

Partnering for Impact: A Business Strategy for Australia's New International Development Policy

Executive Summary

Imagining “aid as a business” is a useful lens for developing Australia’s new international development policy. In business, competition is a reality. To succeed, all businesses need to find a way to compete and succeed, based on a differentiated value proposition. Aid is no different. Given the increasingly competitive and changing aid arena, we believe that taking a business strategy approach to developing the new international development policy would help provide the focus that is both beneficial and necessary to maximise the influence of Australia’s development agenda.

It is our hypothesis that the twin forces of increased contestability and rising expectations to demonstrate greater impact are transforming the business of international development. In a world where institutional donor competition is increasing, it is not enough for Australia to simply narrow its geographical focus to the Pacific region in order to differentiate itself, because the “corporate giants” in international development – China, the US, Japan – are operating there too.

In this new era, the basis of competition will be increasingly defined by impact. As a middle power with a modest aid budget, we recommend that Australia differentiate itself as a development partner through “**impact leverage**”, creating scale benefits by leveraging a network of impact partners for inclusive, people-to-people development. Competing on impact leverage will require Australia’s development program to excel in three key areas: building best-in-class excellence across a few sectoral areas of impact; leveraging the combined resources and expertise of its strategic partners; and adopting an integrated approach to managing and reporting on collective impact.

As an NGO, World Vision Australia is going through a similar journey – embracing the competition mindset and reimagining our business definition within a rapidly changing market context. Speaking from this first-hand experience, in this submission we share our insights and learnings from applying a business lens to international development and present our initial hypotheses for how adopting a business mindset can shape and advance Australia’s future international development agenda.

Twin Forces Transforming International Development

It is our view that the future landscape of international development will be shaped by the twin forces of increased contestability and rising expectations to demonstrate greater impact.

As we move from the post-Cold War, unipolar era into the new multipolar world, **contestability** amongst donor countries will continue to increase as countries compete for influence and as emerging global powers like China seek to reshape the development agenda according to their interests. This is already occurring, and it will only intensify in the future. China’s Belt and Road Initiative, the most ambitious infrastructure investment in history, is disrupting the traditional development model. Moreover, the aid arena is now more crowded than ever, with the number of state donors more than doubling worldwide over the past 25 years. This has coincided with the proliferation of non-state development actors, from the emergence of multi-billion-dollar philanthropic bodies like the Gates Foundation to the entry of corporations into the aid arena. Private capital flows to developing countries now dwarf state-funded development assistance. Add to this the fact that middle-income countries are increasingly taking control of their own development (a trend known as the “democratisation of development”), it is clear that the international development landscape is more competitive and contested than ever before.

Expectation for greater **impact** is also on the rise. The effectiveness of aid continues to be questioned and the expectations of developing countries are only increasing, as their menu of potential development partners expands. It is in this context that the basis of competition for international development actors will be increasingly

defined by impact, as opposed to the historical focus on inputs and need. This trend is already being seen in the rise of impact investing and other outcome-based financing tools (such as Development Impact Bonds) as well as the emergence of structured philanthropy with strict requirements for demonstrated evidence of impact. The shift towards impact is also reflected in the 169 targets of the Sustainable Development Goals, 88 of which are outcome based. It is our view that, going forward, this impact lens will be the dominant paradigm for defining the success and influence of a country's aid program.

While Australian Aid has a long history as an impact organisation, the expectations brought on by the twin forces of increasing contestability and pressure to demonstrate impact are an order of magnitude higher than previously experienced.

Adopting a Business Mindset

To succeed in the face of these twin forces, it is not sufficient for an aid agency to only be clear on what it seeks to achieve, but increasingly it needs to be clear on how it will contest to achieve its objectives. It is within this contestability context that we believe it is useful to adopt a business mindset. Winning in business is about grappling with the complexities and uncertainties of your business environment (diagnosis) and identifying an overall approach (guiding policy) that plays to your relative strengths and differentiates you from your competition. This same logic applies to aid.

When adopting a business mindset, there are three specific inter-related concepts that we want to draw attention to – these are value capture, trust, and differentiation.

First, all successful businesses **create value**. Whilst “maximising shareholder value” is often touted as the ultimate objective of a business, in reality, value is a much broader, deeper concept. The total value of a business is the composite of current performance and expected value of its future performance. The latter component could be many multiples of the former. In aid language, value is often seen as analogous to program performance – how well a project performs against its stated objective. But aid is more than the performance of its current programs; it is also an expression of the “expected value of future programs”. Why is this relevant? Because current programs are already “history” – what Australia is now competing (or contesting for) is future programs.

Secondly, all businesses – and, for that matter, any organisation – **compete on trust** in their drive to create value. Trust is the currency that builds the ultimate long-term value of a business. In this sense, aid is no different. Whilst the size of the international development budget does matter (because the scope of funding is linked to scope of activity), the intangibles matter just as much, if not more. Hence, businesses speak about the value of their brand, the reliability of their partners, and the depth of their customer insights – all of which are different expressions of trust. Thinking in this way, to build future value (in this case, the value of Australia's development cooperation), Australia needs to focus on the drivers that build trust; drivers such as quality, transparency and people-to-people linkages. In the international development context, we know from our own experience that trust is built by genuinely engaging communities as partners in their own development through inclusive, people-to-people approaches.

Thirdly, value and trust are not absolute concepts – they are dynamic and interpreted relative to the offerings of competitors. This is where **differentiation** fits in. To build long-term success, businesses need to pay acute attention to their current and future competition. Similarly, as contestability amongst international development actors intensifies, the ability to stand out from the crowd becomes critical. In business, this brings us to the concept of competitive advantage. What is the primary attribute that will allow an organisation to create value and consistently outperform its competitors because that attribute is difficult to copy and replicate?

At a fundamental level, all strategies boil down to two very broad options: Do what everyone else is doing (but do it for less) or do something no one else can do (to differentiate).

As a middle power country, it is hard for Australia to compete on economies of scale – the remaining option is to differentiate.

Differentiating on Impact

In the emerging era of impact and contestability, the basis of competition will be increasingly defined by impact – everyone (including businesses, NGOs, and donor governments) will compete on impact. “Impact” is about “making a marked difference”. It is synonymous with outcomes and, in the international development context, speaks to both making a difference in the lives of the most marginalised and disadvantaged and delivering on a key driver of influence. “Impact” will only give an organisation a ticket to play – but not necessarily to win. For an organisation to win and become a player of influence in the aid arena, it needs to have a basis to “**differentiate on impact**”.

World Vision Australia is going through a similar journey, adopting the competition mindset and reimagining our business and the differentiated value we deliver. As a not-for-profit, we compete for attention and resources not only amongst the international development actors, but also with domestic charities as well. World Vision Australia has historically competed as a fundraising business, but we have now framed our strategy around the diagnosis that “the impact era changes everything” and “to be future relevant, we need to become an impact business”. This commits us to being outcome-focused instead of resource driven. At World Vision Australia, we seek to differentiate ourselves by engaging into the defining global issues of the day with a clear value proposition of delivering “impact at scale” and an ambidextrous (walk and chew gum at the same time) approach to change.

We believe that “**impact leverage**” has the potential to play a defining role in differentiating Australia’s aid program from its competitors by creating scale advantages and providing partner countries with a better choice. As a medium-sized player, Australia needs to mobilise a network of impact partners to “punch above its weight” and create scale benefits through leverage. This will require Australia’s aid program to excel in three key areas: building best-in-class excellence across a few sectoral areas of impact; leveraging the combined resources and expertise of its strategic partners; and adopting an integrated and ecosystem approach to managing and reporting on collective impact.

Building a Coherent Strategy

The key to achieving the aforementioned “impact leverage” strategy will be ensuring coherence across all levels of the aid business. One way to achieve this coherence is to use a structured business framework to inform the new international development policy. In this submission, we have adapted the strategy playbook from *Playing to Win* – a leading strategy practice guide – and tailored it for the aid business context (see Figure 1). We recommend that Australia’s new aid strategy be built around a coordinated and integrated set of five choices: the strategic intent, sphere of influence, methods of influence, distinctive capabilities and performance management system for the aid program. For each of these five choices, we present our initial hypotheses for Australia’s international development business to remain future relevant in the face of the twin forces mentioned earlier.

In terms of the **strategic intent** of the aid program, it is clear the Australian Government is seeking to maximise the influence of aid as a strategic asset to achieve its national interest objectives. However, we posit that bluntly pursuing strategic objectives through its development assistance may actually undermine Australia’s interests, as countries seek out development partners that have their own interests at heart in line with the “democratisation of development”. Our hypothesis is that what makes Australia attractive as a development (and economic and strategic partner) is moral leadership and being able to demonstrate impact or “make a difference” on the big global issues of our time, and the more the aid program acts into these issues, the more positively Australia will be perceived by nation-states and communities, the more trusted Australia will be, and the more influential it will be on the international stage. That is why we recommend that the new international development policy centre on the three pillars of **Peace, Prosperity and Resilience**. Mobilising around these three pillars will enable Australia to act into the three global challenges of our time – conflict, inequality and climate change – which would in turn increase Australia’s legitimacy and influence internationally. These three pillars are also in Australia’s interest: peace captures Australia’s interest in a stable and secure region and an un-militarised Pacific; prosperity and the inclusive trade that enables it strengthens mutually beneficial economic relations; and resilience helps to stem the transnational flow-on effects of crises and environmental and economic shocks from reaching Australian shores; while all three pillars are fundamental to inclusive, human development.

There are then follow-up choices about where and how Australia's aid program will (and will not) compete to achieve this strategic intent. This is what we call the **sphere of influence** choices. We acknowledge that Australia cannot compete in every region of the globe or on every issue. Focus is paramount. As a Pacific country, it is our hypothesis that Australia should focus its development impact in the **Pacific region** while keeping a needs-based and globally-reaching humanitarian program. However, in a world where institutional donor competition is increasing, it is not enough for Australia to simply narrow its development agenda to the Pacific region in order to differentiate itself. That is why we recommend that Australia develop best-in-class excellence across a few sectoral areas of impact that align with the three pillars of the proposed strategic intent (Peace, Prosperity and Resilience). These sectoral areas of focus should also address the three business concepts mentioned earlier – they should create present and future value, build trust, and be a point of differentiation. It is World Vision's hypothesis, therefore, that Australia's international development should specialise in inclusive, social transformation. Sectoral focus areas could include women's empowerment, child-focused development, inclusive trade, and disaster risk reduction, for example. These types of investments in inclusive development create value because they result in sustained impact well beyond the life of a program, they build trust because they are driven by people-to-people linkages and relationships, and they are a point of differentiation due to their focus on social infrastructure instead of hard infrastructure. As a multicultural, inclusive and democratic country, Australia should compete on inclusive development, instead of competing on the terms of other donors (such as engaging in an infrastructure financing race with China).






As mentioned earlier, it is our hypothesis that “**impact leverage**” is the **method of influence** that would enable Australia's aid program to cut through in the crowded global aid arena, including in the Pacific region. As a middle power with a modest aid budget, Australia needs to drive its aid dollars further by creating scale benefits through leveraging a network of partners. Building on the foundations laid in the 2014 aid policy, we recommend developing **signature impact goals** around a few measurable impacts that have the power to mobilise partners towards delivering on the aid program's strategic intent. While the strategic targets for the aid program set in 2014 predominantly measured outputs (such as funding allocations to certain geographies like the Indo-Pacific or types of programming like aid for trade) or tracked inputs (the consideration of gender in program designs), we recommend that the future targets or impact goals be outcomes based. For example, such goals could include: increasing the incomes of more than 10 million poor and marginalised households across the Indo-Pacific by 2025; regreening 30 million hectares of degraded land by 2030 to build community resilience and sequester carbon; or halving the rates of violence against women and children in the Pacific by 2030. These are just illustrations, but concrete goals such as this would give focus to the aid program and would go a long way towards better communicating and demonstrating its practical impact to the Australian public, and to potential development partners.

To operationalise an “impact leverage” strategy, the aid business will need **distinctive capabilities** and a **performance management system** that together build and support a network of impact partnerships that magnify Australia's development outcomes and influence. This would involve building on the 2014 *Making Performance Count* framework and doubling down on linking funding to performance, but with a particular focus on selecting partners that have a demonstrated track record on impact and long-standing connections to local communities. This would make quality and trust distinctive characteristics that set Australia's aid delivery apart. Our hypothesis is that “impact leverage” would also involve a significant paradigm shift, moving from operating as a contract management business to becoming an impact/outcomes management business. To this end, performance metrics will need to be impact-centric, rather than compliance-centric. Compliance and risk management are important and they need to be a critical part of aid performance, but impact should be front and centre. The performance system needs to incentivise partners to act into the aid program's strategic intent.

The hypotheses described above and summarised in Figure 1 are only a strawman solution – they represent our initial thinking for the broad brushstrokes of Australia's new international development policy and are by no means a comprehensive formulated strategy. But we believe that, by following this approach and further building out these hypotheses, Australia can maximise the outcomes from its aid investments and position itself as the development partner of choice in the region.

Figure 1: Towards a Strategy Playbook for Australia's New International Development Policy

It can be useful to think of Australian Aid as a business, and for the new development policy to be developed as a 'business strategy'. Our overarching hypothesis is that, to be future relevant, Australia's aid program needs to deliver differentiated impact. We believe this differentiated impact should centre around human development, enabling social transformation at scale by leveraging a network of impact partners. The key to achieving this impact will be coherence across all levels of the aid business, from its strategic intent through to its chosen sphere of influence and performance management system.

	 <p>Strategic Intent What is the purpose of Australian Aid?</p>	<p>Hypothesis: Peace, Prosperity and Resilience should be the three pillars or goals of Australian Aid, enabling Australia to speak into the three global challenges of our time - conflict, inequality and climate change. It is in Australia's national interest to demonstrate moral leadership on these issues.</p>
	 <p>Sphere of Influence What is the sphere of influence for Australian Aid – where will it compete and where will it not?</p>	<p>Hypothesis: Focus development impact in the Pacific region, and humanitarian impact on the areas of greatest need globally. In these contexts, develop world-leading excellence across a few sectoral areas of impact where Australia can make a real difference – social transformation, women's empowerment, inclusive trade, disaster risk reduction, and effective humanitarian response.</p>
<p>Twin Factors</p> <ul style="list-style-type: none"> • Increased contestability • Expectations for greater impact 	 <p>Methods of Influence How will Australian Aid be an actor of influence?</p>	<p>Hypothesis: Compete on "impact leverage". As a middle power with a modest aid budget, Australia needs to drive its aid dollars further by partnering for impact. Develop signature impact goals to catalyse this change – mobilise partners around impact goals that measure outcomes instead of strategic targets that track outputs.</p>
	 <p>Distinctive Capabilities What does Australian Aid need to excel in to achieve these strategic choices?</p>	<p>Hypothesis: Develop a network of impact partners to magnify Australia's development impact. Transform from a contract management business into an outcomes/impact management business with a sophisticated risk management capability and appetite.</p>
	 <p>Performance Management How should performance be (re)defined and managed to deliver on the strategic intent?</p>	<p>Hypothesis: Develop a best-in-class performance management system beyond the current contracts system by introducing incentives to reward impact and partnership. This will likely mean revisiting the current mix of aid delivery partners by directly linking funding to demonstrated impact.</p>

Conclusion

World Vision Australia and the Australian Government share a common vision for Australia's international development agenda to have maximum impact. From applying a business lens, it is our hypothesis that Australia's aid program can deliver this differentiated impact through an "impact leverage" strategy centred on inclusive human development. Operationalising this strategy will require three key things: (1) specialising in a few sectoral areas of impact; (2) deepening, widening and leveraging a network of impact partners to create scale benefits; and (3) adopting an ecosystem approach to managing performance for collective impact.

By making coherent and strategic choices and mobilising partners around Australia's value proposition as a donor – inclusive social transformation – the aid program will not only have development impact, it will have strategic impact as well.

As already mentioned, World Vision Australia is on a similar journey in adopting a business mindset and applying it in the international development context. We are happy to discuss our submission and our experience with you further, and we would welcome the opportunity to partner with the Australian Government to help co-create the future strategy for Australia's international development agenda.

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