

The private sector

- 3.1 This chapter explores the current and potential role of the private sector in accelerating the pace of economic growth and in reducing poverty in poor countries in the Indo-Pacific region.
- 3.2 In developing countries the private sector generates 90 per cent of the jobs, funds 60 per cent of all investments and provides more than 80 per cent of government revenues.¹
- 3.3 Martialling the enormous transformative power of the private sector has become a focus in international fora. The World Bank Group states:
- Ending poverty and boosting prosperity cannot be achieved without tapping the capital and creativity of the private sector to create jobs and generate economic growth. Private enterprises create nine out of every 10 jobs in developing countries. They spur innovation, produce the goods and services people need to improve their lives, and generate most of the tax revenue that governments need to provide essential services for their citizens.²

Defining the private sector

- 3.4 The Department of Foreign Affairs and Trade (DFAT) uses the term 'private sector' to refer to all privately owned commercial enterprises, including 'individual farmers and street traders, large locally-owned firms

1 Department of Foreign Affairs and Trade (DFAT), *Submission 21*, p. 1.

2 World Bank Group, *Submission 75*, pp. 5-6.

and multinational corporations', whether they be owned locally, by Australians or other overseas interests.³

3.5 The Australian Council for International Development's (ACFID) definition of the private sector included:

...those that operate in the informal economy and which can include: multinational companies; large domestic companies; micro, small and medium enterprise (MSME); business intermediaries and interlocutors; social enterprise; mutual organisations; and state owned enterprise.⁴

3.6 International Development Contractors (IDC) contended that the definition of the private sector in relation to development is not homogenous, and highlighted three sub-sectors:

- Private Sector Implementing Partners, or managing contractors, whose core focus is on development delivery, but 'are also employers in their own right, many being significant global and regional employers'.
- The Australian Private Sector for whom development may not be their core business.
- The Private Sector in the Australian aid program's priority regions.⁵

3.7 Coffey, when discussing the University of Queensland's involvement in the delivery of the Australia Awards–Pakistan program, suggested that the university could be seen as a private sector organisation in that delivery was done through its commercial arm – Uniquest.⁶

3.8 Professor Moran from the Sustainable Minerals Institute at the University of Queensland proposed that Australian universities working overseas are part of the private sector:

We work a lot to extend Australia's technology, knowledge and research and development globally through offshore collaborations. Perhaps what is not recognised immediately is that,

3 DFAT, *Submission 21*, p. 5 and p.11. Also see DFAT, 'Private Sector Development' <www.dfat.gov.au/aid/topics/development-issues/private-sector-development/Pages/private-sector-development.aspx>.

4 Australian Council for International Development (ACFID), *Submission 52*, p. 27; ACFID based its definition on that provided by the United Nations Development Programme 'Strategy for Working with the Private Sector', July 2012, p. 9.

5 International Development Contractors Australia, *Submission 11*, pp. 3–4.

6 Mr Sam Spurrett, General Manager – International Development (Asia-Pacific), Coffey, *Committee Hansard*, 1 December 2014, p. 6.

when a major university operates overseas in an entity, that entity will actually be a private sector entity.⁷

- 3.9 Similarly, Marie Stopes International has not-for-profit status in Australia, but classifies itself as part of the private health sector. While using a social business model, it suggested that the approach it employs for service delivery is more closely aligned with the commercial sector.⁸
- 3.10 The North-South Institute highlighted its view that private sector organisations 'have a core strategy and mission to engage in profit-seeking activities...operating in the formal and informal sectors'. The North-South Institute excluded independent foundations, non-government organisations and civil society organisations (including business associations).⁹
- 3.11 DFAT's submission also categorised businesses according to size:
- Microenterprises: The more than 80 million small farms, restaurants, crafts shops, market stands and other businesses launched by millions of poor people worldwide and supported by microfinance loans of between 50 and 10 000 dollars.
 - Small-medium sized enterprises (SMEs): Enterprises with between 10 and 100 employees that provide 78 per cent of formal employment in low-income countries.
 - Large enterprises and multinationals: More than 60 000 large national and multinational enterprises are critical contributors to investment, productivity and growth.¹⁰
- 3.12 The size of the business is often related to whether the business falls within a recognised system; that is, whether it is part of the informal or formal sector of an economy.

Formal and informal sectors

- 3.13 Almost half of all commercial activity in developing countries is in the informal sector and these enterprises are predominantly run by women.¹¹
- 3.14 According to the Asian Development Bank (ADB) Pacific Private Sector Development Initiative (PSDI) informal sector businesses are often in 'the agricultural or fishing sectors, selling their products in markets or at the roadside'. The ADB explained that in the informal sector transactions are

7 Professor Christopher Moran, Director, Sustainable Minerals Institute (SMI), University of Queensland, *Committee Hansard*, Brisbane, 11 August 2014, p. 10.

8 Marie Stopes International, *Submission 33*, p. 2.

9 The North-South Institute (NSI), *Exhibit 14*, 'Mapping Private Sector Engagements in Development Cooperation', pp. 9–10.

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

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

primarily cash-based, and involve ‘little investment in either physical or human capital’:

This brings with it heavy costs: informality traps participants in low wage, low productivity activities. Informality adds to economic distortions as participants do not adhere to regulations that have public good elements, such as health, safety, and product standards, and thereby have an advantage over their formal competitors.¹²

3.15 However, the International Women’s Development Agency challenged the conventional division between ‘private’ and ‘public’, ‘informal’ and ‘formal’. The IWDA suggested that when considering the role of the private sector in economic growth and reducing poverty, a holistic view that takes into account informal and unpaid work should be used.¹³

3.16 The IWDA cautioned against privileging the ‘formal’ economy, suggesting it ‘not only risks undermining the diverse, productive work that happens in local communities but is counter-productive’.¹⁴

3.17 The Centre for Social Change also advised against ‘rushing to shift people from the informal to formal economy,’¹⁵ and instead stressed initiatives that assist business development and complement rather than replace the informal activities:¹⁶

The informal economy provides a significant means of supporting livelihoods outside the cash economy, using community economies and subsistence agriculture, which allows people to have multiple avenues other than cash to support their livelihoods and does not erode their social networks, which are heavily relied upon and provide a good social safety net.¹⁷

3.18 Explaining the importance of not undermining traditional livelihoods, Dame Carol Kidu DBE, former Papua New Guinea (PNG) Member of Parliament, said:

Do not throw one baby out with the bathwater because sometimes that can inadvertently happen. The fact is that most Papua New Guineans, for a long time, probably will be basically in sustainable

12 Asian Development Bank (ADB) – Pacific Private Sector Development Initiative (PSDI), *Submission 87*, p. 5.

13 International Women’s Development Agency (IWDA), *Submission 122*, p. 5.

14 IWDA, *Submission 122*, p. 5.

15 Ms Carly Stephan, Program Manager, Centre for Social Change, *Committee Hansard*, Brisbane, 11 August 2014, p. 27.

16 Centre for Social Change, *Submission 106*, p. [3].

17 Ms Carly Stephan, Centre for Social Change, *Committee Hansard*, Brisbane, 11 August 2014, p. 27.

livelihoods, and we hope we can maintain sustainability, and that sometimes is difficult – not to sacrifice their traditional subsistence.¹⁸

- 3.19 The ADB PSDI noted there are many barriers to formality in the Pacific, and highlighted that '[n]either finance nor the legal systems are, in practice, accessible for many of the smaller businesses in the Pacific.'¹⁹
- 3.20 While suggesting that there are 'no neat lines between formal and informal economies', ACFID contended that supporting a transition from informal to formal economic activities should be a long-term goal. In addition, ACFID emphasised the vulnerabilities and lack of legal support available to those engaged in informal employment.²⁰
- 3.21 While the Committee notes that the informal economy plays an important role at the base of the pyramid, there are few if any protections for those working and operating a business in the informal sector.

Formal sector and formal employment

- 3.22 DFAT notes that from an individual and business perspective the formal sector generally offers 'better conditions for workers, as well as greater access to finance and easier access to services'. It also noted that large firms may offer higher quality jobs, better pay, and more stability than SMEs.²¹
- 3.23 From the overall economic development perspective, DFAT is of the view that '[f]ormalisation also makes it easier and more cost effective for governments to collect revenues from business'.²²
- 3.24 Vision 2020 suggested a benefit of formalisation is job creation and its flow-on effects:
- ...when people are employed and have stable incomes, they have the ability to purchase more, and this creates demand, which in turn creates more jobs.²³
- 3.25 The Department of Industry²⁴ summed up the benefits both for the developing country and what it can mean for Australia:

18 Dame Carol Kidu DBE, *Committee Hansard*, Canberra, 3 February 2015, p. 6.

19 ADB PSDI, *Submission 87*, p. 5.

20 ACFID, *Submission 52*, p. 7.

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

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

23 Vision 2020 Australia, *Submission 34*, p. 4.

24 Following Machinery of Government changes in December 2014, now known as the Department of Industry and Science.

Growth in real jobs and the formal economy in these countries add to economic self-reliance and further expand trade opportunities for Australia.²⁵

Business structures supporting the transition to the formal sector

3.26 In its submission, the ADB PSDI noted recent reforms in the Pacific, which have simplified business formation making it accessible to poor men and women, include:

- enabling businesses to incorporate a company quickly and at a relatively small cost;
- making formality far simpler for small businesses through the introduction of single shareholder/single director companies;
- providing a corporate form for village and community businesses that is easy to establish and which provides a superior vehicle for the receipt of profits or revenues from royalties through the establishment of community companies.²⁶

Co-operatives

3.27 Dr Danielle Logue suggested there may be a resurgence of interest in co-operatives, which have 'an already readily available and understood legal form and structure'; and said:

I think it is reflective, too, of a movement that is focused far more on collaboration, crowdfunding and crowdsourcing of ideas. There are platforms, such as OpenIDEO, which use design thinking but sources of expertise from communities all over the world. That collaborative nature of problem solving is going to be reflected in placing that cooperative form back on the agenda.²⁷

3.28 The Business Council of Co-operatives and Mutuals (BCCM) outlined the foundation of co-operatives as far back as 1864, when what is now Rabobank moved from a charitable foundation to a farmers' bank. BCCM reiterated the principles of self-reliance over charitable aid remain the same, and espoused the advantages of the co-operative model of business:

As a distributive model of business, it builds community wealth through its cyclical reinvestment of profits. It is a self-help model. It is based on principles of democracy, transparency, ethical values and economic participation. It builds the community skills of resilience and economic management over time. It is not grant

25 DFAT, *Submission 21*, Attachment D – Annexure to DFAT Submission – Department of Industry, p. 71.

26 ADB PSDI, *Submission 87*, p. 5.

27 Dr Danielle Logue, Senior Lecturer, University of Technology Sydney, *Committee Hansard*, Sydney, 20 August 2014, p. 6.

dependent; it is looking for market based initiatives for the ongoing sustainability and strong commercial focuses of the enterprises. Therefore, it reduces, over time, the focus or reliance on funding or aid.²⁸

3.29 As an organisation that supports co-operatives, Fairtrade recommended 'the strengthening of producer and worker organisations':

...we see strength in cooperatives, which brings these tiny little farmers, who are often on tiny pieces of a hectare, together in democratic institutions that can cooperate and support each other. They train women, they develop management skills and [build] democracy...Even if a woman cannot vote in her country she gets to vote on how that premium money is spent.'²⁹

3.30 The Committee heard a range of evidence suggesting that larger, formal businesses are often more able to overcome the challenges associated with operating in developing countries. Business structures, such as cooperatives, that support smaller businesses to come together and join the formal sector help to give them this same advantage.

3.31 The Committee endorses the work underway through the ADB PSDI, whereby the Australia Government is supporting the creation of legal frameworks which allow for the establishment of companies with innovative and simplified governance arrangements.

Peak bodies and business representatives

3.32 The Minister for Foreign Affairs stated:

Australia's economic diplomacy assets are not exclusive to government. Economic diplomacy naturally includes our business and private sector community, particularly SMEs, but also think tanks, NGOs, and individuals - artists, actors, athletes and more.³⁰

3.33 Peak bodies, business networks and representative organisations play a role in engaging and representing the private sector creating an important link in economic diplomacy.

3.34 The following list of Australian-based representative bodies that provided evidence to the inquiry gives a sense of their role and reach:

28 Ms Melina Morrison, Chief Executive Officer, Business Council of Co-operatives and Mutuals (BCCM), *Committee Hansard*, Sydney, 20 August 2014, p. 9.

29 Ms Molly Harriss Olson, Chief Executive Officer, Fairtrade Australia and New Zealand, *Committee Hansard*, Canberra, 29 August 2014, pp. 37-38.

30 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'Australia's economic diplomacy: our prosperity, global prosperity', *Speech*, delivered 18 August 2014.

- Minerals Council of Australia has over 100 members and associate members involved in exploration, mining, mineral processing and the supply of services that enable these activities to be carried out effectively and sustainably.³¹
- Business Council of Cooperatives and Mutuals represents the sector of cooperative and mutual member based businesses – some 1,600 businesses with more than 13 million memberships.³²
- Australia-Pacific Islands, Australia-Fiji and Australia-PNG Business Councils were formed to promote trade and investment as well as acting as a channel for business to communicate with governments. The Councils are supported by businesses, large and small, who are active in the respective regions.³³
- Australia-Africa Business Council is an association of business people promoting multilateral trade and investment links between Australia and Africa. In addition to liaising with Australian and African country government agencies, the Council runs seminars and trade missions as well as providing trade information and research.³⁴
- International Development Contractors represents 23 private sector implementing partners ranging from SME's to some employing upwards of 50,000 employees. IDCs manage upwards of 20 per cent of the Australian aid budget.³⁵
- TAFE Directors Australia is the peak body for the 58 TAFE institutes, variously known as institutes, polytechnics and public providers.³⁶ In addition, 37 institutes have partnerships in 32 countries, delivering over 500 courses to more than 50,000 students.³⁷
- ACFID has 129 members and eight affiliates operating in more than 100 developing countries, many of whom are actively engaging with the private sector for development outcomes, both within Australia and developing countries.³⁸

31 Minerals Council of Australia, 'About the MCA' <www.minerals.org.au/corporate/about_the_mca/mca_member_companies> viewed 6 March 2015.

32 Ms Melina Morrison, Business Council of Cooperatives and Mutuals (BCCM), *Committee Hansard*, Sydney, 20 August 2014, p. 9.

33 Australia Pacific Islands Business Council, *Submission 91*, p. 1; Australia Fiji Business Council, *Submission 92*, p. 1; Australia Papua New Guinea Business Council, *Submission 71*, p. 1.

34 Australia Africa Business Council (Victoria), *Submission 30*, pp. 7-9.

35 International Development Contractors Australia, *Submission 11*, p. 2.

36 TAFE Directors Australia, *Submission 32*, p. 1.

37 Mr Peter Holden, Director International Engagement, TAFE Directors Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 52.

38 ACFID, *Submission 52*, p. 3.

- 3.35 There are also non-government representative bodies operating throughout the region, providing similar services. The Committee received useful evidence from the Solomon Islands Chamber of Commerce and Industry, Kiribati Chamber of Commerce and Industry, and the Manufacturers Association of Tonga.³⁹
- 3.36 Representative bodies such as those listed may be not-for-profit, but their members, sponsors, board members and/or clients are often private sector participants and bring this expertise with them. ACFID,⁴⁰ Abt JTA,⁴¹ and GHD⁴² all supported business councils as a way to engage the private sector.
- 3.37 The Committee considers it essential that the Department of Foreign Affairs and Trade develop and maintain close, consultative relationships with both Australian and international peak bodies, business networks and representative organisations. Doing so will improve understanding between sectors, and provide an opportunity to harness collective knowledge.

The private sector's role in development

- 3.38 The private sector varies in size, ownership, and legal structure. Save the Children Australia referred to the UN Global Compact's model of the reconceptualization of business (see Figure 3.1).⁴³ The model outlines the ways in which businesses may engage in social investments along a continuum from activities related to core business through to those that are undertaken with little or no expectation of financial return.⁴⁴

39 See *Submissions 123, 26 and 3* respectively.

40 Mr Marc Purcell, Executive Director, ACFID, *Committee Hansard*, Canberra, 14 July 2014, pp. 1-2.

41 Dr Jane Thomason, Chief Executive Officer, Abt JTA, *Committee Hansard*, Brisbane, 11 August 2014, p. 20.

42 GHD, *Submission 117*, p. 3.

43 Save the Children Australia, *Submission 38*, pp. 5-6.

44 UN Global Compact, 'Discussion Paper: The reconceptualization of business' 2012, < www.unglobalcompact.org/resources/176 > viewed 6 March 2015.

Figure 3.1 Organisational continuum



Source UN Global Compact—Discussion Paper: *The reconceptualization of business*

- 3.39 Save the Children Australia noted that philanthropy is an important way for businesses to contribute to development. It also suggested that harnessing the power of the private sector through business models that link commercial returns with social responsibility in a scalable and sustainable way could lead to greater impact.⁴⁵

Core business and development support

Core business

- 3.40 In describing the purpose of businesses, the Development Policy Centre contended that '[j]ust as donors exist mainly to spend money, firms exist mainly to make it'.⁴⁶
- 3.41 Regardless of the size or structure of the business, it needs to remain viable. Ernst and Young asserted that profit ensures sustainability:
- If you do not have profit, how are you going to continue? I think that is one of the problems we have had with our aid dollar in the past...If you have got profit, you have got sustainability; no profit, you just have to keep pouring the money in.⁴⁷
- 3.42 This need for sustainability is key, regardless of the size, structure, legal status or sector of the business, and as Ernst and Young observed:
- ...most people in agriculture or farming want to see a better life for themselves or their children, so the drive is for that entrepreneurial activity and the profit motive and return on investment from their labour.⁴⁸

45 Save the Children Australia, *Submission 38*, p. 5.

46 Development Policy Centre, Australian National University, *Submission 103*, p. 22.

47 Professor Stephanie Fahey, Lead Partner, Ernst and Young, *Committee Hansard*, Canberra, 29 August 2014, p. 24.

48 Mr Mark Nixon, Partner, Ernst and Young, *Committee Hansard*, Canberra, 29 August 2014, p. 23.

3.43 ActionAid Australia reflected on the profit motive in delivering aid:

...[a]ny private sector engagement in development will be based on the motive of securing benefits for the company. This is a significant difference to non-profit sector delivery of aid...⁴⁹

3.44 Likewise, AID/WATCH argued that:

...the profit motives of the private sector are inconsistent with the delivery of effective, targeted aid and reconciling ethical practices with the pathway towards profit is an existing challenge which is far from being resolved.⁵⁰

3.45 However, the Australian Trade and Development Business Network and Institute for International Trade at the University of Adelaide stated that there was 'a lack of understanding about the motives and priorities of the private sector' within the aid sector:

The private sector is seen as profit driven and therefore generally incapable of effective and sustained poverty reduction activities as its core business is profit maximisation not poverty reduction...On the other hand, factors that traditionally drive the private sector to engage in activities that alleviate poverty are brand, trust and reputation, personal commitment and employee engagement and recruitment.⁵¹

3.46 The Business for Social Responsibility submission reflected on the market drivers underpinning the shift toward the private sector to 'maximise local benefits and 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, 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.⁵²

49 ActionAid Australia, *Submission 42*, p. 3.

50 AID/WATCH, *Submission 44*, p. [1].

51 Australian Trade and Development Business Network and Institute for International Trade at the University of Adelaide, *Submission 111*, pp. 16–17.

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

Responsible business for development and poverty reduction

3.47 Professor Peter Shergold, Chair of the New South Wales Social Investment Expert Advisory Group, referred to the evolution of corporate social responsibility, noting its genesis within the corporate sector beginning to embrace triple bottom line reporting 20 years ago.⁵³ The triple bottom line ‘tracks a company’s social and environmental impact alongside financial performance’.⁵⁴

3.48 Professor Shergold noted that over the years, first triple bottom line, and now environment, social and governance (ESG), reporting has gained widespread acceptance:

So investment houses now quite regularly will look at the environment, social and governance issues of the companies in which they are investing. By the turn of this century, triple bottom line reporting had evolved into corporate citizenship or, more generally, corporate social responsibility. In other words, companies were investing more in doing good, in the belief that it was good for business.⁵⁵

3.49 There is much evidence suggesting that the incentives for business are changing. Transparency International noted that businesses are competing ‘not only with goods and services, but also with their reputation’:

Businesses face pressure from their stakeholders (e.g. customers, investors, export credit agencies), to adopt, implement and monitor good anti-corruption practice standards to avoid the risks of losing business, encountering operational constraints and falling share prices. They must also adhere to laws and regulations in order to avoid the risks of fines, civil damages, loss of license to operate and, imprisonment.⁵⁶

3.50 As demands increase for businesses to demonstrate socially responsible business practices, requirements for reporting by businesses on non-financial outcomes are increasing. Collabforaction noted that:

...it has been mandatory in South Africa since 2010 for any companies listed on Johannesburg Stock Exchange (JSE) to produce an integrated report; in 2014, the ASX Corporate Governance Principles were updated to include mandatory

53 Professor Peter Shergold, Chair, New South Wales Social Investment Expert Advisory Group, *Committee Hansard*, Sydney, 7 November 2014, p. 11.

54 United Nations Development Programme – Istanbul International Center for Private Sector in Development, *Exhibit 40, ‘Barriers and Opportunities at the Base of the Pyramid’*, p. 6.

55 Professor Peter Shergold, *Committee Hansard*, Sydney, 7 November 2014, p. 11.

56 Transparency International, *Submission 41*, p. 9.

disclosure of material environmental and social risks; and also in 2014 the European Parliament adopted the directive on the disclosure of non-financial and diversity information with companies now required to report on environmental, social and employee-related, human rights, anti-corruption and bribery matters, and to describe their business model, outcomes and risks relating to these topics.⁵⁷

Demonstrating responsibility for social development outcomes

3.51 While acknowledging that 'producing sustainable returns for their shareholders remains a priority', Carnival Australia explained its commitment to social responsibility:

To us, sustainable management means remaining a strong and successful business that fulfils our obligations as a responsible employer, business partner, customer and neighbour in the Pacific Islands. It means operating as a responsible citizen in a global community in a way that minimises our environmental footprint and delivers positive benefits to the communities where we operate.⁵⁸

3.52 As one of the very early entrants, Oil Search Limited was established in PNG in 1929, and continues today with its aim to be 'a leader in delivering sustainable development':

To support Oil Search's current growth plans, it is vital to have a robust sustainability approach that is embedded in day-to-day operations.

...

Oil Search's activities address key sustainability issues, notably transparency, good governance, community development and health care.⁵⁹

3.53 Understanding and adhering to domestic laws and respecting local customs supports businesses' reputation and provides the social licence to operate. According to ACFID, a company's corporate social responsibility program can support its social licence to operate:

They want to be seen to be doing good in the community. That is part of what gives them the ability to work in that community on a whole range of things that they do.⁶⁰

57 Collabforaction, *Submission 80*, p. 4.

58 Carnival Australia, *Submission 65*, pp. [1-2].

59 Oil Search Limited, *Submission 104*, pp. 1-2.

- 3.54 One of the world's largest diversified resource companies, BHP Billiton outlined its multifaceted investment and community support in its submission. BHP Billiton advised of its development work through the following activities:
- Core business activities: large taxpayer; direct and indirect employer; extensive supply chains.
 - Social investment: voluntarily invests one per cent of pre-tax profits in community programs on a three year rolling average, including cash, in-kind support and administration.
 - Broader national and international public policy engagement: the B20 Trade Taskforce (co-chaired by BHP Billiton's CEO), the B20's anti-corruption working group, the OECD's Policy Dialogue on Natural Resource-based Development and through its seat on the Governing Board of the Extractive Industries Transparency Initiative (EITI).⁶¹
- 3.55 The Overseas Development Institute (ODI) commended Australian private sector investment in the Indo-Pacific as a means of transferring expertise and promoting international reporting standards:
- They can also be an efficient method of promoting effective Environmental, Social and Governance (ESG) standards in developing countries, using both a bottom up (for small scale partnerships) and top-down approach (by implementing standards through supply chains).⁶²
- 3.56 However, ODI noted that it is not yet known whether this 'lead[s] to wider uptakes of improved sustainability and labour standards at the national level'.⁶³
- 3.57 In addition to business-initiated actions, there are others actively working to promote the uptake of ESG standards. Oxfam Australia and World Vision Australia argued that their advocacy work in Australia builds consumer demand for companies to be more accountable and to adopt ethical business practices.⁶⁴
- 3.58 Companies can demonstrate commitment to responsible practises through certification of products by an independent body. A widely recognised product certification is the Fairtrade Mark. Fairtrade is an organisation

60 Ms Joanna Pradela, Head of Policy, Aid and Development Effectiveness, ACFID, *Committee Hansard*, Canberra, 14 July 2014, p. 6.

61 BHP Billiton, *Submission 128*, pp. 2-3.

62 Overseas Development Institute (ODI) *Submission 51*, p. 2.

63 ODI, *Submission 51*, p. 2.

64 Ms Daisy Gardner, Corporate Accountability and Fair Trade Adviser, Oxfam Australia; and Mr Christopher Rowlands, Manager, Social Entrepreneurship and Economic Development Unit, World Vision Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 16.

that provides independent certification of the supply chain, guaranteeing consumers the product has met the internationally-agreed social, environmental and economic Fairtrade standards.⁶⁵

Demonstrating responsibility—supply chains

3.59 A supply chain includes ‘the network of entities that plan, source, fund, and distribute products and manage associated information and finances from the beginning of the process with manufacturing through transportation and warehousing and to the service delivery points’.⁶⁶

3.60 Many companies are seeing the longer term benefits of investing in responsible practices along supply chains:

The business case for engagement is increasingly becoming a bigger factor than good corporate citizenship. Supply chains invariably connect developed countries to developing countries. Therefore, ensuring the longevity of a business necessitates investing in its supply chain and downstream players to ensure the continuity of supply and innovation, guarantee ethical standards and minimize negative impacts and risk management.⁶⁷

3.61 BHP Billiton highlighted the ‘emergence of global supply chains as a driver of local private sector expansion and large scale employment in developing countries’, and noted that:

BHP Billiton recognises the potentially transformative impact of well designed supply chains in developing countries, and accordingly requires its businesses to develop and implement local content and procurement plans.⁶⁸

3.62 Likewise, growing local business provides an opportunity to build local supply chains. Chevron identified local supply chain development as a catalyst for broader economic growth:

It is good for our business to have local suppliers that can serve our needs. It is in our interest to spend the time to qualify them. By doing so, we are developing local business that can produce to international standards and codes of conduct. We have seen these suppliers, grow from serving us, to others in our industry to other industries.⁶⁹

65 Fairtrade Australia and New Zealand, *Submission 7*, pp. 3-4.

66 Marie Stopes International, *Submission 33*, p. 5.

67 NSI, *Exhibit 12*, ‘Trade-Related Private Sector Partnerships: Understanding the Models’, Policy Brief February, 2013, p. [2].

68 BHP Billiton, *Submission 128*, p. 4.

69 Chevron Australia Pty Ltd, *Submission 39*, p. 5.

- 3.63 Procurement relationships between international companies and local business can be used as a capacity building opportunity ‘to bring good management practices, impose high standards for operating, and transfer skills and knowledge through the supply chain’.⁷⁰
- 3.64 According to BHP Billiton, global supply chains ‘allow businesses to take advantage of the best ideas, people and products from around the world’.⁷¹ Chevron noted they also provide opportunities for local business to develop expertise:
- As local businesses grow, the positive economic ripple effect continues and multiplies. Local businesses that can produce to international standards are in a good position to participate in opportunities presented by trade agreements, further accelerating economic progress. Importantly, these local supply chains can then drive economic change beyond Chevron’s direct business opportunities.⁷²
- 3.65 In its submission, Oxfam Australia concurred that benefits may be realised through international supply chain practices by large multinational enterprises.⁷³ However, it also cautioned that while international companies may be applying good practices within their own organisations, they need to be alert to potential supply chain risks where labour can be exploited.
- 3.66 Oxfam Australia highlighted Kmart and Target’s rapid and appropriate response to the Bangladesh Rana Plaza collapse; they were the first to sign on to the Bangladesh safety accord for the clothing and textile industry and are demonstrably embracing supply chain transparency.⁷⁴
- 3.67 Oxfam Australia explained how the changing global landscape may impact on advocacy for ethical supply chains management:
- ...in terms of middle-income countries and a growing consumer middle class in those countries – the BRICSAM countries. There are growing civil society groups in a number of those countries and also a growing number of consumers, and we think that will be a space to watch in the future in terms of citizens really holding companies and corporations to account in their own countries as

70 Chevron Australia Pty Ltd, *Submission 39*, p. 4.

71 BHP Billiton, *Submission 128*, p. 5.

72 Chevron Australia Pty Ltd, *Submission 39*, p. 5.

73 Oxfam Australia, *Submission 72*, p. 16.

74 Ms Daisy Gardner, Corporate Accountability and Fair Trade Adviser, Oxfam Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 15.

well as citizens from countries like Australia being interested and involved in corporate practices in countries.⁷⁵

- 3.68 The Committee recognises that a number of Australian and multinational companies have made extensive efforts to improve international supply chain practices. However, more can be done to help developing country private sectors seize economic opportunities including through initiatives to foster local job creation, linking micro, small and medium sized enterprises to supply chains, particularly in sectors where women and marginalised groups participate.
- 3.69 The Australian Government can assist new market entrants by providing country-specific information on human rights, labour, environment and corruption conditions. Many companies are looking for the Australian Government to promote and support more ethical business approaches to supply chain challenges across the Indo-Pacific region.
- 3.70 As the potential end-buyer of products sourced in the region, Australian consumers can also play a role in driving improvements across the supply chain all the way back to the small holders and individuals in developing countries by preferring ethically and sustainably sourced products. Projects that support better labelling information and education about the supply chain enable consumers to make informed choices, which can ultimately influence company purchasing practices.

Recommendation 2

The Committee recommends that the Australian Government:

- partner with countries in the Indo-Pacific region to promote ethical business approaches to supply chain challenges;
- support and facilitate opportunities which foster the participation of low income men and women in supply chains; and
- through its web-based information systems, communicate to the public information about Australian-funded ethical supply chain development and outcomes.

⁷⁵ Ms Daisy Gardner, Oxfam Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 16.

Corporate philanthropy

- 3.71 The private sector may also support development through philanthropic activities. These activities may be entirely unrelated to a business' core functions or the community in which a business operates. Philanthropy can include financial contributions or in-kind contributions such as human resources, supplies or equipment.
- 3.72 Not all philanthropic projects that involve the private sector are started with the intention to becoming self-sustaining or ultimately achieve a profit. In the case of the East Timor Eye Program (ETEP) it was established to address a significant backlog of need in a country coming out of a long period of conflict. The program was established with the support of the Australian Government and the Royal Australasian College of Surgeons.⁷⁶
- 3.73 The ETEP is managed by the College, and supported by numerous corporate, community and individual donors. In the longer term, it is hoped that through training programs these activities will be localised; however, at this stage the program relies on government support, volunteers and in-kind donations to continue operating:
- Most of us donate that time for nothing. And on the equipment side of it we can usually go to companies and say, 'We want this,' and they will give it to us because it is for a great need and the companies are only too willing to help.⁷⁷
- 3.74 In its submission, World Vision Australia described how companies have partnered with it by donating program resources or 'gifts in kind':
- World Vision Australia is the leading recipient of donations of this kind, with non-pharmaceutical donations from Australian businesses worth \$7 million last financial year. Where there is an identified need for resources, World Vision Australia works with our partners in the field to distribute them as part of existing programming. For example, World Vision receives fabrics – including upholstery fabric – from several Australian businesses, which World Vision distributes to vocational schools we already partner with, allowing students to develop valuable skills. World Vision's gifts in kind program incorporates best practice standards that consider quality, safety, cultural appropriateness and the impact resources might have on local markets.⁷⁸

76 Dr William Glasson, Advisory Board, East Timor Eye Program (ETEP), *Committee Hansard*, Brisbane, 11 August 2014, p. 38.

77 Dr William Glasson, ETEP, *Committee Hansard*, Brisbane, 11 August 2014, p. 41.

78 World Vision Australia, *Submission 36*, p. 5.

3.75 The Fred Hollows Foundation submitted that philanthropists (and investors) are looking to achieve greater impact from their contributions and suggested there is likely to be increasing interest in 'impact investing'.⁷⁹ Expanding on this, Impact Investing Australia observed:

If we took the whole corpus of the Gates Foundation and gave it away, you could give every person living in extreme poverty \$10. That is another five days at \$2 a day. There is not enough money between the government funding and the philanthropic dollars, even together, to shift the issues that are going to take trillions of dollars, and to shift them in ways where we create different futures for those countries. That is why we think this conversation is important.⁸⁰

3.76 Both Impact Investing Australia and Impact Investment Group agreed that impact investing is complementary rather than a replacement for philanthropy.⁸¹ Mobilising finance for businesses and development outcomes, including through impact investing, is discussed in chapter eight.

Social licence

3.77 Understanding and adhering to domestic laws and respecting local customs supports and grows businesses' reputation and helps a company obtain the social licence to operate through the goodwill generated for the government and in the local community.

3.78 ACFID suggested that a company's corporate social responsibility program can support its social licence to operate:

They want to be seen to be doing good in the community. That is part of what gives them the ability to work in that community on a whole range of things that they do.⁸²

3.79 Oil Search, PNG's largest investor, tax payer and oil producer, takes the view that growing the business goes hand in hand with its commitment to 'putting something back into the broader PNG community':

Securing local support and understanding for our business operations is fundamental to the Oil Search way of doing business.

79 The Fred Hollows Foundation, *Submission 14*, p. 3.

80 Ms Rosemary Addis, Co-founder and Executive Chair, Impact Investing Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 39.

81 Ms Sandy Blackburn-Wright, Co-founder, Impact Investing Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 59; Ms Jessica Roth, Impact Investment Group, *Committee Hansard*, Sydney, 7 November 2014, p. 46.

82 Ms Joanna Pradela, Head of Policy, Aid and Development Effectiveness, ACFID, *Committee Hansard*, Canberra, 14 July 2014, p. 6.

It forms an important part of Oil Search's operating strategy as it builds and maintains the Company's social licence to operate.⁸³

3.80 Oil Search explained why it considers it has a social obligation as a major PNG company to assist the government and support the community:

The reality of Papua New Guinea is that we do have a very substantial resource business. We do have, and are producing, very substantial revenues. The private sector must help both the national government and the provincial governments to facilitate the service delivery. Without that help, frankly, you will see social dislocation. You will see disenchanting local people sitting outside the gate of a large gas field where billions of dollars of revenues are happening.⁸⁴

...

[T]here are very significant expectations within the community about the provision of hospitals, schools, roads, good health centres, power – you name it. Without addressing those and without significant progress on them, we will not have a business in five years' time.⁸⁵

3.81 Aspen Medical, a global health care provider, noted that its private sector activities are often the catalyst for philanthropy. Aspen suggested it made 'good business sense' through creating strong community relationships.⁸⁶ Aspen put forward its view that a 'for profit company should utilise its resources such as financial, labour and advocacy to participants within the community in which it works'. Aspen noted it has achieved this through:

- employee incentives to give and volunteer, including a program to support overseas volunteer placements;
- the Aspen Foundation, with a percentage of company profits and employee donations supporting health-related initiatives;
- supporting people with disabilities as both an employer and supporter of the Special Olympics;
- local community engagement with a focus on employment and education programs; and

83 Oil Search Ltd, *Submission 104*, pp. 1–2.

84 Mr Peter Botten CBE, Managing Director, Oil Search Ltd, *Committee Hansard*, Canberra, 29 August 2014, p. 2.

85 Mr Botten CBE, Oil Search Ltd, *Committee Hansard*, Canberra, 29 August 2014, p. 1.

86 Aspen Medical, *Submission 102*, p. 5.

- investing in social businesses through seed funding/philanthropy, impact investing and catalytic investment.⁸⁷
- 3.82 Cargill Australia also highlighted its long standing commitment to the region both through core business activities and social investment. Its first office in the region was opened in the Philippines in 1948, and since then it has been helping communities to thrive by:
- ...investing, working with farmers to help them produce more sustainably, providing community services like public schools and medical clinics, transferring ... best practices and delivering nutritious food to the malnourished.⁸⁸
- 3.83 The Australia and New Zealand Banking Group Limited (ANZ) emphasised the benefit of its long-term engagement in developing the trust of governments and other institutions:
- Ultimately, these are sovereign governments and they will make their decisions, but being on the ground – we have been in PNG for 100 years as a bank. We are a large bank in PNG and have some influence through both the government and the institutions there, and we are seen to be working for the country, so I think it helps a lot to be on the ground and working for the country.⁸⁹
- 3.84 Highlighting its work globally with the private sector, CARE Australia advised that its work with corporate partners has helped to deliver significant benefits including ‘ensuring a continuing social licence to operate’.⁹⁰
- 3.85 Global development management firm, GRM Futures Group, noted increasing demand for advice and capacity building on how to improve the businesses’ social and developmental impact. GRM proposed taking a ‘comprehensive approach to social licence’, and provided the following example:
- ...in realising the potential wealth that mineral resources promise, extractive resource companies need to ensure key stakeholders...see value in any extraction proceeding. Resource companies typically tend to focus on community programs around the resource site to sustain their operations...We are increasingly experiencing firms in the extractives sector asking us to help them

87 Aspen Medical, *Submission 102*, pp. 2-3.

88 Cargill, *Submission 64*, p. 2.

89 Mr Graham Hodges, ANZ, *Committee Hansard*, Melbourne, 15 August 2014, p. 26.

90 CARE Australia, *Submission 43*, p. 2.

identify and craft opportunities that improve their business performance and generate social impacts.⁹¹

Inclusive business models

3.86 Save the Children Australia noted that as ‘there is often no profit in going to the hardest to reach people or places’, there is a role for both the private and public sectors.⁹² An example of the private and public sectors working together is the partnership between the Australian Government and Carnival Australia, the Pacific region’s largest cruise tourism operator.⁹³

3.87 From another perspective, World Vision Australia saw part of the NGOs role as assisting the very poor or non-profitable segments of the market to become viable:

...to understand very simple things like profitability, costs of production, market segments and analysing markets to be able to help them engage in ways that are more beneficial so that, as the economy does move, they are able to move with it, and it is an inclusive growth, not a growth that creates greater inequality.⁹⁴

3.88 Business for Millennium Development (BM4D) referred to the evolution of the inclusive business model, which uses market forces to ensure growth is pro-poor. BM4D observed that inclusive business contrasts with conventional philanthropic and Corporate Social Responsibility (CSR) drivers (a combination of ethical and market based incentives such as reduction of risks and promotion of brand) by aiming for poverty reduction as part of the ‘core business’ of an enterprise.⁹⁵

3.89 To illustrate the model, B4MD referred to a number of its inclusive business projects:

These projects are located in some of the most challenging environments in the world, such as the highlands of Papua New Guinea, the Shan Plateau of Myanmar and Central Laos. They are mostly funded by our private sector clients, who largely deploy

91 GRM Futures Group, *Submission 57*, pp. [3–4].

92 Ms Melissa Wells, Senior Economist, Save the Children Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 1.

93 Under a Memorandum of Understanding the partners are building the economic capacity of local communities by providing business and cruise ship training and increasing market and product sale opportunities. DFAT, *Submission 21*, p. 32, and for a full description of the partnership and its achievements see Attachment C, p. 12.

94 Mr Christopher Rowlands, Manager, Social Entrepreneurship and Economic Development Unit, World Vision Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 8.

95 Business for Millennium Development (BM4D), *Submission 93: BM4D, Landscape Study, Inclusive Business*, p. 5.

\$30 million plus in capital expenditure to build value chains between farmers and regional and international markets.⁹⁶

- 3.90 BM4D emphasised the criticality of its partnerships with Government and non-government organisations, such as World Vision, to create the necessary environment conducive to inclusive business by empowering the poor to be market ready.⁹⁷

Social impact and profit

- 3.91 While many suggested that the 'core motivation of private enterprise is to make a profit',⁹⁸ there is a growing recognition of the evolution of enterprises that have a dual focus on profit and positive social impact.

- 3.92 Social enterprises generally meet the following criteria. They:

- are led by an economic, social, cultural, or environmental mission consistent with a public or community benefit;
- trade to fulfil their mission;
- derive a substantial portion of their income from trade; and
- reinvest the majority of their profit/surplus in the fulfilment of their mission.⁹⁹

- 3.93 One of the world's largest development organisations, BRAC, sought to bring to the Committee's attention a new model of profit making whereby civil society organisations seek to reduce poverty while being social entrepreneurs:

BRAC, for instance, owns several major businesses, including a major bank, a textile retailer and a food production company. These businesses enhance the organization's ability to serve the poor.¹⁰⁰

- 3.94 Discussing the potential need for 'new legal corporate forms such as benefit corporations', Dr Logue advised of the emergence of B Corporations.¹⁰¹ Mr Phillip Vernon, Managing Director of Australian Ethical Investment, explained the genesis of B Corps, noting the strong growth in companies seeking certification:

96 Mr Mark Ingram, Chief Executive Officer, BM4D, *Committee Hansard*, Canberra, 16 June 2014, p. 2.

97 Mr Ingram, BM4D, *Committee Hansard*, Canberra, 16 June 2014, p. 1.

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

99 Social Traders and the Australian Centre for Philanthropy and Nonprofit Studies, Queensland University of Technology, 'Finding Australia's Social Enterprise Sector: Final Report', June 2010, p. 4 <www.socialtraders.com.au/sites/PDF/FASES_full_final_report_July_2010.pdf> viewed 12 February 2015.

100 BRAC, *Submission 105*, p. 2.

101 Dr Logue, *Committee Hansard*, Sydney, 20 August 2014, p. 2.

The B Corp movement was started in the US in 2006 largely driven by the need to recognise that profit-for-purpose companies needed a different model. The shareholder maximisation, profit maximisation, shareholder primacy aspects of modern corporations prevented companies that wanted to operate for profit but with a purpose from operating that way...So the B Corp movement started to address those obstacles.

Firstly, there is a certification process that is an objective measure of companies' social and environmental credentials...Secondly, there is a legislative process or a legislative aspect. There is actually a different type of corporation introduced into the US that protects directors for pursuing the social purpose, or actually requires them to pursue a social purpose in preference to shareholder maximisation. Thirdly, there is the analytics aspect to it – that is, the actual data and the robust processes available to the market to analyse companies in their social and environmental impacts.¹⁰²

- 3.95 B Corp certification requires businesses to 'meet rigorous standards of social and environmental performance'. Dr Logue advised that discussions are underway about the desirability of new legal corporate forms or certification to grow the B Corp sector in Australia, and possible courses that could be developed to assist business with the transition.¹⁰³
- 3.96 Impact Investment Group suggested that 'the "benefit corporation" could be created as a new legal form' with tax incentives to encourage companies to become B Corp certified. Impact Investment Group also explained the advantages of formalising the legal structure beyond certification:

The 'benefit corporation' is a for-profit legal structure that has been adopted in over 20 US states and one district. It removes the reluctance of directors to take into account the interests of non-financial stakeholders by creating a new statutory entity, the 'benefit corporation,' that requires companies to provide a public social benefit. In other words, the directors are required to consider the impact of decisions on all stakeholders, rather than shareholders alone, as assessed against a third party standard.¹⁰⁴

102 Mr Phillip Vernon, Member Representative, B Lab Australia and New Zealand; and Managing Director, Australian Ethical Investment, *Committee Hansard*, Sydney, 7 November 2014, pp. 47-48.

103 Dr Logue, *Committee Hansard*, Sydney, 20 August 2014, p. 2.

104 Impact Investment Group, *Submission 108*, p. [6].

- 3.97 Social enterprises have existed in various forms for many years, including as philanthropic trusts. The Committee notes that social enterprises also include legal entities such as cooperatives and B Corporations. These legal entities can help stakeholders in developing countries to engage formally with donors, to borrow and build capital, to provide protection through titles and shareholding, and particularly to assist women whose work is largely clustered in the informal sector.
- 3.98 However, the Committee recognises that there are a growing number of businesses which have a dual social and for-profit purpose. Business models need to support this movement.
- 3.99 The Committee invited the Treasury to provide advice on potential Australian tax incentives to promote private sector development initiatives, and options for Australia to promote impact investing and social businesses in Australia. However, at the time of reporting the Committee had not received a response.

Recommendation 3

The Committee recommends that the Australian Government:

- **review, and amend as necessary, relevant Australian company legislation to fully accommodate social enterprises, including cooperatives and B corporations;**
- **ensure aid initiatives support:**
 - ⇒ **the establishment of in-country company legislation that accommodates social enterprises and other community and village corporate forms to reduce costs and the complexity of business formalisation; and**
 - ⇒ **promotion and assistance, particularly for women, to help them engage in the business registration process and ongoing requirements of operating a formal business.**

Private sector supporting growth and poverty reduction

- 3.100 In addition to the examples discussed previously, a range of private sector contributions to specific development outcomes were cited in evidence. The Australian private sector has long been supporting economic growth and reducing poverty in the Indo-Pacific region, including in the areas of:
- Health care

- Nutrition and childhood education
 - Financial inclusion and remittances
 - Capacity building – people, skills and jobs
- 3.101 The particular role of women in ensuring a thriving private sector and the role of the private sector in promoting gender equality is discussed in chapter four.

Health care and the private sector

- 3.102 According to the Burnet Institute ‘health and economic growth are absolutely intricately interwoven’.¹⁰⁵ Medibank Private proposed that ‘good health is a necessary foundation for improving the living standard of all people’, and on this basis suggested the health sector be considered ‘in all parts of a country’s growth and development’.¹⁰⁶
- 3.103 The Fred Hollows Foundation contended:
- If managed properly, success in engaging the private sector in international development has the potential to ignite a virtuous cycle of economic development and poverty alleviation and progress toward improving health and well-being.¹⁰⁷
- 3.104 International SOS put forward a similar view that ‘increased investment by the private sector can have both short and long term impacts on development and inclusive growth’.¹⁰⁸
- 3.105 In regard to the provision of health services, Marie Stopes International outlined the diverse range of private sector participants, noting that in many of the poorest countries it is the private sector that provides the majority of services:
- In terms of health service provision, private healthcare providers range from single operator midwives, small pharmacies, medium-sized clinics to large hospitals. Whether for profit or not-for-profit, formal or informal, the role of these providers in the delivery of health services is critical, especially in many developing countries where the majority of the poorest populations access healthcare from private sources.¹⁰⁹

105 Professor David Anderson, Deputy Director and Head, Office for Business Development, Innovation and Research, Burnet Institute, *Committee Hansard*, Melbourne, 15 August 2014, p. 61.

106 Medibank Private, *Submission 119*, p. 2.

107 The Fred Hollows Foundation, *Submission 14*, p. 1.

108 International SOS, *Submission 77*, p. 4.

109 Marie Stopes International, *Submission 33*, pp. 2–3.

3.106 In a country-specific example, International Centre for Diarrhoeal Disease Research, Bangladesh (icddr,b) explained that urban health services in Bangladesh are 'increasingly dominated by the private sector' as the public sector cannot meet demand:

Private pharmacies are major health care providers for households, accounting for nearly two thirds of out-of-pocket spending. There are more private hospitals than public hospitals. The challenges however are in terms of equity (who can afford private sector services) and quality assurance.¹¹⁰

3.107 To exemplify the broad range of possible roles for the private sector, Abt JTA referred to the World Economic Forum's list of 'possible roles in malaria control for firms working in particular sectors':

- firms working in the health sector developing new drugs, cheaper and more efficient diagnostic malaria tests and vaccines, and strengthening medical infrastructure and training;
- construction and engineering firms building mosquito-proof structures, and promote vector control by draining or filling in breeding sites;
- energy companies making dam reservoirs safe against malaria;
- firms working in the food, beverage and retail sectors using their strong distribution networks to deliver malaria prevention and treatment tools;
- information technology businesses working with governments to develop surveillance systems to track the disease and predict outbreaks and working to strengthen health management systems;
- media and entertainment firms promoting awareness of malaria and educating consumers about prevention and treatment;
- financial services firms helping the poor cope better with malaria by developing micro-credit programmes that are linked to the provision of information about health insurance or its purchase; and
- logistics and transport firms deploying their services in delivering malaria commodities.¹¹¹

3.108 Oil Search is one of the most widely cited examples of a successful health initiative driven by the private sector. Oil Search has been delivering community health services in PNG in its remote operational areas over the last 20 years. During this time Oil Search has built a team of public health

110 International Centre for Diarrhoeal Disease Research, Bangladesh (icddr,b), *Submission 151*, p. 3.

111 Abt JTA, *Submission 5*, pp. 4-5.

experts to deliver HIV, malaria, maternal and child health programs.¹¹² More recently, this was transitioned into the Oil Search Health Foundation, which has become the partner of choice for the Global Fund in PNG¹¹³. In addition:

Since 2011, the Health Foundation has attracted grants worth nearly US\$80 million, in addition to Oil Search's contribution of AU\$10.8 million. Today, nearly 100 Health Foundation staff work in 7 of the 22 provinces in Papua New Guinea.¹¹⁴

3.109 The public health impact of Oil Search has been substantial. A selection of examples from Oil Search's submission are included below:

- HIV – supporting 66 health facilities across PNG with over 40,000 HIV tests performed since 2008.
- Malaria – Delivering health services in 1 province, conducting training in 3 provinces, providing technical support to 16 rural health facilities, and supporting home-based malaria diagnosis and treatment in 13 villages.
- Maternal and child health – Reproductive Health Training Unit trained 342 participants in 2013; from 2012 to 2013 immunisation support to deliver vaccinations increased 77 per cent, and supervised deliveries increased 119 per cent.¹¹⁵

Technology and health service provision by the private sector

3.110 The intersection between health and technology is creating scope for expanding the role of the private sector in developing countries health systems. Noting finite health budgets and high out-of-pocket costs for the poor, The Fred Hollows Foundation identified medical technology as area for consideration:

Potential markets therefore exist for innovative Australian business that are able to develop low-cost medical equipment and consumables that suit the specific needs of health systems in low-resource settings and that can be brought to scale/market.¹¹⁶

3.111 Health providers are also working with financial service providers to leverage technology to deliver associated health services. In its submission, Bupa described its micro-insurance pilot in partnership with Airtel and MicroEnsure, which is providing health insurance in the

112 Oil Search Ltd, *Submission 104*, p. 3.

113 Oil Search Ltd, *Submission 104*, p. 8.

114 Oil Search Ltd, *Submission 104*, p. 9.

115 Oil Search Ltd, *Submission 104*, p. 13.

116 The Fred Hollows Foundation, *Submission 14*, p. 5.

developing world through mobile phone networks.¹¹⁷ Discussing the project at a public hearing Bupa explained:

Here we are looking at the absolute basic health needs which people generally cannot access just due to not having sufficient funds in the moment of need. This is about bringing together a critical mass of people that allows a pool of funds to be created to give people that access in that moment of need. We are talking about very simple things, from immunisations to care for children at birth. The model works, we believe, because it is simple and it fits into how individuals in these countries tend to interact and purchase. Having the mobile phone platform has been absolutely critical.¹¹⁸

3.112 In terms of additional areas where the health private sector could contribute to development, Medibank Private proposed leveraging its expertise in tele-health services by partnering with local organisations. Medibank outlined the benefits of a local partner:

- Recognisable and strong brand.
- Government connections and political good will.
- Existing infrastructure to leverage, so decreasing establishment and infrastructure costs.
- Enhanced ability to navigate country and healthcare regulatory hurdles.
- Healthcare and technology capabilities and network in-country.
- Access to management, operational and clinical resources.
- Potential to eventually commercialise an aid program, so freeing limited aid spending to address new challenges.
- Direct access to customers.¹¹⁹

Access to affordable medicines

3.113 Imperial Health Sciences raised concerns that the costs of medicines can be prohibitive for the poorest patients.¹²⁰ Imperial Health Sciences identified the driver of higher costs in developing countries as market fragmentation at multiple levels and exclusivity along the supply chain. It suggested manufacturers could consolidate their distribution channels to reduce costs and extend market reach.¹²¹

117 Bupa, *Submission 115*, p. 5.

118 Mr John Rizzo, Head of Strategy, Australia and New Zealand, Bupa, *Committee Hansard*, Sydney, 20 August 2014, p. 66.

119 Medibank Private, *Submission 119*, p. 6.

120 Imperial Health Sciences, *Submission 68*, p. 2.

121 Imperial Health Sciences, *Submission 68*, pp. 3–4.

- 3.114 While endorsing the role of the private sector, Australia's largest biotechnology company CSL contended that the 'challenges faced by low income countries are far too great to be addressed by individual organisations and by monetary donations alone':

It is CSL's experience that economic and social development in low-income countries is best achieved through multi-stakeholder collaborations, where each partner contributes unique capabilities and expertise towards a shared goal.¹²²

...

The GAVI Alliance, a private-public multi-stakeholder health initiative, has demonstrated great success in improving access to medicines and reducing disease and we think it is a business model worthy of replicating for other types of sustainable development initiatives.¹²³

- 3.115 While commending the work of the private pharmacological companies, the International AIDS Vaccine Initiative submitted that there is a lack of incentive for private sector investment in 'neglected diseases' including HIV/AIDS, TB and malaria:

...only around three percent of all AIDS vaccine research funding comes from the private sector. Left to market forces alone, vaccines to protect against diseases like AIDS and TB are unlikely to be developed.¹²⁴

- 3.116 A model widely supported in evidence to address supply issues was pharmaceutical product development partnerships. These public-private partnerships were proposed as an effective way of bringing new medicines to developing markets in a cost-effective and timely manner.¹²⁵
- 3.117 Lack of accurate and comprehensive demographic data in some developing countries, such as PNG, is a recognised inhibitor of best practice in aid allocation, and in medicine and clinic distribution. The Australian Government initiative to develop accurate health data sets for developing countries will be of great value to better target assistance.¹²⁶

122 CSL, *Submission 113*, p. 3.

123 CSL, *Submission 113*, p. 7.

124 International AIDS Vaccine Initiative, *Submission 16*, pp. 3-4.

125 Including but not limited to: Pfizer *Submission 49*; Aeras *Submission 29*; Medicines for Malaria *Submission 81*; MMV and TB Alliance *Submission 99*; icddbr,b, *Submission 151* and FIND *Submission 70*.

126 DFAT, 'Better data for health partnership', <<https://innovationxchange.dfat.gov.au/project/better-data-health-partnership>>, viewed 20 April 2015.

- 3.118 The Committee acknowledges concerns raised in evidence about the role of the private sector in health service provision, and in particular, the potential that increasing use of fee-for-service arrangements could exacerbate inequalities that currently exist in access. However, the reality is that in many countries in our region, the private sector is driving accessibility through innovation and efficient delivery of products and services.

Recommendation 4

The Committee recommends that the Australian Government work with the private sector and other non-state actors to develop opportunities to expand the range and reach of effective and affordable health care across the Indo-Pacific region, including by:

- **exploring the feasibility of a flagship Australian initiative to enhance the role of private healthcare;**
- **engaging with governments in the region to support the development of appropriate policies for private sector health, specifically:**
 - ⇒ **addressing the integration and regulation of public and private systems;**
 - ⇒ **focusing on the needs of women, including for reproductive and maternal health services and products; and**
- **promoting pharmaceutical product development partnerships to better distribute or bring new medicines to poor communities.**

Nutrition, childhood education and the private sector

- 3.119 In order to support their social licence and to build a future workforce, a number of Australian and multinational companies invest beyond their own employees, including by contributing to community nutrition initiatives and school education. ChildFund Australia explained:

Economic growth can only be sustained when children's education is addressed and a skilled, educated, healthy workforce is in place.¹²⁷

- 3.120 Highlighting its many years working in Timor-Leste as a joint venture partner and sponsor of social development programs, Osaka Gas

127 ChildFund Australia, *Submission 8*, p. [4].

suggested that health and nutrition are the essential foundations for communities and future economic growth.¹²⁸

3.121 In its submission, Woodside outlined how the Sunrise Joint Venture (SJV) participants (Woodside, ConocoPhillips, Shell and Osaka Gas) had delivered social and economic benefits to the communities of Timor-Leste, and provided examples of SJV initiatives that are supporting nutrition and childhood education:

- Ba Futuru's Early Childhood Development Initiative - provides training and capacity building for more than 100 early childhood educators in Timor-Leste. SJV also supported a program in 2012 that included training of 40 educators and construction of Ba Futuru's Early Childhood Education Facility in Dili, Timor-Leste.
- ICFP Baucau Teachers College - provides a program for ICFP tutors to build their teaching capacity through the Australian Catholic University to gain a Masters of Education qualification.
- HIAM Health's Community Nutrition Garden program - addresses malnutrition through education and training of community members including the installation of sustainable community vegetable gardens in Ermera and Maliana.¹²⁹

3.122 Cargill explained the synergy between thriving communities and thriving business:

Our businesses thrive when rural and farming communities thrive. By investing, working with farmers to help them produce more sustainably, providing community services like public schools and medical clinics, transferring our best practices and delivering nutritious food to the malnourished, Cargill helps rural communities thrive.¹³⁰

3.123 In addition to its smallholder and farmer training, Cargill supports school education and nutrition across Asia, including in the Philippines, Indonesia, China, India, Vietnam and Malaysia. These projects are variously implemented through Cargill's investment, NGOs and multilateral bodies:

- Education support includes scholarships, school infrastructure, books and mobile libraries, nutrition education for students, as well as providing healthy lunches, clean water and sanitation facilities.

128 Osaka Gas Australia Pty Ltd, *Submission 45*, p. [1].

129 Woodside Energy Ltd, *Submission 116*, p. 6

130 Cargill, *Submission 64*, p. 2.

- Community nutrition support includes fortifying its products, distribution of fortified food, supply of chicks and fish along with food to help raise the livestock, and the establishment of vegetable gardens and orchards.¹³¹
- 3.124 CBH Group, as a major shareholder of Interflour, supports the broader community as a key partner in the Flour Fortification Initiative:
- ...the Flour Fortification Initiative (FFI) which collaborates with public, private, and civic partners to encourage the addition of vitamins and minerals to wheat flour, maize products, and rice as a means of reducing the incidence of birth defects such as Spina bifida. It is estimated that in 2013 alone, around 38,000 serious birth defects were avoided by “fortifying” flour with folic acid.¹³²

The private sector and financial services for individuals and micro-entrepreneurs

- 3.125 The private sector is providing access to formal financial services, including through education, promoting entrepreneurship, supporting savings accounts and assisting overseas workers remit money to their families.
- 3.126 Financial inclusion programs can ‘increase the number of poor people with access to secure affordable financial services and improve the financial literacy’.¹³³
- 3.127 Including financial services in the private sector’s repertoire of support for economic growth, CARE Australia submitted that one of the critical barriers for micro entrepreneurs is the lack of access to financial services. CARE suggested focusing on developing linkages between local savings groups and commercial banks within a responsible framework, as well as supporting financial literacy.¹³⁴
- 3.128 Suggesting that challenges can be translated into business opportunities, Business for Social Responsibility advised that MasterCard is one of many companies looking to increase financial services access:
- For MasterCard, including more people in the economy is a business imperative: 2.5 billion adults do not have a bank account, and 85 percent of all retail transactions are still made in cash and [cheques].¹³⁵

131 Cargill, *Submission 64*, pp. 2-11.

132 CBH Group, *Submission 98*, p. 3.

133 DFAT, *Submission 21*, p. 49.

134 CARE Australia, *Submission 43*, p. 4.

135 Business for Social Responsibility, *Submission 10*, p. 4.

- 3.129 Describing how companies are increasingly becoming involved in initiatives that reflect their business needs, Save the Children highlighted the program it leads, supported by MasterCard Foundation – YouthSave – where youth savings accounts are promoted ‘to facilitate youth entrepreneurship and financial inclusion with appropriate safeguards’.¹³⁶
- 3.130 Australian banks are also actively engaged in this area. Both Westpac and ANZ have a longstanding presence in the Pacific. Evidence provided by these banks indicated that through both their own actions and partnering with others they have worked to educate staff and clients while expanding formal financial markets in the region.
- 3.131 Westpac advised it has been operating in the Pacific for over 115 years, that it was the first bank in PNG and is the longest serving bank in Fiji. Westpac explained how it is investing in the region beyond its core business:
- We did not deliberately set out on financial inclusion. We started our first program in Fiji because the Reserve Bank of Fiji legislated, effectively regulated that the commercial banks had to have some form of microfinance offering. That was four years ago so we have come a long way since then. But we think that this could turn into something which will create shareholder value, which is exciting. It started out as a corporate social responsibility mandate for us but it is actually turning into something more than that, which is good.¹³⁷
- 3.132 Westpac highlighted that 80 per cent of the Pacific does not have access to formal financial services, and explained how its financial inclusion program is being used to address this:
- Three years ago we had around 190,000 customers...we now have 535,000. That has been a function of focusing purely on remote geographical areas, sending teams – we call them ‘everywhere banking offices’ – out into the villages and educating the local people and businesses about financial services and banking.¹³⁸
- 3.133 ANZ advised it is the largest bank in the Pacific, and has been operating there for over 100 years:
- ...our super regional strategy supports the growth of Australian businesses and the economic development of countries in which

136 Save the Children Australia, *Submission 38*, p. 6.

137 Mr Greg Pawson, General Manager, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2015, pp. 27-28.

138 Mr Greg Pawson, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2015, p. 27.

we operate. We directly finance trade and investment, and manage risk through our capabilities and on-the-ground presence.

Indirectly, we transfer skills and knowledge to our customers and assist them to develop their businesses in the region too.¹³⁹

- 3.134 ANZ identified its MoneyMinded program as its flagship financial education program, which is delivered in 18 markets, including the Pacific, India, Indonesia, PNG, Timor-Leste and Vietnam:

The MoneyMinded education program for adults aims to build people's financial knowledge, skills and confidence.¹⁴⁰

...

We have seen a shift from people saving whatever is left over at the end of their pay period to setting goals and becoming more deliberate savers. One of the things that we have done is to work with our large corporate customers to deliver MoneyMinded to their workforces. We like it, they like it, it makes better employees, it does actually contribute to better standards and quality of life for people.¹⁴¹

- 3.135 Discussing its microfinance initiative in the Pacific, ANZ explained how it supports financial inclusion, engaging with local communities through mobile banking. Using Fiji as an example, ANZ highlighted that success was based on 'doing business in a way that the community saw':

We have trucks that drive up into the remote areas and villages...I had to get into a canoe and go across the river after we parked the truck. It was a village with its own generator, no mobile phone reception. Our bank has set up a table, people come and make their small deposits; or, as we drive up, we stop at farm gates and small farmers come and make their deposits. At the end of that we would go to the village chief's hut, and that is where customers who want to borrow from the bank come.¹⁴²

- 3.136 Recently, both banks signed MOUs with the Australian Government to further enhance economic growth through financial inclusion:
- In September 2014, Westpac signed an MOU with the Australian Government 'to improve the livelihoods of men and women in the

139 Mr Graham Hodges, Deputy Chief Executive Officer, Australian and New Zealand Banking Group Limited, *Committee Hansard*, Melbourne, 15 August 2014, p. 25.

140 Ms Jane Nash, Group Head Corporate Sustainability and Financial Inclusion, ANZ, *Committee Hansard*, Melbourne, 15 August 2014, p. 25.

141 Ms Jane Nash, ANZ, *Committee Hansard*, Melbourne, 15 August 2014, p. 31.

142 Ms Jane Nash, Group Head Corporate Sustainability and Financial Inclusion, *Committee Hansard*, Melbourne, 15 August 2014, p. 31.

Pacific by increasing their access to finance'.¹⁴³ The MOU is centred around six key areas:

- ⇒ innovation solutions for financial inclusion;
- ⇒ reducing the cost of remittances;
- ⇒ exploring key infrastructure projects by commercial loans and grant funding;
- ⇒ developing initiatives to support the economic empowerment of women, evaluating avenues to extend microfinance; and
- ⇒ leveraging commercial finance for a number of different industry sectors.¹⁴⁴

- In February 2015, ANZ signed an MOU with the Australian Government to 'significantly improve access to finance for many Pacific Islanders and enable them to participate in the formal economy, in some cases for the first time'. The priority areas are:

- ⇒ financial inclusion, literacy and the economic empowerment of women;
- ⇒ innovative approaches to finance for small to medium businesses;
- ⇒ opportunities for joint financing of infrastructure projects; and
- ⇒ more effective and timely communication on disaster and crisis relief.¹⁴⁵

3.137 The Committee recognises that access to financial services, including microfinance and insurance, is enabling low income men and women to save, to be resilient and to grow their businesses. However, alongside increasing financial independence for women there have been some unintended consequences related to gender and power relationship changes in families and communities.

3.138 Increased gender-based violence, for example, has been cited as one consequence. This suggests that men as well as women need to be supported in becoming more financially independent. Improved circumstances or empowerment should not be seen as a zero sum game.

3.139 The Committee commends the efforts of the private sector and the Australian Government in this area and encourages a continued focus on

¹⁴³ Westpac banking Corporation, 'Westpac and DFAT partner to improve access to finance in the Pacific', *Media Release*, 8 September 2014.

¹⁴⁴ Mr Greg Pawson, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2015, p. 27.

¹⁴⁵ The Hon Julie Bishop MP, Minister for Foreign Affairs, 'Australia teams up with ANZ in the Pacific', *Media Release*, 18 February 2015.

financial sector development. These initiatives need to link to and support programs addressing the rights and protections of women.

Recommendation 5

The Committee recommends that the Australian Government:

- **prioritise access to financial services and financial education, in particular to the most disadvantaged populations, and explore options to expand current private sector and donor programs beyond the Pacific; and**
- **address any negative consequences of increased financial independence for women by also engaging men to increase both women and men's financial resource access, and educate men and boys about the rights of women.**

Remittances and the private sector

3.140 Remittances are the 'private transfers by migrant workers overseas' back to their families.¹⁴⁶ In its submission, Adam Smith International agreed that remittances are one of the most important potential drivers of economic growth in the Pacific region:

The contribution of remittances to small island developing states in the Pacific is particularly significant. Recent research suggests that in the absence of remittances economic growth in the small island states of the Pacific would have been -0.74 percent between 1971 and 2010.¹⁴⁷

3.141 The Australian Government has identified remittances as one of three contributors to the 'growing size and influence of non-ODA development finance'. They are valued at around three times the size of Official Development Assistance and 'are spent by whoever they are sent to, on whatever they want'.¹⁴⁸

146 ACFID, Exhibit 74: European Union, Directorate-General for External Policies – 'Financing for development post 2015: improving the contribution of private finance', April 2014, p. 15.

147 Adam Smith International, *Submission 17*, p. 7.

148 DFAT, *Submission 21*, p. 20, 34, and Attachment C, p. 9.

3.142 The G20 development agenda includes efforts to ‘take action to reduce the cost of transferring remittances into developing economies’.¹⁴⁹ In 2014 the G20 was expected to contribute to better remittance flows:

The other major deliverable in 2014 was a Plan to Facilitate Remittance Flows which will guide work to strengthen the evidence base informing new policy action in recognition of the importance of remittances for developing and emerging economies.¹⁵⁰

3.143 Mr Daniel Runde from the US Center for Strategic and International Studies submitted that Australia must ‘consider the power of diaspora and remittance flows’ along with innovative delivery of finance:

DFAT should partner with private enterprise to support innovative resource delivery to developing countries through Australia’s new innovation fund...Innovations that make the delivery of these financial flows more efficient have huge economic and developmental potential.¹⁵¹

3.144 One of the six areas of focus of the MOU between the Australian Government and Westpac is to reduce the cost of remittances.¹⁵² Westpac identified mobile banking as a medium it can use for value-added services, including for domestic remittances:

...that is where it starts to become commercially viable for us because we would make money off the transaction volume that goes through that. We link with the telcos in all of those locations, primarily Digicel, and Vodafone in Fiji to be able to facilitate the delivery of it, not just for one but for all of the telecommunications companies that are operating.¹⁵³

3.145 Other examples of the public and private sector delivering more cost-effective services for remitting payments submitted to the inquiry include:

- World Bank’s International Finance Corporation – facilitating electronic payment services: with US\$1.4 million of funding from the Australian aid program, IFC implemented a three-year program to support central banks in developing and implementing national payment system legislation across six Pacific countries. This will provide efficient, safe and reliable electronic banking and remittances for 1.2 million unserved and

149 Mr Sam Gerovich, DFAT, *Committee Hansard*, Canberra, 23 June 2014, p. 2.

150 DFAT, ‘The G20’ <www.dfat.gov.au/international-relations/international-organisations/g20/pages/the-g20.aspx> viewed 6 March 2015.

151 Center for Strategic and International Studies, *Submission 136*, pp. 3, 5.

152 Mr Greg Pawson, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2014, p. 27.

153 Mr Greg Pawson, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2014, p. 28.

underserved people in Fiji, Vanuatu, PNG, Samoa, Tonga, and the Solomon Islands.¹⁵⁴

- UK Department for International Development's Business Innovation Facility: Up to a quarter of Filipino's work and live abroad sending remittance payments...Smart Communications a leader of internet and mobile phone services based in the Philippines responded to the opportunity that existed by creating a mobile phone platform for fast, safe and reliable money transfers that were significantly cheaper than existing money transfer services and more inclusive of the poor.¹⁵⁵

3.146 While the evidence suggests the contribution of remittances sent by diaspora populations builds economic well-being, the costs are also well understood. The European Parliament's study of the contribution of private finance highlighted, for example, 'brain drain':

While remittances are an important transfer for some countries, there are also costs to emigration. Emigrants are often among the most educated and entrepreneurial people in a population, so there is a loss of their talents to offset against the income they send home.¹⁵⁶

3.147 It is pleasing to note that the Australian Government has prioritised support for best practice facilitation of remittances through MOUs with both ANZ and Westpac, as well as through its G20 participation. While these are positive steps, the Committee sees this is an area warranting further attention, particularly in regard to the high costs and impediments when remitting money through banks and other providers, and the prevalence of transnational crime resulting in account closures.

3.148 The Committee has heard that banks, both in Australia and globally, are withdrawing services to some remittance providers. This is due, in part, to money laundering and terrorists financing risks and the need to comply with legal and regulatory requirements. More can be done by governments to ensure that affordable and accessible services are available for people sending remittances to those who need them the most. There is a need for legislation both in Australia and in developing countries that supports best practice in the facilitation of legitimate remittances.

154 World Bank Group, *Submission 75*, p. 18.

155 Business for Millennium Development, *Submission 93 – Attachment: Landscape Study*, p. 27.

156 ACFID, Exhibit 74: European Union, Directorate-General for External Policies – 'Financing for development post 2015: improving the contribution of private finance', April 2014, p. 15.

Recommendation 6

The Committee recommends that the Australian Government take a whole-of-government approach to remittances and their role in international development by:

- identifying and addressing regulatory and non-regulatory constraints to providing remittance services, including where necessary implementing regulations that provide better protections for individuals;
- contributing to work being undertaken globally, ensuring that the interests of Australia and the countries of the Indo-Pacific region are adequately represented; and
- identifying the lowest cost but most efficient pathways for remittance service providers and recipients.

The private sector and capability—people, skills and jobs

3.149 The Australian Government is seeking to strengthen the foundations for development by supporting educational institutions and scholarships, and through other skill development initiatives. In 2014, the Government ‘invested \$362.2 million in Australia Awards, enabling over 4,400 recipients from more than 100 countries to undertake study, research and professional development’.¹⁵⁷

3.150 The Sustainable Minerals Institute submits that Australia has an important role in supporting the higher education of people in developing countries:

The people who, for example, are coming to the Sustainable Minerals Institute – we have over 100 postgraduates in the institute from all over the world – go back into leading positions in their countries. They will lead the future of their countries, and some of them are hand picked on that basis. Others will go back to directly affect their families. I had an interview with a young lady from the Philippines the other day...[who said] I’m here to get the knowledge to take back to change the practices on the ground.’ Those kinds of things are quite meaningful. They scale up quite quickly when you get into the hundreds of students.¹⁵⁸

157 DFAT, ‘About Australia Awards’, <www.australiaawards.gov.au/Pages/default.aspx>, viewed 14 May 2014.

158 Professor Christopher Moran, SMI, University of Queensland, *Committee Hansard*, Brisbane, 11 August 2014, p. 12.

- 3.151 Reporting on its recent tertiary education initiative through its Foundation of International Cultural Exchange, Osaka Gas recommended sponsoring study in Japan for Timor-Leste scholars as a means to 'promote goodwill and long term human resources development'. The Japan International Cooperation Agency helped facilitate this program.¹⁵⁹
- 3.152 It was also proposed that Australian colleges could be used to build technical skills in developing countries, with reciprocal benefits to Australia through an enhanced offshore network.¹⁶⁰
- 3.153 Asked what Australia could do to support private sector development, the Manufacturers Association of Tonga stressed the need for partnerships with technical and vocational training institutions in Australia to acquire the skills needed to develop local industry:
- We can build a small cardboard / packaging manufacturing entity in Tonga – we can start with shrimp farming;...soap making; or ...carbonated drinks processing – but we need the technical know-how; latest techniques and technology; and quality assurance training...train us to know 'How to Fish'.¹⁶¹
- 3.154 Noting the Government's recent prioritisation of 'quality assured technical education and training which matches the needs of the local private sector' to provide job skills for growth, TAFE Directors Australia advocated for an increased focus on using Australia's TAFE colleges.¹⁶²
- 3.155 The Overseas Development Institute, an independent UK think tank, also suggested that Australia's TAFE system could be used to further engage businesses to improve the quality and relevance of skill development:
- Unemployment, particularly amongst youth, is a serious problem in many Indo-Pacific countries and the skills gap has been identified as one of the key constraints to growth. Employers often complain that TVET [TAFE-delivered vocational education and training] systems are not producing a workforce with appropriate skills to meet business demand.¹⁶³
- 3.156 While formal training and education is a fundamental building block, work experience can provide valuable insight into industry and help to operationalise academic knowledge. For example, Aspen Medical

159 Osaka Gas Australia Pty Ltd, *Submission 45*, pp. [1-2].

160 Mr Holden, TAFE Directors Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 32.

161 Manufacturers Association of Tonga, *Submission 3*, p. 2.

162 Mr Holden, TAFE Directors Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 32.

163 Overseas Development Institute, *Submission 51*, p. 7.

recommended formal mentoring programs as a means of 'to increase the capability and practical experience of workers'.¹⁶⁴

3.157 One example of this is Woodside's Timor-Leste Professional Development Program, which complements education with valuable work experience. The program provides opportunities for Timor-Leste nationals who are currently studying in Australia to gain paid employment, relevant to their course of study, through the Woodside Summer Vacation Program.¹⁶⁵

3.158 The Solomon Islands Chamber of Commerce submitted that over and above academic opportunities, an area for further development would be the provision of support for international work experience, particularly in trades and industry. The Chamber suggested that this type of engagement could also benefit work colleagues in the host country.¹⁶⁶

3.159 There was a range of evidence supporting on-the-job training as a means of developing skills. This may be through the presence of a multi-national company with staff training programs that leverage international best practice, or through seconding a subject matter expert within a local organisation.

3.160 CBH Group advised it makes a contribution to staff in local communities through fair remuneration, ongoing learning and development and company standards. CBH described the use of its company training program across its entire organisation, spanning Indonesia, Vietnam and Malaysia to contribute to individual knowledge and vocational competencies. In addition, CBH applies its occupational health and safety program across the group's business units to promote a safe work place culture and behaviour. This training not only provides skills but also benefits staff and the organisation with reduced injuries.¹⁶⁷

3.161 As an Australian company providing banking and financial services through a network of offices across the region, ANZ explained the benefits of staff training that go beyond the individual and organisation:

ANZ is training locals in bank branches across the Indo-Pacific in the delivery of financial services and by its presence is improving the standard and quality of financial services in developing countries.¹⁶⁸

164 Aspen Medical, *Submission 102*, p. 6.

165 Woodside Energy Ltd, *Submission 116*, p. [4].

166 Solomon Islands Chamber of Commerce, *Submission 123*, p. 4.

167 CBH Group, *Submission 98*, pp. [2-3].

168 ANZ, *Submission 48*, p. 6.

3.162 In addition to training staff, ANZ noted:

Indirectly, we transfer skills and knowledge to our customers and assist them to develop their businesses in the region too.¹⁶⁹

Benefits of local recruitment

3.163 A result of capacity building should be the increased availability of qualified employees within the local labour market. The Solomon Islands Chamber of Commerce and Industry raised concerns that not enough was being done to harness the 'skills and talent' of its own nationals:

Solomon Islands has so many capable women and men who understand the norms and cultures of Solomon Islands society well enough to undertake consultant jobs, but this resource has so far been under-utilized by the donor community. Solomon Islands citizens with the right set of skills, knowledge and experience or expertise should be considered as consultants of choice rather than depending too much on external consultants. This area needs to be improved if aid is to truly benefit Solomon Islands.¹⁷⁰

3.164 According to Oil Search, in PNG it is building capacity with over 90 per cent local staff.¹⁷¹ Oil Search explained:

We take on people from apprenticeships to graduate trainees. It goes further than that, because we want to take on people from the local communities.¹⁷²

3.165 Likewise Chevron Australia submitted that it invests significantly in its people to ensure that its workforce reflects the communities in which it operates:

We train the local people we hire, developing their skills and capabilities and we have many programs in place to build capacity within the broader local communities.¹⁷³

Strengthening capacity and networks through volunteers

3.166 Volunteering has long been used as a means of building networks and sharing skills and expertise.¹⁷⁴ According to Pacific Islands Trade and

169 Mr Graham Hodges, ANZ, *Committee Hansard*, Melbourne, 15 August 2014, p. 25.

170 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 4.

171 Oil Search Ltd, *Submission 104*, p. 1.

172 Mr Botten CBE, Oil Search Ltd, *Committee Hansard*, Canberra, 29 August 2014, p. 8.

173 Chevron Australia, *Submission 39*, p. 2.

174 For example, Australian Volunteers International (AVI) started sending volunteers abroad in 1951 (*Submission 37*, p. 2); and Australian Business Volunteers (ABV) has been operating since 1981 (*Submission 94*, p. 5).

Invest, 'the transfer of skills is crucial to longer term self-sufficiency in the Pacific Islands', and on this basis encouraged 'further private-sector focused capacity building initiatives':

We strongly support the work of Austraining in its delivery of the Australian Volunteers for International Development (AVID) program. Going forward, we urge the AVID Program to work more closely with the private sector, and identify Australian partner organisations that have an interest in economic growth.¹⁷⁵

3.167 Both Australian Volunteers International (AVI) and Australian Business Volunteers (ABV) are NGOs that connect their extensive number of volunteer professionals with public institutions, businesses, peak bodies and civil society across the region to share skills and experience.¹⁷⁶

3.168 Explaining how their volunteers assist, AVI advised:

Building the capacity of partner organisations, which is also what [ABV] does, is absolutely key to moving them forward. It is usually the back office, the IT, HR, finance and the administrative work behind the scenes that is needed to build the capability, whether it is a government organisation, a civil society or a corporate academic institution.¹⁷⁷

3.169 Highlighting its approach of 'people-centred development', AVI suggested this is a means of 'connecting people and organisations internationally to learn from each other', and brings reciprocal benefits to both the host country and Australia.¹⁷⁸

3.170 The Embassy of Mongolia in Australia encouraged the expansion of Australian volunteers for businesses and the sharing of managerial expertise as a means of introducing best practice to local businesses.¹⁷⁹

3.171 Accenture also spoke of the benefit of cross-cultural exposure for its broader workforce, and set up a program to enable its top performers from its commercial arm to work on development projects:

Basically, the program offers our staff the opportunity to use their core consulting skills, but usually in a much more challenging environment and context because the projects are smaller and they are usually working with organisations that are much more

175 Pacific Islands Trade and Invest, *Submission 60*, p. 9.

176 AVI, *Submission 37*, p. 2; and ABV, *Submission 94*, p. 5.

177 Ms Dimity Fifer, Chief Executive Officer, AVI, *Committee Hansard*, Canberra, 3 September 2014, p. 4.

178 AVI, *Submission 37*, p. 3.

179 Embassy of Mongolia, *Submission 53*, p. [3].

resource constrained, and often with much more complex operating models...

What it means for Accenture is that when our people come back from doing these projects, they have had a chance to really stretch and further develop their core business skills...By giving them the opportunity to do that work inside Accenture, it has often meant that they come back better qualified and they stay with the company.¹⁸⁰

- 3.172 Submissions, particularly those from Pacific island countries, encouraged the Australian Government to further explore opportunities for short term work programs, twinning programs or mentoring programs, particularly in partnership with Australian companies with a presence in the developing countries of the region.
- 3.173 Volunteering contributes to people to people linkages, builds local capacity across the Indo-Pacific, and provides valuable cross-cultural experiences for participants. The Committee notes that in 2011, Australian Volunteers for International Development (AVID) was formed to consolidate all Australian Government funded volunteering initiatives.
- 3.174 With the Australian Government's new development policy focusing on working with the private sector, the Committee is of the view that AVID needs to be reviewed to ensure sufficient focus is placed on strengthening businesses and providing technical skills.

Recommendation 7

The Committee recommends that the Australian Government review current Australian funded business volunteering or mentoring initiatives to:

- **improve connections to other Australian-funded business development initiatives;**
- **improve public information about Australia's volunteering programs;**
- **better collaborate with volunteering programs organised and funded by Australian businesses; and**
- **consider improved processes with a view to creating a more business-focused volunteering or twinning program.**

180 Ms Morgana Ryan, Global Lead, Organisational Strengthening, Accenture Development Partnerships, Accenture Australia, *Committee Hansard*, Canberra, 27 October 2014, pp. 1-2.

The Seasonal Worker Program

- 3.175 Agribusiness in Australia is also able to derive mutual benefits while improving skills and promoting economic development across the region through the Australian Government's Seasonal Worker Program:

In addition to the financial benefits from their participation, seasonal workers obtain skills and experiences through their employment that they can apply back home, and in future employment periods in Australia. Seasonal workers have used remittances for family members' education, in housing, and to purchase resources necessary to start their own businesses. The types of businesses started by seasonal workers using funding earned through participating in the program include a machinery hire business, transportation businesses, and farming enterprises.¹⁸¹

- 3.176 In relation to the Seasonal Worker Program, the Department of Employment explained:

What might have made our task a little easier, or what has been a challenge, is the fact that the horticulture industry does not have a single peak body. Each crop seems to have its own representatives. There are some state based bodies. Compare that with New Zealand, where Horticulture New Zealand has a very strong role in the program and funds at least one full-time officer to work on their program. That has been a practical challenge for us.¹⁸²

- 3.177 The Office of the Chief Trade Adviser (OCTA) commented on the positive impact of initiatives including the Australian Pacific Technical Colleges, the Australian Youth Ambassador for Development Program and the Seasonal Worker Program in developing skills and knowledge transfer:

Apart from remittances, returning workers have been able to utilise the skills acquired in Australia to set up small businesses upon their return.¹⁸³

- 3.178 The OCTA suggested that more practical initiatives of this type are needed if the private sector in Pacific Island nations 'is to play a leading role in resuscitating the economies'.¹⁸⁴

- 3.179 Noting positive outcomes of the existing Seasonal Worker Program, Pacific Islands Trade and Invest suggested extending the program:

181 Department of Employment, *Submission 47*, p. [2].

182 Mr Mark Roddam, Branch Manager, Department of Employment, *Committee Hansard*, Canberra, 29 August 2014, p. 53.

183 Office of the Chief Trade Adviser, *Submission 12*, p. 10.

184 Office of the Chief Trade Adviser, *Submission 12*, p. 10.

...we would like to see the Australian professional services sector offer similar short term work programs, either on a voluntary or paid basis to build skills and linkages with Pacific Islands businesses, particularly in the sectors of tourism, fisheries and agriculture.¹⁸⁵

- 3.180 The Committee noted, however, that 87 per cent of the participants in the Seasonal Worker Program are male, which means women are largely excluded from these upskilling and earning opportunities. This is despite women performing the greatest proportion of this type of work in their home countries. The Department of Employment advised that this imbalance is now recognised and negotiations with DFAT are underway to address the gender imbalance in the program.¹⁸⁶

Recommendation 8

The Committee recommends that the Australian Government require gender balance in the participation of horticultural workers in the Pacific Seasonal Worker Program so that there are equal numbers of men and women participants from each country.

Diaspora communities and development support

- 3.181 People to people networks underpin initiatives such as the Seasonal Worker Program, both in identifying workplaces and supporting workers while in-country. Small Giants proposed that Australia has a 'significant and underutilised asset in the diaspora communities'. It encouraged exploring ways to work with the Indo-Pacific diaspora:

Often it is grassroots initiatives that require support. To find and understand these projects requires time and trust...Australia, unlike other larger donors in the region, has a significant and underutilised asset in the diaspora communities who call this country home. These communities have unique insight, cultural knowledge, community connections, skills and resources and a deep understanding of the need and, more importantly, the opportunities.¹⁸⁷

185 Pacific Islands Trade and Invest, *Submission 60*, p. 9.

186 Mr Mark Roddam, Branch Manager, Department of Employment, *Committee Hansard*, Canberra 29 August 2014, p. 50.

187 Ms Mele-Ane Havea, Director of Portfolio, Small Giants, *Committee Hansard*, Sydney, 7 November 2015, p. 47.

- 3.182 According to AVI, diaspora communities in Australia have a strong interest in ‘giving back to their home community’, and many have readily volunteered to assist with institutional rebuilding and to share professional skills.¹⁸⁸ On this basis, AVI suggested consideration of how the skills of the diaspora community could be harnessed.¹⁸⁹
- 3.183 The Committee notes that many diaspora communities in Australia maintain strong links to their home communities. Some members of the diaspora, especially those who have arrived recently, can provide a valuable source of cultural insight, knowledge and access to networks that could be used to help the Australian Government and Australian businesses looking to expand operations across the region. These same communities can provide support and assistance for those coming to Australia as part of a work or education program.
- 3.184 However, it is also recognised that those who have left their home country may not be friends of the contemporary regime or may be viewed as ‘jumping ship’, leaving others to carry on the struggle.
- 3.185 DFAT’s public diplomacy strategy identifies diaspora diplomacy as a key element, and indicates it is taking steps to engage the communities.¹⁹⁰ The Committee supports these activities with communities that have recent, close and positive ties to Australia’s priority regions for development.
- 3.186 The Australian Government could explore further opportunities for consultation with diaspora communities in Australia to inform aid policy and practice, and specifically country strategies and private sector development projects, diaspora bonds and other potential investments by the community.
- 3.187 To maximise reach and applicability to private sector development, this consultation could be carried out in collaboration with business councils, chambers of commerce and community groups, both in Australia and in those countries within Australia’s priority regions for development assistance.

188 AVI, *Submission 37*, p. 13.

189 Ms Dimity Fifer, AVI, *Committee Hansard*, Canberra, 3 September 2014, p. 2.

190 DFAT, ‘Public diplomacy strategy 2014-16’ <www.dfat.gov.au/people-to-people/public-diplomacy/Pages/public-diplomacy-strategy.aspx>, viewed 25 May 2015.