

URS

Submission to
the Joint
Standing
Committee on
Foreign
Affairs,
Defence and
Trade

AUSTRALIA



Inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region

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Prepared by: URS Australia Pty Ltd





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Inquiry into the role of the private
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1 INTRODUCTION

As one of the largest global environmental engineering companies, URS provides fully integrated environmental, engineering, construction and technical services and offers a proven track record in applying best practice standards to the specific needs of projects in the power, infrastructure, government and commercial and industrial sectors.

URS is also a leading design, funds management and program delivery partner for international aid programs in Asia Pacific, the Middle East, Africa, South America and Europe. Since 1963 URS has had a continual presence in the international aid and development sector providing technical assistance to developing countries. We have participated in the delivery of more than 240 development assistance programs across 88 countries.

Our services include:

- the provision and support of technical advice in institutional development and governance
- poverty reduction through sustainable development, land tenure and land use planning
- participatory rural and community development
- resettlement planning
- environmental stewardship
- agricultural research
- forestry.

We specialize in building integrated and practical development solutions through partnering with local communities, civil society organizations, governments and the private sector.

URS has been a key implementing partner of the Australian aid program for many years. We continue to manage a number of important programs on behalf of DFAT, including the Pacific Horticultural and Agricultural Market Access (PHAMA) program, with a focus of significance to the role and importance of the private sector in development. We work globally and have a long-term and broader presence across the Asia-Pacific region into which our global experiences contribute to enhanced service delivery and advice.

We are committed to ensure we contribute to good development delivery. We are a significant global private sector organisation employing in excess of 50,000 people. As such, we are both 'private sector' in its purest definition, and we are a traditional 'private sector implementing partner' to the Australian aid program. We seek to contribute to future development thinking and stimulate new ideas and results through the role of the private sector. We are a long standing member of IDC Australia which is a representative body for private sector development practitioners; our Vice President, International Development is the Chair of that body.

We welcome this Inquiry and we see great opportunity to build from the good work of the Australian aid program in the past – but things need to be re-imagined with the role and value of the private sector, in all its forms, more fully harnessed.

Our submission focuses on the opportunities for enhanced engagement with and through the private sector and in doing so will cover the following issues from the Inquiry's Terms of Reference:

- The current role of the private sector in accelerating economic growth and reducing poverty in the Indo-Pacific region
- Additional partnerships that could be used to enhance the role of the private sector in development in the Indo-Pacific region
- Risks to current and possible future approaches and their management
- The role Australian and international businesses could play to support development and inclusive growth in partner countries.

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COMMENTARY

The role and intersect of aid and trade

While the concept of an aid/trade intersect has not been explicitly stated in the Inquiry's Terms of Reference, it is a concept that has become increasingly topical and one that the Foreign Minister herself has talked about. We consider this an important conversation to include in the context of this Inquiry. While aid and trade deviate in their objectives and their purpose, it is their intersect that creates tremendous potential to contribute to economic development and poverty reduction in the Indo-Pacific region.

Purpose of aid: Facilitating poverty alleviation and improved governance leading to regional social, economic and political stability based on democratic principles.

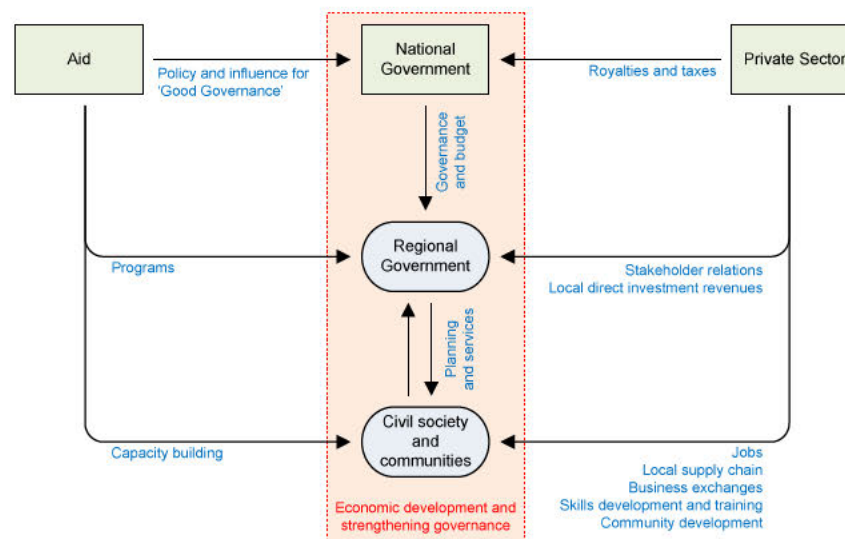
Purpose of trade: Maximise financial returns through the provision of products and services, through socially and environmentally responsible businesses – facilitating local employment and supply chain business thereby contributing to poverty alleviation.

For the private sector, social benefit values or contributions decrease in line with commodity market pressures and perceived trade weaknesses. For example, if the price of gold drops, a mining company's incentive to extract mineral also drops, its budget allocations for investment in local community development drops and jobs may be cut. This is one reason why the perception of a 'profit motive' of private sector has been an inhibitor to cooperation for development (Aid for Trade).

Despite this, the private sector is a logical ally for development at a regional/local level as it offers long-term investment, creates employment, develops infrastructure, often provides substitute government services, provides local investor value and contributes taxes and royalty revenue – some of the key enablers for regional 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 strengthening governance as being a key player in development. The two come together where private sector and aid agencies converge in the same area, and share interests in better governance for investment and operational stability, skills development leading to access to workforce and productivity increases, prudent financial management and investment in necessary infrastructure.

To facilitate investment and development, an effective alliance model must encourage new investment from outside sources and also empower local communities to invest in themselves, and to encourage them to demand services from local government to support them capitalize upon these new investments.

The diagram below presents a scenario where a 'project' or point of interface in an area brings together private sector and aid with a government to develop a strategy for regional economic growth.



In the above model private sector operations become the local engine of employment, local shareholder investment or royalties help fund government. The aid partners work with government to build strategies to capitalize on the development opportunities presenting themselves. The bi-/multilateral aid agency brings knowledge of (1) how local government should work with primary industry for long-term economic benefit; and (2) how to design and implement community development strategies. The private sector brings leading technologies, and industry and international standards of business conduct to regional actors. Important to note that this convergence only happens where private sector or a 'Project' operates – in other words in order to maximize the benefits of a private sector-aid alliance both parties must have interests in the same regional location, and nearly always aid will be the party needing to follow the private sector where they operate.

For the possibilities to be realised from such an aid/trade alliance model: aid and private sectors must be present in the same geographic region; and, aid and private sector investments must complement each other. As such, ***we recommend that DFAT engage more openly and regularly with the private sector, including with traditional private sector implementing partners, in strategy and programming formulation.***

Further, ***we recommend that DFAT establish a risk/investment strategy committee that brings together aid, trade and private sector representatives.***

Leverage existing Australian aid program initiatives

An example of a positive initiative under the Australian aid program is the Pacific Horticultural and Agricultural Market Access (PHAMA) program that URS has been managing since 2011 on behalf of then AusAID and now DFAT. It is a program that has the potential for leverage, replication (modified as appropriate) and/or expansion in the region of priority for DFAT as a specific opportunity for accelerating development outcomes and economic growth.

Pacific Island Countries (PICs) are primarily agricultural economies, but export performance for primary products has been poor. Numerous Pacific regional studies have shown that increasing exports of high-value primary products is an important means of increasing economic growth, incomes, and employment, thereby reducing poverty. Difficulties faced by PICs in managing the regulatory processes to access key markets reflect this performance. Progress in negotiating new or improved access has been slow. New market access agreements have been few and hard won, and trade in some products has declined due to the imposition of more onerous market access protocols.

Key constraints to improving market access include: (i) poor identification of market access priorities leading to very limited resources in regulatory agencies being wasted on submissions unlikely to be successful or result in limited trade benefits; (ii) limited capacity of PIC regulatory agencies to prepare and progress high-quality market access submissions; (iii) limited capacity of PICs to implement measures required to comply with and maintain market access agreements; (iv) limited capacity to identify and conduct research & development to establish, improve or maintain market access; (v) lack of industry consultation and involvement in market access work; and (vi) limited capacity of the Secretariat of the Pacific Community (SPC) as the regionally mandated organisation to support market access development activities at a regional level.

The URS managed PHAMA program addresses these constraints by providing highly strategic practical and targeted assistance to identify highest priority products and resolve priority market issues of a technical / regulatory nature. Specific market access issues are for (i) potential economic impact; (ii) cost of establishing / improving market access and probability of achieving a success; and (iii) potential distributional impacts for more marginalised households and women.

Major emphasis is placed on developing strong partnerships between industry and relevant national government agencies in pursuit of improved market access arrangements. The private sector drives the identification of products to be targeted; is fully consulted during the development of market access submissions and agreements; plays a major role in determining research & development priorities;

and is an active partner in the implementation of market access protocols. Development of strong and functional Market Access Working Groups is central to achieving this demand driven public-private partnership.

This is one of undoubtedly many examples across the Australian aid program that should be explored for possibilities for immediate and targeted activity expansion, linked to specific outcomes. As such ***we recommend that DFAT works with their current delivery partners to explore where immediate opportunities exist to leverage current activity (aid investment) to stimulate private sector engagement and outcomes.***

Leverage existing private sector activity and potential donor coordination

The South Maluku Province is part of the Tanimbar Islands close to Australia's northern sea boundary with Indonesia. These are unique environmental settings both biologically and socially including the epi-centre of the coral triangle. These areas are within Australia's sphere of interest (marine boundary and security), and Japanese companies are operating in this market and region.

Private sector international oil and gas companies are acquiring exploration and development licences to develop these resources in partnerships with the Indonesian Government. One example relates to the oil and gas resource possibilities in the island marine environment of the Afula Sea. In and around the Tanimbar Islands are extensive areas of coral and fishing with well-developed customary resource management systems (sasi) for the coral, fish and sea weed/grass pastures.

This human- biological co-dependence is quite unique, and deserves attention as large scale developments take place in this region. While baseline and environmental and social assessment helps to understand these settings, the management of impacts requires broader support beyond that provided by a single private company. The additional challenge of climate change in the region calls for wider and broader support.

Australia and Japan have recently strengthened trade relations, so the Japanese Government could have an interest in helping to promote and secure a sustainable operating environment, including secure marine transit routes.

For this specific example, a course of action could be that DFAT opens dialogue with a range of stakeholders who might have interest (e.g. National Government, Provincial Government, the proponents of the exploration/s, other donors, etc.) leveraging from the exploration activities for broader economic development and poverty reduction outcomes.

As such, more generally, ***we recommend that the aid and trade arms of DFAT work together, with the private sector, to explore where existing private sector activity could be expanded for additional economic development and poverty reduction outcomes.***

Learning from others, but not at the expense of Australian aid experience in the region

It is prudent to not re-invent the wheel and consider what donors (traditional and new) are undertaking in this space. Equally, it is important to not ignore the intellectual property generated over the decades by the Australian aid program (agency as well as implementing partners).

For example, USAID appears to be increasing its focus in the Pacific region. While this is welcomed where positive investment is being contributed, DFAT's decades of experience, relationships of a bilateral and regional nature, and so on need to be celebrated and built upon, while evaluating others' initiatives before adopting them.

The USAID program talks about developing private enterprise in four areas: 1) skills and capacity building; 2) access to finance; 3) enabling environment; 4) linkages and private sector engagement.

These are strong pillars, and we argue align well with our model on Page 2. However, these pillars in and of themselves are generic, requiring suitable contextualising to each environment

where strategies are to be deployed. As such, ***we recommend that DFAT maintains a lead role in considering strategies appropriate for Indo-Pacific region.***

The importance of recognising risk

Australians should be proud of the Australian aid program. It is acknowledged as a good program. It would also be fair to say that there is room for improvement. There are a number of fundamental risks that need to be adequately addressed particularly in the context of expanding private sector involvement, including:

Fiduciary, fraud and corruption – URS is pleased that this is of such a fundamental priority for the Australian aid program. Working in developing countries comes with challenges and it is important that the right practices are always followed. We argue that broader involvement of the private sector and specifically traditional private sector implementing partners such as URS and other Members of IDC Australia is an immediate mitigation. We are some of the most highly scrutinised actors in the Australian aid program, which is fine. More broadly URS is bound by many other laws, acts, and regulations that provide significant mitigation to known risks. We are bound by the UK Bribery Act and the US Foreign Corrupt Practices Act. We adhere to the US Federal Acquisition Rules and alignment to the requirements associated with being a publicly listed company. We maintain a range of ISO Certifications. And, we comply with all DFAT Policies.

As such, ***we recommend that there is consistency in expectation of performance in the management of these risks across all implementing partners of the Australian aid program as currently expected of traditional private sector implementing partners like URS.*** We acknowledge that the recent (yet to be released) Performance Benchmarking process for the Australian aid program may in fact have addressed this recommendation.

Commercial sensibilities – In order for the true potential of the role of the private sector in development to be fully realised, there is still a lot of work to do to bridge the divide in understanding between the aid program and the private sector. The aid program has engaged with the private sector for decades through the somewhat narrow definition of Managing Contractor. These years of experience have yet to translate into a complete recognition across the aid program of commercial realities in the management of activities under the aid program. Companies like URS understand both sides of the equation for we are development professionals and we are the private sector. Importantly we speak both the language of aid/development and of the private sector. There is a risk that some legacy beliefs about the private sector carry forward when seeking broader and deeper private sector engagement and investment, ultimately retarding potential.

As such, ***we support the recommendations from IDC Australia for DFAT to engage with the private sector to get a shared understanding of each other's commercial realities.***

Development priorities – Development work is a specialist practice of URS, as would be the case for many traditional private sector implementing partners. New implementing and aid investment strategies that bring in new private sector actors is an important evolution for the aid program and one we welcome. It is important to recognise that such new participants may not view development as their core business, now or into the future. There are many sound policies, principles and approaches, such as it relates to gender equity and equality (and inclusiveness more generally), that cannot be overlooked in engaging new private sector development partners.

As such, ***we recommend that all participants in the Australian aid program meet core requirements under the aid program as expected from currently implementing partners, prior to being engaged.***



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