

Chapter 5

Private sector engagement

Introduction

5.1 This chapter will address two of the terms of reference:

- (c) the scope for increasing private sector involvement in sustainable economic growth and reducing poverty; and
- (d) the scope for expanding private sector partnerships in leveraging private sector investment and domestic finance.

5.2 A key recent change in the Australian aid program is the reprioritisation of 30 per cent of the current aid program, over three years, to fund initiatives focused on private sector-led growth and aid for trade. The performance benchmark for this initiative in 2015-16 is 28 per cent. The PNG *Aid Investment Plan* outlined a number of aid program activities to enable economic growth in PNG. These include:

- assisting the PNG Government establish a Sovereign Wealth Fund;
- fostering an environment conducive to private sector development;
- increasing aid investment in social and economic infrastructure to 50 per cent by 2017;
- ACIAR agricultural research to enhance livelihoods and increase productivity;
- an Incentive Fund and an Innovation Facility to encourage social entrepreneurship and business-led investment;
- aid for trade support for cross border trade issues to assist PNG access international markets; and
- support for the Kokoda Initiative partnership with the PNG government to sustainably develop and protect the Kokoda Track and the surrounding Owen Stanley Ranges.¹

5.3 In particular, the Private Sector Development Framework for Australia's aid program in PNG will spend \$60 million over four years to 'help reduce costs, reduce risk and increase the productivity of the PNG economy'. It is based on four 'pillars' or sets of related programs. These pillars are:

- Business enabling environment;
- Agriculture: rural development, markets and trade;
- Innovation and partnerships; and

1 DFAT, *Aid Investment Plan: Papua New Guinea 2015-16 to 2017-18*, p. 6.

- Financial inclusion.²

5.4 The Ministerial Joint Communique on 3 March 2016 the importance of activities under the agreed Papua New Guinea–Australia Private Sector Development Framework (PSDF) aligning with the Papua New Guinea Government's SME policy.³

5.5 The OECD DAC noted that 'Australia's development policy, like those of most other DAC members, places greater focus on economic growth and the role of the private sector in making growth happen'. Placing more emphasis on the private sector is also in line with the principles, commitments and actions of the *Busan Partnership for Effective Development Co-operation*.⁴

Private sector involvement

5.6 There were conflicting views on the increased emphasis on private sector involvement in sustainable economic growth and reducing poverty. Business for Millennium Development (B4MD) argued that at 'its core poverty is linked inexplicably to inadequate incomes' and 'only the private sector can provide the jobs and supply contracts (at scale) to lift incomes to a sustainable level'. It quoted a UK government policy document that 'on average four fifths of poverty reduction in recent decades can be attributed to growth in average incomes'.⁵

5.7 B4MD described the challenge of poverty in PNG as 'extensive':

40% of PNG's population live on \$1 a day or less or 2.8 [million] people. Lifting their incomes directly to \$1000 a year would require the generation of \$1.8 billion in additional wealth or over three times the value of the current Australian aid program in PNG. To see this challenge met requires the Australian aid program to act as a catalyst for others to co-invest. B4MD believe the missing actor is business, and that inclusive business is the framework under which businesses can work with the aid program to see this challenge met.

5.8 PNG is one of the most difficult countries in the world for businesses. PNG was ranked 145 out of 189 countries, in the World Bank *Doing Business* 2016 report.⁶ B4MD highlighted a number of areas where the Australian aid program could work to facilitate the private sector in PNG. These included mitigating barriers to prevent poor communities from engaging with the private sector, exploratory and validation

2 *Submission 26*, p. 34.

3 24th Australia-Papua New Guinea Ministerial Forum, *Joint Communique*, 3 March 2016, available at <http://dfat.gov.au/geo/papua-new-guinea/Pages/24th-australia-papua-new-guinea-ministerial-forum-joint-communique.aspx> (accessed 5 April 2016).

4 *Submission 6*, p. 4.

5 *Submission 11*, p. 2.

6 World Bank, *Doing Business 2016: Measuring Regulatory Quality and Efficiency*, 2016, p. 5.

missions to inspire companies to invest in PNG and creating an enabling environment in PNG for the private sector.⁷

5.9 The PNG National Research Institute also argued that '[a]id needs to support the development of a private sector that will create jobs and increase income levels'.⁸ Similarly, the joint submission from *PNG Attitude* stated:

While much aid is directed towards the activities of the public sector and for humanitarian purposes, little is utilised for the development of the private sector or for the establishment of institutions supporting entrepreneurship. There is no doubt that PNG small businessmen need substantial assistance with capital, advice and marketing.⁹

5.10 However, others were sceptical about increasing aid resources to private sector growth. For example, Mr Schaefer from Save the Children stated:

We are unconvinced that a compelling case has been made to reprioritise 30 per cent of the aid program to the private sector led growth and aid for trade. This is not because economic growth does not matter—quite the contrary—but because the return for economic growth over the longer term will be higher from investments in health, education and child protection.¹⁰

5.11 ACFID acknowledged that there was an urgent need for private sector investment and domestic finance in PNG. However, it emphasised that 'poor governance, health, education, law and order in PNG represent clear impediments to private sector investment and increase the cost of doing business'. It considered 'Australia's bilateral aid to PNG should focus on creating an enabling environment for private sector investment in PNG through investments in these sectors'.¹¹

5.12 Several organisations advocated that the Australia aid investments in the private sector and aid for trade should be directed to micro-economic growth. For example, ChildFund Australia emphasised that most PNG families are dependent on subsistence agriculture or micro enterprises, such as street vending and market stalls.

To increase household living standards it is vital that household agriculture and micro businesses are given the opportunity to grow, gain access to assets, achieve access to markets, and are provided with safe environments to operate, receive support and incentives. If attention is not given to the micro-economy in PNG, poverty reduction through economic growth will not be achieved...If Australian aid is to be prioritised to foster economic growth, it must focus on development of the micro-economy in PNG.¹²

7 *Submission 11*, p. 6.

8 *Submission 5*, p. 2.

9 *Submission 1*, p. 3.

10 *Committee Hansard*, 27 November 2015, p. 8.

11 *Submission 22*, p. 20.

12 *Submission 16*, p. 3.

5.13 Similarly ACFID considered that investments in private sector development and aid for trade must be pro-poor, focused on supporting and growing the local private sector, particularly micro and small enterprises where the bulk of the PNG population derive their livelihoods.

In focusing on opportunities for increasing private sector involvement in sustainable economic growth and reducing poverty in PNG, ACFID believes the Government should pay particular attention to promoting the growth of the local private sector, particularly the role of micro, small and medium enterprise (MSME) and to assist the transition from informal to formal economic activities.¹³

5.14 Jubilee argued that private sector investments should follow locally-articulated needs and be driven by the community. It considered '[i]t is critical that these enterprises ensure local ownership through locally-driven ownership models, employment, sustainable use of resources, environmental protection, and retention of benefit in the community'.¹⁴

Aid for trade

5.15 DFAT characterised 'aid for trade' as assisting developing countries improve their capacity to trade, driving economic growth and providing opportunities to build livelihoods and increase income. It stated:

On average, every dollar invested in aid for trade increases recipient country exports by an additional ten dollars. Given this high return on aid for trade investments, the Australian Government has committed to increase aid for trade to at least 20 per cent of Australia's annual aid spend by 2020.¹⁵

5.16 ACIAR noted aid for trade is currently 12 per cent of aid program expenditure and that investments include support for infrastructure to increase agricultural productivity, connect farmers to markets, and improve the flow of agricultural goods across borders.¹⁶ A key program under the Private Sector Development Framework appears to be the expansion of the Pacific Horticultural and Agricultural Market Access (PHAMA) Program to PNG. The program provides 'practical assistance to the public and private sectors to increase the export of horticultural and agricultural produce to regional and international markets'. This was estimated to be a \$4 million program over 2015-17.¹⁷

13 *Submission 22*, p. 19.

14 *Submission 15*, p. 5.

15 *Submission 26*, p. 33.

16 *Submission 8*, p. 7.

17 Australian High Commission PNG, *Supporting Private Sector Development in PNG: Rural Development, Markets and Trade*,

5.17 The potential for improved trade between PNG and Australia to facilitate economic growth was well recognised during the inquiry. While PNG is Australia's 18th largest trading partner, Australia is PNG's most significant trading partner. The Lowy Institute noted that the Australian aid program is 'dwarfed by bilateral goods trade (A\$5.9 billion in 2013/14) and investment by Australian companies in PNG, which totalled approximately A\$20 billion in 2013'.¹⁸

5.18 The trade relationship between PNG and Australia has been developing. The Australia-PNG Economic Cooperation Treaty (ECT) was signed by then Prime Minister Abbott and Prime Minister O'Neill on 21 March 2014. The ECT is intended to bring trade, economic cooperation and development cooperation under a single agreement and provides a framework for growing economic ties between Australia and PNG.¹⁹ Negotiations for the Pacific Agreement on Closer Economic Relations (PACER) Plus trade agreement which includes both Australia and PNG are also continuing.

5.19 The joint submission from *PNG Attitude* noted that 'PNG has many products that, with the right amount of targeted assistance, could supply domestic needs and be readily sought by countries like Australia'. It suggested local business opportunities could be assisted by 'exploring viable markets and providing assistance in financial management, production and marketing'.²⁰ The PNG National Research Institute reported that trade and commerce in PNG is currently 'impeded by red tape in the forms of import licenses and quarantine restrictions'. It pointed out that imported PNG produce including cocoa, coffee, and fish are rarely seen in the Australian market despite PNG being 'Australia's closest neighbour and a former trust territory'.

5.20 Advance Cairns also highlighted the potential of improved trade links and business development opportunities between PNG and Cairns. In particular, it has been advocating for a trial of customs and immigration processing in Cairns for PNG:

This would develop new routes into PNG without having to focus all inbound air traffic through Port Moresby. More direct linkages to other destinations in PNG would develop new business opportunities, linking development programs to business development.²¹

Agriculture

5.21 Agriculture was highlighted as a key sector to sustainable economic growth in PNG. ACIAR noted that about 80 to 85 per cent of the PNG population relies on agriculture for home consumption and cash incomes:

18 *Submission 14*, p. 1.

19 DFAT, 'Papua New Guinea country brief', available at: <http://dfat.gov.au/geo/papua-new-guinea/pages/papua-new-guinea-country-brief.aspx> (accessed 13 September 2015).

20 *Submission 1*, p. 3.

21 *Submission 36*, pp 3-4.

Cash incomes are derived from the sale of export crops and the sale of fresh produce and processed products in domestic markets (including rapidly growing cities — representing a means to transfer wealth from urban to rural areas). Although the value of fresh produce sales is not captured by PNG's national statistics, agricultural experts believe that such sales provide cash incomes to more households than any other activity...²²

Agriculture will remain the economic mainstay for the majority of Papua New Guineans for many years to come. The most effective role of government, with the support of donors, is to put in place the enabling environment to facilitate increased production and trade of agricultural produce, focusing especially on those value chains that offer benefits to large numbers of producers, processors and other local value chain participants.²³

5.22 Dr Austin from ACIAR described agriculture as a critically important sector of the economy for providing livelihoods. He observed that 'improvements in productivity in agriculture are far more effective than improvements in other sectors of the economy for lifting people out of poverty'.²⁴

5.23 B4MD also recommended the Australian aid program focus on the food and agribusiness sector in PNG. In particular, given the demand for tropical commodities grown across PNG, it recommended coffee, rice, cocoa and palm oil be prioritised. It noted that food companies are 'actively looking for opportunities to future proof their supply chains through direct engagement with smallholder farmers'. This raised the opportunities for interventions to attract foreign investment and deliver development outcomes.²⁵ Mr Voutier from B4MD gave the example that research from ACIAR indicated that with better basic agricultural practices cocoa farmers in PNG could substantially increase crop yields:

Most of Papua New Guinea's poorest people could triple their incomes by applying basic practices and existing technologies. These include pruning, weeding and shade control. The Australian aid program has an important role to play in tackling the root causes of poverty in Papua New Guinea and helping farmers lift yields.²⁶

5.24 It was observed that agriculture was an area where small-scale improvements could potentially be rapidly extended. Whilst ACIAR's primary mandate is to develop and test agricultural innovations, it noted that its research outputs are often utilised by other organisations and scaled-out to achieve greater impact. An example of another organisation scaling out its research outputs was the World Bank utilising an

22 *Submission 8*, p. 4.

23 ACIAR, *Submission 8*, p. 8.

24 *Committee Hansard*, 21 September 2015, p. 2.

25 *Submission 11*, p. 5.

26 *Committee Hansard*, 21 September 2015, p. 38.

extension strategy, known as 'Training by Association' for the management of cocoa pod borer in PNG. It stated:

Just over 1000 farmers participated in testing the original package of extension strategies within an ACIAR project. However, once its effectiveness was demonstrated, the World Bank funded Productive Partnerships in Agriculture Projects, which plans to out-scale this strategy to over 18,000 farmers.²⁷

5.25 World Vision considered that agricultural investments in PNG's production of cocoa and coffee are well-placed to capitalise on growing demand from the Asian region. The nature of these commodities means they can be support the participation and empowerment of those in PNG typically excluded from employment in the extractive industries, such as smallholder farmers, women and communities in rural areas.²⁸ However, World Vision argued that while Australian aid has had success with support for medium-sized agricultural enterprises, there was a need 'to reach smallholder farmers – who are often peripheral to mainstream markets and subsequently left behind – in order to effectively alleviate poverty among those most at risk'.²⁹

Infrastructure

5.26 The Australian aid program has responded to a request from the PNG Government for 50 percent of the Australian aid budget to be directed to infrastructure. Road infrastructure was seen as an area of critical need. PNG has a challenging geographic landscape and is one of the most rugged countries in the world.³⁰ The World Bank noted that:

For many people travel by road can be impossible, unsafe, or expensive. Without reliable access to roads people cannot reach schools, hospitals and markets when needed, and goods and services become unavailable. The poor condition of PNG's road network is due to historical underfunding of maintenance, rugged terrain, and periods of heavy rainfall.³¹

5.27 DFAT noted that in PNG 'as elsewhere, insufficient or inadequate infrastructure creates significant costs to doing business, and constrains economic growth'. Australian expenditure on transport infrastructure in PNG totalled nearly \$73 million in 2013-14.³² DFAT outlined that over 70 per cent of Australia's expenditure in the transport sector has been directed towards PNG's national priority roads network. This investment has primarily supported maintenance activities on

27 *Submission 8*, p. 10.

28 *Submission 32*, p. 7.

29 *Submission 32*, p. 4.

30 Save the Children, *Submission 41*, p. 5.

31 *Submission 4*, p. 12.

32 *Submission 26*, p. 25.

approximately 50 per cent of the national priority road network in 12 provinces.³³ DFAT highlighted Australian aid support for 'essential transport infrastructure for economic growth and service' including maintenance of over 2,000km of PNG's most economically important roads, totalling 9,000km since 2010 and strengthened aviation and maritime safety and security standards through upgrading PNG's aid traffic management systems and communications.

5.28 The World Bank observed that while the need for better infrastructure in PNG is clear, a long history of poor asset maintenance practices 'undermines the investment case'. A cycle of investment in new assets, followed by a lack of maintenance and rapid deterioration has led to frustration on the part of governments, donors and users. It considered that increased private sector involvement could assist this situation:

Global experience shows that greater involvement of the private sector is one way to overcome this problem. While private sector investment will be integral to all of these approaches, private sector capacity and knowledge, coupled with strong incentives to perform to agreed standards will perhaps be the most vital ingredients in making a large infrastructure project a success.³⁴

5.29 Dr Howes also observed that the 'build, neglect, rebuild' cycle of development funding of infrastructure is well known in the Pacific, and has been extensively documented. He considered it was 'unfortunate that Australia is now contributing to this syndrome, with its focus on building new class rooms and other buildings'. He argued for a 'flagship' focus on 'economic infrastructure, and transport in particular' rather than 'an emphasis on infrastructure as an activity spread across health, education, transport, law and justice, which would lessen rather than sharpen the aid program's focus'.³⁵

Remittances

5.30 Globally, annual remittance flows to developing countries are larger than overseas assistance and projected to increase. A World Bank report projected that '[r]emittances to the Pacific Island countries are projected to grow strongly, as outflows of workers to Australia and New Zealand have increased'. However, remittance costs, the cost of sending money to developing countries in the Pacific are 'high'.³⁶ This is particularly true for PNG.

5.31 The economic and social benefits of PNG nationals being able to travel to Australia to undertake work and remit their earnings back to PNG were highlighted in

33 *Submission 26*, p. 26.

34 *Submission 4*, p. 7.

35 *Submission 42*, p. 33.

36 World Bank, 'Migration and Remittances: Recent Developments and Outlook', *Migration and Development Brief*, April 2016, pp 20-21.

evidence.³⁷ Remittances do not appear to be having the same impact for PNG compared to other countries in the region. Remittances were only 0.1 per cent as a share of GDP for PNG in 2014, compared to 2.9 per cent for Vanuatu, 0.9 per cent for Solomon Islands, 2.9 per cent for Timor-Leste.³⁸

5.32 At the recent 24th Australia-PNG Ministerial Forum Ministers agreed to finalise the necessary arrangements to bring a Work and Holiday visa into effect this year. This visa is intended 'to allow up to 100 Australian and 100 Papua New Guinean young adults per year, aged 18 to 30, to enjoy a working holiday in the other country for up to 12 months'. It was noted that 'relatively few Papua New Guinea nationals had participated in Australia's Seasonal Workers Program and that officials from both countries were investigating ways to boost Papua New Guinea participation'.

5.33 The PNG Government also requested that the Seasonal Workers Program be expanded to 'include skilled and semi-skilled workers who are trained by Australian accredited specialized training institutions such as the Australia-Pacific Technical College where opportunities exists for employment in specialized care of the elderly, child, disability and community care'.³⁹

Risks

5.34 Some potential risks were highlighted in relation to the increased private sector engagement in the Australian aid program. The OECD DAC stated:

Many DAC members have developed private sector strategies and are creating new funding instruments or delivery mechanisms to support this focus. Several DAC peer reviews caution members against merging development objectives with their own commercial interests, and against establishing instruments that would lead to an increase in tied aid.⁴⁰

5.35 Concerns about 'boomerang aid' and corporate welfare for Australian companies, particularly in the extractives industry, were frequently raised matters regarding the focus on private sector involvement in the Australian aid program. For example, the Bougainville Freedom Movement considered that Australian aid to PNG should not be directed at projects that 'ultimately benefit multinational interests especially projects for exploitation of non-renewable resources'.⁴¹

5.36 ChildFund warned that the new focus on economic growth in Australia's aid program should not 'become conflated with trade objectives that primarily seek to increase markets for Australian companies'.⁴² It observed that, while private sector

37 For example, National Research Institute, *Submission 5*, p. 15.

38 World Bank, *Migration and Remittances Data*, 24 September 2015.

39 24th Australia-Papua New Guinea Ministerial Forum - Joint Communique, 3 March 2016.

40 *Submission 6*, p. 4.

41 *Submission 34*, p. 4.

42 *Submission 16*, p. 9.

activity is crucial for developing countries such as PNG, 'there can be negative impacts particularly from poorly managed resource projects'.⁴³

5.37 Similarly, Jubilee was concerned a 'bias toward Australian company priorities rather than community-articulated needs creates a high potential for conflict'. It noted an LNG development in PNG where '[t]ensions, violence and death have resulted...for many reasons including land disputes, inadequate employment and pay, failure in a duty of care regarding local communities and the environment'.

5.38 The International State Crime Initiative was concerned the Australian aid program will be 'increasingly focused on removing constraints from business, without recognising the excessive freedoms businesses enjoy in Papua New Guinea to violate laws and community rights, with impunity'. It considered that the 'gearing of aid towards the funding of contentious mega-projects, the promotion of public-private partnerships, and the co-authorship of policy and service delivery with the private sector, is a particularly risky enterprise in an environment typified by high levels of corruption, weak law enforcement and the unaddressed impunity of corporate actors'.⁴⁴

Private sector partnerships

5.39 Private sector partnerships in PNG were seen as an area of growing opportunity for the Australian aid program. For example, the Burnet Institute recommended that the Australian aid program should have an active role in catalysing and brokering engagement by the private sector in human development, for example as partners with Australian aid programs in geographic areas where the companies are operating.

5.40 In line with this view, ACIAR told the committee it had released a position paper on its engagement with the private sector. The paper was intended to communicate with private sector stakeholders what ACIAR has to offer, what ACIAR looks for in private sector partnerships and outlines actions in the short to medium term.⁴⁵ Dr Butler from the CSIRO stated:

Within PNG, as a general rule, government capacity is pretty low. In some areas, it is almost nonexistent. In those situations, the private sector—particularly multinational companies—provide a real opportunity for almost acting as quasi-government, providing services and capacity support and so on...I think that is one area where CSIRO and indeed ACIAR, for example, could partner much more strongly with those multinational companies to really explore alternative ways or improved ways that they could contribute

43 *Submission 16*, p. 2.

44 *Submission 27*, p. 3.

45 ACIAR, *Position paper – ACIAR's engagement with the private sector*, June 2015 p. 3.

to local development and partner with us at the same time. We are in the process of signing an MOU with Ok Tedi Mining to do exactly that.⁴⁶

5.41 ACFID believed there was significant scope for civil society, the private sector, multilateral institutions, government and academia to work more closely on tackling PNG's development challenges:

For businesses, it can contribute to fulfilling their social license to operate, assist with staff attraction and retention, and open up new business models and markets. For NGOs, partnerships are a means to engage business and obtain resources, such as funding and technological know-how. For government, partnerships are a way of leveraging funding and on-the-ground links and resources to maximise its poverty alleviation and development impact.⁴⁷

5.42 The World Bank's International Finance Facility believed that there was scope for public-private partnerships (PPPs) to be 'much more widely applied in PNG':

PPPs of various forms are one way to overcome the capacity limitations in PNG, and also increase greatly the opportunities for local business. Instead of providing resources for public procurement of assets which may not be maintained, donors can provide funding to bridge the 'viability gap', or the subsidy required to make the PPP viable, and thus be assured that maintenance can be built into the projects....This potential is not limited to traditional infrastructure (transport, energy), but can work equally well in the social sectors like health and education where private sector participation as a delivery mechanism is growing globally.⁴⁸

5.43 Medicines for Malaria Venture (MMV) recommended that the 'Australian government should consider new forms of private sector partnerships in PNG'. It noted that innovative, multi-sectoral partnerships could harness the assistance of the private sector to help PNG achieve malaria control and subsequent elimination. It indicated this initiative could provide a solid foundation towards achieving 'gains at a time when traditional global funding sources are stretched'.⁴⁹

5.44 MMV described a number of partnerships in PNG it had undertaken with major Australian and PNG resource sector companies focused on malaria operational research and implementation projects. It argued '[p]rivate sector partnerships have demonstrated their capacity to be a catalyst to establish the foundations for future programs that bring together a broad range of stakeholders, including governments and donors'.⁵⁰ Ms James from MMV outlined how MMV was 'laying the foundations of malaria elimination on Lihir Island with our industry partner Newcrest Mining':

46 *Committee Hansard*, 21 September 2015, p. 5.

47 *Submission 22*, pp 20-21.

48 *Submission 4*, p. 7.

49 *Submission 19*, p. 2.

50 *Submission 19*, pp 6-7.

This will significantly improve community health and workplace productivity, and our program covers the mining lease area and the general population of 22,000 people. This project was initiated and funded by MMV and Newcrest over an initial five-year period and more recently has involved local leaders and PNG business and community groups.⁵¹

5.45 Vision2020 recommended that the Australian Government encourages an 'enabling environment for businesses to be involved in eye health and vision care in PNG including grants, seed funding, concessional loans and additional taxation incentives'. It stated:

In PNG the private sector provides an ongoing conduit for outreach to the urban working poor. For example, major companies such as OilSearch and Telikom provide time during working hours for their employees to receive free eye tests. This is beneficial in raising awareness of eye health services and providing key referral opportunities for staff. Such opportunities could be expanded to other villages to ensure more people gain access to eye health and vision care services. Partnerships between the major companies and local health organisations could improve the coverage of these programs.⁵²

5.46 The importance of local engagement with private sector partnerships was emphasised by Jubilee Australia:

Attitudes prevalent in leveraged investment projects are fraught with peril when they neglect local sentiment. Private sector partnerships could be sought for projects having strong community support, as well as safeguards for ensuring that community rights and priorities are being respected.

5.47 Similarly, World Vision argued that significant private sector activities should be grounded in partnerships with communities and trusted non-government development partners. It considered major partnerships with the private sector should be tripartite, ensuring that development practitioners and long-term community contacts have input 'through all phases of the program cycle, from needs assessment to implementation'.⁵³

Committee view and recommendations

5.48 Valuable work has recently been undertaken by the Joint Committee on Foreign Affairs, Defence and Trade (Joint Committee) on the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific. Most of the recommendations made in the Joint Committee's report *Partnering for the greater good* are highly relevant to PNG and the committee endorses those recommendations.

51 *Committee Hansard*, 21 September 2015, p. 31.

52 *Submission 21*, p. 8.

53 *Submission 32*, p. 32.

5.49 There is a risk that the objectives of the Australian aid program to increase 'aid for trade', to promote economic growth and to build the capacity of the PNG Government to deliver services could centralise resources. However, the majority of those who live in poverty in PNG are located in rural and remote areas and are not engaged with the formal economy. An unbalanced aid program could inadvertently contribute to increasing inequality and poor development outcomes in PNG.

5.50 Ensuring and communicating that there is an appropriate focus in the Australian aid program's support for the private sector on rural areas, micro-businesses, SMEs and the agricultural sector should be a continuing priority. While the majority of the programs in the Private Sector Development Framework appear appropriately targeted, it is not clear there is an awareness of the aims of these programs within PNG. In particular, local communities should be consulted and involved in the development of these programs.

Recommendation 14

5.51 The committee recommends that the Australian Government, in supporting economic growth and public sector partnerships in Papua New Guinea through the aid program, ensures and demonstrates that:

- **there is an appropriate focus on micro-businesses, small to medium enterprises and the agricultural sector; and**
- **locally affected communities are consulted and involved in the development of programs.**

5.52 Remittances are clearly a valuable private sector contribution to economic growth with a range of social benefits. This is an obvious area of development for both PNG and Australia. The committee supports an increase in the number of PNG nationals accessing the Seasonal Workers Program and urges the Australian Government to work with the PNG Government to find further areas to expand the program. PNG is also one of the most expensive countries to remit money from Australia. Lowering the costs of these remittances would significantly increase the benefits. The Australian Government should investigate innovative solutions to reduce the costs of remittances between Australia and PNG.

Recommendation 15

5.53 The committee recommends that the Australian Government support:

- **an increasing number of Papua New Guineans accessing the Seasonal Workers Program;**
- **the request of the Papua New Guinea Government to expand the Seasonal Workers Program to other relevant sectors;**
- **an investigation of remittance costs between Papua New Guinea from Australia.**

5.54 The committee supports the concept that the increased expenditure on infrastructure in the Australia aid program should not be spread out and should be targeted on one 'flagship' area of development activity. Well-designed, well-maintained transport infrastructure is critical to economic activity and private sector development. Improved transport links are also the key to the accessibility of communities and the capacity of communities to access services. For these reasons transport and road infrastructure are already large parts of the Australian aid program. However, as the portion of the aid program directed to infrastructure increases to 50 per cent, the share of the program devoted to road infrastructure should also increase.

5.55 The Australia aid program should also be examining partnerships with the private sector in the area of transport infrastructure. The World Bank's IFC is 'devoting increasing resources to scope and develop' public private partnership opportunities in PNG. The Australian Government should support this effort to bridge the 'viability gap' of transport infrastructure in PNG.

Recommendation 16

5.56 The committee recommends that the Australian Government:

- **target increasing infrastructure aid funding on transport and road infrastructure in Papua New Guinea; and**
- **support efforts to develop public private partnerships to invest in transport and road infrastructure.**