



The advantages of using contractors

The aid budget is generally spent on a mix of: grants to NGOs (eg. World Vision, Oxfam); core funding of multilateral organisations (eg. The World Bank, United Nations Development Program); and specifically-designed programs contracted to commercial suppliers.

Decisions on how the aid budget is disbursed are informed by: regional, country-specific, and sector-specific needs; effectiveness, efficiency and value-for-money; foreign policy imperatives; and Australia's national interest.

Programs contracted to commercial suppliers have high visibility as Australian Government programs, and a high level of Australian Government ownership and strategic input, in contrast to core funding and grants to NGOs and multilaterals.

Distribution of aid funding

Multilateral organisations have consistently been the dominant aid program implementation partner for DFAT, with the proportion of Australia's aid delivered through multilateral agencies increasing from 34% in 2013–14 to 42% in 2016–17. The proportion of aid delivered through NGOs has remained relatively stable during this period at around 10 to 12%, and use of commercial contractors has increased slightly from around 16% in 2013–14 to 21% in 2016–17.

Multilateral vs bilateral

Advantages in providing funding to multilateral agencies include low transaction costs, economies of scale, and ability to make a contribution to global public goods. However, the contributions aren't recognisably Australian, and there is very limited visibility of, or influence by, Australian stakeholders.

For example, the UN Development Programme, a mid-sized multilateral agency, currently manages an overall annual budget of around US\$5.5 billion—provided by 975 individual donors—of which DFAT contributes around \$38 million, or 0.7%. This diversity of partners and accountabilities makes it very difficult for Australia, on its own, to directly shape UNDP's core incentives, systems and behaviour.

Similarly, Save the Children, a large international NGO, had global revenue amounting to US\$2.2 billion in 2017 and has multiple accountabilities to its global and individual country boards and donors (corporate, government and individual) which may not align with DFAT's requirements.

Australia's investment in multilateral programs is often made in collaboration with other donors, requiring compromise by all parties. In addition, multilateral organisations operate under policies and procedures endorsed by boards and these can be difficult to change to meet Australia's specific interests in individual countries. This contrasts with the flexibility DFAT has when engaging commercial suppliers.

While a heavy reliance on multilateral programming may have been appropriate in an environment in which aid was scaling-up rapidly and was more global in its scope, it is less relevant to a tighter program focused on Australia's immediate region and key bilateral relationships.

Advantages of programs and contractors

- Well-designed bilateral programs, underpinned by robust contracts, give DFAT control over both delivery partners' actions and information.
- Contractors manage programs that involve institutional reform and change and are government to government. This requires high levels of trust, discretion and cooperation with DFAT that contractors are particularly well suited for.
- Contractors have maintained a continuous presence in some countries for several decades maintaining valuable relationships with the private and public sectors in those countries and providing access to DFAT staff strengthening bi-lateral relationships in the Indo-Pacific.
- Contractors provide a value-for-money extension of DFAT's operational capability in the Indo-Pacific and globally.
- Contractors have helped fill the vacuum of the decrease in aid management skills in DFAT and maintain 'corporate knowledge' of procurement and program management practices, past present and can advise on what works and why.
- Contractors are responsive and flexible in responding to changes in aid policies and strategies.
- Contractors adhere to very stringent corporate governance and regulatory frameworks by law and implement the full suite of Commonwealth safeguards policies and requirements.
- Contractors pay corporate taxes contributing to Government revenues, employ large Australian based workforces and consume Australian goods and services.

Commercial contractors perform well

DFAT's latest (2016–17) analysis of its Partner Performance Assessment (PPA) results conclude that commercial partners achieved the highest average PPA rating by delivery partner type. Agreements with commercial contractors are characterised by a high level of managerial direction and control by DFAT, whereas grant agreements with NGOs and multilateral organisations are partnership agreements where DFAT has agreed to fund investments over which partners have much greater autonomy in investment design and implementation.

This performance data supports the delivery of a greater share of aid through commercial suppliers relative to that provided through multilateral partners. Well-designed commercial contracts that contain credible and enforceable incentives and obligations enhance DFAT's ability to achieve its development and national interest objectives.