

# Department of Foreign Affairs and Trade: New International Development Policy

Towards greater security, stability, prosperity  
and resilience in the Indo-Pacific region

## About Palladium

Palladium is a global professional services firm that designs and delivers solutions with government, businesses, investors, and not-for-profits to solve the most complex and pressing global challenges. Founded 51 years ago in Brisbane, Australia, today Palladium employs over 3,000 staff in 90 plus countries, including some of the most world's most challenging environments.

Palladium is a leading supplier to the Australian Department of Foreign Affairs and Trade (DFAT). Together we implement a diverse portfolio of strategic investments that support and promote Australia's national interest; from enhancing agricultural productivity in Indonesia, to advancing a more equitable tourism sector with Fiji, to delivering emergency humanitarian assistance whenever and wherever it is needed the most.

Palladium is in the business of making the world a better place. Through our global efforts to end poverty and support more stable, prosperous societies that allow all people to live with dignity, we have found that collaborative and systemic approaches that engage the private sector as a key partner and stakeholder, are the most effective means to achieve transformative, long-term progress.

## Introduction

Palladium welcomes this review of Australia's international development policy and is ready to support DFAT to shift the aid program up a gear, giving weight to the Pacific Step-up while maximising return on limited resources through more targeted, strategic investments in the wider Indo-Pacific region. This submission briefly outlines Palladium's views on the opportunities presented by the new policy, and how these aims might most effectively be achieved. Our recommendations are summarised below:

- 1. Greater security, stability, prosperity and resilience is achieved through unlocking the potential of the private sector.** Supporting inclusive, private sector-led economic growth has been a stated aim of the Australian Government for some time, DFAT should broaden and deepen best practice across the aid program.
- 2. Complex challenges require systemic solutions.** A systems approach is the most effective tool we have at our disposal to achieve transformative, lasting outcomes at the greatest scale. DFAT should view all its activities that are addressing complex challenges through a systems lens to increase the scale and sustainability of its impact.
- 3. Greater than the sum of its parts: capitalise on synergies between initiatives working to achieve similar goals.** DFAT should strengthen mechanisms and incentives for better coordination and collaboration between investments working in adjacent spaces. More strategic engagement between initiatives in the Pacific in particular, will yield significant benefits.
- 4. The aid program is a unique tool in Australia's foreign policy and should be protected.** Australia's aid program can reach areas where few others can go. It can give weight to foreign policy objectives by engaging at multiple levels across society, and is most effective when a principled, partnership approach to development cooperation is applied.

## Recommendations

### 1. Greater security, stability, prosperity and resilience is achieved through unlocking the potential of the private sector

The private sector's role in providing jobs and creating opportunities is one of the most powerful forces in achieving sustainable poverty reduction. The private sector already provides, on average, 60 percent of gross domestic product, 80 percent of capital flows and 90 percent of jobs in developing countries<sup>1</sup>. The direct impact of inclusive economic growth on improved stability, resilience, security and ultimately generating prosperity are now widely accepted.

Supporting inclusive, private sector-led economic growth has been a stated aim of the Australian Government for some time. With an estimated funding gap of USD \$2.5 trillion a year in order to achieve the United Nations Sustainable Development Goals-finding and scaling ways of unlocking the capabilities and resources held within the private sector is more critical now than ever before.

Over the past decade, DFAT has piloted and expanded several innovative investments that aim to catalyse inclusive economic growth in partner countries. Using limited public funds, these investments address market failures, improve the business enabling environment, provide access to finance, information, and technology, integrate population segments being left behind, and promote norms around human rights and women's political, social, and economic participation in society.<sup>2</sup>

Engaging the private sector as a partner and key stakeholder in achieving development outcomes and foreign policy objectives is a practice that is not currently fully integrated across the Australian aid program, however. While individual pockets of excellence are found across DFAT's portfolio, significant parts of Australia's aid investments still miss the opportunity to increase the scale and sustainability of impact by working with the private sector. The recently published DFAT Operational Framework for Private Sector Engagement is a big step in advancing a more coherent, consistent approach, but much more could be done to strengthen and accelerate this shift in culture and practice. The Department's success with integrating gender throughout the aid program provides a blueprint for how root-and-branches culture change can be achieved with sustained effort, leadership, and resources. To achieve this objective, the new international development policy should:

- i. **Champion private sector engagement** at the most senior levels of DFAT.
- ii. **Provide clear rewards and incentives for advancing private sector engagement**, including more nuanced performance indicators in Aid Quality Checks.
- iii. **Enhance training and resources available to DFAT staff**, including through the Diplomatic Academy.
- iv. **Internally promote examples of best practice** and encourage peer exchange and learning across the aid program.

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<sup>1</sup> Jorge Moreira da Silva, Director, OECD Development Co-operation, 2017: <https://www.devex.com/news/opinion-yes-the-private-sector-is-good-for-development-the-question-is-how-89679>

<sup>2</sup> Some notable successes are highlighted below under recommendation 2.

## 2. Complex Challenges Require Systemic Solutions

Addressing complex challenges such as poverty, gender equality, climate change and other deeply rooted social or environmental concerns requires an approach that can adapt to rapidly changing, constantly evolving contexts. Systems approaches have proven to be among the most effective tools at DFAT's disposal to understand, diagnose, and intervene in complex, interconnected markets.

Australia currently implements among the most successful and impactful Market Systems Development (MSD) programs in the world, which combined, have transformed the lives of millions of poor women and men across Asia and the Pacific. MSD seeks to stimulate inclusive growth and expand access to markets, temporarily intervening so that markets function more efficiently, equitably, and sustainably.

- **In Indonesia** - DFAT's PRISMA program, the largest component under the Australia-Indonesia Partnership for Rural Economic Development (AIP-Rural), has more than doubled the incomes of over 385,000 poor farming households (1.7 million women and men), equating to A\$235 million of additional income in total. This was achieved with 194 public and private sector partners who have co-invested A\$103 million in testing and expanding commercially sustainable agribusiness models, a ratio of 1:1.89 for each dollar of DFAT investment. PRISMA is on-track to reach at least 3 million poor women and men with a similar level of income change by 2023.
- **In Fiji** – DFAT's Market Development Facility (MDF) piloted and has proven that MSD can be successfully implemented in the thin market contexts found in the Pacific. MDF is working with prominent leading firms in the tourism industry to expand more inclusive practices that benefit local suppliers. MDF's 23 partnerships within Fiji's tourism sector have generated A\$2.5 million in additional income for over 2,600 women and men to date.
- **In Cambodia** – DFAT's Investing in Infrastructure (3i) program has applied a systems approach to stimulate local private water and electricity operators to expand into areas that were previously considered to be not commercially viable. 3i has piloted and proven a ground-breaking model that had never been tried before, solving a global development problem of how to sustainably connect poor people to essential services at scale in poor and remote areas. 3i is on track to connect over one million women and men in Cambodia with piped, clean drinking water for the first time.

These programs have achieved results by using limited DFAT resources to catalyse a much greater private sector co-investment. Systems approaches are technically demanding, involve a higher level of risk, and take time to yield results. They are one of the few tried and tested approaches that stimulate the private sector to co-invest in achieving development outcomes at scale. Since DFAT piloted its first systems program which launched a little over ten years ago, systems approaches have expanded to multiple sectors and geographies, yielding significant results to date for both beneficiaries and Australia's foreign policy objectives.

To capture this momentum and further amplify Australia's impact, the new aid policy should:

- i. **View all complex aid investment activities through a systems lens.** The Pacific Labour Facility is a prominent example of how a systems approach can be successfully applied to a new sector (labour markets) for the first time to yield greater, more sustainable results. Systems approaches are also found in the Education, Health, Governance and Security sectors and more. It can be applied wherever the challenge is complex and dynamic in nature. Applying a systems lens at a country strategy-level has the power to realise synergies between adjacent investments while reducing overlaps, wastage and unhealthy competition, particularly in the crowded donor contexts found in the Pacific. This point is further expanded on below under Recommendation 3.

### 3. Greater than the sum of its parts: capitalise on synergies between initiatives working to achieve similar goals

The Pacific Step-up has resulted in a suite of regional initiatives focused on promoting Pacific economic prosperity. These initiatives, including circular labour mobility and support for infrastructure development, recognise that the Pacific's greatest opportunities for development come from closer regional economic integration. Increased regional integration will help to mitigate the structural constraints facing remote, small island economies that have limited Pacific Island nations from reaching their full economic potential.

The Step-up, and this current refresh of DFAT's international development policy, offer a significant opportunity for improving coordination and collaboration between Australia's aid investments and foreign policy objectives in the Pacific. The development of large, regional (rather than bilateral) programs and the establishment of the Office of the Pacific represent major steps towards a more coherent, joined-up approach to Pacific development cooperation.

There is still significant room for improvement. More effective collaboration is required between not only between Australia's own aid investments, but also with those of like-minded partners with major investments in the Pacific, such as New Zealand. This will help to reduce duplication and inefficiencies arising from a range of overlapping-sometimes competing-investments targeting limited geographies and small populations.

The challenge that arises from multiple donors funding different activities that are designed to achieve similar outcomes, but with different approaches, impact metrics, and performance indicators, is further exacerbated by incongruence between different parts of the Australian Government. Dissonance between regional and bilateral priorities at DFAT Posts, as well as the agencies responsible for promoting biosecurity, trade and investment often present a significant barrier to achieving comprehensive impact at scale. The opportunities to address this in the new international development policy include:

- i. **All for one.** Existing DFAT investments such as the Market Development Facility (MDF) or PHAMA+ have considerable market intelligence, contacts, and relationships with a range of key actors in the Pacific. Sharing this market analysis between programs can rapidly inform the start-up of new regional initiatives like the Australia Infrastructure Investment Facility (AIIF), and even provide a pipeline of investable opportunities. This is equally applicable for new initiatives including the Emerging Markets Impact Investment Fund (EMIIF), and the next phases of DFAT's Investing in Women, Pacific Rise, and the PacerPlus support unit. To date, some progress has been made with increasing engagement and practical collaborative mechanisms between investments. DFAT should take a more proactive role in leading and encouraging such collaboration.
- ii. **Connecting with adjacent spaces.** Strategic coordination between DFAT's education initiatives (Pacific Secondary Schools Scholarships Program, Australia Awards), as well as the Pacific Labour Facility can deliver impact that is currently 'left on the table'. Supporting Islanders who are returning to the Pacific to use the skills and experiences they have gained, and creating linkages between Pacific firms sending labour, and Australian firms receiving it, for instance, has the real potential of achieving transformative outcomes.
- iii. **Indicators of success.** DFAT should standardise indicators and metrics for measuring impact, and evaluating performance and value for money. The Donor Committee for Enterprise Development offers a highly developed 'off-the-shelf' solution that is already used in some DFAT investments. Establishing a standard set of indicators will also enable separate programs with shared objectives to attribute impact, sharing successes rather than competing for numbers.

## 4. The aid program is a unique tool in Australia's foreign policy and should be protected

Activities focused at the policy level, such as supporting business enabling environment reform, will only go so far in achieving the intended outcome of stimulating economic growth. Signing a Pacific trade agreement will not necessarily result in increased flows of trade. By combining it with complementary activities that build the capacity of Pacific partners to unlock these new economic opportunities, Australia can give weight to its foreign policy.

The aid program has a unique ability to reach people across societies, including in some of the most remote and challenging areas of the Indo-Pacific region. Economic diplomacy objectives are more effectively achieved by engaging through multiple channels, at multiple levels, establishing the people-to-people connections that are foundational to closer political and economic alignment. Taking a principled, partnership approach to international development that acknowledges countries as equal partners in achieving mutually beneficial outcomes, rather than recipients of aid, significantly increases the effectiveness of any ODA activity.

DFAT should continue adhere to these good practice principles and promote local solutions to problems that are defined, refined and debated by a diverse representation of local stakeholders. Allowing the aid program a degree of autonomy, retaining specialist skills, and protecting its space to operate and pursue development outcomes will only serve to increase the outcomes achieved by Australia's foreign policy.

The new international development policy should:

- i. **Apply a principled, partnership approach** across the international development policy.
- ii. **Maintain the skills and capabilities of aid specialists** in the department and protect its space to operate.

## Conclusions

Australia has a unique role and status in the Indo-Pacific region. The Australian aid program has achieved remarkable successes, particularly in promoting cultural norms around gender equality and human rights, to the benefit of millions. Although the ODA budget has declined dramatically and continues to decrease in real terms, much can still be achieved with the skills, resources and relationships that have been built over decades of investment.

In face of growing threats to the regions' collective security and prosperity, Australia's foreign and international development policy calls for increased engagement with its development partners. Australia's leadership in turbulent times has the potential to set the course for decades to come, with profound consequences for our own security and prosperity.

The new development policy has an opportunity to build on what has been achieved to date and scale up successful approaches that have proven to be effective in addressing complex development challenges. We believe that unlocking the potential of the private sector is the most effective means to achieve sustainable development outcomes at the greatest scale. Palladium is committed to supporting DFAT to achieve these goals and looks forward to delivering the outcomes of the new international development policy.