Australian Government

Department of Foreign Affairs and Trade

APG

AUSTRALIA'S AID POLICY AND PERFORMANCE FRAMEWORK

AID PROGRAM MANAGEMENT AND PERFORMANCE REPORTING

INVESTMENT MANAGEMENT, EVALUATION AND QUALITY REPORTING

INVESTMENT DESIGN

PROCUREMENT, GRANTS AND APPROVALS

AID RISK MANAGEMENT

AID PROGRAMMING GUIDE

March 2017

CONTENTS

ABOUT THE AID PROGRAMMING GUIDE

The Aid Programming Guide (APG) is the basic source of information for all DFAT officers (A-based and LES) who are responsible for aid management in Canberra and at Posts. It sets out mandatory processes and recommended approaches for aid management, and is supplemented by detailed policies, guidelines, tools and templates. These are all available on the intranet, linked to the online version of this guide.

The guide can be read in full, or readers may choose to focus on individual chapters. DFAT officers who need detailed advice on their specific circumstances will find contact details for the responsible area in each relevant chapter and on the intranet. Training is available for key topics including investment design, monitoring and evaluation, procurement, sectoral and thematic issues, fraud, risk and safeguards.

WHAT'S COVERED IN THE GUIDE

Chapter 1
Background and context

- Background, legislative and policy framework, and governance arrangements for the aid program.
- An introduction to AidWorks, DFAT's aid management IT system.

This chapter gives officers, at all levels, an overview of key aspects of the aid program and how the program is managed within DFAT.

Chapter 2
Australia's aid policy and performance framework

- Australian Government and DFAT sectoral policies and strategies that guide aid planning and delivery.
- The performance framework for Australia's aid program, including the role of evaluation.
- Requirements and instructions for Aid Investment Plans (AIPs).

This chapter provides officers, particularly senior managers, with an overview of the policy framework for the aid program, as well as the performance framework, evaluation policy, and individual sector and thematic policies. It also sets out how the policy architecture is implemented in country and regional AIPs.

Chapter 3
Aid program management and performance reporting

- Management of aid programs and portfolios of investments, specifically the tools available to help managers plan investments, track budgets, undertake annual aid program performance reporting, prioritise and plan evaluations and engage stakeholders.

This chapter is particularly relevant to senior managers and delegates who manage country-specific or regional aid programs. It also includes important information for officers who directly support senior managers in discharging their responsibilities.

Chapter 4
Investment management, evaluation and quality reporting

- Management of individual investments, specifically the tools required to implement and maintain quality control for individual investments. These tools include annual Aid Quality Checks, Aggregate Development Results, Partner Performance Assessments and Annual Evaluation Plans.

This chapter is aimed at officers designated as investment or agreement managers, and provides information on key aspects of investment and agreement management.

Chapter 5
Investment design

- The requirements and approval processes that help ensure high-quality investment designs proceed to implementation.

This chapter is for officers, including senior managers, who are involved in designing investments or approving investment designs.

Chapter 6
Procurement, grants and approvals

- The legislative requirements and DFAT policies involved in gaining spending approvals and entering into various types of agreements.

This chapter is particularly for delegates and officers involved in preparing procurement or grant agreements.

Chapter 7
Aid risk management

- How to manage risk in the aid program and DFAT requirements for fraud monitoring and reporting.
- Meeting safeguard obligations on environment, child protection, and displacement and resettlement.

This chapter is important for officers at all levels who have aid management responsibilities.

FEATURES OF THE GUIDE

Each chapter includes several elements to draw the reader's attention and highlight crucial information.

Key messages

The introductory box provides key messages and mandatory requirements covered in the chapter.

Mandatory requirements

The introductory box provides key messages and mandatory requirements covered in the chapter.

Proportionality

Proportionality boxes highlight where requirements vary depending on the value and nature of the specific program or investment.

In practice

'In practice' boxes give tips and ideas on how a process might work, together with any specific details that officers should consider in their work.

AidWorks

AidWorks boxes outline requirements of what needs to be uploaded or updated in AidWorks. Readers who need help using AidWorks in relation to any of these requirements should contact AidWorks at aidworks.support@dfat.gov.au.

Key resources

This box provides a list of resources referred to in the chapter. Links to resources throughout the document connect to policies, detailed guidance, good practice notes and templates. They are also available on the APG intranet.

CHAPTER 1
BACKGROUND AND CONTEXT

Key messages

This Aid Programming Guide (APG) is the starting point for all officers working on the aid program. It outlines policy and program management responsibilities, legal and financial obligations, and aid quality and accountability requirements.

Legislation underpins the aid program. All officers are responsible for ensuring that outcomes specified in agreements with aid delivery partners are achieved to the required standard, within the agreed time frame. Under the legislation, financial delegates must also be able to demonstrate that all agreements represent good value for money for the Australian taxpayer. In particular, delegates need to understand the costs and impacts of their spending, as well as the risks involved.

AidWorks is DFAT's aid management IT system. It enables officers to effectively manage budget, financial, procurement, agreement and performance aspects of the aid program.

Each year, the Australian Government promotes Australia's national interests by investing around $4 billion to promote sustainable economic growth and poverty reduction in developing countries, primarily in the Indo-Pacific region. The investment is delivered through a series of country, regional, global and thematic aid programs. This APG sets out DFAT's operational framework for ensuring the aid program aligns with government policy, and can demonstrate results and value for money.

1.1 OVERVIEW AND PURPOSE OF THE APG

This guide is designed to help aid program managers and financial delegates plan and deliver high-quality aid programs. It focuses on processes that relate to country and regional programs and includes basic information for global aid programs (see Chapter 3). The APG describes officers' policy and program management responsibilities, as well as legal and financial obligations, and aid quality requirements. It reflects a planned and systematic approach to aid programming and delivery, and describes how DFAT manages aid to deliver effective development results. It also provides links to supplementary resources and support, including technical advice, guidance and templates for approval and reporting.

1.2 THE LEGISLATIVE BASIS FOR THE AID PROGRAM

The aid program operates in accordance with Australian law, including legislation that has extra-territorial effect.

- Commonwealth legislation and other instruments—including the *Public Governance, Performance and Accountability Act 2013* (PGPA Act); *Commonwealth Procurement Rules*; and *Commonwealth Grants Rules and Guidelines*—require appropriate use of public money. Aid investments may be subject to internal audit and to Australian National Audit Office (ANAO) review.

- Value for money is a key consideration in decision-making for all aspects of the aid program. DFAT's Value for Money Principles (Figure 1) seek to ensure the effective, efficient, economical and ethical management of Australian aid, in a way that advances Australia's national interests and achieves the Government's policy commitments. The principles reflect the requirements of the PGPA Act.

- One of the Government's policy commitments—outlined in <u>Australian aid: promoting prosperity, reducing poverty, enhancing stability</u>—is to ensure high standards of transparency. This is part of the 'ethics' Value for Money Principle, and involves publishing comprehensive, accessible and timely information about the aid program on the DFAT website.

Figure 1: Value for Money Principles
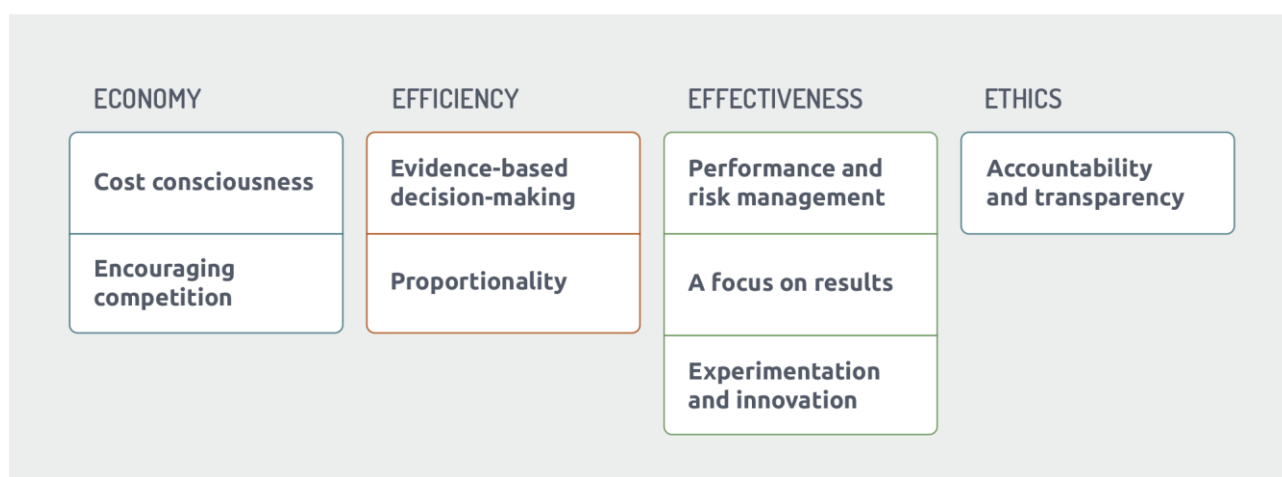
- DFAT must consider risks and social and environmental safeguards at all stages of aid management, irrespective of the investment's financial value. The Department has obligations to protect the environment in accordance with the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act) and other international environmental agreements ratified by Australia. Individuals are bound by Australian legislation that supports child protection and prohibits bribery of foreign officials.

  - Risk management is defined as identifying and analysing potential risks and opportunities, and developing proportionate, defensible management strategies that balance risk and treatments against the benefits of investment.

  - The Australian aid program operates in a number of countries that have complex, challenging and changing environments. By their nature, aid investments can involve a high degree of risk that requires careful and ongoing management.

  - DFAT's aid management systems are designed to involve a proportional approach; that is, the time and effort it takes to ensure high-quality aid and manage risk should be proportional to the value and nature of the aid investment.

  - Chapter 7 includes more information on risk management.

- Under the *Work Health and Safety Act 2011*, senior managers and Heads of Mission (HOMs) have legal obligations relating to departmental officers, volunteers, scholarship recipients and other delivery partners. Senior officers and HOMs must ensure systems are in place to protect and preserve the health and safety of those conducting business on behalf of DFAT.

1.3 FINANCIAL DELEGATIONS

Financial delegations give officers authority to approve spending (financial commitment under s23 of the PGPA Act) and to approve entering into (signing of) an agreement. For administered aid funding, this approval is under s. 32B of the *Financial Framework (Supplementary Powers) Act 1997* (FFSP Act). Financial delegates are accountable for their decisions and actions, and must operate in accordance with their delegation levels and obligations. They are also responsible for ensuring that a proposed aid investment represents proper use of Australian Government resources and meets legislative and DFAT requirements.

Delegations are determined and approved by the DFAT Secretary and can be found on the Financial Delegations Intranet Page.

1.4 DFAT'S GOVERNANCE ARRANGEMENTS FOR THE AID PROGRAM

The Departmental Executive and four other departmental committees oversee the strategic direction and quality of Australia's aid program. They involve senior managers from across DFAT.

1.4.1   Departmental Executive

The Departmental Executive has overall responsibility for the department's strategic priorities and resource management, including for the Australian aid program. It considers budget and policy matters that require high-level attention; how the program aligns with government policies and priorities; and strategic-level program performance.

1.4.2   Audit and Risk Committee

The Audit and Risk Committee provides independent assurance and advice to the Secretary and Departmental Executive on DFAT's risk management and fraud control arrangements; internal control framework; external accountability responsibilities; and internal and external (ANAO) audit activities, including in relation to the aid program. The Committee reports directly to the Secretary.

1.4.3   Development Policy Committee

The Development Policy Committee (DPC) provides strategic vision and oversight of development policy. Its role includes ensuring consistency and alignment with Australian Government policy priorities across the aid program; promoting innovation; and taking account of evidence and emerging development challenges. The DPC's functions include:

- providing development policy leadership and advice to ministers and the Department
- advising on development and implementation of the strategic aid framework
- monitoring DFAT's implementation of the aid program against government priorities, along with sectoral and thematic performance against agreed strategies
- considering strategic aid budget priorities
- advising on development of priority sectoral or thematic policies and strategies
- strengthening knowledge management, research and capability-building on development issues
- providing direction for Australia's participation in key international development forums.

The DPC is chaired by a Deputy Secretary. Its secretariat is located in the Development Policy Division (DPD).

1.4.4   Aid Investment Committee

The Aid Investment Committee (AIC) oversees Australia's aid investment portfolio, ensuring it aligns with Government policy, achieves the intended development impact and promotes value for money. The AIC's functions include:

- endorsing and reviewing aid investment plans (AIPs) for all major country and regional programs with an annual total official development assistance (ODA) allocation of $50 million or more
- approving the progression to design of high-risk and/or high-value ($100 million or more) investment concepts
- reviewing the pipeline of aid investments; trends identified in the *Aid Operations Report*; implementation of recommendations from program evaluation reports; and significant changes in aid management guidance and practice
- advising on how to strengthen the Department's aid management capabilities, including on business process and workforce issues.

The AIC is chaired by a Deputy Secretary. Its Secretariat is located in the Contracting and Aid Management Division (ACD).

The DPC and AIC comprise a mix of division heads with aid-related responsibilities. Both committees report on their work to the Departmental Executive.

1.4.5   Independent Evaluation Committee

The Independent Evaluation Committee (IEC) is an advisory body that oversees the work of the Office of Development Effectiveness (ODE). Its objective is to strengthen the quality, credibility and independence of ODE's work program, which involves evaluation and performance, and quality analysis, including independent analysis of the Annual Evaluation Plan and *Performance of Australian Aid Report*.

The IEC comprises an independent chair, two independent members and a DFAT Deputy Secretary. A representative of the Department of Finance attends as an observer. The Minister for Foreign Affairs appoints all external members.

1.5 DIVISIONAL AID RESPONSIBILITIES AND EXPERTISE

Geographic divisions and associated posts are responsible for managing country and regional aid programs. Responsibilities include setting strategic direction, investment design, implementation, managing development relationships with partner governments and other development stakeholders, monitoring and evaluation, and performance reporting.

There is flexibility in how aid management responsibilities are divided between posts and geographic divisions, taking into account the scale of aid and level of engagement required, balanced with costs, resourcing, security and availability of local expertise.

Regardless of how the responsibilities are divided, they need to be clear and understood by all relevant officers. Posts and divisions are responsible for maintaining appropriate internal controls to ensure compliance with all departmental policies and legislative requirements.

A number of other DFAT divisions are engaged in aid-related work—for example, as managers of global, sectoral or thematic programs, or as centres of aid policy or aid management expertise. Figure 2 lists the relevant areas of sectoral, thematic and management responsibility and expertise, by division.

Figure 2: DFAT thematic, sectoral and aid management responsibility and expertise

MULTILATERAL DEVELOPMENT AND FINANCE DIVISION (MDD)

- 2030 agenda for sustainable development
- Agriculture
- Climate and environment funds
- Development effectiveness & Development Assistance Committee (DAC)
- Development finance
- Extractives
- Health and education funds
- Infrastructure
- Major donor partnerships
- Multilateral development banks
- Philanthropic bodies
- Private sector development
- Private sector engagement
- Resettlement safeguards

INVESTMENT AND ECONOMIC DIVISION (IVD)

- Climate change

HUMANITARIAN, NGOS AND PARTNERSHIPS DIVISION (HPD)

- Disaster risk reduction
- Humanitarian policy and response
- NGOs and volunteers
- Stabilisation and recovery

PUBLIC DIPLOMACY AND COMMUNICATIONS DIVISION (PCD)

- Direct Aid Program (DAP)
- Public diplomacy
- Scholarships and alumni

DEVELOPMENT POLICY DIVISION (DPD)

- Development economics
- Disability
- Education
- Fragility and conflict
- Governance
- Health
- Law and justice
- Poverty
- Social protection
- Water and sanitation

OFFICE OF TRADE NEGOTIATIONS (OTN)

- Aid for trade
- Food security

MULTILATERAL POLICY DIVISION (MPD)

- Gender equality
- Human rights
- UN development agencies

CONTRACTING AND AID MANAGEMENT DIVISION (ACD)

- Aid management training
- AidWorks
- Anti-corruption
- Child protection
- Due diligence
- Environmental safeguards
- Fraud control
- Investment design
- Performance management
- Procurement
- Program logic
- Program planning
- Public financial management
- Results reporting
- Risk management

OFFICE OF DEVELOPMENT EFFECTIVENESS (ODE)

- Evaluation policy
- Strategic evaluation

BUDGET BRANCH

- Aid budget allocation
- ODA statistics

INNOVATION XCHANGE (iXC)

- Innovation

1.6 THE AID MANAGEMENT CYCLE

DFAT uses a standard program management cycle as a conceptual framework for aid program management (Figure 3). The phases of the aid management cycle cover policy and planning; design and procurement; implementation and performance management; and review and evaluation. The phases are presented as a cycle to reflect the usual sequence of aid management steps, but are interrelated and mutually reinforcing; aid management is not linear and phases will be repeatedly revisited.

Figure 3: The aid management cycle
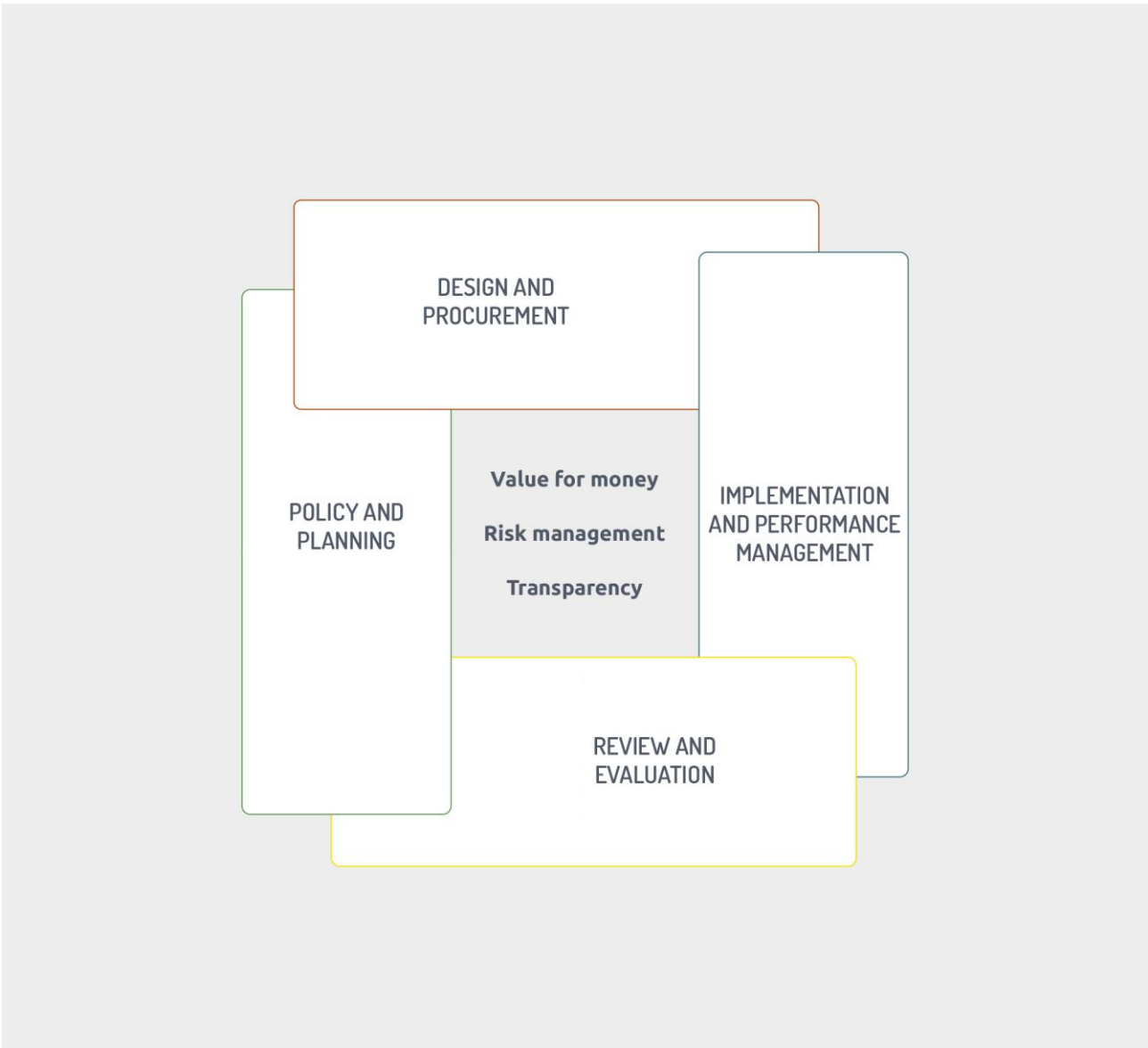
1.7 DFAT'S AID MANAGEMENT IT SYSTEM

1.7.1 What is AidWorks?

AidWorks is DFAT's aid management IT system used to administer the Australian aid program. It is integral to aid program planning, investment management and agreement management, as well as program reporting and analysis. AidWorks supports key business functions including budget and financial management, procurement, and agreement and performance management.

1.7.2 What information is in AidWorks?

AidWorks holds comprehensive information on investments and agreements—including critical documentation such as program designs, agreements with delivery partners and evaluation reports—so that DFAT can manage, track and report on the aid program.

The information in AidWorks comprises:

- descriptions of investments, including costs, time frames and delivery partners
- details of agreements (such as contracts)
- commitments and expenditure
- investment-quality reports and other performance information
- indicators relating to gender equality, disability, child protection and other issues
- investment documents such as designs, reviews and evaluations.

AidWorks information is used for a variety of purposes—including as the basis of reporting to the Departmental Executive, the Australian Government and the public—so it must be accurate and up to date at all times.

1.7.3 How does AidWorks support aid management?

DFAT officers—from senior managers with aid program responsibilities to officers in operational positions at posts or in Canberra—use AidWorks to do their job and meet reporting requirements efficiently and accurately.

Investment and agreement management

Investment and agreement managers use AidWorks on a daily basis to complete business steps involved in planning, approving, implementing and reviewing investments and agreements. Managers need to pay particular attention to ensure the financial information in AidWorks is regularly updated and is accurate.

AidWorks produces summary reports so managers can see at a glance the current 'state of play' for individual investments. The summary information includes:

- description of the investment
- timelines for each of the activities under the investment
- upcoming payment events
- current financial year position
- investment quality reporting
- expenditure on active agreements.

Program planning: What's in the pipeline?

Effective aid management and delivery against AIPs requires planning for expenditure in future years—generally the current year plus the following three financial years. This is known as 'pipeline planning'. AidWorks' pipeline planning reports give senior managers in Canberra and at Posts visibility and control over prioritisation and funding of a program's portfolio of current and planned aid investments.

Reporting

The quantitative and qualitative data in AidWorks informs policy briefings and helps DFAT meet internal management requirements, as well as the information requirements of many stakeholders. These include the Australian Government, the Australian public, international organisations—such as the Organisation for Economic Co-operation and Development's Donor Assistance Committee (OECD-DAC)—and other bodies and initiatives such as the International Aid Transparency Initiative.

1.7.4 How can officers get help using AidWorks?

Most geographic divisions have a central coordination unit that can provide AidWorks support. ACD has a small team that supports training in Canberra and at Posts, and serves as an AidWorks help desk: aidworks.support@dfat.gov.au. The Global Support Centre provides support relating to user access.

AidWorks

A box at the end of each APG chapter provides hints and reminders about how best to use AidWorks.

Remember, DFAT relies on the quality of AidWorks data for all public reporting. All planned aid expenditure must be recorded in AidWorks, and information must be accurate and regularly updated.

1.7.5 AidWorks redevelopment, 2016–18

An AidWorks redevelopment project is underway to better meet DFAT's needs. It is a multi-year project running from 1 July 2016. It aims to improve the system's functionality for all users. The redevelopment process is focused on improving:

- system usability including a new user interface
- pipeline planning for aid investments and the ability to manage an investment over its life cycle
- system capacity for processing aid investment approvals and ensuring PGPA Act compliance
- reporting capabilities and dashboard features.

1.8 PUBLIC DIPLOMACY AND THE AID PROGRAM

The aid program provides many opportunities to build public understanding of Australia's aid effort, increase influence and promote Australia as a reliable partner. HOMs, SES and other aid officers should refer to DFAT's Public Diplomacy Strategy and Posts' annual public diplomacy priorities for overall guidance.

Promoting Australia's development credentials is an important public diplomacy goal. Highlighting Australia's work with partner countries to accelerate economic growth, enhance stability, manage the impacts of

climate change and reduce poverty through effective development and humanitarian assistance are all themes with public diplomacy opportunities. To take advantage of these opportunities, programs hold launches with ministers or HOMs in attendance; host media engagements around ministerial visits; and produce stories and photos for publication in local host country media. Case studies drawn from monitoring and evaluation reports can also be a source of new stories. Using social media content on official DFAT platforms to explain the benefits of an aid program can help enhance public awareness in a host country and among the Australian public. DFAT media liaisons and the Digital Communications Hub can advise on engaging with the Australian media and promoting stories on social media.

For further information about issues raised in this chapter, or about the APG more generally, email apg@dfat.gov.au.

For details of all other key contacts, see the contacts list.

Key resources

Policies and strategies

Australian aid: promoting prosperity, reducing poverty, enhancing stability

Making Performance Count: enhancing the accountability and effectiveness of Australian aid

Performance of Australian Aid Report (2014–15)

Value for Money Principles

Aid Evaluation Policy

Guidance

AidWorks Support

CHAPTER 2
AUSTRALIA'S AID POLICY AND PERFORMANCE FRAMEWORK

Key messages

Promoting prosperity, reducing poverty and enhancing stability are the overarching objectives of Australian aid policy.

Australia has a strong focus on performance at all levels of the aid program to give taxpayers confidence that Australia's aid delivers results and value for money.

Aid Investment Plans (AIPs) give effect to the aid policy and performance framework and outline Australia's strategic objectives in a country or region.

The Annual Evaluation Plan outlines the evaluations that program areas and the Office of Development Effectiveness (ODE) will conduct.

The Secretary approves DFAT's Annual Evaluation Plan.

Mandatory requirements

Aid investments must align with the aid program's strategic framework.

Country and regional programs must produce an AIP or AIP summary.

AIPs must be quality assured, approved by the relevant FAS and published on the DFAT website; content and size depend on the value of the program.

The Aid Investment Committee (AIC) reviews AIPs for programs with a total annual official development assistance (ODA) allocation of $50 million or more.

The AIC is responsible for ensuring evaluation findings inform aid strategies and investments it approves.

2.1 AUSTRALIA'S AID POLICY

The Minister for Foreign Affairs launched Australia's development policy Australian aid: promoting prosperity, reducing poverty, enhancing stability on 18 June 2014. This policy is the key framing document for all officers involved in the aid program.

The purpose of the aid program is to promote Australia's national interests by contributing to sustainable economic growth and poverty reduction. The aid program focuses on achieving two development outcomes: strengthening private sector development and enabling human development. The framework in Figure 4 sets out the six priority areas for investment, and Section 2.4 provides more detailed information.

Figure 4: Strategic framework for the aid program

Promoting Australia's national interests by contributing to sustainable economic growth and poverty reduction

TO ACHIEVE

PRIVATE SECTOR DEVELOPMENT ←→ HUMAN DEVELOPMENT

We maximise impact by being innovative and leveraging knowledge and finance

| Infrastructure, trade facilitation and international competitiveness | Building resilience: humanitarian assistance, disaster risk reduction and social protection | Gender equality and empowering women and girls |
| Agriculture, fisheries and water | Education and health | Effective governance: policies, institutions and functioning economies |

WE INVEST IN

The balance of investments will be tailored to suit the context of each country and reflect Australia's national interest

2.1.1 International policy environment, including the *2030 Agenda for Sustainable Development*

Australia's development priorities are well aligned with the *2030 Agenda for Sustainable Development* (2030 Agenda), which includes the Sustainable Development Goals (SDG) and the Addis Ababa Action Agenda on Financing for Development. The 2030 Agenda sets the globally agreed road map for sustainable development and brings together all aspects of development: social, economic and environmental. It emphasises self-reliance and the need to mobilise all resources to finance development, including domestic revenue, trade and private sector investment.

Australia has also committed to global agreements on development effectiveness (at Paris in 2005, Accra in 2008 and Busan in 2011), which provide a framework for development cooperation that emphasises the principles of country ownership, a focus on results, multi-stakeholder partnerships, transparency and mutual accountability.

2.2 INTEGRATED SYSTEM OF PERFORMANCE INFORMATION AND REPORTING

In 2014, the Minister for Foreign Affairs introduced a new performance system: Making Performance Count: enhancing the accountability and effectiveness of Australian aid. The system draws on performance assessment at all levels of the aid program—for delivery partners (including contractors, non-government organisations (NGOs), multilateral organisations and others engaged by DFAT to deliver aid); individual investments; and country, regional and global programs—to inform the overall performance of Australia's aid program. It is designed to link performance to funding, and ensures a strong focus on results and value for money. The performance framework is illustrated in Figure 5.

At the highest level, the whole aid program is assessed against 10 strategic targets and development policy priorities. Performance is publicly reported each year in the *Performance of Australian Aid Report.*

At the individual country and regional program level, Aid Program Performance Reports (APPRs) provide an evidence-based assessment of progress against the Australian aid objectives set out in AIPs, and include agreed management actions. APPRs help strengthen program management, demonstrate accountability and improve program effectiveness. The reporting process is also an opportunity to discuss program performance with partner governments (see Aid Program Performance Report (APPR) Good Practice Note and Chapter 3).

At the individual investment level, investment quality reporting (IQR) assesses and reports on the performance and results of individual aid investments and delivery partners during implementation or at completion (see the Aid Investment Quality Reporting Good Practice Note and Chapter4). IQR comprises:

- Aid Quality Checks (AQCs), Final Aid Quality Checks (FAQCs) and Humanitarian Response Aid Quality Checks (HAQCs)
- Partner Performance Assessments (PPAs)
- Aggregate Development Results (ADR) reports.

DFAT assesses the performance of multilateral organisations separately. Multilateral Performance Assessments (MPAs) inform Australia's partnership engagement with key organisations and support dialogue with multilateral headquarters on key performance issues. DFAT conducts MPAs on a rolling basis—on average every three years—for multilateral organisations that receive the most significant amounts of core aid funding ($7 million or more per year).

Independent evaluation (see Section 2.3) supplements this integrated system of self-assessment of performance. Evaluation will generally use data gathered through performance monitoring as one source of evidence on which to base evaluation findings and recommendations.

Figure 5: Australian aid program performance framework

HOW IS THE PERFORMANCE OF THE AUSTRALIAN AID PROGRAM ASSESSED?

WHAT PERFORMANCE IS ASSESSED?	WHAT IS PERFORMANCE MEASURED AGAINST?	HOW IS PERFORMANCE REPORTED?
WHOLE OF AID PROGRAM		
	10 strategic targets **6 aid policy priorities**	**Performance of Australian Aid Report**
PROGRAMS		
Country and regional aid programs **Global aid programs**	**Program objectives, performance benchmarks, mutual obligations** **Program-specific performance frameworks**	**Annual Aid Program Performance Reports** **Program prioritised evaluations** **Strategic evaluations by Office of Development Effectiveness** **Multilateral Performance Assessments**
INDIVIDUAL AID INVESTMENTS		
	7 aid quality criteria: • Relevance • Effectiveness • Efficiency • Monitoring & evaluation • Sustainability • Gender • Risk management & safeguards **Alignment with key policy priorities:** • Innovation • Private sector engagement • Climate change • Disability • Inclusion	**Annual Aid Quality Checks** **Program prioritised evaluations**
KEY AID DELIVERY PARTNERS		
	5 assessment criteria: • Lasting results & impact • Value for money • Collaboration, communication, responsiveness • Policy alignment, risk management, innovation • Effective personnel	**Annual Partner Performance Assessments**

Figure 6: Australian aid program strategic targets

TARGET 1

Promoting prosperity
Promote economic development by increasing Australia's aid for trade investments to 20 per cent of the aid budget by 2020

TARGET 2

Engaging the private sector
All new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes

TARGET 3

Reducing poverty
By July 2015, all country and regional programs had Aid Investment Plans describing how Australia's aid will promote economic growth in ways that provide pathways out of poverty

TARGET 4

Empowering women and girls
More than 80 per cent of investments, regardless of their objectives, will effectively address gender issues in their implementation

TARGET 5

Focusing on the Indo-Pacific region
Increase the proportion of country program aid that is spent in the Indo-Pacific region to at least 90 per cent from 2014–15

TARGET 6

Delivering on commitments
From July 2015, progress against mutual obligations agreed between Australia and its key partner governments and organisations forms part of program performance assessments

TARGET 7

Working with the most effective partners
From July 2015, new systems used to assess the performance of the aid program's key delivery partners and ensure stronger links between performance and funding

TARGET 8

Ensuring value for money
Deliver high standards of value for money in at least 85 per cent of aid investments. Where standards are not met and improvements are not achieved within a year, investments will be cancelled

TARGET 9

Increasing consolidation
Reduce the number of individual investments by 20 per cent by 2016–17 to focus efforts and reduce transaction costs

TARGET 10

Combatting corruption
From July 2015, new fraud control and anti-corruption strategies introduced for all major country and regional programs

2.3 INDEPENDENT EVALUATION

Independent evaluations also contribute performance information to support management, accountability and learning. They are generally undertaken at two levels.

- High-level strategic evaluations focus on key policy directions, specific development themes or sectors, or large programs. The Office of Development Effectiveness (ODE) produces these under the oversight of the Independent Evaluation Committee (IEC).

- Country, regional and global program officers identify and manage independent evaluations as outlined in the Annual Evaluation Plan. These may be evaluations of individual investments or evaluations which examine a particular issue at the program level or across a number of investments. Sectoral or thematic

programs manage independent evaluations of sector strategies. In DFAT, these are called program-prioritised evaluations.

DFAT program areas initiate and manage program prioritised evaluations. Designated program areas undertake an annual process to identify and prioritise independent evaluations, which they can use to improve their work. In accordance with the Aid Evaluation Policy, designated program areas must complete a minimum number of these evaluations within the relevant year. Global programs and sectoral programs conduct evaluations every three to five years of their programs and sector strategies respectively. Program areas have flexibility to determine the highest priority issues their evaluations should focus on. ODE has developed an Annual Evaluation Plan template and prioritisation tool for program areas to assist their evaluation planning and prioritisation (see Chapter 3).

On occasion, program areas may wish to undertake a rapid management review to help inform immediate decisions required on individual investments. Rapid management reviews are similar to evaluations but involve less time and resources and are generally less rigorous. The requirements of the Aid Evaluation Policy do not apply to rapid management reviews.

ODE compiles DFAT's Annual Evaluation Plan, which outlines the strategic evaluations to be published by ODE and the program prioritised evaluations to be published by program areas during that year. The Plan is endorsed by the IEC, reviewed and approved by the Secretary, and shared with the Minister for Foreign Affairs. The Plan is published on DFAT's website. ODE regularly reports to the Secretary on the progress of planned evaluations. The Minister for Foreign Affairs also receives progress reports against the Plan.

Why evaluate?

Independent evaluation is a process for systematically and objectively assessing investments, programs and strategies. Independent evaluations ensure that DFAT has credible and robust information on how aid investments have performed. They support:

- **management:** presenting evidence and analysis to guide decisions about new and existing investments, AIPs and aid policies

- **accountability:** demonstrating the effectiveness of the aid program to stakeholders, including the Australian public, the Australian Parliament, partner governments, implementing partners and the communities DFAT works with

- **learning:** contributing to the body of knowledge about what does or does not work in a particular context and why.

See Aid Evaluation Policy.

2.4 SECTOR AND THEMATIC STRATEGIES AND GUIDANCE

To assist in making strategic choices for country, regional and global programs, DFAT has developed detailed guidance on priority thematic and sector areas, including those linked to the 10 strategic targets. These strategies and guidance notes provide analytical frameworks to inform decision-making, strengthen program effectiveness and promote coherence across the Australian aid program. All are available on the DFAT website.

2.4.1   Private sector development and engagement

When a country's private sector expands and increases its productivity, that country's economy grows. When the poor can contribute and participate, economic growth leads to reduced poverty. Higher and more inclusive growth provides people with the best chance to find jobs, enhance their incomes and escape

poverty. Australian support seeks to strengthen the private sector in partner countries by building better business and investment environments, supporting growth in specific markets and maximising the development impact of individual businesses.

The private sector has a wealth of knowledge, ideas, capabilities and resources that can help improve the effectiveness of Australia's aid program. By engaging the private sector—informally or through formal partnerships—the aid program can leverage assets, connections, creativity and expertise to achieve mutually beneficial outcomes that satisfy Australia's development objectives.

Promoting private sector development and private sector engagement is a strategic target for the Australian aid program and must be considered in AIPs. All new aid investments must explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes. More detail is provided in the Strategy for Australia's aid investments in private sector development and the Private Sector Engagement Guidance Note.

2.4.2   Gender equality

Promoting gender equality and empowering women and girls is a strategic priority for the aid program and should be considered in all AIPs. DFAT takes a two-track approach, which involves taking measures specifically designed to tackle gender inequalities while incorporating gender issues into all aspects of Australia's work. The first track requires action to address gender inequalities where they are particularly challenging or where progress is slow. The second track requires integrating gender equality across all areas and sectors. This approach is reflected in *Making Performance Count*, which establishes a strategic target of having at least 80 per cent of investments, regardless of their objectives, effectively addressing gender equality issues.

All programs, regardless of sector, must take into account the potential for development interventions to have different impacts on particular groups of women and men, and must take steps to maximise opportunities and results for both women and men. At a minimum, programs must ensure their aid investments do not exacerbate gender inequality; where possible, the aid program should actively work to close gender equality gaps. Australia will also continue to fulfil its obligations under the United Nations Convention on the Elimination of All Forms of Discrimination against Women. More detail is included in the DFAT Gender Equality and Women's Empowerment Strategy and the Gender Equality Good Practice Note.

2.4.3   Aid for trade

Aid for trade is about helping developing countries address their internal constraints to trade—such as cumbersome regulations, poor infrastructure and lack of workforce skills. This might include training customs officials to facilitate trade, investing in ports and storage facilities, connecting farmers to overseas buyers and helping women entrepreneurs become exporters. Aid for trade supports developing countries' efforts to better integrate into and benefit from the global rules-based trading system, implement domestic reform and make a real economic impact on the lives of their citizens.

The Australian Government is committed to promoting economic development, including by increasing aid for trade investments to represent 20 per cent of the total aid budget by 2020. This is consistent with the level of aid for trade investment by other key donors and the increasing demand for this support in developing countries, including in the Indo-Pacific region. No country has achieved high and lasting growth without participating in international trade or attracting investment.

Investing in more aid for trade activities is a strategic target for the Australian aid program and must be considered when developing AIPs and related pipelines for new investments. More detail is included in the Strategy for Australia's Aid for Trade Investments and the Aid for Trade Guidance Note.

2.4.4   Innovation

Where a challenge exists and there is no clear solution, thinking more openly about how to gather new ideas and address that challenge can lead to innovative approaches that deliver better value and have more of an impact than previously realised. Innovation is a process of first deeply understanding the problem, then collecting and developing new ideas, trialling and adapting possible solutions, and trying again until something works. This can be done effectively through collaboration and partnerships that bring in new thinking and perspectives. Because innovation broadens the scope of people and organisations involved in developing a solution, it can create cost efficiencies by leveraging the finance, skills and knowledge of others. Innovative approaches to using technology and science (including behavioural science) can emerge in the process of solving problems. New perspectives emerge in the effort to understand a problem and find cost-effective ways to solve it, or in seeking to finance a project and increase its scale and impact, then incentivising its outcomes and sustainability.

Considering an innovative approach involves seeking opportunities that build on the influence and impact of others; those that promise to be transformative can be scaled to reach many, and can offer superior impact and reach than is achievable using existing approaches. Being innovative also means taking measured risks on something new and unknown. These risks can be measured by seeking advice from experts and making small investments while still gathering evidence, learning more and building the case for a larger investment.

Although InnovationXchange is leading DFAT's work to identify and test innovative approaches, innovation needs to become an essential component in how the whole aid program—and indeed the whole Department—does business. More detail is available on the InnovationXchange website.

2.4.5   Effective governance

The term 'governance' refers to how power and authority are used to manage public resources. The term can also be used to describe a sector. The governance sector includes public sector reform, public financial management (including domestic resource mobilisation), economic management, electoral support, law and justice, and anti-corruption efforts.

Where governance is poor, development outcomes are also poor, so the Australian Government has prioritised investment in effective governance. Governance is critical for making aid and development more effective, because it influences the development and implementation of public policies; the establishment of strong and inclusive institutions; the maintenance of peace and stability; the eradication of corruption; and the ability of businesses to grow and offer employment opportunities. Governance also affects the extent to which men, women and children can access basic services (such as health, education, transport, water and sanitation) and are empowered to hold political leaders and government officials to account.

Despite being technically sound, an aid investment may not be politically feasible in a given context. Broad political awareness will inform an understanding of formal and informal institutions (that is, how things are really done) and how change can be achieved in the particular country context. Australia's aid programming should be guided by Effective Governance: Strategy for Australia's aid investments. This strategy provides advice on the types of governance investments to consider, and how to ensure that all development cooperation investments are sufficiently informed by an analysis of the relevant context.

2.4.6   Fragility and conflict

Fragility and violent conflict pose some of the most intractable challenges to prosperity, stability and poverty reduction. Fragility and conflict, while not synonymous, are frequently related. Across the Asia-Pacific region, this tends to manifest as subnational conflict in South and South-East Asia, and fragility in Pacific states, which tend to be less resilient to shocks. Addressing conflict and fragility requires more than just an aid response; fragility and conflict are fundamentally political problems that require political solutions. Strategies and interventions should be sensitive to fragility and conflict, but also need to be holistic in nature, incorporating appropriate diplomatic, trade, development and security responses.

2.4.7   Building resilience: Climate change and disaster risk reduction

Australia is committed to intensifying its efforts to develop climate and disaster resilience in vulnerable countries and sectors. The 2015 Paris Agreement sets a new course for global climate action. The 2030 Agenda for Sustainable Development integrates risk and resilience across at least 10 of the 17 SDGs. The Sendai Framework is the global blueprint for reducing the risk of climate-related and other disasters for the next 15 years. Resilience is being used to make sense of the linked issues of climate change adaptation and disaster risk reduction. The Australian aid program adopts a two-track approach to building climate and disaster resilience: firstly, by mainstreaming climate and disaster resilience in all relevant sectors, including at-risk sectors in disaster-prone countries; and secondly, by taking a targeted approach, including investments that assist countries and communities in their climate change adaptation and disaster risk reduction priorities and efforts. AIPs should consider climate- and other disaster-related risks and opportunities. At the design level, all investments (but particularly those in highly vulnerable sectors like agriculture; water, sanitation and hygiene (WASH); and infrastructure) must seek to mitigate existing risks and avoid creating new ones. More detail is available on the Climate Change and Disaster Resilience Intranet Page.

2.4.8   Disability-inclusive development

The Australian Government is committed to expanding opportunities for social and economic development for people, businesses and communities to promote economic growth and reduce poverty. Australia recognises this cannot occur effectively if the most disadvantaged people are left behind. People with disabilities comprise one in seven of the global population and are the largest and most disadvantaged minority in the world. For Australia's development efforts to be effective, it is essential that people with disabilities are partners in and beneficiaries of the Australian aid program.

Australia has ratified the United Nations Convention on the Rights of Persons with Disabilities, which requires international cooperation and humanitarian action to make aid disability-inclusive. Throughout the aid management cycle—including during aid policy and direction-setting activities—programs should engage with people with disabilities and with their representative organisations (disabled people's organisations) to identify and address barriers to inclusion. More detail is included in the DFAT Development for All 2015–2020 Strategy and the Disability-Inclusive Development Guidance Note.

2.4.9   Indigenous peoples

The Australian Government is committed to delivering programs that improve outcomes for Indigenous peoples. Indigenous peoples hold their own diverse concepts of development, based on their traditional values, visions, needs and priorities, which may differ from those of the broader population. Indigenous peoples are also at greater risk of exclusion, marginalisation and discrimination. For example, social,

economic, political and power imbalances may prevent Indigenous peoples from achieving equal access or benefits, or may actively cause them harm. DFAT encourages its officers to use the DFAT operational guidance Reaching indigenous people in the Australian aid program: guidance note to ensure the aid program is effectively reaching—and not inadvertently harming—Indigenous peoples in partner countries. The guidance note is also applicable to ethnic minorities and other minority groups.

There is no universally accepted definition of the term 'Indigenous' and DFAT should use whatever terminology is appropriate in each country context. Further guidance on terminology is outlined in the DFAT Indigenous Peoples Strategy 2015–2019: A Framework for Action. The strategy also provides more detail on DFAT's foreign policy, aid, trade, public diplomacy and corporate priorities for Indigenous peoples in Australia and around the world.

2.4.10 Sector strategies

DFAT has developed or is developing sector strategies and further guidance—including good practice notes—for the following areas:

- infrastructure
- agriculture, fisheries and water
- social protection
- education
- health
- humanitarian
- domestic resource mobilisation (tax policy and administration)
- climate change
- disaster risk reduction
- Australia Awards (scholarships and fellowships)
- public financial management.

2.5 AID INVESTMENT PLANS

AIPs translate the Government's high-level policies into strategic directions for aid engagement with partner countries and regions.

They outline Australia's strategic objectives in a country or region.

AIPs generally span four years, in line with budget forward estimates. For countries facing dynamic or highly challenging circumstances, programs may develop AIPs with shorter time frames. For example, this may be appropriate in the case of countries facing rapid political change or dealing with the impacts of conflict or natural disasters.

AIPs reflect the Government's total aid effort in a given country or region, including information on aid delivered by Australian Government agencies other than DFAT. All AIPs are published on the DFAT website.

> ## Proportionality: Aid Investment Plans
>
> DFAT applies a proportionate approach to developing AIPs. This means that the time and effort put into developing an AIP, the analysis underpinning it, the detail contained within it and the authority for approving it should be proportional to the value and/or strategic importance of the country or regional program. The Contracting and Aid Management Division (ACD) is responsible for setting AIP requirements.

2.5.1   What is included in an AIP?

AIPs are underpinned by analysis of development need and constraints to growth, and informed by consultation with partner governments and other key stakeholders. The strategic priorities identified in AIPs must satisfy four tests set out in the aid policy statement:

- **Test 1: Pursuing national interest and extending Australia's influence.** Considerations will include an assessment of the costs of regional instability and insecurity—including financial, humanitarian, political and health-related risks—prospects to strengthen trade and investment, and the potential to extend Australia's influence.

- **Test 2: Impact on promoting growth and reducing poverty.** Australia will direct aid where it will best tackle constraints to growth and poverty reduction.

- **Test 3: Australia's value-add and leverage.** Aid allocations will reflect an assessment of Australia's value-add and realistic ability to shape partner countries' efforts to pursue economic reform, growth and poverty reduction.

- **Test 4: Making performance count.** The Government's performance framework Making Performance Count: enhancing the accountability and effectiveness of Australian aid drives links between performance and aid funding, ensuring a stronger focus on results and value for money.

An AIP includes strategic priorities and rationale, implementation approaches, performance management information and program management arrangements, as outlined in the 'In practice' box below. An AIP must be as succinct and direct as possible, as detailed in the AIP Template and Aid Investment Plan (AIP) Good Practice Note [being redrafted and currently not available]. For more detail on how to do analysis including for AIPs see the Analysis Good Practice Note and Poverty and Social Analysis Good Practice Note.

> ## In practice: AIP outline
>
> - Strategic priorities and rationale, including aid objectives in the region or country, Australia's national interests and priority aid sectors, underpinned by analysis of major constraints to economic growth and poverty reduction.
>
> - Implementation approaches, including delivery partners and aid delivery arrangements to be used in implementing Australia's aid investments in the country or region, and priorities for policy dialogue.
>
> - Performance management, including performance benchmarks; mutual obligations with the partner government; and monitoring, review and evaluation arrangements.
>
> - Program management, including governance, resourcing and risk management arrangements.

2.5.2   AIPs: The foundation for program-level performance assessment

All AIPs must identify a set of performance benchmarks for the life of the AIP. These should highlight key planned program results, significant milestones and measures of improved operational effectiveness or efficiency. Performance benchmarks may be selected from Performance Assessment Framework (PAF) indicators (see proportionality box below).

AIPs must outline the key mutual obligations for the partner government that contribute to shared development outcomes.

Progress against objectives, performance benchmarks and mutual obligations is assessed and reported annually through APPRs.

Proportionality: Should my program have a Performance Assessment Framework?

A PAF is a management tool for comprehensively detailing expected results across the program's overall portfolio of investments. It includes measurable indicators against which progress towards a program's overall stated objectives can be assessed. A PAF is mandatory for country and regional programs with an annual total ODA allocation of $50 million or more. Smaller programs are also encouraged to develop a simple PAF to facilitate performance management.

Previous experience has consistently shown that programs with a PAF are better able to present credible performance reporting in their APPRs.

2.5.3   Partner governments and other stakeholders

An AIP's strategic priorities, performance benchmarks and mutual obligations must reflect discussions with the partner government. For regional AIPs, this should include discussions with regional organisations or other organisations working regionally. Although AIPs must be informed by consultation, they are not formally negotiated with or endorsed by partner governments.

When planning an AIP, DFAT officers responsible for the country or regional program should also consult with other important stakeholders, including:

- other divisions in DFAT
- other Australian Government agencies
- private sector organisations active in the country or region
- NGOs and civil society organisations active in the country or region
- research organisations working on significant development issues in the country or region
- bilateral and multilateral development partners

2.5.4   How are AIPs quality assured and approved?

The strategic choices proposed in an AIP must be subject to robust review. AIPs for country and regional programs with an annual total ODA allocation of $50 million or more must be reviewed and endorsed by the AIC. The AIC is responsible for ensuring evaluation findings are used to inform the AIPs it approves. AIPs for

other programs must undergo a peer review chaired by the relevant geographic SES. Representatives from Development Policy Division (DPD) and ACD must be invited to the peer review, together with officers from relevant thematic areas such as gender and aid for trade.

Once comments from the AIC or peer review have been incorporated into the document, the AIP must be approved by the relevant First Assistant Secretary (FAS) and published on the DFAT website. The FAS is responsible for making sure all appropriate consultation and quality assurance have been undertaken and the AIP is in line with government policy directions. The FAS may refer the AIP to the Deputy Secretary, Secretary and/or Minister for Foreign Affairs for consideration. It is a matter for judgment by the relevant FAS whether an AIP or a summary of its main strategic directions needs to be separately endorsed by the Minister.

2.5.5   How are AIPs reviewed?

APPRs are the key tool for reviewing progress against the objectives set in an AIP (see Chapter 3). This may include an assessment of the continuing relevance of AIP priorities. Significant changes in the country or regional context—including changes to the nature of Australia's bilateral relationship, the emergence of conflict, a major natural disaster or a political change—may lead to a decision to revise AIP objectives.

The relevant Post or geographic division is responsible for regularly assessing risks that may make it difficult to meet AIP objectives and implement strategies to mitigate the risks. A significant change to an AIP should be discussed and approved in the same manner as the original AIP. The AIC has a role in reviewing progress against AIPs at or near the mid-point of their lifespan.

For further information about issues raised in this chapter, contact programplanning@dfat.gov.au.

For details of all other key contacts, see the contacts list.

AidWorks

AidWorks is the management system used to analyse sectoral and thematic policy and programming issues across the aid portfolio.

IQR templates are downloaded from AidWorks. Completed and approved reports must be uploaded by the due date.

Key resources

Policies and strategies

Australian Aid: Promoting prosperity, reducing poverty, enhancing stability

Australia Awards Global Strategy

Aid Evaluation Policy

Climate Change and Disaster Resilience Intranet Page

Development for All 2015–2020 Strategy for strengthening disability-inclusive development in Australia's aid program

Effective Governance: Strategy for Australia's aid investments

Gender Equality and Women's Empowerment Strategy

Health for Development Strategy 2015–2020

Humanitarian Strategy

Indigenous Peoples Strategy 2015–2019: A Framework for Action

Making Performance Count: enhancing the accountability and effectiveness of Australian aid

Public Financial Management Intranet Page

Framework for supporting tax policy and administration through the aid program

Strategy for Australia's Aid for Trade Investments

Strategy for Australia's aid investments in agriculture, fisheries and water

Strategy for Australia's Aid Investments in Economic Infrastructure

Strategy for Australia's aid investments in education 2015–2020

Strategy for Australia's aid investments in private sector development

Strategy for Australia's aid investments in social protection

Guidance

Aid for Trade Guidance Note

Aid Investment Quality Reporting Good Practice Note

Aid Program Performance Report (APPR) Good Practice Note

Annual Evaluation Plan Prioritisation Tool

Aid Investment Plan (AIP) Good Practice Note [under development]

Analysis Good Practice Note

Disability-Inclusive Development Guidance Note

Gender Equality Good Practice Note

Poverty and Social Analysis Good Practice Note

Private Sector Engagement Guidance Note

Reaching indigenous people in the Australian aid program: guidance note

Templates

Annual Evaluation Plan Template

AIP Template [under development]

CHAPTER 3
AID PROGRAM MANAGEMENT, EVALUATION AND PERFORMANCE REPORTING

Key messages

DFAT's country and regional programs comprise a set of strategic investments that are chosen as a portfolio and designed to generate specific outcomes as set out in aid investment plans (AIPs) or equivalent strategy-setting documents.

The relevant First Assistant Secretary (FAS) and Head of Mission (HOM) are responsible and accountable for all aspects of their aid program.

Program management involves fostering relationships with the partner government and other partners; setting strategic priorities; allocating budgets; tracking results; managing risk; and ensuring that all expenditure complies with the law.

The relevant FAS also approves which program evaluations will be conducted as part of DFAT's Annual Aid Evaluation Plan.

Mandatory requirements

Programs must comply with the Public Governance, Performance and Accountability Act 2013 (PGPA Act) and other relevant legislation.

Budgets are allocated through the Program Fund Plan (PFP), which must be completed in AidWorks and updated quarterly.

Program risks must be reviewed regularly and escalated as appropriate.

Aid Program Performance Reports (APPRs) must be produced annually by country and by regional programs that have an annual total official development assistance (ODA) allocation of $15 million or more. Length and content requirements depend on the value.

APPRs must be peer reviewed to ensure performance reporting is robust and contested.

APPRs must be approved by the relevant FAS and published on the DFAT website.

All evaluations and management responses must be published on the DFAT website within three months of an evaluation report being completed.

Aid program management ensures that the program's portfolio of investments is coherent and will achieve the objectives set out in the AIP.

Program management ensures that resources (both staff and budget) are allocated according to the program's strategic priorities, and that expenditure fully complies with the law.

Performance reporting enables DFAT to assure the Minister and taxpayers that the aid program is achieving credible results.

3.1 WHAT IS AN AID PROGRAM?

A program is a set of strategic investments that are chosen as a portfolio and designed to generate specific outcomes. A program may cover a country (country program), or work across a region (regional program). The investment choices are guided by the Australian Government's objectives as set out in country and regional AIPs. They are also influenced by partner country preferences, opportunity (particularly the presence of reformers) and experience (for example, the longer the engagement in a sector, the stronger the results). It can take up to two years to design and procure an investment, so there is always a mix of old and new investments in any portfolio. Each program is allocated an annual budget appropriation at the start of the financial year and is given a medium-term funding envelope through the forward estimates process.

In practice: Funding to multilateral organisations and global funds

Australia funds a number of multilateral organisations, global funds, and UN development and humanitarian organisations. This allows Australia to leverage resources from other donors, extend its reach, access expertise, and pursue aid policy objectives at a scale that would not otherwise be possible.

Funding is normally channelled to these organisations in two ways:

Non-core funding is targeted for a specific program, project or projects, usually either at a country or regional level or for activities in a specific sector or sectors. Non-core funding is generally provided through country, regional or sectoral programs from the budget allocations managed by those programs. It typically involves project-level co-financing, contributions to single or multi-donor trust funds, or earmarking voluntary contributions for specific sectors or initiatives.

Core contributions support an agency's core mandate and objectives and are often committed on a multi-year basis.

Responsibility for managing non-core funding generally sits with the relevant DFAT geographic or sectoral area or with the relevant country or regional program. In planning and managing non-core funding, DFAT officers should follow DFAT's investment design (see Chapter 5) and management processes (see Chapter 4). The design process normally relies on the partner's project design, procurement and project management systems (see Good Practice Guide: Partner-led Design).

Responsibility for managing core funding and the overarching relationships with multilateral agencies rests with the Multilateral Development and Finance Division (MDD), Multilateral Policy Division (MPD), Development Policy Division (DPD) or Humanitarian, NGOs and Partnerships Division (HPD). For contact details, see the contacts list.

Core contributions are exempted from many of DFAT's investment design and management processes. Overall performance is monitored through a Multilateral Performance Assessment (MPA) process, which is conducted every three years and considers overall (core and non-core) organisational priorities and performance of DFAT's main multilateral partners. Relevant geographic and sectoral areas and posts are consulted as part of the MPA, and information from Partner Performance Assessments (PPAs) is collated by the relevant division to inform the MPA.

For more information, see:

Explanatory Note on Multilateral and Global Programs

ADB Partnership Framework

World Bank Group Partnership Framework

Strategic Partnership Framework UNICEF

Strategic Partnership Frameworks UNDP

Templates for Grants to Partner Governments or International Organisations

3.2 WHO ARE AID PROGRAM MANAGERS AND WHAT ARE THEIR RESPONSIBILITIES?

In DFAT, aid programs are managed by divisions and posts. The relevant FAS and HOM have ultimate responsibility for all aspects of their aid program. Responsibility for certain elements of the program can be delegated to SES Band 1, EL 2 or EL 1 officers as appropriate, depending on the size and risk profile of the program. In large programs, responsibility for sector programs is generally delegated to EL 2 managers.

Financial responsibilities are derived from the PGPA Act, with delegations determined by the DFAT Secretary (see Chapter 1).

There is no single model for the division of responsibilities between posts and Canberra, and the situation will vary according to the size of the program, the level of devolution and the risks involved. Given this flexibility, it can be beneficial for managers in both locations to document their agreed respective responsibilities, including for the information of their teams.

Under the PGPA Act, program managers are accountable for using and managing public resources efficiently, effectively, economically and ethically. This involves:

- meeting high standards of governance, performance and accountability
- providing meaningful information to Parliament and the public
- properly using and managing public resources.

3.3 KEY ASPECTS OF PROGRAM MANAGEMENT

Senior managers should stay focused on the big picture: maintaining relationships with partners, setting strategic priorities, managing risks, allocating budgets, tracking results and ensuring that expenditure complies with the law.

3.3.1 Build relationships with partner governments and other partners

Australia aims to build mature partnerships based on principles of mutual accountability with partner governments and organisations. This provides the basis for reinforcing the responsibility of partner governments in planning and funding their own economic development and poverty reduction strategies. It also ensures that relationships are in place to advocate for partner government policy reforms that promote economic growth and poverty reduction, complementing aid program support.

Managers also need to focus on other partners including:

- the local private sector and representative business organisations
- delivery partners, including but not limited to commercial contractors, local and Australian NGOs, and other international development agencies involved in delivering Australia's aid
- other bilateral and multilateral development agencies
- local community and civil society organisations.

3.3.2 Ensure alignment with AIP objectives

Senior managers should take a holistic view of their specific country or regional program to ensure that the portfolio of investments achieves maximum impact against the priorities set in AIPs (see Chapter 2).

In practice: Strategic alignment

Managers can achieve maximum impact by:

- fostering coherence and ensuring a collective approach across the investment portfolio, which usually spans several sectors, is delivered by a range of implementing partners, and is managed by a number of individual investment managers at a Post or in Canberra
- regularly calibrating the program's portfolio of investments to ensure alignment with the strategic objectives of the AIP and the Australian Government's development policy
- being sufficiently informed of shifts in the development context that may affect the continuing relevance of Australia's aid programs and their alignment with partner government interests (see Program Planning and Management Good Practice Note [not yet available])
- regularly examining program-level performance indicators, such as investment quality reporting, performance against strategic targets, consolidation profile, risk exposure, expenditure levels (current and projected), aid management capability and resourcing levels
- formally reviewing the risk profile each quarter as a management team
- engaging with program evaluations including by identifying evaluation subjects to be included in the Annual Evaluation Plan, setting clear expectations for evaluation teams and ensuring evaluation recommendations are then considered and implemented.

3.3.3 Ensure strong risk management

All managers need to manage risk. This includes identifying, monitoring and reviewing risks, and determining when escalation is appropriate (see Chapter 7).

3.3.4 Ensure effective budget management and pipeline planning

Annual funding allocations, multi-year funding commitments and investment preparation lead times mean that budget planning and management are dynamic and complex. HOMs and SES should put in place mechanisms so they:

- have a strong understanding of the status and sequencing of existing investments in the program portfolio

- effectively plan for the preparation of new investments and agreements—in terms of budget and staff allocation
- regularly review the program's budget and expenditure position to ensure that annual expenditure targets can be met, and that sufficient funding is available for current and planned investments.

Effective aid programs are underpinned by strong planning. 'Pipeline planning' reflects the need for managers to plan investments and manage budgets two or three years into the future. It enables a program manager to see and create programming opportunities to respond to new priorities. Two tools support strong pipeline planning: the PFP and program expenditure reports. Both are generated in AidWorks.

The PFP is DFAT's primary tool and central record for managing aid program allocations and commitments, and planning and facilitating aid expenditure. All programs must have a PFP that:

- outlines a program's current and planned portfolio of investments for the current financial year plus three years into the future
- is approved by a HOM or SES and recorded in AidWorks—a function typically supported by a program's central coordination, operations or budget unit
- is updated at least quarterly to capture changes in budget allocations to account for variations in planned expenditure against investments and as end-of-financial-year processes take effect
- reflects data for current and planned investments.

Budgets cannot be spent until agreements are in place. Once an investment is designed, the process of selecting a delivery partner and putting in place an agreement can take up to six months. 'Programmed expenditure' reports enable managers to see how much of their budget is committed in agreements, and to start planning for agreements that will be needed in 12–18 months' time. As a guide, managers should generally look two years ahead and aim to have around 50 per cent of their indicative budget already committed (with agreements in place).

To ensure effective in-year budget management, HOMs and SES should:

- regularly review expenditure against the program budget—a function typically supported by a program's central coordination, operations or budget unit, which generally will prepare dashboard reports using data from AidWorks
- require investment and agreement managers to structure payments so they are spread as evenly as possible across the financial year, alleviating pressure at the end of the financial year
- ensure that investment and agreement managers and central coordination, operations and budget units keep AidWorks program data up to date, which enables accurate reporting of budget use to DFAT senior managers, including the Departmental Executive and the Aid Investment Committee
- create flexibility within the portfolio of investments to ensure full and effective use of a program's budget allocation—for example, with investments that can be readily and effectively scaled up or down, and by selective 'over-programming' in anticipation of delays to implementation and expenditure.

3.3.5   Collect evidence of outcomes and performance

Reliable performance information is needed to ensure the program remains relevant despite changes in the political and socioeconomic contexts, and that programs continue to meet overall strategic directions as set out in the AIP.

Programs with an annual total ODA allocation of $50 million or more must have a performance assessment framework (PAF) in place that includes measurable indicators for assessing progress towards a program's overall stated objectives. Smaller programs are also encouraged to have a PAF; otherwise, they must use the

monitoring and evaluation frameworks developed at the investment level as the key tools for assessing their achievement of program-level objectives (see Chapter 4).

HOMs and SES should ensure adequate resources (staff and budget) to cover program performance monitoring.

3.3.6   Prioritising evaluations

All evaluations should be commissioned and conducted to maximise the use of evaluation findings and recommendations to improve DFAT's work. To ensure evaluations are highly useful, DFAT focuses on three areas: prioritisation; quality; and systems which facilitate use.

Each year programs must prepare a list of priority evaluations for approval by the relevant FAS and inclusion in DFAT's Annual Evaluation Plan (see also Section 2.3 and Evaluation Plan template). Prioritised evaluation topics should serve to guide current and future programming. Selected evaluations may target areas where there are significant evidence gaps, issues that pose significant risks, high profile interventions or investments of high financial value. Over time programs should ensure that all significant investments are evaluated. A prioritisation tool provides further detail to assist staff in identifying priority evaluations. Selected evaluations are included in each program's Aid Program Performance Report (where applicable).

Key features of evaluation quality and use are listed in the 'In practice' box (see below). Observing these principles ensures evaluation findings are credible, robust and of value. Management responses must be completed for all evaluations and approved by the relevant Senior Manager (e.g. Assistant Secretary or Minister Counsellor). All evaluations and management responses must be published on the DFAT website within three months of an evaluation report being completed. Depending on the evaluation topic and findings, program areas may wish to prepare talking points before publishing the evaluation.

DFAT's Office of Development Effectiveness (ODE) periodically evaluates aid at the 'whole-of-program' level, including country, regional, thematic and global programs. These strategic evaluations provide additional performance information, drawing out high level lessons from across Australia's aid program. Management responses to ODE's strategic evaluations should be finalised and approved by the relevant Senior Manager within 28 days of completion of the evaluation report.

In practice: Ensuring evaluation quality and use

For DFAT to realise the full value from any evaluation, the following features should be present.

- **Independence:** To ensure objectivity evaluation teams should be led by an independent person, who is not directly involved in the management of the program being evaluated. Independence is important for credibility and often adds a useful alternative perspective. Evaluation conclusions may be debated and recommendations accepted or declined, but no undue influence should be exercised over the process or findings of an evaluation.

- **Expertise:** A team leader with evaluation expertise should lead all evaluations. If the team leader does not have the requisite sector, country or program knowledge, other team members should be engaged to provide this. Evaluation teams may include consultants or DFAT officers drawn from outside the immediate program area. Involving DFAT staff will ensure evaluation teams understand DFAT's context and have insight into

whether evaluation recommendations are appropriate and feasible. It will also ensure DFAT staff have strong ownership of, and build capacity in, evaluation.

- **Early engagement with partners:** Including partner governments and implementing partners, to the extent possible, will ensure they have ownership of evaluation design and implementation, and that they understand DFAT's evaluation requirements. Where DFAT chooses to participate in joint evaluations, or allows evaluations to be led by one of DFAT's development partners, program areas should first ensure that DFAT's quality, management response and publication requirements can be upheld.

- **Quality:** DFAT's Monitoring and Evaluation Standards help teams ensure the quality of evaluation products (including terms of reference, evaluation plans and reports). A peer review of the draft evaluation report is not mandatory but is often useful for quality assurance and information sharing purposes.

- **Ethical conduct:** Evaluation teams should adhere to the Australasian Evaluation Society's Guidelines for the Ethical Conduct of Evaluations.

- **Senior management oversight:** Evaluations can help incorporate analysis of past performance and lessons learned into DFAT's decision-making and planning processes. Senior oversight of independent evaluations helps ensure this occurs. An EL 2 should be responsible for financial and procurement approvals; clearance of terms of reference and evaluation plans; and ensuring quality assurance processes are applied. Senior Managers (e.g. Assistant Secretaries and Minister Counsellors) are responsible for approving the evaluation report and management responses for publication. All relevant SES delegates are responsible for ensuring evaluation findings inform the planning and delivery of Australia's aid.

- **Transparency:** Consistent with the Government's transparency commitments and DFAT's Evaluation Policy, evaluation reports should be published alongside a management response on the DFAT website within three months of completion. Senior Managers should also encourage appropriate staff handover, record keeping and back-end planning to help ensure follow-through to publication of the evaluation report and management response. The relevant FAS may grant exemption from publication in exceptional circumstances, in such cases a formal minute providing the rationale for non-publication is required.

See Aid Evaluation Policy and DFAT Monitoring and Evaluation Standards

3.3.7 Consider public diplomacy opportunities

Good program management includes the identification of opportunities for public diplomacy. Aid program managers should refer to DFAT's Public Diplomacy Strategy and Posts' annual public diplomacy priorities in driving support for the aid program and contributing to DFAT's public diplomacy goals.

Public diplomacy opportunities may include participating in public events linked to program or policy developments that have been supported by Australian aid investments—such as launches at Posts by Ministers or HOMs, ministerial visits, and stories or photos being provided for publication. Case studies drawn from monitoring and evaluation reporting can highlight aid achievements. In addition, carefully managed social media activity—Facebook posts; shared articles on relevant topics; tweets and use of Twitter hashtags; and retweets from stakeholders and partners—can amplify public awareness and engagement with the aid program.

3.4 PROGRAM-LEVEL PERFORMANCE REPORTING REQUIREMENTS

Performance of country and regional aid programs is reported through annual APPRs (see Chapter 2).

APPRs provide evidence-based assessment of progress against the Australian aid objectives set out in AIPs. It is not expected that all AIP objectives will be assessed as being 'on track' each year, reflecting the challenges of achieving development outcomes. As such, some of the most important aspects of APPRs are the agreed management actions to help address areas where progress is below expectations. APPRs help strengthen program management, demonstrate accountability and improve effectiveness. APPRs note any major evaluations completed during the reporting period, as well as planned program prioritised evaluations. The reporting process also provides an opportunity to discuss program performance with partner governments.

APPRs cover total Australian ODA to a country or region, not just the ODA administered by DFAT. The APPR preparation and drafting process is proportional to the value, risk and complexity of the country or regional program, as set out in the Proportionality box below.

APPRs must report on progress against performance benchmarks and progress towards mutual obligations. They must also include an overall assessment of key risks, how they are being managed and any changes to the risk profile. APPRs should include any revisions to performance benchmarks for the upcoming financial year. See the Aid Program Performance Reports (APPRs) Good Practice Note for further details.

APPRs must be peer reviewed to ensure assessment and reporting of program performance are robust and contested, and that suitable management responses are identified and implemented.

Final APPRs are approved for public release by the relevant FAS. The relevant HOM should endorse the final document before it is published on the DFAT website.

Proportionality: APPR requirements

Total yearly ODA and related requirements:

- Less than $15 million: exempt from producing an APPR unless required by the relevant FAS
- $15 million to $50 million: summary APPR required
- $50 million to $100 million: 15-page maximum APPR required
- More than $300 million: 25-page maximum APPR required.

Peer review is proportional to the program's value, risk and complexity, and should be chaired at SES level. DFAT officers from the Aid Management and Performance Branch, Development Policy Division, Gender Equality Branch and ODE must be invited to participate and given adequate notice of all peer reviews. Participants from thematic and sector areas and representatives from other government agencies can be involved, as appropriate.

ODE publishes a quality review of APPRs, summarising performance trends and assessing the credibility of the reports. The review provides useful feedback on aid program performance reporting for HOMs and SES, and is a good reference for authors wanting to improve the quality of their own APPRs.

3.4.1   Program evaluation plans

Program evaluation plans are part of all AIPs (see Chapter 2) and are reviewed and updated annually as part of the Aid Evaluation Plan and APPR process. A program's evaluation plan should be limited to evaluations that are of greatest strategic importance to the program. The mandatory Final Aid Quality Check provides an alternative means for capturing significant evidence of results and development impact, and records lessons from investments that may not merit a formal independent evaluation.

3.5 POTENTIAL PITFALLS

Reviews of program management by ACD and ODE have identified a range of common weaknesses in program management, evaluation, and performance reporting.

- A weak line-of-sight between AIP objectives, investments and the activities being implemented, results in clarity being lost.
- Lack of investment in, and capacity to undertake, monitoring and evaluation, which means there is no evidence to support investment management, in turn risking the weakening of the program-level performance narrative.
- Rating AIP objectives as 'on track' in APPRs without evidence to substantiate performance claims, or with the belief that rating otherwise will reflect negatively on program managers if progress is not as anticipated.
- Insufficient attention to pipeline planning, which leads to expenditure pressure and, potentially, poor programming choices.
- Evaluations not being published, which negatively affects DFAT's ability to learn from its own programs and on the Government's transparency commitments.

For further information about issues raised in this chapter, contact programplanning@dfat.gov.au or opeval@dfat.gov.au (for evaluation).

For details of all other key contacts, see the contacts list.

AidWorks

Senior managers can customise dashboard reporting from AidWorks to cover all operational needs. This may include financial reporting, analysing delivery partner types, tracking the number of investments and agreements, and summarising investment quality reporting data.

AidWorks supports pipeline planning via the mandatory PFP.

All programmed expenditure information is drawn from AidWorks reporting.

The budget unit monitors program expenditure in AidWorks. If data is not up to date, this can affect budget allocations and future planning.

Key resources

Policies

Aid Evaluation Policy

Guidance

ADB Partnership Framework

Aid Program Performance Report (APPR) Good Practice Note

Explanatory Note on Multilateral and Global Programs

DFAT Monitoring and Evaluation Standards

Program Planning and Management Good Practice Note [under development]

Strategic Partnership Framework UNICEF

Strategic Partnership Framework UNDP

World Bank Group Partnership Framework

Templates

Template for Annual Evaluation Plan

Evaluation Prioritisation Tool

Templates for Grants to Partner Governments or International Organisations

Aid Program Performance Report Template Full APPR (programs of $50 million or more)

Aid Program Performance Report Template –Summary APPR (programs between $15 and $50 million)

CHAPTER 4 INVESTMENT MANAGEMENT, EVALUATION AND QUALITY REPORTING

Key messages

Aid investments are designed to achieve specific outputs and outcomes, and contribute to the overall objectives of the aid program, as set out in the Aid Investment Plan (AIP).

Depending on the size and complexity of the investment, the investment manager will typically be an EL 1, APS 6, APS 5 or LES officer.

For country and regional aid programs, aid investments are often managed at Post.

Investment managers are responsible for all aspects of the investment, including overseeing agreement management and financial management.

An evaluation manager oversees and manages an independent evaluation. The investment manager or another staff member can be the evaluation manager for an investment.

Mandatory requirements

Investment and agreement managers must follow DFAT's procedures and financial management policies to ensure compliance with the Public Governance, Performance and Accountability Act 2013 (PGPA Act).

Investment and agreement managers must keep investment and agreement level data up to date in AidWorks.

Programs must complete Investment Quality Reporting: Aid Quality Checks, Aggregate Development Results and Partner Performance Assessments.

Effective management of investments ensures that:

- Australia's aid investments produce outcomes and the program's strategic objectives are met
- public funds are spent effectively according to requirements set out in relevant approvals and agreements, and that DFAT can meet its accountability requirements
- risks are identified and actively managed.

Investment quality reporting enables DFAT to review and improve its investments, assess the performance of partners and report on results. This information contributes to DFAT's assessment of how the whole aid program is performing.

4.1 WHAT IS AN AID INVESTMENT?

An aid investment is an intervention designed to achieve specific outputs and outcomes, and contribute to the overall objectives of a program. An investment may be broken down into different activities and will include agreements with a variety of partners that implement the activities. A country or regional program

will manage a portfolio of investments, which in combination aims to achieve the strategic objectives set out in the program's AIP. Figure 7 illustrates this program hierarchy.

DFAT aid investments vary in size and complexity. They typically range from $3 million to $100 million or more, and span around four years in duration, although are increasingly extending up to 10 years.

Figure 7: Aid program hierarchy
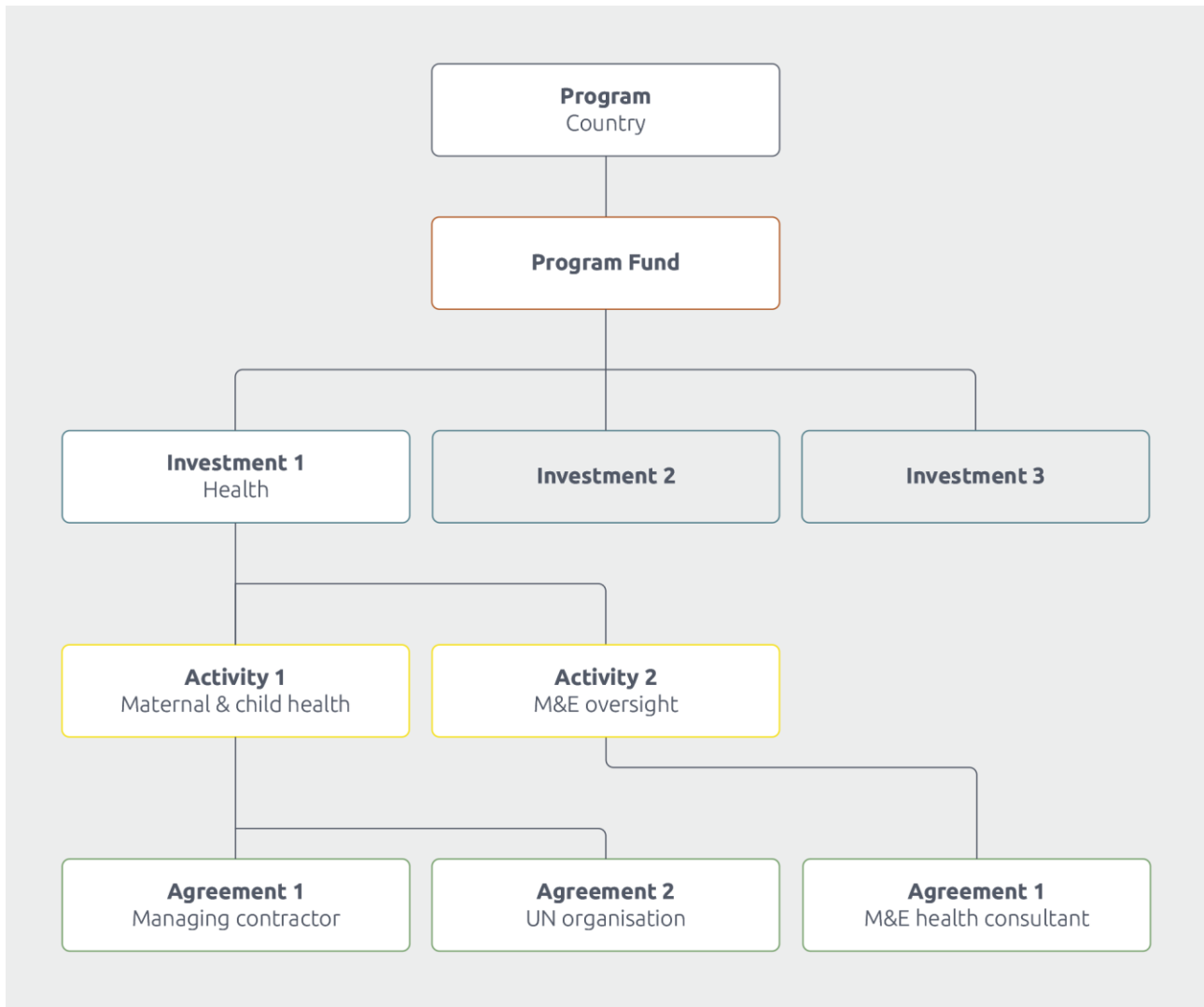
4.2 WHO ARE INVESTMENT MANAGERS AND WHAT ARE THEIR RESPONSIBILITIES?

Investment managers are responsible for all aspects of the investment, including design, implementation and monitoring. Depending on the size and complexity of the investment, the investment manager will typically be an EL 1, APS 6, APS 5 or LES officer. High-value or high-risk investments may also be managed by EL 2 officers. For country and regional aid programs, aid investments are often managed at Post.

Investment managers oversee agreement management—a responsibility that is often delegated to an LES or other officer in their team. Investment managers must ensure that AidWorks information relating to their investments is kept up to date.

Although an investment manager delegates some aspects of their role, they retain overall responsibility for the performance of the investment—such as making sure the investment delivers outcomes, funding is spent accountably and risks are well managed.

Investment managers work as a team with other managers to achieve the strategic objectives of the program.

Where an investment is included within DFAT's Annual Evaluation Plan, the investment manager will generally also be responsible for managing the evaluation.

4.3 KEY ASPECTS OF INVESTMENT MANAGEMENT

There is no set approach to managing an aid investment. Sections 4.3.1 to 4.3.7 set out management aspects common to most investments.

4.3.1 Build and maintain relationships with key stakeholders

Effective relationship management requires dedicated time; the right forums and communication channels; and appropriately identified counterparts. Strong relationships enable DFAT to participate in meaningful policy dialogue; identify and manage risks; adapt to changing context; address problems when they arise; and use the Department's influence beyond funding contributions.

While DFAT needs direct relationships with stakeholders, investment managers also need to support and connect stakeholders with each other. This support may take the form of dialogue with a partner government on policy, regulatory or budgetary constraints identified as affecting the implementation of an investment. It may also include making sure delivery partners have appropriate access to partner government officials and are able to operate effectively, consistent with local laws (such as on taxation and customs duties). See Section 3.3.1 for more details.

4.3.2 Ensure alignment with strategic objectives

During the design phase of an investment, it is crucial to make sure investments align with the investment strategy and generate desired outcomes (see Chapter 5). An investment manager, or someone on their team, will generally lead the design process. It is important for more senior managers to be engaged at major decision points throughout the design phase to maintain alignment with overall strategy.

4.3.3 Ensure strong risk management

Investment managers must manage risk throughout the design and implementation phases of an investment. This includes setting out identifiable risks in a risk register and reviewing risks at least quarterly. Significant risks must be escalated to the relevant next level of DFAT management (see Chapter 7).

4.3.4 Monitor budgets and plan for successor investments

Sound management of overall country and regional program budgets relies on accurate investment-level data being entered into AidWorks. Investment managers are responsible for:

- ensuring that program delegates' decisions on investment budget allocations are entered in an accurate and timely manner
- entering information about planned investment activities
- entering information about the timing and value of payments.

Investment managers should also pay close attention to the end point of activities and agreements to ensure there is sufficient time to confirm replacement activities in the program's pipeline.

4.3.5 Collect evidence and results

Investment managers must make sure there is sufficient evidence available to track progress, and measure and report performance. Monitoring and evaluating the performance of investments are critical tasks; information drawn from monitoring information and evaluations enables DFAT to:

- understand whether investments are achieving their intended results
- use evidence to promote continuous improvement
- respond to changes in context, and inform budget decisions made by DFAT managers and delegates
- credibly account for the investment of Australian taxpayers' money.

Strong monitoring arrangements are those that are planned, continuous and systematic, and documented in a monitoring and evaluation framework. The level of resources allocated to monitor implementation will depend on a variety of factors—including risk, historic performance, complexity, size, strategic significance and the form of aid being used.

For some investments, there will be an independent evaluation either part of the way through the investment or when the investment is completed. Evaluation supports the learning and decision-making that guides continuous improvement, as well as informing reporting and encouraging accountability. The program management team will identify which investments are priorities for evaluation (see Section 2.3 and Section 3.3.6). The 'In practice' box below provides further guidance for managing an independent evaluation.

In practice: Monitoring and evaluation frameworks

An investment manager must consider what information and evidence is required to measure and report on an investment's performance, and how best to collect this evidence. They will typically commission a monitoring and evaluation framework as part of the investment design—setting out how progress and performance will be regularly measured—and refine it during the life of the investment, responding to changes in context. At a minimum, the monitoring and evaluation framework will:

- articulate the investment's objectives, expected end-of-program outcomes and outputs
- identify potential evaluation questions and the information required to address these
- contain a schedule of monitoring activities, with details on how information will be sourced and collected (such as through surveys, site visits and stakeholder meetings)
- require monitoring of key investment deliverables—those that account for large effort and/or expenditure, and those likely to have a major influence on the extent to which the investment will meet its expected outcomes
- be easily understood by non-specialist and key stakeholders
- be costed and resourced.

Sector/Thematic Performance Assessment Notes that may help investment managers set sector-specific monitoring indicators and evaluation questions and other resources are available by sector from the Investment Priorities and Cross-cutting Issues Intranet Page.

In practice: Sources of information in the monitoring process

Aid investment managers should engage closely in the process of collecting and analysing information used to monitor investment performance. Monitoring information can be drawn from various sources.

- **Primary data:** This may be information gathered from surveys (such as household surveys and beneficiary satisfaction surveys) and other information provided by investment delivery partners, partner governments and other donors.
- **Progress reports:** These are usually prepared by delivery partners, drawing directly on information gathered from the monitoring and evaluation system. These reports should provide information on the quality, reach and coverage of key outputs or deliverables, as well as an overall assessment of progress toward end-of-program outcomes.
- **Field visits:** The investment manager must plan and conduct regular field visits to verify results and identify risks. Participation from partner government representatives is strongly recommended, as it helps reinforce ownership, resolve problems and contributes towards stronger management capabilities among local authorities. Investment managers may also engage independent consultants to participate in field visits to provide high-level technical advice and assist with monitoring and reporting.

DFAT's Monitoring and Evaluation Standards provide detailed guidance on monitoring and evaluation systems, investment progress reporting, monitoring visits and evaluation products.

In practice: Managing an independent evaluation

Aid evaluation managers are responsible for managing independent evaluation processes and facilitating their publication. Senior Managers will decide which evaluations will be conducted each year and will approve management responses.

An evaluation manager must consider all the key features for a high quality and useful evaluation (see Section 3.3.6 and the 'In practice' box: 'Ensuring evaluation quality and use'). These key features include: evaluation independence, relevant expertise within the evaluation team, early engagement with partners, evaluation quality in accordance with DFAT's Monitoring and Evaluation Standards, ethical conduct in line with the Australasian Evaluation Society's Guidelines for the Ethical Conduct of Evaluations, senior management oversight, and transparency.

DFAT's Good Practice Note on How to Manage an Evaluation and the Monitoring and Evaluation Standards provide detailed guidance for evaluation managers to:

- produce high quality evaluation terms of reference
- manage an evaluation process effectively.

Good practice examples of terms of reference, evaluation plans, evaluation reports and management responses are available at this link.

DFAT's Monitoring and Evaluation Standards also provide detailed guidance for evaluation teams to assist them in producing high quality evaluation plans and reports. An evaluation manager can organise a peer review of the draft evaluation report. A peer review is not mandatory but often useful for quality assurance and information sharing purposes.

To facilitate follow through to publication of the evaluation report and management response, evaluation managers must:

- engage early with partners (typically through the investment manager) and consultants so they understand DFAT's quality and publication expectations
- ensure appropriate record keeping and staff handover
- publish evaluation reports inclusive of management responses on the DFAT website within three months of the evaluation report being completed. Any partner-led evaluations should also be published on the DFAT website. The Good Practice Note on how to manage an evaluation provides a template for the management response at Annex A.

See Aid Evaluation Policy; Good Practice Note: How to manage an evaluation; and DFAT Monitoring and Evaluation Standards

4.3.6   Oversee agreement management, including financial management

DFAT engages its delivery partners principally using procurement, grant, whole-of-government or partner government agreements (see Chapter 6).

Investment managers must ensure that responsibility for agreement management is clearly assigned to a nominated officer.

Agreement management involves:

- planning, administering and finalising the agreement (see Chapter 6)
- ongoing relationship management, in particular so all parties, especially the partner government, understand and agree on expectations and responsibilities
- ensuring deliverables meet the required standard, are produced within the agreed timeline and achieve value for money
- certifying payments against specified milestones and/or deliverables
- identifying and monitoring risk regularly (proportional to the value, risk and complexity of the agreement)
- managing and measuring performance to ensure that all parties produce their respective deliverables and the agreement does not degenerate into dispute
- providing regular feedback on delivery partners' performance, including by completing Partner Performance Assessments (PPAs) where required
- recording and maintaining agreement and financial information in AidWorks
- ensuring delivery partners prepare regular progress and completion reports. Progress reporting provides information as agreed in the monitoring and evaluation plan, and is a key source of evidence for performance reporting. DFAT's Monitoring and Evaluation Standards provide guidance for officers on the expected standards for progress reports.

More information is available from the Australian National Audit Office: Developing and Managing Contracts Better Practice Guide and Australian National Audit Office: Implementing Better Practice Grants Administration.

In practice: Managing contracts

The aim of contract management is to ensure that all parties meet their obligations. It includes managing contractual relationships and ensuring that deliverables meet the required standard, are produced within the agreed time frame and achieve value for money.

It is important that contracts are actively managed throughout their life. This helps ensure contractor performance is satisfactory, stakeholders are well informed and all contract requirements are met.

Agreement and investment managers must be fully aware of the requirements under the contract. A contract management plan is a useful tool that supports risk management and helps ensure the investment is achieving value for money.

Financial management

Financial approval for investments is made at the agreement level (see Chapter 6). Agreement-level financial information must be kept up to date—it is reported to the Departmental Executive and the Aid Investment Committee (AIC).

The agreement manager is responsible for monitoring the financial aspects of the agreement. All payments must be made in accordance with the Financial Management Manual. This includes:

- carefully checking invoices before payment to verify that they are correctly calculated
- ensuring that the items being charged have been delivered to a satisfactory standard and in accordance with the agreement

- having payments authorised by the relevant delegate
- monitoring overall financial progress against planned budgets
- reporting required information to appropriate finance and budget coordinators in Canberra (Divisional Coordination Units) and at Posts (Senior Administrative Officer), and to finance managers and designated development officers.

In practice: Managing grant agreements

Grant agreements involve a partnership between DFAT and the grantee, which could be a multilateral organisation, a non-government organisation (NGO) or a partner government.

DFAT and the grantee are jointly responsible for setting the strategic direction of the aid investment, although DFAT has less hands-on involvement in directing and deciding operational details.

Managing a grant is more collaborative—and less prescriptive—than managing a contract.

Partner government systems

For grants that use partner government public financial management systems, the partner government's policies, plans and expenditures, and development outcomes are the focus. DFAT's role is generally to support the partner government while it implements its own programs. This is achieved by working to understand and influence the partner government's policies and systems, and to help build the partner government's capability in using these systems. See Chapter 7 for specific requirements of these types of investments.

Multilateral or NGO partners

Grants to multilateral bodies or NGOs are likely to feature in most country or regional programs. These grants also require a strong focus on partnership approaches. It is important to identify key areas where DFAT can leverage and engage with shared goals to achieve Australia's objectives. See Chapter 8 for more details.

4.3.7   Consider public diplomacy opportunities

Investment managers should use monitoring and evaluation reporting to identify achievements that can contribute to a program's public diplomacy efforts (see Section 3.3.7).

4.4 INVESTMENT-LEVEL PERFORMANCE REPORTING REQUIREMENTS

Investment quality reporting (IQR) assesses and reports on the performance and results of individual aid investments and delivery partners during the implementation of an investment or at its completion. IQR comprises three elements:

- Aid Quality Checks (AQCs), Final Aid Quality Checks (FAQCs) and Humanitarian Response Aid Quality Checks (HAQCs)
- Partner Performance Assessments (PPAs)

- Aggregate Development Results (ADR).

For detailed guidance on all elements of the process, see the Aid Investment Quality Reporting Good Practice Note.

4.4.1   Aid Quality Checks

Program areas—typically with Posts in the lead—prepare AQCs each year using evidence gathered from implementing partner reporting, monitoring visits, reviews and evaluations. The AQC process assesses the performance of an investment over the previous 12 months.

The AQC assessment enables investment managers to review how well aid investments are performing against standard quality criteria, record practical actions to improve performance and provide information about the achievements of Australian aid investments. AQCs assess investments against a number of quality criteria to inform an overall assessment of aid program effectiveness.

Proportionality: AQC requirements

- An AQC or HAQC must be completed for all aid investments worth $3 million or more. The process is optional for smaller investments.
- In the final year of an investment, an FAQC is conducted rather than an AQC.
- Independent moderation is required for all FAQCs; AQCs for investments requiring improvement (IRIs), and AQCs and HAQCs for investments valued at $10 million or more.
- AQCs are not required for investments of an administrative nature or core contributions to multilateral organisations.
- Exemption from AQC reporting may be warranted in certain limited circumstances e.g. investments that have been implemented for less than six months . Any such exemption must be approved by an SES Level 1 officer and recorded in AidWorks.
- There are no exemptions from completing an FAQC.
- AQCs, FAQCs and HAQCs must be approved by a relevant EL 2 (or above) and the investment manager must upload them into AidWorks by the due date.

FAQCs

In the final year of an investment, an FAQC is conducted instead of an AQC. Each FAQC provides information on the final performance of an Australian aid investment against planned outcomes, and should reflect on the performance of an investment throughout its life, not only in the preceding 12-month period. The FAQC report should identify lessons learned to inform future designs and strategic directions.

HAQCs

Humanitarian aid investments are those that primarily aim to save lives, alleviate suffering and enhance human dignity during and in the aftermath of disasters and other crises. For these investments, an HAQC, which uses slightly different assessment criteria, must be completed instead of an AQC. Exemption, moderation and approval provisions are the same as for AQCs.

Moderation

AQC reporting is a self-assessment system, so it is important that AQC reports undergo a process of quality assurance. Moderation ensures that the assessment and reporting of investment performance is robust and contested, and that suitable management responses have been identified and implemented.

The moderation meeting should be proportional to the investment's value, risk and complexity. It should be chaired by the relevant EL 2 (or higher) and should involve a moderator (usually EL 1 or higher) who is independent from the direct management of the program. Moderation meetings for high-value, high-risk, sensitive, complex or underperforming investment should, whenever possible, be chaired at the SES level. DFAT officers from the Gender Effectiveness Branch and other relevant thematic and sector areas can be involved, as appropriate.

The Office of Development Effectiveness (ODE) assesses the robustness of AQC ratings through an annual spot check. These reviews support the credibility of the self-reporting, and are a useful reference for AQC writers wanting to improve the quality of their reports.

Investments requiring improvement

There are strict management procedures for dealing with underperforming aid investments ('investments requiring improvement' or IRIs). Aid investments will be cancelled if value-for-money standards are not met and improvements are not achieved within one year. This allows DFAT to direct funding to aid investments with a greater chance of success.

Investments of $3 million or more that receive an unsatisfactory rating (3 or below) for both the effectiveness and efficiency criteria in their annual AQC are designated as underperforming. In such cases, the AQC should clearly outline a management action plan to improve performance.

The First Assistant Secretary of the Contracting and Aid Management Division (FAS ACD) will determine the final list of IRIs. The FAS ACD will report the status of IRIs to the Minister for Foreign Affairs, and summary numbers will be reported in the annual Performance of Australian Aid Report.

Program areas with IRIs must assign an SES officer to provide senior management oversight of the investments. A minute outlining management actions to improve performance, approved by the assigned SES, must be provided to the Aid Management and Performance Branch (MPB). IRIs are then moderated by MPB in the subsequent annual AQC.

If performance against both the effectiveness and efficiency criteria remains unsatisfactory after one year, the FAS of the relevant program area will decide whether or not the investment will be cancelled and provide a minute to the FAS ACD outlining their decision. The decision will be included in the annual advice from ACD to the Minister for Foreign Affairs.

4.4.2   Aggregate Development Results

ADRs are indicators of development impact that can be aggregated across the aid program to demonstrate the contribution of Australian aid to development outcomes in partner countries. ADRs are valuable for public diplomacy, communications on aid impact, and strategy and policy development. ADRs must be reported for all aid investments of $3 million or more, and where the resulting value exceeds the reporting threshold.

The list of ADRs and thresholds is included in the Aggregate Development Results Guidance. The relevant implementing Post or branch must report ADRs across all programs and partners. ADR reports should reflect all DFAT funding for an investment, including any results available after the investment has concluded.

Calculations of ADRs must be based on evidence; be clearly attributable to DFAT funding using a pro rata approach; be sex-disaggregated if reporting numbers of persons; and be reported consistently year on year without gaps, overlaps or double counting. Technical notes and assistance are included in the guidance to help calculate ADRs. ADRs must be approved by a relevant EL 2 or above, and uploaded in AidWorks by the investment manager by the due date.

4.4.3   Partner Performance Assessments

Each year, agreement managers must complete an assessment of implementing partners' performance in relation to specific agreements (commercial agreements and grant agreements). PPAs are mandatory for commercial suppliers, NGOs and multilateral organisations with agreements valued at $3 million or more, but are not required for partner governments that are also implementing partners or for core contributions to multilateral organisations. PPAs are used for official Australian Government purposes to inform DFAT's operations, and for internal and public reporting.

The effort involved in preparing PPAs should be proportional to the value, risk and complexity of the agreement. They do not need to be moderated, but must be approved by a relevant EL 2 and uploaded in AidWorks by the due date.

In accordance with the principles of natural justice, implementing partners must be given at least 15 days to review and respond to PPAs. Partner performance information is valid for five years and is used to inform the selection of partners. It is considered in tender evaluations, when making decisions on aid grants, and when deciding core contributions to multilateral organisations. For privacy and information-handling protocols that apply to PPAs, see the Aid Investment Quality Reporting Good Practice Note. Requests for an exemption must be made in writing to the FAS ACD.

4.5 POTENTIAL PITFALLS

Effective investment management is most commonly impacted by:

- A poor understanding of contracted or agreed implementation arrangements, which weakens DFAT's relationship with the delivery partner, undermines the quality of results and deliverables, and fosters weak and inefficient administration.
- Lack of investment in and capacity to complete monitoring, which means insufficient evidence to support investment management.
- For AQCs, a tendency to look for the positives and downplay the negatives rather than making objective judgments about performance based on progress against expected results.
- Weak engagement with the partner government, which compromises the enduring relevance of the investment and fosters weak and inefficient implementation, in turn reducing effectiveness.
- Poorly identified objectives that undermine the delivery of strong results.

For further information about issues raised in this chapter, contact programplanning@dfat.gov.au.

For details of all other key contacts, see the contacts list.

AidWorks

Investment and agreement managers use AidWorks on a daily basis to undertake every business step involved in planning, approving, implementing and reviewing their investment or agreement.

Investments must be entered in AidWorks in the planning phase.

All IQR report templates are downloaded from AidWorks.

It is critical to update information in AidWorks regularly, particularly information relating to payment events.

DFAT relies on the quality of investment-level information for all public reporting.

Key resources

Policies

Aid Evaluation Policy

Guidance

Aggregate Development Results Guidance

Aid Investment Quality Reporting Good Practice Note

Australian National Audit Office: Developing and Managing Contracts Better Practice Guide

Australian National Audit Office: Implementing Better Practice Grants Administration

Financial Management Manual

Good Practice Note: How to manage an evaluation

DFAT Monitoring and Evaluation Standards

Gender and Quality Ratings Short Note

Gender Equality in Monitoring and Evaluation Good Practice Note

Investment Priorities and Cross-cutting Issues Intranet Page

Climate Change and Disasters (Building Resilience) AQC Ratings Short Note

Templates

AQC template

FAQC template

HAQC template

PPA template

CHAPTER 5
INVESTMENT DESIGN

Key messages

High-quality investment designs underpin the effectiveness of Australian aid.

The design process should begin well before the investment is due to commence.

Each design needs to be tailored to meet the specific context and development outcome sought.

There are mandatory design requirements but sufficient flexibility exists to enable officers to determine the approach best suited to the investment.

Mandatory requirements

All investments must complete a risk and safeguards assessment to determine the design process.

There are mandatory processes for written approval to commence design, investment concepts, design documentation, quality assurance and approval. Requirements depend on size, risk profile and design approach (DFAT-led or Partner-led). See Figure 8.

All investments must meet the investment design quality criteria.

All investments valued at $50 million or more must consider innovative ways to promote private sector growth or engage the private sector.

Investment design sets out the clear logic between the outcomes sought; intended investment activities and implementation arrangements; and how progress towards outcomes will be measured.

The design document forms the basis of a procurement or grant process, including the agreement documentation.

A good-quality design process takes into account context, involves meaningful engagement with stakeholders (particularly partner governments), and is informed by evidence and analysis. Designs should take full account of the lessons documented through the evaluation of other relevant investments.

5.1 WHAT ARE THE TYPES OF DESIGN?

In DFAT there are two approaches to design.

- **DFAT-led design:** In these cases, DFAT manages the design process, and draws on external expertise as appropriate. See Good Practice Guide: DFAT-led Design.
- **Partner-led design:** In these cases, a partner—such as a multilateral development bank, non-government organisation (NGO) or a UN agency—leads the design process. DFAT may have opportunities to participate in and influence the design. See Good Practice Guide: Partner-led Design.

In practice: DFAT-led design processes

Leading on managing a DFAT led design is one of the most important and rewarding tasks for staff involved in Australia's aid program. The design process supports staff to meet all their legal obligations, to obtain guidance from senior managers and to learn from the experiences of past activities. The process provides the flexibility for staff to consider all the options available and determine the most effective approach for the specific context.

5.2 WHAT ARE THE MAIN STEPS FOR A DESIGN PROCESS?

There are two broad phases and seven steps in a design process. The requirements at each step are proportional to the size and risk of the investment, and vary for DFAT-led or partner-led designs. Figure 8 lists the mandatory requirements for both approaches.

Planning phase: Identification, risk assessment and written approval to commence design

Step 1—Identification: Planning for a new investment or a further phase of an existing investment should start about two years before the required start date of the investment, to allow time for necessary research and/or evaluation. Investment managers should discuss the program pipeline with more senior managers and determine what investments are required to support the programs' strategic direction. This will require consideration of the Aid Investment Plan and the Program Fund Plan (PFP) and any policy shifts or programming imperatives. Investment managers should consider and commission research and/or evaluation of existing investments to inform the new design. Managers should identify consultants for the design team and other assistance required to support the design process. See Good Practice Guide: DFAT-led Design for more details.

Step 2—Risk assessment: The key step to initiating a design is to undertake an assessment of risk and safeguards. This must be completed for all investments. The level of risk and value of the investment determines the design process and approval requirements.

Step 3—Approval to commence: Formal written approval to commence design is obtained from the relevant delegate. This approval moves the investment into the design phase.

Design phase: Concept, design, quality assurance and approval

Step 4—Concept: Where an investment is valued at $10 million or more, or if it is assessed as high risk, an investment concept is mandatory. Preparation and approval of a concept note typically takes three to four months, depending on complexity and risk. Once the concept (if required) is approved, the investment proceeds to design.

Step 5—Design: Producing a design can take six to nine months, depending on the complexity of the investment. Meaningful engagement with partner governments, the private sector, beneficiaries, development partners and civil society organisations (including those representing women, people with disabilities and Indigenous peoples) is essential in the design process. The design document must set out the clear logic between the outcomes sought, intended activities and implementation arrangements, and how progress will be measured. For partner-led designs, an investment design summary document is prepared. Early identification of the investment's draft objectives—and early engagement with DFAT stakeholders—will expedite the design process (see the contacts list for key contact points).

Step 6 — Quality assurance: The quality assurance process aims to improve quality and ensure the intended investment is fit for purpose.

Step 7 — Approval: The final step of the design process is approval by the relevant program delegate. The investment then moves to financial approval and the procurement process. Procurement processes can take up to six months, including finalising tender and contract documents, advertising, tender assessment and recommendations of preferred tenderers (see Chapter 6).

In practice: Partner-led design processes

Partner-led design processes are typically less burdensome for DFAT, but may provide less opportunity to influence the investment. The best time for DFAT to exercise influence in a partner-led design is when it is in the concept phase. Early engagement can ensure that Australian requirements (for example, gender and safeguards) are met. Where DFAT has limited ability to shape existing partner activities DFAT delegates must be assured that the investment is consistent with Australian policy requirements, including safeguards. For more information, see Good Practice Guide: Partner-led Design.

Figure 8: Proportionality—Mandatory design requirements

		LESS THAN $3 MILLION	$3 MILLION OR MORE	$10 MILLION OR MORE	$50 MILLION OR MORE	$100 MILLION OR MORE	HIGH-RISK (ANY VALUE)
PLANNING	**Risk and safeguards assessment tool** (DFAT-led, Partner-led)	!	!	!	!	!	!
	Written approval to commence design (DFAT-led, Partner-led)		!	!	!	!	!
DESIGN	**Investment concept approved by AIC** (DFAT-led, Partner-led)					!	!
	Investment concept approved by relevant delegate (DFAT-led, Partner-led)			!	!	!	!
	Investment design document (DFAT-led)		!	!	!	!	!
	Investment design summary (Partner-led)		!	!	!	!	!
	Independent appraisal (DFAT-led, Partner-led)			!	!	!	!
	Peer review (DFAT-led, Partner-led)				!	!	!
	Design approved by delegate (DFAT-led, Partner-led)	!	!	!	!	!	!
AGREEMENT	**Prepare and sign agreement** (DFAT-led, Partner-led)	!	!	!	!	!	!

* Investments of less than $3 million and low-risk investments do not require a design document and move straight to financial approval.

5.3 HOW IS A DESIGN INITIATED?

5.3.1 Complete the risks and safeguards assessment

A risk and safeguards assessment must be undertaken for all proposed investments as this will inform design approval requirements. Do this using the Risk and Safeguards Assessment Tool. If an investment is assessed as high-risk, the investment manager must prepare an investment concept and the AIC must approve it. If an investment triggers safeguard concerns (see Chapter 7), DFAT must manage these safeguards during the design and implementation phases.

For investments that plan to use partner government financial systems, it is important to check if there is a current Assessment of National Systems in place (see Chapter 7).

Low-risk investments valued at less than $3 million do not require a design document and can proceed direct to financial approvals.

5.3.2 Obtain written approval to commence design

All high-risk investments and investments of $3 million or more require written approval before design can commence. The written approval ensures senior managers are aware that the investment is moving from the planning stage to the design stage. It gives delegates the opportunity to shape the design approach and focus of the investment.

Delegates may be asked via email or a formal minute for their written approval to commence design. The request does not need to include a detailed explanation of the planned investment, but as a minimum it should:

- nominate the delegates (see the 'In practice: Who is the right delegate?' box) who will approve the investment concept (if required), the final design and any *Public Governance, Performance and Accountability Act 2013* (PGPA Act) approvals
- confirm that the PFP has budget available to meet the costs of the investment design process, and the investment itself
- define the investment's risk rating (high or low), based on the Risk and Safeguards Assessment Tool
- set out the planned design process, including the design management arrangements; likely time and resource demands on DFAT officers, partners and consultants; expected quality assurance (QA); and proposed procurement processes.

For high-risk investments and investments of $10 million or more, an investment concept must be prepared once the approval to commence has been granted.

5.3.3   Prepare the investment concept

An investment concept—prepared by the program area using the Investment Concept Template—explains important details about the planned investment and how the design process will proceed. The investment concept should not exceed five pages (excluding annexes). For further information, see Good Practice Guide: Investment Concept.

For investments valued at $100 million or more or those rated as high risk, the AIC must approve the investment concept before it can be approved by the program delegate and move to design. AIC minutes will record any requirements the AIC has of the design process or documentation. Programs that need to place a concept on the AIC agenda should contact AICSecretariat@dfat.gov.au.

All other investment concepts are approved by the relevant program delegate.

5.3.4   Select and mobilise a design team

A small team of three to five people usually produces the investment design document. The investment manager identifies and contracts the right combination of expertise and oversees the design process. DFAT officers can also be part of the team. It is important to ensure that the design team is briefed and understands DFAT's and the partner government's expectations. Membership of a design team may preclude individuals or firms from bidding for investment implementation contracts. For further information on how to engage the right team, see Terms of Reference for Design Teams.

5.4 WHAT IS INVOLVED IN PREPARING A DESIGN?

Designing an investment involves determining the objectives, delivery approach, partner type, form of aid, agreement type and implementation arrangements. It is important to assess the alternatives and identify the option that will achieve the best development outcomes for the country or regional context. The broad options to be considered are set out in Figure 9.

Figure 9: Principal aid investment options

APPROACHES TO DELIVERY

Facility-based approaches
Humanitarian and disaster response
Program-based approaches
Project approaches
Sector-wide approaches

FORMS OF AID

Budget support
Core funding of a partner
Experts and technical assistance
Pooled funding/co-financing
Scholarships and training
Supply of goods/services, payment of costs
Volunteers

TYPES OF DELIVERY PARTNERS

Academic research institutions
Australian international and national NGOs
Managing contractor
Multilateral development organisations
Official bilateral international development agency
Other Australian Government agencies
Partner governments
Regional organisations

AGREEMENT TYPE

Grant agreement
Partner government agreement
Procurement agreement
Whole-of-government agreement

5.4.1   Documentation required

Every investment valued at $3 million or more requires either an investment design document (for DFAT-led designs) or an investment design summary (for partner-led designs). These must meet the Investment Design Quality Criteria. The level of detail in a design document should be proportional to the risk, value and complexity of the investment.

An investment design document explains what the investment will achieve and how it will be implemented and measured. The design must clearly identify roles, responsibilities and accountabilities for delivery, and specify clear outputs and outcomes for inclusion in a contract or agreement. The Investment Design Document Template sets out a structure, although programs are not bound by it and officers should consider the best approach and document structure for their circumstances.

The investment design summary should assure the delegate that the proposed investment meets DFAT's design quality criteria, and is aligned with Australia's strategic priorities (see Section 2.5 and the Investment Design Summary Template). The investment design summary, which will draw heavily on the partner's design document or equivalent, must explain how DFAT will engage with and manage the investment.

5.5 FINALISING A DESIGN

5.5.1 Quality assurance

Quality assurance (QA) seeks to improve the quality of an investment. DFAT assesses the quality of designs, concepts and investment design summaries against the Investment Design Quality Criteria. The program area coordinates the QA process. All investment concepts and designs worth $10 million or more must be formally quality assured. For investments of $10 million or more, a written appraisal from an independent (internal or external) expert is required.

High-value and high-risk designs require a greater level of scrutiny. For investments worth $50 million or more—or those assessed as high risk—a formal peer review of the design must be undertaken. Sector specialists and representatives from the Contracting and Aid Management Division (ACD) and the Development Policy Division (DPD) must be invited to the peer review. Draft design documents (and any completed independent appraisal) should be provided to peer reviewers at least 10 working days before the peer review meeting.

See the Quality Criteria Assessment Tool and Good Practice Quality Assurance of Your Design.

5.5.2 Proceeding to implementation

Once the relevant delegate has approved the investment design, it moves to financial and procurement approval (see Chapter 6). Design approval is informed by the QA process, but is ultimately the delegate's responsibility. Investment design documents are published on the DFAT website; see the Checklist for Delegates Approving Design Documents.

Figure 10 DFAT-led design pathway
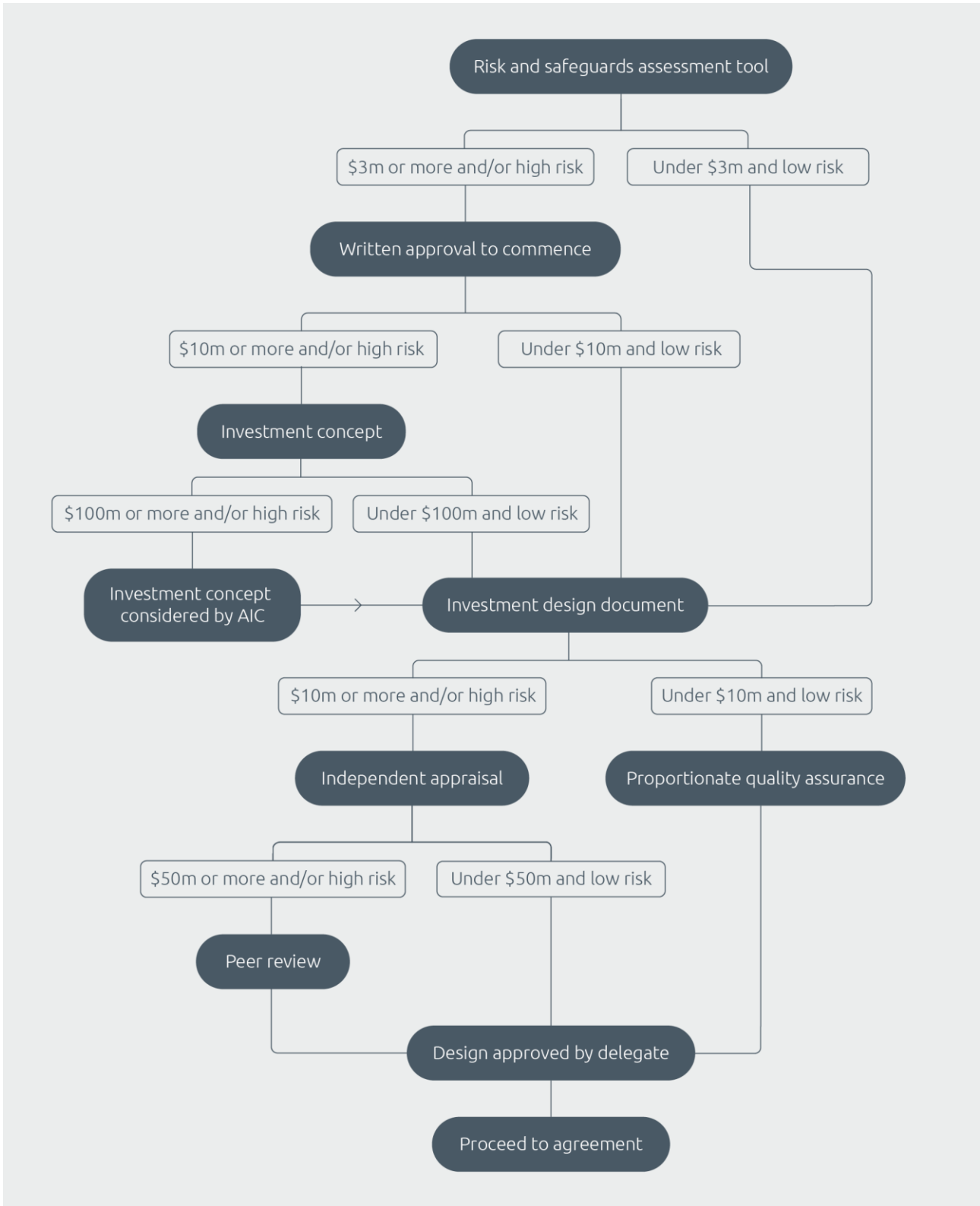
Figure 11 Partner-led design pathway: design finalised by partner

Risk and safeguards assessment tool

$3m or more and/or high risk — Under $3m and low risk

Investment design summary (IDS)

$10m or more and/or high risk — Under $10m and low risk

Independent appraisal — Proportionate quality assurance

$50m or more and/or high risk — Under $50m and low risk

Peer review

$100m or more and/or high risk — All other investments

IDS considered by AIC

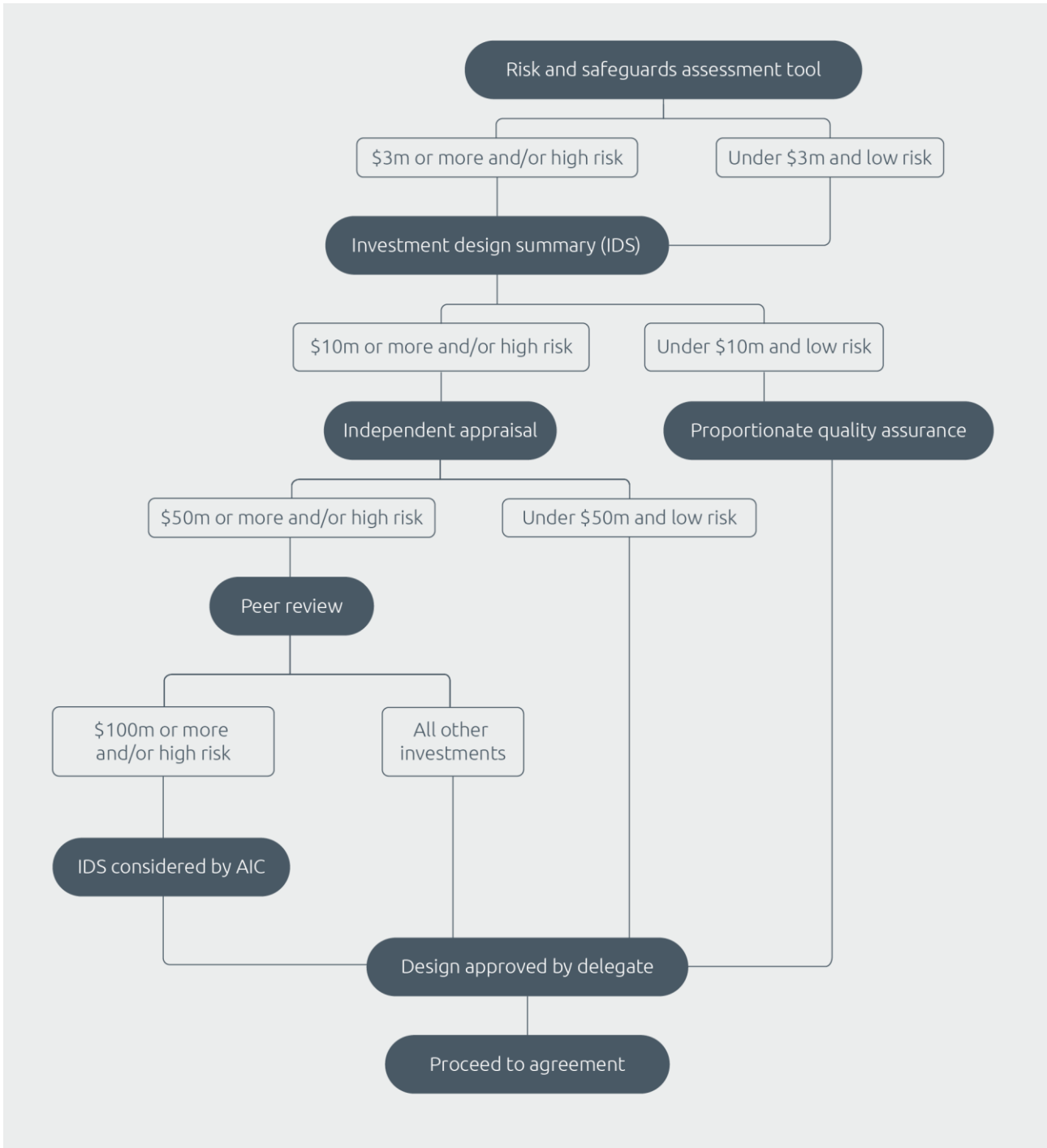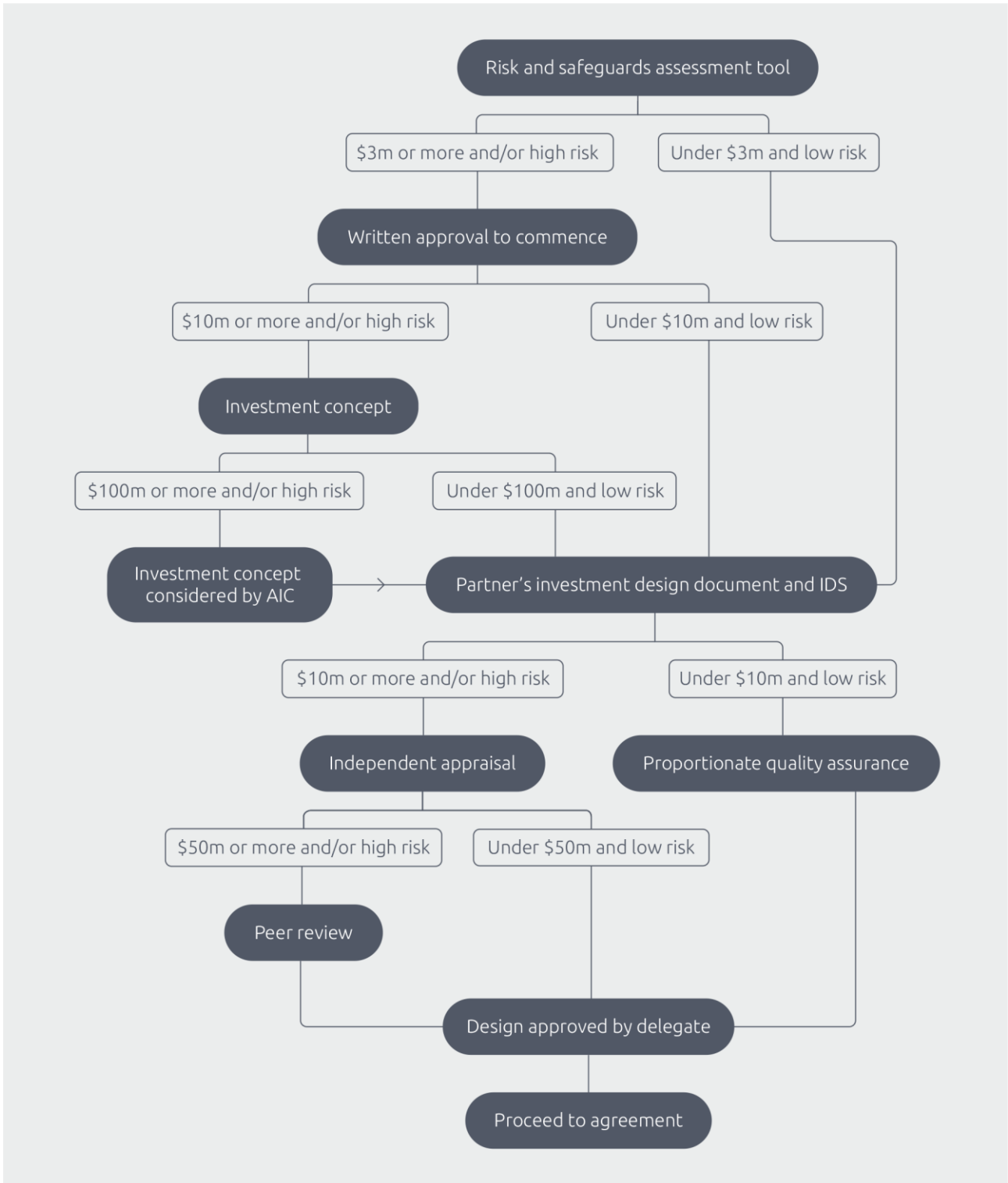Design approved by delegate

Proceed to agreement

Figure 12 Partner-led design pathway: design not yet finalised by partner

5.6 EXEMPTIONS TO MANDATORY DESIGN REQUIREMENTS

Certain types of investments do not need to follow the mandatory design requirements. These are:

- humanitarian and disaster assistance investments of less than 12 months duration
- Australian Civilian Corps deployments
- core contributions made to NGOs under the Australian NGO Cooperation Program
- core contributions made to multilateral organisations that have been reviewed (and found to have performed satisfactorily) through a DFAT Multilateral Performance Assessment (or the former Australian Multilateral Assessment) and/or by the Multilateral Organisation Performance Assessment Network (MOPAN). For more information, contact multilateralperformance@dfat.gov.au.

In other specific circumstances, the First Assistant Secretary of the Contracting and Aid Management Division (FAS ACD) may exempt an investment from the mandatory design requirements. For example, if DFAT intends to undertake a subsequent phase of an existing investment and there is sound evidence that the investment is performing well, the mandatory design requirements may not be required. In such cases, it may be sufficient to update the existing agreement or contract and re-tender the investment. Before approaching the FAS ACD in these situations, investment managers should contact designmail@dfat.gov.au.

5.7 POTENTIAL PITFALLS

Reviews of investment design documents, and performance assessments of investments, highlight a consistent set of potential pitfalls.

- Poor planning causes most design problems. Failing to prepare properly may:
  - mean the expertise required to help write the design documentation is unavailable
  - lead to disengaged stakeholders (partner governments, beneficiaries and DFAT officers) who are not committed to implementation
  - result in cursory review and QA processes. Weak QA leads to less sharing of lessons learned, so risks tend not to be recognised and good ideas may be missed
  - cause stress between desks, posts and stakeholders.
- Failure to engage senior managers at the right points in time. It is important to test ideas with senior managers as the design process unfolds, and regularly update them, remembering that a low-risk, low-value design will require fewer discussions than a high-value or high-risk design.
- Inadequate hands-on management by DFAT officers, which can cause the design process to 'drift'. Design processes need strong, active management to help keep processes on track and within budget.
- Analysis paralysis. Adequate information and analysis are essential factors informing an investment design, and aid investments must be sensitive to context. However, there should be clear parameters and discipline around time frames and efforts to ensure appropriate return for effort.
- Designs that are overly complex or impractical, making it difficult to contract or achieve agreement.

For further information about issues raised in this chapter, contact designmail@dfat.gov.au.

For details about all other key contacts, see the contacts list.

AidWorks

Once finalised, all design documents must be uploaded into AidWorks. DFAT relies on the quality of investment and agreement-level data to inform and complete its public reporting obligations.

Key resources

Guidance

Gender Equality in Design Good Practice Note

Good Practice Guide: DFAT-led Design

Good Practice Guide: Investment Concept

Good Practice Guide: Partner-led Design

Good Practice Quality Assurance of Your Design

Investment Design Quality Criteria

Terms of Reference for Design Teams

Explanatory Note on Program Logic

Templates and tools

Checklist for Delegates Approving Design Documents

Investment Concept Template

Investment Design Document Template

Investment Design Summary Template

Quality Criteria Assessment Tool

Risk and Safeguards Assessment tool

CHAPTER 6
PROCUREMENT, GRANTS AND APPROVALS

Key messages

Procurement and grants help DFAT meet its aid program objectives by efficiently and effectively engaging delivery partners.

DFAT's procurement and aid grants policy and guidance ensure that procurement and aid grants processes are legal and appropriate, and minimise risk. Processes are proportional to the value, risk and complexity of the investment.

Officers should actively consider the most appropriate type of agreement to meet investment objectives early in the planning and design phase.

Financial delegates are personally accountable for their decisions and actions, and must operate within their delegation levels and legislative obligations.

The Procurement Policy, relevant procurement guideline (Basic, Simple or Complex) and the Aid Grant Policy and Procedures outline requirements for ensuring the mandatory processes set out below are met.

Mandatory requirements

There are three mandatory approvals which apply to aid grants and procurement: Approval to Approach the Market; Approval of Evaluation Outcome; and Approval to Commit and Enter into an Arrangement.

For Complex Procurements (those over $500,000 (inclusive of GST) and/or high risk), officers must use an Open Tender approach unless otherwise approved.

A competitive, merit-based selection process must be used to award aid grants unless the delegate approves otherwise.

The Contracting Services Branch (CVB) manages Complex Procurements on behalf of the program. CVB must clear approval minutes and supporting documents for procurement and grant processes valued at $500,000 or more.

The Commonwealth Indigenous Procurement Policy must be applied to procurements valued between $10,000 (inclusive of GST) and $200,000 (inclusive or GST).

Aid advisers must be engaged in accordance with the Aid Adviser Remuneration Framework (ARF) unless the FAS ACD approves an exemption.

DFAT's procurement processes are set up to:

- help DFAT deliver the Australian aid program by efficiently and effectively engaging delivery partners
- ensure taxpayer funds are well spent by requiring the proper use of Commonwealth resources, value for money and compliance with legislative requirements
- manage significant commercial, legal and reputational risks associated with delivery partners.

6.1 WHAT IS PROCUREMENT?

Procurement is the purchase of goods and/or services for the benefit of the Australian Government. By following the procurement process, DFAT is buying an agreed service or good at an agreed standard, for an agreed price and schedule.

In relation to aid investments, procurement often involves tendering for the services of a supplier to implement an investment on behalf of the Department, but can also involve contracting for a specific service such as design or monitoring and evaluation.

DFAT procurements are categorised according to value and risk.

- **Basic Procurement.** This includes straightforward, low-risk procurements valued at less than $10,000 (inclusive of GST). Value-for-money provisions in the Commonwealth Procurement Rules (CPRs) still apply. See the Basic Procurement Guideline on the Procurement Policies and Guidance page.
- **Simple Procurement.** This includes simple, low-risk procurements valued between $10,000 (inclusive of GST) and $500,000 (inclusive of GST), except where an existing panel is used (in which case the threshold is procurements valued at less than $3 million (inclusive of GST)). See the Simple Procurement Guideline on the Procurement Policies and Guidance page.
- **Complex Procurement.** This refers to procurements valued at or above $500,000 (inclusive of GST) —or above $3 million (inclusive of GST) when an existing panel is used—or procurements that are deemed to be high risk. An Open Tender must be used (unless one of a small number of CPR exceptions is approved) and additional mandatory requirements apply to the procurement process. Contact CVB for more information, and see the Complex Procurement Guideline on the Procurement Policies and Guidance page.

6.2 WHAT ARE AID GRANTS?

A grant is an arrangement for providing financial assistance in which the funds are paid to the recipient to help it achieve its goals (while also addressing one or more of the Australian Government's policy objectives).

Grants are widely used to achieve government policy objectives and priorities for the Australian aid program. They include grants that are competitively or directly awarded, and they help support DFAT's partnership with organisations and partner governments.

6.3 WHAT LEGISLATIVE REQUIREMENTS APPLY TO PROCUREMENT AND AID GRANTS?

DFAT's procurements and aid grants are governed by legislation and DFAT's policy framework, including:

- the *Public Governance, Performance and Accountability Act 2013* (PGPA Act)
- the *Financial Framework (Supplementary Powers) Act 1997* (FFSP Act)

- Commonwealth Procurement Rules (CPRs), which set out the mandatory procurement rules and requirements
- Commonwealth Grants Rules and Guidelines (CGRGs), which set out the mandatory grant rules and requirements
- The DFAT Procurement Policy
- The relevant procurement guidelines (Basic, Simple, Complex)
- The DFAT Aid Grants Policy and Procedures.

6.4 WHAT IS VALUE FOR MONEY

Value for money (VFM) means encouraging competition, appropriately managing risk, acting in an accountable and transparent manner, and using resources in line with 'the four Es': effectively, efficiently, ethically and economically.

VFM is the key consideration underpinning all investments. It must be achieved during the process of establishing the agreement and throughout the life of the agreement. DFAT's Value for Money Principles build on the requirements of the PGPA Act, CPRs and CGRGs, to ensure proper use of Australian Government resources and to help inform decisions.

DFAT's policies are outlined in the DFAT Procurement Policy, the DFAT Aid Grants Policy and Procedures, the Financial Management Manual and related guidance available on the Procurement Intranet Page and the Procurement Policies and Guidance page.

6.5 WHO IS RESPONSIBLE FOR PROCUREMENT AND AID GRANTS?

Officers at all levels working on the aid program are likely to be involved in procurement and grants. Investment and agreement managers are responsible for the procurement or grant process associated with their investments. They prepare the necessary documentation for delegate approval, and manage implementation of the procurement or grant activity. Officers should consider all aspects relating to procurement early in the planning and design stages of an investment. They should also engage with CVB early in the process to seek advice on the appropriate approach and to discuss the different options available.

Financial delegates are responsible for approving procurements and aid grants under the PGPA Act. They are personally responsible and accountable for their decisions and actions, which they must carry out within their delegation levels and in accordance with DFAT requirements. They must ensure that a proposed aid investment represents a proper use of Australian Government resources and meets legislative and departmental requirements.

CVB manages and undertakes complex and high-risk aid procurements, in close collaboration with the relevant program area. CVB manages the procurement and aid grants policy frameworks, guidance, tools and templates, and offers a range of practical and interactive training options focusing on what officers need to know about procurement, contracting and contract management.

> ### In practice: Using procurement and grant templates
>
> Officers must use the templates available from the Procurement Intranet Page and Procurement Approval and Agreement Templates to prepare the relevant financial and procurement approval and agreement documentation.
>
> These templates are pre-approved and give effect to mandatory legislative and departmental requirements to protect DFAT's interests and appropriately manage risk.

6.6 WHAT ARE THE KEY DELEGATE APPROVALS FOR A PROCUREMENT OR AID GRANT?

There are three delegate approvals, regardless of the agreement type: Approval to Approach the Market, Approval of Evaluation Outcome, and Approval to Commit and Enter into an Arrangement. The Procurement Policy, relevant procurement guideline (Basic, Simple or Complex) and the Aid Grant Policy and Procedures outline the appropriate processes to seek these approvals. For relevant templates see Procurement Approval and Agreement Templates.

These approvals ensure delegate oversight and an auditable record of decision-making.

6.6.1 Approval to Approach the Market

The Approval to Approach the Market outlines the spending proposal; estimated value; method of approaching the market or supplier; key risk areas and their mitigation strategies; and how VFM will be achieved. The method of selection proposed should be proportional to the size, scale and risk profile of the agreement and must deliver VFM. The approval must be obtained before approaching the market or supplier.

- Once the financial delegate has approved the approach, officers must undertake a relevant process (a grant or procurement process in accordance with the approved method) and issue the request for tender, quote or grant guidelines. Responses must be evaluated and the outcome of the assessment documented, outlining how the relevant proposals offer VFM. See the DFAT Procurement Policy on the Procurement Policies and Guidance page for further guidance

6.6.2 Approval of Evaluation Outcome

The Approval of Evaluation Outcome outlines the selection process used, proposals received, how the evaluation outcome satisfies VFM requirements, issues for negotiation and risks. Evaluation outcomes must be documented and approved before notifying potential suppliers of the outcome or commencing negotiations (if required). The Approval of Evaluation Outcome should be proportionate to the size, scale and risk of the agreement.

6.6.3 Approval to Commit and Enter into an Arrangement

The Approval to Commit and Enter into an Arrangement outlines the spending proposal, details the outcome of negotiations (if required), confirms funding and seeks approval to sign an agreement. This approval must be received before signing an agreement. This confirms that the services or goods are a current business requirement, there are sufficient funds available and the overall risk to the Commonwealth is manageable.

Proportionality: CVB clearance and assistance

Approval to Approach the Market

For aid grant and procurement agreements valued at $500,000 (inclusive of GST) or more—or high-risk arrangements—the draft Approval to Approach the Market minute, along with the tender or grant documents, must be cleared by CVB before seeking financial delegate approval. CVB will review and provide guidance where necessary to ensure the proposal delivers VFM and meets legislative and DFAT requirements.

For CVB-managed procurement processes (arrangements valued at $500,000 (inclusive of GST) or more when not using a DFAT or other government panel, or $3 million (inclusive of GST) or more when using a panel), CVB develops the request for tender in consultation with the program area. Business areas are responsible for conducting aid grant processes.

CVB clearance is an important step to ensure legislative and departmental requirements are met and risks are mitigated.

Notes:

A ministerial submission does not constitute Approval to Approach the Market.

Approval minutes and agreement documents valued below $500,000 (inclusive of GST) do not require CVB clearance, but officers may contact CVB for advice.

Approval of Evaluation Outcome

CVB manages procurements valued at $500,000 (inclusive of GST) or more, or $3 million (inclusive of GST) or more when using a panel. In doing so, it prepares the Approval of Evaluation Outcome minute, which must be approved by the appropriate financial delegate before CVB notifies bidders and commences negotiations. Preparing this approval following a grant process is the responsibility of the program area, but must be cleared through CVB for grants of $500,000 (inclusive of GST) or more.

Note: Approval minutes below $500,000 (inclusive of GST) do not require CVB clearance, but officers may contact CVB for advice.

Approval to Commit and Enter into an Arrangement

This minute includes two separate delegations, namely:

- approval to spend the money—providing the financial commitment under s23 of the PGPA Act
- approval to enter into (sign) an agreement for administered aid funding, under s32B of the FFSP Act.

Both the draft approval minute and the draft agreement, for agreements of $500,000 (inclusive of GST) or more, must be cleared by CVB before seeking approval from a financial delegate.

Note: Approval minutes for agreements valued below $500,000 (inclusive of GST) do not require CVB clearance, but officers may contact CVB for advice.

6.7 WHAT TYPE OF AID AGREEMENT IS APPROPRIATE?

There are four key types of aid agreements:

- procurement agreements (contracts and services orders under panels)
- aid grant agreements
- whole-of-government agreements (records of understanding)
- partner government agreements and subsidiary agreements.

Most aid investments will involve either a procurement contract or a grant agreement. The choice between the two will depend on DFAT's intentions regarding scope of control over the direction setting and operational details of the aid investment, as well as the nature of the relationship DFAT wishes to have with the partner. Grants are usually more collaborative than contracts, and not as prescriptive or focused on service delivery.

A key difference between the two occurs during implementation. With a grant agreement, DFAT and the grantee can be jointly responsible for setting the strategic direction of the aid investment and DFAT has less direct involvement in directing or deciding operational details. In a procurement contract, DFAT is directly involved in the day-to-day decision-making.

It is best to seek CVB advice at an early stage in investment planning to determine which type of agreement (grant or procurement) is most appropriate. Processes and requirements vary depending on the type of agreement, as each involves different legislative and departmental requirements.

6.7.1   Procurement process and agreements

Procurement agreements include contracts and service orders under panels or standing offers. The agreement sets out the details of what the partner has agreed to do for DFAT. Matters such as deliverables, time frames, payments and dispute resolution procedures can all be set out in a contract, which becomes the basis for managing the agreement. Refer to the relevant procurement guideline (Basic, Simple, Complex) for detailed information on the procurement process.

Commonwealth Indigenous Procurement Policy

The 'Indigenous mandatory set-aside requirements' provide greater access to Commonwealth contracting opportunities for Indigenous small and medium enterprises (SMEs). For procurements where the requirements apply (those valued between $10,000 and $200,000 (inclusive of GST)) officers must first seek to procure from Indigenous SMEs before approaching the wider market. If an Indigenous SME is able to deliver the goods or services on a VFM basis, officers must procure the goods or services from that enterprise.

See the Indigenous Procurement Policy for more detailed guidance.

Aid Advisory Services Standing Offer

The Aid Advisory Services Standing Offer (AAS) is a panel offering streamlined access to high-quality aid advisers across 18 categories of key aid services. The AAS can be used to efficiently engage suppliers for a wide range of activities, ranging from placement of individual advisers through to implementation of agreements valued up to $50 million (inclusive of GST).

Agreement managers may undertake AAS procurements up to $3 million (inclusive of GST), subject to CVB clearances over $500,000 (inclusive of GST). CVB leads AAS procurements valued at $3 million (inclusive of GST) or more.

Refer to the AAS Intranet Page for further information.

Aid Adviser Remuneration Framework

The Aid Adviser Remuneration Framework (ARF) defines procedures for determining the remuneration of aid advisers. It outlines prescribed adviser rates and allowances.

The ARF ensures that adviser remuneration is appropriate for the type and level of technical expertise required for each task. Framework rates are benchmarked against Australian labour market data and rates paid by other donors to ensure rates represent VFM. All aid advisers—whether funded through administered or departmental funding—must be engaged in accordance with the ARF, unless the FAS ACD has approved an exemption. Information on aid adviser remuneration is publicly reported.

All adviser rates under the AAS are consistent with the ARF.

See the ARF Guideline and the Guideline on Remuneration above the Market Reference Point and Maximum Pay Point on the ARF Intranet Page for further information.

In practice: Innovative Complex Procurements and grants

CVB can provide advice and guidance on procurement and contracting options, including innovative approaches.

Examples include:

- putting an open approach to the international market (called an Open Tender or competitive call for grant proposals)
- collaborating with program areas to determine the most appropriate evaluation process for the proposed investment
- tailoring evaluation criteria
- developing non-prescriptive statements of work
- taking innovative 'design and implement' approaches
- linking program outcomes or partner performance with payment regimes.

6.7.2   Aid grant process and agreements

- An aid grant agreement sets out the activity proposal and budget, roles and responsibilities, tranche schedules, reporting and duration of the activity. See the Aid Grant Policy and Procedures on Procurement Policies and Guidance page for detailed information on aid grant processes.

In practice: Key principles for awarding a grant

In line with the CGRGs the key principles that apply to the award and administration of grants include:

- robust planning and design
- collaboration and partnership
- proportionality
- outcome orientation
- value for money
- governance and accountability
- probity and transparency.

DFAT's Value for Money Principles apply equally to aid grants and procurements.

Competitive open aid grants

Competitive open aid grant activities aim to achieve specific policy or program outcomes. DFAT invites submissions from external organisations. Under the CGRGs, competitive open grants and responses from external organisations are assessed on the basis of competitive, merit-based processes with defined selection criteria.

Directly awarded aid grants (limited tender)

DFAT may award grants through smaller competitive processes that are only open to a small number of possible partners in direct support of a single activity or as core funding to organisations with which it has a strategic partnership. These grants may support the activities of multilateral development organisations (such as development banks, United Nations agencies and sector funds) as well as partner governments, non-government organisations (NGOs), academic or research institutions and other development partners.

Where a DFAT officer seeks financial delegate approval to award an aid grant directly through a limited tender, the Approval to Approach the Market must include an explanation of how the proposed approach will achieve VFM in the absence of competition.

In practice: Established grant arrangements

DFAT has established grant arrangements with a number of multilateral organisations and for providing funds directly to partner governments. Templates may already have been negotiated with these parties.

Officers are advised to contact the Procurement and Commercial Law Section (PCL) at PCL@dfat.gov.au for further information on multilateral organisation grant templates, and the Public Financial Management Advisory Services Section (FNS) at FNS@dfat.gov.au for assistance on funding arrangements with partner governments.

Officers may also contact CVB for further information on other grant agreements, including those involving NGOs or research and academic institutions.

6.7.3 Whole-of-government agreements

DFAT partners with a range of Australian Government agencies to deliver development assistance. PGPA Act agencies cannot contract with each other because they are part of the Commonwealth and thus part of a single legal entity, so these partnerships are formalised through Records of Understanding (ROUs). Unlike procurement contracts and aid grants, ROUs are not legally binding.

DFAT has head ROUs with a number of Australian Government agencies. These articulate partnership principles, shared goals, agency contributions to activity development and general accountability requirements, but do not include financial obligations. The parties can enter into Activity Schedules when funding specific activities.

Once negotiated with the relevant Commonwealth agency, the ROU should be cleared by CVB (if valued at $500,000 (inclusive of GST) or more) and then approved by the relevant financial delegate as part of the standard procurement and grant and financial approvals process. More detailed advice about ROUs, templates and frequently asked questions can be found on the Aid Record of Understanding Guidance Intranet Page.

6.7.4 Partner government agreements and Subsidiary Arrangements

Bilateral aid activities under the Australian aid program are delivered in partner countries through high-level umbrella agreements and treaties. These are intended to foster development cooperation between Australia and partner governments, as well as outline the broad objectives of the proposed development assistance.

Australia has a number of treaties and development cooperation Memorandums of Understanding (MOUs) in place with partner governments. The Procurement and Commercial Law Section (PCL) at PCL@dfat.gov.au can provide more information.

In those instances where an aid investment will involve providing funds directly to a partner government, a Direct Funding Arrangement or Accountable Cash Grant will need to be concluded before implementation. Contact the FNS in ACD for further information. Templates are available from PCL.

In practice: Subsidiary Arrangements

Some partner countries may require Subsidiary Arrangements to cover specific requirements of the investment. Subsidiary Arrangements:

- outline the activity to be implemented
- formalise partner government support for, and involvement in, the activity
- specify which partner government agencies will be involved.

High-value programs usually require Subsidiary Arrangements. DFAT should not enter into procurement agreements without a signed Subsidiary Arrangement in place; having this arrangement in place demonstrates the commitment between the partner government and the Australian Government.

Subsidiary Arrangements can take time to negotiate, so it is wise to start developing them early in the investment planning phase. It is possible to commence the procurement process before a Subsidiary Arrangement is in place, provided there is a letter of endorsement (or similar form of agreement) from the partner government.

Before developing an aid investment, it is important to identify whether a treaty or MOU is in place with the partner country, and if additional arrangements (such as a Subsidiary Arrangement) are required. Delegates need to be aware of the possible legal, diplomatic, operational and financial risks in not having a Subsidiary Arrangement in place before an investment is implemented.

6.8 PROBITY AND CONFIDENTIALITY

Probity—evidence of ethical behaviour—is a critical consideration in planning and managing procurement and grant activities. It can be defined as complete and confirmed integrity, uprightness and honesty in a process. In procurement and grant activities, it requires officers to:

- act ethically
- not make improper use of their position
- avoid placing themselves in a position where there is potential for claims of bias
- treat all delivery partners equitably
- manage conflicts of interest appropriately
- ensure the confidentiality of information and the procurement and grant process.

In practice: Confidentiality

The integrity of procurement and grant processes hinges on maintaining appropriate levels of confidentiality that will protect information and give the market confidence to do business with the Australian Government. Confidentiality has many dimensions, but confidentiality of submissions and the evaluation process is particularly important before awarding the contract or grant. At this stage, information should only be shared on a 'need to know' basis.

Confidential information may include defined (and as agreed) elements of the supplier's proposal, specific intellectual property and pricing structures. It also includes the evaluation process and how it is applied.

Managing probity and confidentiality throughout the procurement and grant process reduces the risk that resources will need to be allocated to reviewing, defending and potentially repeating a procurement or grant process as a result of an external challenge. It gives the financial delegate and the broader market confidence that DFAT is serious about its responsibilities regarding the fair and ethical treatment of suppliers. For complex or sensitive procurement and grant processes, it may be appropriate to engage specialist external probity advice. CVB should be consulted when considering this option.

6.9 POTENTIAL PITFALLS

Common weaknesses in procurement aspects of aid management include:

- Insufficient time spent on procurement and pipeline planning, resulting in rushed or poorly considered procurements.
- Poorly defined statements of work that do not articulate the outcomes sought, risking a weak market response, protracted negotiations, more expensive bids and/or delayed mobilisation.

- Failing to obtain or document key delegate approvals (including the basis of a decision or VFM).
- Not complying with departmental requirements, thereby breaching legislative obligations.
- Not maintaining probity and confidentiality, thereby compromising the integrity of the procurement process.
- Information in AidWorks not matching the corresponding agreements.

For further information about the issues raised in this chapter, contact contracts@dfat.gov.au.

For details of all other key contacts, see the contacts list.

AidWorks

All procurement and grant approval documents and agreements must be uploaded into AidWorks.

Agreements must be activated in AidWorks within 14 days of the contract start date or amendment date so DFAT can meet its statutory reporting obligations. Details in AidWorks must match the agreement.

DFAT relies on the quality of investment and agreement information in AidWorks for all public reporting.

Key resources

Policies and strategies

Aid Grant Policy and Procedures

Aid Record of Understanding Intranet Page

Financial Management Manual

Indigenous Procurement Policy

Procurement Policy

Procurement Intranet Page

Value for Money Principles

Guidance

Aid Advisory Services Intranet Page

Aid Adviser Remuneration Intranet Page (ARF Guideline and Guideline on Remuneration above the Market Reference Point and Maximum Pay Point)

Basic Procurement Guideline

Complex Procurement Guideline

Simple Procurement Guideline

Templates

Agreement templates (available on the Procurement intranet page)

Approval to Approach the Market templates

Approval of Evaluation Outcome templates

Approval to Commit and Enter into an Arrangement templates

ROU templates (available on the Aid Record of Understanding intranet page)

CHAPTER 7
AID RISK MANAGEMENT

Key messages

Managing risk is everyone's business. Early identification and management of risk helps DFAT deliver effective aid in complex, challenging and changing environments.

Risk management involves thinking about, understanding and regularly discussing risk. It covers due diligence of delivery partners; assessments of partner government financial systems; fraud control and anti-corruption efforts; and safeguards.

Risk is managed at the program and investment level.

Mandatory requirements

Officers must complete a risk and safeguards assessment for all investments.

Major country and regional programs (those with an annual total official development assistance (ODA) allocation of $50 million or more) and high-risk programs must have Fraud Control and Anti-Corruption Strategies (FACS) in place.

Post and investment risk registers must be updated quarterly.

Due diligence assessments of aid delivery partners must be completed before entering into a funding arrangement. This includes making sure the potential partner is not a 'designated person or entity' under sanctions or debarment lists.

When DFAT channels funds through partner government systems, an assessment of national and sector-level public financial management systems must be undertaken and updated regularly.

Agreements with aid-implementing partners must include approved clauses for detecting, reporting and managing fraud.

Instances of alleged, suspected, attempted or detected fraud must be reported immediately. Where fraud is substantiated, appropriate follow-up action must be taken, including action to recover losses, penalise those responsible and address any fraud control weaknesses.

Allegations or suspicions of child abuse or exploitation related to Australia's aid program must be reported without delay.

Early identification and management of risk help DFAT deliver effective aid in complex, challenging and changing environments. By aligning risk management with clearly articulated business objectives, DFAT gains a stronger understanding of what those objectives are and how it will achieve them.

- By monitoring the expected benefits of a program, project or activity against identified risks, DFAT can better inform its decision-making processes and clearly rationalise its position.

- Good risk management practices will improve the overall effectiveness of DFAT programs and business-as-usual activities, increasing public confidence in the integrity of DFAT's aid investments.

7.1 WHAT IS AID RISK MANAGEMENT?

Aid risk management is a process for ensuring that uncertainty does not detract from the delivery of the aid program's objectives. It is an ongoing process that involves:

- identifying and analysing potential risks and opportunities throughout the aid management cycle
- developing proportionate and defensible strategies to balance risk and benefit, and enable sound decisions about whether to start, continue, modify or conclude an aid investment
- monitoring risk—including through internal and external discussions—and updating risk registers
- when necessary, escalating risk to the attention of higher decision-makers or forums.

Effective risk management is about being open to, and actively managing, an acceptable level of risk in order to achieve effective development outcomes.

Aid risk management covers due diligence assessment of delivery partners; evaluations of partner governments' financial systems; fraud control and anti-corruption efforts; and safeguards (including environment, child protection and displacement and resettlement).

In practice: Risk definitions

Risk: The effect of uncertainty on objectives.

Risk control: Existing measures in place to manage a risk.

Risk treatment: A proposed process to modify or mitigate a risk.

Risk management: Identifying and analysing potential risks and opportunities, and developing proportionate, defensible management strategies that balance risk and treatment against benefits.

Risk escalation: The process of raising awareness of risk among higher forums or decision-makers.

Operational risk: Risk that needs to be managed at the lower 'operational' levels; for example fraud control.

Strategic risk: A risk that needs to be managed at a higher level because, if it eventuates, it may affect the entire investment. These risks are usually outside the control of the organisation and occur within the environment where the investment operates. In the aid program, these would be whole-of-program or country-level risks. They may include a change of partner country government; a shift in policy direction; a natural disaster; or a change in the security or operating environment that may impact the implementation of investments.

7.2 RESPONSIBILITY FOR RISK MANAGEMENT

All officers are responsible for managing risk. This includes identifying risks, putting in place risk mitigation strategies and regularly monitoring risks. Regular discussion about risks can also help ensure issues are escalated as required.

Investment and agreement managers oversee investment and agreement-level risks. Heads of Mission (HOMs) and SES managers oversee program risks and are responsible for nurturing a proactive risk culture in their teams.

7.3 PRINCIPLES OF GOOD AID RISK MANAGEMENT

It is crucial to identify risks early. This is the key to effective risk management. By identifying and addressing risk in the early stages of program planning and design, investment outputs and outcomes can be improved or protected.

Consider investment and program risks. The level of risk planning, management and mitigation should be balanced against the level of risk. Some risks will be specific to individual investments or types of investments, while other risks may affect all investments in a program. Officers of a country program that comprises only high-risk investments may need to consider reducing its risk exposure; whereas in a program that is all low-risk investments, they may need to look more actively for opportunities to improve development outcomes more rapidly—for example, through innovation and experiment.

The approach to risk management must be fit for purpose; it should be commensurate with the level of risk and adaptable to suit changes in the external environment. Eliminating risk is not the goal; risk management involves considering ways to minimise risks, avoid risks, share risks or mitigate and accept risks. Sometimes high risks may be acceptable because of the potential benefits, or the costs of not taking action. It is usually impossible and unrealistic to eliminate all risk in an aid investment.

Risk management is a thinking exercise. Ask questions: What do we want to achieve? What might prevent us from achieving this? How probable is it that the risk will eventuate? How bad could it be and what could be the consequences if the risk did occur? What can we do about it? What is the cost of doing something and is it worth it? What is the cost of doing nothing? What can be changed? What can't be changed? How will issues be managed if risks are realised? What unintended consequences do we need to monitor and take responsibility for?

7.4 DFAT'S AID RISK MANAGEMENT PROCESSES

DFAT manages risk at the program and the investment levels. The Risk Management for Aid Investments Better Practice Guide provides detailed instructions on the aid risk management process. It is anticipated that from 2017 a new Assurance and Risk Management System will be in place to support the assessment of risk and safeguards.

High-level program risks are assessed as part of Aid Investment Plans (AIPs) and reported on through annual Aid Program Performance Reports (APPRs).

Investment-level risks must be assessed using the Risk and Safeguards Assessment Tool as part of initiating the investment design process. Risks are recorded throughout the design process as part of the agreement documentation, and are monitored throughout the implementation phase. They are reported on through annual aid quality checks.

DFAT documents risks in registers, which are reviewed and updated regularly. High-level program risks are included in the post or division risk register, which also captures risks other than those attributed to the aid program. See the DFAT Guide to Better Risk Management for guidance on completing division risk registers.

An investment may have its own risk register, or programs can choose to consolidate risks into sector-based risk registers if doing so is more appropriate.

It is not enough to rely on partner risk documentation, as partners are not in a position to assess important or relevant risks from DFAT's perspective. Discussions with partners to review the management of shared risks should be proportionate to the investment's risk profile.

Figure 13: Safeguards Compliance Flowchart for Operational Procedures

RISK MANAGEMENT PROCESS	INVESTMENT MANAGEMENT STEPS	SAFEGUARD PROCESS

RISK AND SAFEGUARDS ASSESSMENT TOOL

Initial risk assessment

Written approval to commence

Safeguard screening

No — No to all screening questions	Potential risk — Yes/unsure to any questions

DESIGN AND PROCUREMENT

Risk assessment
Risk categorisation based on likelihood and consequences of risks

Investment concept note

Risk categorisation
Refer to guidance notes and safeguard operational procedures

LOW	MEDIUM	HIGH	V/HIGH

Aid investment risk register
Update risk assessment to include controls.
Conduct due diligence check.

Investment design document/ summary

Assessment and management plans
Complete a proportional impact assessment and management plan

Impacts can be avoided or mitigated through design measures	Impacts may not be avoided or mitigated through design measures

Contact safeguard line area

Agreements include risk and safeguard management measures

IMPLEMENTATION AND PERFORMANCE MANAGEMENT

Monitoring and reporting on risk & safeguards

Regular risk discussions in team and partner meetings, in line with management plans, agreements, etc.	Updating risk register every three months.	Reporting on risks & safeguards in investment quality reporting and annual program performance reports

REVIEW AND EVALUATION

Evaluate lesson learned and archive risk register

End of investment review

Evaluate the outcomes of safeguard activities

7.5 AID RISK MANAGEMENT REQUIREMENTS

7.5.1   Due diligence

Formal due diligence assessments help DFAT assess delivery partner strengths, weaknesses and ability to deliver before entering into an agreement or funding arrangement. However, due diligence is an ongoing process directly related to managing risk.

The Due Diligence Framework sets out a structured approach for identifying and assessing the risks of using a particular partner before entering into an agreement. The framework includes step-by-step tools and guidance to help DFAT officers undertake the appropriate level of due diligence.

Posts and divisions must ensure they are aware of the sanctions or debarment lists operating within their areas of responsibility or countries of accreditation. Information on all the current United Nations Security Council (UNSC) and autonomous sanctions regimes is available on the DFAT website. The Consolidated List is updated regularly, and identifies persons and entities that are subject to targeted financial sanctions or travel bans under Australian and UNSC sanctions laws. As part of due diligence, officers should search the Consolidated List to find out if a person or entity is subject to sanctions.

Once an assessment is completed, it must be submitted to due.diligence@dfat.gov.au, after which it will be retained on a departmental register available on the intranet. Due diligence assessments are valid for up to five years unless a significant change in the entity's circumstances prompts an early review. Before conducting a new assessment, officers should check the Due Diligence Assessment Register to see if a current assessment exists.

Completed Multilateral Performance Assessments (MPAs) serve as a due diligence assessment for multilateral organisations. To check if a multilateral organisation has an MPA contact multilateralperformance@dfat.gov.au.

Generally, DFAT focuses more on new partners or on circumstances for which the risk of using an existing partner has changed—for example, the partner is implementing more or higher-value investments; the environment is higher risk; or partner performance, governance or corporate issues have been identified. See the Due Diligence Framework for more detail.

Why are some partners excluded from the due diligence process?

Due diligence assessments are mandatory before entering into an arrangement with most aid delivery partners. Due diligence assessments are not required for:

- **Suppliers under the Aid Advisory Services (AAS) Panel:** Under a Services Order, contractors selected from the AAS are considered to have met due diligence requirements.
- **Accredited Australian non-government organisations (NGOs):** Due diligence assessment of an accredited Australian NGO is not required because the accreditation process for the NGO under the Australian NGO Cooperation Program satisfies due diligence requirements.
- **Partner governments:** Due diligence is undertaken by conducting Assessments of National Systems (ANS) and sector-level investigation of financial management; including procurement systems (see Section 7.5.2).
- **Whole-of-government partners:** These partners are considered to have met due diligence requirements, as they operate under the *Public Governance Performance and Accountability Act 2013* (PGPA Act) or the *Commonwealth Authorities and Companies Act 1997*.

- **Australian educational institutions:** Universities and technical colleges operating within Australia are considered to have met due diligence requirements, as these entities operate under a mix of appropriate Commonwealth and State government supervision, oversight, policies and standards.
- **Other bilateral donors:** Due diligence is undertaken in the process of developing a delegated cooperation agreement.

7.5.2 Partner government system assessments

When aid investments consider using partner government systems to deliver Australian aid, an analysis of the risks and benefits of the system is required. DFAT's analysis is based on a two-tier assessment process, starting with an Assessment of National Systems (ANS).

The ANS provides an overview of key strengths and weaknesses of national-level partner government systems for public financial management, including procurement, and an assessment of the fiduciary risks of using them. The completed ANS report must be submitted to the relevant Assistant Secretary for endorsement, accompanied by a completed endorsement minute.

If the ANS recommends that DFAT should further consider using a partner government's systems as the funding mechanism for an Australian aid investment, this leads to a detailed assessment of public financial management, including procurement systems of the entities that will be responsible for managing Australian funds. These sector-based assessments conclude whether and to what extent an aid investment should use the partner government's systems, and may recommend implementing risk mitigation and capacity development strategies as part of the investment. The decision to channel aid funds through partner systems must be documented in the investment design and spending approval stages.

National and sector-level assessments must also be reviewed and updated periodically during the implementation stage. Generally speaking, national updates should be completed every three years, but if there are genuine reasons to do so, program areas may delay an update beyond the three-year mark by consulting with the Public Financial Management Advisory Services Section, subject to close oversight by posts and consistent with the level of risk.

Sector-level assessments of public financial management (including procurement systems) need to be updated every three years, unless program areas can demonstrate to the Public Financial Management Advisory Services Section that they are monitoring risks and mitigation measures regularly, and have a credible mechanism for identifying emerging risks that can replace the formal three-yearly update.

National and sector-level assessments are not required if Australia is providing finance to a partner government through other development partners that have completed their own assessments, as long as DFAT judges that assessment to be adequate.

Advice on these requirements and the scope and timing of assessments can be obtained from the Public Financial Management Advisory Services Section: Partner.Systems@dfat.gov.au. For more information, see the Guideline for assessing and using partner government systems for PFM and procurement and the Guideline for Conducting an Assessment of National Systems on the Public Financial Management Intranet Page.

7.5.3 Fraud control and anti-corruption

DFAT has a zero-tolerance approach to fraudulent and corrupt activity and behaviour. This means all potential instances of fraud must be reported without delay. In practice, zero tolerance also means DFAT will assess and investigate all alleged instances or reports of fraud to determine the nature and extent of the

fraud. If DFAT can establish that fraud has occurred, it will seek recovery of funds or assets lost, and will ensure appropriate penalties and prosecution of offenders.

The policy applies to all DFAT employees (including contracted personnel) and external parties that receive Australian aid funding—including contractors, NGOs, civil society organisations, third-party service providers and other funding recipients.

In practice: Types of fraud

DFAT defines fraud as 'dishonestly obtaining a benefit, or causing a loss, by deception or other means'. This definition extends beyond the legal definition of fraud to include tangible and intangible benefits. As such, it encompasses broader activities or behaviours than the misuse or misappropriation of monies or assets.

Examples of fraud include misappropriation of funds; altering documents; falsifying signatures; misuse of Commonwealth assets; providing false information to the Commonwealth; unauthorised disclosure of confidential information; theft of aid program funds or assets; and bias, cronyism and nepotism.

Prevention and detection strategies

The most effective way to prevent or detect fraud and corruption is by thoroughly and rigorously designing policies and programs; completing detailed planning before implementing an investment; and continuously monitoring, reviewing and adapting policy and practice to ensure they are robust and effective in addressing fraud prevention, mitigation and detection measures.

Fraud risk prevention and detection strategies must be considered throughout the aid management cycle, in line with Section 10 of the PGPA Rule 2014 (an associated instrument of the PGPA Act). All programs and investments must align with DFAT's Fraud Control and Anti-corruption Plan and Fraud Policy Statement on Fraud Control and the Aid Program.

The Fraud Control and Anti-corruption Plan lists DFAT's high-level fraud and corruption risks, together with strategies for mitigating them. It identifies key fraud risks based on the type of implementing partner. DFAT officers must consult this plan when designing aid investments or reviewing fraud risks in a country or regional aid program. They must also consult the plan when developing AIPs, which must include risk registers that identify the risks (including fraud risks) in achieving aid investment objectives.

Management strategies to combat the risks of fraud and corruption must also be identified.

Reporting and managing fraud matters

If fraud is substantiated, the matter may be referred to the appropriate law enforcement authorities. DFAT will also seek to recover any misappropriated funds or assets, and may seek prosecution of offenders and/or the application of administrative penalties where appropriate.

When an instance of fraud reveals a fraud control weakness, program managers—with the implementing partner—must change processes and policies to address this weakness.

All agreements with aid implementing partners must contain approved fraud clauses. These clauses will also cover fraud reporting obligations. Program managers must be familiar with these clauses, particularly aid implementing partners' obligations relating to fraud and corruption matters. For more information, contact FCS at fraud@dfat.gov.au.

> ## In practice: Fraud reporting
>
> Any instance of alleged, suspected, attempted or detected fraud related to an aid investment must be immediately reported.
>
> This involves:
>
> - reporting to the Fraud Control Section (FCS) if the matter involves external fraud against the Australian aid program and the suspect and/or perpetrator is not a DFAT officer
> - reporting to the Conduct and Ethics Unit (CEU) if the matter potentially involves internal fraud committed by DFAT officers against the department. This can include fraud committed jointly between DFAT officers and an external party. In relation to fraud with an external element, CEU and FCS will liaise to ensure an appropriate investigation is conducted
> - reporting to the Passports Fraud Section if the matter concerns the passport application process or use of Australian passports
> - reporting by the Fraud Control Section to the Transnational Crime Section for matters potentially involving an Australian extraterritorial offence.
>
> All reported matters are investigated in accordance with DFAT policies and procedures.

7.5.4   Safeguards

To minimise risk and ensure the aid program can be delivered effectively and efficiently, DFAT must consider a number of safeguards when planning, designing, delivering and evaluating all Australian aid investments.

Safeguards apply to all aid investments; screening checklists aim to ensure that potential adverse social and environmental impacts are identified and adequately addressed early on. Safeguards apply to environmental protection, child protection, and displacement and resettlement. Failure to adequately address safeguards may result in harm to individuals or the environment, have legal consequences or damage the reputation of DFAT and Australia's aid program.

Environment protection

DFAT is required to ensure its aid investments comply with the *Environment Protection and Biodiversity Conservation Act 1999* (EPBC Act), partner country environmental laws and international environment agreements ratified by Australia. Before DFAT can meet these requirements, aid investments must be screened and categorised to identify environmental risks and potential impacts on the environment, and assessed and managed in accordance with DFAT's Environment Protection Policy. Under the EPBC Act, DFAT must obtain and consider the advice of Australia's Minister for the Environment before authorising any foreign aid investment that has, will have or is likely to have a significant impact on the environment anywhere in the world. The EPBC Act defines 'environment' as: (a) ecosystems and their constituent parts including people and communities; (b) natural and physical resources; (c) the qualities and characteristics of locations, places and areas; (d) heritage values of places; and the social, economic and cultural aspects of a thing mentioned in (a), (b), (c) or (d).

DFAT's Environment Protection Policy is supported by Operational Procedures and Good Practice Notes attached. DFAT officers and partners can contact the Environment Helpdesk at environment@dfat.gov.au for advice or assistance with assessing and managing environmental risks.

Child protection

Contact with children or impact on children can occur in relation to a broad range of aid investments with different partners. It is not possible to eliminate all risks of child exploitation, endangerment and abuse; however, careful management can reduce the risks to children that may be associated with aid investments.

Safeguarding children refers to the broad obligation of officers and partners to ensure DFAT programs and operations do not expose children to the risk of abuse and exploitation, and that any concerns about children's safety within the communities DFAT and partners work in are appropriately reported. Direct and indirect risks to children must be considered as part of the design and implementation phases in DFAT investments.

DFAT's Child Protection Policy reflects obligations under the United Nations Convention on the Rights of the Child to protect children from abuse and exploitation, and obligations under relevant Australian laws. The policy applies to all DFAT officers, functions and programs, including individuals and organisations funded under these programs—regardless of their value, partner or funding mechanism. The policy is given effect through minimum child protection compliance standards and mandatory reporting requirements. It is mandatory to consider child safety and protection risks as part of any safeguard assessment. For more information, see the Guidance for Establishing the Child Protection Risk Context on the Child Protection Intranet Page. Officers should consult detailed guidance on the intranet relating to DFAT child protection requirements. Implementing partners can access this guidance on the DFAT website's Child Protection page.

Posts and divisions can contact the Child Protection Compliance Section (childprotection@dfat.gov.au) for advice or assistance in establishing, maintaining and reporting on child protection matters.

Displacement and resettlement

DFAT is responsible for safeguarding the interests of people displaced by its aid investments. Acquiring or rezoning land has the potential to enrich some and impoverish others. Resettling people in developing countries carries the risk of increasing rates of impoverishment, loss of livelihood, loss of shelter and community, and social exclusion, as well as other extreme disadvantages among affected populations.

Where Australian aid investments may lead to physical displacement (partial or complete loss of residential land, shelter or other structures) or economic displacement (partial or complete loss of land, access to assets, income sources or other sources of livelihood), DFAT must take steps to address adverse impacts on people and businesses. Investments that involve construction, require land acquisition or result in restricted access to or use of land typically involve some form of displacement, as these are intrinsically linked to land use. Investment planning processes must effectively manage DFAT's exposure to these risks by using alternative designs to avoid displacement; minimise the displacement of affected people; and/or mitigate the adverse impacts of displacement and resettlement. Refer to Displacement and resettlement of people in development activities.

7.6 POTENTIAL PITFALLS

Potential pitfalls in risk management include:

- Treating risk as a compliance activity rather than as a regular embedded business practice. Risk management involves conversations about risk; it is not solely about filling out a risk register.
- Not consulting widely enough when considering risk, or assuming partners or others can manage DFAT's risk.

- Not undertaking appropriate or any due diligence. At a minimum, it is a requirement to assess risks against the eight baseline criteria, which include a partner's identity and performance record, sanctions and debarment lists, and its capacity to ensure compliance with DFAT policies and safeguards.

For further information about the issues raised in this chapter, contact the relevant area: due.diligence@dfat.gov.au; Partner.Systems@dfat.gov.au; fraud@dfat.gov.au; environment@dfat.gov.au; or childprotection@dfat.gov.au.

For details of all other key contacts, see the contacts list.

AidWorks

AidWorks requires officers to complete mandatory fields relating to safeguards and government priorities.

DFAT relies on the quality of investment and agreement information in AidWorks for all public reporting, including fraud and risk management information.

Key resources

Policies and strategies

Child Protection Policy

Environment Protection Policy

Displacement and resettlement of people in development activities policy

Fraud control and the aid program

Guidance

Child Protection Intranet Page

DFAT Guide to Better Risk Management

Due Diligence Framework

Environment Operational Procedures and Good Practice Notes

Public Financial Management Intranet Page

Risk Management for Aid Investments Better Practice Guide

Templates

Risk and Safeguards Assessment Tool