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Joint Standing Committee on Foreign Affairs, Defence and Trade
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The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region

Ernst & Young (EY) is delighted to make this submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade. With increasing budgetary pressure on aid commitments, EY brings a proven approach that reduces the burden of foreign aid on the domestic purse at the same time as improving sustainable outcomes through private sector development.

Introduction

International development assistance is a priority for EY. Our global vision to **building a better working world** and our global strategy to **strengthen global, empower local** drives our passion and enthusiasm in this area. Our leadership is focused on it and we are continuing to make investments to build the right capabilities in the right areas to help ensure that our clients have local access to our global knowledge, clients and insights. With 175,000 people in 728 locations in 150 countries, including a large presence in emerging economies across a range of economic development, EY is well qualified to support agencies and governments in their need to improve aid effectiveness. Our commitment to serving the international development partner community as a priority means:

- ▶ A series of dedicated teams fully committed to worldwide coordination
- ▶ Working to develop local solutions that respond to local needs
- ▶ Understanding your expectations, needs and procedures
- ▶ Ability to build multidisciplinary teams across a variety of sectors
- ▶ Focused project management
- ▶ Close attention so that the project will operate successfully after the implementation phase is over
- ▶ Constant attention to client satisfaction

The development of sustainable solutions to reduce poverty and to improve the lives of those most in need is an important point of synergy between the Australian Government and EY. As part of its commitment to the Millennium Development Goals, the Australian Government is constantly looking to implement innovative and sustainable policies.

**"Strengthen global,
empower local"**

EY 2020 Vision

Since the signing of the Millennium Development Goals commitment a decade and a half ago, the world has undergone significant changes politically, socially, economically and technologically. In parallel, domestically Australia is faced with a structural budget deficit. As the Millennium Development Goals commitment reaches its expiry date, The Australian Government is looking for new and innovative strategies and policies that can sustain its policy agenda for another couple of decades. Our agendas are aligned - Government is a significant sector for EY globally. We are committed to helping governments reduce fiscal pressures while improving the effectiveness and sustainability of their policies.

The traditional (current) roles of Governments and the Private Sector in aid and development

As the key regional leader in the Indo-Pacific, the Australian Government plays an important role to deliver policy that drives prosperity, security and opportunity throughout the region. The tide of criticism against the traditional aid model is largely due to the unsustainability and low net impact of austerity measures. There is no evidence nor are there any cases that support the argument that aid or development spending alone has generated sustained increases in employment or reductions in poverty.¹ The growing list of critics has called for increased focus on benefits-assessed aid initiatives to ensure that international development assistance achieves the desired impact. It is beyond question that development assistance continues to be needed. While changing demographics and shifts in capital from North to South and West to East are transforming the economic and social welfare of billions of people, income inequality can no longer be contained within national boundaries. Meanwhile, even in the most rapidly growing economies, the scourge of poverty remains. Progress due to development aid within the under-developed and developing economies is evident, however, it is heavily dependent on the aid being constantly fed by developed economies thereby creating a dependence on that aid.

“The core aim of Australia’s aid program is to help people overcome poverty. A growing private sector is fundamental to achieving this.”

- *Sustainable Economic Development*,
AusAID 2012

In the wake of the global financial downturn there are increasing domestic pressures on developed economies to reign in their budgets. It is therefore difficult for the Government to maintain its aspirational goal of contributing 0.5% of GNI in development aid by 2015/16 as this is economically unsustainable. This was immediately evident by the repositioning of this goal by the previous government when framing the 2013/14 budget and resetting this goal to 2017/18.

The Australian Government has been an active participant in developing the commercial fertility and vitality of the Indo-Pacific region through its support and funding of infrastructure initiatives. One such example is the Australian funded Cao Lanh Bridge in Vietnam which has transformed local economies by enabling people to travel more easily to access education, employment, and markets for trade.² The Cao Lanh Bridge PPP assisted local businesses and jobs but did not directly create a local entrepreneurial environment or an internally sustained private sector. Institutional, political and economic constraints continue to impose roadblocks to those wishing to start a business.

¹ Australian Government Agency AusAID (2012) *Sustainable economic development - Private sector development* at p8

² http://foreignminister.gov.au/articles/Pages/2013/jb_ar_131211a.aspx?ministerid=4

In another PPP, with Carnival Cruise, The Australian Government has created a flourishing tourism industry in the region. This partnership has created local business activity, in several Pacific island nations, to support this new industry sector. These new businesses and this new business sector are still heavily dependent on external organisations creating the business activity for their commercial prosperity. The next natural step is to provide aid that:

- a. Promotes a sustainable local entrepreneurship environment that is not dependent on external sources for its prosperity;
- b. Empowers people to create local employment opportunities within their communities; and
- c. Empowers those who are most vulnerable in the community (women, children, the elderly, people with disability and people dealing with sexuality issues) to improve their quality of life.

A new aid and development model will enable the Australian Government to start reducing its hard (financial) investment and start providing soft (non-financial) assistance. By strengthening the local private sector and providing it with the tools and structure to remain agile and prosperous, the sector itself will start to self-govern and reinvest its wealth back into the local community.

The Australian Government is ultimately determined to redesign its approach to foreign aid so that its policies better reflect Australian values, and strengthen its commitment to reducing poverty in a sustainable manner that promotes economic growth and independence rather than continuing to feed the cycle of dependence.

A New Paradigm - the future of partnering between governments and the private sector

The growth of the private sector as the engine for economic growth is fundamental to lifting people out of poverty through job creation.³ Research shows that in more than 80 percent of cases where a person within a household retains a job this is the decisive factor in protecting the entire household from poverty.⁴ In both developed and developing countries the private sector is the main source of jobs.⁵ The private sector is responsible for approximately 90 percent of jobs in developing countries.⁶

The creation of stable jobs encourages economic activity as people consume more, pay taxes, start businesses and employ others. In turn both the public and private sectors benefit from the creation of a vibrant and stable private sector. A 10 percent increase in per person income results in a 12.7 percent increase in tax revenue and 11 percent increase in health and education expenditure.⁷ Ultimately, it is the development of a strong private sector that will see countries elevate from poverty

³ AusAID (2012) at p6

⁴ Pfeffermann, Guy (2003), *Paths out of Poverty*; cited in AusAID (2012) at p6

⁵ AusAID (2012) at p6

⁶ World Bank (2005), *World Development Report 2005*, Pfeffermann, Guy (2003) cited in AusAID (2012) at p6

⁷ United Kingdom Department for International Development (2008), *Prosperity for all: making markets work* cited in AusAID (2012) at p6

and reduce their reliance on aid. Meanwhile, Governments from developed countries cannot continue to increase their commitments to aid.

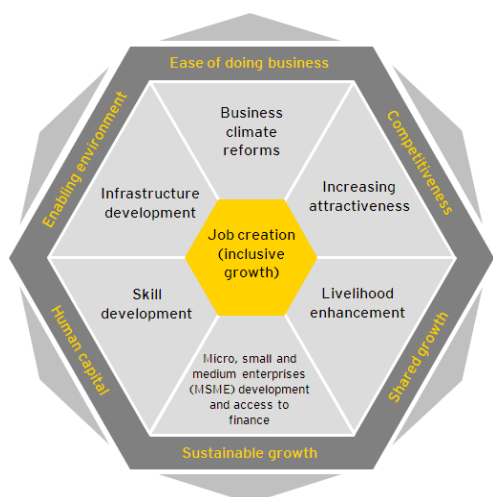
The top priority of the international development agenda is making development assistance more effective. The true measure of success should be *outcomes achieved* and the *sustainability of measures*. As such, monetary value should not be a measure of the effectiveness of aid.

We are convinced that Australia can deliver against its stated policy objectives and international commitments without the need for considerable investment from the Australian taxpayer. With the right models, relationships and sound management, investment from foreign and domestic investors can replace much of this funding. It is a matter of having the best placed organisations doing what they do best. In this case, the Private sector provides the investment and the Australian Government, in conjunction with its counterparts in developing countries, creates the environment and bilateral and multilateral relationships providing access for the private sector to develop and flourish.

A Proven Model

As is evident from the above, the role of the private sector in accelerating the pace of economic growth and reducing poverty in poor countries is without question. The ‘What’ part of this premise is well understood and agreed. Where governments and investors around the world struggle is with the ‘How’. A win-win situation can only be achieved if all parties understand *how* it can be done effectively. Without a model, good management and a clear roadmap, sustainable outcomes will continue to elude.

We have worked closely with multiple donors and created a framework and governance structure to help governments harness private sector development. The framework helps federal and provincial governments, donor agencies, private sector investors and international economic development agencies as well as not-for-profit organisations to drive inclusive growth through job creation. It has been designed to encourage entrepreneurial activity in organisations of all sizes and attract domestic and international investment. The framework covers the six core elements required to increase employment opportunities. Our proven framework focuses on the following areas:



- ▶ **Business climate reforms:** develop streamlined business processes that ensure fast and cost effective mechanism for preparing business for doing business and promotes investment and trade.
- ▶ **Increasing attractiveness:** identifying targeted lists of foreign and domestic investors and creating a fertile investment landscape.
- ▶ **Livelihood enhancement:** develop a market-based livelihood framework that is replicable, scalable and sustainable.
- ▶ **Micro, Small and Medium Enterprise (MSME) development and access to finance:** develop an investment framework and nurture an entrepreneur-friendly business environment.
- ▶ **Skill development:** develop a robust skills development implementation framework that monitors and evaluates progress.

- ▶ **Infrastructure development:** develop sustainable infrastructure roadmaps to aid economic growth including demand estimation, conceptualisation and implementation of infrastructure projects.

We have a deep appreciation of the broad range of developmental objectives in the international development area, and we have consistently worked with stakeholders to achieve institutional and economic transformation across a range of issues. EY's proven methodology helps to increase investment inflows and create jobs. Through this methodology EY has initiated a myriad of programs across emerging markets generating billions of dollars in investment commitments and profitability creating a significant number of jobs.

EY's model ensures that the Australian Government is able to maintain its policy objectives and international commitments while maintaining downward pressure on the budget. Furthermore, through this model the Australian government is able to maintain its international development priorities. In fact the model is most effective through the Australian Government's leadership in engaging with its sectoral, regional, bilateral and multilateral partners. EY would co-develop with the Australian Government the best solution based on the issues confronting the target country in the region.

We have **enclosed** two examples to demonstrate the long-term sustainable outcomes gained using our model:

- ▶ Government of Madhya Pradesh, India
- ▶ Ministry of Economy, Lithuania

Social, institutional, policy and political benefits in the proposed pilot locations

We recently implemented an aid initiative using our model in partnership with the UK Government through DFID and the Indian Government in Madhya Pradesh, India's second largest state.

We were able to deliver the following social, institutional, policy and political benefits to the Madhya Pradesh region:

1. Legislation changes to ensure time-bound approvals for 25 critical investor services;
2. Simplified enabling processes for improving "doing business";
3. Simplified the investment application process by a factor of 10 (eg form sizes dropped from 52 to 5 pages);
4. Organised a three day global investment and networking expo that was attended by over 2,200 investors from 15 countries;
5. Current investment in implementation of approximately US\$8b with employment potential of over 200,000 jobs in 10 focus sectors;
6. Majority of investments received were in non-traditional focus sectors;
7. 25% of investment proposals under implementation were commenced within 100 days of the global investment expo;

8. Mobilisation of the local workforce by increasing technical know-how and developing the skills of more than 48,000 farmers through a two-day horticulture expo;
9. Awarded for achieving highest agriculture growth in India at 18%
10. Created a five-year development plan that focused on backward linkages;
11. Facilitated improvement in quality and quantity of produce
12. Institutionalised a convergence platform between government, industry and financial institutions to increase penetration of credit disbursement to Micro Small to Medium Enterprises (MSME) from 10% to 30%;
13. Implemented a development program for seven MSME clusters in focus sectors facilitating access to markets and technology improvements/advancements;
14. Mahdya Pradesh was first state in India to develop policy on technical education and skill development;
15. Standardisation of certification, industry accreditation and candidate mobilisation;
16. Proposals were received to establish more than 50 technical institutes to train 192,000 youths to meet industry needs;
17. Conceptualisation, project structuring and demand assessment of over 50 infrastructure projects;
18. Implementation support for development the of four nodes in the Delhi Mumbai Industrial Corridor with an influence area of 772 square kilometres; and
19. 35 projects undertaken and currently at various stages of implementation.

Benefits to the Australian Government and Australian businesses

Having a model like ours delivers significant benefits to those requiring assistance. The model offers tangible, social and political benefits to the Australian Government and Australian businesses. These benefits include:

1. Australian businesses aligning their commercial development with their Corporate Social Responsibility;
2. Australian businesses and industries engaging in new markets previously out of their reach or too commercially or politically risky;
3. Developing Australian Government Policy that improves the status of women and children in developing countries by delivering opportunities, security and freedom to achieve their goal and improve their communities;
4. Improving the commercial and business environment in the region will inevitably encourage reciprocal flow on benefits to the Australian economy through trade facilitation. This is due to the increased wealth in the region, new investment money will flow into the region and invigorate the entire region;
5. Similarly, improving the entrepreneurial environment in the region will encourage those entrepreneurs to look towards Australia and Australian businesses in which to invest their newly formed wealth. This in turn invigorates Australian entrepreneurs and encourages regional partnership between entrepreneurs across the region;

6. Easing Government budgetary pressures while achieving greater policy outcomes;
7. Ensuring that international development policy achieves its desired impact;
8. Transforming and improving the economic and social welfare of millions of people;
9. Combating social and income inequality and the associated long-term social, economic and criminal problems that transcend borders (eg drug and human trafficking);
10. Synergising The Government's international commitments with the need to suppress government spend;
11. Assisting the Australian Government to engage with the private sector in mutually beneficial (win-win) relationships that deliver real results for the local community (our regional neighbours), the Australian people, the Australian Government and the Private Sector partner;
12. Encouraging Australian Government Policy that does not constantly feed large multinational organisations in order to achieve results
13. Policy that redesigns the Government's approach to foreign aid and better reflects Australian values, and strengthens the government's commitment to deliver sustainable results to reduce poverty
14. Policy that ends the cycle of aid dependence

The role of the Australian Government

The Australian government has an important role to play in providing the key bilateral relationships with partner countries.

The Australian Government's role is critical in creating a conducive environment for investment and assisting in navigating the local political issues within the partner countries. Without this, and without fundamental operation of the rule of law, the private sector cannot succeed.

The role of Australian and international businesses

Australian and international businesses will have varying roles that will contribute to all segments of the framework and include:

- ▶ Provision of capital
- ▶ Infrastructure development
- ▶ Provision of Training services
- ▶ Trade facilitation
- ▶ Banking services for MSME.

Conclusion

We think the Australian Government has a great opportunity through this inquiry to critically examine a new funding model for the provision of foreign aid. This model will allow the government to reduce its aid outlay whilst achieving improved, sustainable outcomes in developing countries.

We recommend the government immediately engages with those private sector organisations that are capable of driving a program of activity that will allow the achievement of this new paradigm sooner, with bottom-line positive impact on budgets moving forward and sustainable outcomes achieved in the Indo-Pacific region.

EY would be pleased to be present at the public hearing program to elaborate on the matters raised in this submission.

If you have any questions or seek clarification of any part of this submission, please do not hesitate to contact us on 02 6267 3888.

Yours sincerely

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Attachments:

- ▶ EY's Private Sector Development Framework
- ▶ Case Study: Government of Madhya Pradesh, India
- ▶ Case Study: Ministry of Economy, Lithuania



Private sector development framework

Business climate reforms

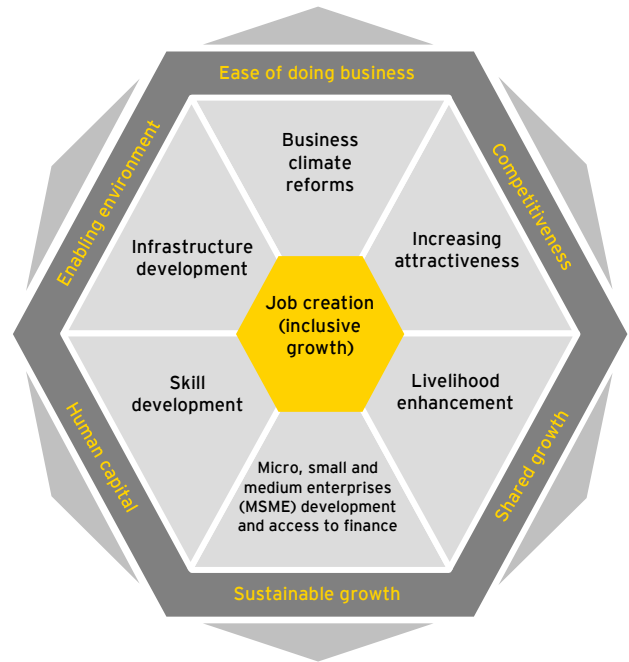
- ▶ Streamline processes for doing business to reduce time and cost for business operations
- ▶ Develop federal and provincial investment and trade promotion strategy encompassing policy and regulatory reforms
- ▶ Design and implement e-enablement of end-to-end investment life cycle

Infrastructure development

- ▶ Design long-term road map for infrastructure development for balanced economic growth
- ▶ Demand estimation and conceptualisation of infrastructure opportunities including focused project shelf
- ▶ Facilitate implementation of infrastructure projects encompassing development of economic cities, clusters and investment region

Skill development

- ▶ Develop policy and implementation framework for skill development
- ▶ Design monitoring and evaluation system to implement skill upgrading
- ▶ Implement robust program management of skill implementation programs at federal and regional level including capacity building of multiple stakeholders



Increasing attractiveness

- ▶ Identify targeted list of international and domestic investors across priority sectors and geography
- ▶ Develop investment proposition across sectors, regions and project
- ▶ Facilitate investors outreach through multiple channels such as domestic and international road shows and electronic media
- ▶ Mobilise and operationalise investment commitment from targeted priority investors

Livelihood enhancement

- ▶ Design market-based livelihood framework
- ▶ Develop replicable, scalable and sustainable business models for livelihood enhancement
- ▶ Implement focused interventions encompassing multiple stakeholders both in demand and supply side

MSME development and access to finance

- ▶ Develop framework to implement an entrepreneur-friendly business environment to increase the MSME base
- ▶ Implement reforms to strengthen institutional arrangements and business climate for the development of MSME
- ▶ Action plan to improve, diversify and innovate around multiple sources of funding to simulate and enable entrepreneurial business



Case study: Government of Madhya Pradesh, India

About the client:

- ▶ Second largest state in India by area, constituting 9.4% of the total
- ▶ Impressive GDP growth of 9.5% (CAGR) over the past five years
- ▶ Strategic location, abundance of natural resources and agricultural production
- ▶ Peaceful environment and stable government

Challenges the client faced:

- ▶ Per capita income was half the national average at approximately \$US318
- ▶ Ranked 11 of 17 states in India for ease of doing business by IFC, World Bank
- ▶ 80% of the investments were in traditional sectors
- ▶ Regional imbalance (area-wise industrial growth)

Our approach:

Infrastructure development

- ▶ Conceptualisation, project structuring and demand assessment of over 56 infrastructure projects
- ▶ Implementation support for development of four nodes in the Delhi Mumbai Industrial Corridor with an influence area of 772 square kilometres
- ▶ 35 projects are under various stages of implementation

Skill development

- ▶ First state in India to develop policy on technical education and skill development
- ▶ Standardisation of certification, industry accreditation and candidate mobilisation
- ▶ The proposed large scale ITI, as envisaged by GoMP, shall train about 5,000 youth in various trades in collaboration with International training providers.
- ▶ Supporting GoMP for enhancing private sector participation in operationalisation of about 170 Skill Development Centres at block level through bid process management. It shall further enhance the annual training capacity in state by about 6,800 from the existing capacity of 12,400 per annum leading to an increase of about 54%.

Business climate reforms

- ▶ Legislation for time-bound approvals for 25 critical investor services
- ▶ Simplified 32 enabling processes for improving "doing business"
- ▶ Investment Application Form simplified from 52 to 5 pages
- ▶ Roll out of Single Window System (online of application and processes)
- ▶ Mechanism to review investment policies

Increasing attractiveness

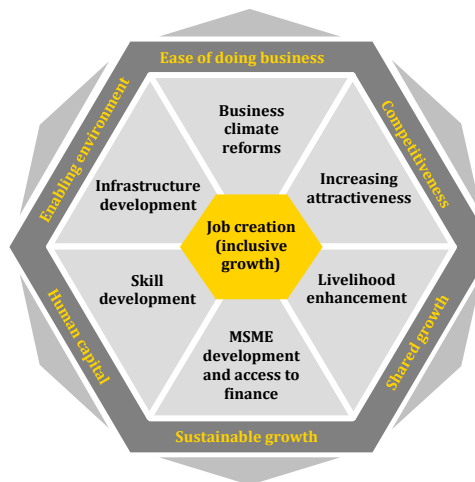
- ▶ Three day global investment meet - 2012, attended by over 2,200 investors from 15 countries
- ▶ Investment under implementation of approx. US\$8b with employment potential of over 200,000 jobs in 10 focus sectors. 63% of investments received in traditional focus sectors
- ▶ 25% of investment proposals under implementation within 100 days of global investment meet -2012

Livelihood enhancement

- ▶ Mobilisation, increasing technical know-how and skill development of more than 48,000 farmers through two-day Horti Expo Meet
- ▶ Award for achieving 18% agriculture growth – highest in India
- ▶ Created five-year development plan that focused on backward linkages – facilitating improvement in quality and quantity of the produce
- ▶ Two Farmer Producer Organization (FPO) formed and 1,080 farmers (through 15 workshops) have been trained
- ▶ Implemented various self-employment programs such as Mukhyamantri Yuva Swarozgar Yagna, Rani Durgavati Swarozgar Yagna etc.

MSME development and access to finance

- ▶ Institutionalized a convergence platform between government, industry and financial institutions to increase penetration of credit disbursement to MSMEs from 10% to 30%
- ▶ Provided interest subsidy on term loan and capital subsidy to MSME
- ▶ Development of seven MSME clusters in focus sectors facilitating access to markets and technology up gradation





Case study: Ministry of Economy, Lithuania

Agencies: Enterprise Lithuania and Invest Lithuania (previously Lithuanian Economic Development Agency)

About the client:

- ▶ Enterprise Lithuania and Invest Lithuania are agencies under the Ministry of Economy of the Republic of Lithuania. These agencies are responsible for increasing the competitiveness of the region. They were jointly (as part of Lithuanian Economic Development Agency) responsible for the promotion of exports and investment from the country and its operational implementation

Challenges the client faced:

- ▶ Retention of existing investment and attracting new investments (particularly in high-value-added sectors)
- ▶ Weak positioning of Lithuania as a part of the Baltic sea region (not only Baltic states) as a destination for doing business (trade and investments)
- ▶ Insufficient/declining competitiveness of Lithuanian businesses

Our approach:

Infrastructure development

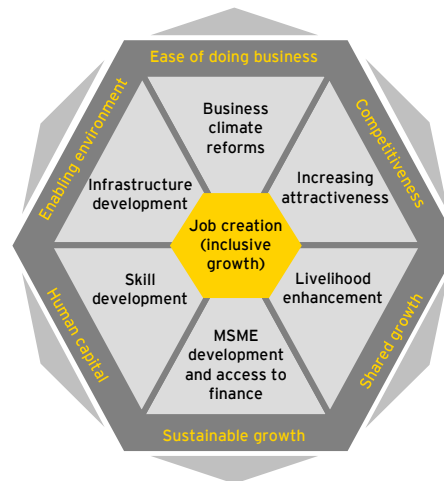
- ▶ Designed long-term road map for infrastructure development for balanced economic growth (including Foreign Direct Investments attraction and exports)
- ▶ Facilitated the preparation of capacity building action plan and training for FDI and exports promotion agencies
- ▶ Developed an organisational framework of competitiveness center – Subject Matter Specialist competitiveness benchmarking and enhancement model for Lithuania
- ▶ Within the competitiveness centre framework, they developed a benchmarking tool enabling Lithuanian Subject Matter Specialists to evaluate their performance by comparing it with similar businesses operating abroad according to 63 performance indicators

Skill development

- ▶ Conducted the benchmarking analysis for 200 companies identifying major areas of improvement including their skill-gap
- ▶ Prepared strategic development plans for more than 60 selected companies (including sections for the development of specific human capital areas)

Business climate reforms

- ▶ EY developed an e-portal (the Point of Single Contact for Services and Products) providing a centralised point for businesses to access full information about the requirements applicable to their activities as well as e-services for obtaining the essential permits and licenses. It also helped to digitalise majority of such services from a diverse range of public institutions.
- ▶ This allowed the significant reduction of time and costs for both new and expanding businesses as well as public institutions providing permits and licenses.



MSME development and access to finance

- ▶ Developed and implemented subsidy scheme and consultants' network supporting the implementation of competitiveness improvement action plans in 60 Subject Matter Specialists.
- ▶ Subsidised projects - built the capacity of 60 Subject Matter Specialists in the areas of sales, process improvement, human resources and financial management, which enabled the participating Subject Matter Specialists to achieve productivity increase, which was on average 21 percentage points higher than other sector averages and increased export volumes by 16% compared to previous year

Increasing attractiveness

- ▶ Identified targeted list of international and domestic investors across priority sectors and geography
- ▶ Developed investment proposition across sectors, regions and project with a special focus on non-traditional sectors
- ▶ Facilitated outreach to investors through multiple channels in order to attract investments
- ▶ Mobilised and operationalised investment commitment from targeted priority investors
- ▶ Developed a national strategy for Lithuanian medical tourism promotion including the creation of medical services providers' cluster

Livelihood enhancement

- ▶ Implemented competitiveness enhancement plans for 60 selected Subject Matter Specialists, assisted them in developing backward and forward linkages with suppliers and potential clients in selected target export markets