



Private sector contractors in the Australian aid program

Contractors are key delivery agents for Australia's overseas aid program, delivering approximately 21% of Australian development assistance.

Development assistance requires deep expertise in areas such as agriculture, economics, education, health and engineering, and contractors are a major source of the skills and systems required.

The extent and proportion to which contractors, NGOs and multilateral organisations are used as delivery agents by DFAT should adapt over time to align with changes to strategic foreign policy objectives.

Contractors deliver a large proportion of the aid program

Contractors are key delivery agents for Australia's overseas aid program. Currently they deliver approximately 21% of Australian assistance - half that of multilateral organisations. Their evaluated performance is not only above average, it is the highest of all major delivery partners (Performance of Australian Aid, 2016-17, p20).

Despite this, the role of the private sector in aid delivery is often queried, typically on the basis that aid ought be altruistic at all times. This charity model of aid suits neither Australia's interests, nor the rapidly changing needs of its partners. Accelerating development - which grows markets for Australian products; helps countries contain problems that would otherwise spill over to Australia; and provides a strong foundation for security cooperation - is an increasingly technical business, requiring deep expertise. Contractors are a major source of the skills and systems required.

Aid delivery is not just humanitarian assistance

The Australian aid program must deliver assistance to countries and communities in very different circumstances - from humanitarian disasters and village level poverty alleviation, to building national systems for revenue raising and effective public expenditure, and from small and sometimes fragile Pacific states, to large Asian nations facing the middle income trap. These different circumstances and needs require different approaches, different skills and different systems.

DFAT's role is not to deliver assistance directly, but rather to decide what needs to be done and find the best implementation partners. For grass roots community development, experienced NGOs are

often well placed, and are typically supported to do this work through grants awarded after thorough due diligence. For large, complex, multi-year programs, involving specialist skills, for example, in economics, education or engineering, major enterprises are needed and their capacities are tested through bidding for contracts.

Contracting processes

Once a contractor is selected through competitive tendering, they must adhere closely to a contract, with clearly scheduled outputs, milestones and performance targets - including compliance with all DFAT policies. DFAT monitors contractor performance and only makes payments where the terms of the contract have been met - ensuring accountability. Companies normally finance activities up front, and only get reimbursed by DFAT if all contractual and legal requirements are met – reducing DFAT's risk and exposure.

The contracting community is geared to meeting DFAT's requirements. Major contractors can undertake a global search for expertise and deliver robust management of knowledge, finances and performance. Many are international businesses in which development cooperation is a modest but valued part of what they do for a wide range of public and private sector clients.

Some NGOs and university agencies are increasingly active in this market, adding new and welcomed competition. This diversity helps DFAT deliver quality, innovation and value for money.

Strategic choices

The IDCC believes that DFAT's choice of suppliers should reflect its strategic objectives and the changing needs of its partners. This means that the extent to which it engages contractors, NGOs or multilateral organisations should alter over time. There are valid arguments about whether we have the right mix, but this should be on the basis of the capacity of different suppliers to meet government objectives. All aid program suppliers need to continually update their thinking and ways of working to stay relevant and effective rather than arguing to preserve or increase 'their share'.

The IDCC acknowledges the dedication of the NGO sector which is shared by many of its own members. The industry is full of highly professional individuals, committed to what they do. People working for contractors are equally as experienced, dedicated and committed to strong development outcomes.

Development skills and capabilities

We also acknowledge the skills and commitment of DFAT staff who are increasingly working under tight constraints. The Department must be able to be a smart buyer of development services. This requires it to retain, in-house, core responsibilities including: policy development; strategy formulation; activity design capability; and program and contract management. Like others, we are concerned at the erosion of core competencies in DFAT and welcome the creation of a taskforce to address related issues. We have proposed to DFAT that it measure and monitor its development capability so that it can manage it most effectively. This illustrates another of our roles - contributing to good policy making and good resource allocation. We are a key source of skills, ideas, technology and commitment