

## **Joint Standing Committee on Foreign Affairs, Defence and Trade**

enquiry into

### **The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region**

submission by

**Australian Trade and Development Business Network (ATAB) and the  
Institute for International Trade (IIT) at the University of Adelaide**

# **The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region**

## **Executive Summary**

In July 2013, the Institute for International Trade (IIT) at the University of Adelaide brought together a range of private sector companies and development organisations for a ‘National Dialogue on the Role of the Private Sector in Development and in Aid for Trade Programs’. A major outcome of the conference was the formation of a new business network – the Australian Trade and Development Business Network (ATAB) whose principle aim is to promote private sector participation in sustainable development and poverty reduction activities. Many of the comments and findings in this submission emanate from that conference which featured keynote addresses from the then Finance Minister, Penny Wong, and the now Foreign Minister, Julie Bishop.

### Trade, Economic Growth and the Private Sector

Empirical evidence strongly supports the view that economies that are open to trade and investment grow faster. Increased openness to international trade can and does have a positive impact on economic growth and poverty reduction provided certain conditions are in place such as appropriate regulatory policies, a stable political environment, strong institutions and efficient and inclusive distribution systems.

A growing private sector - the engine of economic growth and driver of trade - is therefore fundamental to moving people out of poverty. Economic growth drives poverty reduction by creating jobs. Research into households that have escaped from poverty shows that, in more than 80 percent of cases, the decisive factor was a household member finding a job.

***The private sector is already part of the solution, but there is great potential for their contribution to be scaled up.***

The private sector offers long-term investment, creates employment and develops infrastructure. The private sector also often provides services that substitute for government services, provides income for local investors and contributes taxes and royalty revenue – some of the key enablers for economic development.

### Public Private Sector Partnerships for Development

Public-private sector partnerships (PPPs) for development provide a unique opportunity for stakeholders to work together in order to find cost-effective solutions to common challenges affecting development and business interests alike.

The private sector and development agencies both recognise the importance of assisting developing countries to lower or remove the barriers to increased business, trade and

investment. There is a convergence of mutual interest for the private sector and development agencies to foster projects and activities which assist in this process – and that is what ‘aid for trade’ (AFT) is all about.

***AFT programs are an important vehicle for promulgating effective PPPs for development, and the private sector should be actively involved in most AFT activities.***

Aid for Trade aims to assist developing countries in addressing supply side barriers to trade and investment and drives self-reliance through building community and private capacity to trade. Given that AFT is targeting many of the supply side and infrastructural deficits facing the private sector in developing countries, it beckons for close collaboration, consultation and cooperation between private sector companies in Australia who are operating in developing countries, together with Australian Government agencies such as DFAT and other organisations, universities and institutions involved in the delivery of Australia’s AFT program.

ATAB and IIT are currently working with DFAT to foster the development of such cooperative endeavours and have already developed a number of pilot projects for consideration. For example, Beach Energy working with DFAT in Africa and with IIT to develop a skills development training program for the oil and gas industry in the poorer regions of Tanzania. This project serves as an example, of finding areas of convergence between the needs of the private sector and the development aims of government.

Whilst the business case must always be clear for the private sector to commit to PPPs for development, it is equally important that the company understands the development case as well. The benefits of private sector growth are greatest when businesses behave ethically –with a high level of transparency, corporate social responsibility and sound risk management strategies in place. The private sector needs to commit to the development projects objectives, from the highest levels - from the boards and CEOs - to employees on the ground.

The private sector also needs to appreciate that effective development projects must be demand driven and based on close consultation with local communities and their respective governments. A range of useful criteria are put forward in the submission for effective PPPs for development which include adherence to the principle of ‘additionality’ whereby joint projects must add value and not simply replace what the private sector should have done as part of their core business responsibilities. Often private sector companies do not clearly understand how they should become involved and what considerations are necessary for entering into a successful partnership for development – and this is where the role of development agencies comes in.

### The Role of Development Agencies

The role of agencies with a development focus such as DFAT in Australia, is to educate, facilitate and expand the involvement of the private sector in development activities through close consultation and collaboration in the design, implementation and evaluation of aid and AFT programs.

***A major finding of the National Dialogue was that ‘cultural barriers’ between the public sector and private companies needs to be addressed.***

The private sector is seen by some in the public sector as profit driven and therefore generally incapable of effective and sustained poverty reduction activities, as its core business is profit maximisation not poverty reduction. On the other hand, private sector companies or industries keen to be involved in development activities at times find it difficult to negotiate the various levels of bureaucracy, and, occasionally, a lack of understanding of how business operates.

DFAT has a commendable record in attempting to provide education and awareness to break down these ‘cultural barriers’, but that role needs to be expanded through appropriate resourcing within DFAT as well as through support of relevant business networks such as ATAB and Business for Millennium Development, who share the same or similar objectives.

***The official development agencies of Germany and the United States offer some useful insights into the role they have played in facilitating the expansion of private sector involvement in development.***

The lessons from Germany are that a number of stipulations for the projects need to be in place namely:

- public and private contributions should complement each other in a way that ensures objectives are achieved sooner and more efficiently;
- that projects ensure that the private partner would not otherwise have been able to implement the project without the developPPP.de project;
- the project must demonstrate commercial interest (it should not be a corporate-social responsibility type initiative); and
- the company must demonstrate that they have a long-term sustainable interest in the country beyond the completion of the project.

Similarly USAID suggest several key characteristics:

- Focus on Development Impact
- Based on Complementary Interests and Objectives
- Market Based Approaches and Solutions
- Extensive Private Sector Collaboration: Support for Business Networks

- Significant Private Sector Contributions for Increased Impact
- Increased Scale, Efficiency, and Effectiveness

#### Return on Investment and the Significance of Gender Inclusiveness

In terms of return on investment in PPPs for development and on AFT programs, this submission highlights a study by the OECD which found that US\$1 spent on AFT is associated with developing countries exports increasing by US\$8.

***In fact, for the poorest countries in the world, that return grows to US\$20 for every one dollar invested. When measuring trade in parts and components, the impact is even higher reflecting the benefit of improving value chains offers to developing countries.***

Not only is women's economic empowerment put forward as an important development priority, it is also smart economics; investing in women and girls delivers high returns.

The UN has estimated that low female labour market participation in Asia costs the region some \$47 billion annually. The links between the empowerment of women and advancement of a host of social and economic indicators are well established.

Australia's official aid program already has a strong gender awareness approach and this can be further reinforced through private sector partnerships and AFT programs which prioritise women and more balanced gender outcomes.

#### The New Aid Paradigm

IIT believes there is a new aid paradigm evolving. In this new paradigm, developing countries now aid other developing countries. The growth of the middle-classes in Asia, South America and Africa can be harnessed as agents for change and economic reform. Donors like Australia will need to develop a multipronged approach to our development aid; one which still accounts for the humanitarian needs of those living in extreme poverty, but one that simultaneously is tapping into the drivers of economic growth and the growing potential of low and middle income communities. This fits well with an increased emphasis on aid for trade and stronger involvement of the private sector.

IIT notes in the submission that China, India, South Korea and others, are spreading aid liberally in order to further their own economic and commercial diplomacy interests, allowing them access to new markets and resources, often at the expense of other market participants, including Australia.

***We need to strongly brand Australia's commercial objectives as complementary to our long held humanitarian ethics and commitment to global justice.***

While supporting the focus on the Indo-Pacific region, the private sector in Australia, especially mining and agricultural companies and those involved in trade in educational services, will continue to undertake major investment activities in Africa as so we need to

maintain an effective aid and diplomatic presence there. Africa has some of the faster growing economies in the world, and in many cases, is in very strong need of efficiency gains that targeted AFT programs can bring. The private sector is keen to see the expansion of Australia's economic diplomacy interests in Africa as this converges with significant private sector investment interest in that region.

#### Expanding the Future Role of the Private Sector in Development

In short, the Australian Trade and Development Business Network and the Institute for International Trade are keen to see the expansion of private sector activity in support of long term poverty reduction in developing countries.

ATAB and IIT will continue to promote best practice for private public sector partnerships for development through our educational and research work in Australia and in the developing communities where Australian companies work.

Through Australia's Aid for Trade programs, currently over 14% of the aid budget, we believe there is an effective working vehicle for the convergence of core business interest with sustainable development objectives of donor agencies. DFAT already plays an important role in facilitating the expansion of PPPs for development and is in the process of enriching its aid for trade program.

***DFAT has a commendable record in providing a point of contact and awareness raising that the private sector requires in order to become more involved - that role needs to be expanded through appropriate resourcing within DFAT as well as support for Austrade and relevant business networks such as ATAB and Business for Millennium Development who share similar objectives.***

Direct industry partnerships should also be promoted along with the potential to explore new and innovative arrangements in the design, financing and implementation of poverty reduction programs.

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## **1. Introduction**

### The Australian Trade and Development Business Network

The Australian Trade and Development Business Network (ATAB) came together as a result of the National Dialogue on the Role of the Private Sector in Development and Aid for Trade hosted by the Institute for International Trade in Adelaide on 19th July, 2013. The group has a unique, national perspective on trade, aid and development issues integrating the views of the private sector, managing contractors and academia.

ATAB aims to promote and facilitate increased private sector participation in public private partnerships for development through a range of activities including the expansion of its membership base, piloting joint aid projects in collaboration with government and through increasing dialogue with the Department of Foreign Affairs and Trade (DFAT) and educational workshops for the private sector.

Membership of ATAB includes Beach Energy, Boral Limited, Coffey International, Parsons Brinckerhoff Ltd, Rural Solutions, San Remo, URS Corporation, Australian Population and Migration Research Centre, Austraining International, the ANZ Banking Corporation and the Institute for International Trade.

ATAB seeks to build on where the core business interests of Australian exporters and investors converge with projects and activities which contribute to poverty reduction in developing countries. The network is working closely with DFAT, engaging in the policy development agenda of government and on pilot projects.

### The Institute for International Trade

The Institute for International Trade (IIT) is an integral part of the University of Adelaide. It has a global reputation for its excellence in training, strategic advice, research and practical assistance relating to the practice of international trade, business investment policy and sustainable development strategies for both the private and public sector as well as to international intergovernmental organisations.

This includes analysis of the implications of accession to the World Trade Organisation (WTO), capacity building support for the development of agriculture and services sectors, analysis of the role of regional economic integration programs, and country-specific technical project assistance for business, government and civil society. IIT is unique in that its staff and associate experts have been practitioners in the field of international trade negotiations, international business, the delivery of aid for trade (AFT), development aid and development programs, reviews of multilateral organisations, developing AFT policy and research, and the implementation of public policy.

The Institute, headed by Mr David Morfesi, a former US senior trade negotiator, policy advisor and diplomat, has a rich network of associates and experts across the Asia Pacific

region, the Middle-East and in North America and Europe. Jim Redden is the Director of International Programs and has undertaken extensive research and training work in developing countries. He is a former advisor to the Australian Government on trade and development policy and aid for trade. Mr Keith Wilson is IIT's senior trade law counsellor with more than 10 years international organisation and regional consulting experience undertaking research on regional cooperation and the implementation of legislation, particularly in developing countries.

The Institute's rich network of associates includes for example, Professor Kym Anderson, former leading economist with the World Bank, renowned for his work on agriculture, Associate Professor Andrew Stoler, former Deputy Director General of the WTO and international trade expert and Peter Gallagher, former Australian trade negotiator with DFAT.

ATAB and IIT welcome the opportunity to comment on this review of the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region. The following submission highlights seven areas that we see as important to improving the role and involvement of the private sector in development.

## **2. The Role of the Private Sector**

By operating in developing countries, the private sector is already a key stakeholder in development activities. By providing employment, training, public revenue, products and services and in some cases building the supply chain capacity of local firms, Australian businesses are clearly an integral part of the poverty reduction equation.

Encouraging greater private sector participation in poverty reduction, therefore, makes very good sense. An oil company like Shell spends some \$17billion annually worldwide on goods and services purchased from locally owned small and medium sized businesses increasing jobs and income for many low income people employed in those businesses. The potential of a responsible and transparent private sector to impact positively on jobs and incomes could, if effectively harnessed, contribute to employment, training and wealth creation in developing countries in a way donor aid agencies could only dream of.

Whilst the ultimate responsibility for the provision of public goods falls to governments, for a variety of reasons, they are not always able to provide them. The private sector is increasingly being considered a key partner to assist in the delivery of a public service with greater resource allocation efficiency (UNCTAD, 2011). This occurs when private sector firms demonstrate strong accountability, value for money and an outcomes approach towards its shareholders, which in turn allows for faster delivery with more transparency and a greater level of quality assurance than the standard public procurement. (Farquhason et al, 2011).



As the catalysts for the bulk of international trade, the private sector has an incentive for any obstacles to business and trade activity to be removed and market failures resolved. In fact, many of the obstacles that businesses face in developing countries (the cost of doing business) are an extension of the complex development challenges that both development agencies as well as business seek to address. For example cross-border delays, facilitation payments and corruption all serve as costs to business and trade - obstructing the efficient flow of goods between countries. The same issues can interrupt the flow of humanitarian aid and see scarce resources diverted through corruption away from the poor. In fact, the objectives of donor agencies such as peace-keeping, security, sustainable development, human rights and poverty reduction, are increasingly interrelated with the needs of business (Nelson & Prescott 2003).

This is precisely why public-private sector partnerships for development provide a unique opportunity for both stakeholders to work together in order to find cost-effective solutions to common challenges affecting development and business interests alike (USAID 2013).

Whilst the interests of the private sector and aid agencies will not always align, there are key areas in which their interests overlap – and areas in which both parties can learn from one another. Figure 1 shows some attributes of the private sector and aid agencies, and some of those areas of common ground where there is significant potential for that ‘scaling up’ of cooperation.

**Figure 1: Common ground between aid agencies and the private sector**



Source: Department for International Development UK (DFID)<sup>1</sup>

Under the right conditions<sup>1</sup> a growing private sector—the engine of economic growth—is fundamental to moving people out of poverty. Economic growth drives poverty reduction by creating jobs. Research into households that have escaped from poverty shows that, in more than 80 percent of cases, the decisive factor was a household member finding a job (AusAID, 2012).

The private sector is essential for sustained economic development as it offers long-term investment, creates employment, develops infrastructure, often provides services that substitute for government services, provides income for local investors and contributes taxes and royalty revenue – some of the key enablers for economic development. The private sector is an integral part of the marketplace and society at all levels, whereas aid is policy driven and focussed primarily on poverty reduction, building community capacity and good governance. The two come together where the private sector and aid agencies converge and share interests in better governance for investment and operational stability, for skills development leading to access to workforce and productivity increases, prudent financial management and investment in necessary hard and soft infrastructure.

The observations from the National Dialogue in Adelaide last year suggest that governments, private companies and aid agencies all have an interest in economic development and growth. The poorest groups in developing economies must, however, participate and share significantly in the benefits of trade and economic development if the objectives of poverty alleviation are to be realised. The needs and special issues of the very poor need to be taken into account in both development aid and some private sector projects, thereby ensuring growth is inclusive, and that the poorest of the poor and disadvantaged groups are not by-passed in economic development initiatives.

It is important to note that in a period where global aid flows have been slowing and in some cases reducing, in part due to the impact of the GFC on many donor countries and rising debt levels. While it is desirable that this trend be reversed, business activity that contributes to poverty alleviation in developing countries is timely and important and needs to be encouraged; not only because stakeholders (shareholders, host governments, consumers) expect the private sector to contribute, but more so because the business imperatives are there - pro-poor business will drive their future growth (Ryan, Richardson & Voutier 2012). The potential of the growing middle classes of Asia, Africa and South America are arguably the key to future global growth and an increase in global welfare – and middle classes are growing ‘out of poverty’ – hence the interrelated agenda.

It is important to note that some of the challenges for the private sector to operate well involve the rule of law, existence of good business infrastructure, a stable macroeconomic

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<sup>1</sup> Right conditions means for example that law and order, appropriate fairness in tax distribution systems and competent public institutions are in place to insure against corruption or monopolistic pricing behaviour etc.

environment, an educated and healthy workforce and access to finance<sup>2</sup> in a developing country. It is in the public sector's main interest to provide the right environment for the private sector to function properly<sup>3</sup>. Thus it should be a priority to improve countries' regulatory mechanisms, making a long-term political commitment and providing a more stable business environment. All of these will facilitate interactions in the marketplace without unnecessarily hindering the development of the private sector (World Bank & IFC, 2014).

Whilst it has already been shown that the private sector is an integral factor in the growth and prosperity for developing countries, additional benefits and progress will flow from an enhanced emphasis on development outcomes. This is not possible unless there is support within private companies from the highest levels - from the boards and CEOs - to employees on the ground. Whilst the business case must always be clear, it is important that everyone understands the development case too, otherwise progress could be jeopardized.

### **3. Aid for Trade and Public-Private Partnerships for Development (PPPDs)**

The relationship between international trade, economic growth and poverty reduction is a complex one and detailed discussion is beyond the parameters of this enquiry. However there is a consensus among economists that trade openness spurs economic growth in most circumstances. Certainly conditions other than trade openness need to be in place, but as Anderson and Winters observe, there are no examples of an autarkic (or closed) economy successfully enjoying sustained economic growth<sup>4</sup>. In South East Asia the trade related success stories of, for example, Singapore, South Korea and China are self-evident to the extent that at some stage they all embraced a more open and liberal trade and investment regime.

Anderson and Winters also note that from a policy maker's viewpoint, the available empirical evidence strongly supports the view that economies that are open to trade and investment grow faster and they refer to recent surveys and studies undertaken by USITC in 1997, Winters in 2004, Billmeier and Nannicini in 2007 and Francois and Martin also in 2007.<sup>5</sup> There is a growing body of industry studies, some using firm-level survey data, which shows additional support for the theory that trade reform boosts the rate of productivity growth which in turn contributes to economic growth.

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<sup>2</sup> AusAID, 2012, "Sustainable Economic Development", P.10

<sup>3</sup> OECD, 2011, HLF4, P. 3

<sup>4</sup> Anderson K., and Winters L.A., 'The Challenges of Reducing International Trade and Migration Barriers' World Bank Policy Research Working Paper 4598, April 2008, pp 6

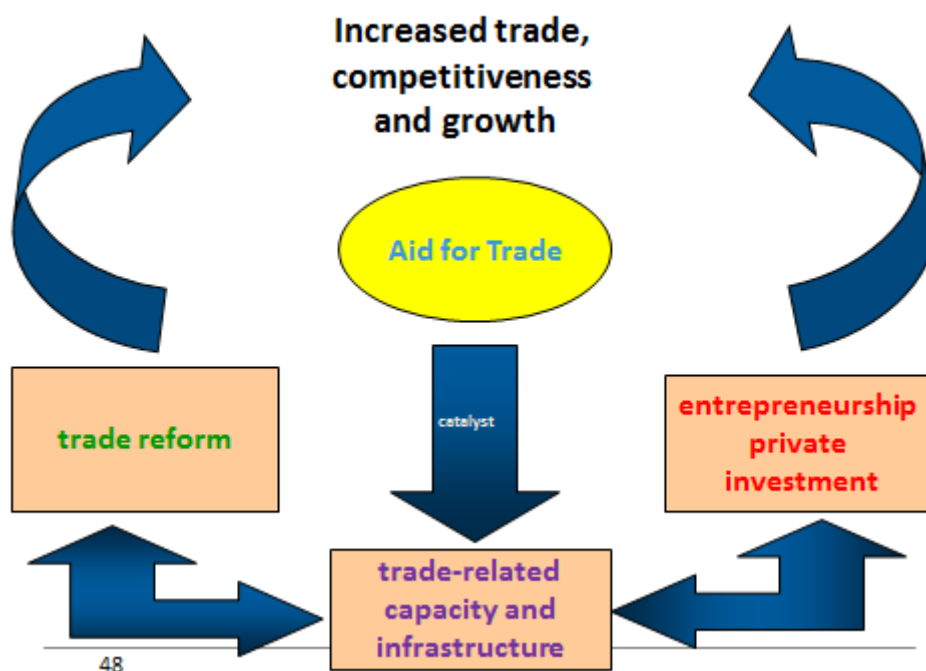
<sup>5</sup> Anderson K., & Winters A., 'The Challenge of Reducing International Trade and Migration Barriers', World Bank Policy Research Working Paper 4598, April 2008, pp 7

Given that the private sector drives international trade and therefore economic growth, and that under the right conditions, this can lead to long-term, sustainable poverty reduction, then the National Dialogue strongly recognised the importance of assisting developing countries to lower or remove the barriers to trade and investment wherever possible. There is a convergent interest for both the private sector and development agencies to foster projects and activities which assist in this process – and that is what ‘aid for trade’ (AFT) is all about.

Aid for Trade aims to assist developing countries address supply side barriers to trade and investment. The OECD categorise AFT into four areas.

1. Trade policy and regulation –for example assisting with skill development in the public sector and implementation of trade reform including legislative matters
2. Economic infrastructure – funding or loans in support of trade related infrastructure such as transport infrastructure or customs facilities
3. Productive capacity building – mainly focusses on support for building the productive capacity of the private sector, especially SMEs, to overcome barriers to trade
4. Adjustment assistance – for example in support of any temporary balance of payments issues or industry assistance that may be necessary as a result of trade liberalisation reforms.

Figure 2: The Role of Aid for Trade



Developing countries face many challenges in realising the benefits of increased trade but the Least Developed Countries in particular are often marginalised from the global economy, still accounting for less than one per cent of global trade. LDCs need the capacity to translate the benefits of trade into real development outcomes and this is where 'Aid for Trade' comes in.

The Foreign Minister Julie Bishop has correctly signalled 'aid for trade' as a flagship of the Coalition Government's aid program because it drives self-reliance through building community and private capacity to trade. When well-targeted, AFT aims to make it easier for low income communities in developing countries to do business and trade their way out of poverty and is particularly effective when it targets the cost of doing business in developing countries.

Australia already significantly contributes to aid for trade, with over 14% of the aid budget expended in this area last year. Aid for trade drives self-reliance, not dependence. Australian aid for trade to the Mekong countries, for example, has targeted assistance to farmers and small producers assisting their private sectors to export products that meet international health and safety standards. In Vietnam, Australia has given significant assistance with both hard and soft infrastructure projects – building roads and assisting with more efficient border transactions to expedite the cost of goods to ports and overseas markets. This has assisted Vietnam in its long term development objectives, and also makes it easier for the private sector to operate in Vietnam, lowering the cost of doing business.

Based on studies from the British Department for International Development, when there has been long-term per capita growth of over 3%, as driven by trade and the private sector, we have also seen significant falls in poverty. In Vietnam, a threefold increase in per capita GDP has resulted in poverty levels falling from 64% in 1993 to 17% in 2008. Australia can lay a modest claim to its role in supporting this poverty reduction progress.

The implications for Australia's aid program are clear. AFT should be a strategic platform of the aid program in pursuit of facilitating greater self-reliance and productivity in developing countries. Given that AFT is targeting many of the supply side and infrastructural deficits facing the private section in developing countries, it beckons for close collaboration, consultation and cooperation between private sector companies in Australia who are operating in developing countries, with Australian Government agencies such as DFAT and other organisations such as universities and institutions involved in the delivery of Australia's AFT program.

ATAB and IIT currently working with DFAT to foster the development of such cooperative endeavours. Following discussions with the Foreign Minister's office and DFAT, five pilot programs are currently under consideration including:

- An agribusiness project led by San Remo aiming to up-skill Cambodian targeted business partners and individuals in the areas of sales, marketing and distribution management
- A micro-savings and financial literacy project in the Pacific involving the ANZ Bank and Austraining International
- A research project to isolate key barriers to trade and investment of private sector companies operating in PNG, led by Coffey International, URS and IIT.
- A proposal from the Horticultural Industry seeking to work with the Australian Government to expand the seasonal workers program to a wider range of producers in South Australia
- An oil and gas industry training program for local Tanzanians involving close collaboration between Beach Energy, IIT and DFAT in Africa

Of these, the oil and gas industry training project proposal is well progressed and outlined in more detail below as a fine example of finding those areas of convergence between the needs of the private sector and the development aims of government.

### **ATADB and Beach Energy Oil and Gas Industry Training Project in Tanzania**

Beach Energy is one of several Australian firms active in exploring for and developing resource projects in Tanzania. Oil & Gas exploration firms have recently discovered very large offshore gas reserves and this will be a major source of revenue for Tanzania in the near and long term. Beach Energy recognises both a corporate responsibility and a strong business case for maximizing the use of the local labour force for such resource projects; however this aim is impeded by the general low level of skills in local trade and related areas that would enable successful employment of local resources. This has similarities with the situation that Australia faced in recent years when major concurrent resource projects in Western Australia and Queensland saw a severe shortage in skilled labour which prompted specific government training programs to be created.

The overall project aim is to up-skill local SMEs and individuals in identified areas so that the options for employment of local labour in Tanzanian based resource projects are significantly improved and taken up by international resource firms including Beach Energy. Initially, there is a requirement for conduct of a design mission and needs assessment, and phase 2 would be the conducting of training and accreditation resulting in increased local participation in Tanzanian resource projects.

A range of benefits, both in terms of operational efficiency for business and positive economic outcomes for all stakeholders are apparent in a project that results in increased employment of local labour including;

- The lower cost of hiring and remunerating local staff when compared to the cost of using international staff,
- The economic stimulus resulting from an increase in local employment;
- Capacity building through skilling the workforce with accredited training;
- Responding effectively to host country desire for localization of the international firm's operation.

Selected consultants supported by technical expertise from both the private and public sectors would conduct the design mission. A specialist firm such as Austraining International would provide project management and logistic support to the mission.

Public and private sector interests are well aligned in this proposal. There are strong potential economic benefits for Tanzania, significant benefits for the private sector including access to a larger and more cost effective labour market, and alignment with Australian Government policy on foreign aid, which prioritises self-sufficiency for developing countries rather than dependency.

Beach Energy and other resource companies are prepared to contribute financially to training programs for local labour, however both soft and hard training infrastructure is lacking and resource firms lack the specialist skills needed to design and implement a large-scale training program in an international context. Resource firms require specialist input from both public and private players, supported by the Australian Government for this initiative to succeed.

The large-scale Liquefied Natural Gas projects currently under construction in Australia will be completed over the next 18 months and there are a number of Australian service companies which could look to Africa for further project work.

ATAB will continue to work in closely with DFAT to determine the feasibility and implementation of these pilot projects but what they demonstrate is the gradual building of closer and positive ties between government and private sector in development partnerships – an aim we would like to see nurtured and supported in practical ways including the identification of new and innovative ways to finance development programs and assist each other in risk minimisation.

It is important to note that Australia will benefit from increased trade with developing countries both in our region and elsewhere because we benefit from cheaper goods and services they produce, but importantly, as they develop, they can afford to buy Australian expertise, services, raw materials and agricultural products.

While the emphasis of this submission is on the role of the private sector, it is important not to neglect the capacity of the public sector to facilitate business participation whether it be in AFT projects or as key stakeholders in trade negotiations. Category one of the OECD's classification of AFT is intended to cover donor support for building the capacity of the public sector in developing countries to develop and implement sound trade policy which reduces barriers to business and trade. The public sector needs to develop a range of consultative strategies with the private sector to ensure business interests are covered in trade negotiations and in policy design and implementation. IIT, for example, includes focussed workshops on strategies for private sector consultation as part of its training programs for government trade officials from developing countries.

In general, AFT serves many strategic objectives - economic, humanitarian, diplomatic and opens doors for business and commercial investment. We would be wise to note that now China, India and South Korea to name a few, are spreading aid and AFT liberally with fewer strings attached than Australia in order to assist in their own diplomacy and outreach to new markets and resources. We need to be out there with the best strongly branding Australia's commercial objectives but also Australia's humanitarian ethics and commitment to fairness and human rights.

That is why we need a strategic and balanced approach to the review of the aid program. We need to resource and support a highly skilled public service that can facilitate stronger buy-in from the private sector and facilitate the delivery of effective aid for trade programs.

#### **4. Risks Relating to the Private Sector involvement in Development**

The benefits of private sector growth are greatest when businesses behave ethically -with high level of corporate social responsibility and sustainability principles. A supportive and prudential regulatory and administrative framework is also invaluable in assisting private companies to access local resources and labour in a planned, efficient and transparent manner.



There are many different international industry standards that different companies follow – some are internal codes of conduct (governing their value chains and procurement, for example), and others are established by external business councils or together with the involvement of NGOs.

The high level fora on aid effectiveness in Rome, Paris, Accra and Busan set out principles for aid effectiveness that donors, NGOs and partner organisations aim to adhere to in their interventions. In 2011, The Busan partnership for effective development co-operation outcomes document recognises the central role that the private sector has to play in wealth creation, advancing innovation and poverty reduction, and emphasises the importance of public-private collaboration.

A joint statement from public and private sector representatives (OECD 2011) in the lead up to Busan set out 5 shared principles to maximise the benefit of private sector involvement in development activity:

1. Inclusive dialogue for building a policy environment conducive to sustainable development;
2. Collective action;
3. Sustainability;
4. Transparency; and
5. Accountability for results.

Private sector companies and industries willing to work in with government and donor organisations on poverty reduction programs need to uphold these principles. Transparency International played an important role in the National Dialogue speaking to the joint interest of multinational companies and development agencies in eradicating corruption and facilitation payments which, as mentioned earlier, syphon funds away from those most in need while creating barriers to doing business and trade.

Whilst the private sector is not ‘responsible’ for development and not all aspects of the declarations on aid effectiveness will be able to be applied to a business case, the private sector should strive to adhere to ‘best practice’ where practical. In areas such as monitoring and evaluation, transparency and accountability, developing country governments, NGOs and donor agencies should assist the private sector in meeting these international standards. Developing country governments should also try to ensure that the domestic legal framework ensures minimum standards for environmental sustainability and labour rights.

Another risk or perhaps barrier to effective PPPs for development, identified at the National Dialogue, was certainly cultural in nature. It is probably fair to say that there is a lack of understanding about the motives and priorities of the private sector from the perspective of the aid sector and vice versa. The private sector is seen as profit driven and therefore generally incapable of effective and sustained poverty reduction activities as its

core business is profit maximisation not poverty reduction. This is one reason why the perception of the 'profit motive' of the private sector has been an inhibitor to cooperation for development. On the other hand, factors that traditionally drive the private sector to engage in activities that alleviate poverty are brand, trust and reputation, personal commitment and employee engagement and recruitment.

Aid agencies are seen as charitable or social justice organisations that benefit small groups of people in need and companies are often more than willing to provide philanthropic support to them. However the private sector often does not see aid agencies as serious players in economic growth and development, perceiving them more as 'charities providing short term solutions' than the providers of long-term jobs and economic growth opportunities that increase wealth. Conference speakers suggested that a solution to this problem of divergent cultural perceptions would be to develop clearly defined areas of aligned interest prior to efforts on policy design and project activity. In other words, this is certainly a barrier that can be overcome with good will and cooperation.

Speaking of 'cooperation', one of the other barriers identified was the problem of 'additionality'. Governments prefer for the private sector to develop infrastructure, partly because governments do not want to 'crowd out' foreign or domestic market direct investments and because the scarce resources of government are needed across a range of community and governance platforms. In practice this is a difficult problem to navigate. For example, who should be responsible for training workers? Governments everywhere invest in education but how specific should training by governments be? Clearly, firms have a role to play, most obviously in on-the-job training and they should be expected to make such investments in developing skills and capacities in their workers. It is not always clear where the border between the responsibilities of government and those of companies lie and this makes the problem of additionality a persistent one.

Nonetheless, a number of companies at the National Dialogue said they would prefer to employ a good local employee who knows the country and is prepared to work to build the company in their country, rather than employ an expatriate who needs to be brought into the country, who is housed temporarily and wants to send their money and eventually themselves back home. It was put forward that most companies, if they know that they will have stable growth in a country, will be happy to either set up or assist in setting up schools, training colleges and on-the-job training for locals – because it makes good sense for them to assist in the development of a stable, loyal and committed workforce. The oil and gas industry project led by Beach Energy and DFAT Africa is picking up on this philosophy.

A final word on the risks. No doubt there are unscrupulous companies and some whose only interest in working with an aid donor is to try and influence government spending decisions in their favour or indeed attract aid money to pay for what they would otherwise have had to do themselves. One of the roles that ATAB is playing is to ensure that its members fully understand the principles of transparency and demand driven, inclusive development. All of the pilot projects developed have to sign off on the 'additionality principle' and state clearly the ongoing development benefits to the local communities involved. Where possible, projects are designed to attract benefits not just for one Australian company but for the broader industry or a number of companies operating in a particular sector.

ATAB is working in closely with DFAT on these issues and is seeking to broaden its membership based on the above principles. DFAT have well developed criteria for identifying appropriate companies or industries for collaboration and the intention in the future is for ATAB to continue to maintain an active dialogue with DFAT in the pursuit of effective partnerships for development.

## **5. A New Aid Paradigm and Geographic Focus**

IIT believes there is a new aid paradigm evolving. In this new paradigm, developing countries now aid other developing countries. The growth of the middle-classes in Asia and Africa can be harnessed as agents for change and economic reform. Donors like Australia will need to develop a multipronged approach to our development aid; one which still accounts for the humanitarian needs of those living in extreme poverty, but one that simultaneously is tapping into the drivers of economic growth and the growing potential of low and middle income communities, in order to build real and sustainable self-reliance in developing and least developed countries.

IIT notes that China, India, South Korea and others, are spreading aid liberally in order to further their own economic and commercial diplomacy interests, allowing them access to new markets and resources, often at the expense of other market participants, including Australia. As highlighted earlier, we need to strongly brand Australia's commercial objectives as complementary to and in furtherance of our long held humanitarian ethics and commitment to global justice.

While Australian aid and 'aid for trade' should focus on the Indo-Pacific region, again we need a balanced approach. Foreign Minister Bishop, while overseeing reductions to some areas of the aid program, has astutely maintained a core or focussed program in other areas of strategic interest to Australia. However in the light of the projected reductions, it is important to ensure programs have sufficient funding to succeed and it is recommended that Australia does all it can to at least maintain a CPI indexed foreign aid budget that keeps pace with contributions from other competitor nations.

The private sector in Australia, especially mining and agricultural companies, but also those involved in educational services, have undertaken and will continue to undertake major investment activities in Africa. Africa has some of the faster growing economies in the world, and in many cases, in very strong need of efficiency gains that targeted Aft programs can bring. There are other strategic reasons for maintaining close allies in Africa - on the trade and economic diplomacy front, on global security issues and most important of all, because of a long history of commitment to justice and poverty reduction on that continent for which Australia has a very strong reputation.

## **6. The role of women in the private sector and development partnerships**

Not only is women's economic empowerment an important development priority, it is also smart economics; investing in women and girls delivers high returns. The UN has estimated that low female labour market participation in Asia costs the region some \$47 billion annually (Nethercott et al, 2013). The links between the empowerment of women and advancement of a host of social and economic indicators are well established. Unfortunately, across the globe social and political factors have a significant influence on women's ability to participate in the economy, and these factors can be deeply embedded in convention, culture and society. These can include: access to family planning and other health care services; social protection coverage; completion of a quality post-primary education; improving adult literacy rates; and, increasing women's influence in governance structures and political decision-making.

By providing appropriate formal employment and training, the private sector can contribute significantly to improving the status of women. Often, in a developing economy the proportion of women engaging in informal work is much higher than men. Engaging in formal work through the private sector not only increases women's autonomy and self-respect, but it also increases the proportion of family income that is spent on education, health and food. It is therefore important for public private partnerships for development and for a significant proportion of aid for trade projects to target the education, training and employment needs of women seeking to participate in the formal economy.

*"Women perform 66 percent of the world's work, and produce 50 percent of the food, yet earn only 10 percent of the income and own 1 percent of the property. Whether the issue is improving education in the developing world, or fighting global climate change, or addressing nearly any other challenge we face, empowering women is a critical part of the equation."*

Former President Bill Clinton  
addressing the annual meeting of  
the Clinton Global initiative  
(September 2009)

For example, Unilever has sought to recruit more women into marketing and distribution in regional areas in developing countries including India, Bangladesh and Vietnam.

Unilever provides appropriate work for the women, selling cosmetics and food products to other women in their own communities. The customers place more trust in the female sellers, and this is seen as socially acceptable work for women in traditional communities. Through these programs women are then able to access to micro-finance products and undertake training, often hygiene training which improves their ability to sell hygiene products but also improves health in villages as knowledge and appropriate use of the products is passed from seller to consumer.

The OECD Network on Gender Equality (GENDERNET) sets out key messages for the role of women's empowerment in poverty reduction and pro-poor growth:

- Women's economic empowerment is a prerequisite for sustainable development, pro-poor growth and the achievement of all the MDGs. At the same time it is about rights and equitable societies.
- There is scope for increasing donor investments in women's economic empowerment.
- Achieving women's economic empowerment is not a "quick fix". It will take sound public policies, a holistic approach and long-term commitment from all development actors.
- Start with women by integrating gender-specific perspectives at the design stage of policy and programming.
- More equitable access to assets and services – land, water, technology, innovation and credit, banking and financial services – will strengthen women's rights, increase agricultural productivity, reduce hunger and promote economic growth.
- Infrastructure programmes should be designed to maximise poor women's and men's access to the benefits of roads, transportation services, telecommunications, energy and water.

Women experience barriers in almost every aspect of work. Employment opportunities need to be improved. At the same time women perform the bulk of unpaid care work. This is an area for greater attention by development actors through increased recognition and valuing of the ways in which care work supports thriving economies. Innovative approaches and partnerships are needed to scale up women's economic empowerment. (OECD 2012).

Aid for trade projects can be designed together with the private sector to effectively target the business and trading needs of women as the following case-study demonstrates.

**Lombok Pots: turning a traditional women's craft into an export industry.**

Lombok, an Indonesian Island, is one of the country's poorest regions. The inhabitants live in crowded villages on infertile land and lack access to sanitation and educational opportunities. 85% of the community is Sasak, who have made traditional clay pots for generation, passing the trade from mother to daughter. Even though there was a strong demand for the pots in the nearby tourist hub, Bali, the producers faced constraints in getting the pots to market including quality control, transport and logistics.

A project partnership between Indonesia and New Zealand governments, who were in consultation with their respective private sectors both for advice and infrastructural support, aimed to improve the quality of the pots to enable them to be sold in the nearby tourist markets, and potentially to export them globally. Including a facilities upgrade, and initial subsidising of materials in addition to training, the project contributed to an increase in income and thereby the standard of living of the women potters and their families:

- ✓ The incomes of the potters involved with the project had increased by between 300% and 500%
- ✓ *"Benefits which have accrued to potters trained through the project have transformed their lives. In Penujak women no longer have debts or live from hand to mouth. They are able to store rice and buy clothes. As well as this, they have made home improvements and some have built new houses. Instead of working continually, women now take a day off when they need it to make them 'more fresh'." (Mid-Term Evaluation Report)*
- ✓ It brought social benefits to a sector of Sasak society that had previously been seen as being at the bottom of the social scale
- ✓ Most of the women potter were illiterate but the project offered them literacy and numeracy training.
- ✓ Participants were also trained to run meetings, to make decisions and to keep accounts, with the aim of equipping them eventually to manage village cooperatives
- ✓ The LCP had a multiplier effect on other potters outside the immediate project group
- ✓ It created employment opportunities in associated activities where small businesses emerged
- ✓ *Its initial marketing focused on tourists, hotels, domestic traders and exporters. These new markets demanded products suitable for tourist souvenirs and upmarket décor. The Sales achieved in the first year over Rp. 65 million (US\$ 60,000)*

Baigent, H 'Lombok Pots' in Stoler A, Redden J & Jackson L(2009) *Trade and Poverty Reduction in the Asia-Pacific Region* University Press: London

The Lombok Pots case-study illustrates the positive income and economic multiplier effects of well-designed AFT projects that necessarily require close collaboration between aid agencies and the private sector.

#### **Why women's economic empowerment matters for pro-poor growth**

- Higher female earnings and bargaining power translate into greater investment in children's education, health and nutrition, which leads to economic growth in the long term. The share of women in waged and salaried work grew from 42% in 1997 to 46% in 2007.
- In India, GDP would rise by 8% if the female/male ratio of workers went up by 10%.
- Total agricultural outputs in Africa could increase by up to 20% if women's access to agricultural inputs was equal to men's.
- Women-owned businesses comprise up to 38% of all registered small businesses worldwide. The number of women-owned businesses in Africa, Asia, Eastern Europe and Latin America is growing rapidly and, with that growth, come direct impacts on job creation and poverty reduction.

*Source: department for international development (DFID) (2010), Agenda 2010 — the turning point on poverty: background paper on gender, DFID, London.*

Australia aid already has a strong gender awareness approach and this can be further reinforced through private sector partnerships and AFT programs which prioritise women and more balanced gender outcomes.

## **7. The Role of Donors**

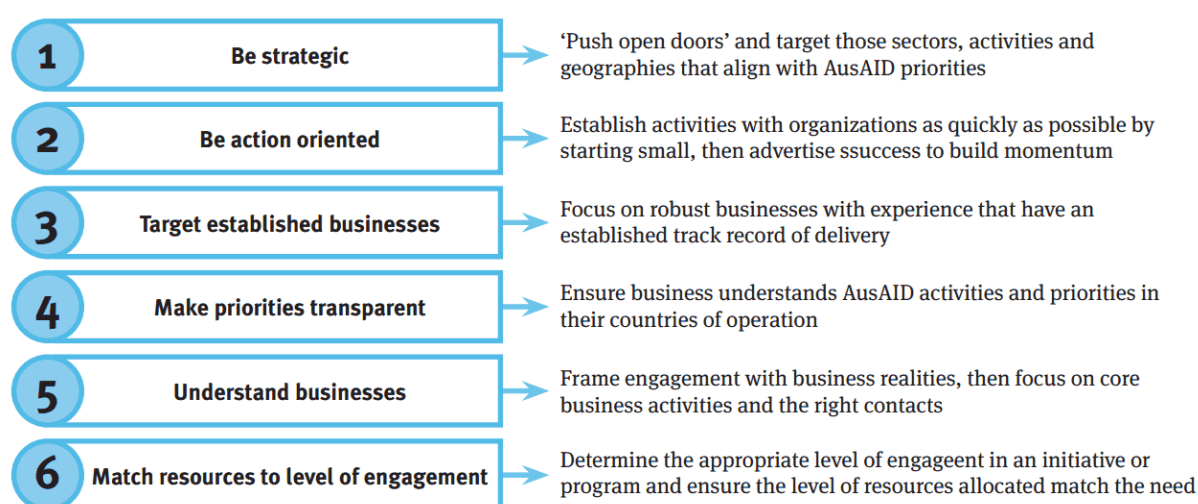
It is true that the private sector does not always act in the best interests of 'the poor' and inclusive economic growth. However, not all businesses operating this way do so 'intentionally', many do so because of a lack of knowledge or capacity to change or improve. With better information about development positive business activity, and more and better engagement with the private sector on desired development outcomes, this could improve. DFAT has a commendable record in attempting to provide some of the education and awareness but that role needs to be expanded through appropriate resourcing within DFAT as well as to relevant business networks such as ATAB and Business for Millennium Development.

When engaging with the private sector, donors should focus on promoting more and better private sector involvement in development activity; promoting responsible business practise, making existing business models more inclusive and stimulating business innovations that contribute to sustainable development. The role of donors is to assist businesses in addressing challenges and strengthening their positive contributions (Davies 2011). It is important for the donor funds to add value - not to use funds where

business would already be willing to act or invest (additionality), but to catalyse investment or scale-up where the (initial) business case is weak. It is also essential that donors identify and stimulate market activity, not replace or displace it. Rather than providing goods or services as assistance, donors should be engaging in activities that develop and extend the local market – it is crucial that donor staff and partners (private sector and NGOs) understand this role in order for partnerships to be successful (Oakley & Proud 2013).

Based on a broad based survey of Australian business leaders, relating to private sector involvement in development activity, and what, AusAID, now the Department of Foreign Affairs and Trade (DFAT) which can do to increase or stimulate this involvement, there were six main recommendations which surfaced:

Figure 3: Six recommendations for DFAT to consider



Source: Ryan, Richardson, & Voutier, (2012) Business in Development Study 2012

These recommendations are quite general in nature, but are useful for donor agencies because it shows what attributes businesses look for in a partnership. For collaboration to be successful, business and aid agencies must find a common ground based on mutual goals, and put forward a strategic framework for the partnership.

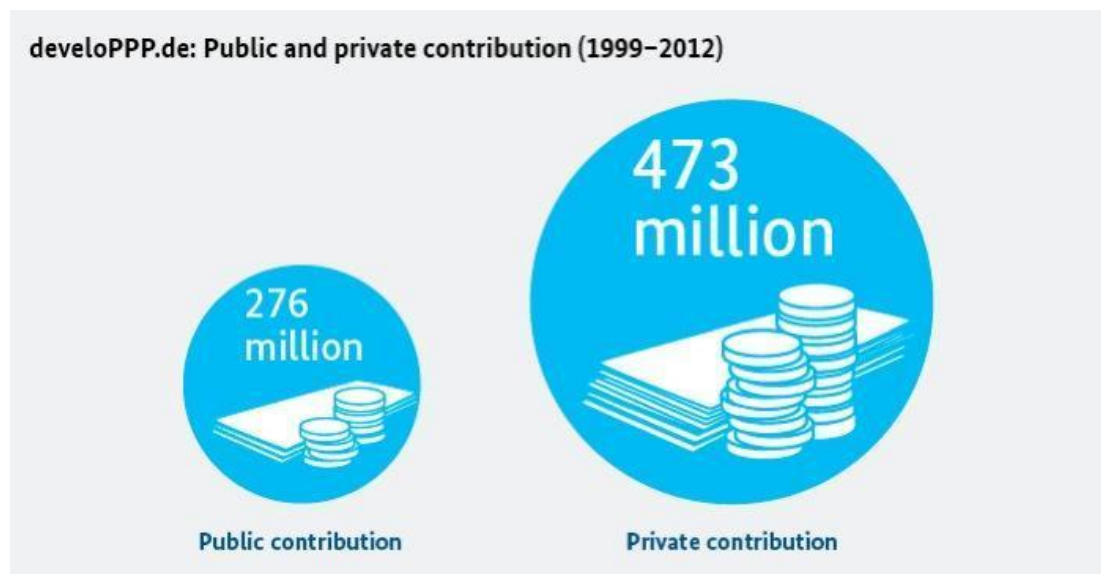
Government policy is vital in ensuring that growth occurs, and when it does, that it is inclusive. Many donor projects aim to improve the enabling environment in developing countries - which is essential for the growth of the private sector while also inducing foreign direct investment and increasing economic activity in an economy. A robust regulatory environment, legal infrastructure, transparency and absence of corruption are all factors in making a country attractive to investors - and in turn stimulating inclusive growth (Callan & Davies 2013). As discussed AFT is a useful mechanism through which donors can improve the enabling environment of developing countries. Donors can provide technical assistance to reduce border thickness and improve competitiveness by



supporting the development of economic infrastructure and productive capacity (OECD/World Trade Organisation 2013).

The German Experience: [www.develoPPP.de](http://www.develoPPP.de)

Germany's Federal Ministry for Economic Cooperation and Development (BMZ) has assisted more than 1500 companies investing in developing and emerging countries with financial and professional support over the past 15 years through a program called 'develoPPP.de'. Operating like an enterprise challenge fund, but with more support, these projects have channelled more than EUR 470 million in private contributions into sustainable developing country projects.



The opportunities are open to German and European companies, with BMZ offering not only financial support, but also their long-standing experience in developing and emerging economies, development expertise, contacts and the understanding of what will shape tomorrow's markets in the developing world. DeveloPPP.de harnesses the potential to effectively improve the living conditions of people in partner countries and offer them genuine, sustainable prospects. These projects assist companies to conduct their business in a sustainable manner, creating jobs and economic opportunities. They drive development through the taxes they pay and assist in raising standards through training and upgrading of facilities. The company must commit at least half of the cost of the proposed project and BMZ will commit up to EUR 200 000. The partnerships cover a wide range of industries and geography, and last up to three years.

There are a number of stipulations for the projects, namely:

- public and private contributions should complement each other in a way that ensures objectives are achieved sooner and more efficiently;

- that projects avoid additionality by ensuring that the private partner would not otherwise have been able to implement the project without the DeveloPPP.de project;
- the project must demonstrate commercial interest (it should not be a corporate-social responsibility type initiative); and
- the company must demonstrate that they have a long-term sustainable interest in the country beyond the completion of the DeveloPPP.de project.

In addition, BMZ also enters into Strategic Development Partnerships, which are often transnational in focus and can cover an entire sector, bringing together many global actors. These projects usually have a number of elements in common: high level of innovation, above-average structural impact, and a broad and positive impact, multi-stakeholder approach.

These projects, managed by DEG, GIZ and Sequa (program implementing partners) not only help companies to minimise financial risk through government grants; they also maintain global networks with partners from governments, the private sector, municipalities, chambers of commerce and NGOs at the local level and have many years of experience with alliances in developing and emerging countries.

#### The USAID Global Development Alliance (GDA)

USAID sees the GDA as an invitation to the private sector and other organisations (including implementing partners) to identify and suggest ways in which the government and private sector can work together to address key challenges facing the developing world. A GDA is a partnership involving USAID and the private sector where the partners work together to develop and implement activities that leverage and apply their respective assets and expertise to advance core business interests, achieve USAID's development objectives, and increase the sustainable impact of USAID's development investments.

Similar to the BMZ approach, GDA projects have several key characteristics:

- Focus on Development Impact
- Based on Complementary Interests and Objectives
- Market Based Approaches and Solutions
- Extensive Private Sector Collaboration: Support for Business Networks
- Significant Private Sector Contributions for Increased Impact
- Increased Scale, Efficiency, and Effectiveness

The development of these partnerships requires a mutual understanding of their respective interests and priorities. USAID seeks extensive communication with prospective private sector partners so we can jointly explore and define key challenges and problems, and then jointly develop promising solutions to those issues. Past

experience demonstrates that the most successful GDAs are grounded in the mutually reinforcing relationship between core business interests (rather than purely philanthropic interests) and one or more of USAID's development objectives (USAID 2014).

## **8. Return on Investment**

If we focus on Aid for Trade programs that have involved significant collaboration between donors and the private sector, evidence shows that AFT has had a significant impact: it lowers trade costs and improves business performance.

Recently, an empirical study by the OECD found that US\$1 spent on AFT is associated with developing countries exports increasing by US\$8. For the poorest countries in the world, that return grows to US\$20. When measuring trade in parts and components, the impact is even higher which highlights the benefit of improving value chains offers to developing countries (WTO 2013).

The Asian Development Bank President Takehiko Nakao has recently underscored how important PPPs for development are in providing Asia with much-needed capital, filling large investment gaps, but also for sharing knowledge from the private sector to communities and vice-versa. One of the biggest challenges facing Asia is the huge demand for infrastructure development – estimated at \$800 billion annually for the next ten years – which will not be addressed by governments nor the private sector alone. Engaging in PPPs for development helps to mobilise private sector investment, and in turn, improve the delivery of public services (Santos, 2014).

For the private sector to be involved in development activities, each project must be underpinned by a solid business case. In their initial successes in working in developing countries, Australian businesses have had to be innovative and extend their capabilities to address challenges faced in difficult business environments. Those that are thriving have built strong and meaningful relationships in the communities in which they work, and have instigated programs such as the creation of employment opportunities, the introduction of health and education programs, infrastructure development, the advancement of human rights and labour policies, and establishment of inclusive supply chain practices. These are not only key to addressing socioeconomic barriers to development, but also key to addressing barriers to doing business. (Accenture, 2012)

The Australian Trade and Development Business Network and the Institute for International Trade are keen to continue to promote best practice for private public sector partnerships for development through our educational and research work in Australia and in the developing communities where Australian companies work. Through effective Aid for Trade programs there is an effective working vehicle for the convergence of core business interest with sustainable development outcomes.

DFAT already plays an important role in facilitating the expansion of PPPs for development and is in the process of enriching its aid for trade program. These government measures are commendable, but more can be done to continue to break down those cultural barriers and to address those obstacles that may limit the important expansion of the role of the private sector in the future.

DFAT has a commendable record in providing a point of contact and awareness raising that the private sector requires in order to become more involved - that role needs to be expanded through appropriate resourcing within DFAT as well as support for Austrade and relevant business networks such as ATAB and Business for Millennium Development who share similar objectives.

Direct industry partnerships should also be promoted along with the potential to explore new and innovative arrangements in the design, financing and implementation of poverty reduction programs.

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