

Background

- 1.1 On 4 February 2014, the Minister for Foreign Affairs, the Hon Julie Bishop MP, asked the Joint Standing Committee on Foreign Affairs, Defence and Trade to inquire into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region. The inquiry terms of reference were adopted and subsequently referred to the Foreign Affairs and Aid Sub-Committee (the Committee).
- 1.2 Following the referral of the inquiry, on 18 June 2014 the Minister for Foreign Affairs announced Australia's new development policy. This policy aligned with the inquiry's terms of reference and provided the opportunity for the Committee to consider how to best implement the new paradigm by engaging with the private sector to effectively contribute to development.
- 1.3 This chapter provides a summary of the Australian Government's development policy and regional priorities, and background to the inquiry, including definitions of key terms, information on stakeholder engagement and the structure of the report.

Aid objectives of the Australian Government

- 1.4 Australia's new development policy, *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, also included a new performance framework; *Making Performance Count: enhancing the accountability and effectiveness of Australian aid*.¹

1 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The new aid paradigm', *Speech*, delivered 18 June 2014.

- 1.5 The new policy focused Australia's overseas development assistance on driving economic growth in developing nations and creating pathways out of poverty.² As part of that announcement, the Minister for Foreign Affairs stated that 'Australia's aid funding will go to creating jobs, boosting incomes and increasing economic security in our region.'³
- 1.6 To facilitate economic growth in developing countries, the Australian Government also announced that it would:
- increase aid for trade investments to 20 per cent of the aid budget by 2020;
 - focus on the Indo-Pacific region, with over 90 per cent of country and regional program funding spent in our neighbourhood;
 - invest heavily in education and health, as well as disaster risk reduction and humanitarian crises;
 - address women's empowerment in the implementation of Australia's aid investments, including by requiring all investments to assess gender issues with at least 80 per cent focused on support and empowerment of women;
 - provide \$140 million to trial and test innovation in development assistance, and establish a development innovation hub in the Department of Foreign Affairs Defence and Trade (DFAT);⁴
 - create performance benchmarks and mutual obligations with partner governments that will assess the performance of our country programs and inform future funding decisions.⁵
- 1.7 In its appearance at the inquiry's public hearing, DFAT officials expanded on the new purpose of Australia's aid program, stating:
- A defining feature of that policy is its stronger focus on private sector development, including aid for trade... There were two high-level objectives that underpin that purpose: private sector development and human development, recognising both sides contribute to economic growth and poverty reduction.⁶

2 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The new aid paradigm', *Media Release*, 18 June 2014.

3 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The new aid paradigm', *Media Release*, 18 June 2014.

4 Also see The Hon Julie Bishop MP, Minister for Foreign Affairs, 'innovationXchange – Australia's New Aid Paradigm', *Media Release*, 23 March 2015.

5 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The new aid paradigm', *Media Release*, 18 June 2014; and *Speech*, delivered 18 June 2014.

6 Mr Blair Exell, First Assistant Secretary, Department of Foreign Affairs and Trade (DFAT), *Committee Hansard*, 23 June 2014, p. 2.

Prioritising the Indo-Pacific region

1.8 The Government has prioritised the Indo-Pacific region, and specifically, Australia's immediate neighbourhood – South East Asia and the Pacific – as the focus of Australia's development policy and support:

Our sharper geographic focus reflects the reality that the vast majority of our nearest neighbours are developing countries. Many of them face significant development challenges. Ten of Australia's 15 top partner country aid recipients are considered to be fragile or conflict-affected. Their fragility has a direct impact on our national and security interests.⁷

1.9 The Indo-Pacific region comprises the countries of the Indian Ocean Rim Association, Association of Southeast Asian Nations and the Pacific. The Department provided the below list of countries below in region that are considered by the OECD to be eligible for Official Development Assistance (ODA):

Table 1.1 Countries eligible for Australian ODA located within the Indo-Pacific region

Pacific	East Asia	South and West Asia	African East Coast
Cook Islands	Burma	Afghanistan	Somalia
Federated States of Micronesia	Cambodia	Bangladesh	Kenya
Fiji	Indonesia	Bhutan	Tanzania
Kiribati	Laos	Maldives	Mozambique
Nauru	Mongolia	Nepal	South Africa
Niue	Philippines	Pakistan	Madagascar
Papua New Guinea	Timor-Leste	Sri Lanka	Seychelles
Republic of Palau	Vietnam		Comoros
Republic of the Marshall Islands			Mauritius
Samoa			
Solomon Islands			
Tokelau			
Tonga			
Tuvalu			
Vanuatu			

Source Department of Foreign Affairs and Trade - correspondence

⁷ DFAT, *Australian aid: promoting prosperity, reducing poverty, enhancing stability*, June 2014, p. 4.

- 1.10 Highlighting the importance of Australia's focus on the immediate region, DFAT noted that two-thirds of the world's poor – some 800 million people – live in the Asia Pacific, yet less than one-third of global aid is directed there.⁸
- 1.11 Within the two priority regions, Indonesia and Papua New Guinea are the largest recipients of Australian aid; they are also important trade partners:
- Indonesia: Australia's total ODA will be an estimated \$366.4 million in development assistance for 2015-16. This compares with two-way trade of over \$15 billion, with DFAT suggesting there is considerable potential to expand trade.⁹
 - Papua New Guinea: Australia's total ODA to PNG in 2015-16 will be an estimated \$553.6 million. This compares with two-way trade of almost \$7 billion. Australian investment in PNG is worth over \$20 billion. Australia is PNG's principal export destination and import source.¹⁰

Background to the inquiry

- 1.12 The terms of reference of the inquiry refer to three concepts: economic growth, poverty, and development. As shown in the evidence presented to the Committee, these terms are used in different ways by different people and organisations. To clarify meanings and to assist with the interpretation of the recommendations contained in this report, the following section briefly explains these concepts, and how they are used in this report.

Economic growth and development

- 1.13 In its submission, DFAT described economic growth as 'the increase in the output produced by a country, usually measured by gross national income or gross domestic product.'¹¹

8 DFAT, *Submission 21*, p. 28.

9 DFAT, 'Overview of Australia's aid program to Indonesia' <www.dfat.gov.au/geo/indonesia/development-assistance/Pages/development-assistance-in-indonesia.aspx> 'Indonesia Country Brief', 'Indonesia Country Brief' <www.dfat.gov.au/geo/indonesia/Pages/indonesia-country-brief.aspx>; and <www.dfat.gov.au/about-us/publications/trade-investment/australias-trade-in-goods-and-services/Pages/australias-trade-in-goods-and-services-2013-14.aspx>, viewed 25 May 2015.

10 DFAT, 'Papua New Guinea Country Brief', <www.dfat.gov.au/geo/papua-new-guinea/Pages/papua-new-guinea-country-brief.aspx>; Overview of Australia's aid program to Papua New Guinea' <dfat.gov.au/geo/papua-new-guinea/development-assistance/Pages/papua-new-guinea.aspx>, viewed 25 May 2015.

11 DFAT, *Submission 21*, p. 5.

- 1.14 While the definition of economic growth was not disputed in the submissions, what was discussed is whether a single indicator – the size of a country’s economy – provides enough information to guide aid policy and to judge its success. Oxfam Australia suggested that:
- ...when crafting development policy, growth should not be viewed as the final goal. Rather, what sustainable and equitable growth has the ability to create must be the final goal.¹²
- 1.15 In addition to measuring the size of a country’s economy, the importance of an individual’s level of income was also raised. DFAT used the term ‘inclusive growth’ to discuss this issue and defined it as follows:
- Inclusive growth: is broad-based across sectors and considers both the pace and pattern of growth so that it benefits all society and creates opportunities for participation, which can include both engagement in productive economic activities and having a say on the orientation of the growth process (as defined by the International Policy Centre for Inclusive Growth).¹³
- 1.16 The Committee took the view that market-based indicators, such as gross national product or gross domestic product, do not reveal inequalities in access to income or services. These measures provide only a crude measure of ‘development’, with little meaning for transformative economic growth that lifts people out of poverty.
- 1.17 Economic growth should therefore be considered not only in relation to market production and consumption, but also gender equality, social inclusion, opportunities to access education and employment, health and mortality, the rule of law and the environment.
- 1.18 In its submission, DFAT described development as ‘the advancement of a country economically and socially’.¹⁴ *The Synthesis Report of the Secretary-General on the post 2015 sustainable development agenda* noted that ‘sustainable development must be an integrated agenda for economic, environmental and social solutions’.¹⁵ While DFAT did not suggest how to measure development, it noted that it ‘includes improvements in income per capita, macroeconomic stability, living standards and levels of health and education’.¹⁶

12 Oxfam Australia *Submission 72*, p. 8.

13 DFAT, *Submission 21*, p. 5.

14 DFAT, *Submission 21*, p. 5.

15 *The Synthesis Report of the Secretary-General on the post 2015 sustainable development agenda, ‘The road to dignity by 2030: ending poverty, transforming all lives and protecting the planet’* A/69/700, p. 20.

16 DFAT, *Submission 21*, p. 5.

- 1.19 On the question of how to define and measure sustainable development, those working on the successor to the Millennium Development Goals have ‘proposed 17 specific goals with 169 associated targets’. The post 2015 synthesis report also referred to the challenges in measuring development, and suggested that ‘work on developing alternative measures of progress, beyond GDP, must receive the dedicated attention of the United Nations’.¹⁷
- 1.20 In this report, the Committee uses the broad definition of development, which encompasses economic, social and environmental outcomes for individuals, communities and countries.

Poverty

- 1.21 DFAT described poverty as ‘whether households or individuals have enough resources or abilities to meet their needs. If they do not, they are living in poverty.’ The Department also noted that ‘[e]xtreme poverty is defined as living on less than US\$1.25 per day.’¹⁸
- 1.22 Describing poverty in terms of being able to meet individual needs was discussed by Professor Betty Lovai, who remarked on a study about poverty:
- Papua New Guineans were saying, ‘we are poor’, or ‘we experience conditions of poverty because of lack of something, lack of basic services – lack of this and lack of that’. The government system is there, but it is not delivering... [Communities] defined [poverty] as having difficulty trying to sustain a reasonable livelihood.¹⁹
- 1.23 Opportunity International noted that:
- Poverty is a multi-dimensional problem that requires more than financial inputs. Addressing poverty needs to take into account access to water, health, energy, education, safety and other initiatives to empower women.²⁰
- 1.24 The Committee recognises that in addition to providing a broad indicator of well-being for individuals, measures of poverty, whether income-based or multi-dimensional, can assist in identifying which groups of people should be the target of development interventions. In this report, the Committee uses a multi-dimensional definition of poverty.

17 The Synthesis Report of the Secretary-General, A/69/700, p. 10 and p. 28.

18 DFAT, *Submission 21*, p. 5.

19 Professor Betty Lovai, Executive Dean, University of Papua New Guinea, appeared in a private capacity, *Committee Hansard*, Canberra, 3 February 2015, p. 7.

20 Opportunity International, *Submission 76*, p. 17.

Stakeholder engagement

- 1.25 In March 2014, the Committee invited relevant stakeholders – groups and individuals – to submit to the inquiry. The Committee received 154 submissions and 88 exhibits from international governments, government departments, businesses, academics, business councils and representative bodies, non-government organisations, and individuals within Australia and globally.
- 1.26 From June 2014 to February 2015, the Committee took evidence from 84 diverse organisations and individuals at 23 public hearings held in Canberra, Brisbane, Sydney, and Melbourne.

Structure of the report

- 1.27 This report aims to facilitate the development of practical policy on engaging with the private sector in promoting economic growth and reducing poverty in poor countries in the Indo-Pacific region.
- 1.28 The report provides a broad overview of the global aid landscape and perspectives of other donors and recipients. It examines evidence received in relation to best practice stakeholder engagement, the work being done by the private sector, the emergence of social responsibility and cross-collaboration in accelerating the pace of economic growth and in reducing poverty, as well as the risks and benefits to the enterprises and the nations.
- 1.29 The report also explores the value of options for financing development and public-private partnerships that have a significant financial component, such as those used to fund major infrastructure.
- 1.30 The report comprises nine chapters. The next chapters include:
- Chapter 2 – the changing development landscape
 - Chapter 3 – the private sector
 - Chapter 4 – women empowered through a thriving private sector
 - Chapter 5 – growing the private sector
 - Chapter 6 – partnering in the overseas aid program
 - Chapter 7 – public-private partnerships for infrastructure
 - Chapter 8 – mobilising finance for development
 - Chapter 9 – delivering the aid program

