

## The changing development landscape

2.1 The Hon Julie Bishop MP, Minister for Foreign Affairs, stated:

Our aid program needs to adapt to new realities. In 2015 the international community will sign up to a new development agenda, replacing the Millennium Development Goals negotiated in 2000. The aid world has changed in fundamental ways since then... Traditional aid approaches are no longer good enough. We need a new development paradigm.<sup>1</sup>

2.2 This chapter discusses this shift in the global economic landscape and development practice, according to evidence presented to the Committee. Both the OECD and the United Nations have also reported extensively on this global development.<sup>2</sup>

### Economic shifts

2.3 The Department of Foreign Affairs and Trade (DFAT) outlined their view on the changing economic landscapes across developing countries in 2014:

Most of the world's poor today live in middle-income countries, not in low-income countries. Two-thirds of Australia's development partners in the Indo-Pacific region have achieved middle-income status. Rapid economic expansion has lifted national incomes in emerging economies, but not all citizens have shared in the growth. Globally, the economic transformations

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1 Ministerial Forward, Department of Foreign Affairs and Trade (DFAT), *Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability*, June 2014, p. iii.

2 See OECD Development Co-operation Directorate (DCD-DAC) at <[www.oecd.org/dac/](http://www.oecd.org/dac/)>; and UNDP at <[www.undp.org/privatesector](http://www.undp.org/privatesector)>.

underway are having far-reaching implications. Aid flows into many developing countries are now dwarfed by foreign direct investment, equity flows and remittances. Middle-income countries have significant and growing domestic resources to finance their own development.<sup>3</sup>

2.4 Approximately 60 per cent of the world's poor are located in countries classified as middle income economies, and 40 per cent are located in five countries: China, India, Pakistan, Nigeria and Indonesia.<sup>4</sup>

2.5 The potential for nations to fund their own development through increasing tax bases, and therefore a need for stronger tax systems, was supported in evidence presented to the inquiry. International development firm, DAI observed:

Poverty, then, is increasingly turning from an international to a national distribution problem – governance, domestic taxation, and redistribution policies become more important than overseas development assistance.<sup>5</sup>

2.6 Although DFAT noted that Foreign Direct Investment flowing into developing nations was dwarfing Official Development Assistance (ODA), DAI reported OECD data that suggested:

...seemingly explosive growth of non-ODA resource flows into developing countries is actually less pervasive and uniform than the overall numbers might suggest. As the OECD reports, using data from 2012: while non-ODA flows account for more than 90 percent of total resource receipts in upper-middle income countries (UMICs), these flows still account for only one third in least-developed countries (LDCs).<sup>6</sup>

2.7 The Business for Social Responsibility submission reflected on the market drivers underpinning potential for economic development and business opportunities:

By 2030, nearly 5 billion people are expected to reach a middle-class standard of living. Despite these projections, essential goods and services such as healthcare, energy, water, food, and housing currently remain beyond the grasp of millions of people,

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3 Department of Foreign and Trade, *Submission 21*, p. 1.

4 World Bank Data cited in DFAT, *Submission 21*, p. 9.

5 DAI, *Submission 110*, p. 10; also see Mr Daniel Runde, Schreyer Chair in Global Analysis, and Director, Project on Prosperity and Development at the Center for Strategic and International Studies (CSIS), *Committee Hansard*, Canberra, 2 October 2014, p. 2; and Oxfam, *Submission 72*, p. 9.

6 DAI, *Submission 110*, p. 10.

including both the poor and the emerging middle class. For business, this represents a significant opportunity to address unmet needs – and reach large numbers of untapped consumers.<sup>7</sup>

- 2.8 Summarising the global economic landscape and shift in development, Mr Daniel Runde of the Center for Strategic and International Studies (CSIS) asserted:

The world is driven by trade and investment, and the private sector is the main driver of progress in the world. At the same time, there are critical roles for government and critical roles for foreign assistance.<sup>8</sup>

## The changing development environment

### United Nations Development Agenda

- 2.9 In 2000, world leaders met at the United Nations (UN) Millennium Summit to review past UN activities and achievements and frame an ambitious development agenda for the new century: to improve the quality of life of the world's poor and halve extreme poverty by 2015.<sup>9</sup>
- 2.10 The resulting agreement, the Millennium Declaration, set out eight timed development targets, the Millennium Development Goals, to drive that process. These 'MDGs' would be the benchmarks for progress towards 'an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty.'<sup>10</sup>
- 2.11 In 2010, at the 65<sup>th</sup> session of the General Assembly, member states noted that, while progress had been made on the MDGs, there was 'deep concern that it falls far short of what is needed'. It was requested that the Secretary-General report annually on progress and make

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7 Business for Social Responsibility, *Submission 10*, p. 5.

8 Mr Runde, CSIS, *Committee Hansard*, Canberra, 2 October 2014, p. 1.

9 'The Millennium Assembly of the United Nations' under General Assembly resolution 53/202 of 17 December 1998. UN Conferences Meetings and Events, Millennium Summit 6–8 September 2000, <[www.un.org/en/events/pastevents/millennium\\_summit.shtml](http://www.un.org/en/events/pastevents/millennium_summit.shtml)> viewed 8 February 2015.

10 The eight MDGs were: (1) to reduce poverty and hunger ; (2) to provide universal education all children, male and female (3); to improve child and maternal health and HIV/ aids and malaria reduction (4, 5 and 6); and to achieve sustainable environmental and economic development (7and 8). Also see Organisation for Economic Co-operation and Development (OECD), DAC, *Millennium Development Goals*, <[www.oecd.org/dac/1905879.pdf](http://www.oecd.org/dac/1905879.pdf)> viewed 26 February 2015.

recommendations for 'further steps to advance the UN development agenda beyond 2015'.<sup>11</sup> These will be the Sustainable Development Goals.

2.12 The 2014 *Millennium Development Goals (MDG) Report* highlighted that progress had been made across all goals, with several targets having been met. Notably, in relation to the role of the private sector in poverty reduction and economic growth, goals one and eight achieved the following:

- The world has reduced extreme poverty by half – In 1990, almost half of the population in developing regions lived on less than \$1.25 a day. This rate dropped to 22 per cent by 2010, reducing the number of people living in extreme poverty by 700 million.
- Development assistance rebounded, the trading system stayed favourable for developing countries and their debt burden remained low – Official development assistance stood at \$134.8 billion in 2013, the highest level ever recorded, after two years of declining volumes. However, aid is shifting away from the poorest countries. 80 per cent of imports from developing countries entered developed countries duty-free and tariffs remained at an all-time low. The debt burden of developing countries remained stable at about 3 per cent of export revenue.<sup>12</sup>

## G20 and development

2.13 As president and host of the Group of Twenty (G20) in 2014, Australia advanced an agenda to support sustainable growth in G20 countries, which would provide opportunities for greater growth in developing countries.<sup>13</sup> At the meeting held in Brisbane in 2014, G20 members endorsed the 'Brisbane Action Plan' and committed to strategies for action in comprehensive member plans. The G20 also agreed to monitor and hold each other to account for implementing the commitments.<sup>14</sup>

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11 UN General Assembly, Resolution adopted by the General Assembly, A/RES/65/1:1, <[www.un.org/en/mdg/summit2010/pdf/outcome\\_documentN1051260.pdf](http://www.un.org/en/mdg/summit2010/pdf/outcome_documentN1051260.pdf)> viewed 26 February 2015.

12 UN, *Millennium Development Goals (MDG) Report 2014*, UN, New York 2014, summary, p. 4, <[www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf](http://www.un.org/millenniumgoals/2014%20MDG%20report/MDG%202014%20English%20web.pdf)> viewed 9 March 2015.

13 Mr Sam Gerovich, First Assistant Secretary, Trade and Economy Policy Division, DFAT, *Committee Hansard*, Canberra, 23 June 2014, p. 2.

14 DFAT<G20, <[dfat.gov.au/international-relations/international-organisations/g20/pages/the-g20.aspx](http://dfat.gov.au/international-relations/international-organisations/g20/pages/the-g20.aspx)>, viewed 26 February 2015. According to DFAT's website, the strategies could lift growth by 2.1 per cent by increasing investment, trade and competition, and boosting employment, and along with macroeconomic policies to support inclusive growth and reduce inequality and poverty.

## Linking economic growth and development—the role of the private sector

2.14 At the Fourth High Level Forum into Aid Effectiveness, held in Busan in November 2011, development partners – donors and recipients – formally agreed ‘to put economic growth at the core of the development agenda’.<sup>15</sup> Deliberations at the Forum laid several planks in the foundation of this new development architecture, making clear the correlation between private sector development and the transformation of developing economies.<sup>16</sup> The forum:

- highlighted the primacy of the ‘private sector’s role in wealth creation, advancing innovation and poverty reduction, and emphasised the importance of public-private collaboration’;<sup>17</sup>
- embraced the principle of developing nations as ‘owners’ in a more ‘democratic’ development process, with volition to set national priorities and to implement the process;<sup>18</sup> and
- recognised the new ‘more complex architecture’ of development co-operation must comprise more diverse development partners; for instance, state and non-state actors, developing nations at different stages of development, new forms of public-private partnership and combinations of South-South and triangular co-operation in addition to traditional North–South co-operation.<sup>19</sup>

2.15 Mr Daniel Runde, from the Center for Strategic and International Studies (CSIS), outlined important changes to aid policy since 2011. These included:

- donor and recipient nations acknowledging that foreign assistance could be catalysed to support economic growth:

Foreign aid was once thought of as the primary delivery vehicle for development in low-income countries. But today private investment and private enterprise are widely recognised as the primary drivers for growth and human progress. Mainstream development thinking reflects this changed reality, including the

15 DFAT, *Submission 21*, p. 9, and see OECD Fourth High Level Forum into Aid Effectiveness <[www.oecd.org/dac/effectiveness/fourthhighlevelforumonaideffectiveness.htm](http://www.oecd.org/dac/effectiveness/fourthhighlevelforumonaideffectiveness.htm)>

16 DFAT, *Submission 21*, p. 9.

17 Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide, *Submission 111*, p. 16.

18 *The Busan Partnership for Effective Development Co-Operation Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011*. Para 11. <[www.oecd.org/development/effectiveness/49650173.pdf](http://www.oecd.org/development/effectiveness/49650173.pdf)>, viewed 15 February 2015.

19 *The Busan Partnership for Effective Development Co-Operation Fourth High Level Forum on Aid Effectiveness, Busan, Republic of Korea, 29 November-1 December 2011*. Para 5, <[www.oecd.org/development/effectiveness/49650173.pdf](http://www.oecd.org/development/effectiveness/49650173.pdf)>, viewed 15 February 2015.

high-level panel's work around the next round of the Millennium Development Goals at the United Nations, the post Busan process as well as major thought leaders from the World Bank.<sup>20</sup>

- recognition that developing nations have agency, including financial agency, to participate in the development process:

Developing countries are increasingly able to rely more on what is called 'domestic resource mobilisation', which was talked about in the Busan process and in the post Busan process... as part of the high-level panel's thinking about how we finance development. In this regard, the development dollar should be supporting self-sufficiency not propagating systems of dependence.<sup>21</sup>

- 2.16 These developments effectively recast traditional understandings of ODA. DFAT described ODA as:

... a unique form of development support in that it is steerable towards the greatest development needs. In developing countries, it is not always possible for governments and the private sector to focus effort on the needs of the poor. The capacity to deploy ODA to areas where others cannot or will not invest means it can catalyse change and start the process of improving the environment for other investors. Used well, ODA helps government and its private sector meet respective roles and responsibilities. It also helps accelerate the transition from ODA to trade and investment.<sup>22</sup>

- 2.17 The global management firm Accenture referred to the First High-Level Meeting of the Global Partnership for Effective Development Co-operation and the implementation of the Post-2015 Development Agenda held in early 2014, which concluded that an enabling environment for the private sector will be crucial to foster inclusive growth. It also suggested that:

...businesses make an important contribution to poverty eradication and sustainability through strong and inclusive economic growth, wealth and decent jobs creation, entrepreneurship, productivity and innovation, knowledge sharing and technology transfer, and expanded access to goods and services for all.<sup>23</sup>

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20 Mr Runde, Center for Strategic and International Studies (CSIS), *Committee Hansard*, Canberra, 2 October 2014, pp. 1-2.

21 Mr Runde, CSIS, *Committee Hansard*, Canberra, 2 October 2014, p. 2.

22 DFAT, *Submission 21*, p. 17.

23 Accenture, *Submission 23*, p. 4; also see First High-Level Meeting of the Global Partnership for Effective Development Co-operation: Building Towards an Inclusive Post-2015 Development Agenda, (Consensus Draft of the Mexico HLM Communiqué, 16 April 2014)

2.18 The North-South Institute also referred to the emerging trend under the post-2015 MDG agenda to afford private partners greater input into international and national policy discussions on development co-operation:

Donors from Organisation for Economic Co-operation and Development (OECD) countries are increasingly looking to the private sector as a key partner for achieving sustainable development results. Private firms and foundations are seen as a source of innovation, expertise and finance to be harnessed in addressing development challenges. At the same time, private sector actors are playing an increasing role in their own right both as funders of development interventions and as important business partners. The private sector is also playing a greater role in international discussions on aid effectiveness and in the establishment of the post-2015 framework that will follow the Millennium Development Goals.<sup>24</sup>

2.19 The Partnership for Prosperity Initiative (P4P) emerged as a follow up to the Private Sector Building Block of the 4th High-Level Forum on Aid Effectiveness (HLF-4) in Busan.<sup>25</sup> According to P4P:

P4P is a multi-stakeholder platform that aims to leverage the role of the private sector to support poverty reduction and sustainable development. In the context of the current development landscape, the private sector, a powerful engine of economic growth, has become an increasingly indispensable development partner.<sup>26</sup>

2.20 Over the past decade, the growing engagement of the private sector in development initiatives has seen the formation of a number of global multi-stakeholder partnerships which aim to channel the experience and funding of the private sector to address global development problems. Chapters six and seven consider these partnerships in more detail.

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[www.effectivecooperation.org/wordpress/wpcontent/uploads/2014/04/ConsensusDraftoftheMexicoHLMDDeclaration.pdf](http://www.effectivecooperation.org/wordpress/wpcontent/uploads/2014/04/ConsensusDraftoftheMexicoHLMDDeclaration.pdf).

24 The North South Institute, *Exhibit 11, 'Investing in the Business of Development'*, pp. v-vii.

25 BMZ, *Submission 54*, p. 2.

26 According to the IFC website, in addition to Germany, donors supporting P4P include Canada, Japan, Korea, UK and U.S. Australia is not a member. Further information is available on Partnerships for Prosperity at [www.ifc.org/wps/wcm/connect/topics\\_ext\\_content/ifc\\_external\\_corporate\\_site/idg\\_home/p4p\\_home](http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/idg_home/p4p_home) viewed 15 February 2015.

## OECD's role in development

- 2.21 The OECD provides the forum for coordination of development assistance through its Development Assistance Committee (DAC). The committee is comprised of 29 major donor nations from among the 34 OECD members, coordinates OECD development activities and provides membership criteria and definitions for operation. The DAC has played a role in forging major international development commitments including the MDGs and the Paris Declaration on Aid Effectiveness.<sup>27</sup>
- 2.22 The DAC was previously composed of donors from developed economies. However, measures were introduced to engage major emerging economies commensurate to their growing contribution to global development activities. Brazil, India, Indonesia and South Africa have all participated in DAC consultations under this 'enhanced engagement' program. OECD membership now includes Mexico, Chile and Turkey.<sup>28</sup>
- 2.23 There is also an OECD initiative which promotes cross-country policy dialogue and knowledge sharing among OECD and non-OECD member countries on global value chains.<sup>29</sup>

## OECD donors—engaging the private sector

- 2.24 While many traditional donor programs remain grant based, OECD donors like the United States (US) and United Kingdom (UK) are increasingly looking for new ways to promote innovative financing and to foster entrepreneurial activity, private sector growth and inflows of private capital.<sup>30</sup>
- 2.25 International Financial Consulting contended that Australia needs to keep pace with other donors:
- Australia's peers offer the full range of financial products - loans, equity, and guarantees - to support private sector development in emerging markets. Examples include the UK (DfID and CDC), US

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27 OECD, Development Co-operation Directorate (DCD), Development Assistance Committee (DAC) <[www.oecd.org/dac](http://www.oecd.org/dac)> viewed 15 February 2015. For further information on the Paris Declaration see <[www.oecd.org/dac/effectiveness/34428351.pdf](http://www.oecd.org/dac/effectiveness/34428351.pdf)>. Australia is represented by its Ambassador and Permanent Representative to the OECD in Paris.

28 DCD-DAC, <[www.oecd.org/dac/developmentassistancecommitteedac.htm](http://www.oecd.org/dac/developmentassistancecommitteedac.htm)>; OECD DAC, 'Committee Statement, 6 April 2011 – Welcoming New Partnerships in International Development Co-operation', <[www.oecd.org/dac/47652500.pdf](http://www.oecd.org/dac/47652500.pdf)>; and OECD, 'Members and Partners', <[www.oecd.org/about/membersandpartners/#d.en.194378](http://www.oecd.org/about/membersandpartners/#d.en.194378)>, viewed 15 February 2015.

29 The Asia Foundation, *Submission 25*, p. 5.

30 DFAT, *Submission 21*, p. 2.



(USAID and OPIC), Germany (GiZ, KfW and DEG), France (ADF and Proparco), Japan (JICA and JBIC), Finland (Finnfund) etc.<sup>31</sup>

## Canada

- 2.26 An inquiry in 2012 by Canada's Parliamentary Standing Committee on Foreign Affairs and International Development led to the Canadian Government agreeing with the 14 recommendations,<sup>32</sup> which included that the then Canadian International Development Agency (CIDA):
- prepare a policy on the role of the private sector in development, pursue public-private partnerships and increase resources allocated to improving the business enabling environment and promoting foreign direct investment;
  - consider offering loans and utilising other financial instruments to enable private sector led, sustainable economic growth in developing nations;
  - ensure CIDA has the expertise to effectively engage with the private sector;
  - consider the natural resource sector, including their management in developing countries and the conduct of Canadian companies; and
  - improve access to financial services, including microfinance and lower the cost of sending remittances from Canada.<sup>33</sup>
- 2.27 The Canadian Minister referred the Committee to the Canadian Government's 2013 policy document, *Working with the Private Sector as Partners in Development*, and advised that:
- ...the Government has been actively exploring new tools that would enable it to partner more effectively with the private sector, in particular through innovative financing.<sup>34</sup>
- 2.28 The Canadian Minister also referred the Committee to three initiatives:

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31 International Financial Consulting, *Submission 89*, p. 3. Note: In April 2015, the Canadian Government announced its intention to establish a Development Finance Initiative within Export Development Canada, <[www.budget.gc.ca/2015/docs/plan/ch4-2-eng.html](http://www.budget.gc.ca/2015/docs/plan/ch4-2-eng.html)>, viewed 27 April 2015.

32 Canadian Minister for International Development, *Submission 150*, p. 1.

33 Parliamentary Standing Committee on Foreign Affairs and International Development, *Driving inclusive economic growth: the role of the private sector in international development. Report of the Standing Committee on Foreign Affairs and International Development, November 2012* <[www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5732913&Language=E&Mode=1&Parl=41&Ses=1](http://www.parl.gc.ca/HousePublications/Publication.aspx?DocId=5732913&Language=E&Mode=1&Parl=41&Ses=1)> viewed 15 February 2015.

34 Minister for International Development (Canada), *Submission 150*, pp. 1-2.

- ‘Partnership for Sustainable Impact Investing in Frontier Markets’ – a 15-year investment fund to raise up to \$400 million private equity investment to grow 250 small and medium enterprises (SMEs).<sup>35</sup>
- ‘Market-Based Solutions for Improved Livelihoods’ – provides working capital and skills training for women entrepreneurs in Ethiopia’s textile industry by working across the value chain, including with: farmers, handicraft textile producers, input suppliers and marketing services, financial services providers and relevant government organisations.<sup>36</sup>
- ‘Building collaboration for sustainable economic growth’ – partnering with Barrick Gold and World Vision Canada in Peru to: 1) build capacity and support the local government; and 2) support small business and improve access to micro-credit.<sup>37</sup>

2.29 In April 2015, the Canadian Government announced a Development Finance Initiative to be housed within Canada’s export credit agency, to provide a full suite of financial products to improve financing to firms in low and middle income countries. It is to have a ‘capital base that will grow to \$300 million over five years’.<sup>38</sup>

## Germany

- 2.30 The German Development Cooperation is implemented through technical cooperation by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and through financial cooperation by the Kreditanstalt für Wiederaufbau (KfW) banking group.<sup>39</sup>
- 2.31 Germany’s Federal Ministry for Economic Cooperation and Development (BMZ) has a ‘strong belief that ... making use of and leveraging the private sector’s potential (including actors like institutional investors, investment funds, etc.) is crucial for achieving development results’. BMZ also strongly recommended that the private sector should play an active role in the design as well as the implementation of a new post-2015 MDG development framework.<sup>40</sup>
- 2.32 The BMZ provided the following summary of its approach to private sector development:

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35 Minister for International Development (Canada), *Submission 150*, Attachment, p. 1.

36 Minister for International Development (Canada), *Submission 150*, Attachment, p. 1.

37 Minister for International Development (Canada), *Submission 150*, Attachment, p. 1.

38 Government of Canada, ‘2015 Budget’, <[www.budget.gc.ca/2015/docs/plan/ch4-2-eng.html#The\\_Development\\_Finance\\_Initiative](http://www.budget.gc.ca/2015/docs/plan/ch4-2-eng.html#The_Development_Finance_Initiative)> viewed 27 April 2015.

39 BMZ, *Submission 54*, p. 1.

40 BMZ, *Submission 54*, p. 2.

In pursuing the objective of strengthening the private sector in partner countries in the long term, BMZ's private sector development strategy is geared to helping partner countries put in place an enabling political, legal and administrative environment for private investment and to establish competitive and sustainable economic structures. Acknowledging the broad impact and particular vulnerability of micro, small and medium-sized enterprises (MSMEs) in both the formal and informal sectors in developing countries, this group constitutes the main target group in the private sector of partner countries.<sup>41</sup>

- 2.33 Examples of Germany's support for private sector development include:
- A program focused on improving business registration procedures in local and regional government units leading to a ten per cent increase of new investments in the respective locations.<sup>42</sup>
  - 'Responsible and Inclusive Business Hubs': The hubs assist companies and other stakeholders in the development and implementation of inclusive business models as well as in enhancing more sustainable business practices. They are located in South East Asia, Sub-Saharan Africa as well as the Middle East and North Africa regions.<sup>43</sup>
- 2.34 The German Government uses a number of instruments to leverage private sector finance. BMZ provided the following examples from KfW's portfolio:
- KfW corporate bonds issued at capital market, including thematic bonds focusing on microfinance;
  - financial system development in developing countries: refinancing private institutions - directly or via intermediaries, developing bond markets, mobilizing private savings;
  - establishing structure funds as an anchor investor.<sup>44</sup>

## New Zealand

- 2.35 Half of New Zealand's ODA is allocated to the Pacific region, and its program has:

...five priority themes based on improving economic well-being: human development outcomes; resilience and recovery from emergencies; governance, security and conditions for peace; and

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41 BMZ, *Submission 54*, p. 3.

42 BMZ, *Submission 54*, p. 4.

43 BMZ, *Submission 54*, p. 6.

44 BMZ, *Submission 54*, p. 1.

development outcomes through strategic partnerships with others.<sup>45</sup>

- 2.36 New Zealand focuses on three drivers of growth – agriculture, fisheries and tourism. The New Zealand Ministry of Foreign Affairs and Trade advised a parliamentary delegation that New Zealand was placing more emphasis on private sector partnerships in the aid program.<sup>46</sup>
- 2.37 The Solomon Islands Chamber of Commerce and Industry (SICCI) highlighted two NZAID funded initiatives: ‘Business Mentor New Zealand’; and ‘Train the Trainers Export Marketing and Quality Assurance’ program. These programs are supporting businesses across the Pacific to improve business practices, and increase product quality and distribution.<sup>47</sup>

## Sweden

- 2.38 A number of submissions highlighted the work of the Swedish International Development Cooperation Agency (SIDA), including:
- *Swedish Leadership for Sustainable Development*, a network with a membership of 20 plus leading companies with Swedish connections.<sup>48</sup>
  - *Innovations Against Poverty* initiative to stimulate and support sustainable business ventures through large and small grants for organisations based or operating in the world’s poorest countries.<sup>49</sup>
- 2.39 Accenture also noted the Swedish Government (with co-financing from Credit Suisse) is supporting the Asian Development Bank’s private sector department to do impact assessments and due diligence work on inclusive business models and promote knowledge sharing on this topic.<sup>50</sup>
- 2.40 Swedfund is the Swedish Government’s development finance institution.<sup>51</sup>

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45 Report of the Parliamentary Delegation to Vanuatu and New Zealand by the Senate Foreign Affairs, Defence and Trade References Committee, June 2014, p. 30.

46 Report of the Parliamentary Delegation to Vanuatu and New Zealand by the Senate Foreign Affairs, Defence and Trade References Committee, June 2014, p. 30.

47 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 14-15.

48 Accenture, *Submission 23*, p. 8.

49 Business for Millennium Development, *Submission 93*, p. 16. Citing <[www.businessinnovationfacility.org/page/about-us-about-innovations-against-poverty](http://www.businessinnovationfacility.org/page/about-us-about-innovations-against-poverty)> IAP, 2013. Also referred to by the North South Institute, *Submission 85*, p. 2; and in exhibits provided by this organisation.

50 Accenture, *Submission 23*, p. 7.

51 For more information see <[www.swedfund.se/en/about-swedfund/](http://www.swedfund.se/en/about-swedfund/)>.

## United Kingdom

- 2.41 The United Kingdom's Independent Commission on Aid Impact (ICAI) is expected to release a review, *'Business in Development' – DFID's work to stimulate private sector contributions in development*, in the first half of 2015.<sup>52</sup>
- 2.42 Examples of the UK Department for International Development's (DFID) approach to private sector development include:
- 'Making Markets Work for the Poor (M4P)'. According to the Springfield Centre, DFID is supporting over 40 different market systems development programs. These programs address the key constraints in market systems so that they work for poor consumers, producers and employees.<sup>53</sup>
  - 'Business Innovation Facility (BIF)', which, according to Business for Millennium Development, provided 'practical, hands-on advice and technical expertise to support companies to develop or scale up inclusive business models'.<sup>54</sup>
  - 'DFID Impact Fund'. Managed by the UK's development finance institution, the CDC Group, 'aims to provide finance to more than 100 enterprises in Sub-Saharan Africa and South Asia'.<sup>55</sup>

## United States

- 2.43 USAID's approach is considered best practice by many.<sup>56</sup> The then USAID Administrator, Mr Rajiv Shah, concluded his 2014 Annual Letter by reiterating USAID's views on how to reduce the number of people living in extreme poverty from 1.2 billion to 200 million by 2030:
- ... we need a new model of development that reflects the exciting realities of our time. That is why, four years ago, I asked a bipartisan congressional coalition to support an evidence-based transformation of our foreign assistance. By insisting on policy reforms, harnessing innovation, and leveraging private capital, we

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52 Terms of reference for the review are available at: <[www.icaei.independent.gov.uk/wp-content/uploads/2014/07/Business-in-Development-TORs.pdf](http://www.icaei.independent.gov.uk/wp-content/uploads/2014/07/Business-in-Development-TORs.pdf)> viewed 15 February 2015.

53 Springfield Centre, *Submission 67*, p. 4; The submission notes, in addition to DFID, key agencies supporting market systems development are the Swedish International Development Agency, the Swiss Agency for Development and Cooperation, USAID, the Gatsby Trust, the Wood Family Trust and the Consultative Group to Assist the Poor—of which DFAT is a member. See also DAI, *Submission 110*, p. 5; Accenture, *Submission 23*, p. 7.

54 Business for Millennium Development (BM4D) *Submission 93*, p. 16, see also Accenture, *Committee Hansard*, Canberra, 27 October 2014, p. 7; Accenture, *Submission 23*, p. 7; Overseas Development Institute, *Submission 51*, p. 5.

55 UK AID, The Impact Program <[www.theimpactprogramme.org.uk](http://www.theimpactprogramme.org.uk)> viewed 12 March 2015.

56 DFAT, *Submission 21*, p. 2; DAI, *Submission 110*, pp. 2–5; Save the Children, *Submission 38*, p. 9.

have found new ways to focus our resources and maximize our impact.<sup>57</sup>

- 2.44 USAID's *Global Development Lab* has been part of this change.<sup>58</sup> DAI described The Lab:

...on April 3 [2014] USAID launched the U.S. Global Development Lab, in which USAID and 32 'Cornerstone partners' - universities, corporations, foundations, and others - have come together to enhance the contributions that science and technology make to development, create a global hub of development innovation, and take these innovations to scale faster than was possible before.<sup>59</sup>

- 2.45 The Millennium Challenge Corporation (MCC) was created by the United States (US) Congress with strong bipartisan support. Its Board of Directors includes the Secretary of State, the Secretary of the Treasury, the US Trade Representative, the USAID Administrator and four private sector representatives.<sup>60</sup> The 2016 United States Budget referred to MCC:

Established by the Millennium Challenge Act of 2003, the [MCC] has the statutory goal of providing assistance to the poorest countries in the world to promote economic growth, eliminate extreme poverty, and strengthen good governance, economic freedom, and investments in people. Since its inception, MCC has signed 29 compacts and approved 25 threshold program agreements, totalling nearly \$11 billion.<sup>61</sup>

- 2.46 Examples of USAID public-private partnerships include:

- *Global Development Alliances (GDA)* – a model to develop public-private partnerships in operation since 2001.<sup>62</sup> Australian Trade and Development Business Network and the Institute for International Trade observed that:

Past experience demonstrates that the most successful GDAs are grounded in the mutually reinforcing relationship between core

57 USAID, Annual Letter 2014, <[www.usaid.gov/annual-letter](http://www.usaid.gov/annual-letter)>, viewed 15 February 2015.

58 USAID, 'About the U.S. Global Development Lab', <[www.usaid.gov/who-we-are/organization/bureaus/us-global-development-lab](http://www.usaid.gov/who-we-are/organization/bureaus/us-global-development-lab)>, viewed 15 February 2015.

59 DAI, *Submission 110*, p. 9; see also CSIRO, *Submission 147*, p. 2.

60 Millennium Challenges Corporation USA, 'About MCC' <[www.mcc.gov/pages/about](http://www.mcc.gov/pages/about)> viewed 6 March 2015.

61 US Government, 'Department of State and other international programs', <[www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/sta.pdf](http://www.whitehouse.gov/sites/default/files/omb/budget/fy2016/assets/sta.pdf)>, viewed 6 March 2015.

62 DAI, *Submission 110*, p. 6; Save the Children Australia, *Submission 38*, p. 9.

business interests (rather than purely philanthropic interests) and one or more of USAID's development objectives<sup>63</sup>

- *Strengthening Health Outcomes through the Private Sector*<sup>64</sup> – Abt JTA described the project aims:

... to increase the role of the private sector and, in particular, private health care providers in the sustainable provision of quality family planning, reproductive health, HIV, maternal and child health as well as other health products and services.<sup>65</sup>

2.47 Submissions also referenced two additional US agencies which provide financial products:<sup>66</sup>

- Development Credit Authority – provides loan guarantees for investors in more than 70 countries, providing over US\$3.1 billion in loan guarantees since 1999.<sup>67</sup>
- Overseas Private Investment Corporation (OPIC) – assists US companies to develop business operations and markets in countries of interest. OPIC supports investors with risk-management tools, including financing, guarantees, and political risk insurance...OPIC launched a program focusing on impact investment and over the past five years, more than \$2.4 billion in funding has been placed in impact investments.<sup>68</sup>

## Emergence of non-OECD donors

2.48 Countries such as China and India, both of which are now middle-income countries, are simultaneously recipients and providers of international aid.<sup>69</sup> The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide observed that:

China, India, South Korea and others, are spreading aid liberally in order to further their own economic and commercial diplomacy interests, allowing them access to new markets and resources,

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63 ATAB and IIT, *Submission 111*, pp. 25–26, citing USAID (2014) USAID and the Private Sector: Partnering for Impact Annual program statement.

64 Abt JTA, *Submission 5*, p. 5. Also discussed by Marie Stopes International, *Submission 33*, p. 11.

65 Abt JTA, *Submission 5*, p. 5.

66 ASPI, *Submission 112*, p. 4; Mr Runde, CSIS; *Submission 136*, p. 2; The Foundation for Development Co-operation, *Submission 78*, pp. 5–6.

67 Impact Investing Australia, *Submission 66*, p. 11.

68 Impact Investing Australia, *Submission 66*, pp. 11–12.

69 DFAT, *Submission 21*, p. 20.

often at the expense of other market participants, including Australia.<sup>70</sup>

2.49 As an indication of the scale:

- A recent study of China's investment in development assistance in the Pacific estimated that it had 'disbursed approximately \$US 850 million in bilateral aid to eight Pacific Islands between 2006 and 2011'.<sup>71</sup>
- The Australian Government's Export Finance and Insurance Corporation (Efic) noted that its risk-weighted assets are in the order of \$2 billion while China EximBank has in excess of \$100 billion.<sup>72</sup>

2.50 China's contribution to health in the region includes partnerships to address diseases such as tuberculosis with biotech companies in China and academic researchers, including those based in Australia.<sup>73</sup> The Burnet Institute stated:

...we launched a new biotech company Nanjing BioPoint Diagnostic Technology Ltd, with the help of Chinese investors and a Chinese Government start-up grant. The new enterprise will lead to increased scientific exchange between Burnet Institute researchers and Chinese counterparts, leading to further enhancement and development of new health technologies.<sup>74</sup>

2.51 China is also leading the establishment of the Asian Infrastructure Investment Bank. With 57 founding members including Australia, the bank will have an initial subscribed capital of US\$50 billion, with expectations that this will rapidly increase to US\$100 billion.<sup>75</sup>

2.52 Regional mechanisms including the Asia-Pacific Economic Cooperation (APEC), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP) and the Association for South East Asian Nations

70 The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide, *Submission 111*, p. 4.

71 M Dornan and P Brant, 'Chinese Assistance in the Pacific: Agency, Effectiveness and the Role of the Pacific Island Governments', *Asia and the Pacific Policy Studies*, Crawford School of Public Policy, ANU, p. 2.

72 Mr Andrew Hunter, Managing Director and Chief Executive Officer, Efic, *Committee Hansard*, Sydney, 7 November 2011, p. 3.

73 Mr Benedict David, Principal Sector Specialist for Health, Development Policy Division, DFAT, *Committee Hansard*, Canberra, 23 June 2015, p. 5. See also Professor Anderson, Deputy Director and Head, Office for Business Development, Innovation and Research, Burnet Institute *Committee Hansard*, Melbourne 15 August 2014, p. 60; Burnet Institute, *Submission 9*, p. 10; and Aeras, *Submission 29*, p. 2.

74 Burnet Institute, *Submission 9*, p. 10.

75 South China Morning Post, 57 nations approved as founder members of China-led AIIB, <[www.scmp.com/news/china/diplomacy-defence/article/1766970/57-nations-approved-founder-members-china-led-aiib](http://www.scmp.com/news/china/diplomacy-defence/article/1766970/57-nations-approved-founder-members-china-led-aiib)>, viewed 15 May 2015.



(ASEAN) all aim to build a better environment for private sector growth.<sup>76</sup> Recognising the importance of these forums, the Australian Government has appointed a resident ASEAN Ambassador.<sup>77</sup>

- 2.53 An example of a bilateral development program within the Indo-Pacific region is the Malaysia Technical Co-operation Programme, which provides capacity building assistance, including by supporting government officials from Pacific island countries. State owned Maybank (Malaysia) and PETRONAS have also invested in a number of least developed countries (LDCs). Further, private sector companies from Malaysia have made investments in Fiji, the Solomon Islands, Vanuatu and Papua New Guinea.<sup>78</sup>

## The contribution of global foundations

- 2.54 In addition to donor governments, the Australian Council for International Development suggested that the Australian Government look to philanthropic funds and their investments.<sup>79</sup> Global foundations are increasingly focusing on private sector capital as a vehicle for increased aid effectiveness:

Foundations seeking impact as a primary development goal see the private sector (markets and enterprises) as a vital route to scale social benefits, recognising that the complex problems they are endeavouring to solve (e.g. food security, provision of basic services such as health, or better jobs for youth), can be sustainably addressed through an increased focus on market creation, business thinking and commercial finance. They work systemically at policy and market levels to nurture the enabling environments that allow such enterprise-based solutions to flourish.<sup>80</sup>

- 2.55 The quantum of support of private foundations is now growing. For example:

The Gates Foundation's investments in 2012 totalled US\$3.4 billion, equivalent to 70 per cent of Australia's aid program. Philanthropy is also emerging from within developing

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76 Ministry of Foreign Affairs of Malaysia, *Submission 127*, p. 1.

77 The Hon Julie Bishop MP, 'First resident ASEAN Ambassador', <[foreignminister.gov.au/releases/Pages/2013/jb\\_mr\\_130918a.aspx?ministerid=4](http://foreignminister.gov.au/releases/Pages/2013/jb_mr_130918a.aspx?ministerid=4)>, viewed 3 June 2015.

78 Ministry of Foreign Affairs of Malaysia, *Submission 127*, pp. 1-2.

79 Australian Council for International Development, *Submission 52*, p. 12.

80 OECD, *Venture Philanthropy in Development Dynamics, Challenges and Lessons in the Search for Greater Impact Global Network of Foundations Working for Development*, 2014, p. 10.

countries. For example, Dato Sri Tahir, an Indonesian billionaire, has pledged US\$65 million from the Tahir Foundation to the Global Fund's next replenishment.<sup>81</sup>

- 2.56 While one of the most commonly cited private philanthropic foundations was the Bill and Melinda Gates Foundation, other international organisations include: the Clinton Foundation, Grameen Foundation, Omidyar Foundation and the Rockefeller Foundation.<sup>82</sup> In addition to their own work, foundations also provide financial and other support for global initiatives such as the Global Alliance for Vaccines and Immunisation, the Global Innovation Fund, and the Global Fund to Fight AIDS, TB and Malaria.
- 2.57 The Development Policy Centre provided the following observation on the role of Australian foundations in promoting development in the region:
- Australia is not replete with philanthropists wishing to invest in international development programs, though there are some, including the Harold Mitchell Foundation, a major benefactor of the Development Policy Centre. There have been occasional examples of philanthropic organisations co-investing with the Australian aid program in specific projects – the Myer Foundation co-funded the Australia-Indonesia BRIDGE School Partnership Project and more recently the Harold Mitchell Foundation has co-funded the Papua New Guinea Family and Sexual Violence Case Management Centre.<sup>83</sup>
- 2.58 The Development Policy Centre suggested that there were few Australian firms that operate substantial corporate aid programs.<sup>84</sup> However, an exception to this would be Australia's major mining, oil and gas companies. For example, the Oil Search Health Foundation is a sizeable investment by Oil Search Limited.<sup>85</sup> Programs such as these are discussed further in later chapters.

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81 DFAT, *Submission 21*, p. 20.

82 For example see: Impact Investing Australia, *Submission 66*, p. 2, p. 7 and p. 76; Results International Australia, *Submission 58*, p. 2; DFAT, *Submission 21*, p. 20; Springfield Centre, *Submission 67*, p. [4]; B4MD, *Submission 93*, p. 11 and p. 13.

83 Development Policy Centre, *Submission 103*, p. 27.

84 Development Policy Centre, *Submission 103*, p. 27.

85 Oil Search, *Submission 104*, pp. 3–13.

## The importance of donor coordination

- 2.59 It is in everyone's interest to have a peaceful and increasingly prosperous region, and for Australia to be part of facilitating processes to support this. As new donors emerge and strengthen their influence, particularly in Australia's immediate neighbourhood, the Committee encourages the Australian Government to ensure it remains part of 'the conversation'.
- 2.60 With membership of the Asian Infrastructure Investment Bank consolidating, and many non OECD emerging economies now being involved in OECD cross-country policy dialogues, the Committee urges the Australian Government to continue to identify new opportunities to build partnerships and share expertise with donors in the region.
- 2.61 However, there is also evidence of multiple donors contributing to similar projects with little communication. Drawing on its regional knowledge and expertise, the Australian Government is helping to address this and contributing to economic development by building the capacity of recipient governments to be able to better identify their development needs and effectively negotiate with donors.
- 2.62 Enhanced coordination of donor commitments and a sound understanding of evolving need across the Indo-Pacific region will maximise the impact of Australia's development efforts.

### Recommendation 1

The Committee recommends that the Australian Government:

- draw on the experiences of like-minded and similarly resourced bilateral donors in the development of new strategies and programs for working with the private sector, and explore opportunities for joint programs in these areas;
- build partnerships and share expertise with other donors, including non-traditional donors, with a view to consolidating and better coordinating Australia's aid effort in the Indo-Pacific region; and
- continue to strengthen Australia's involvement and representation of Australia's development interests at international and regional forums, including the OECD and ASEAN.

