

ANCP REVIEW

**A Consultative Review of the Australian NGO Cooperation
Program (ANCP) Funding Mechanism
1995 - 2006**

**Submitted to
AusAID**

by

Review Team

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The opinions and recommendations expressed in this report are those of the Review Team and do not necessarily represent the views of AusAID, the Australian Government, or any other organisation.

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Particular thanks should go to the Quaker Service Australia (Sydney) and Australian Red Cross (Melbourne) for making their meeting facilities readily available.

The Final Review Team also acknowledges with thanks the work of the first team leader, Andrew Cornish, in the preliminary rounds of interviews and in the development of the issues paper.

Acronyms

ACFID	Australian Council For International Development
ACFOA	Australian Council For Overseas Development
ADPlan	Annual Development Plan
ANAO	Australian National Audit Office
ANCP	AusAID NGO Cooperation Program
APSS	Agency Program Subsidy Scheme
CDC	Committee on Development Cooperation (AusAID)
CPS	Community Programs Section (AusAID)
DAC	Development Assistance Committee of the OECD
IPF	Indicative Planning Figure (for the ANCP allocation)
IPSS	Individual Project Subsidy Scheme
MIF	Membership Information Forum
NGO	Non Government Organisation
PCM	Project Cycle Management
RDE	Recognised Development Expenditure

Executive Summary

The AusAID NGO Cooperation Program (ANCP) is a strong and much appreciated mechanism that has, in many respects, been the primary interface between Government and the NGOs in terms of support and building understanding. For more than thirty years it has remained a dynamic program that has consistently changed its character to reflect experience and changing priorities.

The ANCP has moved from being a funding access point for Australian NGOs who could demonstrate community support to a funding mechanism for NGOs who manifest professional standards in their work. It remains dynamic and yet it has retained the uniqueness of its origins in that it still supports NGO programs and projects rather than invites NGOs to deliver Government prioritised activities. A substantial contributor to that change since 1997 has been the accreditation process by which NGOs become eligible for the ANCP. The strength and value of the accreditation process is demonstrated by the fact that it has become the gateway in more recent times for NGOs to enter into larger relationships with Government through programs such as 'Cooperation Agreements' and the 'PNG Church Partnership Program'.

This review of the ANCP agreed at CDC 111 is a logical corollary to the 2004 review of Accreditation and the number of adjustments made to the ANCP over time by AusAID in consultation with the CDC. These have included:

- Revisions to the ADPlan template-reporting instrument.
- A move from two tranche payments per year to a single tranche payment per year.
- A move from project proposal submissions to ADPlans for Base agencies.

The review has been highly consultative with strong input from both AusAID and the NGO community. The Review Team has, as a result, put forward 15 recommendations to AusAID for consideration in strengthening this longstanding, unique and effective program.

The highlights of the review recommendations are:

A. Redefining the ANCP for what it is;

'The ANCP subsidises Australian NGOs who have met a professional accreditation standard to implement their own international development programs. To be eligible, agencies are required to undergo a rigorous assessment of their organisational structure, systems and philosophies. Accreditation aims to provide AusAID, and the Australian public, with confidence that the Australian Government is funding professional, well managed, community based

organisations, capable of delivering quality development outcomes’.

- B. **Revision of the ADPlan template** to include a multi-year programming segment.
- C. **Maintaining a two- level accreditation system** but recommending a clarifying of the difference between the two levels.
- D. **Redefining the accreditation levels** as Level One (Base) and Level Two (Full).
- E. **Emergency expenditure for RDE** to remain allocable.
- F. **A new plus or minus capping system for IPF** to manage the ‘wobble’ effect that can be caused by large distortions in RDE figures.
- G. **Minimum RDE Levels** to be raised.
- H. **Accreditation Factors** to be raised to reflect the increased importance and rigour of accreditation for the ANCP.
- I. **New guidelines** for defining criteria relevant to RDE allocability.

The recommendations have been made after a long consultative process and reflect what the Review Team believes to be the majority position of most people and organisations consulted. Some decisions have been based on modeling drawn from IPF worksheets. The modeling documents are not part of this review document. None of the issues addressed are new, either to AusAID or members of the CDC but the recommendations and redefinitions are important for the ANCP to continue being the gateway for NGO relationships with AusAID.

Review Objectives

The Review Objectives¹ are:

- A) Redefine the ANCP as a funding mechanism for professional development NGOs rather than a mechanism to engage the broader Australian Community in the aid program;
- B) Assess the implications, benefits and risks of multi-year ADPlans to AusAID and Accredited NGOs;
- C) Examine the distinction between Base and Full Accreditation and identify the benefits of the two tiered accreditation system;
- D) Examine the implications, benefits and risks of removing emergency appeal ~~funding~~² (expenditure) from Recognised Development Expenditure (RDE) calculations to AusAID and Accredited NGOs;
- E) Reassess the minimum level of RDE required to meet Base and Full Accreditation criteria;
- F) Examine the NGO funding streams used to make up RDE. Define ineligible funds, such as those channeled to overseas organisations without sufficient input from the NGO and draft policy and operational guidance;.

Review Process

The Review Team consisted of three persons.

- AusAID Representative from CPS - Lisa Staruszkiewicz
- NGO Representative – John Deane
- Consultant Team Leader – Andrew Cornish³
- Consultant Team Leader - David R Syme
- Review of the following documents:
 - Peter Ellis & Mike Crooke: "Review of the AusAID NGO Accreditation Process and Systems: A Review for AusAID and for the Committee on Development Cooperation", 11 March 2004
 - Patrick Kilby: "Options Paper - Revision of Performance Criteria for the ANCP Program. Paper for Consideration by the

¹ The full Terms of reference are in Appendix A.

² The objective was wrongly stated. It is expenditure that figures in RDE calculations, not funding.

³ Andrew Cornish took the consultancy role with the team up to the drafting of the Issues Paper. He was unable to continue with the role as planned and was replaced by David R Syme.

- Committee for Development Cooperation and AusAID", 10 September 2004
 - AusAID: "ADPlan Review, Draft Discussion Report for the Committee for Development Cooperation Sub Committee", January 2003
 - AusAID (Jo Thompson & Paul Crawford): "Cambodia Cluster evaluation Report June 2005", June 2005
 - Quality Assurance Group PIA/OPRE: "The Quality of NGO Projects: A Rapid Review of NGO Project Quality", August-September 2001
 - Jenny Chua, AusAID RDE Review "Note for Information" - RDE History
 - Indicative Planning Figures (IPF) 2005-6
 - IPF 2006-7 IPF 2006-7 with Base and Full at 150K and compared with actual
 - IPF 2006-7 IPF 2006-7 with Base at 150K and Full at 250K and compared with actual
 - IPF 2006-7 IPF 2006-7 with Base at 150K and Full at 225K and compared with actual
 - IPF 2006-7 IPF 2006-7 with Base at 150K and Full at 200K and compared with actual
 - IPF 2006-7 with Base at 150K, Full at 300K and compared with actual
 - Copy of Proforma "Head Agreement" between AusAID and Australian NGO, Valid as of June 2006
 - AusAID, The Overseas Aid Gift Deduction Scheme (OAGDS) Guidelines, Valid as of June 2006
 - Rose, W. Document 'Informal History of the ANCP', Jan 22 1998
- Consultations with 19 representative NGO's in Canberra, Melbourne and Sydney to inform the Issues Paper.⁴
 - Consultations with AusAID representatives.
 - Pre-issues paper consultation with ACFID
 - Development of Issues Paper and distribution for assessment and comment to NGOs through ACFID⁵
 - Pre NGO Information Forum consultation with ACFID
 - NGO Information Forums in Melbourne and Sydney to receive NGO input to the Review
 - Extension of time for NGOs to reflect on the Information Forum discussions and provide individual additional comment to the Team leader until August 8th.
 - Reviewing the collected data and writing the report.
 - Submission to AusAID by August 18th.

Analysis Framework

The Issues Paper identified that it is possible to discern four key principles of the ANCP, each underpinned by a different administrative mechanism. Some of these are explicit in documents, others implicit,

⁴ See Appendix B for full details

⁵ See Appendix C for Issues Paper as circulated

but together they provide a useful framework for analysis. The four principles are summarized in Table 1.

Table 1. ANCP Principles and Administrative Mechanisms

Principle	Mechanism	Explanation
1. Risk Management	Accreditation	Accreditation assures Government that NGOs can demonstrate professional standards of quality, transparency and accountability at a level that allows them to be entrusted with public funds. It demonstrates a level of professionalism.
2. Community Support	RDE calculation	The RDE is a money figure calculated on NGO disbursements ⁶ . Up to 50% of it can be from in-kind and volunteer disbursements ⁷ . While it is an indirect measure (based on expenditure rather than income), the RDE seeks to express the level of support an NGO receives from the Australian community for development work.
3. Equity	Capping IPF	All NGOs with accreditation can access up to \$100,000 each on the basis of their accreditation alone ⁸ . NGOs with Full accreditation can access further money from the remaining pool of funds in the ANCP. In order that the whole pool of funds is not taken by a few NGOs with very high RDE levels, thereby excluding others from the program, the maximum percentage of funds an NGO can access is capped. In practice, this equity mechanism currently affects only one NGO.
4. Diversity	Base versus Full accreditation	NGOs seeking Base accreditation fulfill eighteen criteria, and those seeking Full accreditation a further two ⁹ . Verifiers for all common criteria are virtually identical, but accreditation teams in practice endeavour to assess the standard required against the level of accreditation sought and the relative risk factors involved.

⁶ Money from overseas or from government and disbursements for non-development work are excluded from the calculation.

⁷ Volunteer disbursements are assessed using standard rates.

⁸ The actual amount accessed depends on a formula linked to RDE averaged over the previous three years. The resulting amount is the Indicative Planning Figure (IPF).

⁹ An extra 3 criteria apply to both categories if the NGO engages in family planning or reproductive health activities.

		The original intention was that Base level would cater to NGOs that were either smaller or more focused (niche agencies) in scope and/or not desirous of seeking the greater funds or opportunities of Cooperation Agreements that Full accreditation allows. This has helped to diversify the range of NGOs in the ANCP.
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There are some important points to note about these four principles.

First, in terms of NGO professionalism, accreditation measures a number of professional standards relating to organisational legitimacy, governance and risk management structures as well as program development and management capacity. AusAID needs to be satisfied that it is subsidising organisations that represent a low business risk. The quality of program outcomes is also an important factor and it is assessed indirectly through the criteria that assess an agencies capacity to measure and report on its own activities. Other measures, such as cluster evaluations are in place and being further developed to address this important issue.

Second, the RDE seeks to measure community *support*. While not a complete measure, its quantitative nature means it is administratively efficient as long as the formula for calculation is kept reasonably simple. RDE does not, and is not intended to, measure community engagement, outreach or education activities by NGOs. Again, these issues and the NGOs plans to enhance this area of their activities, are examined during accreditation.

Finally, there is an inherent tension between the IPF being linked to community support (through the RDE) on the one hand, but capping IPF to preserve a broad number of NGOs in the ANCP on the other. How to manage this balance between the might of numbers and equity of membership is likely to remain an ongoing challenge.

Contextual Background

Australian Government funding to NGOs can be traced back to the mid 1960s when grants were awarded to the newly formed Australian Council for Overseas Aid (ACFOA, now ACFID) and some assistance given to volunteer programs. The first formulated funding program (The Project Subsidy Scheme) started ten years later in 1974 – 1975. The focus was to subsidise Australian NGO projects at levels proportionate to the perceived strength of their community support. This was measured by the total value (according to criteria) of the NGOs' expenditure on development work and was called Recognised Development Expenditure (RDE). The Committee on Development Cooperation (CDC) was formed to oversee the administration and management of this funding scheme and continues until the present. To be eligible, an agency was required to have proper registration and be able to show its function through the provision of an annual report.

By the mid 1980s a 3-tier system had been introduced ¹⁰. It was established to recognise the diversity of programming capacity and focus in the NGO sector. The three tiers were:

1. Agency Program Subsidy Scheme (APSS) Level
 - a. Entry required meeting established criteria
 - b. 3:1 subsidy
 - c. Awarded a program factor in recognition of program quality¹¹. This was in addition to the volume factor coming from their RDE.
2. Individual Project Subsidy Scheme (IPSS) Level
 - a. Entry required being registered and submission of an Annual Report
 - b. 3:1 subsidy based upon IPF plus volume factor
3. Pool Level
 - a. Entry required being registered and submission of an Annual Report
 - b. 1:1 subsidy up to \$40,000 for small projects

In the years 1995 – 1996 several key reports set the stage for further changes to the ANCP funding mechanism.

- 1995 *“Review of Effectiveness of NGO Programs”*. AusAID Report. It
 1. promoted cost sharing as a basis for the program

¹⁰ Rose. W “ANCP History” Jan 22 1998

¹¹ 4 APSS agencies were awarded a double program factor because of perceived high quality programs. This was eliminated by recommendation of the CDC after two years because no specific criteria were applied in making the allocation .

2. restated that the “*Goal of the ANCP is to subsidise Australian NGO community development activities which **directly and tangibly alleviate poverty** in developing countries.*” (Emphasis from the original)
- 1995 ‘*Charitable Organisations in Australia*’ Industries Commission highlighted NGO weaknesses in the realms of ‘*accountability*’ and ‘*transparency*’.
- 1996 ‘*Accounting for Aid: The Management of Funding to Non-Government Organisations.*’ Australian National Audit Office (ANAO) found that,
 1. NGO management was mostly of a high standard
 2. The multiplicity of varying guidelines for funding NGOs and the administrative rules around contracting to be confusing and inefficient.

The net effect of these reports was the development by AusAID of two management tools for improving the management of its NGO funding. The first of these was the evolution of the Umbrella Contract¹² that laid out specific ‘*rules of engagement*’ to which legal agreement was a mandatory pre-requisite for having access to Government funds. The second was the development and application of an accreditation process for NGOs. Any NGO desiring entry into the ANCP funding mechanism would need to achieve accreditation at one of two levels as well as sign the Umbrella Contract and be a signatory to the ACFOA (now ACFID) Code of Conduct. At the same time the three tier approach to ANCP was dropped in favour of a two tier system, which continues to the present.

Proper risk management of Australian Government funds is a primary concern for AusAID. This is handled through accreditation. Prior to the introduction of accreditation, some minimal attempts had been made to deal with risk management and development quality through ‘Review Overseas’¹³ visits by AusAID and CDC members to ANCP funded projects. The primary emphasis was to ensure that funds had been received and utilised in the field for the purposes agreed upon, however review teams were also required to obtain some impression of the capacity and quality of the NGO in the field, although no formalised criteria for assessment were extant at that time. Provisional accreditation was granted to those agencies in the scheme and in 1997 Accreditation criteria were approved and the first round of formal accreditations took place. In 2000 further revisions to strengthen the criteria were approved.

¹² Now “Head Agreement”.

¹³ Original term used prior to the advent of Organisational Review Overseas (ORO)

Any review of the ANCP over time must consider “Why does AusAID fund Australian NGOs?” Ellis and Crooke discuss this matter at some length in their 2004 review of the ANCP Accreditation.¹⁴

A few extracts are included here.

The Minister for Foreign Affairs in the 1999 policy statement “*Working with Australian NGOs*” issued in response to the Simons Review, articulates that there are two key themes which the policy addresses.

- “improvement of the development impact of Australian aid delivered through NGOs.”
- “increasing support and involvement of communities both in Australia and developing countries.”

Ellis and Crooke observe that

“these two themes point towards a contradiction in Government-NGO relations in Australia. Simplistically there are two schools of thought as to why Government aid should be delivered through NGOs. One school emphasises the efficiency and effectiveness of NGOs, their ability to do niche work that is not possible bilaterally, and (perhaps) innovativeness and experimentation. In this view, NGOs serve as an instrument to meet Government objectives. The second school, however, puts more focus on the importance of the involvement of the Australian NGOs, so long as they meet basic accountability standards, because they are supported by the Australian public....

*...The past decade has seen greatly increased pressure on all parts of the aid program to demonstrate results. The 1999 policy in fact makes it clear the “the Government chooses to work with organisations that have most to contribute... By working with effective NGOs, the Government aims to achieve quality aid outcomes and to extend the reach of the aid program...”(p.5). The Government funds NGOs because “NGOs can make a practical contribution to quality aid outcomes”, (p.6). **If ever it were true that the Government were funding Australian NGOs because they are organizations supported by the Australian public, it seems clear to the Review Team that this is not the case now.** The pressure for allocating aid where it is most efficient and effective and can demonstrate results is clearly immensely strong and, for NGO funding, is not confined to country program windows or cooperation agreements. **This reality needs to be taken into account in both the accreditation process and in NGO funding schemes.**” (Emphases ours)*

This review notes and affirms that at the commencement of the ANCP entry to funding was primarily through registration and demonstrated community support. The ANCP has, over the last twenty years however, evolved significantly. It is increasingly a funding mechanism for NGOs that can meet the professional accreditation standards and increasingly rigorous entry points required. This transition is also mirrored in the NGO sector where more stringent standards under the (ACFOA) ACFID Code have been developed and the commitment to demonstrating quality and effectiveness has become a priority.

¹⁴ Ellis, P; Crooke, M; “Review of the AusAID NGO Accreditation Process and Systems” p.10; 11 Mar 2004

Community support is still important to both AusAID and to NGOs but it is no longer the automatic entry point or primary focus of the ANCP. Albeit it is still recognised and supported in part through the unique nature of the subsidy itself and the components of Recognised Development Expenditure (RDE) that remain an integral part of the funding mechanism.

The Review Team has drawn several insights from examining the Background Context that inform issues within the ANCP Review.

These are that:

1. The ANCP, Accreditation and funding relationships between AusAID and NGOs are closely linked.
2. The ANCP has over time:
 - a. Maintained a focus on subsidising NGO prioritised projects and programs that meet certain basic criteria.
 - b. Maintained recognition of community support by the Australian public for NGOs. This is still recognised through the RDE criteria of the ANCP and is one key factor that is assessed in permitting NGOs Accreditation.
 - c. Developed from, a somewhat “laissez faire” approach to subsidising NGO projects into a unique funding mechanism that is now focused on achieving sustainable development outcomes that *“tangibly contribute to poverty reduction”*.
 - d. Required increasingly professional standards to be reflected through accreditation in ANCP programming.
 - e. Become the entry point for other AusAID funding mechanisms that have recognised the inherent values and benefits of accreditation and the serious levels of risk management and professional standards that it represents.

Review Findings

The Review Team have taken an objective-by-objective approach in this Consultative Review in order to more closely focus on specific issues that remain outstanding in the evolution of the ANCP funding mechanism. They recognise however that there is also a need to look at these within the context of the whole process and not as isolated issues. This is particularly important when it comes to possible adaptations and implications for change.

In the synthesis of the data collected from a representative sample of ANCP stakeholders, there has been recognition of the diversity of opinion and experience expressed. Despite this diversity the Review Team has been encouraged by the clear presence of common themes of agreement and understanding on key aspects of the ANCP. These

common themes were tested at the ACFID NGO consultations with AusAID and form the specific findings under 'Areas of Agreement and Concern'. This review endeavours to present those themes as the most valid basis for making recommendations to AusAID.

Finally, the Review Team have been guided by expressions from within AusAID, ACFID and the NGO sector that recommendations should, to the greatest degree possible, bring greater equity to the ANCP without creating unacceptable levels of disadvantage to a few.

Objective A: re-define the ANCP as a funding mechanism for professional development NGOs rather than a mechanism to engage the broader Australian community in the aid program.

Areas of Agreement:

- There is broad agreement and commitment to the need for professional standards across the sector.
- There is recognition that the standards required and expected of ANCP NGOs have changed significantly over time.
- Entry to the ANCP is through accreditation. The process sets the levels for professional standards not just for ANCP management and implementation but in many respects for the NGO as an organisation. NGOs report that those standards have also positively impacted on and contributed to more professional relationships, procedures and programming with Global partners.
- Professionalism, in so far as it refers to the quality of systems and management of an organisation or the quality of outcomes, is not limited to large organisations.
- Community support and engagement remain important to all NGOs.
- Community support is still inherent in the ANCP through the subsidy and RDE assessment mechanisms but is not, in and of itself, the entry point to the ANCP and the benefits that arise from ANCP.
- The ANCP enables the Government to engage with NGO programs / projects that often reflect broader community interests and offer alternative perspectives to development assistance.

Areas of Concern:

- There is concern over the term “ professional development NGOs” due to:
 - The lack of definition pertaining to the word in this context.
 - Perceived distancing from the voluntary nature of many NGOs.
 - Using the phrase ‘professional *development* NGOs’ was concerning for some NGOs that see their work, outside ANCP, as incorporating non-development aspects, in particular this was true for NGOs that offer medical services.
 - Concern that professional implies a ‘for profit’ motive .

Assessment of Issues:

There is a prevailing understanding among NGOs that the ANCP has moved on and is now a funding mechanism to subsidise Australian NGOs who have professional standards and have satisfied the rigour of the accreditation process at a level appropriate to their engagement. However, there is considerable unease about any attempt to define NGOs in terms of ‘Professionalism’ versus ‘Community Based’. The notions of community and voluntarism are sacrosanct to the ethos and self-understanding of NGOs and therefore redefinition should utilize a language that achieves what is necessary to clarify the role and function of the ANCP without the suggested labeling inherent in Objective A as stated.

It is clear to the Review Team that since the establishment of the ANCP, there has been a distinct shift in its character, from a scheme whose entry points for NGOs were minimal and based essentially on their legitimacy and demonstration of community support to a funding mechanism for NGO programs / projects whose entry point is a two level accreditation process that demands significant levels of professional risk management and capacity on the part of the NGO being accredited. This accreditation process has, over time, raised the bar significantly and this has contributed to a significant drop in agencies approved for ANCP funding.

Our assessment is that while Ellis and Crooke report from their Accreditation Review in 2004 that perceptions about the ANCP being just a funding mechanism for any agency with demonstrable community support remained strong among some NGOs there is now a much more unified commitment to the necessity for professional standards. There is growing acceptance that the ANCP mechanism, while remaining a unique mechanism for supporting NGO programs / projects which often reflect special community interest, should at the same time have professional standards of accountability and risk

management applied to their development practice. This is inline with the increasing professionalism demanded by ACFID's Code of Conduct, signature to which is also a requirement for accreditation and therefore entry into the ANCP.

Recommendations:

That AusAID consider the following redefinition of the ANCP

'The ANCP subsidises Australian NGOs who have met a professional accreditation standard to implement their own international development programs. To be eligible, agencies are required to undergo a rigorous assessment of their organisational structure, systems and philosophies. Accreditation aims to provide AusAID, and the Australian public, with confidence that the Australian Government is funding professional, well managed, community based organisations, capable of delivering quality development outcomes'

Definition: Professional: is used in this context to denote that accreditation is formally established and has a certification process that utilises high standards of external and critical assessment. They reflect established, benchmark and documented standards for governance, risk management and accountability within an ethical and equitable framework.

<p>Objective B: assess the implications, benefits and risks of multi-year Annual Development Plans (ADPlans) to AusAID and accredited NGOs.</p>
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The focus of this review is to examine the possible inclusion of multi-year ADPlans within the ANCP and the relative benefits and risks to AusAID and accredited NGOs. Practically, however, it is difficult in consultations to separate the multi-year ADPlans from multi-year funding. NGOs have not supported the notion of multi-year ADPlans outside the context of accompanying multi-year funding commitments. This section, therefore, briefly informs AusAID on the issues relating to both but focuses its recommendations only on multi-year ADPlans.

Some important benefits of a multi-year funding approach are seen as:

- The removal of 'perverse incentives' in having to spend everything before the annual acquittal date.
- Fostering longer-term more strategic approaches to development engagement.
- Enabling better quality and effectiveness.

- Cost savings to NGOs and possibly AusAID from a streamlined administration of projects.

Some implications are:

- An increase in reporting complexity since variations would need to be submitted to AusAID annually to take account of variations in IPF.
- Difficulties that may result if an NGO moves between accreditation levels or loses accreditation part way through a multi-year program.
- Any variations to the plans (including budgets) and contractual variations to cover changes would all have to be submitted and approved, which could be a greater administrative burden for both NGOs and AusAID than an annual development plan.
- NGOs could as a consequence of longer-term commitments be expected to clearly demonstrate qualitative outcomes of their work at a higher level.
- The ANCP is highly valued for the ability of NGOs to use funds for piloting new initiatives. In a multi-year context it may be difficult to accommodate shorter-term piloting activities

Recommendations for a possible multi-year funding approach are suggested in fairly recent AusAID reports and the matter has also been raised in discussions at the CDC on several occasions. However it is not within the scope of this Review to make recommendations regarding multi-year funding within the ANCP. ACFID through the consultative process has been made aware of this, as have the NGOs consulted.

It is generally agreed that a long-term development framework, including an ongoing organisational learning process, is good practice. The introduction of multi-year ADPlans could support this. In practice, many NGOs already operate on the basis of long-term programming, and activities or projects included in ADPlans submitted each year are frequently items drawn from such programming. Australian NGOs with a larger financial support base manage the annual allocation acquittals by slotting ANCP funding within broader program contexts and spending ANCP funds up front to ensure acquittal while transitioning the program through each year with their own funding. Even agencies with less financial certainty have expectations of multi-year continuity and try and treat the process as strategically and programmatically as possible.

Areas of Agreement

- Australian NGOs strongly support multi-year Annual Development Plans if the commitment of funding comes with it. The word 'guaranteed' was used several times. The NGO sector also understand that there is rarely ever an 'absolute guarantee'

in funding and understand the need for caveats on ‘no guarantee’ or ‘subject to availability of funds’.

- NGOs endorse the benefits of a multi-year approach as outlined above.
- There was moderate support for the inclusion of a multi-year section in the current ADPlan if it was simple.

Areas of Concern

- The budget allocations to ANCP are annual. The total funding available to ANCP in any one year is only known after the national budget is delivered. It seems unlikely that this will change. Therefore, while a multi-year contract could be signed, it would include a clause that funding from year to year is not guaranteed which negates one of the primary attractions identified by NGOs for multi-year ADPlans. However, this perception of ‘guarantee’ is probably overstated given that all grants usually have conditionality clauses and NGOs would probably be comfortable with the caveat.
- “Pilot” funding may not be accommodated in a multi-year approach.
- Given that an NGO might undergo an unsuccessful accreditation review during the course of a multi-year ADPlan, funding for out years would not be provided.
- Because a Full NGO’s entitlement to a share of ANCP funds is based on its RDE, that entitlement may vary from year-to-year as its RDE varies. Their entitlement is also affected by the annual ebb and flow of funds available as a result of the number of draw-downs from the funding pool. It is therefore possible that an NGO’s entitlement might fall below or rise above the budget of its multi-year ADPlan. However experience suggests that in most cases Full agencies, at least, usually have the capacity to cover these annual discrepancies.

Multi-Year ADPlans

If the ANCP does not shift to using multi-year ADPlans, there might still be benefits for both NGOs and AusAID in demonstrating how an ADPlan fits into an NGO’s longer-term program. This need not be done in exhaustive detail, but a short description in the ADPlan would allow an NGO to demonstrate the kind of strategic thinking and planning skills necessary for accreditation, and would allow AusAID to monitor progress in some projects over several ADPlans, adding another source of data on activity performance.

The Review Team discussed this possibility with NGOs and there was neither strong support nor strong opposition towards this suggestion.

The benefits were understood as:

- Linking ADPlans to broader strategic program frameworks.
- Enabling AusAID to better understand an ADPlan in a broader contextual framework.
- Providing documented evidence of Strategic thinking to accreditation reviewers during the accreditation process (Criterion B1).
- Keeping the value of eventually moving to a multi-year approach visible.
- Encouraging program effectiveness.

The constraints were seen as:

- A further layer of complexity in reporting.
- Uncertainty as to the cost benefit of it for AusAID.

Recommendations

1. Recommend that AusAID consider including a simple line item in the ADPlan format which allows the NGO to demonstrate the relation of the program / project in their ADPlan to the broader strategic framework of the agency if it adds value to AusAID.

Objective C: examine the distinction between Base and Full accreditation and identify the benefits of the two-tiered accreditation system.

There is very little difference between the criteria for Base and Full accreditation in terms of either their number or their written form. This reflects a convergence between the two levels over the past five years or so. In addition, when the Accreditation Criteria were revised in 2004 this was carried out initially within the context of having only a single tier accreditation. The decision to remain with two tiers was taken during the process of writing that review. This suggests that the initial context of one only one-tier accreditation may have dominated the final version of the current criteria.

An examination of the differences between the accreditation criteria from 1997 and those from 2006 shows substantial sophistication in verifiers rather than criteria with stronger emphasis on documented and applied systems and strategies. Base accreditation criteria are essentially the same as full except for the exclusion of Criterion E2 & E3. The main verifier differences for Base accreditation are the

absence of the need for a strategic plan and the internal capacity assessment of agency and partner¹⁵.

Accreditation Review Teams endeavour to make distinctions, between the two-accreditation levels but consistency of interpretation and application remain problematic.

The key outcome difference remains that Base agencies are only entitled to a maximum of \$100,000, while Full agencies are entitled to the same amount plus a share of the remaining pool of funds under the ANCP. Full agencies are also able to bid alone, or as a lead agency, for Cooperation Agreements whereas Base agencies can only enter as a consortium member.

Those favouring elimination of the Base-Full distinction argue that accreditation should measure a single level of quality for all, irrespective of an NGO's size, structure or focus. This is comparable to ISO certification in the private sector, where companies of very different sizes and types of business are assessed using common standards. A common accreditation could also allow greater funding to Base NGOs; however, given the pooled nature of ANCP this increase may result in a decrease in funds available to Full agencies.

Those in favour of retaining the distinction are concerned that its removal might further reduce the number of NGOs in the ANCP. Some that have moved from Base to Full accreditation in the past see their time in the Base category as a useful learning period to gain familiarity with the ANCP and a better understanding of accreditation requirements. Other NGOs at Base level wish to remain there and do not want, for various reasons, Full accreditation. Maintaining the Base-Full distinction is also a useful risk management mechanism which allows AusAID to maintain a relationship with NGOs that do not, for whatever reason, have Full accreditation. The Base funding ceiling allows AusAID to provide a moderate level of funding at an acceptable level of risk to NGOs that otherwise may not receive support.

Areas of Agreement

- Two levels of Accreditation are necessary and provide the following benefits:
 - Base is seen as a learning school for future entry into ANCP as a fully accredited agency.
 - Base is seen as a place where small micro-development and niche NGOs can contribute their skills at an appropriate level.

¹⁵ Surprisingly a verifier in D3 for base accreditation looks for a 'Policy covering utilization of volunteers' but is singularly absent in D3 verifiers for Full.

- Some see Base as a level they can drop back to if their Full accreditation or re-accreditation is not successful.¹⁶
- If there is no serious redefinition of Base criteria commensurate to the level of funding received but with sufficient risk management then there should be only one level of accreditation. It is felt that the criteria should ‘be reasonable and reflect proportionality’.
- That maintaining adequate and appropriate standards at both levels is vital.
- There is agreement that a two-tier system should allow at the entry level a degree of customisation in interpreting the criteria to allow good niche agencies to better fit into the process.

Areas of Concern

- The term “Base” Accreditation is not liked by the NGO constituency. It is felt that a better terminology should be found.

Recommendations

1. That AusAID maintain a two-tier accreditation system in the ANCP.
2. That the two tiers be renamed as Level One Accreditation (Base) and Level Two Accreditation (Full).
3. That AusAID review the criteria for Level One Accreditation in order to create reasonable and necessary criteria for the level of funding available.

Objective D: examine the implications, benefits and risks of removing emergency appeal funding expenditure from Recognised Development Expenditure (RDE) calculations to AusAID and accredited NGOs.

RDE calculations are made on the basis of expenditure, not income. The Review Team has adjusted Objective D to reflect that fact.

After the Indian Ocean tsunami in late 2004, massive amounts of money flowed into some NGOs, and modeling showed this would significantly distort expenditure by NGOs in the ANCP over a period of several years. This meant that even though the RDE of many NGOs would increase, in practice a very small number would have greatly increased IPFs, while the IPFs of most others would be reduced, despite their increased RDEs. For this reason, a decision was made by the CDC to exclude tsunami-related spending from the RDE

¹⁶ The Review Team’s position is that both proposed tiers are levels with professional standards and that the only entry into either level is by meeting the externally verified and critically assessed criteria of that level. This is necessary to guard against any erosion to the standards that are set.

calculation. It was a good example of the need to manage the inherent contradiction between community support on the one hand and equity within the ANCP on the other.

The tsunami decision raised the question of whether there should be a more general rule to exclude emergency relief expenditure from the RDE calculations. However, there is not a logical link between the decision and the question. The tsunami decision was based on the effects of an *event*, not on forms of expenditure. Indeed, it is clear that much of the money raised after the tsunami will be spent on development work.

ANCP guidelines state that ANCP funds cannot be used for emergency relief activities, so this does raise a logical question of why such expenditure can be included in the RDE calculation. AusAID does not have a formal definition of ‘emergency relief’¹⁷ but activities that may fall into this category are currently excluded from the ANCP on the basis that they are *not* development activities.

In the absence of a coherent international approach to this matter, it was recognised during the review that it may be difficult for AusAID to develop an acceptable definition for emergency aid. The willingness of AusAID to take the lead on this issue and whether it would be appropriate for AusAID to do so, also needs consideration.

Further, exclusion of emergency spending from RDE calculations would not necessarily have resolved the distorting effect of the tsunami spending, especially if the majority of the funds were spent on development work. So this still leaves a question about how to balance recognition of community support against equity within the ANCP membership.

Areas of Agreement

- Relief and development is seen and treated programmatically as a continuum of activities. Good relief starts with a post relief recovery and development intent. It is very difficult to demarcate the boundary markers on the continuum.
- The majority of funds raised during disasters are allocated for activities along the continuum with increasing emphasis at the development end. This is an important fundraising strategy in growing community support for longer-term activities. Ethical controls under the ACFID Code of Conduct are in place to ensure transparency and accountability. Any attempt to identify and remove ‘emergency’ funds from RDE would have a major negative impact on a number of NGOs in the ANCP.

¹⁷ AusAID is not alone in this. It appears that no major donor defines the term, and it is not included in the DAC glossary.

- ANCP funds should not be used for relief as currently specified in the ANCP Guidelines.
- It is important that stability and equity be maintained in the ANCP. In considering alternative approaches to achieving this there was strong support for an automatic capping mechanism on the RDE factor rather than it being handled on a case-by-case basis.

Areas of Concern

- That the best percentage for limiting IPF variability be established through initial modeling and periodic review to ensure equity.

Recommendations

1. That emergency expenditure remain allocable to the RDE calculation.
2. That as a general principle AusAID limit the increase or decrease of any agency's IPF figure at 20% ¹⁸ in any given year, unless the agency moves between the accreditation levels.
3. That the percentage of limiting IPF variability be subject to review and adjustment based upon experience and the continuing need for equity in the ANCP.

<p><i>Objective E: re-assess the minimum level of RDE required to meet Base and Full accreditation criteria.</i></p>

Currently, the minimum RDE levels are \$30,000 for Base agencies and \$60,000 for Full agencies. These figures were based upon the rationale that accreditation demanded a minimum of one project to be able to assess an organisation's capacity. The minimum cost of a project in 1995 was estimated to be \$30,000. Accreditation at the Full level would demand conceptually at least two projects and therefore the RDE minimum was set at \$60,000. These criteria are now well over a decade old, which raises the question as to whether they should be increased. It is arguable that these amounts do not today, represent a great deal of community support.

While the minimum RDE levels have not changed, the accreditation and program factor¹⁹ amounts have also varied little in the past decade. If the minimum RDE levels are raised, there is an argument that the accreditation factor payment should also be increased. The

¹⁸ Modelling for this percentage showed that it would have affected three NGOs in 2005/06 and two NGOs in 2006/07

¹⁹ There appears to be no logical reason for retaining different terms for this entitlement at Base and Full levels. A single term, 'accreditation factor', would be more accurate.

higher standards required during accreditation and the significant resourcing required by NGOs to gain accreditation are also strong arguments for an increase.

It is possible that some NGOs might never reach a minimum RDE level of, say, \$100,000 or \$120,000, were Base and Full categories to merge. Some would argue that the ANCP should not include organisations with such low levels of community support, and that other avenues of AusAID funding might be more appropriate for them. Others would argue against any further decrease in the number of NGOs under the ANCP, so mechanisms should be in place to retain them. It is not the intention of this review to exclude any NGOs from the ANCP program.

Some NGOs may only just meet the minimum RDE level. To avoid these NGOs losing accreditation based on one bad year in RDE terms, one suggestion was that the minimum RDE be calculated as an average of the previous three years.

Areas of Agreement

- Levels should rise to reasonable levels to reflect current monetary values.
- A two-tier scale should remain.
- Care should be exercised in implementing the change in order to minimise the risk of disadvantaging current ANCP membership.

Areas of Concern

- The levels set should be reasonable and achievable.
- The possible impact on an agency that fails one year to reach the set minimum RDE factor.

Internal Logic

Since its inception there has been an internal logic or rationale for defining RDE levels and how they relate to the Accreditation and Program factors. The team believes that it is important to maintain this logic to guide future discussions on re-adjusting these elements. These principles are:

1. That RDE entry to ANCP represents at;
 - a. the Base Level (Level One) the capacity to manage a single project. Originally this was estimated at \$30,000 but now recommended this be raised to \$50,000.
 - b. the Full Level (Level Two) the capacity to manage at the multiple project (program) level. Originally this was estimated at (2 x \$30,000 projects = \$60,000). The Logic would now give a factor of \$100,000 for RDE entry.

2. That the Accreditation factor represent the higher levels of risk management and capacity which the two levels confirm and the significant resources required to obtain and maintain accreditation should reflect an accreditation factor of three times the RDE entry amount. Therefore applying the principle the Accreditation Factors would be in the future:
 - a. Base (Level One) is 3 times RDE Entry (50,000) = \$150,000
 - b. Full (Level Two) is 3 times RDE Entry (100,000) = \$300,000

Note: There is a distinct value in trying to have a formal logic behind the calculations but the Review Team is also conscious of the need to minimise any negative disadvantage to accredited NGOs. It is suggested that AusAID consider the application of the above logic at a future date with adequate time for NGOs to achieve the needed RDE entry points. The recommendations that follow apply the above principles but with a reduced RDE entry level to the Full (Level Two) tier because of the needs already stated.

Recommendations

1. That RDE entry levels be raised to:
 - a. Base (Level One) - \$50,000.
 - b. Full (Level Two) - \$75,000.²⁰
2. That RDE level be calculated on an average taken over the preceding 3 years.
3. That the RDE minimum levels be re- assessed in three to five years.
4. That both Base and Full (Levels one and two) receive an Accreditation Factor amount appropriate to their level regardless of the level of their RDE. The Program Factor is then redundant and should be dropped from the IPF Sheet.
5. That Accreditation factors for Base and Full be raised to reward the considerable investment required to obtain and maintain accreditation. The Review Team's specific recommendation is based upon two key factors. One that the Base level needs to have a factor large enough to recognise the standards required of it and that should be \$150,000 and that the Full accreditation factor increase to a point that limits the potential negative impact on as many agencies as possible to single digit percentage loss.
 - a. Base Accreditation Factor \$150,000.
 - b. Full Accreditation Factor \$ 225,000²¹

²⁰ The recommended minimum RDE level of \$75,000 at Full level recognises the need to ensure that no current ANCP members are disadvantaged as a result of this review. However AusAID may wish to consider the option of raising it to a more realistic \$100,000 level at some point in the future giving ANCP members affected sufficient time to increase their RDE.

²¹ One member of the Review Team declared a potential conflict of interest in all discussions regarding the possibility of an increased Accreditation Factor seeing that the Agency they represent could gain a significant benefit from the recommendations made. The other Review

Objective F: examine the NGO funding streams used to make up RDE. Define ineligible funds, such as those channeled to overseas organisations without sufficient input from the NGO and draft policy and operational guidance.

All NGOs consulted have agreed that there is a logical case to exclude from the RDE calculations any expenditure over which the NGO exercises inadequate oversight. The RDE is about an Australian NGO's *development* expenditure. When an NGO is simply a "post box" or "tax deductible" pass through mechanism, having no direct involvement, then no development value is added by that NGO. However, what level and form of NGO involvement should there be? In practice, most NGOs appear to manage their overseas funds through Memoranda of Understanding or other written agreements with their partners. These agreements might cover auditing, monitoring, compliance with relevant AusAID policies or management decisions, among other things.

Some NGOs noted that they had been approached by external groups seeking to pass funds through the NGO to gain a tax deduction on the money, then either return the money to the management of the external group or send the money on to be managed by a third party. Again, all considered this practice unethical and some had written policies to deal with it. It is also an issue currently being discussed between AusAID, the Australian Taxation Office and Department of Treasury as it has come to AusAID's attention that some organisations may be using their tax deductibility status incorrectly.

Areas of Agreement

- Broad agreement that all RDE allocable expenditure must have adequate oversight and control by the Australian NGO who is the legal custodian of the funds received.
- That written specific guidelines, as to what constitutes 'adequate oversight' be developed, with clear precise verifiers. The principles of Project Cycle Management (PCM), the locus of ultimate authority and responsibility to form the basis of these guidelines.

Team members are satisfied that proper duty of care has been taken and that the recommendation made reflects what is seen as the correct decision on the basis of evidence without any undue influence.

Areas of Concern

- That the guidelines should be simple and precise but not too prescriptive recognising the diversity of arrangements within the ANCP membership. The onus should be upon the NGO to demonstrate how its system meets the overall guidance.

Recommendations

1. That AusAID publish revised guidelines 'Funding eligible for RDE Inclusion'.
2. That AusAID consider the following guidelines to define ineligible funds for inclusion in the RDE calculation. These would be inserted in the current Guidelines for defining the eligibility of expenditures involving third parties included in an NGOs RDE calculation.

Principle: *RDE is the total eligible contribution ... for **the agency's own overseas development assistance, emergency relief or rehabilitation activities and development education** in Australia.* Disbursements that relate to other activities and expenses cannot be claimed as RDE.

Definition: The emphasis is upon ownership and control. The ANCP is about supporting Australian NGOs who raise money from the Australian community. In order for funds to be eligible for inclusion in the RDE the Australian NGO must be able to demonstrate that they exercise adequate levels of administrative and management input over all expenditures allocated to the NGOs RDE. There are two common scenarios ²² where this principle must be assessed carefully before allocating expenditures to RDE assessment.

Scenario 1:

An organisation without DGR status asks the accredited NGO to pass funds through its accounting system in order to obtain a tax deduction. The NGO provides this 'ancillary support' and sends the funds offshore to a project and counts it as allocable expenditure for RDE inclusion.

Scenario 2:

An Australian accredited NGO is affiliated with or implements some of its program / projects activities through regional or global organisations. It understands that it cannot include any membership fees or external administration / fundraising / promotional costs of these organisations in its RDE but would like to allocate the program project expenditures to its RDE.

²² These scenarios are generic and illustrative only. There are many variations. If in doubt, contact AusAID for definitive assessment.

Application:

In both these scenarios and other variations of them, the NGO must assess the level of administration and management that they have brought to bear on this expenditure of funds and whether these are sufficient to allocate the expenditures to their RDE submission. The following guidelines cover the basic minimum expectations that would be required for these expenditures to be accepted as the agencies 'recognised development expenditure'.

1. The ultimate legal and practical authority over the use of these funds must remain with the Australian accredited NGO. They must hold the authority to:
 - a. Stop the activity, after consultation with partners, if risk management factors indicate it is necessary to do so.
 - b. Call for an audit if circumstances call for one and demand the repayment of funds if required.
2. The Australian NGO must, with regard to the proposed use of the funds, have:
 - a. Documented the proposed use of the funds.
 - b. Assessed the appropriateness of the use of the funds.
 - c. Formally approved the project / program budget and proposal as their project.
 - d. Have documented agreements with the implementing party /parties outlining the requirements and protocols necessary to ensure the correct use of the funds.
 - e. Engaged in a demonstrable level of monitoring of the program / project implementation.
 - f. Received regular financial statements, reports and evaluations and have the right to make course corrections in consultation with their partners as necessary
 - g. Received an audit of the project program.
3. Be able to document and demonstrate the above engagement in the program if required to do so.

If the Australian NGO can demonstrate their ownership of the project through the above criteria and if they are in compliance with all other requirements for RDE eligibility then the funds in question can be allocated to RDE but will remain subject to Audit, a Financial Systems Assessment and Accreditation Review.

Summary of Recommendations

- 1: That AusAID consider the following redefinition of the ANCP.

The ANCP subsidises Australian NGOs who have met a professional accreditation standard to implement their own international development programs. To be eligible, agencies are required to undergo a rigorous assessment of their organisational structure, systems and philosophies. Accreditation aims to provide AusAID, and the Australian public, with confidence that the Australian Government is funding professional, well managed, community based organisations, capable of delivering quality development outcomes.

- 2: AusAID consider including a simple line item in the ADPlan format which allows the NGO to demonstrate the relation of the program / project in their ADPlan to the broader strategic framework of the agency if it adds value to AusAID.
3. AusAID maintain a two-tier accreditation system in the ANCP.
4. The two tiers be renamed as Level One Accreditation (Base) and Level Two Accreditation (Full).
5. AusAID review the criteria for Level One Accreditation in order to create reasonable and necessary criteria for the level of funding available.
6. Emergency funding remain allocable to the RDE calculation.
7. AusAID cap the increase or decrease of any agency's IPF figure at 20% in any given year.
8. The percentage of capping IPF be subject to review and adjustment based upon experience and the need for equity in the ANCP.
9. RDE minimum levels be raised to:
 - a. Base (Level One) - \$50,000
 - b. Full (Level Two) - \$75,000
10. RDE minimum levels be re-assessed in three to five years.
11. RDE level to be calculated on an average taken over the preceding 3 years.
12. Base and Full (Levels one and two) receive an Accreditation Factor amount appropriate to their level and regardless of the

level of their RDE. The Program Factor is then redundant and should be dropped from the IPF calculation sheet.

13. Accreditation factors for Base and Full be raised to reflect the considerable investment and costs in obtaining and maintaining accreditation. The Review Teams specific recommendation is
 - a. Base Accreditation Factor be raised to \$150,000
 - b. Full Accreditation Factor be raised to \$225,000
14. AusAID publish revised guidelines 'Funding eligible for RDE Inclusion'.
15. AusAID consider the guidelines included as part of this report to define ineligible funds for inclusion in the RDE calculation. These would be inserted in the current Guidelines for defining the eligibility of expenditures involving third parties included in an NGOs RDE calculation.

Appendix A

Terms of Reference - ANCP Review 2006

Background

1. The AusAID NGO Cooperation Program (ANCP) is an annual funding program for Australian NGOs that have been Accredited with AusAID. The goal of the ANCP is to subsidise Australian NGO community development activities which directly and tangibly alleviate poverty in developing countries.
3. The need for a review of the ANCP has been discussed within the Community Programs Section (CPS) of AusAID and with the NGO community, particularly with the Committee for Development Cooperation (CDC), since June 2004.
4. The Review was initially envisaged as an opportunity to examine and streamline the administrative requirements of the Program. Over the last 18 months however, changes to AusAID's core systems and obligations have resulted in the bringing forward of a number of changes initially intended as part of an ANCP Review, including:
 - Revisions to the ADPlan template;
 - A move from 2 tranche payments per year to a single payment;
 - A change from project proposals to ADPlans for Base agencies.
4. The ANCP has therefore been evolving steadily since the initial need for an ANCP Review was raised. At CDC 111 however, it was agreed that there are a number of matters outstanding that should be examined collectively as part of a review of the ANCP.

Objectives

5. The objectives of the Review are to:
 - A) Redefine the ANCP as a funding mechanism for professional development NGOs rather than a mechanism to engage the broader Australian Community in the aid program;
 - B) Assess the implications, benefits and risks of multi-year ADPlans to AusAID and Accredited NGOs;
 - C) Examine the distinction between Base and Full Accreditation and identify the benefits of the two tiered accreditation system;
 - D) Examine the implications, benefits and risks of removing emergency appeal funding from Recognised Development Expenditure (RDE) calculations to AusAID and Accredited NGOs;
 - E) Reassess the minimum level of RDE required to meet Base and Full Accreditation criteria.
 - F) Examine the NGO funding streams used to make up RDE. Define ineligible funds, such as those channelled to overseas organisations without sufficient input from the NGO and draft policy and operational guidance.

Scope

6. In performance of the specified services the Review Team will:

- a) Review all relevant material provided by AusAID, including:
 - Options Paper: Revision of Performance Criteria for the ANCP Program (P.Kilby 2004)
 - Review of the Accreditation Process and Systems (Ellis & Crooke 2004)
 - ANCP Cambodia Cluster Evaluation Report (2005)
 - ADPlan Review (2003)
 - QAG Report: The Quality of NGO Projects (2001)
 - AusAID RDE Review; prepared by Jenny Chua (2006)
- b) Consult with relevant stakeholders as appropriate, including:
 - AusAID officers within CPS, relevant country program desks and the Corporate and Contracts Policy Section
 - Current and former CDC members
 - The Australian Council for International Development (ACFID)
 - The Australian NGO community
- c) Provide an analysis of the issues raised by each of the Review objectives including:
 - A description of the process/system/issue being analysed
 - Explain why the process/system/issue is being reviewed
 - Provide additional options for consideration
 - Provide recommendations to AusAID

Methodology

7. Each of the following will be undertaken during the course of the Review to inform analysis of the objective.

Objective A:	Examine and compare Accreditation standards in 2005 to those of 1997. Comparison should involve discussions with the NGO Community about perceptions of the standards.
Objective B:	Analyse administrative, financial and planning implications of the introduction of 3 or 5 year ADPlans.
Objective B:	Compare the possible impact of multi-year ADPlans on small and large agencies and on agencies in a variety of sectors.
Objective C:	Examine arguments that have been put forward for and against the removal of the Base/Full distinction.
Objective C:	Consider the implications of removing the Base/Full distinction to non-ANCP programs, eg. Co-operation Agreements.
Objective D:	Model the likely impact removal of emergency appeal funding would have on the Indicative Planning Figures (IPFs) of all Accredited NGOs.
Objective D:	Comment on the appropriateness of including emergency relief funding in RDE calculations given the nature of the ANCP.
Objective E:	Look at 2003, 2004 and 2005 RDE figures for all Accredited NGOs.
Objective F:	Examine samples of RDE calculations and discuss these with relevant NGOs where appropriate.

Timing

8. The Review is planned to commence in April and conclude in June 2006.

Specification of the study team

9. The Review Team will comprise one AusAID representative from CPS, one NGO member of the CDC and one consultant. The consultant will have a solid understanding of the Australian NGO community and will be familiar with AusAID systems and procedures.
10. The consultant will lead the Review Team and will have responsibility for preparing the report documentation, with input from the CDC and CPS representatives.

Reporting

11. **Issues Paper:** Following review of the literature and initial discussions with stakeholders, the review team will develop an issues paper. This paper will include a description of the processes/systems being examined, explain why the process/system is being reviewed and present initial findings for each objective. This paper will be circulated to relevant stakeholders for information and comment.
12. **Final Report:** The body of the final report will be structured by objective. The report will clearly articulate the findings and recommendations of the Review and will be no more than 30 pages.

Appendix B

Organisations Consulted

ACFID

AusAID

Individuals

Mike Crooke
Wendy Rose

NGOs

Adventist Development and Relief Agency
Anglican Board of Mission
Australian Afghan Volunteer Association
Australian Lutheran World Service
ANGLICORD
ASSISI
AUSTCARE
Australian Conservation Foundation
Australian Red Cross
Burnet Institute
CARE
CARITAS
ChildFund Australia
Christian Blind Mission International
Credit Union Foundation Australia
Every Home for Christ
Fred Hollows Foundation
Habitat for Humanity Australia
International Women's Development Agency
Interplast
The Leprosy Mission
Marie Stopes International Australia
NCCA – Christian World Service
Oxfam Australia
Quaker Service Australia
Reledev
Salvation Army
Save the Children Australia
Sexual Health and Family Planning
SH & FPA
TEAR
UNICEF
Union Aid Abroad - APHEDA
World Vision

Appendix C

ANCP REVIEW ISSUES PAPER 15 June 2006

1. Context

This review examines some issues in the AusAID-NGO Cooperation Program (ANCP). The ANCP funds activities and projects which are determined by the priorities and aims of NGOs themselves. This is unlike funding through Cooperation Agreements for development or humanitarian relief work, where the priorities are set by AusAID. Cooperation Agreements are seen as the 'key arrangement for AusAID's engagement with the NGO sector'²³, so the ANCP occupies an unusual and distinctive role. However, the two are linked: participation in ANCP requires accreditation at either Base or Full level, and the latter form of accreditation entitles an NGO to bid independently for Cooperation Agreements.

The task of the current review is to look at unresolved administrative issues in the ANCP. The review was asked to fulfil six objectives:

- A. Re-define the ANCP as a funding mechanism for professional development NGOs rather than a mechanism to engage the broader Australian community in the aid program;
- B. Assess the implications, benefits and risks of multi-year Annual Development Plans (ADPlans) to AusAID and accredited NGOs;
- C. Examine the distinction between Base and Full accreditation and identify the benefits of the two-tiered accreditation system;
- D. Examine the implications, benefits and risks of removing emergency appeal funding from Recognized Development Expenditure (RDE) calculations to AusAID and accredited NGOs;
- E. Re-assess the minimum level of RDE required to meet Base and Full accreditation criteria;
- F. Examine the NGO funding streams used to make up RDE. Define ineligible funds, such as those channelled to overseas organisations without sufficient input from the NGO and draft policy and operational guidance.

2. Key principles

Looking at the administration of ANCP, it is possible to discern four key principles, each underpinned by a different administrative mechanism. Some of these are explicit in documents, others implicit, but together they provide a useful framework for analysis. The four principles are summarized in Table 1.

²³ *Australia's Overseas Aid Program 2006-07, Statement by the Honourable Alexander Downer MP Minister for Foreign Affairs 9 May 2006, Commonwealth of Australia, 2006, p. 59.*

Table 1. ANCP Principles and Administrative Mechanisms

Principle	Mechanism	Explanation
5. Professionalism	Accreditation	Accreditation assures government that NGOs demonstrate quality, transparency and accountability to a standard that allows them to be entrusted with public funds. It demonstrates a level of professionalism.
6. Community support	RDE calculation	The RDE is a money figure calculated on NGO disbursements ²⁴ . Up to 50% of it can be from in-kind and volunteer disbursements ²⁵ . While it is an indirect measure (based on disbursement rather than income), the RDE seeks to express the level of support an NGO receives from the Australian community for development work.
7. Equity	Capping IPF	All NGOs with accreditation can access up to \$100,000 on the basis of their accreditation alone ²⁶ . NGOs with Full accreditation can access further money from the remaining pool of funds in the ANCP. In order that the whole pool of funds is not taken by a few NGOs with very high RDE levels, thereby excluding others from the program, the maximum percentage of funds an NGO can access is capped. In practice, this equity mechanism currently affects only one NGO.
8. Diversity	Base vs Full accreditation	NGOs seeking Base accreditation fulfil eighteen criteria, and those seeking Full accreditation a further two ²⁷ . Indicators for all common criteria are virtually identical, but accreditation teams in practice assess them differently depending on the level. The original intention was that Base level would cater to NGOs that were smaller, more focused in scope and/or not desirous of seeking the greater funds or opportunities for Cooperation Agreements that Full accreditation allows. This helps to diversify the range of NGOs in the ANCP.

There are some important points to note about these four principles. First, accreditation only measures professionalism in terms of the *capacity* to manage and implement development activities. It does not measure the quality or effectiveness of performance *outcomes* in the field. Aid effectiveness is being given increased emphasis in AusAID's program, but the cost and resourcing requirements to independently evaluate all ANCP activities would be prohibitive. To manage this, the ability of NGOs to self-assess, to evaluate and accurately report on their activities is a key area examined during accreditation. A performance information framework is also being developed as part of a suite of strategies that will facilitate evaluation of NGO performance in the field. CPS also plans to continue with a program of cluster evaluations as part of the performance information framework.

Second, the RDE seeks to measure community *support*. While not the most direct measure, its quantitative nature means it is administratively efficient as long as the formula for calculation is kept reasonably simple. RDE does not, and is not intended to, measure community engagement, outreach or

²⁴ Money from overseas or from government and disbursements for non-development work are excluded from the calculation.

²⁵ Volunteer disbursements are assessed using standard rates.

²⁶ The actual amount accessed depends on a formula linked to RDE averaged over the previous three years. The resulting amount is the Indicative Planning Figure (IPF).

²⁷ An extra 3 criteria apply to both categories if the NGO engages in family planning or reproductive health activities.

education activities by NGOs. Again, these issues and the NGOs plans to enhance this area of their activities are examined during accreditation.

Finally, there is an inherent conflict between the IPF being linked to community support (through the RDE) on the one hand, but capping IPF to preserve a broad number of NGOs in the ANCP on the other. How to manage this balance between the might of numbers and equity of membership is likely to remain an ongoing issue.

3. Issues

Below, under each of the objectives of this review, are some of the key issues that need to be addressed.

Objective A: re-define the ANCP as a funding mechanism for professional development NGOs rather than a mechanism to engage the broader Australian community in the aid program.

Since the establishment of the ANCP, there has been a shift in its character, from a program dealing with a broad range of NGOs to a smaller program focused on NGOs with a demonstrated level of professional capacity. The accreditation process, which demands continuous improvement, has been the key factor in this shift. Given this change, and the new opportunities foreshadowed in the White Paper, this is a good opportunity to define the character of the ANCP, and in particular to define what makes it distinctive for both NGOs and AusAID.

None of this is to suggest that professional development NGOs do not have a strong community base. It is to reflect the fact that many community based groups who have an interest in the aid program are unlikely to meet the rigorous professional development criteria that are a prerequisite of ANCP.

Issue A1: what is the best language to use to clearly identify ANCP as a funding mechanism for professional development NGOs?

Objective B: assess the implications, benefits and risks of multi-year Annual Development Plans (ADPlans) to AusAID and accredited NGOs.

Multi-year ADPlans have been strongly supported by NGOs in the ANCP, hence this objective for the review. It is commonly agreed that a long-term development framework, including an ongoing learning process, is good practice. Multi-year ADPlans would support this. In practice, all NGOs already operate on the basis of long-term programming, and activities or projects included in ADPlans submitted each year are normally items drawn from such programming. At the same time, however, NGOs value the flexibility of being able to trial new activities and to change course or strategy in a program based on lessons learned. Annual ADPlans allow this.

The demand for multi-year ADPlans stems from the expressed desire of accredited NGOs for streamlined administration of projects, greater budgetary security in the relationship between Australian NGOs and their local partners, and ultimately, with beneficiaries. There was also an expectation that multi-year ADPlans would reduce uncertainty in project planning if it were possible to carry surplus and deficit funds from the end of one year into the budget of the following year.

AusAID is able to enter into multi-year contracts with NGOs under ANCP, and does not require special approval to do this. However, this review has identified three administrative constraints. First, the budget allocations to ANCP are annual. Total funds available to ANCP in any one year is only known after the national budget is delivered. It is highly unlikely that this will change. Therefore, while a multi-year contract could be signed, it would include a clause that funding from year to year is not guaranteed which negates one of the primary attractions identified by NGOs for multi-year ADPlans. Second, because a Full NGO's entitlement to a share of ANCP funds is based on its RDE, that entitlement can vary from year to year as its RDE varies. It is therefore possible that an NGO's entitlement might fall below or rise above the budget of its multi-year ADPlan. Third, given that an NGO might undergo an accreditation review during the course of a multi-year ADPlan, funding for out years would not be provided. This also negates a key attraction for multi-year ADPlans.

If there were multi-year ADPlans, annual reports, any variations to the plans (including budgets) and contractual variations to cover any changes would all have to be submitted and approved, which might in fact be a greater administrative burden for both NGOs and AusAID than an annual plan.

Even if ANCP did not shift to multi-year ADPlans, there might still be benefits for both NGOs and AusAID in demonstrating how an ADPlan fits into an NGO's longer term program. This need not be done in exhaustive detail, but a short description in the ADPlan would allow an NGO to demonstrate the kind of strategic thinking and planning skills that are a criterion in accreditation, and would allow AusAID to monitor progress in some projects over several ADPlans, adding another source of data on activity performance.

Issue B1: do the benefits of multi-year ADPlans outweigh the administrative costs to both AusAID and NGOs?

Issue B2: should NGOs have the option of including a multi-year context in their ADPlan format, and would there be sufficient benefit for both AusAID and NGOs to justify inclusion of this?

Objective C: examine the distinction between Base and Full accreditation and identify the benefits of the two-tiered accreditation system.

There is little difference between the criteria for Base and Full accreditation in terms of their number or their written form. This reflects a move to convergence in the past five years or so, though accreditation review teams clearly make distinctions between the two types of agencies under each criterion.

The key outcome difference remains that Base agencies are only entitled to a maximum of \$100,000, while Full agencies are entitled to the same amount plus a share of the remaining pool of funds under the ANCP. Full agencies are also able to bid alone, or as a lead agency, for Cooperation Agreements.

Those favouring elimination of the Base-Full distinction argue that accreditation should measure a single level of quality for all, irrespective of an NGO's size, structure or focus. This is comparable to ISO certification in the private sector, where companies of very different sizes and types of business are assessed using common standards. A common accreditation could also allow greater funding to Base NGOs, however given the pooled nature of ANCP this increase may result in a decrease in funds available to Full agencies.

Those in favour of retaining the distinction are concerned that its removal might further reduce the number of NGOs in the ANCP. Some that have moved from Base to Full accreditation in the past see their time in the Base category as a useful learning period to gain familiarity with the ANCP and a better understanding of accreditation requirements. Other NGOs at Base level wish to remain there and do not want, for various reasons, Full accreditation. Maintaining the Base-Full distinction is also a useful risk management mechanism which allows AusAID to maintain a relationship with NGOs that do not, for whatever reason, have Full accreditation. The Base funding ceiling allows AusAID to provide a moderate level of funding at an acceptable level of risk to NGOs that otherwise may not receive support.

Issue C1: should all NGOs under the ANCP be assessed on the same accreditation criteria and at the same level?

Issue C2: if no to C1, should the indicators and verifiers for Base and Full accreditation respectively be made more distinct to guide both NGOs and accreditation review teams?

Objective D: examine the implications, benefits and risks of removing emergency appeal funding from Recognized Development Expenditure (RDE) calculations to AusAID and accredited NGOs.

RDE calculations are made on the basis of expenditure, not income. After the Indian Ocean tsunami in late 2004, massive amounts of money flowed into some NGOs, and modelling showed this would significantly distort expenditure by NGOs in the ANCP over a period of several years. This meant that even though the RDE of many NGOs would increase, in practice a very small number would have greatly increased IPFs, while the IPFs of most others would be reduced, despite their increased RDEs. For this reason, a decision was made to exclude tsunami-related spending from the RDE calculation. It was a good example of the need to manage the inherent contradiction between community support on the one hand and equity within the ANCP on the other.

The tsunami decision raised the question of whether there should be a more general rule to exclude emergency relief expenditure from the RDE calculations. However, there is not a logical link between the decision and the question. The tsunami decision was based on the effects of an *event*, not on forms of expenditure. Indeed, it is clear that much of the money raised after the tsunami will be spent on development work.

ANCP guidelines state that ANCP funds cannot be used for emergency relief activities, so this does raise a logical question of why such expenditure can be included in the RDE calculation. AusAID does not have a formal definition of 'emergency relief'²⁸ but activities that may fall into this category are currently excluded from the ANCP on the basis that they are *not* development activities.

In the absence of a coherent international approach to this matter it may be difficult for AusAID to develop an acceptable definition for emergency aid. The willingness of AusAID to take the lead on this issue and whether it would be appropriate for AusAID to do so, also needs consideration.

Further, exclusion of emergency spending from RDE calculations would not necessarily have resolved the distorting effect of the tsunami spending, especially if the majority of the funds were spent on development work. So this still leaves a question about how to balance recognition of community support against equity within the ANCP's membership.

Issue D1: if ANCP funds cannot be spent on emergency relief activities, why should NGOs be allowed to include emergency aid expenditure in their RDE calculations?

Issue D2: is there a need and is it appropriate for AusAID to clearly define 'emergency relief' in order to assist NGOs and AusAID determine which expenditure might be affected?

Issue D3: given that exclusion of emergency spending from RDE calculations would not necessarily address distortions in IPFs caused by an event like the Indian Ocean tsunami, could all such events be dealt with on a case by case basis, as with the tsunami decision?

Issue D4: if major distortions are not managed on a case by case basis, can equity and stability in IPFs be addressed by capping the IPF for all NGOs at an appropriate percentage of the total funds available, that percentage being determined by modelling of the event's effects over a multi-year period?

Objective E: re-assess the minimum level of RDE required to meet Base and Full accreditation criteria.

Currently, the minimum RDE levels are \$30,000 for Base agencies and \$60,000 for Full agencies. These figures are now well over a decade old, which raises the question of whether they should be increased. It is arguable that these amounts do not represent a great deal of community support. NGOs consulted so far said they would not be affected if the figures were doubled, but some would be affected

²⁸ AusAID is not alone in this. It appears that no major donor defines the term, and it is not included in the DAC glossary.

if the figures were doubled *and* the distinction between Base and Full accreditation were removed, with the minimum RDE level being set at the Full level.

While the minimum RDE levels have not changed, the accreditation and program factor²⁹ amounts have also varied little in the past decade. If the minimum RDE levels are raised, there is an argument that the accreditation factor payment should also be increased. The higher standards being set during accreditation rounds and the significant resourcing required by NGOs to gain accreditation are also strong arguments for an increase.

It is possible that some NGOs might never reach a minimum RDE level of, say, \$100,000 or \$120,000, were Base and Full categories to merge. Some would argue that the ANCP should not include organisations with such low levels of community support, and that other avenues of AusAID funding might be more appropriate for them. Others would argue against any further decrease in the number of NGOs under the ANCP, so mechanisms should be in place to retain them. It is not the intention of this review to exclude any NGOs from the ANCP program.

Some NGOs may only just meet the minimum RDE level. To avoid these NGOs losing accreditation based on one bad year in RDE terms, one suggestion was that the minimum RDE be calculated as an average of the previous three years.

Issue E1: what are the most appropriate RDE levels?

Issue E2: should the minimum RDE level be calculated on an average taken over the preceding 3 years to overcome any short-term distortions that might put an NGO's accreditation at risk?

Issue E3: should the minimum RDE level be the same for all NGOs?

Issue E4: if the Base-Full distinction were removed, but an NGO currently in the ANCP then had an RDE less than the minimum level, should that NGO still be allowed to remain in the ANCP (subject to accreditation) but only be eligible for its accreditation factor payment, not any further share of the ANCP funding pool?

Objective F: examine the NGO funding streams used to make up RDE. Define ineligible funds, such as those channelled to overseas organisations without sufficient input from the NGO and draft policy and operational guidance.

All NGOs consulted have agreed that there is a logical case to exclude from the RDE funds over which the NGO exercises no oversight. The RDE is about *development* expenditure. When an NGO has no direct involvement, no development value is added by that NGO. However, what level and form of NGO involvement should there be? In practice, most NGOs appear to manage channelled funds through Memoranda of Understanding or other written agreements. These agreements might cover auditing, monitoring, compliance with relevant AusAID policies or management decisions, among other things.

Some NGOs noted that they had been approached by external groups seeking to pass funds through the NGO to gain a tax deduction on the money, then either return the money to the management of the external group or send the money on to be managed by a third party. Again, all considered this practice unethical and some had written policies to deal with it. It is also an issue currently being discussed between AusAID, the Australian Taxation Office and Department of Treasury as it has come to our attention that some organisations may be using their tax deductibility status incorrectly.

Issue F1: should all development funds not being managed directly by an NGO be excluded from the RDE calculation?

Issue F2: should there be specific guidelines as to what such management should comprise?

²⁹ There appears to be no logical reason for retaining different terms for this entitlement at Base and Full levels. A single term, 'accreditation factor', would be more accurate.

Issue F3: what level of financial and policy control over funds is essential for an NGO to be able to include those funds in its RDE?

Issue F4: what monitoring elements in the use of funds, e.g. reporting, policy compliance, are essential for an NGO to be able to include those funds in its RDE?

END