

Growing the private sector—the role of governments and donors

- 5.1 A thriving and appropriately regulated private sector is necessary, although not sufficient on its own, for achieving poverty reduction and generating revenue to support growth.
- 5.2 It is important to consider key government policies, regulations and actions which may impact on private sector growth; and identify how the Australian aid program could better support the governments in recipient countries to create the enabling environment for private sector growth.

Private sector growth and poverty reduction

- 5.3 Ernst & Young suggested that while progress is evident and aid will continue to be needed, the traditional aid model which relies on ongoing external funding is not economically sustainable for donors.¹ On this basis, Ernst & Young submitted:

A new aid and development model will enable the Australian Government to start reducing its hard (financial) investment and start providing soft (non-financial) assistance. By strengthening the local private sector and providing it with the tools and structure to remain agile and prosperous, the sector itself will start to self-govern and reinvest its wealth back into the local community.²

1 Ernst and Young, *Submission 88*, p. 2.

2 Ernst and Young, *Submission 88*, p. 3.

- 5.4 Drawing upon its experience of working in a number of developing countries, Jacobs stated that these countries 'seek investment to develop their economies in sustainable ways, to reduce future dependence on foreign aid.'³
- 5.5 From a recipient country perspective, the Solomon Islands Chamber of Commerce and Industry provided the following views on aid:
- As a nation, we need to work towards reducing aid dependence, improving local production and improving the quality and quantity of goods and service providers.
- ...
- Aid has also created a dependence syndrome. Too much aid to Solomon Islands has created a chronic dependence, not only in government but generally in the lives of Solomon Islanders. Because aid gives an easy ride for the government to deliver services, successive governments are not able to prioritize generating domestic resources to enable this country to stand on its own feet as an independent nation.⁴
- 5.6 Vietnam has emerged from being aid dependent, and is now a middle income country. Vietnam's Minister for Foreign Affairs outlined the country's successful progress against the Millennium Development Goals, including a strong decline in poverty rate and the private sector's creation of millions of jobs supporting the economy. The submission noted that Vietnam is moving to deepen international integration through trade cooperation, and noted the comprehensive partnership between Vietnam and Australia as an opportunity for further growth.⁵

Economic growth versus development impact

- 5.7 Cardno reflected on the complexity of efforts to promote economic growth and private sector development:
- Both of these endeavours, whether in Australia or overseas, are huge, complex and multifaceted exercises. There are many different actors, interests, perspectives and approaches, and the diversity of submissions to this inquiry reflects this. After 10 years of private sector development implementation, surveys amongst DFID staff show there was little or no common understanding of

3 Sinclair Knight Merz Pty Ltd (Jacobs), *Submission 56*, p. 2.

4 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, pp. 1-2.

5 HE Mr Pham Binh Minh, Deputy Prime Minister, Minister for Foreign Affairs of the Socialist Republic of Vietnam, *Submission 129*, p. [2].

what private sector development actually was, much less how to do it and do it well.⁶

- 5.8 DAI submitted that in reducing poverty there is consensus on the ‘desirability of engaging the private sector in that effort’. However, DAI also stated that:

...there is no guarantee that simply accelerating – or facilitating – the market-driven flow of funds to developing countries will have optimal development impact.⁷

- 5.9 Throughout the evidence development impact was often referred to in terms of economic investment and its resulting activity. However simple aggregate measures of growth are not always sufficient. Oxfam Australia stated:

We know that whilst economic growth is important and can play a role in poverty alleviation, research does show that its benefits are not always equally shared and that economic growth can really lead to further marginalisation of the poorest people.⁸

- 5.10 Professor Betty Lovai from PNG explained:

The majority of Papua New Guineans live in rural areas, but if you go to Moresby today you will see the rate at which the city is developing is so fast. You fly out of Port Moresby and you see a different picture of Papua New Guinea. That needs to be understood. You are looking at two different worlds in one country...Papua New Guinea is so diverse that one strategy may not work. If you apply one intervention in one part of the country, it may not quite work in another part of the country because of the cultural views as well.⁹

Impact of inequality

- 5.11 In its submission, the Department of Foreign Affairs and Trade (DFAT) expressed its views on the impacts of inequality on economic growth and development:

High levels of inequality, in particular gender inequality discourage the development of accountable government and

6 Mr Mark Pruden, International Development Business Unit Manager (Asia Pacific), Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, p. 18.

7 DAI, *Submission 110*, p. 3.

8 Ms Daisy Gardener, Corporate Accountability and Fair Trade Adviser, Oxfam Australia, *Committee Hansard*, Melbourne, 15 August 2014 p. 13.

9 Professor Betty Lovai, *Committee Hansard*, Canberra, 3 February 2015, p. 2.

undermine civic and social life. In extreme cases, this leads to conflict. In more benign cases, it further retards economic growth, depresses private investment and makes the growth that has been achieved more fragile.¹⁰

5.12 DFAT also noted, however, that developing countries are increasingly responding to this with inclusive growth and pro-poor growth strategies.¹¹

5.13 Donors are being more explicit about which groups their programs are targeting. An example of this can be seen in the World Bank Group submission, which states not only the growth target but also the specific population being targeted:

[The World Bank Group's] goals are to end extreme poverty by decreasing the percentage of people living on less than US\$1.25 a day to no more than 3 per cent by 2030; and to boost shared prosperity by fostering the income growth of the bottom 40 per cent of the population in each developing country, and to do so in ways that are environmentally, socially and economically sustainable.¹²

5.14 Although less precise in its goals, Australia's Aid program includes both a reference to economic growth and poverty:

Promoting Australia's national interest by contributing to sustainable economic growth and poverty reduction.¹³

5.15 Explaining the importance of focusing on economic growth and poverty, the Australian Strategic Policy Institute discussed how both contribute to Australia's national interest:

...the case for maximizing business contributions to development chiefly rests, firstly, on the role severe deprivation and inequality can play in sparking violence, and, secondly, on private enterprise's potential to generate the sort of growth (and potentially the kind of equity) that might avoid instability.¹⁴

10 Department of Foreign Affairs and Trade (DFAT), *Submission 21*, p. 9, citing N Birdsall, 'Income Distribution: Effects on Growth and Development', Centre for Global Development, *Working Paper No. 118*.

11 DFAT, *Submission 21*, p. 10. See p. 5 for DFAT's definition of inclusive growth and pro-poor growth.

12 World Bank Group, *Submission 75*, p. 4.

13 DFAT, 'Australia's Aid program' <www.dfat.gov.au/aid/Pages/australias-aid-program.aspx> viewed 6 March 2014.

14 Australian Security Policy Institute, *Submission 112*, p. 2.

- 5.16 While noting the importance of the private sector in poverty reduction, the World Bank Group also commented on the need for a coordinated effort between business and governments:

The private sector, in short, provides the most time-tested means of ending poverty quickly and sustainably. But private sector development does not occur in a vacuum. It happens only when governments and the private sector can work together to ensure that businesses operate and grow in ways that promote prosperity for all.¹⁵

- 5.17 Further to the World Bank Group's comments, DFAT expanded on the role of the public sector in private sector led economic growth:

The public sector plays an essential role in providing key public services (such as health and education), social and economic safety nets, transfer programs and environmental stewardship. Its policy and legislative decisions determine to a large degree the scale and quality of economic growth and the private sector's role in it.¹⁶

Current constraints and the enabling environment

- 5.18 The importance of the environment in which businesses operate is self-evident. World Vision Australia, citing the UK's Department for International Development, stated that 'the enabling environment is a broad concept and on the widest definition can comprise all factors external to firms.'¹⁷
- 5.19 In its submission DFAT outlined its views on the role for partner governments in developing countries, and noted that private sector growth is 'hindered by poor policy choices, weak governance systems and limited capacity to provide key public goods and services'.¹⁸
- 5.20 DAI outlined a number of key aspects of the enabling environment:
- ...predictable and equitable tax environments, sensible regulations and streamlined bureaucracy, educated and appropriately flexible workforces, competent business service providers, adequate

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

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

17 World Vision Australia, *Submission 36*, p. 10, citing Simon White and Peter Fortune, *Review of DFID Activities in the Enabling Environment – Final Report*, United Kingdom Department for International Development, 2004.

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

infrastructure (transport, power, etc.), effective and stable governance institutions, operating conditions characterized by physical safety and the rule of law, effective measures to stem corruption, strong legal frameworks for trade and commerce, and so on.¹⁹

- 5.21 In addition to those aspects listed above, DFAT noted more specific activities that contribute to ‘building better enabling environments for business’, including ‘business registration, contract laws, business support institutions, [and] access to finance’.²⁰

Constraints faced by the private sector

Constraints—international businesses investing in developing countries

- 5.22 Control Risks asserted that even where potential returns from business activities are high, businesses may not operate in developing countries:

...private sector organisations will often choose not to enter a new market, even if the economic opportunities are there, because they believe the risks of operating in those markets outweigh the potential economic gain. Even in relation to corporate social responsibility programmes, for which there is no profit motive, the potential reputational damage to a company’s image that can result when things go wrong will often deter organisations from choosing certain countries for their development programmes.²¹

- 5.23 Illustrating the impact of risk on its decision to support activities taking place in developing countries, Efic, Australia’s export finance and insurance agency, stated:

The reality is that the risks in emerging and frontier markets are greater, which is why we do put a limit on the amount of capital we are prepared to allocate into those countries.²²

- 5.24 Medibank suggested that the risks of operating in a developing country are ‘over and above the business risks normally experienced in the Australian market’. It added that risks may be further heightened if a local partner is engaged. Medibank identified the following risks:

- Potential for bribery/corruption

19 DAI, *Submission 110*, p. 3.

20 DFAT, *Submission 21*, p. 29.

21 Control Risks, *Submission 74*, p. 1.

22 Mr Andrew Hunter, Managing Director and Chief Executive Officer, Export Finance and Insurance Corporation (Efic), *Committee Hansard*, Sydney, 7 November 2014, p. 8.

- Sovereign risk – changes in government policy
- Brand/reputational risk
- Opportunity cost versus capital and people focus in core Australian market
- Security of people, assets and intellectual property.²³

Reputational risk in overseas markets

- 5.25 Operating in challenging environments poses new types of reputational risks for businesses which they will need to address. Linking corruption to reputation, Transparency International asserted:
- ...businesses compete in globalized markets not only with their goods and services, but also with their reputation; corrupt practices increase the risk of negative publicity and damages reputation.²⁴
- 5.26 While taking the view that Australia currently has a good reputation both in the extractive industries and education sectors, Professor Moran of the University of Queensland’s Sustainable Minerals Institute noted that it ‘[does not take] many companies that do not operate well to tarnish the reputation of Australia.’²⁵
- 5.27 The post-2015 business engagement architecture, provided by the Global Compact Network Australia, suggested that businesses ‘implementing corporate sustainability strategies that advance inclusive economic growth, social equity and progress, and environmental protection’ may find additional benefits, including mitigation of reputational risk.²⁶
- 5.28 However, while a corporate social responsibility program may support reputation, Control Risks contended that ‘the potential reputational damage to a company’s image that can result when things go wrong will often deter organisations from choosing certain countries for their development programs’.²⁷
- 5.29 Over and above the actions of a company itself, selecting and working with a business partner in a developing country can present additional risks. Emphasising that it takes its reputation very seriously,²⁸ the

23 Medibank Private, *Submission 119*, pp. 6–7.

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

25 Professor Christopher Moran, Director Sustainable Minerals Institute, University of Queensland, *Committee Hansard*, Brisbane, 11 August 2014, p. 11.

26 Global Compact Network Australia, *Submission 79*, p. [8].

27 Control Risks, *Submission 74*, p. 3.

28 Mr Graham Hodges, Deputy Chief Executive Officer, Australia and New Zealand Banking Group (ANZ), *Committee Hansard*, Melbourne, 15 August 2014, p. 27.

Australia and New Zealand Banking Group Limited (ANZ) explained its preference for customers who adopt international practices and are prepared to ‘improve practices over time’. ANZ advised that it has extensive internal processes to evaluate the potential impacts of its lending, including a reputational risk committee chaired by the bank’s chief risk officer.²⁹

- 5.30 Medibank Private proposed that, when partnering with local firms, businesses can mitigate reputational risks by having:
- Protocols for screening local agents, potential partners, key employees etc. and ongoing monitoring of their conduct.
 - A clear policy against bribery and corruption that potential partners must agree to.
 - Training for employees who will be operating in the Indo-Pacific countries.
 - Ongoing monitoring, auditing and response processes.
 - Suitable protection for intellectual property.³⁰

Constraints—local private sectors

- 5.31 In addition to the challenges due to the business and enabling environments, the inquiry received evidence on constraints affecting local businesses in the region. The Overseas Development Institute provided the following summary of constraints within local companies:
- deficient technical skills;
 - inefficient production technologies;
 - limited managerial capacity;
 - limited access to resources;
 - unaware of, or unable to implement, inclusive business practices or best-practice social, environmental and governance standards.³¹

- 5.32 Coffey, in considering the operation of Australia’s Enterprise Challenge Fund for the Pacific and South East Asia (ECF), noted the constraint of local business skills on the effectiveness of the program:

In the Pacific, businesses faced challenges beyond access to funding—but also technical business skills, access to business support and experience within companies. Many of the Pacific businesses were struggling with saturation of the domestic market

29 Ms Jane Nash, Group Head, Corporate Sustainability and Financial Inclusion, ANZ, *Committee Hansard*, Melbourne, 15 August 2014, p. 27.

30 Medibank Private, *Submission 119*, p. 7.

31 Overseas Development Institute, *Submission 51*, p. 3.

and to achieve scale requires export capabilities and an aid for trade approach (i.e. using aid to improve the infrastructure required to facilitate trade). As such, the challenge was up-skilling businesses and providing advice in accessing wider trading and export opportunities.³²

- 5.33 The Solomon Islands Chamber of Commerce and Industry reflected on the country's current 'youth bulge' and the resulting need to address youth employment and youth enterprise development, as well as the problems associated with aid dependence:

Solomon Islanders are a people once known as hard-working, innovative and independent. However, many have become spectators of development, relying on hand-outs from politicians and on donor-funded projects for livelihood.³³

- 5.34 The Kiribati Chamber of Commerce and Industry, representing one of the most isolated and dispersed nations in the world, observed that the Kiribati economy is still dominated by the public sector, with public enterprises operating monopolies in many sectors. However, it also noted the Kiribati government's efforts to leverage the private sector through its Private Sector Development Strategy 2013/15. The Chamber also advised of efforts underway to improve the capacity of businesses in Kiribati through training programs.³⁴

- 5.35 Pacific Islands Trade and Invest (PT&I) observed that in addition to inherent disadvantages such as small isolated populations, businesses in Pacific island countries, the vast majority of which could be classified as micro-enterprises, face additional challenges. PT&I identified these as: 'small scale of industry, lack of private sector data, market access restrictions and limited international business experience at leadership level.'³⁵

- 5.36 To help overcome capacity constraints, the Manufacturers' Association of Tonga suggested that Australia could support the private sector in Tonga and across the Pacific more broadly through partnerships that provide technology as well as technical and vocational training opportunities:

...train us to know 'How to Fish'. That will ensure sustainable development; long term employment opportunity for poor and all

32 Coffey, *Submission 35*, p. 6.

33 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 5 and p. 2.

34 Kiribati Chamber of Commerce and Industry, *Submission 26*, pp. 1-2.

35 Pacific Islands Trade and Invest (PT&I) *Submission 60*, p. 1.

people, and a huge reduction on imports. The economy will certainly grow.

In addition, I would like to see initiatives on livelihood development in local residential areas where poor people are vulnerable to climate change and its huge impacts on productivity and economic development.³⁶

5.37 PT&I noted the challenges, but also suggested that many of these are areas in which Australian businesses have expertise:

...we recognise that there is room for improvement at enterprise level, in book keeping processing, systemisation, technology and skills development which will improve the region's export competitiveness. These are all areas of relative strength in the Australian business milieu, and provide opportunities for investment, capacity building and trade links.³⁷

Enabling the private sector

5.38 Challenges for doing business for local and international firms, as well as for investors, can be organised around the following categories:

- Governance – macroeconomic policies, public financial management, public administration, law and order
- Business enabling environment – business laws and regulations, industry specific policies and policy implementation
- Business skills and capacity – constraints
- Infrastructure – transport, communications and electricity
- Social sectors and social environment – health and education.

Governance

5.39 According to DFAT, 'the credibility of a government's policies and the effectiveness of its regulatory institutions either promote or inhibit private sector growth.'³⁸

5.40 This view was shared by Robert Milliner, at that time the B20 Australia Sherpa, who said:

One of the biggest challenges in most countries is the deficiency in the enabling environment, either through stability of the governance arrangements or around lack of sophistication in their

36 Manufacturers' Association of Tonga, *Submission 3*, p. 2.

37 PT&I, *Submission 60*, p. 5.

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

administrative processes and procedures in their regulatory environments in the overall way in which they provide the rule of law and the basis on which businesses can invest.³⁹

Macroeconomic settings

- 5.41 Save the Children Australia noted that in addition to investing in overall governance, security and justice aspects of the enabling environment, governments can foster greater private sector development through macroeconomic and budgetary policy.⁴⁰
- 5.42 Dr Tata Chaiechi contended that ‘poverty is one of the major macroeconomic problems of many countries in the Indo-Pacific region’ due to the prevalence of low national incomes and high levels of unemployment.⁴¹
- 5.43 According to the World Bank Group ‘macroeconomic stability is the foundation of successful private sector development’.⁴² Along these lines, Mr Paul Flanagan, Visiting Fellow at the Australian National University, suggested that while the linkages may seem indirect:
- ...these macro-economic settings are arguably the most important element for building a thriving private sector and leveraging entrepreneurial abilities. The macro-economic settings encompass good exchange rate policy, good fiscal policy (including tax policy), good monetary policy, and good wages policy.⁴³
- 5.44 The World Bank Group submitted that it supports developing countries to design and implement appropriate macroeconomic policies, including fiscal policy, public expenditure, debt, financial, and procurement management.⁴⁴
- 5.45 Noting that macroeconomic issues are potentially sensitive as they go to the core of national sovereignty, Mr Flanagan supported the use of multilateral opportunities for peer based reviews of policies. In addition, at a government to government level, he suggested both ministerial engagement and support for capacity building initiatives.⁴⁵

39 Robert Milliner, B20 Sherpa, B20 Australia, *Committee Hansard*, Canberra, 18 June 2014, p. 2.

40 Save the Children Australia, *Submission 38*, p. 7.

41 Dr Tata Chaiechi, *Private Capacity, Submission 61*, p. 2.

42 World Bank Group, *Submission 75*, p. 9.

43 Mr Paul Flanagan, *Submission 153*, p. [1].

44 World Bank Group, *Submission 75*, p. 9.

45 Mr Paul Flanagan, *Submission 153*, p. [2].

Law and justice

- 5.46 In relation to security of people, International SOS submitted that concerns about safety and wellbeing of staff can ‘act as a barrier to investment or trade engagement’.⁴⁶
- 5.47 Accenture put forward a similar view, and advised that the level of risk around safety and security can determine its willingness to invest and operate in a country.⁴⁷
- 5.48 Further discussing security risks, Control Risks suggested that with increased private sector exposure in developing countries, the Australian Government needs to ensure mitigation strategies are in place to support Australian companies in these environments.⁴⁸ This could involve ensuring company security teams have investment in the local community, such as by training locals for security roles and requiring adherence with initiatives like the UN Voluntary Principles on Security and Human Rights. In the long term, Control Risks considered this would promote further private sector investment.⁴⁹
- 5.49 As part of Australia’s whole-of-government approach to the delivery of aid, the Australian Federal Police (AFP) invested over \$130 million supporting law and justice programs in 2013-14.⁵⁰ In its submission, the AFP emphasised rule of law, including effective policing, legislation, and judicial process along with the capability to enforce outcomes as essential in providing businesses with the confidence to invest in a country. Further, the AFP outlined its contribution to promoting economic development:

As the AFP supports the redevelopment of legitimate and accountable local police agencies, it assists in building the conditions required for economic development, including a safe and secure environment for investment, for business operation and for staff (both local and expatriate).⁵¹

46 International SOS (Australasia), *Submission 77*, p. 1.

47 Mr Joshua Kennedy-White, Managing Director, Health and Public Service Operating Group, Accenture, *Committee Hansard*, Canberra, 27 October 2014, pp. 6–7.

48 Control Risks, *Submission 74*, p. 5.

49 Control Risks, *Submission 74*, p. 2.

50 DFAT, ‘Who We Work with: Whole of Government’ <www.dfat.gov.au/aid/who-we-work-with/whole-of-government/Pages/whole-of-government.aspx> viewed 6 March 2015.

51 Australian Federal Police (AFP), *Submission 101*, pp. 2–3.

Legal frameworks and the functioning of courts

- 5.50 Legal frameworks support safety and security. Referring to its close relationship with the Attorney-General's Department, the AFP observed:
- ...unless you have all of the other surrounding capabilities for a strong law and justice platform available – it is very difficult to improve policing.⁵²
- 5.51 In the context of discussing the effects of illicit financial flows on government budgets, Transparency International observed that:
- ...legal frameworks are required to enable asset recovery cases to go to court, both in countries where assets were stolen and deposited.⁵³
- 5.52 Well-functioning courts are necessary to support businesses and individuals. The World Bank Group referred to its International Finance Corporation (IFC) program, funded through its partnership with the Australian Government, on alternative dispute resolution mechanisms. It noted that:
- IFC assisted the courts in PNG and Samoa to introduce mediation practices and legislation. Around 20 mediators have been trained in Samoa, and 70 in PNG. In PNG, cases worth more than US\$35 million have been resolved via mediation and saved businesses an average of US\$54,000 each in legal fees.⁵⁴

Property rights and development assistance

- 5.53 Land ownership identification and access to legal titles is of great importance to businesses seeking to invest in assets or providing finance to others wanting to invest. World Vision Australia submitted that 'insecure property rights are a barrier to the development of a healthy private sector', and recommended 'investment in programs that build the capacity of local communities to advocate for positive change'.⁵⁵
- 5.54 Land is often used as collateral and administration of land titling can significantly impact on businesses, small and large. Mr Greg Pawson, representing both the Australia–Papua New Guinea Business Council and Westpac Pacific, explained how administration of land titling can present a risk to business activity:

52 Assistant Commissioner Mandy Newton, National Manager, International Deployment Group, AFP, *Committee Hansard*, Canberra, 22 September 2014, p. 2.

53 Transparency International, *Submission 41*, p. 8.

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

55 World Vision Australia, *Submission 36*, p. 12.

It is a major problem. In PNG, a really good example is that earlier this year the land transfer office relocated to another building. It was effectively closed for four months, so we could not do any transacting at all. When we refinanced a loan facility at BSP or ANZ or it was new investment money, we could not complete the transaction so the whole place just ground to a halt. We had to escalate to the Prime Minister for resolution... We had numerous transactions – some of them very sizeable – purchasing commercial office buildings for projects to build new infrastructure and new buildings that were held up because of it.⁵⁶

- 5.55 In the context of large projects which may involve resettlement, ChildFund Australia raised concerns about projects that fail to conduct appropriate land ownership identification, and the subsequent negative community impacts.⁵⁷
- 5.56 More generally, Adam Smith International emphasised the potential for significant tensions in countries with 'high proportions of communal land ownership, such as the Pacific'.⁵⁸
- 5.57 Submissions noted that women are more likely than men to have insecure rights to land, and less control over customary land.⁵⁹ Further, countries that have recently experienced conflict, such as Cambodia and Myanmar typically have land title and ownership insecurities.⁶⁰
- 5.58 The Australian Council for International Development (ACFID) suggested aid funds could be used to support the 'development of appropriate regulatory frameworks for investment, including land tenure'.⁶¹
- 5.59 Land Equity International noted Australia's strengths in relation to land tenure and land administration as the basis for suggesting that the Australian Government could:

56 Mr Greg Pawson, President, Australia Papua New Guinea Business Council, Australia Fiji Business Council, Australia Pacific Islands Business Council; and General Manager, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2014, p. 29.

57 ChildFund Australia, *Submission 8*, p. [3].

58 The submission noted that approximately 80 per cent of land in the Pacific is communally owned. Adam Smith International, *Submission 17*, pp. 12–13.

59 ACIAR, *Submission 22*, p. [6]; Asian Development Bank – Pacific Liaison and Coordination Office, *Exhibit 66*, 'Focus Area Action July 2014 – Pacific Private Sector Development Initiative', p. [4].

60 See for example, 'World Vision Case Study: Improving Land Tenure Security in Cambodia', World Vision, *Submission 36*, p. 12.

61 Australian Council for International Development (ACFID), *Submission 52*, p. 18.

- Support improved policy, legal and regulatory environment for good governance in property registration in Indo-Pacific countries.
 - Work in partnership with developing countries to introduce more efficient, transparent systems and procedures for recording and transacting property and making information available for public scrutiny.
 - Work in partnership with developing countries, businesses and civil society to encourage sustainable investment in land and responsible management of land resources.
 - Support adoption of the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security and the Principles for Responsible Agricultural Investment.⁶²
- 5.60 However, AID/WATCH cautioned against the implementation of any programs ‘which threaten customary land through a promotion of land privatisation’, and risk displacement and further impoverishment of families.⁶³
- 5.61 The Committee noted that there are a number of projects including through the World Bank Group, the G7’s (formerly G8) New Alliance for Food Security and Nutrition, and the UN’s Food and Agriculture Organization, which are active in this area, e.g. producing voluntary guidelines for responsible governance of land tenure.
- 5.62 Further to these various initiatives, the Committee suggests that the Australian Government can:
- support improving land title governance by building government capacity through official exchanges; and
 - require all private sector partners to demonstrate ethical land acquisition:
 - ⇒ considering both individual and community customary tenure and any other access rights or titles that may be in place;
 - ⇒ engaging in full consultation with relevant stakeholders, including both men and women, prior to acquisition;
 - ⇒ having regard to transparency; and
 - ⇒ gaining fully informed consent from relevant stakeholders and agencies and offering fair and just payment of compensation to previous owners.

62 Land Equity International, *Submission 96*, p. [3].

63 AID/WATCH, *Submission 44*, p. [2].

Recommendation 12

The Committee recommends that the Australian Government continue to focus on projects that help build a system of legal land tenure in countries of the Indo-Pacific region that:

- take into account both individual and community customary tenure and any other access rights or titles that may be in place;
- seek to protect the rights and entitlements of women and vulnerable groups; and
- help build country capacity and governance systems through official exchanges of experts who have sufficient time and support to help effect change.

The business enabling environment

5.63 GRM International described the complexities of the business environment, including ‘policy, legal, institutional, and regulatory conditions that govern business activities.’ It further observed that in many countries, the environment is ‘hostile to sustained market-led growth, and particularly so for businesses serving low-income markets.’⁶⁴

5.64 The Overseas Development Institute stated that efficient and effective regimes benefit both businesses and broader social outcomes:

Capturing the positive growth and poverty reduction effects of the private sector pre-supposes the existence of efficient (and effective) regulatory regimes. These regulatory systems are meant to benefit companies by ensuring fair competition as well as benefiting host countries by removing incentives to pollute, use resources unsustainably. They also regulate fair remuneration and employment practices. The lack of such regulations (fair labour laws, effective environmental regulations, clear land right systems etc.) could limit positive private sector impacts and in some cases may even encourage activities that could be detrimental to national growth and poverty reduction.⁶⁵

64 GRM International, *Submission 57*, p. 2.

65 Overseas Development Institute, *Submission 51*, p. 3.

- 5.65 Efficient and effective regimes do not always exist, as the Asian Development Bank Pacific Private Sector Development Initiative (ADB PSDI) observed:
- Pacific economies have long suffered from outdated and inappropriate laws and regulations. In many cases, laws have simply been absent. The key legal areas of company formation, contracting, dispute resolution, and insolvency present a common theme in all Pacific countries. They have been largely uncertain and poorly enforced, increasing risks and transaction costs for business. They have done very little to provide the legal platform necessary to support a robust and developing private sector.⁶⁶
- 5.66 Commenting on the large number of policies, laws and regulations that impact on business, DAI suggested a role for donors to support countries to approach reform systematically and without bias:
- Absent donor engagement, [foreign direct investment] and indeed domestic investment decisions usually play out on a case by case bases, and individual companies advocate for narrow reforms to their own benefit. DAI has found that by acting as an impartial facilitator, it can benefit companies across a whole industry or range of industries, including both small domestic enterprises and large foreign investors.⁶⁷
- 5.67 In addition to this, donors including the German Federal Ministry for Economic Cooperation and Development (BMZ), promote ‘constructive dialogue between state and private sector stakeholders’. BMZ noted that it empowers both public agencies and the private sector to participate in such dialogue.⁶⁸
- 5.68 The Asia Foundation also reflected on its experience in facilitating public-private dialogue and stated that ‘there is a clear need on the part of the private sector in Australia and in Asian countries to develop a “culture of dialogue and partnership”’.⁶⁹

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

67 DAI, *Submission 110*, p. 4.

68 German Federal Ministry for Economic Cooperation and Development (BMZ), *Submission 54*, pp. 3-4.

69 Asia Foundation, *Submission 25*, p. 3.

5.69 What is meant by an efficient and effective regime changes over time and can depend on whether that economy participates in global trade. As Mr Milliner, Australia's B20 Sherpa in 2014, highlighted:

The continual point you get is that development of governments and systems of governments around the right type of framework are not keeping pace with the changes that are occurring in the world and, certainly, with the fact that it is a globalised business environment.⁷⁰

Trade agreements and development

5.70 Mr Milliner expanded on the need for effective trade regimes:

Ineffective trade regulations and trade systems could limit the international reach (and success) of domestic enterprises – which is particularly important within the Indo-Pacific context due to the limited size of internal markets of many countries in the region.⁷¹

5.71 Observing that trade agreements can support the regulatory efforts of countries, the ANZ pointed to PACER (Pacific Agreement on Closer Economic Relations) Plus as an opportunity for Pacific island countries to commit to reforms.⁷² The Office of the Chief Trade Adviser, which assists the Forum Island Countries (FICs) in their negotiations with Australian and New Zealand on the PACER Plus agreement also discussed this opportunity:

The FICs recognise the importance of trade as a powerful engine of economic growth, but they continue to encounter internal and external barriers in utilising trade as a means to achieve economic growth and sustainable development. The negotiation of trade disciplines under PACER Plus can address some aspects of internal and external barriers to trade. However, internal barriers such as poor infrastructure require a different approach given the limited resources available to the FICs.⁷³

5.72 The Office of Chief Trade Adviser acknowledged the value of programs such as the Pacific Horticultural and Agricultural Market Access program (PHAMA) which is addressing non-tariff barriers to trade. However, it went on to note the importance of a chapter within the PACER Plus agreement focusing on productive capacity building.⁷⁴ Mr Daniel Runde,

70 Mr Robert Milliner, B20 Sherpa, B20 Australia, *Committee Hansard*, Canberra, 18 June 2014, p. 7.

71 Overseas Development Institute, *Submission 51*, p. 3.

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

73 Office of the Chief Trade Adviser, *Submission 12*, p. 2.

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

Center for Strategic and International Studies (CSIS), made a similar point in the context of other trade agreements:

While FTAs represent the highest standard for trade engagement, trade and investment framework agreements and bilateral investment treaties are also good intermediate steps that nonetheless strengthen economic ties and drive development... Trade capacity building chapters in trade agreements help frame up the areas of focus. In the ongoing Trans-Pacific Partnership negotiations, Australia has the opportunity to explore cutting edge trade engagements and use trade capacity building as part of furthering trade through the Trans-Pacific Partnership.⁷⁵

- 5.73 The Micro-Enterprise Development Programme (MEDEP) observed some of the impacts of committing to reforms by participating in the global trade system:

After adopting economic liberalization policy and entry into World Trade Organisation (WTO), a fast and significant development has been observed in financial service sector. Before adopting economic liberalization, [the Government of Nepal] had only three government owned Banks but now about 247 financial institutions such as Private Banks, Finance Companies, Micro-Finance Institutes, Financial NGOs (FINGOs) and Co-Operatives which are affiliated to the central Bank and operating financial transaction all over the country. Therefore, there is no dearth of access to finance opportunities for micro and small enterprises. However, still there are policy issues to be addressed to resolve the problems of easy access of credits by micro and small enterprises.⁷⁶

- 5.74 The International Women's Development Agency further observed that the impact of changes in laws and regulations as a result of trade agreements, including on the wellbeing of women, ultimately depends on the underlying features of a country:

Trade policy choices will affect Pacific women and men differently because they play different social and economic roles, and because pervasive gender-based discrimination marginalises women from many aspects of social and economic life. Without effective gender

75 Mr Daniel Runde, Director, Center for Strategic and International Studies (CSIS), *Committee Hansard*, 2 October 2014, Canberra, p. 3.

76 Micro-Enterprise Development Programme, *Submission 18*, p. 5.

analysis of trade policy options, PACER Plus negotiations will be based on a partial understanding of the current economic and social context.⁷⁷

Trade promotion and development

5.75 Linking to international markets is important for small economies. Trade and investment promotion agencies are one way in which governments support increased links. The inquiry received evidence from both Australian and international agencies including Austrade; Trade and Investment Queensland; and PT&I, the trade and investment promotion arm of the Pacific Islands Forum Secretariat.⁷⁸

5.76 PT &I reflected on the opportunity to further improve its services:

PT&I has a natural affiliation with Austrade, and a mutual interest in freer trade and investment. While there is already a collegial relationship between both organisations, further partnership on strategic initiatives, especially the strengthening of regional investment promotion authorities would be beneficial. There is also a great opportunity for Pacific Islands exporters and investment proponents to leverage Austrade's international network for new leads.⁷⁹

5.77 Dr Tess Newton Cain, of the Lowy Institute, reflected on regional service delivery in the Pacific to support private sector growth. She noted that PT &I 'was assessed to be one of the more successful "pooling" activities in the region.'⁸⁰ Dr Newton Cain said:

An important type of regionalism involves countries pooling services that are normally provided at the national or subnational level. Pooling can occur in a range of areas, including fisheries management, higher education, transportation, central banking and procurement. It can be driven by the private sector, or civil society, [or] governments.⁸¹

77 International Women's Development Agency (IWDA), *Submission 122*, p. 3.

78 See DFAT, *Submission 21*, Attachment D – Annexure to DFAT Submission – Views from Austrade and Department of Industry; Queensland Government, *Submission 125*; and PT&I, *Submission 60*. In its submission (p. 3) PT & I summarised its key activities as: developing export-capable businesses; facilitating the export process; connecting exporters with international buyers; providing promotional support, networks and technical expertise; facilitating the marketing of Pacific Island tourism services and products; introducing potential investors to the Pacific Islands; promoting the value of Pacific Island art and artisans work; facilitating shared understanding between markets.

79 PT&I, *Submission 60*, p. 6.

80 Lowy Institute for International Policy, *Submission 82*, p. 8.

81 Mr Matthew Dornan and Dr Tess Newton Cain (2014), *Regional Service Delivery among Pacific*

- 5.78 Australian aid funding aims to promote private sector growth which achieves benefits for those with low incomes. However, the Committee considers that particularly in the Pacific, due to the unique challenges associated with remoteness and small populations, more can be done to identify, promote and support opportunities for Australian businesses to enter into commercial investments, including those that are small scale.

Recommendation 13

The Committee recommends Austrade and the Department of Foreign Affairs and Trade develop strategic partnerships with trade and investment promotion authorities in the Pacific, such as Pacific Islands Trade and Invest. These partnerships should include opportunities for twinning and fee for service arrangements that support small enterprises and those led by women.

Access to finance and development

- 5.79 Access to financial services is important for both individuals and businesses. The ADB PSDI asserted:
- Effective financial systems are instrumental in channelling savings to their most productive use. Countries with well-developed financial systems experience faster growth rates and lower levels of poverty than those where financial institutions are underdeveloped. There is a substantial body of empirical evidence documenting the relationship between levels of credit to the private sector relative to gross domestic product (GDP) and per capita GDP growth.⁸²
- 5.80 The functioning of financial systems is influenced to a large extent by government policy. Without effective systems, productive activity cannot increase. The Overseas Development Institute observed:
- Companies can be hindered by a lack of access to finance, with banks regarding some private enterprises (i.e. start-ups or SMEs)

Island Countries: An Assessment,

<www.apo.org.au/files/Resource/app_regionalservicedeliveryamongpacificislandcountriesassessment_aug_2014.pdf>, viewed 5 April 2015.

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

as high-risk borrowers and thus charging higher interest rates or requiring larger collateral for the provision of loans.⁸³

5.81 The ANZ commented on its efforts to build the capacity of its staff to increase access to financial services in the region. It also suggested that the Australian Government could enhance the effectiveness of its efforts:

... by supporting the training of officials who regulate the financial sector in those countries to improve the efficiency and effectiveness of financial regulation. This helps facilitate expansion of private sector investment and creates a greater impact by coordinating Australian public and private sector activity.⁸⁴

5.82 Mobilising finance for businesses and development outcomes, including through impact investing, is discussed further in chapter eight.

Industry and sector policies

5.83 When responding to questions on the potential role for the Australian Government to support mineral resource extraction and materials development, the Sustainable Minerals Institute suggested:

It is far more likely that Australian companies, technology and processes will be successful if they are operating in an environment that is receptive, that can negotiate well and that can regulate properly, and that does not mean replicating Australia's regulations; it means understanding the regulatory environment in those countries and then making fit-for-purpose regulations and policies in those places. They have to fit the culture and they also have to fit the internal capability. That makes an environment where our companies can operate well.⁸⁵

5.84 Supporting governments to regulate this sector is, as the Development Policy Centre noted, the purpose of DFAT's Mining for Development Initiative. The initiative is 'essentially a government oriented, university-based training and technical assistance program in the area of mining sector governance.'⁸⁶

5.85 The North-South Institute observed that the effects of industry policies, as with other government interventions, depend on the context and the policies:

83 Overseas Development Institute, *Submission 51*, p. 3.

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

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

86 Development Policy Centre, *Submission 103*, pp. 13–14.

Poor industrial policies and regulations may contribute to ineffective production systems and the proliferation of inefficient state owned enterprises. Well-implemented industrial policy could, on the other hand, promote viable productive sectors through the creation, for example, of enterprise clusters which in turn promote economies of scale and scope as well as limiting (or removing) the negative environmental impacts of enterprises.⁸⁷

- 5.86 The MEDEP observed that the Government of Nepal is looking to expand its industrial sector:

Government of Nepal (GoN) is committed to promote private sector for national economic development. In this context, GoN has promulgated Industrial Policy 2010 with the purpose of facilitating investment by private sector in the industrial sector. For the first time GoN has given high priority in the policy to Micro-Enterprise Sector as the means of poverty alleviation targeting the Women, Poor and Excluded in rural areas and later linking them with small, medium and large enterprises for their scale up.⁸⁸

- 5.87 Newcrest Mining Limited suggested that donors, including Australia, support countries to develop a ‘master economic development plan’ to create a foundation for broader growth. Newcrest suggested this plan would include identifying strategic business sectors and constraints to growing those sectors:

The selected business sectors should be based on the underlying strengths, characteristics, culture and philosophy of each location. For example, some locations might suit the extraction of natural resources, in others it might be agriculture or tourism or a mixture. By leveraging the natural strengths of a location, those businesses are more likely to succeed and grow which will in time enable a broader distribution of both financial and non-financial economic benefits.⁸⁹

Infrastructure, energy and development

- 5.88 Infrastructure and energy access is critical to both business and the broader community. As BHP Billiton asserted, ‘access to energy is

87 North-South Institute, *Submission 51*, p. 3.

88 MEDEP, *Submission 18*, p. 4.

89 Newcrest Mining Limited, *Submission 109*, p. [2].

essential for the provision of clean water, sanitation, lighting, heating, cooking, industry, transport and telecommunications'.⁹⁰

- 5.89 The ANZ contended that a country must have in place adequate economic infrastructure and services to support private sector development and economic growth, including 'reliable energy sources, transport and storage services, communications, banking and financial services, and access to quality, well-regulated business and other services'.⁹¹
- 5.90 However, the ANZ also noted that according to the OECD, Australia's ODA spend on infrastructure is comparatively low, and suggested an increased focus on this area.⁹²
- 5.91 Both BHP Billiton and the Minerals Council of Australia (MCA) argued that fossil fuels will continue to play a significant role in the provision of energy for the foreseeable future.⁹³
- 5.92 The MCA raised concerns about the World Bank's decision in 2013 to limit funding for coal-fired generation projects, and suggested Australia engage with other World Bank members to seek a review of this decision:
- The bottom line is that excluding coal from the energy mix will mean that tens of millions or even hundreds of millions of people will have to wait decades longer for energy access and a route out of poverty.⁹⁴
- 5.93 PT&I observed that current approaches to infrastructure delivery in the Pacific could be improved:
- The privatisation or provision of select public services by international firms could go some way in reducing Pacific Islands government expenditure and driving down prices, while also increasing competition and quality of services.⁹⁵
- 5.94 The use of Public Private Partnerships for infrastructure is discussed in chapter seven.

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

91 ANZ, *Submission 48*, p. 4.

92 ANZ, *Submission 48*, p. 4.

93 BHP Billiton, *Submission 128*, p. 5; and Mr Brendan Pearson, Chief Executive, Minerals Council Australia, *Committee Hansard*, Canberra, 1 September 2014, p. 1.

94 Mr Brendon Pearson, Chief Executive, Minerals Council Australia, *Committee Hansard*, Canberra, 1 September 2014, p. 1.

95 PT&I, *Submission 60*, p. 9.

Technology for development

5.95 Accenture commented on the potential for multi-national technology companies to support development:

... there are a large number of organisations that have a background in technology and digital that could potentially partner to really bring something back – the sum of the development sector knowledge and the technology private sector knowledge to look at solutions that do allow leapfrogging.⁹⁶

5.96 New technologies are leading to innovative business and education models which in turn are opening up new opportunities. The Committee sees technology and innovation as areas offering potential for change that together warrant further attention.

Recommendation 14

The Committee recommends that the Australian Government:

- **direct significant aid investment into innovative technology across the Indo-Pacific region; and**
- **utilise the innovationXchange to explore partnership opportunities to expand the use of technology in new and beneficial ways.**

The social and political environment—corruption and development

5.97 In addition to risks relating to security, partnering and human rights, Control Risks identified corruption as a key risk in developing countries, asserting that it ‘inhibits aid and private sector investment from reaching those most in need’.⁹⁷ Control Risks asserted the importance of ensuring business partners are both financially viable and operating ‘safely and cleanly’:

By understanding the background and reputation of potential business partners, companies can ensure their business partners are those who bring commercial success and quality operations to the economy. It can help to ensure funds coming in from overseas

96 Ms Morgana Ryan, Global Lead, Organisational Strengthening, Accenture Development Partnerships, *Committee Hansard*, 27 October 2014, p. 5.

97 Control Risks, *Submission 74*, p. 5.

are genuinely being used for the business purposes for which they are provided and not flowing into the pockets of corrupt recipients.⁹⁸

- 5.98 Mr Caleb Jarvis, representing both the Australia–Pacific Islands Business Council and PT&I, described the impact of corruption across the Pacific island nations:

...I think the cancer of the region is corruption, inefficiency and fraud in all its different definitions and that really just erodes the entrepreneurial spirit across the whole base, and makes it very difficult for foreign entities to come in.⁹⁹

- 5.99 As a large global consultancy with a multi-country presence, Accenture provided insight into the impact of the local business environment on decisions to enter a country:

...we are in many countries now and the reason that will stop us going into the next will probably largely be around safety, security and corruption. We have stringent US anticorruption guidelines, and that would be a deal-breaker for us.¹⁰⁰

- 5.100 A number of witnesses recommended that the Australian Government encourage Australian businesses to uphold ethical standards in their operations in developing countries. These organisations included Woolworths, Global Compact Australia Network, and Save the Children Australia.¹⁰¹

- 5.101 Transparency International cited a survey conducted by the World Economy Forum that listed corruption and bureaucracy as the top constraints for companies in emerging economies. It expanded:

...good governance and tackling corruption facilitate business opportunities and overall prosperity by (1) creating a foundation for economic growth and productivity and rising income of citizens; (2) by creating a stable environment for investment; and (3) by promoting trade, eliminating barriers, increasing efficiency, increasing fair competition and raising exports.¹⁰²

98 Control Risks, *Submission 74*, p. 2.

99 Mr Caleb Jarvis, Vice President, Australia Pacific Islands Business Council; and Trade Commissioner, PT&I, *Committee Hansard*, Sydney, 7 November 2014, p. 28.

100 Mr Kennedy-White, Accenture, *Committee Hansard*, Canberra, 27 October 2014, pp. 6–7.

101 Woolworths Limited, *Submission 28*, p. 2; Global Compact Australia Network, *Submission 79*, p. 1; Save the Children Australia, *Submission 38*, p. 3.

102 Mr Pascal Fabie, Group Director, Network Chapters and Programs, Transparency International, *Committee Hansard*, Canberra, 27 August 2014, p. 1.

5.102 At the business level, Control Risks explained the importance of companies addressing risks in relation to corruption and putting in place mitigating strategies:

By establishing robust anti-corruption policies, companies are able to break the cycle of corruption within their own sphere of influence, ensuring the investment of capital and skills in their own project reaches those most entitled to it. This ensures quality project delivery and effective use of invested funds. Organisations able to achieve success in this area serve as role models for others, which contributes to the overall good governance and business practices of the country.¹⁰³

5.103 Transparency International noted the potential of increased corruption challenges facing businesses entering new markets and suggested that:

Companies have a responsibility and interest in promoting good business practices – these benefit their bottom line. Ethics – built upon transparency, accountability and integrity – help to set the tone at the top for all company staff to act in conformity with the principle of good corporate practices.¹⁰⁴

5.104 The Global Compact Network of Australia also asserted that commitment to instruments such as the UN Global Compact, which includes anticorruption principles, must come from the highest level, notably the chief executive officer.¹⁰⁵

5.105 Evidence provided by Mr Milliner, B20 Sherpa for Australia in 2014, indicated that this is happening, with significant involvement of the B20 in the G20's anti-corruption working group.¹⁰⁶ Mr Millner advised that work being done seeks to take corruption out of government and improve business performance around corruption issues:

We want to see from a community point of view and from a processes of efficiency point of view the steps taken for countries to adopt appropriate standards and processes around corruption to make those processes a lot more transparent and less subject to

103 Control Risks, *Submission 74*, p. 2.

104 Transparency International, *Supplementary Submission 41.1*, pp. 4-5.

105 Ms Alice Cope, Executive Manager, Global Compact Network Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 27.

106 The B20 brings together business leaders from across G20 member countries to reflect the key role of the private sector as the main driver of strong, sustainable and balanced growth. See 'About the B20', B20 Australia 2014 <www.b20australia.info/about-the-b20/about-us> 14 April 2015.

- corruption. On the business side we want to see businesses that have high standards being recognised for their high standards.¹⁰⁷
- 5.106 The Extractives Industry Transparency Initiative (EITI) is one such process which addresses transparency on the part of both governments and the private sector. The Minerals Council of Australia stated:
- ...it is about the disclosure of payments that mining companies make to host governments. Similarly, host governments disclose their receipts and an independent administrator reconciles the two payments. If there is any discrepancy between the two, that is publicly disclosed.¹⁰⁸
- 5.107 Describing corruption as ‘an insidious tax on development’, Mr Runde, CSIS, proposed an additional supporting mechanism to expose poor practice:
- ...one of the ways is to have an independent press and an independent civil society. I think Australia should consider always: how are they supporting independent civil society on the ground and how are they supporting an independent press?¹⁰⁹
- 5.108 One of the 10 targets of the Australian Government’s new performance framework is to combat corruption. It requires DFAT to ‘develop and implement new fraud control and anti-corruption strategies for all major country and regional programs by July 2015’.¹¹⁰
- 5.109 All stakeholders, from NGOs to large companies, stressed the importance of Australia continuing to invest in the social sectors, governance and anti-corruption, and ethical resource management. The Committee notes that in 2013-14, around 80 per cent of Australia’s ODA expenditure was allocated to funding priorities in these areas.¹¹¹
- 5.110 The Committee recognises the importance of continuing to support governments to effectively manage revenues generated by the private sector, most notably in the extractive sector. It is of particular concern that illicit flows from developing countries can far exceed their ODA. Therefore strengthening developing countries’ taxation laws, excise and

107 Mr Robert Milliner, B20 Sherpa, B20 Australia, *Committee Hansard*, Canberra, 18 June 2014, pp. 4-5.

108 Ms Melanie Stutsel, Director, Health, Safety, Environment and Community Policy, Minerals Council of Australia, *Committee Hansard*, 1 September 2014, Canberra, p. 2.

109 Mr Daniel Runde, CSIS, *Committee Hansard*, Canberra, 2 October 2014, pp. 3-4.

110 DFAT, *Making Performance Count: enhancing the accountability and effectiveness of Australian aid*, June 2014, pp. 6-11, <www.dfat.gov.au/about-us/publications/Documents/framework-making-performance-count.pdf>, viewed 6 March 2015.

111 DFAT, *Performance of Australian Aid 2013-14*, February 2015, p. 12.

customs systems, and helping them to stamp out corruption is key to growing their economies and financial independence.

Civil society and accountability

5.111 In terms of leveraging the strengths of other sectors, Oxfam Australia introduced the importance of a strong civil society to support good development outcomes:

People need to be empowered and free to hold governments and private sector actors to account, and be encouraged rather than discouraged to work with them to find solutions to difficult problems.¹¹²

5.112 In raising this issue, Oxfam Australia indicated that in the area of governance, the civil society enabling environment in the Asia-Pacific region scores the lowest in the world, noting:

Poor relations between governments and civil society, inadequate legal protections for NGOs and those who work for them and frequent violations of the rights to freedom of expression, association and assembly are the main reasons for this low score.¹¹³

5.113 Oxfam Australia suggested a central focus of the Australian Government's aid program should be to ensure that civil society is able to play its role in 'working with businesses to improve their operations as well as acting as watchdogs of corporate practice.'¹¹⁴

5.114 World Vision Australia highlighted its work with local communities in developing countries to empower them to 'advocate for positive change to policies and practices which are barriers to sustainable economic development'. World Vision explained its work with communities to give them a voice and foster local business:

World Vision works to form Community Business Councils, made up of people interested in improving the economic situation in their community. Community Business Councils lead the development and implementation of a strategy to improve the business environment in their community. World Vision supports the councils through this process, assisting them to identify the factors negatively impacting on local businesses and develop activities to address those problems.¹¹⁵

112 Oxfam Australia, *Submission 72*, p. 11.

113 Oxfam Australia, *Submission 72*, p. 11.

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

115 World Vision Australia, *Submission 36*, p. 12.

Private sector development program—considerations

- 5.115 The Development Policy Centre observed that ‘there is no good measure of the quantity of aid for private sector development’. It estimated that, based on reporting to the OECD’s Development Assistance Committee (DAC) compared to other DAC countries, ‘Australia would appear to present a particularly slender profile in support for private sector development’.¹¹⁶
- 5.116 The Development Policy Centre compared Australia’s private sector development expenditure with that of other OECD DAC members, and this is summarised below:

Between 2002 and 2012, the overall share of DAC aid allocated to economic infrastructure and production (a broad proxy for PSD) increased from 31 to 33 per cent. However, there was considerable variation at the level of individual donors, with substantial increases by Korea, Italy, France, Norway, New Zealand and Canada and decreases by Japan and the UK. In 2002 Australia ranked eleventh (of 21 donors) with 21 per cent of its aid allocated to economic infrastructure and production. In 2012 Australia ranked eighteenth, with 15 per cent of its aid allocated to these sector groupings - less than half the DAC average.

In 2012 Australia allocated 0.3 per cent of its aid, to a narrow proxy for PSD - business support services and SME development - ranking last of 20 donors. This expenditure was one-eighth the weighted DAC average of 2.4 per cent. Denmark, Italy, Sweden, Austria, Netherlands and Germany spent more than four per cent of their sector-allocable aid in these areas.¹¹⁷

116 Development Policy Centre, *Submission 103*, p. 7 and p. 9.

117 Summarised from Development Policy Centre, *Submission 103*, pp. 8–9.

Private sector development—moving beyond the enabling environment

- 5.117 Coffey stated that donors have tended to support private sector development through the enabling environment:
- Since the time of the Washington consensus¹¹⁸ economic development initiatives have followed two separate paths. On the one hand the private sector has followed market driven opportunities to develop supply chains and provide goods and services. By contrast, the public sector – and most donors – had focused on a supportive enabling environment and investing in public goods such as infrastructure, health and education in order to entice the private sector to grow.¹¹⁹
- 5.118 The exception to this is support provided by development finance institutions including the World Bank Group’s IFC – the ‘largest global development institution focused exclusively on the private sector’.¹²⁰
- 5.119 The Development Policy Centre commented on the reasons why aid has generally been focused on contributing to the enabling environment rather than ‘allocated directly to, or for the specific benefit of private actors’:
- Aid program strategies and activities are negotiated with partner governments, who do not generally favour the allocation of substantial resources to non-government actors in their countries. This might be for several reasons. They might see such resource allocation as their own responsibility, or they might actually be hostile to private enterprise or the activities of civil society organisations, or they might simply prefer to preserve scarce resources to supplement or complement their own public expenditures. In addition, donor governments themselves are biased toward the provision of aid on a government-to-government basis, since aid plays an important role in diplomacy.¹²¹

118 The Washington Consensus refers to agreement between the IMF, the World Bank, the EU and the US around a broadly free market economic growth agenda. Originally articulated in 1989, the consensus advocated low government borrowing, trade liberalisation, deregulation, floating exchange rates, private sector growth and macroeconomic stability. J Williamson, ‘Washington Consensus as Policy Prescription for Development’, A lecture in the Institute for International Economics series ‘Practitioners of Development’, delivered at the World Bank, 13 January 2004 <www.piie.com/publications/papers/williamson0204.pdf> viewed 9 April 2015.

119 Coffey, *Submission 35*, p. 2.

120 World Bank Group, *Submission 75*, p. 4 and p. 17. Australia joined the IFC in 1956, paying in capital of US\$47.3 million for 1.85 per cent of overall voting power.

121 Development Policy Centre, *Submission 103*, p. 6.

- 5.120 The Springfield Centre observed that the focus on the enabling environment reflects a view that the main factors impacting on businesses are in the hands of the government:

...costs of business are reduced and the allocative power of the price mechanism restored, in turn allowing the supply-side of the economy, unencumbered, to respond. The experience here is mixed. Despite apparently following the ‘correct’ script, countries’ private sectors have often not developed well and growth has remained sluggish. The reasons for this are various but, crucially, processes of institutional reform have not reflected local realities and the other constraints to development – information, networks, knowledge – have not been addressed.¹²²

- 5.121 Fairtrade Australia and New Zealand commented on the challenges in connecting market participants even when the desire to work together already exists:

...getting the farmer up to the point where they can enter the trade. That is the time-consuming part. Getting the Papua New Guinea farmers organised, helping them to get their product up to scratch to enter a market where we had Cadbury waiting to buy, took us three years. It is that piece that is the development piece.¹²³

- 5.122 In contrast to the hands-off approach for supporting business activity, described above, when it comes to the services needed by businesses, or individuals, the Springfield Centre noted that donors have tended to step into the market place:

The ethos here is, if the market isn’t delivering, we should replace it and provide inputs (finance, advice, materials etc) ourselves or pay others directly to do so. After many years of experience, major reviews of these highlight disappointing outreach, sustainability and impact – at best transitory puffs of change – and markets that are distorted and weakened. Why has this happened? Most obviously, agencies haven’t asked the right question. The interveners’ instinct has been to ask: ‘what problems do businesses have and how can I solve these?’ and not to ask the more relevant systemic questions: ‘what problems do businesses have, why isn’t

122 Springfield Centre, *Submission 67*, p. 2.

123 Ms Molly Harriss Olson, CEO, Fairtrade Australia and New Zealand, *Committee Hansard*, 29 August 2014, Canberra, p. 40.

the market environment providing solutions to these and how can I address these'.¹²⁴

- 5.123 ACFID has recommended that the aid program give 'particular attention to the role of micro, small and medium enterprise with the longer-term goal of assisting the transition from informal to formal economic activities'.¹²⁵
- 5.124 In its submission, the Solomon Islands Chamber of Commerce and Industry highlighted some of the negative impacts of aid in Solomon Islands and proposed that the way to achieve sustainable economic growth and prosperity is through the enhancement of the local small and medium sized enterprises sector.¹²⁶
- 5.125 The MEDEP in Nepal demonstrates what can be done to support the smallest of these businesses. Implemented by the UNDP and the Government of Nepal with financial assistance from the Australian Government,¹²⁷ the program helps by providing skills and business training and other support to establish micro-enterprises, advocacy through the establishment of business associations, and working to improve the policy environment.¹²⁸ The businesses and jobs that have been established are primarily in the production of agriculture and handicrafts.¹²⁹
- 5.126 According to the MEDEP, an impact study undertaken in 2010 demonstrated that of those supported by the program, 73 per cent of the households have come out of poverty, the micro-entrepreneurs' earnings have more than doubled, and 80 per cent have continued their businesses once they have exited the program.¹³⁰

124 Springfield Centre, *Submission 67*, p. 2.

125 ACFID, *Submission 52*, p. 5.

126 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 2

127 Micro-Enterprise Development Programme – Nepal (MEDEP), *Submission 18*, p. 4.

128 UNDP, 'Micro-Enterprise Development Programme', <www.np.undp.org/content/nepal/en/home/operations/projects/poverty_reduction/medep/background.html>, viewed 12 April 2015.

129 MEDEP, *Submission 18*, pp. 6–7.

130 MEDEP, *Submission 18*, p. 5.

Proposals for additional support of private sector development

- 5.127 The private sector and other stakeholders working in development have programs designed to improve the development outcomes of their core business and promote the growth of the local private sector, including through partnerships.
- 5.128 Submissions from DFAT, GRM International and Ernst & Young identified market, sector and value chain development, and partnerships with businesses, as being part of the 'toolbox' for private sector development.¹³¹ In addition, a range of proposals were put forward to progress private sector development. These included:
- [Oxfam Australia] scaling up support for existing projects that are enabling small-scale producers in developing and middle income counties to access local and international markets;¹³²
 - [Business for Millennium Development] the growth of [inclusive businesses] through advocacy, technical assistance and funding;¹³³
 - [Care Australia] allocating \$100 million over five years for a 'Markets for Development Initiative' across three platforms: social entrepreneurship, access to markets and access to finance.¹³⁴
- 5.129 Noting the number of examples of existing and proposed initiatives raised in evidence, the Committee encourages DFAT to engage with NGOs and private sector stakeholders to explore opportunities to work together to achieve even greater impact.

131 DFAT, *Submission 21*, p. 29, GRM International, *Submission 57*, p. 2, Ernst and Young, *Submission 88*, pp. 4–5.

132 Oxfam Australia, *Submission 72*, p. 33.

133 Business for Millennium Development, *Submission 93*, p. 7.

134 Care Australia, *Submission 43*, p. 1.