officers. Many development professionals feel their skills and expertise are not highly valued.

All agree that departmental capability is a critical issue - even if there has been some recent recovery. According to the former head of AusAID's human resources department, almost 1000 years of expertise left shortly after integration. Estimates suggest another 1000 years of experience has been lost since. Interviewees assess that the reduction in senior, locally engaged staff has had the biggest single impact on the quality of management of development activities. Much of the initial skills loss reflected a deliberate reduction of expertise arising from lack of experience of what is needed to plan, design, implement and manage successful development cooperation. As a senior official observed, "AusAID staff tried to tell us what was needed to run the program, but we just couldn't see it."

The department knows it has a major problem on its hands and is addressing it through a multi-faceted capability plan. Attempts to rebuild are underway. However, the capabilities needed must reflect the strategic aspirations held for the development program and these remain unclear. This results in uncertainty about the skills, systems and structures DFAT needs - and the supporting culture it must build. The review argues capability is needed, not just to deliver programs and manage risks, but also to set and prosecute a 21st century development agenda that joins Australia's interests tightly to those of its neighbours - and advances those interests globally. That will not happen by itself or through disjointed decision-making. It needs a systematic approach, starting with a clear statement of intent.

Post integration, authority was widely dispersed - and in geographic areas, redistributed to posts. This explains decision-making that is highly variable. Busy Heads of Mission in Asia and the Pacific suddenly received substantially more responsibility, while decision-making support was reduced in Canberra and at posts. The retention of many parts of the aid management system obscures the fact that the remnants of the development group lack influence. This explains their low morale and the difficulty in filling development positions. This is not to argue for a return to the old system, but for the building of a new one that more reliably integrates long-term development and diplomatic interests.

Australia's 2017 Foreign Affairs White Paper charts the changes in our strategic circumstances that require us to 'deepen and diversify' our regional relations. Unfortunately, while dealing more substantively with development cooperation than any of its predecessors, the White Paper missed the opportunity to provide a clear answer to the question of what is wanted from the closer foreign policy alignment that the AusAID/DFAT integration provided.

The review argues that the conventional foreign policy view of development cooperation as a 'tool kit' for miscellaneous purposes mistakes strategic opportunity. For Australia, regional development is not some far away utopian aspiration, but a real-time project in which we have fundamental economic and security stakes. This requires political and departmental leadership to position Australia unambiguously as a development leader in South East Asia and the Pacific. That then should determine the skills, systems and structures DFAT needs - and the policies it pursues. Fortunately departmental leadership is a strength. The Secretary and her senior team enjoy considerable respect. Her systematic, whole of department approach - that may make her its first real CEO - is needed.

The pathway to greater effectiveness has many interlocking steps, none of which will work in isolation. The review proposes a 5 point plan, with 18 recommendations designed to: 1) Improve strategic clarity; 2) Organise around relationships; 3) Build stronger capability; 4) Re-engineer decision making for strategic outcomes; and 5) Strengthen and better use the performance system.

The plan requires a rigorous statement that sets out Australia's strategic approaches to international development in the light of the White Paper. Pacific policy shifts in 2018 potentially represent a sea change - albeit one that will be very challenging to deliver. This has laid the groundwork in one critical area, but our Asian and global development interests also need to be clearly presented to avoid an unbalanced strategic posture. The review argues Australia should position itself close to the centre of a South East Asian middle-income developing region - and we should sharply define our global interests by prioritising regional public goods, especially clean energy generation and financing.

Australia's international development efforts must recognise that our partners have changed. They are more discerning in their search for best-fit solutions and more assertive about their interests. Almost none want to be 'aid recipients'. The term 'aid' is now a liability. In this sense, as one of Australia's most respected development advisers observed, the demise of the AusAID brand was timely. The review proposes that the term 'aid' should be restricted to emergency/humanitarian assistance - and direct, grass roots poverty alleviation projects. One way of clearly underlining this would be to present separate aid (humanitarian) and development budgets.

Above all, our partners demand greater respect. Numerous Asian and Pacific voices have reminded us recently that they will not be passive partners following our agendas. This means both our diplomacy and development programs must be rebuilt around deeper relationships. In *Has the West Lost it?*, former Singapore diplomat, Kishore Mahbubani, points out that regardless of political system, modern leaders must focus on improving living standards. This means our ability to be an intelligent and reliable policy partner is the key route to gaining long-term trust and influence. But we must recognise that money has been replaced by ideas as the primary development denominator. As one interlocutor stated, "If we can not bring the right knowledge to the table, at the right time, we will not be at it."

Feedback from partners, evaluations and departmental systems suggests that our access and influence on international development issues are at risk. To address this, our diplomats must choreograph deep development expertise, be across critical reform issues and take forward high-level policy dialogue. That is a big agenda and we can only do this well in a small number of countries and a small number of policy areas. We must focus sharply, particularly on issues of public financial management that are at the core of both national development planning and political decision-making. The considerable expertise we need is available from local, international and Australian sources - public, private and civil society. The department's task is to combine it artfully, under a clear Australian brand.

In tightly delineated priority countries, the review recommends a decisive shift to long-term partnerships, embedded in Ministerially led, political agreements that provide the expert advice countries increasingly want. This could include facilities, institutional twinning and government partnerships. The critical factor is to empower counterparts by providing support within their systems and structures, strengthening local leadership and decision-making. In key countries, rather than more than a dozen, relatively small partnership agreements, we might focus on 2-3, decade-long core governance partnerships, providing relationship continuity and resourcing predictability.

To develop and drive new approaches, the review recommends establishing a Directorate for International Development, within the Global Cooperation, Development and Partnerships Group. The Directorate would centralise development policy responsibilities and recombine them with those of the contracting and aid management division. Its task would be to position Australia at the forefront of rethinking development pathways and policies in South East Asia and the Pacific. A strong signal of this intent would be to rename DFAT - the Department of Foreign Affairs, Trade and Development.

The Directorate would create intellectual products, processes and fora to support long-term thinking and underpin strategic engagement and deep policy dialogue. It would house expanded world-class expertise, especially development economics, but also specialists in strategic studies, peace and conflict and regional cooperation to develop a high-powered, inter-disciplinary team to add to DFAT's capacity to think and work strategically between White Papers. It would be 'integration central'.

The Directorate would also better equip DFAT to interact with and lead whole-of-government international efforts. It would report to the Deputy Secretary of the Global Group, who would serve simultaneously as Australia's Chief Development Officer, responsible to the Secretary for all development policy and processes. To rebalance and achieve synthesis between development and diplomatic considerations, program commitments between \$50m and the \$100m threshold for Aid Governance Board consideration would require formal approval of the Chief Development Officer.

The second area where major structural reform is needed is in operations. The review recommends DFAT consider the creation of a small, ODA-funded, DFAT Technical Support Organisation to undertake operational tasks that the department is not well suited for. This would include program design, procurement and technical advisory functions to guide strategic management. The Organisation would be responsible to the Secretary through the Directorate of International Development. A feasibility

study could shape the concept to ensure clear and complementary responsibilities and build-in ongoing collaboration so that policy and operations are tightly aligned.

Core functions now being contracted out or delegated to others due to lack of expertise could be returned to Australian government management. The Organisation could overcome DFAT's difficulties in attracting and retaining the operational skills it needs, allowing it to move more quickly and confidently. Better-designed programs with clearer contractual requirements would allow DFAT to forgo micro-management to focus on strategic outcomes and high-level aspects of our foreign relations.

Given polarised views about the accuracy of development cooperation performance reporting, the review proposes a fully independent audit of development results every 3-5 years to strengthen confidence in the system. It also recommends that the head of the Office of Development Effectiveness should be an external appointee, on a non-renewable contract to maximise his/her independence. Development cooperation makes up almost two thirds of DFAT's ordinary annual expenditure. The review judges that this requires strengthened accountability in the form of dedicated Departmental Executive consideration of performance, twice annually. Senior Development Coordinator positions should be established at major posts to assist better decision-making.

The government should also consider a dedicated Australian National Audit Office program to report more frequently and thoroughly on the full range of Australian government overseas expenditure. With other government department spending rising rapidly, there is a strong case for increased independent scrutiny across the board, not just of diplomatic and development spending.

Integration has helped DFAT address chronic under-funding. Administrative and oversight resources have been harvested - as was intended. Split roles allow much more to be billed to the development program. This may explain why the aid administration ratio is over 60% higher than the long-term, pre scale-up average. That now imposes a ceiling, preventing the skills and capability scale-up that is required. A political decision is required to put diplomatic and development funding on a much sounder footing. DFAT should prepare a new comprehensive budget bid to this end.

In the first five-year phase of integration, DFAT has been learning the development business. It has positive and negative experience to reflect on. In the second phase, a higher bar will apply. Australia has a strategic choice about how it approaches regional development. It can do so episodically with variable performance, dependent on individuals and short-term, shifting priorities. The review assesses that approach will struggle to attract either public support or substantial new government financing.

The review argues that Australia's long-term strategic interests require regional development to become a foreign policy priority in its own right. It proposes that Australia strive to build a new, country-focused development cooperation model that is superior to that of other partners, including China. By doing so it could be a development leader in South East Asia and the Pacific - a trusted, influential, partner of choice. That will require a determined, systematic effort and much stronger policy and operational capability.

# Australia as a development leader in South East Asia and the Pacific: A 5 point plan

## 1. Improve strategic clarity

- 1.1. Advance White Paper goals through a comprehensive **development statement** that simultaneously sets a **vision**, establishes a **policy framework** and provides a **strategy** to position Australia as a development leader in South East Asia and the Pacific
- 1.2. Break the charity mindset by presenting a humanitarian **aid budget and a separate international development budget** to advance shared national, regional and global interests
- 1.3. **Do a small number of things exceptionally well** to establish a clear Australian brand as a highly reliable, respectful and responsive partner, focused on:
  - **Well functioning Pacific states, with strong economic and political linkages** to Australia, New Zealand and each other
  - **ASEAN policy partnerships**, underpinned by expanded, knowledge-based cooperation and a new **Centre for Middle Income Asian Development**
  - **Clean energy policy and financing** to support rapid development with low carbon emissions
- 1.4. Underline Australia's serious intent to be a development leader by **changing DFAT's name to the Department of Foreign Affairs, Trade and Development**

## 2. Organise around relationships

- 2.1. Ensure development cooperation in tightly defined priority countries is embedded in **high level partnership frameworks agreed at Ministerial level** and supported through expanded, on-going, Head of Mission-led policy dialogue
- 2.2. Develop new approaches to underpin long-term, **deep institutional relationships of trust** and influence, including through:
  - A **technical assistance charter** that commits us to working jointly, in locally led, integrated arrangements that empower counterparts and respect local authorities
  - **Large, decade-long government-to-government partnerships** - potentially involving federal, state or local authorities
  - And similar, if smaller, **platforms for other institutions and civil society organisations**
- 2.3. Institute an ongoing program to **track** and report publicly on **how Australia is seen by its Pacific and Asian neighbours**

## 3. Build stronger capability for results

- 3.1. Seek cabinet approval for a **strategic budget framework** that adequately funds the substantial expansion in diplomatic and development activity the White Paper requires
- 3.2. Restore the position of **Minister for International Development and the Pacific** and complement it with the appointment of Deputy Secretary GPG as **Chief Development Officer** whose approval would be required for major activities



3.3. Better amass, organise and utilise the skills needed to deliver the improved diplomatic and development results Australia seeks by:

- Creating a **Directorate for International Development** to oversight a unified system of development cooperation management and make it more fit for purpose; and
- Undertake a feasibility study into the establishment of a small, **DFAT Technical Support Organisation** to provide operational services for development cooperation

3.4. Provide greater support to Heads of Mission as principal development decision makers by creating dedicated **Senior Development Coordinator positions at priority posts**

**3.5. Do more with L.E.S. (Locally Engaged Staff)**

- Recruit and make full use of senior, skilled locally engaged program managers as a bridge to external expertise and local authorities

## 4. Reengineer decision making for strategic outcomes

4.1. Better equip development cooperation to deliver what is wanted by building strategic **foreign policy considerations into every stage of policy and programing**, from design to monitoring and evaluation

4.2. Implement **mechanisms to allow the right balance** between flexibility/responsiveness and long term development - for example:

- Adopt an **80/20 indicative split between attention to long and short term** priorities as part of strategic planning
- Reintroduce **dedicated as well as split roles** so that core diplomatic and development functions are always adequately resourced

## 5. Strengthen and better use the performance system

5.1. Prepare a new, **integrated performance framework** that focuses on whether strategic objectives are being achieved and

- Hold **dedicated twice-yearly development cooperation performance discussions** between the Departmental Executive and Heads of Mission in priority posts, informed by strategic, program and pipeline indicators

5.2. Further **strengthen confidence in the integrity of the performance system** by

- Appointing an **external head of the Office of Development Effectiveness on a fixed-term, non-renewable contract**
- Undertaking a fully **independent audit of development results** every 3-5 years

5.3. Commission and fund ODE to undertake a **rolling program of country and program assessments** to provide a much clearer and more consistent picture of the results of Australia's international development efforts over time

5.4. Cabinet consider establishing a **dedicated Australian National Audit Office program** to track and report the results of rising **international expenditure across all parts of government**

## Introduction

In November 2013 the Australian Agency for International Development was integrated with the Department of Foreign Affairs and Trade with the stated aims of efficiency, effectiveness and foreign policy alignment.<sup>1</sup> This review considers the impact of that change on the quality and effectiveness of Australia's international development cooperation and on its diplomacy - and based on these findings, offers a plan of action for future reform. Terms of Reference are at Attachment A.

An annual international program of almost \$4bn creates considerable opportunities - and carries significant risks. There is no clear evidence in favour of one particular structural model for undertaking development cooperation, but the review contends that the way in which it is organised is a major determinant of the diplomatic and development benefit that it delivers. Australia is a principal beneficiary of regional development, as well as our neighbours. Making the most of the opportunities development cooperation presents - or failing to do so - has direct foreign policy and domestic implications.

The question of how we approach Asia Pacific development has become more important still due to Australia's changed strategic circumstances. The 2017 Foreign Affairs White Paper described "a more competitive and contested world".<sup>2</sup> Under almost any future scenario, building long-term regional relationships of influence has become a more critical and more immediate foreign policy objective. The role of development cooperation needs to be re-examined - and rethought - in this light.

With the notable exception of *Australia's Foreign Relations*<sup>3</sup> by Gareth Evans and Bruce Grant, development cooperation has been almost invisible in the study of Australian foreign affairs. As Corbett noted in his ground breaking 2017 analysis of institutional arrangements for the management of Australian assistance<sup>4</sup>, aid barely appears in seminal studies including *Making Australian Foreign Policy*.<sup>5</sup> Likewise, it was almost totally absent from pre 2017 Foreign Affairs White Papers.

The review argues that the lack of serious foreign policy consideration of the objectives, organisation and impact of development cooperation reflects a historical schism between Australian diplomacy and development. This schism provided a rationale for integration, but created a high potential for misjudgement in establishing new arrangements for development cooperation. It is particularly important that decisions made hurriedly, five years ago - and modified only slightly since - are rigorously re-examined. Such a re-examination can then form the basis of future efforts to ensure Australia's development efforts are as effective as possible.

## Methodology

The review examined departmental reports, statements and evaluations and a wider literature review was also undertaken. Open inquiry interviews were conducted with more than 75 stakeholders to obtain a cross section of views on the impact of integration (see section 2). Most discussions were with individuals, but three additional roundtable discussions were also held.

## Review Structure

This review is presented in five parts:

1. Integrating 'foreign affairs': Australia as an outlier, twice over
2. Interviewee perspectives
3. Integration scorecard: divergent results, disguised deterioration
4. Tables turned: a much more demanding future
5. Australia as a leader of South East Asian and Pacific Development: A 5 point plan

## 1. Integrating 'foreign affairs': *Australia as an outlier, twice over*

At the time of integration, AusAID was one of only two international development organisations with both development policy and program responsibility - the other being the UK's Department for International Development (DfID).<sup>6</sup> While institutional arrangements varied over a forty-year period, in practice AusAID and most of its predecessors had a relatively high degree of managerial autonomy. A practical consequence was that neither AusAID nor DFAT were well prepared for integration.

Whilst there was policy integration at the apex - in the minds of Ministers<sup>7</sup> and via various interdepartmental mechanisms - the review contends that at an institutional level, AusAID and DFAT only superficially understood the business of the other. Their systems, processes, policies and cultures were so distinct as to be 'foreign' - and sufficiently odd as to be caricatured by each other.<sup>8</sup> Given this, perhaps it is not surprising that such a deep, rare and radical model of integration was selected which the majority of people consulted for this review argued is not optimised for development. The review concludes that it is not optimised for our strategic circumstances either.

### 1.1. Development cooperation and diplomacy - 'same, same, but different'

Official development assistance is by definition part of foreign relations. It is part of how Australia engages with developing countries and the international community - but it is a distinct part. Most diplomacy is focussed on immediate priorities, as the 2013 DFAT Capability Review noted in identifying DFAT's strengths in crisis management and in responding to Ministers.<sup>9</sup> In farewell remarks, DFAT Secretary, Peter Varghese, lamented the lack of space for long-term thinking, referring to 'the tyranny of the current'.<sup>10</sup> Globalisation, new telecommunications and social media have made diplomacy even more focused on the now. Diplomats must move fast, gather the best intelligence they can, synthesise it and use it for persuasive purposes. Cable writing, briefings, speeches and talking points are key tools that diplomats must excel at - and that consume a very high proportion of senior management time.

The major difference between mainstream diplomacy and development cooperation is that for better and worse the latter centres around program delivery, involving:

- Billions of dollars of discretionary spending;
- Large, complex and risky projects;
- Time frames that stretch out for many years; and
- Substantial external scrutiny from multiple stakeholders

A purely diplomatic skill set and systems built for speed and deal making are insufficient for these program management tasks. Development cooperation has been shaped by the need to demonstrate funds have been safeguarded and spent wisely. This has led to the dominance of planning tools - log-frames, Gantt charts, monitoring and evaluation frameworks. Given difficult operating environments much of this involves trying to heed the lessons of the past through open review, contestation and criticism. Historically, departments of foreign affairs have tended to be more secretive, more hierarchical and less willing to admit setbacks and failures. Several interviewees noted the practical consequences of this due to limited entry points for injecting development experience into White Paper processes and Pacific infrastructure planning.

Integration required more than DFAT regearing for program delivery - vital as that was. Increasingly development cooperation is knowledge and policy based. DFAT runs on smart generalists - people who can get across the fundamentals of issues quickly and communicate them succinctly. That is a very valuable skillset many development people might usefully acquire, but its not enough to shape and manage complex programs. It can also be an impediment to assembling and effectively managing the depth of specialist expertise needed to deliver the cutting edge assistance critical to accelerating development and forging deep relationships. Having this expertise is also essential to develop the profile, credibility and authority needed for policy influencing.

The 2013 DFAT Capability Review pointed to departmental weaknesses in knowledge management, policy development and strategic planning<sup>11</sup> - all vital for effective development cooperation, especially transcending aid delivery to achieve enduring policy results. As many interviewees noted, AusAID also had to grapple with this transition and found the skills and systems demands challenging. A Business Model Review just before integration called for major changes in order to amass and effectively use the increased knowledge and skills deemed necessary.<sup>12</sup> It recommended a tiered approach, focusing very tightly on meeting the needs of countries of primary foreign policy importance to Australia.

Twenty years ago, the standard development task was typically to build a road, a bridge or a hospital - or train teachers or government administrators. Now, almost everywhere, countries can do those things for themselves. They've gone up the development value chain. Today's task is more likely to involve advising on public-private financing and management structures so that a national network of priority projects can be built, maintained and regulated. Or it might involve scouring international experience to find and shape new, economically and politically viable approaches to redirect untargeted food and fuel subsidies to the needy, releasing resources for other expenditure.

Very clear feedback from the field is that the idea that junior and generalist staff can sensibly design and steer such operations, while also leading policy dialogue with national leaders is flawed. Many think it also has colonial overtones. Where we do not have deep, relevant expertise, access and influence are likely to contract. Most of the needed expertise must come from outside, but DFAT needs enough internally to link to external skills and assist the department to steer operations.

High-level specialist skills are also needed to influence major international debates about optimal systems of government and the best policy mix countries should adopt. After the collapse of the Soviet Union the so-called 'Washington Consensus' was the dominant orthodoxy at least until the Global Financial Crisis.<sup>13</sup> Whilst the consensus was never complete, nor its contents fully agreed, broadly it reflected a western policy preference for free markets, international integration and democratic enlargement. Asian tigers however had discovered the mix earlier and their recipe was different both in regards to the economic role of the state and forms of government. All of these elements and others are now under debate again, especially in Asia. The conclusions countries arrive at will be reflected in how they organise themselves, what policies they adopt and how they cooperate - this will shape the environment in which we live. If Australia wants to be influential in these regards - as surely it must - it needs a very strong intellectual effort to understand, get ahead of and shape current thinking. Old remedies and orthodoxies will need to be rethought, not just repackaged. As one leading figure observed, a 'five dot-point brief' extolling the virtues of the liberal order will not suffice.

In short, fast-paced, highly responsive diplomacy and high-performing, policy-based development co-operation, have different business needs. They can be successfully combined, but this requires acknowledgement of those different needs, the engineering of points of intersection and the right degrees of integration and specialisation. There is a clear split between strategy and policy - which the review argues should be highly integrated - and program delivery which need not be (though must remain tightly linked). The vast majority of OECD countries recognise the different business needs and afford them a much greater degree of specialisation than Australia.

With five years' hindsight, the different time frames, products and processes of development and diplomacy can be seen as opportunities for complementarity. This is particularly so in the new environment in which our relations need to go beyond the transactional and development work needs to move beyond aid. However neither side was well equipped to undertake that sort of rethinking in 2013. We need to take stock and undertake that process now, based on experience and thoughtful situational analysis.

## 1.2. DFAT's deep integration template

On September 18, 2013 the incoming Abbott Government announced that AusAID would be abolished and its responsibilities integrated into the Department of Foreign Affairs and Trade. This was a mere five years after the Department itself had concluded in a review of AusAID's governance for Foreign Minister, Stephen Smith, that it should become an Executive Agency - albeit with more integrated policy making. That decision was justified at the time on the basis of AusAID's size, complexity and its then budget of \$3,400m.

Like most other machinery of government changes, the DFAT/AusAID integration was not pre-announced. There was no preparatory period where the pros and cons of various integration options were considered. Lowy Institute's Jonathan Pryke has described the process as 'hasty' and 'very disruptive'.<sup>14</sup> Immediately following the integration announcement, DFAT established a structured process with a fulltime taskforce, a series of joint working groups and a steering committee drawn from members of the new Departmental Executive.<sup>15</sup> Within three weeks a set of principles was released and timelines set for AusAID's October 31 abolition and the commencement of new structural arrangements by 1 July 2014.<sup>16</sup> Most integration Working Group decisions were consensual, but of those that were not, only one AusAID recommendation was agreed over the alternative put forward by DFAT representatives. That was for development policy and operational systems to stay together for risk management purposes and to provide a critical mass of development expertise.<sup>17</sup> Tellingly, even that decision was later reversed.

Then DFAT Secretary, Peter Varghese, was very clear from the outset that the new model would be distinctly different from any previous form of aid administration, stating on November 3, 2013, that "it will be a model with a bias towards integration rather than running aid policy and aid programs separately, but sort of co-located."<sup>18</sup> He added that, "The spine of our organisational structure is going to rest with the DFAT organisational structure".<sup>19</sup> Defence analyst, Hugh White, observed in 2015, "The way they have gone about it is very significant. The minimalist model would have been to stick it as a separate division within the DFAT structure. They could have done that but instead what they chose to do is to take AusAID apart and sprinkle its component parts throughout the policy division (sic). That is a much more radical and disruptive thing to do."<sup>20</sup>

**Figure 1: Types of International Development Organisations**

<p style="text-align: center;"><b>Model 1.</b></p> <p><b>Ministry of Foreign Affairs responsible for policy and implementation</b></p> <p style="text-align: center;">Denmark, Norway</p> <p style="text-align: center;">[Australia reclassified]</p>	<p style="text-align: center;"><b>Model 2.</b></p> <p><b>A directorate or agency within the ministry of foreign affairs leads and is responsible for policy and implementation</b></p> <p><i>Australia, Canada, Finland, Greece, Hungary, Iceland, Ireland, the Netherlands, New Zealand, Poland, Slovak Republic, Slovenia and Switzerland</i></p>
<p style="text-align: center;"><b>Model 3.</b></p> <p><b>A ministry has overall responsibility for policy and a separate executing agency is responsible for implementation</b></p> <p>Austria, Belgium, Czech Republic, France, Germany, Italy, Japan, Luxembourg, Portugal, South Korea, Spain, Sweden, the United States</p>	<p style="text-align: center;"><b>Model 4.</b></p> <p><b>A ministry or agency other than the ministry of foreign affairs is responsible for both policy and implementation</b></p> <p style="text-align: center;">United Kingdom</p>

Source: Overseas Development Institute (2018). *Merging Development Agencies. Making the Right Choice.*

Integration processes were collaborative, but unbalanced. DFAT held the power and AusAID the business knowledge. Because diplomacy and development had been managed quite separately, the different business needs of development cooperation were not always recognised.

### 1.3. Alternative integration models

Research into the relative merits of different forms of organisation for undertaking development cooperation is thin and relatively recent. A major 2009 OECD study concluded that there was not a strong correlation between forms of organisation (i.e. structures) and their effectiveness.<sup>21</sup> However the UK's *Overseas Development Institute* has linked development effectiveness to the coherence and authority of a single departmental entity, whether within the Ministry of Foreign Affairs or outside it.<sup>22</sup> Beyond this however, it identifies leadership as perhaps the most critical factor.<sup>23</sup>

The 2009 OECD study categorised countries into four groups based on their degree of integration, ranging from Denmark and Norway as the most highly integrated through to the UK (and at the time Australia and Canada) with the greatest degree of separation.<sup>24</sup> The most recent presentation of this classification system is shown at Figure 1. As in previous iterations, post-2013 Australia was placed in the 'Model 2' category that involves "a directorate or agency within the ministry of foreign affairs [that] leads and is responsible for both policy and implementation".<sup>25</sup> However Australia does not have a directorate or agency with these combined functions.

**Figure 2: DFAT thematic, sectoral and aid management responsibilities**



Source: DFAT, *Aid Programming Guide*

Figure 2 from DFAT's *Aid Programming Guide* shows just how widely the Department has distributed policy and systems responsibilities. Overarching development policy nominally sits with the Development Policy Division. It houses sectoral expertise in traditional areas such as governance, health and education (the latter two having experienced the biggest cuts) but not the areas of intense recent focus such as infrastructure, private sector development, aid for trade or climate change. Aid management resides with the Contracting and Aid Management Division in the Services Delivery Group. Policymaking is spread out both within the Global Cooperation, Development and Partnerships Group (across each of its four divisions) but also in the International Security, Humanitarian and Consular Group; the Office of Trade Negotiations; the Investment and Economic Division and Budget Branch.<sup>26</sup>

The review argues that given the almost unparalleled dispersal of policy and management responsibilities in DFAT, Australia ought to be classified in category 1. This would co-locate it with Denmark and Norway. These two countries each allocate more than the UN target of 0.7% of Gross National Income to ODA and were both ranked in the top 10 in the 2017 Commitment to Development Index.<sup>27</sup> This suggests development has high cultural value within their governments and Ministries of Foreign Affairs and also that it carries very substantial resourcing. In Australia neither is true.

In the previously mentioned ODI paper looking at whether organisation arrangements matter for development effectiveness, Faure, Long and Prizzon identify the potential advantages of Model 1 as greater policy coherence and better coordination between decision-making and its execution.<sup>28</sup> Its drawbacks include marginalisation of development interests, the replacement of specialists with generalists, especially at posts - and the broader diminution of specialist skills and dedicated career paths.<sup>29</sup> All of these show up in the Australian experience. Can Australia have the advantages of Model 1, but avoid its disadvantages? Without the budgets and cultural status of development in Denmark and Norway, the review concludes that is wishful thinking. At best there may be potential to achieve this with a new 'Model 1.5' with a central entity that has a clear mandate, credibility and empowered leadership to support deep geographic integration.

#### 1.4. The Canadian experience

The 2013 Canadian integration of CIDA (Canadian International Development Agency) into the Canadian Department of Foreign Affairs and International Trade preceded the AusAID-DFAT integration by several months. There was considerable early commentary on the Canadian integration, much of it noting a prolonged period of uncertainty about management arrangements. By contrast the Australian experience was decisive, delivering early clarity and consistency. The review has not found any major independent studies of the Canadian integration. A 2016 Global Affairs Canada internal report concluded that it had been largely successful in terms of the government's stated goals of policy coherence and efficiency.<sup>30</sup>

A 2018 DAC peer review of Canada found (in perfect multilateral parlance) that "amalgamation has been positive, but challenges remain".<sup>31</sup> The DAC review applauded enhanced policy coherence across foreign policy, trade, development and peace and security. The challenges were identified as departmental silos, lack of a shared culture and retaining sufficient development expertise. In terms of progressing a strong integrated and innovative agenda, the review stated that, "To achieve this, [staff] will need new skills sets, new ways of working and strong technical support from sector and cross cutting specialists. Where this expertise is lacking, the department will need to provide it".<sup>32</sup>

AusAID and CIDA were similarly sized organisations, with similar budgets. In each case, the public rationale of alignment and efficiency was the same. Australia's experience of integration is similar to Canada's in some respects but there are some significant differences. In the Canadian case, development has been incorporated into the formal name of the department and it has appointed a Chief Development Officer who reports directly to a Minister for International Cooperation. This gives development a higher profile within the whole than in the case of Australia. There is a dedicated development policy and 'integrated country frameworks'. Furthermore, while most staff work in integrated units handling both diplomacy and development, all major spending decisions need the approval of the Chief Development Officer or his/her delegate, vesting considerable power in that office. The 2018 OECD review reports that, "Sectoral, gender and environmental specialists are also consulted and must sign-off proposals".<sup>33</sup> Despite this, it also notes that policy consistency has been elusive. A recent commentary by the influential McLeod Group pointed to ongoing problems with culture and skills and asked whether it was time to reconsider whether Canada's machinery was fit for purpose.<sup>34</sup>

## 2. Interviewee perspectives on integration

In the 3rd and 4th quarters of 2018, over 75 people with substantial first-hand experience of Australian development cooperation were consulted via individual interview. The cohort comprised 29 serving DFAT officers, of whom 18 were former AusAID staff; 14 academics/think tank staff; 21 experts/advisers/ implementers; 9 NGO representatives and 6 private contractor representatives. A larger DFAT sample was planned, particularly of senior officers, but the department determined this was not timely. Due to possible sensitivities, a consultation list has not been included in attachments.

All participants had extensive backgrounds both in development and/or diplomacy. Without exception, they put forward clear, detailed and well-reasoned positions. There is a very large reservoir of thinking and analysis that experts have undertaken individually on issues of development cooperation management that represents an untapped resource. As well-informed experts who have thought deeply about the issues, their views are worthy of careful consideration. DFAT may wish to think about how to periodically surface, sift and test their conclusions and how to bring different perspectives together to generate reform options.

### 2.1. Assessment clusters - a spectrum of views

One of the striking outcomes from the interviews was the diversity of views about integration from very negative to highly positive. Within that spectrum, four basic perspectives emerged of DFAT's current arrangements for development cooperation:

#### *i. Severely degraded*

*This category was the most negative about integration. It tended to comprise people with lengthy experience in a variety of senior roles. More than half of the academics and analysts fell in this group. Major concerns centred on whether DFAT's deep integration model could avoid undermining development cooperation capability and performance. This group was the most focussed on the need for separate, robust and systematic approaches to development.*

#### *ii. Low ambition, rising risk*

*This group was sizeable and sceptical about integration, but still hopeful of improvement. Its members concluded that for now, DFAT was delivering development cooperation adequately; that basic systems were in place and that the department has reoriented development cooperation towards government priorities, but they pointed to a lack of a sharp strategic focus. Many were concerned that DFAT's skills and knowledge had eroded, almost to a critical point.*

#### *iii. Positive, if patchy*

*People in this group demonstrated a positive overall disposition and a willingness to consider both pros and cons of integration, seeing more of the former. They pointed to both development policy and program gains and losses. Some were worried about skills and broader capability. They were however reasonably confident that the department could address problems and continue to improve over time, even if many tended to think this may take another five or more years.*

#### *iv. Poised for high performance*

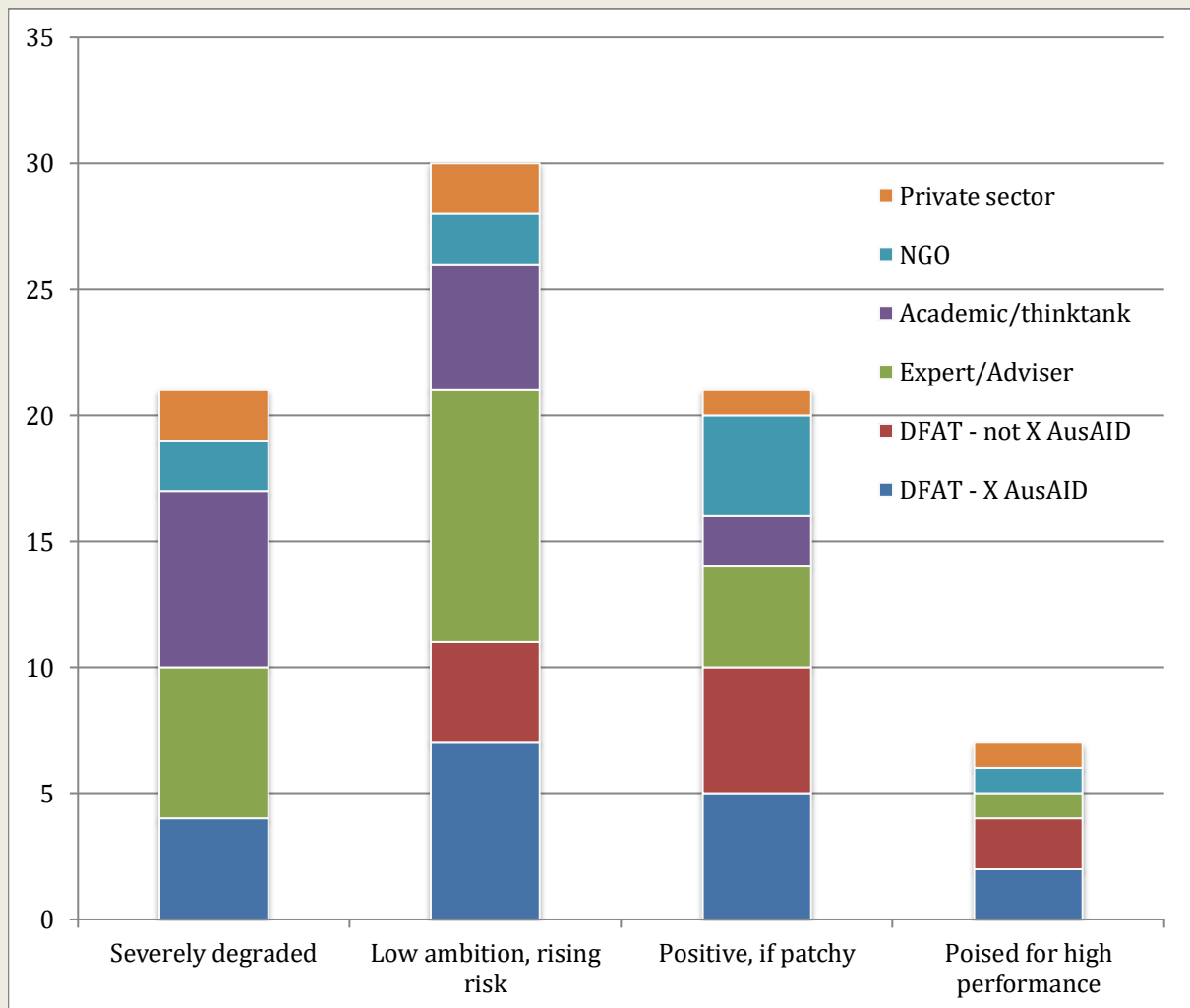
*While this category contained the smallest numbers, its members saw significant opportunities in bringing development cooperation and diplomacy together and enough examples of success to believe much more is possible. This group was particularly encouraged by broader departmental reforms, believing this could create growing opportunities for effective, joined-up development and diplomacy. Few argued that consistently high performance had already been achieved, but rather that the prerequisites were increasingly in place.*



Figure 3. shows the distribution of interviewees by type and assessment cluster. While the views of stakeholders are very dispersed, this is in itself revealing. Firstly, departmental staff are as spread out as any other group and views are not tightly correlated with where the staff member previously worked - i.e. former AusAID staff do not all think integration has been awful and former DFAT staff do not all think its has been great. Encouragingly the 'tribalism' that Secretary Varghese wanted to avoid, was not evident in the feedback in a major way.<sup>35</sup> This is discussed in detail later - as are exceptions.

Notwithstanding the spread of views, a third of the cohort was positive about integration and about a quarter very negative. The remaining 40% fell in the 'low ambition, rising risk' group. They were not resolutely negative, but rather concerned about the current state of play and where things would be in five years time. Just as importantly the "positive if patchy" group identified many of the same issues as groups 1 and 2, but was more hopeful of their resolution. This indicates a high degree of consensus about the core issues, albeit with distinctly different judgements about the extent of risk. It suggests that DFAT's performance could either improve substantially or deteriorate markedly in the future, depending on what actions are taken. There is a clear opportunity to move sentiment from group 2 to group 3, decisively altering the overall assessment of integration. Analysis in subsequent sections looks at specific issues arising from the consultations, drawing on the observations of interviewees, departmental and external reports and other sources of evidence.

**Figure 3: Interviewee assessment of integration by category**



Source: Compiled from original data

### 3. Integration scorecard: *diverse results, disguised deterioration*

#### 3.1. Assessment framework

The logical starting point for an assessment of integration is to ask whether the government achieved what it wanted to from the changes it made. Following that, consideration sensibly turns to integration's impact on development program results and the system needed to produce those results. Finally, wider impacts on the department should be considered. Thus the performance assessment framework evaluates integration across 16 indicators in 4 categories: 1) Government objectives: 2) Program performance and quality; 3) Aid management system; and 4) Whole of department impacts.

#### 3.2. Scorecard results

Figure 4. presents an Integration Scorecard that rates performance in each category. The assessments have been made drawing on all available evidence, including departmental data and reports; independent assessments and feedback from interviewees. Table 1 provides summary evidence and arguments for the ratings. A detailed, indicator-by-indicator assessment is at Annex 1. A narrative follows, attempting to explain the divergent results, stressing those issues judged to be most important.

Figure 4: Integration scorecard

Category & Summary score	Sub-category	Rating (1-6)					
		1	2	3	4	5	6
<b>Government Objectives</b>							
<i>Key objectives in office</i> 6	Minister's signature initiatives					•	
	Foreign Policy alignment: Strategic targets X 10						•
<i>Redundant targets</i> 2	Efficiency: transparency: rigorous performance focus		•				
<i>Missing metric</i> 2	Foreign Policy alignment 2: Strategic posture		•				
<b>Program performance</b>							
?	Overall program performance					?	
	Reported quality				?		
	Pipeline quality	•					
	Policy dialogue/influencing		?				
<b>Aid management system</b>							
3	Policy architecture and implementation			•			
	Skills, systems & organisational capability	•					
	Structure, governance and accountability		•				
	Culture and incentives		•				
	Leadership					•	
<b>Whole of Department</b>							
5	Unexpected wins					•	
	Diplomatic impact				•		
	Budget infusion						•

[?] Denotes substantial debate/uncertainty over the accuracy of the data

**Table 1: Scorecard ratings: summary of supporting evidence and arguments**

	Rating /6	Rating rationale (detailed evidence and argument in Annex 1)
<b>Government objectives</b>		
<b>Minister's signature initiatives</b>	5	<ul style="list-style-type: none"> <li>• iXC impacts queried, but staff point to role as change agent, licencing experimentation</li> <li>• New Colombo Plan not aid initiative, but successful example of integrated operations and skills</li> <li>• Asia Pacific Health Centre, innovative model, melding expertise from public and private sources, but too soon to assess</li> </ul>
<b>Foreign policy alignment: strategic targets</b>	6	<ul style="list-style-type: none"> <li>• Targets framed to capture key commitments - Indo-Pacific Focus, aid for trade, gender etc.</li> <li>• List represents tests govt. set itself. Separate question whether more demanding targets needed</li> <li>• Departmental efficiency and transparency not directly included in targets. By definition, accorded less priority by govt. in its own scorecard. Therefore benchmarked separately, not as strategic priorities</li> <li>• 9/10 strategic targets met, incorporating major shifts in aid allocations towards Pacific &amp; infrastructure &amp; away from health, education and resilience</li> </ul>
<b>Efficiency</b>	2	<ul style="list-style-type: none"> <li>• Confused picture, requires more transparency</li> <li>• 2016-17 'Performance of Australian Aid' reports significant increase in efficiency at activity level (p.21)</li> <li>• Reasonable to assume substantial corporate efficiencies too, especially from reduced SES oversight</li> <li>• Admin ratio down from pre integration, scale-up peak, but 2/3 above historical average. Assess significant over-estimate due to accounting practices billing split roles to ODA</li> <li>• OECD reports DFAT cannot provide staffing numbers it sought (p. 71)</li> <li>• Risk of flying blind in terms of resources devoted to development policy and management</li> </ul>
<b>Transparency</b>	2	<ul style="list-style-type: none"> <li>• Rapid early decline, caught in 2015 stakeholder survey and transparency assessment</li> <li>• Improvement since then, especially restoration of detailed budget information</li> <li>• OECD criticised lack of project level reporting in 2018. DFAT looking to address</li> <li>• Issue is accountability, but also a proxy for openness and DFAT engagement with external partners and expertise</li> </ul>
<b>More rigorous performance focus</b>	2	<ul style="list-style-type: none"> <li>• Minister Bishop's most consistent pre-election policy when Coalition still committed to 0.5 target</li> <li>• No formal whole-of-program benchmarks introduced, but no budget increases either!</li> <li>• Interdepartmental mechanisms (Dev. Effectiveness Steering Committee; CAPF etc.) discontinued.</li> <li>• 2014 Performance Framework. More stringent performance measures incorporated in 4 areas - mutual obligations; effective partners; value for money; &amp; combatting corruption</li> <li>• Targets largely achieved by 2016. New ones not yet set</li> <li>• Some evidence of soft line on mutual obligations - e.g. ODE PNG Transport sector study</li> <li>• No sign of strong departmental focus on performance. Occupies much less top management time</li> </ul>
<b>Foreign policy alignment 2: strategic posture</b>	2	<ul style="list-style-type: none"> <li>• Lack of overarching strategic vision for development, especially beyond aid. Australian interests in regional development not clearly articulated in White Paper but it could still be the framework</li> <li>• No compelling explanation of what foreign policy alignment should deliver means aid toolbox' concept reasserts itself. Overall coherence reduced. Numerous small silos. Overall Australian development brand less visible</li> <li>• Ambiguity leads to low priority for development, fuelling skills loss, undermining management</li> <li>• Degraded capacity to redesign development cooperation for a very different strategic environment</li> <li>• Weak departmental systems to translate strategic intent into policies, investments, staffing, skills etc.</li> <li>• On cusp of change? Strat. choices being made by line areas, but dept. needs to bring together</li> </ul>
<b>Development performance</b>		
<b>Reported results</b>	?	<ul style="list-style-type: none"> <li>• Three annual performance reports suggest results on a par or better than before integration</li> <li>• High level - and deep - scepticism from many closely associated with program delivery. Corrosive</li> <li>• Picture complicated by fact that most pre-integration systems still nominally in place &amp; vetted by ODE and/or Independent Evaluation Committee</li> <li>• Working assumption is that up to mid 2017 (period captured by last performance report) there had not been a significant deterioration in program outcomes. So why contrary assessments?</li> </ul>
<b>Program quality</b>	?	<ul style="list-style-type: none"> <li>• Program quality also appears to have held up according to official reporting, but widely disputed</li> <li>• DFAT reporting of six quality indicators charts little change</li> <li>• OECD points to DFAT record of 94% of quality checks being undertaken, but not separately verified</li> <li>• Critics argue standards have declined</li> <li>• ODE &amp; Independent Evaluation Committee reportedly detected over-rating of up to 40% of activities post integration. Since stated that more rigorous vetting has redressed the problem</li> </ul>

<b>Pipeline quality</b>	1	<ul style="list-style-type: none"> <li>Does not show up in formal reporting, but is subject of large amount of comment/criticism</li> <li>Maybe the 'missing link' that explains divergence over performance more broadly</li> <li>With 5-7 year life cycle, DFAT activity/program performance reporting to date has largely reflected past systems, skills and quality in design</li> <li>Today's reported performance is a lagging indicator. Pipeline quality indicator of what is coming</li> <li>Clear consensus pipeline in serious trouble. Considerable design delays. Half activities sent back for more work by Aid Governance Board in 2018. Many newly designed activities in implementation struggling, especially large facilities. However some recent signs of turnaround e.g. PNG Gov. facility.</li> </ul>
<b>Policy dialogue &amp; influencing</b>	?	<ul style="list-style-type: none"> <li>Formal and informal feedback from a number of nation states; multilateral organisations and OECD partners suggesting a decline in strategic engagement and influencing</li> <li>Similar suggestions from several reports - e.g. Facilities review and economic partnerships evaluation</li> <li>Internal health checks also said to have raised the issue</li> <li>Need for formal monitoring and reporting to increase the evidence base</li> </ul>
<b>Aid system</b>		
<b>Policy architecture &amp; implementation</b>	3	<ul style="list-style-type: none"> <li>Policy patchwork with several strong elements, but variable and judged to be individually driven</li> <li>2014 Aid Policy not anchored in strategic vision for development. Very broad and of limited usefulness in setting priorities, especially given big budget cuts that came later. Doubts about status</li> <li>Pacific Policy a standout by end of 2018. Emphasis on relationships, including efforts to increase economic integration. Labour mobility key win. But big risks. Deep development capability needed</li> <li>Other policy wins too, especially the enabling environment for private sector collaboration, economic partnerships, gender equality and humanitarian action, but matching capability not always available</li> <li>South Asia policy and programs frequently cited as very good strategic mix. Also Indonesia and Sols</li> <li>Weak policy adherence in practice. Numerous reports of policy freelancing with individuals deciding what the rules will be. Source of frustration and inefficiency</li> </ul>
<b>Skills, systems &amp; organisational capacity</b>	1	<ul style="list-style-type: none"> <li>Big skills loss at integration &amp; subsequently, especially senior LES and internationally recruited experts</li> <li>Misunderstanding of what is needed to design and deliver activities; create development and diplomatic value and underpin influential policy dialogue</li> <li>Showing up in a) pipeline deterioration; b) poor management practices; c) difficulties with partners and d) rising multilateral program share</li> <li>Hard to restore capability in absence of a strategic vision - capability for what?</li> <li>Recent improvements but delivering strategic impact for Australia &amp; partners needs big step up</li> </ul>
<b>Structure Governance and accountability</b>	2	<ul style="list-style-type: none"> <li>DFAT integration model rare and risky. Highly dispersed without strong centre</li> <li>Fragmented policy responsibility weakens system</li> <li>Global Group has potential, but development profile currently obscured</li> <li>Important institutional features such as ODE maintained and Aid Governance Board with independent chair established. Well regarded as key checks and balances but many see need to strengthen further</li> <li>Major issues around transfer of decision making authority to HOMs - support systems and accountability inadequate</li> </ul>
<b>Culture and incentives</b>	2	<ul style="list-style-type: none"> <li>DFAT culture understandably built for diplomacy. Dept. initially wary of change</li> <li>Development cooperation programming has different business needs built around long time frames and large amounts of public money</li> <li>Big, debilitating divide around knowledge - what sort, how much and how to organise</li> <li>Perceived low value accorded development cooperation and associated skills behind difficulty filling development roles. 50 applicants for US/UK/Euro posts, 2-3 (sometimes 0) for some regional posts</li> </ul>
<b>Leadership</b>	5	<ul style="list-style-type: none"> <li>Seen as a strength, especially whole-of-department approach which still has a way to run</li> <li>Made effective use of senior and junior talent</li> <li>Challenges remain, including driving cultural change and convincing development specialists they have equivalent career paths to others and are as well placed for promotions and placements</li> <li>More frequent and prominent high level intellectual leadership of international development would be highly valued, internally and externally</li> </ul>
<b>Whole of dept.</b>		
<b>Unexpected wins</b>	5	<ul style="list-style-type: none"> <li>DFAT 2013 resisted change but it has come regardless in the form of more diverse staff &amp; skills</li> <li>Some areas of superior managerial technology have been fitfully transferred including finance and IT and there are welcome signs of interest in developing a broader evaluation culture</li> <li>Consultation and collaboration habits are said to be gaining ground</li> <li>The whole of department approach is at early stage but pushed along by deep integration</li> </ul>
<b>Diplomatic impact</b>	5	<ul style="list-style-type: none"> <li>More diplomats with development experience will change some of Australia's regional conversations</li> <li>Diplomatic cohort that is younger and more gender balanced</li> <li>Some spontaneous examples of Heads of Mission seeing and pursuing opportunities to pursue high level development goals as a strategic platform</li> </ul>
<b>Budget infusion</b>	6	<ul style="list-style-type: none"> <li>Development program has provided budgetary resources for under-funded DFAT</li> <li>May explain how activity efficiency up, but dept. dev. spending much higher than long term average</li> <li>Not viable long term strategy for funding either development or diplomacy</li> <li>Gov. must fund a new strategic budget strategy to adequately resource all elements</li> </ul>

### 3.3. Joining the dots

The scorecard reports highly divergent results. In each category - apart from whole of department impacts - scores spanned the spectrum. The extent of divergence means that people may see what they want to see - or fail to discern any linkage between performance in different fields. The review judges that the coexistence of strong and weak performance, side by side, is in itself one of the key messages. It theorises that inconsistency is system generated.

### 3.4. What's working and what's not?

#### 3.4.1. Government priorities

DFAT has done best at advancing the government's highest priorities (at least in terms of how they have been framed). This is not surprising. It might be expected of any well-run public authority, particularly DFAT, which, as the 2013 Capability Review noted, is a highly responsive department.<sup>36</sup> Therefore, the government's targets have been met before time; symbolic new initiatives were up and running fast; and programs are seemingly delivering good results - at least so far. DFAT has not put its weight behind transparency, efficiency or a rigorous performance focus, but the review judges the government itself effectively downgraded each of these.

The Coalition government came to office in 2013 with a more coherent set of principles to govern development cooperation than many of its predecessors. Julie Bishop had campaigned strongly on value for money; innovation; and doing more with the private sector. This agenda was augmented with the 2014 strategic targets. As Lowy Institute has observed, these have driven big changes in the sectoral and geographic composition of Australian aid.<sup>37</sup> Health and education funding has been cut in half and infrastructure spending increased 50%. The Pacific is a much larger share of the whole. Despite this, the review assesses that while many of Minister Bishop's policy instincts were sound, her 'new aid paradigm' was never sufficiently developed, nor driven into policy and practice to transform Australia's international development work to address strategic challenges in ways that serve shared interests.

#### 3.4.2. Ambiguous strategic posture

By 'strategic posture' the review refers to whether the organisation as a whole aligns policy instruments, processes and resources to achieve strategic objectives. It goes beyond having a documented strategy, or even strategic clarity more broadly, both of which are essential. The DFAT system is very reliable at pushing forward clear and specific short-medium term ministerial priorities - e.g. the strategic targets. Beyond this, many observed it appears less good at determining corporately - in real-time - what the longer-term priorities should be and organising itself to deliver them. This has emerged as major finding of this review, but echoes earlier conclusions of the 2013 Capability review.<sup>38</sup>

Given this, perhaps it is not surprising that the question of what Australia wants to achieve with the \$20bn in development funding it has at its disposal over a five-year period was not clearly answered in the first phase of integration. The public rationale was to achieve greater foreign policy alignment. The Prime Minister said, "We don't want our diplomacy going in one direction and our aid program going in another".<sup>39</sup> However, as the Parliamentary Library has noted, the most specific criticism pre-integration was that the aid program was too aligned to the Rudd government's UN Security Council bid.<sup>40</sup>

The scope for confusion about what was wanted remains high. Was integration just about DFAT management, or was there a bigger purpose? Was the idea to do whatever maximises immediate diplomatic gain? Was it to be strategic - if so how? What weights should be applied to the short term versus the long and how should they be altered as circumstances change? These questions have in large measure been delegated to individual decision makers, especially Heads of Mission. While, by definition, this achieves integrated decision-making, it does not, by itself, deliver a consistent strategic approach. HOMs and their staff have very different views on where development sits in terms of Australian interests.

In 2013, few Ambassadors had prior experience in development policy and programming. Secretary Varghese later admitted he underestimated the policy complexity involved.<sup>41</sup> Pre-integration, HOMs were already fully occupied and the White Paper requires more of them across the board. At the very time that they acquired substantial new responsibilities for additional staff, finances and development relationships, support to them as decision makers was reduced at Post and in Canberra. Head of aid positions were abolished; the number of internationally recruited experts was reduced; senior locally engaged staff numbers were cut and principal specialist positions at headquarters became less numerous. The review argues this adds up to a reduced ability to map and advance strategic priorities.

Likewise at an apex level, pre-integration systems to focus and manage development cooperation were removed. By 2013 AusAID had fulltime CEO attention and three deputy secretaries providing strategic oversight. Half of this senior team - including the CEO - were former DFAT officers as were several members of the Senior Executive Service. In addition to political oversight from two Ministers, there was high-level interdepartmental scrutiny in the form of the Development Effectiveness Steering Committee.<sup>42</sup> There was also a Comprehensive Aid Policy Framework agreed by cabinet.<sup>43</sup>

Those systems for strategic management were predominantly replaced by pre-existing DFAT structures and systems that have squeezed the development business into a very crowded agenda. The risk is that without clear departmental signalling, individuals will make very different assessments of what is required. That is the clear advice from the field. Some go as far as to say there is no longer a coherent Australian aid program, rather a series of separate programs reflecting individual preferences. Many argue an aid toolbox view predominates that misses the strategic role development cooperation can play for Australia. Under this limited conception of 'aid' there is much less need to invest considerable time, money and intellectual effort in the enterprise.

A significant cohort of interviewees had hoped integration would deliver more strategic impact than AusAID could. They expected Australia to rebrand itself as a highly expert, forward-looking, regional stakeholder and a more politically astute policy influencer. They identified a strategic opportunity to develop new development models that are superior to those offered by other OECD countries, multilaterals and new actors, including China. They argue Australia should be at the forefront of thinking about development in Asia and the Pacific to influence outcomes by undertaking cutting edge analysis, generating ideas and offering new solutions. A large number believe that previous, fitful momentum in these directions has stalled, or been reversed. That can change.

Many interviewees thought that the 2017 Foreign Affairs White Paper would provide the missing strategic clarity that a 2017 aid program 'Health Check' identified as the number one issue facing the program. Former Ambassador and AusAID Deputy Director General, Annmaree O'Keeffe, provided a tough assessment, writing that it "does not provide any analytical basis or framework for a program that has a budget of just under \$4bn of taxpayer money".<sup>44</sup> Former World Vision Chief, Tim Costello, described it as "a missed opportunity to recognise [development cooperation] as a strategic pillar in our relations with the world alongside diplomacy, trade and security."<sup>45</sup>

Despite these assessments, the review judges that development is critical to understanding and responding to the changes in the balance of power that the White Paper highlighted. Many of its recommendations will require policy and operational responses from the development team. The agenda is made for an integrated approach. While that has not yet been clearly articulated - it can be.

Increasingly, the Indo Pacific Group is attempting to make strategic choices, and not just in the Pacific. Indonesia and South Asia were frequently mentioned as programs in search of strategic opportunity, as was Solomon Islands. In addition, South East Asia has taken the lead in developing a regional development strategy and linked country strategies. The late 2018 decision to establish a \$2 billion Australian Infrastructure Financing Facility is another example of a line area and individuals running with a

strategic initiative.<sup>46</sup> However, the review concludes that this does not add up to a clear strategic posture because the pathway to this point was too long and uncertain, with lurching progress unlocked by perceived crisis, rather than through a real-time, whole-of-department, strategic planning system.

The review welcomes the level of ambition now being shown in several areas but is doubtful that the department is currently fully geared to sustain the effort over many years. More integration is required and not just of the development business. As will be shown below, there are serious capability constraints. There are budget constraints too. Our understandable recent focus on the Pacific - and episodic budgetary pressures such as multilateral bank replenishments - will crowd out other interests unless there are reliable systems for them to be regularly re-adjudicated.

Despite this judgement, it is possible that DFAT is on the cusp of developing a more thorough going strategic planning system that would better serve its development and diplomatic interests. The initiatives outlined above may coalesce into a bigger strategy. White Paper demands may force the issue, especially due to resource pressures. Thus, while the review finds that the absence of a corporate strategic posture on development is the biggest impediment to maximising its impact, there are some reasons to be hopeful.

### 3.4.3. Policy architecture

Reflecting the ambiguity of the department's strategic posture on development, the policy framework is a patchwork. Some parts are very good and some are thin. Areas of policy innovation and success include breakthroughs on labour mobility as part of the Pacific Step Up; improved private sector collaboration and whole of department pursuit of gender equality. But there is also considerable inconsistency and idiosyncrasy, especially in policy application. Contractors in particular spoke of the breakdown of a unitary management system where departmental policy and practice were predictable and its agents could move confidently to deliver what was wanted.

The department still formally references the 2014 overarching aid policy statement - *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*<sup>47</sup>. However it was cast before big budget cuts and is commonly viewed as broad, dated and uninfluential. This weakens its sway and the ability of the development group to shape future policy and practice. The aid policy is not an integrated development statement that explains what is to be achieved and how different instruments will be brought together.

The upside of a whole-of-program policy deficit is that a small band of highly experienced development entrepreneurs has been able to take advantage of what one expert called, "a loosening of the international development straight jacket". These individuals have often led policy and process reform, especially when they have been able to run with a ministerial mandate such as private sector collaboration or innovation. The downside of the absence of a development 'rules-based order' is that delivery partners report considerable policy freelancing, with individual managers often setting their own rules. This causes inefficiency and departures from best practice. A big task for DFAT will be to nurture the nascent development entrepreneurialism - underpinned by deep (but declining) talent and experience - while achieving greater policy adherence.

Despite weaknesses at an apex policy level, there have been substantial gains in discrete areas. Pacific policy has been reset several times since 2016, on each occasion becoming more comprehensive and integrated. As Development Policy Centre Chief, Stephen Howes, has highlighted, expanded labour mobility is a key win, generating sustainable employment, substantial incomes and enduring economic linkages.<sup>48</sup> The original and limited Pacific Seasonal Worker Scheme has been expanded to all Pacific Island countries and its 2000 place cap removed in late 2018. Additionally a more flexible Pacific Labour Scheme that expands access to a wider range of countries and occupations was introduced mid-year. There are now close to 20,000 workers participating annually in Australia and New Zealand schemes with

estimated potential for this to grow to 50,000 by 2030.<sup>49</sup> One report estimates that total global returns on Pacific migrant labour are currently greater than 80% of Pacific GDP.<sup>50</sup>

AusAID was not able to achieve this development outcome despite many years of trying. Ongoing advocacy of development professionals, combined with DFAT's policy clout and a change in strategic calculations converted what had been a relatively small and tenuous program into arrangements that are more mutually beneficial and strategically significant. Development perspectives - with a focus on relationships, continuity and respect - have increasingly come to the fore in revised Pacific policy, though arguably much later in the piece than they might have.

Gender and humanitarian policy are also widely acknowledged to have been empowered by integration, even if some argue those agendas could be further deepened. Many reported that the department's approach to private sector collaboration is more open and constructive, though there is said to be a skills deficit to make the most of it. Similar comments were made in regards to economic partnerships - but here too a recent evaluation found the concept was insufficiently defined and understood.<sup>51</sup>

#### **3.4.4. Staff satisfaction**

The picture for individuals post-integration is mixed. Talented senior AusAID staff have been appointed to Head of Mission and deputy positions in greater numbers than might have been expected - around 20 in all. This has served departmental interests well in encouraging greater representational diversity and also appointing strong performers to hard to fill deputy positions. Young professionals have also often moved into the slipstream and typically welcomed wider opportunities. The cohort that often feels trapped and undervalued are those who are and wish to remain development professionals. Few feel able to develop their skills or supported to mentor a new generation of professionals.

As one expert said, "If you are looking for a development career today, you're much more likely to be looking to multilateral organisations, the private sector or NGOs than DFAT." This lack of attractiveness explains an exodus from these positions and difficulties filling them. The London Circuit aid hub is culturally as well as physically isolated from what DFAT sees as main business, notwithstanding recent and substantial efforts to create development career paths. These efforts will struggle if development is perceived as being of second order significance.

#### **3.4.5. Program performance**

Some question whether the claimed reduction in skills, systems and oversight mechanisms matters. One school of thought is that the whole development business was over-engineered in AusAID and is now efficient and effective. The business of the department is running smoothly, programs are being delivered and annual reporting - vetted by ODE and its Independent Evaluation Committee - seems to confirm that performance has held up well. It is a legitimate to ask, "Where is the problem?"

The performance of the development cooperation portfolio was the most hotly contested issue considered by the review. A substantial proportion of interviewees, across the entire spectrum, including long-term DFAT officers, does not believe that current reporting accurately reflects what is happening. Whether they are right or wrong, this is alarming. If staff do not believe performance data, a principal management tool is rendered redundant.

The review suspects that performance pessimists and performance optimists may both be misreading the situation. It is possible that current reporting is more accurate than critics believe and yet simultaneously provides an incomplete picture of what is occurring. The latest available reporting is for 2016-17 (almost two years ago) and itself reflects a portfolio much of which was designed in the pre-integration era. Major activities typically have a 5-7 year life span - and longer if extended or cloned into new phases - as has occurred. Hence performance assessments are providing a snapshot of the past, as much, or more than the present.



Critics, meanwhile, are focussing on the here and now - new activities just underway or struggling to get off the drawing board. Here there are undoubted problems that must be confronted. Budget cutbacks delayed the need for new products and it is only relatively recently that DFAT has had to design and deliver large numbers of new activities. That is proving very challenging.

#### **3.4.6. Impact of the skills gap**

The disappearance of up to 2000 years of development experience - and in particular the loss of long serving senior Locally Engaged Staff - is starting to show at all levels - program quality and management; reputation with partners; and ability to lead and influence others. Equally importantly it is restricting the department's ability to reorient its development business strategically to be highly effective developmentally and diplomatically in a very different future. One leading expert described the approach as "like trying to build the Snowy scheme without engineers".

It is acknowledged that for more than twelve months the department has been grappling with this issue and is being genuinely flexible in rethinking standard practice. For example, it has recently undertaken differentiated recruitment rounds in diplomatic, development and corporate streams. There is little doubt either that people are learning on the job - and many are proving competent at what they are being asked to do. The situation with regards to basic administration has reportedly improved considerably. But it is the ability of the department to sustain a high-performance, strategically influential program that is uncertain.

#### ***Program quality and management***

There is an almost unanimous view that the program pipeline is in serious trouble. Many new programs are years behind schedule, taking several times as long to design as expected. The new Aid Governance Board, which is proving to be a useful reform, has reportedly sent more than half of recent designs back for more work. There is talk of a 'fiscal cliff' appearing that in turn is driving sub-optimal choices.

Having already risen substantially as a temporary scale-up strategy, multilateral spending has kept rising from around 34% of the Australian aid program in 2013-14 to around 48% in 2016-17.<sup>52</sup> While the increases are largely in core funding, that choice in itself partly reflects the fact that Australia is now less able to undertake intensive bilateral cooperation. For 15 years from the early 1990s Australia chose to do more bilaterally than the OECD average to reflect our knowledge of and interests in the Asia Pacific region. Australia is currently not equipped to make that choice.

'Facilities' are another means of dealing with resource pressures. DFAT had over 22 facilities in place in 2016-17 - some of which are individually worth hundreds of millions of dollars.<sup>53</sup> The department is making substantial use of facilities due to their flexibility; opportunities to consolidate and operate at scale; and to address skills shortages. However getting the design right to start with is essential - as is having the skills to oversight and steer the facility.

In several programs key design elements have only been sorted out midway through implementation. A recent review found facilities to be a vital tool, but noted that some are very large, complex and challenging to manage.<sup>54</sup> It noted design problems, role confusion and a lack of skills to achieve desired outcomes. Similarly an economic partnerships evaluation concluded, "There is a widespread perception within DFAT that the department's capacity to manage development cooperation in Asian middle income countries has declined over time, in parallel to declining aid budgets."<sup>55</sup> One insider who was otherwise positive about integration said that most major contracts were running into difficulties.

In some cases, up to five levels in 'the chain of command' have very little program management experience. Unclear designs, combined with a lack of experience and a weak development policy culture are causing staff to micromanage. Across the board, partners report a focus on small matters of

compliance, rather than tracking progress towards desired outcomes. Many believe the overall focus of Australia's development cooperation program has shifted from strategic goals to administrative inputs and outputs. Most worryingly there were recurring examples of the technical and policy advice of global experts being overridden or pushed so far into the background as to be invisible.

### *Policy dialogue and influence*

The DFAT generalist model needs adaptation to work for policy-based development cooperation. Steering large policy programs in complicated technical fields requires considerable specialist expertise both inside delivery vehicles and also within DFAT. Smart, capable diplomats can sensibly be part of well-configured management arrangements, but have to be willing and able to draw deep expertise into that process, knowing when to stand back and when to step forward.

As multiple evaluations - covering facilities; economic partnerships; pandemics; Cyclone Pam assistance; the South Pacific Community and the multilateral development banks - have documented, DFAT frequently lacks the needed reservoirs of skill and does not always know how to use them effectively when it has them.<sup>56</sup> In Asia and the Pacific, reports abound of first and second secretaries being sent to conduct complex policy dialogue with Ministers and Directors General. Increasingly, doors that had been open are reported to be closing.

A senior, former Minister of a major Asian country recently reflected on reduced policy engagement, asking one interlocutor, "What happened to Australia?" Others have asked similar questions. A major regional partner wrote to Australia recently saying it had gone from being its top partner of choice to one that is difficult to work with. Another told us that we are not currently bringing enough ideas to the table. The UK has underlined the problem, according us third tier status for knowledge-based staff exchanges. DFAT's own health check processes have also drawn attention to declining capacity for policy dialogue, as have several of the aforementioned evaluations.

Australia's ability to influence regional and global institutions matters because the Pacific and South East Asia feature less and less in global development calculations. The European focus is understandably on Africa. We have to be clever as well as assertive to protect and project regional interests - including our own. We have to have things of value to say if anyone is going to listen. As several senior advisers noted, we cannot get by on platitudes, no matter how well expressed. One regional expert said, "Australia is still trusted in the region, but it is ebbing away".

### *International leadership*

The Pacific now presents a test case. Not only will there be a very large increase in Australian engagement - by DFAT; other government departments; contractors; church groups and civil society - the US, UK and Japan will be more active.<sup>57</sup> And we have successfully prevailed on the ADB and World Bank to expand their presence and operations - with the World Bank almost tripling its lending.<sup>58</sup> It will be a huge diplomatic, managerial and intellectual task to coordinate all of that effort and especially to put it behind Pacific leadership. The primary risk is that we may disenfranchise the very people we want to build relationships with. Many interviewees commented that Australia was not currently equipped for the coordination and policy leadership task, even before Pacific Step Up II at the end of 2018. The task has now got much bigger.

### *Reinventing the business*

Its one thing to learn the ropes of program design and delivery, as DFAT is doing; it is another to recognise how the whole environment for development cooperation is changing radically and reinvent the business before it is declared redundant (see Section 4). The review concludes that DFAT may have many of the skills needed to do this, but doubts they are currently organised in a way that makes this likely. High-level policy and strategic skills are scarce and fragmented. There are no clear strategic goals, nor a roadmap to guide the whole. Progress is happening in pockets of sectoral and geographic priority, but the pathway is too uncertain for the challenges Australia is facing.

### 3.5. Resourcing uncertainty

In 2012 a Parliamentary Inquiry into *Australia's Overseas Representation - Punching Below Our Weight* - concluded that the diplomatic network was chronically underfunded and "seriously deficient".<sup>59</sup> It recommended a significant expansion of the diplomatic network, increased cost recovery, expansion of outreach through social media and an external review of the department to bring in 'fresh ideas'. Integration provided a temporary respite. Resources devoted to AusAID management and oversight were able to be redirected into the DFAT corporate pool. More significantly, officers undertaking a mix of diplomatic and development duties can be billed to the program if it is certified that they spend at least 50% of their time on development.

This accounting device - that creates an incentive to over-estimate development management - may explain why the DFAT aid administration ratio is now 2/3 higher than its pre-scale-up historical average (above 7.5% as opposed to below 4.5%).<sup>60</sup> Despite this, based on activity ratings, the department claims that, "the underlying efficiency of the overall aid program has improved".<sup>61</sup> The statements are inconsistent. The review assesses that overall - and especially at senior levels - there are fewer resources going into aid management. Unfortunately, this explains not only rising activity level efficiency, but also many of the performance problems that are emerging.

The review was advised by several sources that a senior Minister told DFAT staff in Jakarta that integration was driven by the need to find an alternative source of funding for DFAT. As a short-term tactic, this approach has worked. But the costs are now evident. Furthermore, the approach can't be repeated and so leaves DFAT exposed longer term. Foreign Affairs needs a new funding strategy to secure the financial resources to fund both the diplomatic network and also undertake the scale and quality of development cooperation needed to advance Australian interests.

### 3.6. Departmental assets

The Department has plenty to work with. It has thoughtful, respected leadership that is reportedly more focused on whole of department management than ever before. It is a refreshed, evolving organisation, showing that it is capable of change. Through integration, DFAT inherited new managerial technologies and skills - in IT, finance and public relations - that it is finding good uses for. Its diplomatic corps has been diversified and diplomats both with and without an AusAID background are bringing development issues increasingly into their diplomatic conversations. The department has lots of extremely smart people, including a modest, remaining cohort of highly capable, development staff and managers that can help it plot a path forward. And it has five years' experience to draw on - with pockets of substantial success.

The strategic task - at least as envisaged by this review - is not merely to roll out good development projects. Rather it is to create a system that maximises the benefits of the \$20bn the department has responsibility for over the next five years. The White Paper may not itself have provided the needed strategic development framework, but it has clearly established Australia's overarching foreign policy objectives - many of them with clear development objectives.

The review judges that development cooperation will be critical to the White Paper's success. Not only will program resources be needed to underpin the extensive engagement foreshadowed, but - as argued in the final sections of this report - Australia will need to switch its thinking from being an "aid donor", to being an equal partner in a shared project. The review argues Australian interests require Asia Pacific development to become a fully-fledged, foreign policy priority, with all that entails.

## 4. Tables turned: *a more demanding future*

The diplomatic and development landscape in the Asia Pacific region is being rapidly remade. A jolting reassessment of great power rivalry is not the only element. With much larger volumes of international finance in a wider variety of forms, from more disparate sources, developing countries have entered "an age of choice".<sup>62</sup> Power has shifted from OECD aid providers to developing countries and other actors. ODA providers will need to test their assumptions, over and over, and modify their behaviours, many of which the review was advised, are perceived as condescending.

OECD aid has rapidly lost value and its crude volume now commands much less attention relative to private finance, remittances and most importantly, domestic revenue. By 2013 it was the leading source of development finance for a mere 43 countries - less than half the number 25 years previously.<sup>63</sup> As a result, some argue ODA is no longer a significant foreign policy asset. But it remains the single largest source of external development finance, especially for poorer countries.<sup>64</sup> The growth of alternative sources of finance provides real opportunities to focus ODA on what it is best able to achieve.

To stand out and deliver impact and influence ODA must do what other forms of finance cannot. Its uniqueness lies in its ability to contribute to how societies as a whole manage their affairs. While this can and should involve civil society and the private sector, the role of national authorities - i.e. governments - in creating development frameworks is critical. Hence ODA has unique and crucial roles in equipping governments to manage their societies and economies, raise and wisely spend revenue; deliver essential services, and regulate private interests. These roles become more complex and demanding as countries develop and need to build systems and not just more schools, roads or houses. Consequently, the required knowledge quotient of international development cooperation has risen rapidly.

### 4.1. Context shapers

#### 4.1.1. The strategic environment is much more complex, demanding and uncertain

In the Prime Minister's introduction to the 2017 Foreign Policy White Paper he wrote that, "we are facing the most complex and challenging geopolitical environment since the early years of the cold war."<sup>65</sup> Changes in the balance of power - and in US trade and strategic policy - mean that the framework for Australian security and economic prosperity is much less predictable. Our reliance on Chinese markets and a US security guarantee carry greater vulnerabilities. The 'rules based order' of multilateral institutions and international law that has served our interests is under threat.

The 2017 Foreign Policy White Paper is an initial attempt to respond to these changed circumstances, but the implications are so significant and long term that our responses will inevitably need to be remade over time. The White Paper strategy relies on strong domestic foundations (inevitably over-estimated in a government document) and ambitious attempts to engage more deeply with countries and institutions to strengthen the framework for 'a stable and prosperous Indo-Pacific'.

The essential element is the need for Australia to be able to build coalitions of interest with a wide variety of nations on foundational questions. These range from security policy, through trade, investment and people movement rules, to reconsideration of optimal forms of government, socio-economic policy and regional cooperation. A central issue is likely to be how best to respond to the socio-economic, political and strategic consequences of rising inequality. Amongst other things, this requires a deepening in the transformation of gender relations and their transition to the fore of economic and governance issues. It is not clear that we, or others, have rethought domestic or international policy settings to address this effectively. Preserving a rules-based order will mean needing to renegotiate the rules with those who are now larger stakeholders. That requires coming to the table with new ideas and options and a willingness to collaborate and rethink.

#### **4.1.2. Our partners are more capable, more discerning and more assertive**

Decades of growth coupled with international education and much greater mobility of knowledge mean that our neighbours are better informed, more capable and more assertive about their own interests. Pacific leaders, including recently the President of Tuvalu, the former President of Kiribati, and the Prime Minister of Fiji, have warned us increasingly loudly that our stance on climate change erodes our regional influence.<sup>66</sup>

In September 2018, the Secretary General of the Pacific Forum told an ANU audience that the Pacific Islands themselves rarely featured in strategic discussions about the region. In a direct challenge she asked, "How do we ensure that our regional priorities are neither undermined through the breaking of our Pacific solidarity, nor appropriated by the narratives of others, not of our region?"<sup>67</sup> PNG academic, Patrick Kaiku, has likewise warned that condescending rhetoric will push Pacific political elites towards China," but building long term partnerships with leaders and civil society would develop "a powerful ally when corrosive effects of China's debt trap diplomacy or militaristic agendas need confronting."<sup>68</sup>

Julie Bishop made 33 trips to the Pacific in 5 years as Foreign Minister - an exceptional record.<sup>69</sup> However, that good work has been undermined by a pattern of careless and dismissive remarks by others in government; no-shows at key regional meetings and most destructively - climate change policy that Pacific leaders regard as antithetical to their fundamental national interests. The primary step-up in the Pacific - and in Asia - needs to be political - and needs to be sustained.

Other nations are also being more forceful and insistent about determining their own interests. Indonesia repeatedly asks for greater respect, particularly in regard to consultation on issues that affect it, whether on the live animal trade, or Israel/Palestine relations. Too often the political response has been to deny the legitimacy of nations asserting their own interests when they differ from what ours are determined to be. This stance - indicative of what Peter Hartcher calls 'The Adolescent Country', will become increasingly costly as geopolitical weight continues to shift to Asia.<sup>70</sup>

In 2015, Melissa Tyler, the Former National Executive Director of the Australian Institute of International Affairs succinctly articulated the problem in an article entitled, Asia's Australia problem.<sup>71</sup> Tyler drew a distinction between our self-image and how we are seen in the region, reminding us that there is a legacy of racism that is not expunged; we are seen as subservient to other powers and that "Australians don't understand relationships because we maintain a focus on the instrumental and transactional".

#### **4.1.3. The aid business is being thoroughly disrupted with new actors, new mechanisms and alternative sources of money and ideas**

China's Belt and Road Initiative - claimed to involve total resourcing of \$4 trillion dollars<sup>72</sup> - is the largest example of the changed development cooperation environment, but there are many others. The United Arab Emirates is now close to the top of the list of ODA providers as a proportion of Gross National Income<sup>73</sup> and the Gates Foundation is second equal biggest funder of global health assistance.<sup>74</sup>

Simultaneously private capital has become much more important, but so too have remittances, which have almost quadrupled since 2000 and in 2015 were twice as large as ODA flows.<sup>75</sup> However, the decline in the relative importance of ODA financing compared with other external flows disguises an even more important trend in the growth of domestic revenue which comprises just over half of all development financing for low income countries, but more than three quarters for the growing number of lower middle income countries.<sup>76</sup> These shifts indicate where ODA can be most valuable - in increasing the volume, but in particular the development impact of domestic resources, concessional and non-concessional lending and remittances. In this environment, stand alone aid projects pursued as isolated 'investments' are of declining value - as Day has noted.<sup>77</sup> The inverse is also true, that cleverly designed and delivered ODA can be extremely valuable to the rapidly increasing number of middle income countries.

#### 4.1.4. Diplomacy is also being disrupted

The conventional diplomatic model of official state-to-state relations mediated by Ambassadors, largely behind closed doors, on the basis of formal interaction with senior government leaders and others diplomats has broken down. Ministers text each other in real time. International investors develop their own links to power. Commercial interests and think tanks undertake analysis, more of which is in the public domain. Domestic and international actors mobilise opinion and attempt to influence policy. Professor Kerry Brown has argued "the core functions of and value added by diplomacy as a discipline and skill need to be redefined in order for it to survive."<sup>78</sup>

#### 4.2. What future for development cooperation?

The end of ODA has been declared many times from Bauer (1976)<sup>79</sup> to Moyo (2009)<sup>80</sup>. In 2012, even the Managing Director of Agence Francaise de Developpement (AFD) declared, "ODA is dying" and "becoming increasingly irrelevant". And yet, despite this, over the last twenty years global ODA has doubled as providers keep finding new uses for it.<sup>81</sup> As Day has observed, it offers a "Swiss army knife" of possibilities.<sup>82</sup> As he also notes, this is a mixed blessing as the 'tool kit' view of aid renders it a means to multiple ends. This can obscure our primary interest in the long-term development of our region. For Australia, the most important role of development cooperation is to allow intense collaboration with developing countries and with regional and global institutions on development issues. There are few other sources of money or systems of management available to achieve these ends.

Most development thinking moved towards a 'beyond aid' agenda long ago, encompassing a focus on trade and investment policy, people movement; environmental management etc. ODA can be employed to promote much more powerful development enablers and that is why it remains relevant. But with only 34 low-income countries remaining and 2/3 of the world's poorest in middle-income countries, approaches must be constantly updated.<sup>83</sup>

#### 4.3. The case for staying heavily engaged on Asian development

Few argue that Australia should be heavily involved in the Pacific, including as a provider of assistance. Asia on the other hand is different. Leading figures in government have reportedly said that Asia does not need aid. It is true that countries like Indonesia, the Philippines and Vietnam do not need financial transfers, handouts or standalone aid projects, but they confront extremely challenging policy issues and have huge knowledge needs. Failure to see a substantial role for development cooperation in South East Asia misunderstands both regional development and Australian interests.

The case for staying strongly engaged with so-called Asian middle-income countries is very strong:

1. Income per head is a tenth or less of Australia's in a majority of countries; hundreds of millions of people remaining moderately poor; and there is rising, socially disruptive inequality;
2. Countries face huge challenges escaping the 'middle income trap' as the easy wins of development give way to much more complicated policy problems;
3. Maintaining and diversifying Asian growth is essential to sustain global poverty reduction, including through trade;
4. There are strong shared interests in encouraging and supporting greater regional action to address deficits in public goods so that the region as a whole is best able to protect its socio-economic, environmental and security interests; and
5. Our impact is maximised by focusing on a region we know, that is important to us and that other OECD DAC countries are exiting to concentrate on Africa.

While the development case for staying heavily engaged in South East Asia is very strong, the strategic case is even stronger. Regional countries may need us less, but we need them more. Previous Australian efforts to 'deepen and diversify' in Asia have not been fully realised. Thoughtful, forward-looking plans were prepared by Ross Garnaut, in 1990<sup>84</sup> and in the *Australia in the Asian Century White Paper* in 2012<sup>85</sup>. However strong, broad economic, political and cultural linkages remain elusive.

In the 2017 White Paper there was a sudden sense of extra urgency about the task - as there needs to be. Close to 50% of our exports go to three countries in North Asia, making us very vulnerable to any disruption to trade.<sup>86</sup> China takes about three times as much of our exports as the whole of ASEAN. That vulnerability is compounded by the fact that 6 out of our top ten exports are minerals, metals and fuels.<sup>87</sup> Coal alone comprised 15% in 2016-2017.<sup>88</sup>

The services picture is worrying too. Former DFAT Secretary, Peter Varghese, recently drew attention to the fact that several ASEAN countries including Indonesia, Singapore and Thailand now send fewer students to Australian universities than 25 years ago, despite rising affluence and the expansion of our tertiary system.<sup>89</sup> The White Paper refrain to 'deepen and diversify' is urgent as well as important. It proposed many initiatives to address this but it is hard to see how our goals will be met without a sharply focused development plan as a key part of the response. This cannot be as a dispenser of aid, predicated on a 'we know best' basis, but as a fulltime member of Asia and Pacific communities working with equals on shared agendas.

As one global expert said, Australia should be building itself close to the core of a middle-income region. To do this requires a big investment not just in learning the cultures and languages of our neighbours but also understanding their political economies, development priorities and key national interests. Our role in working with ASEAN nations is of course different to our role in the Pacific. In the latter case as the major metropolitan power our impact and responsibilities are greater, as is the need for us to assist the Pacific to coordinate external assistance. In South East Asia we need to be more selective about what we do and work closely with others, especially policy partners such as the development banks, but also heavily invested bilateral partners such as Japan and South Korea.

#### **4.4. The opportunity to return to ODA's comparative advantages**

In considering the future role of development cooperation it is vital to focus on what it is uniquely able to do; understand partner needs and preferences; and allow for the increased regional and global public goods needed to stabilise and secure new and different forms of globalisation.

##### **4.4.1. Understand changing partner preferences**

A recent study for the OECD by Davies and Pickering, *Making Development Cooperation Fit for the Future*<sup>90</sup>, provides views from developing countries on what they most need and value. "Partners want DAC providers to shift to a more enabling role: still providing vital finance, but in support of government led sector investment programmes; providing more and better technical and policy advisory support."<sup>91</sup> The study underlined 'an important general shift on the demand side' finding that countries are "increasingly discerning, selective and strategic".<sup>92</sup>

##### **4.4.2. It's still the economy stupid ... but inequality, gender and climate change too**

The study found that sustaining economic growth was and would remain at the top of developing countries' priority list. However basic service delivery and governance and institutional capacity building that are highly ranked now are expected to become much less so. New areas of focus are expected to include agriculture and natural resource management; adaptation to climate change and other environmental management; as well as meeting the needs of the poorest and reducing inequality.

In a Brookings paper on maximising aid impact, Kharas has pointed to a particularly neglected area - helping low middle income countries improve their tax bases so that they can afford better public services. Kharas quotes DAC figures indicating less than 1% of ODA is used for such purposes despite constrained revenues frequently being a binding constraint.<sup>93</sup>

##### **4.4.3. And there's a major knowledge gap that is an opportunity for Australia**

In terms of the types of assistance regarded as most valuable, in 2015 mobilising private finance was assessed as a top priority by only 3% of officials, but 19% of the same officials expect it to be a key priority by 2025.<sup>94</sup> There is an even greater anticipated increase in demand for technical and advisory support,

prioritised by 12% in 2015. Almost three times as many - 33% - expect it to be a 2025 priority.<sup>95</sup> So, while there is backing for leveraging finance, which Australia is looking to do, the priority accorded expert advice is 50% greater again.

The opportunity is underlined by the growing scarcity of technical assistance. OECD countries have reduced the share of technical assistance in their ODA by half since the 1980s.<sup>96</sup> Australia's technical assistance share has also declined, though at around 25% remains twice that of other OECD countries.<sup>97</sup> The difference is largely due to Australia's high bilateral share of total assistance that reflects our unique circumstances, bordered by Asian and Pacific developing countries.

The review acknowledges that technical assistance includes a multiplicity of instruments some of which are developmentally ineffective. It also concedes that the way in which Australia and other OECD countries have pursued capacity building and institutional strengthening has a patchy record at best.<sup>98</sup> That said, there have been successes as well as failures, including in Australian economic and governance programs in Asia and the Pacific that have deeply integrated Australian assistance within national structures, allowing relationships of trust and influence. Australia should be at the forefront of rethinking how best to satisfy growing developing country demand for expertise in ways that empower and equip our partners and build strong relationships in the process.

#### **4.4.4. Plus a growing need for global and regional public goods**

A globalised world - or even one that is fragmented, but where regional integration continues as a strategy to safeguard economic and territorial security - needs multiple forms of cooperation to underpin and govern its interactions. In particular, it needs to regulate activity that is beyond the reach of the nation state alone and deal with trans-boundary issues from people movement to pandemics and international crime. Climate change financing is amongst the most obvious and pressing growing need for global/regional public goods. In 2015 the World Bank estimated annual financing would need to rise \$70 billion to meet the world's COP 16 commitments for 2020.<sup>99</sup> In 2016, a High Level Panel assembled by the Centre for Global Development argued that the World Bank's main priority should be the promotion of global public goods critical to development.<sup>100</sup>

The Asian region suffers from a significant regional public goods deficit following decades of fast growth and increasing economic integration. There are numerous if overlapping and not always consistent trade and investment arrangements, and various security pacts, albeit patchy and untested in crisis. Beyond this the number of regional institutions and mechanisms is modest and inadequate to facilitate the breadth and depth of cooperation needed for small and medium sized countries to be confident their interests will be protected and advanced. The Asian Development Bank has drawn attention recently to particular needs to top strengthen infrastructure for connectivity; deepen financial markets; and tackle health security, climate change and environmental problems.<sup>101</sup>

Australia has played a creative role in the development of regional institutions from APEC to the East Asia Summit. It may well need to be even more active in future to encourage organisations such as ASEAN to reach their full potential and to engage with them in ways that are mutually beneficial. Development cooperation can play a major role, where it is linked to a strategic vision and the two arms push strongly in the same direction.

#### **4.5. Implications for Australia**

The way Australia does business will have to change significantly for us to exert the diplomatic and development influence we seek.

- The White Paper acknowledges that our work in the Indo Pacific region will need to become much more intense. Even with substantial additional financing - which the department should pursue with vigour - this will require a deliberate refocussing of Australian diplomacy on the Asia Pacific.



- Likewise our international development efforts will need to be further and very deliberately focussed by country, sector and multilateral organisation, so that the intensity of effort and level of skills required can be delivered where it is most needed in ASEAN and Pacific states.
- Deep and broad relationships of trust and influence will need to be built and sustained involving truly integrated processes
  - Recognising the importance of national development to our neighbours through greater political and Head of Mission engagement in strategic development dialogue
  - Underpinned by more and longer-term government-to-government collaboration as a beachhead for wider institutional, commercial, cultural and people-to-people links
  - With a new emphasis on collaborating, negotiating and brokering, including the additional resources we are drawing into the region
- There is a heightened need for DFAT to lead and coordinate expanded whole of government international efforts. This leadership role increases the need for the department to strategise and to be able to access and use deep knowledge and expertise.
- Australia cannot afford to be a 20th century aid provider. It has to have deep understanding of the development circumstances of the countries and regions it is operating in. It needs to know who makes decisions and how they are made. It has to bring the best possible knowledge to decision makers at the right moment and empower them to act. And it has to have the ability to reinvent its business continuously.

## 5. Australia as a development leader in South East Asia and the Pacific: A 5 point plan

### Overview

The review argues that Australia's national interests require it to take a long-term strategic approach to regional development, rather than a sporadic, transactional one. Development cooperation gives DFAT very valuable opportunities to think and work long term as well as short. But the systems, skills and approaches are different and must be carefully configured to work well together. If DFAT does not gear itself to be a top-rate partner, our assistance will lose value along with the diplomatic benefits it generates. In this scenario its overall budget will atrophy at best and it will be vulnerable to other departments arguing for expanded international resources for strategic purposes.

This requires a coordinated and comprehensive approach, starting with clearer strategic guidance that positions regional development as an enduring foreign policy priority. Its pursuit increasingly requires rapid and responsive access to global and local expertise. This can be achieved in various ways - the best are those that simultaneously build deep relationships of trust. To achieve this, departmental machinery needs reordering and its skills, policy and procedural base substantially upgraded.

### 5.1. Improve strategic clarity

#### 5.1.1. Develop a new strategic framework to advance White Paper goals

The best way to move forward would be to take the White Paper as a starting point to identify the intersection between our development and long-term diplomatic interests. This would allow the department to:

- a. Provide the missing narrative of what we are trying to achieve and why;
- b. Articulate an integrated development policy that better explains how diplomacy and development are to be brought together;
- c. Set a strategic framework to achieve the policy's goals; and
- d. Direct resourcing to the highest priority ends

Through one process, vision, policy and strategy could be reset - and our strategic posture clarified in ways that take forward existing priorities. Part of this would entail careful consideration of practical measures needed to achieve its aims, especially enhanced departmental capability.

A key element would be relentless focussing on top priorities. DFAT has serious development cooperation skills and capability shortages. It needs very strong management mechanisms to direct resources to where Australia most wants the strongest development and diplomatic results. A clear hierarchy of relationships endorsed by the Departmental Executive would help to determine service level provision. Program options should narrow as their priority declines to ensure lower operating costs. Scarce adviser time should overwhelmingly go to support the relationships that matter most.

### Recommendation

- Advance White Paper goals through a comprehensive **integrated development statement** that simultaneously sets a **vision**, establishes a **policy framework** and provides a **strategy** to position Australia as a development leader in South East Asia and the Pacific

### 5.1.2. Less aid, more development

Aid thinking, language and processes increasingly hamper both development and diplomacy. Australia needs to move much more decisively to a development mindset. The first step might be to present an ODA budget with two parts:

- a. Aid. This would cover humanitarian and emergency relief, direct poverty alleviation and measures that are essentially about the welfare of individuals and communities. It would essentially be altruistic and aim to relieve suffering in response to acute needs; and
- b. Development. This would cover efforts to assist enlarging national, regional and global capacity to address shared interests. This would not be a cloak for using the program for miscellaneous short-term purposes, but a national commitment to reposition Australia as a leading member of South East Asian and Pacific communities.

Presenting separate budgets would help end the confusion of purpose that restricts our ability to respond generously and without condition to emergencies on the one hand and with enlightened self-interest and serious intent with regard to regional development on the other.

#### Recommendation

- Break the charity mindset by presenting a **humanitarian aid budget and a separate international development budget** aimed at advancing shared national, regional and global interests

### 5.1.3. Focus on Pacific relationships and capacity

There is wide agreement that Pacific policy has been converted from a weakness to a strength - at least in terms of its ambition and its emphasis on improving relationships. Prior to Step Up II, James Batley, one of Australia's leading Pacific experts asked "Do we have the wherewithal - the resources, the attention span, the diplomatic and political capital - to fulfil the promise of bringing 'greater intensity and ambition' to our approach in the Pacific?"<sup>102</sup> This is now an even bigger ask. What is perhaps most encouraging is that there is recognition that we will need to work differently and organise our selves differently. This could be a breakthrough in the way DFAT approaches strategic tasks. The creation of a new Office of the Pacific is a good start.

The Office of the Pacific will need to amass and effectively use development expertise to manage the expanded scale of operations while also prioritising Pacific countries themselves. We need to guard against the possibility that an international 'scramble for influence' disenfranchises the very people whose trust and goodwill we want. We also need to ensure that a flood of new money- estimated to be several times current Pacific development financing<sup>103</sup> - does not lead to bad decisions, unsustainable debt and anti-development incentives in a part of the world that already receives the highest ODA per capita.<sup>104</sup> Many skills will be required, but development skills and experience will need to be to the fore.

The review concludes that ultimately new international architecture will probably be needed to provide greater continuity, consistency, discipline and depth to our Pacific relations. It is recommended that we work closely with Pacific countries and institutions to examine ways in which future relations might best be reconfigured. This should include the concept of greater economic, social and political integration. This would provide the strongest strategic incentives for Pacific countries to choose to be more closely aligned with Australia. Ultimately a loose compact of Australia-New Zealand-Pacific states might provide the sort of framework needed to ensure we permanently change the tenor of our relations.

### 5.1.4. But don't neglect South East Asia

In 2012-13 Australian country programmed assistance to Asia was around \$1.8bn.<sup>105</sup> Today it is less than half that amount. The *Australia in the Asian Century* White Paper applauded the fact that nearly 60% of our development effort was in Asia in 2010 - today it is less than a third.<sup>106</sup> Typically Australia is now at the tail end of top ten partners in South East Asia. In three countries (Myanmar, Vietnam and Cambodia) South Korea is a bigger development partner, while in Lao, Thailand ranks higher.<sup>107</sup> Germany and France

rate above us in Indonesia. Most worryingly, South East Asia has all but disappeared in the public policy discussion of Australia's development policy interests.

A recent ODE evaluation notes that Australian investment in seven World Bank trust funds in Indonesia has "enabled the World Bank to build up its Indonesia Office into the largest in the world".<sup>108</sup> Financing a strong World Bank presence makes sense, but simultaneously we have cut our own capacity in Indonesia, reducing financing, local and Australian staffing and the number and seniority of internationally recruited experts. That does not make sense. Multiple sources report that we have a very good embassy team working on the economic partnership. However they are much more heavily constrained than in the past. It is hard not to conclude that we have contracted out too much of the economic relationship with Indonesia.

Given our interests and the level of public ignorance of Asian development that misinforms our thinking, the review proposes that DFAT's internal capacity is supplemented through the establishment of a Centre for Asian Middle Income Country Development. That Centre might either be based at an academic institution and be similar to long-term research arrangements for the Pacific. Alternatively it might be modelled on the Indo-Pacific Centre for Health Security, sitting adjacent to the department and housing expertise from a wide variety of sources - for example, secondees from DFAT and Treasury, researchers and policy makers from regional countries, prominent academics and international experts.

The purpose would not be to become more knowledgeable for its own sake, but to use this to identify the problems that most restrict the development of South East Asian countries and solutions that address those problems. Australia should aspire to be the most knowledge partner about Asian middle income country development and a natural partner of choice. Some question the feasibility of this aspiration, but a hard-headed approach would see us focussing on a handful of countries and sectors while complementing and leveraging the strengths of others. Our assistance cannot bid countries away from major markets and growing powers, nor persuade them to change course in the face of contrary national interests. In some cases our ambitions need to be modest - sometimes we can do little more in the near term than observe, build understanding - including our own - and engage opportunistically. But in several countries, and at a regional level, working constructively with others we can hope to tip the balance in favour of the sorts of policies, relationships and rules that we believe are in our shared interests.

Repositioning as an expert in South East Asian middle-income country development would also differentiate Australia from European OECD members overwhelmingly focused on Africa and allow us to bring Asian experience into international debates. OECD countries are looking to engage with Asia increasingly through leveraged finance on semi-concessional and commercial terms. Putting most of our eggs in that basket is unlikely to represent the best strategic choice for Australia, even if we want some involvement for our own direct trade related reasons. For diplomatic and development purposes we might position to fill the growing scarcity of technical assistance noted in Section 4.

Consistent advice was offered about the right approach in South East Asia. This involves working jointly to undertake excellent diagnostic work, identifying key problems and crafting options for their resolution. Rather than being an outside supplier of assistance, the goal would be to be a trusted insider. We would work with governments and communities through processes of trial and error to evaluate alternative responses to big policy and program issues. Then we would help establish the systems to role out national programs judged to be most effective. Such an approach is not new, but needs to be re-established as the norm. DFAT has rightly been drawing attention recently to its efforts in Indonesia to reform electricity subsidies that have generated \$1.6bn in savings redirected to bring power to remote villages.<sup>109</sup> This illustrates what can be achieved. There are multiple other examples over the last 20 years that ODE might usefully collate as a guide to success.

### 5.1.5. And make strategic choices globally too

Australia has key interests in multilateralism, not just to achieve outcomes that we could not achieve by ourselves and to provide the global public goods that our open economy and society depend on, but also to reinforce a rules-based order. DFAT has many of the skills needed for effective multilateralism and it is likely that Australia's own interests will ensure it remains an active global player, even if our reputation has been dented by a reduced level of development cooperation; ambivalence about climate change and border protection policies seen by many as draconian. However, as with our bilateral cooperation, our ability to be highly persuasive also needs a strong skills base so that we are contributing ideas and not just superficial commentary.

Naturally we should continue to bring a very strong Asia Pacific perspective into global discussions and that should help to focus our interests. While they will remain broad and include human rights; health security; anti people trafficking; humanitarian response and resettlement - the review recommends a particular focus on low-emission, power generation to address climate change.

As Asian countries continue their rapid development, just like us they will buy fridges, air conditioners, TVs and electric stoves. Current energy demand per head in Vietnam is an eighth of ours, and a twelfth in the Philippines.<sup>110</sup> It will climb fast. If this demand is not met through low emission power generation there is little chance of holding global emissions below critical thresholds to prevent large-scale, irreversible climate change. As a leading fossil fuel exporter that needs to both diversify, as well as in the short term defend its energy exports, Australia needs to be at the forefront of efforts to find and fund low emission power. The scale of change needed will require major new multilateral efforts.

#### Recommendations

- **Do a small number of things exceptionally well** to establish a clear Australian brand as a highly reliable, value-adding partner focused on:
  - **Well functioning Pacific States, with strong economic and political linkages** to Australia, New Zealand and each other;
  - **ASEAN policy partnerships** underpinned by a new **Centre for Asian Middle Income Development**
  - **Clean energy policy and financing** to support rapid development with low carbon emissions
- Underline Australia's serious intent to be an Asia Pacific development leader by **changing DFAT's name to the Department of Foreign Affairs, Trade and Development**

### 5.2. Organise around relationships

The review proposes that in the developing countries of greatest foreign policy importance to Australia that our development cooperation be reconfigured around relationships. That may appear axiomatic, but it is not. Australia talks a lot about partnerships (over 50 times in the White Paper) and has for many years. Recently it has made commitments to strengthen relationships in the Pacific. This proposal focuses on changing how we go use development cooperation to that end - it would complement the strategic thrust of the creation of the Office of Pacific Affairs.

Relationship-based development cooperation would still use a wide range of tools would but within a framework that accords more respect and decision making to local authorities. These development frameworks would bring political leaders, senior diplomats and officials into ongoing strategic discussions about development. This would help elevate and organise policy dialogue to match the interests of our partners and deal us into highly influential relationships. The overall focus would shift to long-term development results, achieved in partnership - and away from excessive focus on discrete activities, inputs and aid financing.

The review recognises the poor international record in capacity building, institutional strengthening and technical assistance more broadly. Partly this is just the slow hard grind of development - it takes a long time and the results are often difficult to capture neatly. But the way these tasks have typically been approached is a big part of the problem. The emphasis has too often been on western experts preparing complex technical plans - often offshore - and expecting their rollout after a series of training sessions. Australia can develop new models based on its own experiences of what works. This would involve long-term exploratory approaches, grounded in local political economy that set out to empower local decision makers. The review proposes a technical assistance charter to establish principles of local leadership, collaboration and respect that we would incorporate into all our efforts. A key feature would be to work together at every stage within locally led, jointly recruited international teams, at a pace - and on a policy agenda - that is genuinely owned by national authorities.

Australia has the opportunity to make greater use of key Australian institutions of state - economic, social, law and justice - in our development programs. Over the decade 2004-05 to 2014-15 Australian assistance provided through government departments (other than DFAT) did not drop below \$400m, but is now half that.<sup>111</sup> There are numerous special circumstances that explain the peaks and troughs, but the trend decline is significant. Australia is making much less use of government capacity to support regional development, despite partner preference for dealing with other officials who confront similar issues and problems, albeit on a different scale.

Therefore it is proposed that for key countries and priority institutional relationships, decade-long partnerships with an annual value of \$10-50m should be supported. This involves entirely different time frames and budgets than existing government partnership programs. The aim would be to allow departments to take on the additional staff required to undertake core domestic business as well as international cooperation. It would equip them to build international work into their long term planning.

The Defence Cooperation Program would be a model, due to its longevity, its emphasis on inter-operability, the leader-to-leader links it fosters and the high satisfaction it achieves. The partnerships program might involve, for example, a \$200m, 10 year Finance-to-Finance department program in an ASEAN country; or the NSW Department of Education managing a ten year relationship with its PNG equivalent; or A \$100m program supporting a capital city municipal council to work with a Pacific counterpart to improve sewerage, waste disposal and roads.

DFAT would set the parameters of the partnerships, maintain strategic oversight at posts and ensure independent monitoring and evaluation. It would also provide assistance in meeting policy and process requirements, but partners would be expected to work collaboratively and commit fully over the long term. They would be expected to establish operational support units to ensure smooth implementation. These services might be a mix of contract and departmental staff.

This approach would allow an extension of Australia's official and institutional engagement possibly also involving academic and civil society institutions. This shift would have major diplomatic and development benefits, recognising that trust, continuity and peer-to-peer links are essential to both endeavours. This model would be deployed judiciously, only in countries whose development is of primary, direct importance to Australia. There would never be more than a small number of such partnerships in a given country at the one time.

## Recommendations

- Ensure development cooperation in tightly delineated priority countries is embedded in **high-level partnership frameworks**, agreed by Ministers and supported by on going Head of Mission led policy dialogue

- Develop new approaches to underpin long-term, **deep institutional relationships** of trust and influence, including through
  - A **technical assistance charter** that commits us to working jointly, in locally led, integrated arrangements that empower counterparts and respect local authorities and communities
  - **Large, decade-long government partnerships** - involving federal, state or local authorities
  - And similar, if **smaller, platforms for other institutional and civil society organisations**

### 5.3. Build stronger capability for high performance

#### 5.3.1. Develop a new strategic budget framework

Integration disguised DFAT's chronic underfunding. This must now be addressed directly and comprehensively so that both our diplomacy and international development interests are advanced. When the Gillard government released Australia in the Asian Century, it failed to put resources behind it. Nor was a resource commitment made alongside the Foreign Affairs White Paper, as Lowy Institute's Sam Roggeveen has noted.<sup>112</sup> Since then, various initiatives have been announced, particularly for the Pacific, but this does not amount to a holistic, strategic approach, especially for departmental capability. Indeed it risks today's priorities displacing tomorrow's. The review urges DFAT to go back to the drawing board to prepare a plan to re-finance our diplomacy and development work.

Simultaneously DFAT should embark on an efficiency audit to identify internal savings across all business lines. It might consult widely in this regard as those working with and in the department see opportunities ranging from improved contract management, through structural and policy consolidation in some areas to greater contracting out of support services and a review of what roles are essential to undertake at Post and what might be done in Canberra.

#### 5.3.2. Bolster leadership - Minister, Secretary, Chief Development Officer

International research underlines the importance of high-level policy and political support for development in integrated arrangements.<sup>113</sup> This review has identified deficiencies in Australia's current arrangements that require clear and strong responses, sustained over the medium-long term. That effort needs a political champion in the form of a Minister for International Development and Pacific Affairs. Of course, the position itself is no guarantee that the incumbent will provide the quality of leadership necessary, but it at least provides the possibility.

Between 2016 and 2018 Australia had a Minister for International Development and Pacific Affairs, and before that in the Rudd and Keating governments. The position has since been downgraded at the very moment a more sustained government effort is pushing forward. It is vital that in this welcome surge of whole of government activity, development understanding and experience have a clear conduit into political deliberations. Foreign Ministers cannot follow the money or follow the detail to the extent required, they need trusted political support to help them do so in the form of a junior Minister who has enough dedicated time and authority to drive change.

The DFAT Secretary is respected for her leadership, but the Department is still coming to terms with where development sits in the scheme of things, the value it can add and how it needs to be organised. The Secretary needs both more support and advice about optimal arrangements and encouragement to play a more active role domestically and internationally in leading development discussions. To this end, the review proposes organisational changes (discussed below) that would culminate in the formal designation of the Deputy Secretary, Global Affairs, Development and Partnerships as Australia's Chief Development Officer, with a stronger mandate to lead and drive good practice and high performance. To ensure integration represents a strategic synthesis of diplomatic and development knowledge all programs above \$50m would require sign off from the Chief Development Officer.

## Recommendation

- Restore the position of **Minister for International Development and Pacific Affairs** and complement it with the appointment of Deputy Secretary GPG as **Chief Development Officer**, whose agreement would be required for major activities

### 5.3.3. Provide greater support for senior decision makers

Integration requires high levels of senior engagement at strategic points. SES officers need to shape early choices, make decisions as options open and close and take responsibility for final products. Their involvement is particularly critical in larger programs where activity responsibility is divided amongst many staff. This can lead to fragmentation rather than a coherent whole of program approach more likely to deliver clear results that are visible to partners.

Support for HOMs and DHOMs to look across their entire portfolios and to manage them coherently is inadequate. The department has declined on a number of occasions to recreate head of aid positions to assist development cooperation management, possibly on the basis that this might be seen as inconsistent with integration. The review proposes a revised arrangement that would see the appointment of Senior Development Coordinator positions for large posts where the development relationship is of priority importance. It is envisaged that would be somewhere between 6-10 positions. The coordinators would not take back the responsibilities of HOMs, but rather oversight the portfolio as a whole, identify and resolve problems and act as an adviser to HOMs and senior Canberra staff.

## Recommendation

- Provide greater support to Heads of Mission as principal development decision makers by creating dedicated senior **development coordinator positions at priority posts**

### 5.3.4. Clearly define the capabilities needed to deliver against Australia's international development strategic stance

DFAT's capability problems will not be fixed by simply recruiting a particular number of miscellaneous development specialists. The Department needs to have thought through what it needs to be a highly effective development organisation in the 21st century. The nature and scale of the capability needed to run a development program depends on what is wanted from it. The higher the level of ambition, the larger and more diverse the skills needs and the more sophisticated the systems. DFAT's internal capability must allow it to be a discerning customer for outside knowledge with the ability to use it to maximum advantage. The review considers that there are half a dozen areas of needed capability, representing a mixture of skills and systems, but also culture and ways of working. These are outlined in the endnotes. Perhaps the most critical are the ability to turn strategic objectives into program choices and to prosecute socio-economic policy agendas.<sup>114</sup> Development economics was repeatedly identified as an area of weakness.

Capability at Post is a particular issue because outside of our largest missions, teams are typically small or medium sized and turnover frequently. This has several implications.

- a. Most of the needed expertise will come from outside and so the systems to link Posts to headquarters have to work very well;
- b. With fewer overall resources going into aid management at posts, some roles need to be returned to Canberra;
- c. High-level Locally Engaged Staff are a key means of making the right choices and building relationships of influence.



### 5.3.5. Make greater use of locally engaged staff

Australia needs considerable, competent administrative support to run its missions - drivers, clerical workers, translators etc., but if it wants to prosecute a high-value strategic development agenda it needs a lot more than this. It needs local experts who understand the political economy; who are well connected and can open doors and who can give invaluable advice on the pathways to achieve desired goals. Of course this raises a number of management issues including security related matters, but a modern, multicultural society that prides itself on openness and innovation can find ways of managing such issues without resorting to nationality-based hierarchies. DFAT should relook at what roles Locally Engaged Staff (LES) can perform with a view to recruiting senior local specialists and managers to fill the obvious gaps in expertise that have emerged. It is vital that such senior staff be entrusted with responsibilities commensurate with their skills and experience.

#### Recommendation

- **Do more with L.E.S (Locally Engaged Staff)**
  - Recruit and make full use of senior skilled, locally engaged program managers as a bridge to external expertise and local authorities

### 5.3.6. Reorganise for strategic impact

A central conclusion of the review is that current arrangements for conducting development cooperation are sub optimal. There is inadequate expertise, it is highly fragmented and it is not coming into decision making at the right times. There is considerable confusion about what constitutes good practice in relationship building, policy dialogue, design and contract management.

A key problem in the DFAT model is that the central system is too weak and in itself too fragmented to support highly dispersed development decision-making. Devolved program responsibilities require matrix management, which is challenging in itself, but when different parts of the development cooperation system are themselves managed separately, the risks grow exponentially. A wide cross section of those consulted spoke of a breakdown in systems showing up in unpredictable, idiosyncratic, inefficient and ineffective decision-making.

There is a common view - close to a consensus - that a deep integration model such as that chosen by DFAT needs a supportive development culture underpinned by a central body that is able to:

- Signal internally and externally that development is a key end of our foreign policy not just a miscellaneous collection of skills, tools and money
- Inject information, ideas and evidence into development and diplomatic decision making to lead thinking, including regionally and globally
- Carry sufficient weight and authority to be a countervailing influence to short term diplomacy
- Provide a strong focal point for development skills and career paths

#### *Create a Directorate for International Development*

To develop and drive new approaches, the review recommends establishing a Directorate for International Development, within the Global Cooperation, Development and Partnerships Group. The Directorate would unify the currently fractured responsibilities for the development cooperation system by bringing together overarching development policy, aid management, performance assessment and strategic procurement. Its task would be to position Australia at the forefront of rethinking development pathways and policies in Asia and the Pacific. A strong signal of this intent would be to include development in the department's name.

The Directorate would be resourced and configured to accord regional development much greater strategic significance, including by creating intellectual products, processes and fora to support long-term thinking and underpin strategic engagement and deep policy dialogue. Its impact would come from its elevated, more strategic mandate, but also by being better equipped to add value to the work of country teams. To

this end it would house expanded world-class development expertise in key areas such as economics and public financial management; infrastructure; social programs and protection; and climate change and its impacts on agriculture, food and water. The Directorate would also recruit specialists in strategic studies, peace and conflict and regional cooperation to develop a high-powered, inter-disciplinary team with enhanced capacity to shape Australian development cooperation and diplomacy. It would add to DFAT's capacity to think and work strategically between White Papers.

The Directorate would report to the Deputy Secretary Global Cooperation, Development and Partnerships, who would serve simultaneously as Australia's Chief Development Officer, responsible to the Secretary for all development policy and processes. The Chief Development Officer would co-sign activities worth over \$50m but below the \$100m threshold that triggers Aid Governance Board processes. An important function of the group would be to develop new bilateral business models that move firmly away from lengthy, fraught design processes that remain heavily supply driven. It would oversight and manage the relationship with the proposed DFAT Technical Support Organisation, proposed below.

### *Undertake a feasibility study for a DFAT Technical Support Organisation*

DFAT culture and incentives mean that it will always struggle to undertake development cooperation programming. In short, most DFAT officers do not want to do this work and do not do it well. Furthermore, officers are trying to do too many diverse things and risk being distracted from other foreign policy priorities. The obvious solution is to have some other party undertake this operational work. But DFAT also needs to have confidence in those arrangements and sufficient trust to allow the experts get on with the job. Currently it is contracting much of this out and then micromanaging the contractors. This is inefficient and ineffective.

The review therefore proposes that DFAT consider delegating operational matters to a specialist body - tightly linked to DFAT through strong governance arrangements (See Box 1). This would allow the Department to refocus on big picture strategic goals to be achieved across entire programs. The key element of this plan would be to create a dedicated, semi-autonomous portfolio entity for design, contracting, delivery and quality assurance functions. This would better allow a critical mass of scarce operational skills to be maintained leading to substantially reduced design delays and improved design quality and more timely, predictable delivery of development cooperation with reputational benefits.

A feasibility study would allow the concept to be developed and tested in discussion with internal and external stakeholders. Defining its role precisely particularly in relation to staff at Australia's overseas missions would be essential to ensure clarity about responsibilities. The feasibility study might also consider whether and how the organisation might play a defined role in implementation under some limited circumstances - for example in the management of large, complex facilities.

It is envisaged that the Organisation would also house many of the sectoral skills Australia needs to design, build and operate knowledge-rich development cooperation. This would allow a skills scale up in key areas that would otherwise be unaffordable. This would likely include development economics; public financial management; political economy analysis; social policy; climate change, water and food production; natural resource management and infrastructure. The Principal Specialists based in the Directorate for International Development would maintain an oversight and mentoring role and would only be directly deployed for the most important programs and relationships.

If the department determines that a centralised body is not feasible or is not the best solution, the review suggests that Operational Platforms for Pacific and South East Asia should be contracted in. These platforms would perform the functions proposed for Technical Support Organisation. The contracted-in arrangement is inferior in that it would inevitably result in less organisational and individual continuity and learning. DFAT reluctance to delegate would also reduce some of the benefits. It would however be superior to existing arrangements.

## **Box 1: DFAT Technical Support Agency**

This body would attract, hold and organise the technical skills needed for program design, contracting and review. It would not set policy, nor determine priorities, but act as DFAT's operational agent. It would not have an independent identity or profile. It would be small and tightly focussed on delivering operational support and services. As such there is a strong case for its funding coming from program, rather than departmental resources, which would reduce pressure on the department's staffing budget.

The organisation would be responsible to the Secretary, through the Directorate for International Development, but would have its own ring-fenced budget and staffing, determined by the Minister. Its head would have management autonomy within arrangements set out in Chief Executive Instructions. He or she would attend Aid Governance Board meetings and other departmental management meetings.

High quality, development cooperation program and activity design would be core business. The organisation would advise on modalities and prepare activities for procurement. It would allow the expertise needed to turn strategic priorities into specific and effective interventions to be centralised, rather than thinly dispersed across a large number of DFAT units.

It would also allow essential work that is currently being contracted out activity-by-activity, often too late in the process, to be brought back under portfolio management. This would give DFAT more direct, systematic access to the skills it needs throughout the development cooperation management cycle. It would also allow other parts of DFAT to focus on strategic matters and to determine more clearly and precisely what it is that they want to achieve.

The organisation would allow the government to mobilise and support a much wider range of development capability, where it is determined that is the best strategy. This might include other government departments and state and local authorities. It might also allow the re-engineering of large facilities by providing the option of putting its officers in charge of their management. This would allow DFAT to delegate management to its trusted agent and would also signal to country partners that they are dealing at all times with the Australian government. Private sector and other capacity would then be contracted into the facility.

The Organisation would assemble and manage Technical Advisory Groups to monitor large programs and provide expert advice to DFAT. It would also house teams of sector specialists in priority areas who would work directly with program areas to build their pipelines of effective interventions. Principal specialists working in the Directorate of International Development would be policy and practice leaders, with implementation taken forward by the DFAT Technical Support Organisation.

The creation of a technical support organisation is about making integration work better. Policy, priority setting and strategic decision-making would all remain unchanged. This organisation would not be either a restoration of AusAID, or an Australian version of GIZ - the oft-referenced German development co-operation executing agency. GIZ plays a much bigger role than providing technical support to programs. It directly delivers much German development cooperation assistance, serving as an agent of the Federal government, but also state authorities and selling its expertise to the EU, the UN and other multilateral bodies. The roles envisaged in this case are much more limited, allowing the organisation to be small and agile.

## Recommendation

- Build stronger institutional capability to deliver the improved diplomatic and development results Australia seeks by
  - Creating a **Directorate of International Development** to oversight a unified system of development cooperation management and make it more fit for purpose; and
  - Undertaking a feasibility study to establish a small, **DFAT Technical Support Organisation** to provide operational services for development cooperation

## 5.4. Reengineer development processes for strategic outcomes

### 5.4.1. Build foreign policy objectives into thinking, planning and reporting

Most DFAT development cooperation program staff are inexperienced in integrating foreign policy and development goals. They need to be shown how, given prompts and guided through processes. Feedback from external advisers suggests many staff are simply making decisions according to their own criteria and preferences; are doing things the way they always have; or are trying to do things differently but are not sure what to do or how.

DFAT's Aid Programming Guide has evolved and continues to be updated. It is clear and easy to navigate. However it is very much built around managing discrete aid investments. It is strong in terms of planning, accountability and compliance, but does not situate priority setting, activity design and performance assessment in a foreign policy landscape. Sound administration is essential, but it is insufficient to achieve the goals of integration. Tellingly, public diplomacy makes at least three appearances<sup>15</sup>, but there is little consideration of wider and more substantial foreign policy matters. The White Paper is positioned as a reference point for Aid Investment Plans, but there are few practical tools to operationalise this. There is little guidance about thinking through Australia's national interests - long and short - and using them as criteria to consider development options. This needs to be explicit and systematic to make sure programs deliver what is wanted.

More consolidated and strategic delineation of when, how and why senior officers need to be involved is needed so that the whole \$4bn development cooperation enterprise has adequate oversight. A substantial new chapter is required on relationship management to provide a framework for the more respectful partnering approach the review has recommended. This would entail new steps and different benchmarks for government and community consultation in ways that allow our partners more genuine opportunities to shape cooperation.

### 5.4.2. Develop balancing mechanisms to achieve both flexibility and structure

There are advantages and disadvantages to having officers handle a range of diplomatic and development functions. Notionally at least there can be one set of shared priorities and knowledge can flow more easily. Synergies may be spotted and better outcomes achieved as a result. But both diplomacy and development are vulnerable to short term exigencies starving the future.

There are advantages in more formally provisioning both for the immediate and the longer term. For example, as part of strategic planning, programs might decide that they need 20% of program resources available for fast, flexible, responsive assistance. They would create mechanisms to build this into their programs. The quid pro quo would be that the remaining 80% would be focussed on what needs to be done to deliver long-term development. There would be clarity that those program elements ought not be diverted from their purposes that serve our interests over a longer time frame.

Likewise it may be useful to have some dedicated roles as well as split roles so that essential business is protected. This is a two way street that would also protect core diplomatic business from peak development program workloads crowding out essential functions such as economic reporting.

## Recommendations

- **Build foreign policy considerations into every stage of the development cooperation management cycle**, from program planning and design through to monitoring and evaluation
- Develop **semi-formal mechanisms to allow the right balance** to be achieved between flexibility and responsiveness on the one hand and long term development on the other - for example:
  - Adopt a **80:20 indicative split between long and short term** priorities as part of strategic planning
  - Have a **mix of dedicated and split roles** so that core diplomatic and development functions are always adequately resourced

### 5.5. Improve and better use the performance system

Politicians increasingly ask of international cooperation, "What do we get for the money?" With a few exceptions it appears they are not convinced by what they have heard. DFAT has had long term difficulty getting the funding it needs. It has struggled to demonstrate how extra resources translate into measurable outcomes. And on the development side, a 25% real cut clearly indicates the current government does not believe that it was getting sufficient value from the program. Neither the Rudd government's 106 headline results, nor Minister Bishop's ten strategic targets have changed that sentiment.

The review recommends that the proposed Directorate For International Development work with ODE to create a new performance framework to capture more clearly how our efforts are assisting long-term development, strengthening relationships and advancing strategic goals. New tools would be needed including case studies, policy reform mapping and more consistent quantification of the benefits of reforms we are supporting. Existing performance data might be supplemented with more qualitative inquiry built into contracts, monitoring tools and annual reporting mechanisms.

There is a particular need for Australia to be able to chart what it has done to what effect in priority countries and large institutional relationships over the medium longer term. This would provide a missing history, greatly improve learning and avoid reinvention of the wheel. It would also provide a strong foundation for shifting performance discussions from short-term activity results to long-term strategic development objectives.

The Departmental Executive is ultimately responsible for the performance of the development program. That program comprises more than 60% of the department's budget. The review believes this requires it to systematically interrogate key performance indicators for priority programs, twice yearly. This would necessitate Heads of Mission as principal decision makers presenting and being accountable for results. Some structured engagement between the Independent Evaluation Committee and senior posted officers would also be useful.

The Office of Development Effectiveness has an even more important role in the integrated department in drawing attention to what is delivering success and what is causing failure. The review recommends strengthening its operational independence to allow it to resist valid findings being watered down. This might be achieved by appointing an external expert to head the Office on a fixed term non-renewable contract. Confidence in the program performance and quality being reported by the department would also be strengthened through an independent audit of results every 3-5 years.

Since 2013 the scale and balance of Australia's international efforts have changed markedly. The Australian Border Force and the Department of Home Affairs are new creations. Defence expenditure is a much larger part of the whole - now more than ten times our development cooperation spending rather than five.<sup>116</sup> The review recommends a high level of scrutiny of development and diplomatic spending,

but also of other types of Australian international activity. Consequently it suggests that the Australian National Audit Office have an expanded and dedicated capacity to undertake reviews of Australia's international expenditure, especially as this spending is less visible to tax payers who fund it.

### Recommendations

- Prepare a new, **integrated performance framework** that focuses on whether strategic development diplomacy objectives are being achieved
  - Hold **dedicated twice-yearly development cooperation performance discussions** between the Departmental Executive and Heads of Mission in priority posts, informed by informed by strategic, program and pipeline indicators
- Further strengthen confidence in the integrity of the system by
  - Appointing an **external head of the Office of Development Effectiveness on a fixed-term non-renewable contract**
  - Undertake a fully **independent audit of development results every three years**
- Commission and fund an ODE **rolling program of country and program assessments** to provide a much clearer and more consistent picture of Australia's international development efforts over time
- Cabinet consider a **dedicated, expanded Australian National Audit Office program** to track and report the results of rising **international expenditure across all parts of government**

## 6. Conclusion

Australia has a strategic choice in how it pursues international development. If it does not deliberately choose to organise itself to be a highly valued and distinctive development partner, over time our efforts will degrade. That is a choice in itself - one that involves disengaging slowly from working seriously on many of the biggest issues in the region.

The review argues that Australia's enduring national interests require it to set out to be a development leader in South East Asia and the Pacific. That is challenging, but achievable if we bring an intense focus to the task. We must begin by locating ourselves as fulltime, paid-up stakeholders in a joint regional endeavour. This is about us, collectively, as members of Asia and Pacific communities with shared interests - not about 'them' as subjects of charity.

More strategic approaches to regional development are emerging within DFAT, but Australia could progress faster and more reliably if there was an elevated, whole of department agenda to advance the goal. That would make our ambition clear and allow the alignment of policies, programs, resourcing and performance management to support it. Capability needs to be constructed, beyond what previously existed in AusAID, but it can be assembled from Australian, local and international sources in a reaffirmation of the power of international cooperation, Australian ingenuity and openness.

Systematically pursuing a regional development agenda can allow our diplomacy to remain responsive, but also transcend transactionalism. It can become more securely grounded in our enduring regional interests. That is the promise of integration that may yet be achieved.

## Attachment A: Terms of Reference

### Strategic Review of the AusAID/DFAT Integration after 5 years

#### Background and purpose

In September 2013, immediately following the election of the Abbott government, it was announced that AusAID would be amalgamated with DFAT in the stated interests of efficiency and effectiveness and to ensure a tighter alignment between Australia's international aid and broader foreign policy objectives.

Since then, considerable effort has gone into the integration project - the first substantial organisational change to DFAT since it assumed responsibilities for trade in 1987. Teething problems have long been resolved and DFAT now fully owns the development business it manages. The five-year mark provides an appropriate milestone for a major strategic stocktake.

Various departmental reports, external studies and commentaries have provided evidence and views on the implications of the integration - particularly early in the process. This forward-looking, high-level, strategic review aims to build on and update that analytical work to raise questions for further consideration and stimulate informed debate. It will draw heavily on a substantial number of confidential interviews with internal and external stakeholders who will not be directly quoted, or otherwise identified individually, unless this has been explicitly authorised.

#### Objectives

The review's objectives are to:

1. Assess which aspects of integration have worked well and which have not
2. Identify areas of opportunity and risk for the department in handling its new, multi-billion dollar, program responsibilities
3. Map priority actions to address the issues identified, especially in light of a significantly altered set of strategic circumstances
4. Provide the department and the government with options to ensure its development and diplomacy effectively work together to build Australia's international reputation and advance its national interests.

#### Scope and methodology

The review will not be an exhaustive academic exercise covering all aspects of integration and its aftermath, nor will it be a formal evaluation. Rather it will assess what information is publicly available and consider the views of current and past officials, alongside subject matter experts. From this it will seek to identify and then analyse only the most pertinent issues. In particular, it will focus on the present and future, rather than the past.

The review will briefly consider Australia's aid and development organisational arrangements in the context of OECD peer arrangements and past Australian practice, while also considering new operational models. The independent reviewer is not responsible, nor reporting, to any third party.

#### Outputs

The principal output will be a publicly released report, accompanied by more detailed attachments, as necessary. The paper will include a short executive summary. A confidential policy brief may also be prepared and provided separately to the department.

## Annex 1: Detailed assessment of integration scorecard ratings

### 1. Government objectives

#### 1.1. Minister's signature initiatives

The Innovation Exchange was a high-profile ministerial initiative that has attracted both praise and criticism. The Minister judged it a success in 2017,<sup>117</sup> but in August 2018 the Development Policy Centre published a critical report that argued its work was insufficiently focussed, little data was available to test its success and there was an overemphasis on 'self promotion'.<sup>118</sup> The first point was acknowledged implicitly in a new strategy that focuses on three areas.

The Development Policy Centre also argued that the Innovation Exchange risks overemphasising what is new and different at the expense of the tried and trusted. However on this score there is a counter argument that was put by several former AusAID staff who said that the biggest contribution of the Exchange was the licence that it provided to work differently. The precedent of its creation and the Minister's ongoing interest allowed other innovators in the department to push the envelope more successfully than they otherwise might. For this reason the review judges that overall it advanced the Minister's objective, not withstanding the specific criticisms that point to ways in which it might have been more impactful.

The second major Ministerial initiative considered - outside of those captured by the strategic targets discussed below - is the New Combo Plan. While not an 'aid initiative' it can be argued to be the sort of program the government wanted to emerge from integrated thinking and action. Its design and delivery drew on AusAID approaches and skills. The review is not as effusive in its assessment of the program's impact as either the Minister herself when she stood down when she claimed it as her long term legacy<sup>119</sup> or ANU academic Michael Wesley who described it as 'having the potential to transform the intellectual software of Australia and our ability to deal with the region.'<sup>120</sup> That said, successfully mobilising, placing, managing and returning 40,000 individuals (2014-2020) is a significant achievement in its own right - and one, in-part facilitated by the injection of program related expertise through integration.

The Indo-Pacific Centre for Health Security was announced in late 2017 as the culmination of the Minister's 2016 \$100m health security election promise. The final package was three times the original size and involved resources for product development partnerships; the World Health Organisation's Emergencies Program and a Health Security Corps.<sup>121</sup> The Centre is an interesting structure for several reasons. It recognised that DFAT needed new capacity to manage expanded approaches to regional health security issues and created a hybrid structure to this end. The Centre is not a standard DFAT public service unit, but nor is it a contracted entity. It houses DFAT staff, secondees from other government departments and contracted experts. While there has been considerable debate about the merits of the approach, including criticism that it goes against the grain of integration,<sup>122</sup> a counter view is that the emergence of alternative operating models may help DFAT move forward more broadly. It is too early to evaluate the Centre's effectiveness, but the review applauds the recognition that pursuit of ambitious goals requires deliberate capacity creation.

#### 1.2. Foreign policy alignment - strategic targets

As part of its new performance framework, the government set 10 strategic targets to reflect its policy and program commitments.<sup>123</sup> These included more stringent requirements around the program's geographic focus, more effective gender programming and new tools to encourage private sector collaboration. They also included a large increase in aid for trade investments, requirements for mutual obligations from all partners, new performance assessment tools, program consolidation and anti-corruption strategies. Nine out of ten of the strategic targets have been met. The gender-mainstreaming goal has been challenging in the Pacific and somewhat surprisingly, in emergency situations and health interventions.<sup>124</sup>



The government's strong results against its strategic targets are offset by much weaker performance in three areas that had been prioritised pre-election - departmental efficiency; transparency; and more rigorous performance management. Each of these is considered below. It would be reasonable of the government to argue, however, that it should be judged more on targets it chose to adopt formally than those it did not and that weaker performance in 2 or 3 areas should not overwhelm achievement of 90% of the formal targets. For these reasons the review judges the government has achieved most of what it wanted to.

That said, there is a higher foreign policy test of integration than was set in the targets. The amalgamation provided the opportunity to rethink and realign development cooperation and diplomacy in strategic ways that deliver better outcomes on both fronts.

### 1.3. Foreign policy alignment - Strategic posture

Even after rolling cutbacks that reduced resources by around a quarter, DFAT gained around \$20bn to utilise for development cooperation over a five-year period. This is a tiny amount in terms of development financing, but a vast amount in terms of our foreign relations. For both reasons its critical to work out how to most effectively deploy those resources. A strong strategic planning system is needed to align strategy, policy, programs, budgets and staffing - and then to measure performance. Without it, the risk is that our efforts may be reactive and ad hoc, delivering much less than they might.

Many argue that a conventional and dated view of aid has reasserted itself. Several mentioned a disproportionate interest of some Heads of Mission in their small, discretionary Direct Aid Program allocations than in strategic management of the much larger resources they now control. The conventional foreign policy view of development cooperation is that it offers useful resources and tools for a variety of ends and for that reason strategies should be broad and accommodating. But Australia's circumstances differ from most, living alongside Asian and Pacific developing countries.

Almost four years after integration, an internal 2017 DFAT Aid Program 'Health Check' identified lack of strategic clarity as the number one issue impacting on development cooperation performance.<sup>125</sup> The Health Check focused on a range of useful measures to improve country, regional and investment level guidance, but as many interviewees identified, there is no coherent strategic planning system. At an institutional level, integration is unfinished business - pursued in a piecemeal fashion. There is no overarching statement of what Australia is trying to achieve, why and how. This needs to go beyond rhetorical foreign policy alignment to specify how and why aid, trade, security and other interests will be combined - and how constantly shifting events and interests will be adjudicated. Making this overt in ways that can be tested will improve impact.

In the absence of a clear and agreed strategic posture, inconsistent visions are competing within DFAT, causing confusion and limiting impact. There are transactionalists who simply want to use 'aid money' for whatever immediate purpose it might serve and who are not investing adequately in policy dialogue, strategic oversight or risk management. At the other end of the spectrum there are some development staff reportedly sticking to the old rulebook as if integration had never happened. A third group is trying to be strategic, but it is navigating in a system originally built pre-integration and is not fit for its new purposes. Much clearer and more consistent whole of department signalling is needed to get everyone on the same page, focus effort and resources and maximise the chances of success. The most important task of strategic planning is to set the framework for everything else - especially for the capability that is required.

Unfortunately neither the 2014 policy statement, *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*<sup>126</sup> nor the 2017 Foreign Affairs White Paper provided the necessary strategic clarity. In the first case, the aid policy statement was framed before the biggest budget cuts and before the department had a chance to think about how to undertake development cooperation

more strategically. Its six priority areas are too broad to provide any real focus and as such risk spreading effort far beyond what can realistically be delivered to the standard needed to achieve our objectives. While the aid policy was endorsed by the OECD,<sup>127</sup> and is a credible aid policy, this is also its biggest limitation. The riddle of what would be different after integration was not solved.

Three years later, in 2017, the Foreign Policy White Paper included development cooperation to an extent that no previous attempt had, especially in the chapters on Global Cooperation and PNG and the Pacific. Despite this, of the few commentators who discussed its treatment of development, none were satisfied. Former Ambassador and AusAID Deputy Director General, Annmaree O'Keeffe, assessed that it "presents a simplistic narrative", that "does not provide any analytical basis or framework for a program that has a budget of just under \$4bn of taxpayer money".<sup>128</sup> Former World Vision Chief, Tim Costello, described it as "a missed opportunity to recognise [development cooperation] as a strategic pillar in our relations with the world alongside diplomacy, trade and security."<sup>129</sup>

The extraordinary flurry of Australian policy and program announcements on the Pacific in late 2018 raises the question of whether this second phase of the Pacific Step Up policy has belatedly provided the missing strategic posture. The review considers that Pacific policy is more strategic and more coherent (see Section 3.3.1). However it concludes that the pathway by which this was arrived was too long and unreliable. It also concludes that while arrangements recognise the need to reconfigure departmental capability to deliver the ambitious goals of the policy - and manage a number of complex risks - there remains considerable doubt over how that will be achieved.

While Pacific policy has been reset and made more strategic, the review argues that an unintended consequence is that strategic policy more broadly risks becoming unbalanced. The overwhelming focus on the Pacific, is obscuring other Australian interests in Asia and globally. This is why a whole-of-program, integrated development strategy is needed to clarify our ultimate objectives, set Australia's level of ambition and indicate how various departmental assets, whether policy, personnel, programs or processes will be combined to deliver desired outcomes.

The review concludes that DFAT's approach to development has not had a strong strategic orientation in phase 1 of integration, and is an obvious starting point for Phase II.

#### 1.4. Departmental efficiency

The Prime Minister's announcement of the integration of AusAID and DFAT was part of series of machinery of government changes that were heralded as tackling "confused responsibilities, duplication and waste".<sup>130</sup> In December 2013 the Minister for Foreign Affairs reiterated that cost containment was a priority and that "Administrative costs will be one element included in the benchmarking which will apply from the 2014-15 budget".<sup>131</sup> An explicit measure of departmental efficiency was absent from the new performance framework released in June 2014, although the framework does continue efficiency rating of individual activities. DFAT's annual performance report records that activity efficiency scores leapt nearly 10% in 2014-15 and have stayed high since, signalling "that the underlying efficiency of the overall aid program has improved".<sup>132</sup>

The 2018 OECD Peer Review of Australia also reports efficiency gains, but these are not detailed.<sup>133</sup> The review acknowledges there have been administrative gains from program consolidation, which saw the number of activities decrease by almost a quarter between 2013-14 and the end of 2015-16<sup>134</sup>, though it should be noted the budget declined by 18% over this period. Beyond program consolidation, additional gains have been delivered through common services, previously handled separately - payroll, property, corporate management etc. - and especially by a significant reduction in whole of program senior management oversight.

However, the OECD Report also shows that overall departmental staffing has declined by around 8.5% since integration, while the ODA budget has declined by 25%.<sup>135</sup> According to OECD figures,

reproduced by the Development Policy Centre, the department has reduced administrative spending from a 2013-14 peak of nearly 10% to under 8% of a much smaller program.<sup>136</sup> However 2013-14 and the three preceding years represented a cabinet-approved scale up to manage a doubling program that did not eventuate. With its administration ratio of around 7.5%, DFAT reports spending more than 2/3 as much again on ODA administration as AusAID did before the Rudd scale up (4.5%).<sup>137</sup>

There is no corroborating evidence for the resource intensity of the development effort that the statistics imply. Indeed numerous interviewees spoke of a strong tendency for staff with integrated responsibilities to be pulled onto more immediate diplomatic priorities. The review concludes DFAT's published figures reflect accounting practices that allow 50% of officers with integrated responsibilities to be billed against the development program. It also concludes that this is likely to be a significant overstatement.

It is doubtful that the department itself knows the level of resourcing that it is devoting to development cooperation. Its systems do not seem to allow that. The OECD noted that, "DFAT was unable to provide trend data on staffing on the aid programme in the period between integration and 2017. Likewise, DFAT was unable to provide the number of specialists working on the aid programme and how it may have changed since the last review".<sup>138</sup> The department needs better ways of tracking its investment in development capability so that it can get the resourcing right - and so that it can measure its own efficiency and effectiveness.

### 1.5. Transparency

A Transparency Audit by the Development Policy Centre measured a substantial decline in project information availability between 2013 and 2016, from an indexed score of around 42 to 36 (a 17% decline).<sup>139</sup> The OECD also criticised Australia's transparency performance particularly at the activity level and noted that it fell to 25th position (out of more than 40 institutions) in the 2016 Aid Transparency Index.<sup>140</sup> DFAT has acknowledged these concerns and indicated an intention to provide more activity level information.<sup>141</sup> It has also pointed to the restoration of detailed budget reporting as indicative of a trend to improve transparency.

Transparency is not just an accountability measure, but a means of driving improved performance. Greater openness and visibility of program information would allow more evidence-based scrutiny that would help isolate problems and allow solutions to be proposed. Transparency can also be a key differentiator between our assistance and that of others. China's assistance is at the bottom of the transparency table. Australia ranks in the 'fair category' - moving up to 'good' would strengthen our claims to be a better partner.

The issue goes beyond what data is in the public domain. It involves when, how and why DFAT engages in discussion and debate, internally and externally. This review was made more difficult by the thinness of available performance information. Ultimately it is not in the department's interests for it or others to be making judgements based on weak evidence.

### 1.6. A more rigorous approach to performance management

In opposition, Julie Bishop campaigned hard on performance issues, promising 'hurdles and benchmarks' to guide aid allocations.<sup>142</sup> A new approach to performance management - *Making Performance Count* - was released alongside a new aid policy in June 2014.<sup>143</sup> Although the policy did not incorporate hurdles to unlock budget increases, four targets can be argued to incorporate more stringent performance standards - those involving mutual obligations; working with most effective partners; value for money and additional anti-corruption measures. The question is the adequacy of these measures and the extent to which they have been enforced.

Opinions of those consulted differ markedly on whether the performance framework set sufficiently high standards. Some praised its focus and clarity in allowing the government to be assessed on whether it has delivered major elements of what it said it would. Critics on the other hand dubbed

the targets "wheelchair accessible" due to a claimed lack of stringency. The Development Policy Centre has pointed to the disappearance of a tier of measures assessing organisational performance, while also criticising the targets for being process and input based.<sup>144</sup> Three years ago, Centre Director, Stephen Howes, argued that as most of the targets had already been delivered new ones were needed.<sup>145</sup> A new framework has not yet emerged.

Inter-departmental scrutiny of performance was also downgraded post-integration. During program scale up (2006-13), progress was monitored by a Development Effectiveness Steering Committee involving deputy secretaries from PM&C, Treasury and Finance as well as DFAT. There was also an equivalent Development Effectiveness Working Group to push forward on agreed decisions. Some argue that with a larger department at the helm and a smaller, flatter budget these measures were not required. The review judges they might sensibly have been maintained, especially during the transition period, particularly given the DFAT's relative inexperience in managing very large programs and a budget four times its pre-integration size.

Whatever view is held of the adequacy of the existing performance framework and supporting arrangements, there is little evidence that a new, more rigorous performance culture has taken hold - or been pushed strongly. In early 2014, in one of her earliest substantial statements on aid and development, Minister Bishop singled out PNG as the test case for stringent mutual accountability.<sup>146</sup> In 2016-17 PNG program performance was the weakest by far (if improving slightly on previous years) but it gained an additional \$15.6m in the 2016-17 budget.<sup>147</sup> An ODE Transport Sector Evaluation suggests program performance is not a major priority. It noted that mutual obligations had not been put into practice, with no reporting against PNG's road maintenance commitments.<sup>148</sup> A leading expert said that failure to follow through on a tougher performance regime represented the biggest gap between government statements and actions.

There is uncertainty about the extent to which senior management is focussed on development program performance. On the one hand the Secretary reportedly dealt decisively with issues emerging from the 2016 whole of program "Health Check". The Secretary also reportedly meets the Chair of the Independent Evaluation Committee twice yearly. On the other hand the Departmental Executive does not often see, nor deliberately focus on development cooperation performance that covers more than 60% of its budget. Oversight is incorporated into packed quarterly meetings where there is only time for very quick consideration of the data.

Senior officers lead processes such as Annual Program Performance Reports, but given the breadth of their responsibilities there is a danger they are insufficiently focussed on performance issues in real-time. That is certainly feedback from the field. The OECD has also suggested a need for greater use of evaluation findings, more focus on strategic issues and more resourcing of knowledge management.<sup>149</sup> While there is little evidence of an enhanced performance focus some argue that is because there have been few performance concerns. The next section considers that question.

## 2. Integration's impact on program performance

### 2.1. Overall program performance

The annual statement - *Performance of Australian Aid* - brings DFAT's various systems and reporting mechanisms together to report against strategic targets; country and regional programs; individual aid activities and delivery partners.<sup>150</sup> The 2016-17 report reports that:

- 9/10 of the government's strategic targets were met;
- Around 80% or more of activities are on track to meet their objectives in most regions except the Pacific, where the figure is just above 60%, reflecting capacity constraints;<sup>151</sup>
- Over 94% of partner assessments were above 4/6 - with commercial partners and NGOs close to 5/6.<sup>152</sup>

## 2.2. Reported quality

The story is much the same with quality measures that aim to capture the likelihood of success based on activity design features and how management is being undertaken. DFAT reports that 376 Aid Quality Checks were undertaken in 2016-17. In four out of the six categories - effectiveness, efficiency, relevance and sustainability - the whole of aid program score was 85% or above. In the remaining two areas - gender equality and monitoring and evaluation - it was above 75%.<sup>153</sup> By and large the performance data in the annual report indicates achievement at or above what it has been in previous years. On the surface that presents a reassuring story that appears to be validated through quality assurance processes.

### 2.2.1. Quality assurance

Departmental reporting confirms that quality assurance processes such as Aid Quality Checks, Partner Performance Assessments and Annual Program Performance Reviews are being all being undertaken. The Office of Development Effectiveness has been maintained, as has the Independent Evaluation Committee that oversees it. The machinery remains in place. The question is how well it is functioning.

The review understands that in the early years of integration spot testing revealed that up to 40% of quality ratings were assessed as being too high. However, this was detected and it is claimed that the problem was rectified. In a foreword to the *Performance of Australian Aid, 2016-17*, the Chair of the Independent Evaluation Committee commended improvements in the 'quality and robustness' of performance assessments following previous criticisms.<sup>154</sup> The OECD recently did likewise, noting the 100% compliance with Aid Quality Checks and the 94% of activities achieving a partner performance Assessment of four or higher out of six.<sup>155</sup>

Herein lies a major dilemma. Central elements of the pre-integration performance system remain in place and have been certified as producing valid results, but those results, which on the surface are positive, are widely questioned. A significant number and a wide cross section of stakeholders do not believe that they tell an accurate story. One senior DFAT officer who never worked with AusAID said 'no one believes the performance numbers'. Another said that the scepticism was very widespread, including at senior levels. A major contractor called the performance system 'a joke' and an insider claimed the system was 'window dressing to keep ANAO at arms length'. These comments are repeated only to illustrate the breadth and depth of scepticism about performance reporting. Whether the sceptics are right or wrong, this degree of disputation is corrosive. The department will need to restore confidence in the system

### 2.2.2. Reconciling highly divergent views

The review concludes that the divergence may be explained by the fact that the performance system assesses programs already in implementation, whereas critics are focussing on activities under preparation or early in their inception phases. Current program performance is a lagging indicator - and a long lagging indicator at that. Major development programs typically take around two years from the initial concept to activity commencement and then 3-5 years in implementation. This means that DFAT's existing portfolio of activities still contains a sizeable proportion of activities designed in the AusAID era. This is especially so as budget cuts were managed by reducing resulted annual expenditure on programs and then elongating their implementation so that original budgets were met over longer time frames. This both helped honour commitments and disguise the impact of cuts. It also postponed the need to design and build new activities.

Hence DFAT's assessment of the quality and performance of its development cooperation programs reflects past skills and systems more than current ones. DFAT is still early in the cycle of assessing the performance of post-integration portfolios. Today's reporting may or may not be sustained. It would be complacent to accept it as indicative of future results.

### 2.3. Pipeline quality

Concern over current pipeline planning, design and management was one of the biggest issues raised with the review. A very clear message from stakeholders is that DFAT has lost the ability to move with confidence and in a timely way from viable concepts to on the ground activities. Furthermore feedback suggests confusion about management roles, responsibilities and good practice. This indicator is deep red and flashing. Specific problems are indicated as follows:

- a) *Delayed and returned designs.* Some major program designs are years behind schedule. Others have appeared late and been judged not ready to go. Others still have only resolved major design issues several years into implementation. The Aid Programming Guide establishes a benchmark of 6-9 months from agreed concept to finished design.<sup>156</sup> A series of major designs have taken three to four times as long to be completed. In addition, sources report that in 2018 more than half of program designs that went to the Aid Governance Board were returned for more work, indicating major difficulties in meeting fundamental tests of effectiveness.
- b) *Growing pipeline gaps.* Inability to have programs ready to go on schedule risks imperilling Australia's reputation with partners. It also risks under-expenditure and loss of resources. There is no external visibility of pipeline planning, but a number of departmental sources indicated growing gaps in Asia and the Pacific, with one adviser speaking of a 'fiscal cliff' appearing.
- c) To avoid pipeline gaps programs may turn to funding other partners but this may not give us what we need in terms of bilateral engagement and profile. The proportion of Australian ODA going to and through multilaterals has risen from around 32% in 2013 to about 48% in 2016.<sup>157</sup> While Australian interests are regional and global as well as bilateral, there is evidence from the ODE multilateral development bank evaluation that programs are sometimes driven to multilateral mechanisms due to skills shortages. The rise in multilateral spending is certainly hard to square with 'more Jakarta, less Geneva' rhetoric.<sup>158</sup>

Program performance is the most contested aspect of integration. If existing reporting is accepted as accurate and complete, performance remains strong. But if the critics are right, preparatory work is poor and future performance may be well below par. The review concludes pipeline quality needs to be the subject of formal and public reporting so that prospects for future performance can be better gauged. It also argues that the Independent Evaluation Committee should track pipeline indicators to improve its ability to alert senior management to emerging problems.

## 3. Aid program management system

DFAT's development cooperation program management was the subject of considerable comment and feedback. It is the area where DFAT scores most poorly. The key message is that the underlying systems needed to deliver strong results are deteriorating with skills losses showing up in major design and management problems. While several scores are low, leadership is a strength that can be capitalised on. Five factors emerged from the analysis as critical to the functioning of the development cooperation system. Each is discussed separately.

1. Policy architecture and implementation
2. Skills, systems and organisational capability
3. Institutional organisation, governance and accountability
4. Culture and incentives
5. Leadership

### 3.1. Policy architecture and implementation

As already noted, the 2014 overarching aid policy describes broad areas where Australia will invest its development cooperation dollars, but most judge the policy to be insufficiently focused to exert considerable influence. More powerfully perhaps is the common suggestion that while DFAT is rightly very focused on taking forward cabinet decisions, departmental executive instructions and

directions from superiors, outside this, formal policies do not have a strong hold. The White Paper might be the exception that proves the rule as strong government and departmental ownership have given it a high status. As DFAT considers new policy architecture for international development it will need to think simultaneously about the incentives and disincentives that might encourage adherence to it.

### **3.1.1. Country and regional policy**

Several external reviews of DFAT, including the 2013 Capability Review have previously urged it to adopt integrated country strategies as a basis for coordinating Australian efforts in the pursuit of clear objectives. Country strategies can articulate enduring interests and help incorporate those into our diplomacy and development work. This in turn would help anchor aid investment plans.

The review heard that the department is moving beyond a pilot phase to roll out integrated country strategies across the board. It is understood timelines have been set to achieve this for the Indo-Pacific Group. A South East Asia development strategy is under preparation, as are country strategies in which Aid Investment Plans can be anchored. These are welcome developments as country strategies provide an important platform for moving beyond aid to advance development and other Australian government interests.

### **3.1.2. Pacific Step Up**

Australia's new approach to Pacific relations has been several years in the making, with original talk of a Step Up in relations at the 2016 Pacific Islands Forum Leaders Meetings. In several stages, Australia has broadened and deepened its engagement, most recently in what amounts to Pacific Step Up II announced at the end of 2018.<sup>159</sup> Its scale and comprehensiveness have impressed many. Infrastructure financing through a new, \$2bn Australian Infrastructure Financing Facility for the Pacific is a big part, but so too are an expanded diplomatic and defence presence, cyber cooperation, Church partnerships and sports linkages.

Policy now goes a long way towards recognising that the answer in the region is not more or better targeted aid, but new economic, social and political relationships. A growing component of Australia's approach has been economic cooperation and integration, especially labour market access. The original and limited Pacific Seasonal Worker Scheme has been expanded to all Pacific Island and its 2000 place cap removed in late 2018. Additionally a more flexible Pacific Labour Scheme that expands access to a wider range of countries and occupations was introduced mid year. There are now close to 20,000 workers participating annually in Australia New Zealand schemes with estimated potential for this to grow to 50,000 by 2030.<sup>160</sup> One report estimates that total global returns on Pacific migrant labour are currently greater than 80% of Pacific GDP.<sup>161</sup>

### **3.1.3. South Asia**

Australia's approach to development in South Asia was raised with the review several times. Australia has modest diplomatic and development resources to deploy in South Asia. Several interviewees pointed to how these were being used cleverly - each to reinforce the other. Deep development intelligence has reportedly been used to focus cooperation in a small number of areas, of high priority to partners. This in turn has been used to facilitate development dialogue at political and senior officials level has built networks and relationships. Teams understand the political economy environment and are very open to private sector collaboration but maintain a development ethos. South Asia may therefore be a good case study for how to deliver development and diplomatic gains from integration.

### **3.1.4. Development entrepreneurialism**

A striking number of former AusAID staff and expert advisers reported that integration had allowed greater scope to do things differently, particularly collaborating with the private sector in ways that encourage pro-development growth. One spoke of a loosening of 'the international development straight jacket'. These development entrepreneurs were quite excited by what is possible - however they were nearly all quite senior, highly experienced and in roles where they could take the running.

In the words of one, "we can move fast because we know where the edge of the cliff is". They have often led policy and practice reform.

The upside is that there are more development policy gains outside the Pacific than realised. The downside is that these gains are dependent on a dwindling group of very experienced, capable people. Progress is vulnerable to the loss of these individuals. A more systematic and sustainable approach both to reproducing their skills and helping others make the right choices would serve DFAT well.

### **3.1.5. Private sector development**

One former AusAID officer observed that the combination of a strategic target for considering private sector involvement in programs, along with the Minister's strong reinforcement and the symbolism of the innovation exchange 'reset the landscape', opening up new possibilities. Multiple interviewees within the department and amongst advisers and contractors commented that integration had increased the space for private sector collaboration. This was noted within new phases of ongoing activities in agriculture; institutional collaboration in water management and in the development of entirely new financing instruments involving public private partnerships.

However, a major problem was identified - neither development staff, nor diplomats, had enough knowledge or experience to translate the desire for greater private sector collaboration into consistently good practice whether in design, consultation or collaboration. It was also observed that the same problem existed in regards to the requirement to plot economic growth pathways out of poverty, underlining a lack of development economics skills. The OECD rated policy guidance on poverty, the environment and fragility as areas where more guidance is required.<sup>162</sup>

### **3.1.6. Economic partnerships**

There is wide support within DFAT and the external development community for the policy of pursuing 'economic partnerships' with Asian 'middle income countries'. They are seen as an integrating device to bring policy and program tools together to broaden and deepen growth. As a recent evaluation of development assistance support for economic partnerships noted, Australian aid has been increasingly used in this way over the course of the last 15 years.<sup>163</sup> However, the evaluation also noted that the new concept of economic partnerships "is not clearly articulated or understood" - especially the mechanics of systematically integrating diplomacy, trade and development cooperation.<sup>164</sup> In a microcosm of wider issues, the evaluation called for improved systems and capacities - stronger skills and better analytical and diagnostic products.<sup>165</sup>

### **3.1.7. Gender equality**

As a Ministerial priority under Julie Bishop, gender equality was underlined as a development cooperation objective, but also a goal the whole department is expected to advance. That shows up in Ambassadorial speeches and tweets, in the Annual Report and the way it is woven into a spectrum of issues. The 2017 OECD peer review of Australia described its approach as 'exemplary', noting in particular the creation of an Ambassador for Women and Girls, work on violence against women and thorough mainstreaming.<sup>166</sup> That said, there are opportunities to achieve greater policy integration. In an Abt submission to a 2018 Parliamentary Inquiry, the company argued that there are additional gains to be made by integrating gender perspectives into departmental business, particularly in the areas of economic partnerships and in trade agreements.<sup>167</sup> Some interlocutors argued that thus far gender equality was predominantly being advanced through a focus on specific issues such as violence against women, but that it needed to be a central part of future economics and governance.

### **3.1.8. Humanitarian policy**

While Australia's recent record on humanitarian assistance was hit hard by budget cuts that saw allocations fall 20% between 2012/13 and 2017/18, policy and practice are judged to have strengthened. Senior staff argued cogently - and outsiders confirmed - that there were significant advantages from being able to join up emergency assistance with other related aspects of departmental business - for example protecting human rights and ensuring timely and effective



assistance to Australians caught up in international disasters. The OECD review reported that integration was seen as "helping shore up DFAT leadership on Humanitarian policy and response."<sup>168</sup> It noted Australia leading role in regional preparations for the World Humanitarian Summit, while calling for clearer allocation and accountability principles. "Australia excels at rapid response" and has "a well deserved excellent reputation for effective delivery in sudden onset crises, especially in the Pacific."<sup>169</sup>

### **3.1.9. Policy inconsistency**

There are far fewer complaints about specific policies than about inconsistency in implementation. There were two recurring themes: existing policy not being adhered to and entirely new policy being made by individual fiat. While some instances may involve a lack of knowledge or understanding of policy, it is claimed that a culture has developed that allows staff to regard policy as optional, or at very least broad guidance that can be dispensed with or interpreted however an officer chooses. Policy ought have a higher status than this and exist as a statement of intent as to how business will be done.

DFAT may have policies it wants to retire or replace, in which case that is what it should do. But to have unenforced policies nominally in place but not observed corrodes a rules based system. A stronger compliance emphasis is not likely to be the answer in itself. The policy base has to be owned and valued by the organisation. There have to be systems to promulgate it. Staff need to be mentored and overseen. All of this should reduce scope for policy inconsistency, which is a symptom that the underlying system is falling into disrepair.

## **3.2. Systems, skills and organisational capability**

DFAT knows it has major capability problems. Staff and managers, contractors and partners have all told it so. The large number of vacant development positions in early 2018 was a crude, but clear indicator. The issue has also been raised in several ODE Evaluations, including those covering pandemics; multilateral programs; economic partnerships and electoral assistance.<sup>170</sup> In interviews for this review it repeatedly emerged as the Achilles heal of integration and scores the lowest of all indicators. While the picture remains dire, it is acknowledged that DFAT has been making major efforts over the last twelve months or more to address the problems. Furthermore, there is no doubt that staff are learning new skills and so there are improvements happening all the time. The problem is that simultaneously it appears to be becoming more difficult to attract and retain the most experienced officers.

### **3.2.1. Skills losses**

AusAID's Head of Human Relations noted at integration that DFAT lost almost 1000 years of development expertise during the merger and insiders have calculated that it has lost another 1000 years since. The review heard of major developing countries where there were up to five levels in the 'chain of command' where there was no one with prior program management experience.

Some of the skills loss has been unintentional, and is now being reversed, but much was the result of deliberate decision-making that significantly under-estimated the capability needed to deliver the basics of a good program, let alone a high-performing, influential, policy-based program. Nearly four years ago in the Development Policy Centre's Aid Stakeholder Survey, 2/3 of respondents pointed to falling expertise. The review understands that the soon-to-be-released 2018 survey suggests a welcome recovery - at least compared to 2015. However many of those spoken to for this review assess the skills base to be inadequate to sustain a high performing program. Capability gaps are showing up in several different ways that may undermine future performance. Serious pipeline quality and timing problems have already been noted. Design weaknesses have the potential to seriously erode the quality of DFAT's portfolio - and with it, the program's value as well as Australia's reputation. But there are other problems too that are equally significant.

### 3.2.2. Management issues

#### *Micromanagement*

Without a culture of strategic management and a common corporate approach, supported by confident well-trained staff, officers will often resort to micro-management. Examples were given of contractors needing to explain why sandwiches had been purchased for a workshop and why extra stationery had been purchased. More worryingly were several examples of junior officers overriding highly experienced experts on technical issues. The leader of a major regional institution told Australia recently that it had gone from being one of its best partners to one of its most difficult, due to a shift from strategic management to micromanagement. Contractors spoke almost uniformly of a shift to administrative, compliance-based contract management.

#### *Multiple difficulties with 'facilities'.*

DFAT spends around a quarter of a billion dollars annually through flexible facilities that allow strategic objectives and priorities to be identified at the outset, but that leave considerable flexibility around program specifics. A recent review of DFAT's use of facilities found them to be a vital tool, but noted that some are very large, complex and challenging to manage.<sup>171</sup> It noted design problems and role confusion.

Most importantly it concluded that "High quality aid policy development, strategic programming and effective aid programming and effective aid delivery depend on fostering and retaining staff who can: engage in deep, content oriented policy dialogue with partner governments; establish and manage contracts ... and make quality choices. DFAT has some of this but not enough - in either breadth or depth."<sup>172</sup> A separate evaluation of economic partnerships notes, "That there is a widespread perception within DFAT that the department's capacity to manage development cooperation in Asian MICs has declined over time, in parallel to declining aid budgets".<sup>173</sup>

### 3.2.3. Patchy policy dialogue

Policy dialogue is core DFAT business - trade agreements, arms treaties, environmental compacts. Hence the expectation that development policy dialogue would improve under an integrated department. In some areas it has, for example, humanitarian policy and gender, each of which have dedicated structures and valued expert leaders. At a country level it is much more patchy - as departmental reporting has captured and conveyed to senior management through health checks. In some programs including Indonesia and Solomon Islands, HOMs and senior staff are reportedly leading sophisticated policy dialogue, but not everyone sees this as part of their role.

The shift to generalist diplomatic leadership often at junior levels is reportedly leading to a contraction in access. According to information from several different countries, Australia is routinely sending first and second secretaries to meet Ministers with several reportedly asking their staff why they would meet with inexpert junior officials. Examples were given of meeting requests with Directors General now languishing for months whereas previously expert-led access was continuous. This indicates that the generalist model alone will not serve DFAT's diplomatic interests let alone its development ones.

### 3.2.4. Fluctuating capacity for partner leadership.

Australia aspires to lead like-minded partners, especially in the Pacific but a range of experts including former Ambassadors and senior multilateral figures argued that in recent times it had struggled to do so. Some suggested that it simply hadn't organised itself to this end, others said it lacked the skills including those required to set and lead a detailed policy agenda.

The problem is compounded by Australia's success in encouraging substantial extra funding from the Asian Development Bank and the World Bank into the Pacific with ADB lifting its assistance by a third and the World Bank almost tripling.<sup>174</sup> Several stressed that the Banks' Pacific operations are not large by global standards and not high priorities institutionally. This means there is an enhanced need for Australia to convene, coordinate and lead on big questions requiring a lot of knowledge,

credibility and determination. The need is accentuated by the US, UK, Japan and New Zealand also increasing their involvement in the Pacific. Strong coordination that also brings Pacific voices to the fore will be essential. The Review notes the late 2018 creation of the Office of the Pacific that may provide a basis to assemble and manage the needed capability.

### **3.2.5. DFAT responses to capability problems**

DFAT has instituted a Capability Taskforce and devised a Capability Plan to assist skills rebuilding. It is running dedicated recruitment rounds and making it easier to engage specialist expertise at Posts. These are experimental initiatives and indicative of concerted attempts to address the problem. However unless they are built around a clear strategic vision and recognise why DFAT has a capability problem, they may not succeed. Early underestimates of the capability required can in theory be reversed, but only if people with the right skills want to work on development in DFAT because it offers attractive, valued career paths.

At the moment it is not clear that it does. Multiple reports were received of development positions in Canberra and overseas not attracting any qualified candidates. In one case, three attempts were made to fill a key vacancy in a neighbouring country where Australia has vital national interests at stake. This signals that DFAT staff do not see such roles as career enhancing. As more than one outsider ventured, "If you're Australian and you want to work on development in 2018, you are much more likely to be thinking about working for a multilateral, a private company or an NGO than DFAT". That needs to change. The review concludes that positive messaging from senior officers will not in itself fix this problem. The way DFAT thinks about and presents itself and the way it organises its business need to signal that development matters. That will require bigger reforms than those proposed to date.

## **3.3. Structure, governance and accountability**

### **3.3.1. Diffuse development responsibility**

As outlined in Section 1., in the DFAT model, bilateral responsibility sits with integrated country desks and policy and operational support divisions are in separate groups, as is responsibility for humanitarian affairs. Some DFAT officers, including former AusAID staff, argued that this means that almost all parts of the department are development cooperation stakeholders with incentives to strengthen the system. The review agrees that there are development policy stakeholders throughout the department and examples of good practice and innovation, but notes that most interviewees judge the system to be fractured, fragile and overly reliant on skilled, experienced individuals who are in increasingly short supply.

The lack of a strong centre with the profile, status and expertise to be norm setting was widely seen as debilitating. Several NGOs commented that this had contributed to a decline in visibility of development in the public presentation of Australia's foreign affairs. However a number of interviewees rightly argued that structural change will not itself achieve significant improvement, unless the department has determined that it reflects a better way of achieving its goals.

### **3.3.2. The Global Cooperation Development & Partnerships Group - unrealised potential**

This newly created group formed after the White Paper represents a refresh of earlier arrangements. It handles most non-bilateral development cooperation, and multilateral development and finance, as well as development policy. However it also is responsible for soft power, communications and parliamentary matters; as well as non-development multilateral policy and human rights.

The question is whether this represents a coherent constellation, or a collection of somewhat tenuously linked responsibilities. The Review cannot see that the corporate vision and strategy, policy coordination mechanisms, or skills and capability, are currently in place to make the group much greater than the sum of its parts. The risk is that rather than a catalytic and coherent approach to development policy and practice, that the system is fragmented and unable to exert much

influence. That said, the review judges that the Group may be able to be strengthened in ways that allow it to prosecute a 'Beyond Aid' development agenda.

### **3.3.3. Aid Advisory Board - a positive innovation**

While overall support to HOMs as development decision makers has diminished as their responsibilities have expanded, some institutional checks and balances in Canberra have been strengthened and streamlined. In 2017 DFAT merged the Development Policy Committee and the Program Committee. There is a consensus that the new Aid Advisory Board, with its Independent Chair has brought greater rigour, coherence and efficiency to development decision-making. There are differences of view however on the ideal make up of the Board and whether development interests have sufficient weight. Insiders reported that the Board's preparedness to withhold agreement for major aid investments is forcing greater attention to design fundamentals. The problem is that the department is struggling to meet those standards with more than half of recent major activity designs failing to get the green light.

### **3.3.4. Office of Development Effectiveness (ODE)**

The Office of Development Effectiveness is unique across the Australian government and rare within development cooperation arrangements internationally.<sup>175</sup> It manages a program of independent evaluations of development assistance and oversees the broader performance management system. ODE's semi autonomous status, safeguarded by an Independent Evaluation Committee, allow it to inject greater rigour, independence and transparency into DFAT's performance management systems.

While ODE has continued to publish a range of thorough and reasonably frank reports, the program has contracted over time. Furthermore some reports are being substantially delayed. There were reports that ODE reviews and other departmental products are going through multiple stages of redrafting in ways that can blunt conclusions and recommendations. This will restrict DFAT's ability to learn lessons and improve performance. This argues for additional measures to enhance ODE's independence.

### **3.3.5. Major shift in decision making authority**

Integration dramatically redistributed decision-making authority regarding aid investments to Heads of Mission (HOMs). This fits completely with the logic of integration. However it raises several issues that were not fully addressed in redesigning the new development cooperation model:

*a) Most HOMs were already fully employed.* Additionally, those with development cooperation responsibilities are in the White Paper front line and being asked to step up activity across the spectrum. The bandwidth for taking on a distinct new business of program design and delivery, let alone deep and sustained development policy dialogue was very narrow.

*b) Few had prior experience.* While four Pacific HOMs have deep and senior development experience this is true of few others across Asia and the rest of the Pacific. This will change over time and it is noted that DFAT has made a very deliberate effort to appoint deputy Heads of Mission with development experience. However they also tend to be extremely busy.

*c) Perverse incentives* arise from performance time frames aligned with Ambassadorial tenure. Naturally the department adopts various measures to encourage best post management built around the arrival and departure of the Head of Mission. Without measures to encourage continuity at both ends there are risks, especially towards the latter part of a HOM posting that decisions will be insufficiently forward looking and may encourage risk aversion.

Perverse results can also arise from holding HOMs personally accountable for the welfare of individuals working on Australian government programs. This has meant, for example, an unwillingness to approve NGO staff entering conflict zones to undertake their core humanitarian business or governance advisers being prohibited from directly assisting governments in countries designated as high foreign policy priorities. One expert said it was the only international example of 'negative tied aid'.

*d) Diminished support for HOMs as development decision makers* - there is much less development expertise both at Posts and in Canberra. There are far fewer senior sector specialists, internationally recruited advisers or highly experienced senior local staff. Just as importantly, the role of head of aid has passed from a dedicated officer to the HOM. That is, from a full time position to a fraction of a part-time role. While senior staff manage discrete elements of development cooperation, there is an absence of staffing and other mechanisms to ensure coherent strategic approaches, monitor performance and fix problems.

### **3.3.6. Accountability**

The diffuse responsibilities for development cooperation make accountability problematic. Several DFAT staff noted that questions about development cooperation performance were routinely referred to the development policy group, rather than the program areas that are now responsible. More substantively it is not clear that HOM accountability mechanisms match the responsibilities they now hold. While some attend Annual Program Performance Report discussions this is not mandatory. Nor do they - even in the Posts with the largest and most important programs - need to discuss those results with the Departmental Executive. Creating tighter accountability is one important means of strengthening incentives for development effectiveness.

## **3.4. Culture and incentives**

### **3.4.1. Drawbacks of DFAT exceptionalism**

Several senior DFAT officers recalled a concern at the time of integration that a big influx of staff with a different culture might 'distort' DFAT. As Section 1 established, when integration occurred there was a determined effort to ensure AusAID staff took on all of DFAT's systems and values. That reinforced DFAT exceptionalism - 'the self contained universe' identified as a potential departmental handicap in the 2013 Capability Review.<sup>176</sup> The review argues that this in turn led to errors and misjudgements. As one DFAT officer heavily involved in the integration observed, 'Senior AusAID people tried to tell us what was needed to run the system, but we couldn't see it.'

Several interviewees - not just former AusAID staff - remarked that there was still a 'cultural arrogance' in parts of DFAT that led it to devalue external knowledge and skills and that of locally engaged staff. Some former graduates spoke of a 'you're lucky to be here' attitude, used to forestall questioning. A highly experienced specialist remarked that the quality of an idea in the department was too often linked to the seniority of the person putting it forward. Numerous respondents identified a mistaken belief that a smart DFAT officer should be able to successfully turn his or her hand to anything. This was identified as the driver for the Department dispensing with the majority of internationally recruited experts and senior local staff at Posts and downsizing the number and seniority of sectoral experts in Canberra.

### **3.4.2. The pull of postings and placements**

Several interviewees observed that overseas postings are one of the biggest drivers of DFAT organisational behaviour with constant competitive positioning for the next desirable posting. Mid-level postings to European destinations are reportedly attracting up to 50 applicants whereas equivalent postings to some important regional countries are receiving only two or three. Some of the more demanding positions are attracting no applicants. This tells us something is wrong.

The gravitational pull of people with development expertise into diplomacy has not been matched by movement in the opposite direction. This not only shows up in terms of skills problems, but also in the status, authority and morale of many of those in dedicated development roles who remain physically and culturally remote from the main DFAT building in Barton. Tellingly this group was referred to several times as 'the ghetto'. While plans are reportedly underway to bring the different elements of the business physically together, it will be even more important to bring them together culturally. While retaining core values, and avoiding 'tribalism', DFAT may need to become less mono-cultural and more multi-cultural. The review concludes that cultural change is sufficiently difficult that a determined effort of leadership will be needed.

## 3.5. Leadership

### 3.5.1. Critical success factor

Numerous interviewees identified leadership at various levels as the most important factor in determining the best development cooperation arrangements and getting the most from them. This is consistent with international research. Overseas Development Institute studies have put leadership at the top of development cooperation success factors - particularly political leadership that gives development a strong voice in government and the bureaucracy.

Interviewees saw whole of department leadership as pivotal in setting the right expectations and creating a strongly collaborative culture. It was also seen as vital to regearing the department more broadly for the challenging circumstances Australia faces. Several people asked whether new institutional machinery was needed for several important tasks including a) creating additional analytical capacity for considering long term issues and scenario planning; and b) better linking up strategy, policy and budgeting. Three independently mentioned the value of a group like Policy and Planning Staff in the US State Department as a challenging whole of department coordination mechanism driven by the best intellects from inside and outside the department.

### 3.5.2. A departmental strength

Fortunately leadership is a departmental strength. The Secretary and her senior team enjoy the confidence of a wide cross section of staff. The senior team is said to model the behaviour they want and be open to evidence and ideas. The whole of department approach is still taking hold, but the Secretary might be DFAT's first, fully-fledged CEO. Historically the department has been vertically managed, but it has chosen a matrix management approach for development cooperation and must make this work.

While leadership may be strong, cultural obstacles to a system of checks and balances remain. The review was given multiple examples of where cross divisional work was more difficult than it should be, either due to missing architecture, old habits or in some cases outright resistance. The Departmental Executive should deal decisively with such situations and also those where different parts of the organisation are at loggerheads - whether in Canberra or between Posts and Headquarters.

While the Departmental Executive is talented and experienced, including in many fields relevant to development cooperation, several people noted that few of its members had deep experience in the developing countries that neighbour Australia, including and especially in bilateral development cooperation. The risk here is that the Department's existing blind spot on the systems and skills needed for development cooperation will continue to be hidden. The Executive may need to think further how best to ensure that this experience is part of relevant departmental discussions. In particular there may be value in periodic structured engagement between the Departmental Executive and senior Global Cooperation, Development and Partnerships staff, including principal specialists.

### 3.5.3. People management

Absorbing a net increase in staffing of around 2,000 was always going to be challenging, especially in a department with a low exit rate and consequently slow career progression. There were early mistakes, such as the cancellation of the AusAID graduate recruitment round, but this was offset by departmental leadership actively placing around 20 former AusAID senior officers as HOMs and DHOMs. At the other end of the experience spectrum, many talented younger staff have switched across to mainstream DFAT roles and are pleased the wider opportunities they now have.

Where there has been a problem is in the middle. Rightly or wrongly there is a perception that the skills and talents of mid ranked development officers have not always been given equal treatment compared to their diplomatic peers. Many development staff remain unconvinced their work is

accorded the same value as other parts of the foreign affairs business. This is believed to be the main factor encouraging a move out of dedicated development roles. In response, DFAT has started piloting streamed promotion rounds. The bigger task will be to turn around the perception that development is intrinsically less important and career limiting.

#### **3.5.4. Intellectual leadership**

Senior staff may want to consider providing additional intellectual leadership on development issues through public speeches and encouraging and participating in internal informal policy roundtables. Secretary Varghese gave a very welcome and thoughtful speech on development at the Australasian Aid Conference in 2016, but there were few before or since. Several staff also commented on the rarity of open policy fora and discussion of topical issues, including with outside experts. Encouragement of a learning environment would both sharpen staff skills and foster a more developmentally friendly culture.

The department has a strong leadership base from which to work, but requires a decisive move forward to ensure that the strategic value of development cooperation is fully appreciated, respected and supported. That will require the case to be better made at all levels, and then for culture and systems to be remade to support the enterprise in a deliberate, forward-looking exercise.

### **4. Whole of department impacts**

A number of 'unexpected wins' have occurred that signal that the department is evolving and that integration has accelerated change, even if it was initially resisted. The unplanned gains fall into three categories: 1) Managerial technology that was AusAID specific, but has now spread to other parts of the department; 2) Cultural practices that better equip DFAT for a changed environment; and: 3) Strengthened whole of department management.

#### **4.1. Unexpected gains: managerial technology, staff, culture and whole of department management**

DFAT wisely choose to import much of AusAID's financial management expertise and systems, which it needed for a budget that was suddenly 4 times bigger. It initially retained its own approach to IT, but interviewees report that over time the system has shifted, restoring development cooperation capability while improving capacity for other parts of the foreign affairs business. Early in integration Secretary Varghese told senior staff he thought AusAID's public diplomacy capability was strong. That capability has helped modernise DFAT's communications and provides a substantial amount of content for headquarters and posts. Secretary Varghese also expressed interest in ODE evaluating non-development parts of DFAT's business and Secretary Adamson is reportedly looking at tools and technologies for producing more performance data across all of DFAT's business. The OECD noted the spread of AusAID's performance culture into DFAT.<sup>177</sup>

DFAT inherited a large complement of new staff. Like their DFAT counterparts, senior AusAID managers were well accustomed to servicing ministers, managing staff and delivering under pressure. They were however more diverse, having been drawn from across the APS during AusAID's expansion and also having program management experience. This has added to the DFAT talent pool, underlined by how many have moved into the DFAT slipstream.

While culture is a major ongoing issue in the integrated department, DFAT was never going to remain unchanged as integration brought in new and more diverse staff and an entirely new business that was four times the size of the department's previous budget. Several staff observed that some development cooperation habits such as consultation and collaboration are becoming more normalised. This points to opportunities for DFAT to move beyond traditional vertical hierarchies and closed systems that work less well in a world where knowledge moves faster and more broadly. AusAID and DFAT were both found to be deficient in knowledge management in reviews in 2013 and yet it is the source of value for both enterprises.<sup>178</sup> This might sensibly be the locus of efforts to improve both development and diplomacy.

Integration, especially deep integration, cannot work in a siloed department. It depends on dispersed intellectual supply chains with products assembled from different parts. Many argue that the department is still coming to terms with this, but others point to movement. A recurring theme in this discussion was departmental leadership that was said to be questioning, open to change and respectful of all parts of DFAT's business.

#### **4.2. Diplomatic impact**

Integration has the potential for either enhancement or detriment to our diplomacy. The latter fear was raised several times by senior diplomats who confirmed that the department worried that the sheer size and different character of the development business would distract and reshape DFAT. This helps explain the determination to retain the original DFAT operating model. Change is happening regardless.

This review argues that development our diplomacy can be made much more powerful by embracing a strategic approach to regional development. Indeed it argues that this will be essential if we are to transform our relationships in Asia and the Pacific. While there is currently no game plan to that end, the review was struck by the number of senior diplomats who are taking development seriously. A leading sectoral expert reported being approached by a group of Australian Ambassadors from the same region who were seeking advice on how to respond strategically in ways that would use successful development as a bridge for diplomacy. Such initiatives are highly encouraging. Additionally there are now many more Ambassadors with a grounding in development. That provides a good base for stepping up our international development efforts and adding to the strength of our diplomacy.

#### **4.3. Budget infusion**

This is the flip side of departmental efficiency. Resource gains have come through two channels - one public and prominent and one not. The first was the gains arising from shared services and management. While some of these gains would have been modest - and offset originally by the additional costs of on-boarding new staff and functions - major savings are likely to have arisen from collapsing management structures. After integration AusAID's corporate management structure was absorbed into the pre-exiting DFAT structure - with the exception of new functions and roles added to what is now the Global Cooperation, Development and Partnerships Group.

A bigger budget boost still seems to have been delivered courtesy of combined development and diplomatic roles that can be billed to the aid program as long as they are certified as involving at least 50% of staff time on development. In a deep integration model such as that chosen by DFAT clearly there is scope for a high proportion of staff time that is not spent on development, being billed to the program. The difference between the current administrative ratio of 7.5% and the pre-scale up historic average of around 4.5% amounts to around \$120m - a very substantial amount. This is within the rules, but because it inflates the overall level of administrative resources devoted to the program, it creates a misleading picture. It also asks as a break on the program being adequately resourced, as running costs already appear high.

The review judges this arrangement was beneficial to DFAT in the short term. However, by dodging the question of what resources are needed to run a highly effective diplomatic network and development program, DFAT is vulnerable longer term. It is therefore recommended that a new, comprehensive budget strategy be prepared for approval by the Expenditure Review Committee of Cabinet in order to address the issue head-on.



## End notes

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- <sup>6</sup> See Figure 1 on page 4 of this review - *Types of International Development Organisations*.
- <sup>7</sup> Jack Corbett (Op. cit.) quotes Alexander Downer (P.183) as saying that he always held an integrated view of development and foreign policy matters, notwithstanding the structural separation of AusAID and DFAT.
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- <sup>24</sup> OECD (2009), *Op. cit.*, p. 32-34
- <sup>25</sup> The term 'implementation' is taken to run the full gamut of possibilities from the Australian case of facilitating implementation by others (commercial contractors, non government organisations and multilateral bodies) through to direct delivery of assistance by government bodies.
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- <sup>31</sup> OECD (2018), *OECD Development Cooperation Peer Reviews: Canada 2018*, OECD Publishing, Paris, p. 21.
- <sup>32</sup> *Ibid*, p. 21.
- <sup>33</sup> *Ibid*, p. 72.
- <sup>34</sup> The McLeod Group (2018), *Is there a Culture Clash at Global Affairs Canada?*, McLeod Group Blog, 23 July.
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- <sup>37</sup> Pryke, Jonathan (2018). *Op cit.*, p. 6.
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- <sup>41</sup> Corbett, Jack. *Op. cit.* p. 136.
- <sup>42</sup> During program scale up (2006-13), progress was monitored by a Development Effectiveness Steering Committee involving deputy secretaries from PM&C, Treasury and Finance as well as DFAT. There was also an equivalent Development Effectiveness Working Group to push forward on agreed decisions.

- <sup>43</sup> In 2011 in response to the Independent Review of Aid Effectiveness, the Rudd government released a new aid policy - *An Effective Aid Program for Australia: Making a real difference — Delivering real results*. In it the Government undertook to develop a Comprehensive Aid Policy Framework (CAPF). The CAPF was released the following May and provided a roadmap for where and how Australian aid would be spent over a four year period. The CAPF encompassed the aid spending of all federal agencies, not only AusAID. More predictable, multi-year funding was a key element. The CAPF was designed to enable the Australian Government and Australian aid recipients to plan and implement aid investments more effectively.
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- *The ability to articulate Australia's development interests* in an integrated and strategic way that makes sense to all parts of the department. Experts involved in analysis, design and review work indicated all parts of the department are finding this difficult.
  - *Translating specific Australian goals and interests into program choices* and designs that simultaneously advance those interests while also delivering maximum development value. That is sometimes straight forward, but often not. That is why it requires deep expertise, contestation of ideas and an open-minded search for solutions.
  - *Specialist development knowledge* in key areas where we need to be a source of value to our most important partners. This requires a very deep appreciation of partner needs and our capacity to meet them, especially as we can probably only afford to build the necessary mass of capacity in half dozen areas. Repeatedly interviewees raised a departmental deficit in development economics.
  - *Highly sophisticated knowledge management* that not only allows diplomatic and development knowledge to be accessed, but also to be combined in creative ways.
  - *The tools and techniques, policies and guidance to achieve 1-4*. As several interviewees observed, while aid management was slimmed down for DFAT, essentially it is the same set of processes that AusAID used to have. More thorough re-engineering is required so that from the outset, and at every stage, foreign policy and development objectives are made explicit.
  - *Operational capability* to take what DFAT wants done and in the most efficient and effective ways possible have others do it. DFAT is not an implementing organisation; it engages others to deliver cooperation on Australia's behalf. It must however pick the right partners, strike the right sort of agreements and manage those agreements to get the most from them.
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