
The Parliament of the Commonwealth of Australia

Partnering for the greater good

The role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region

Joint Standing Committee on Foreign Affairs, Defence and Trade
Inquiry of the Foreign Affairs and Aid Sub-Committee

June 2015
Canberra

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ISBN 978-1-74366-278-6 (Printed version)

ISBN 978-1-74366-279-3 (HTML version)

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Foreword

In 2014, the Minister for Foreign Affairs launched a new development policy that changed the way Australian aid is to be delivered. Increasing engagement with our private sector, both in Australia and in developing countries, promoting gender equity and refocusing on the Indo-Pacific region is now underpinning our work to help reduce poverty through enabling and facilitating economic growth.

We want to partner with developing countries across the region. Together we will deliver outcomes. The Australian Government will consult in a meaningful way. We will forge new ways to engage in the region, seeing our aid dollar leveraged by appropriate partnering with the private sector and NGOs, and with other donor countries working in the region.

This report explores best practice domestically and internationally in public-private partnerships, in providing finance, and addressing the impediments or roadblocks which hinder participation and profit-making in the formal economies of developing nations.

Low-income communities – men and women in our region – want economic independence through jobs or their own entrepreneurial activity. Businesses, regardless of size, want to be able to grow. Helping to create a legal framework, a system of land titles and tenure, an effective tax regime and reducing corruption helps build an environment which supports men and women to achieve their aspirations.

Most developed nation revenue comes from private sector activity. Without that revenue governments cannot provide infrastructure or services necessary for individual wellbeing, including health, education, and law and order. Australia's capacity building assistance to governments in the region has helped provide the foundations to support the shift from 'aid to trade'. The 'aid for trade' expenditure target is now 20 per cent of the Australian aid budget.

The Committee has recommended that the Australian Government volunteer programs should also be firmly focused on supporting private sector development. Australian aid can help to build capacity and contacts which link

firms to local and global supply chains, as well as helping with access to finance. Partnerships with NGOs are still a key part of supporting development. For example, Fairtrade has helped to build demand for ethical and environmentally sustainable products.

While many countries are establishing development finance institutions, the Committee has not recommended this approach. The Australian Government has shown what can be done by partnering with Australia's own world-class financial institutions. Partnering agreements in place between the Australian Government, Westpac and ANZ respectively, are already increasing access to finance and improving financial literacy in the Pacific. The private sector is also moving ahead, sometimes in conjunction with NGOs, to address financing needs, with growing interest in the social impact investing sector. National Australia Bank is exploring how to measure such impact investment.

Some Australian businesses in developing countries are generating more than traditional goods, services and taxes. This may take the form of one-off charitable giving or occasional corporate social responsibility programs, however, some firms do much more. The Committee took evidence from a range of Australian companies that have substantial programs addressing health, education and other needs of their workforce or the communities in which they operate. Some, like Oil Search, are using tax credits to build infrastructure for the PNG Government, while also investing in the health of their host communities. Increasingly companies are finding that their customers and shareholders are expecting commitments on environmental impacts, social outcomes and good governance, and they expect reporting on these commitments.

In some cases social goals are achieved through multi-stakeholder partnerships, with involvement of non-government organisations, local communities, governments, aid donors and the private sector. These partnerships range from informal community arrangements to large global alliances. The Australian Government can support or build on these partnerships to leverage even greater development outcomes.

The Department of Foreign Affairs and Trade (DFAT) is responsible for implementing the Australian Government's aid program. Given the new Australian aid paradigm for overseas development, DFAT needs to be ready to collaborate more effectively with business. Australia's overseas representatives need to be actively engaging with other donors, governments of developing partner countries, businesses and NGOs, and they need to share this information across the department in a way that allows for innovation and opportunities to be developed.

The burdens of red tape need to be pared back to improve DFAT's tendering processes, communication flows and transparency. Understanding how to calculate and manage risk in public-private partnerships, how to evolve flexible

contracts and measures for outcome success are skills required across DFAT. DFAT official placements in commercial or not-for-profit private sector development enterprises, as well as two-way exchanges could promote greater expertise and understanding.

Evidence showed productive collaboration is already underway between the commercial and not-for-profit sectors. While there was some commentary about these sectors 'not speaking the same language', it was clear that translation between the private and civil society sector has been, and is, possible.

It will be of utmost importance that DFAT selects development partners carefully, and that there is a close fit between the development objectives of the Australian Government and the business' objectives. Appropriate due diligence processes are needed. Expecting partners to commit to international standards of performance or principles such as the UN Global Compact and the Women's Empowerment Principles, as well as industry specific platforms such as the Extractive Industries Transparency Initiative should help guide the new partnerships to international best practice.

Small and medium sized enterprises (SMEs) may need additional support to implement these platforms; however, it is important that the innovation and energy of our SMEs is embraced and that they are not locked out of partnering opportunities by DFAT only offering large aggregated projects. TAFEs, for example, complained that their capacity to participate was often stymied by the bundling of project elements and a refusal to disaggregate them into their discrete parts. 'Brokers' were then engaged often adding to the cost and complexity.

We also found evidence of DFAT's practice of untied donation transfers to, for example, the World Food Programme, that did not allow for in-kind provision of food by Australian suppliers who have limited opportunities otherwise to compete for tenders. Utilising Australian suppliers and product means better meeting our national interest objectives, better badging, and better quality and value for money. Delivery of this product can be made on a 'just in time' basis, removing the need for warehousing.

The comprehensive and constructive nature of the evidence provided by all was greatly appreciated by the Committee. As well, some key public sector agencies appeared before the Sub-Committee. Across the Australian Public Service are a number of programs that are relevant to the delivery of the aid program. For example the Australian Centre for International Agricultural Research's CEO welcomed the opportunity to better promote its work with business and the public, and efforts to more comprehensively embrace the private sector.

Much more needs to be done by DFAT to tell the story about the Australian Government's aid activities. Better awareness of opportunities and to leverage work that is already underway can be supported by an improved web-based

communication platform that describes all of the programs and projects in play, as well as upcoming opportunities for collaboration and partnering.

The Australian public needs to know how we are assisting and where. Australia's aid program needs to have our distinctive Australian identity made evident. Not only must our taxpayer-funded aid be more transparent, it should be highly visible.

It is clear that many donor recipients, NGOs and Australian businesses see the new aid paradigm as an exciting and important new era of development support in our region. With the new innovationXchange and the health data collection collaboration (Better data for health partnership), Australia stands on the threshold of new partnerships with our regional neighbours, some of whom have the greatest need globally, to address gender inequality and poverty.

The Hon Dr Sharman Stone MP

Chair

Foreign Affairs and Aid Sub-Committee



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Terms of reference

The Committee will inquire into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region. The Committee will consider the following issues during its inquiry:

- The current role of the private sector in accelerating the pace of economic growth and in reducing poverty in poor countries in the Indo-Pacific region.
- Current Australian Government support for private sector development through bilateral and multilateral investments.
- Legislative, institutional, social and policy constraints that may reduce the ability of private sector agencies to engage in development.
- Additional partnerships, activities or financial instruments the Australian government could use to enhance the role of the private sector in development in the Indo-Pacific region.
- The role of public-private partnerships in leveraging private sector investment in developing countries.
- Risks related to current and possible future approaches to enhancing the role of the private sector in development, and their management.
- The role Australian and international businesses could play to support development and inclusive growth in partner countries.

In making the referral, the Foreign Minister suggested that the Committee pay particular attention to the following issues:

- What other donors (new and traditional) are doing in this area.
- The particular role of women in ensuring a thriving private sector.
- The possible return on investment to Australia of private sector partnerships and specific financial instruments.



List of abbreviations

ABV	Australian Business Volunteers
ACFID	Australian Council for International Development
ACIAR	Australian Centre for International Agricultural Research
ADB	Asian Development Bank
AFD	Agence Française de Développement
AFP	Australian Federal Police
AHME	African Health Markets for Equity
ANZ	Australia and New Zealand Bank Group Ltd
APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
ASPI	Australian Strategic Policy Institute
ATAB	Australian Trade and Development Business Network
AVI	Australian Volunteers International
AVID	Australian Volunteers for International Development
B4MD	Business Millennium for Development
B20	The Business 20 is a forum through which the private sector produces policy recommendations for the annual meeting of the G20 leaders.

BCCM	Business Council of Cooperatives and Mutuals
BCFW	Business Coalition for Women (Papua New Guinea)
B Corp	Certified 'B Corporations' have been certified as having met a high standard of overall social and environmental performance
BCtA	Business Call to Action
BFC	Better Factories Cambodia
BMZ	Federal Ministry for Economic Cooperation and Development (Germany)
CIDA	Canadian International Development Agency
CGRGs	Commonwealth Grant Rules and Guidelines
CoST	Construction Sector Transparency Initiative
CSIS	Center for Strategic and International Studies
CSR	Corporate Social Responsibility
DFAT	Department of Foreign Affairs and Trade
DAC	Development Assistance Committee
DBE	Dame Commander of the Most Excellent Order of the British Empire
DCED	Donor Committee for Enterprise Development
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DIB	Development Impact Bond
DFI	Development Finance Institution
DFID	Department for International Development (United Kingdom)
DOTS	Development Outcomes Tracking System
ECF	Enterprise Challenge Fund for the Pacific and South East Asia
Efic	Export Finance and Insurance Corporation

EITI	Extractive Industry Transparency Initiative
ESG	Environment, social and governance
ETEP	East Timor Eye Program
EWB	Engineers Without Borders Australia
FICs	Forum Island Countries
FINGOs	Financial NGOs
FFI	Flour Fortification Initiative
FTA	Free Trade Agreement
G7	The Group of Seven comprises Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States. Originally formed as the G8, Russia was suspended in 2014.
G20	The Group of Twenty membership comprises 19 countries plus the European Union. It is a forum for international economic decision-making and decision-making.
GAFSP	Global Agriculture and Food Security Program
GAIN	Global Alliance for Improved Nutrition
Gavi	Global Vaccine Alliance
GDP	Gross Domestic Product
GESI	Gender Equality and Social Inclusion
GIFT	Global Initiative on Fiscal Transparency
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GoN	Government of Nepal
GPE	Global Partnership for Education
GRI	Global Reporting Initiative
GTSF	Global Trade Supplier Finance
HLF-4	4th High-Level Forum on Aid Effectiveness

HRLC	Human Rights Law Centre
IAD	InfraCo Asia Development
IAVI	International AIDS Vaccine Initiative
ICAI	Independent Commission on Aid Impact
Icddr,b	International Centre for Diarrhoeal Disease Research Bangladesh
IDC	International Development Contractors Australia
IDD	Integrity Due Diligence
IFC	International Finance Corporation
IIT	Institute for International Trade (University of Adelaide)
ILO	International Labour Organization
IWDA	International Women's Development Agency
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LDC	Least Developed Countries
MCA	Minerals Council of Australia
MCC	Millennium Challenge Corporation
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MEDEP	Micro-Enterprise Development Programme
MOU	Memorandum of understanding
MSI	Marie Stopes International
MSME	Micro, small and medium enterprises

NGO	Non-government organisation
NSI	North-South Institute
NSW	New South Wales
OCHA	Office for the Coordination of Humanitarian Affairs
OCTA	Office of the Chief Trade Adviser
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OGP	Open Government Partnership
OPIC	Overseas Private Investment Corporation
OSII	Office of Social Impact Investment
P4P	Partnership for Prosperity Initiative
PACER	Pacific Agreement on Closer Economic Relations
PDPs	Product Development Partnerships
PHAMA	Pacific Horticultural and Agricultural Market Access program
PIDG	Private Infrastructure Development Group
PNG	Papua New Guinea
PPIAF	Public Private Infrastructure Advisory Facility
PPP	Public Private Partnership
PSD	Private Sector Development
PSDI	Pacific Private Sector Development Initiative (ADB)
PT&I	Pacific Islands Trade and Invest
SDG	Sustainable Development Goals
SHOPS	Strengthening Health Outcomes through the Private Sector (US)

SIB	Social Impact Bond
SIDA	Swedish International Development Cooperation Agency
SIWIBA	Solomon Islands Women in Business Association
SJV	Sunrise Joint Venture
SME	Small and medium sized enterprises
SMI	Sustainable Minerals Institute
SUZY	Scaling Up Zinc for Young Children
SWF	Sovereign Wealth Fund
TAFE	Technical and Further Education institutes
TB	Tuberculosis
TFP	Trade Finance Program
UMIC	Upper middle income countries
UN	United Nations
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UK	United Kingdom
US	United States of America
USAID	United States Agency for International Development
UTS	University of Technology, Sydney
WBCSD	World Business Council on Sustainable Development
WEF	World Economic Forum
WFP	World Food Programme
WTO	World Trade Organisation



List of recommendations

Chapter 2—The changing development landscape

Recommendation 1

The Committee recommends that the Australian Government:

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

Chapter 3—The private sector

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.

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.

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.

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.

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.

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.

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.

Chapter 4—Women empowered through a thriving private sector

Recommendation 9

The Committee recommends that the Australian Government seek to protect the rights of women and vulnerable groups, and help build country capacity in achieving gender equity and governance systems to support this, including by:

- continuing to support programs that collect health data, and monitor and assess the rates and prevalence of domestic violence;
- helping to strengthen country legislative frameworks, law and order, and legal and judicial systems to support real reductions in violence in communities; and
- assisting countries in the Indo-Pacific region to put in place and maintain robust births, deaths and marriages registers.

Recommendation 10

The Committee recommends that:

- the Australian Government require all organisations partnering with Australia's aid program to be signatories to the UN Women's Empowerment Principles or otherwise demonstrate genuine commitment to these principles;
- the Department of Foreign Affairs and Trade (DFAT) ensure staff:
 - ⇒ have an expert understanding of the UN Women's Empowerment Principles and the UN Global Compact;
 - ⇒ are able to connect businesses, in Australia and overseas, to local representatives of UN Women and UN Global Compact; and
- DFAT use its web-based information system to identify which agencies or businesses are signatories to the UN Women's Empowerment Principles, including through linking to the searchable database on the Women's Empowerment Principles website.

Recommendation 11

The Committee recommends that the Australian Government:

- continue to support existing women's leadership programs, including the Pacific Women's Parliamentary Partnerships Project and the network of Asia and Pacific Parliamentarians for Population and Development and its committee on male parliamentarians involvement in elimination of violence against women;
- support and extend business leadership programs such as the Business Coalition for Women in Papua New Guinea across the Indo-Pacific region, including linking to women in leadership initiatives operating in Australia; and
- explore the future transition of the Pacific Women's Parliamentary Partnerships Project to one where all women's leadership positions are included for development and support.

Chapter 5—Growing the private sector—the role of governments and donors

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.

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.

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.

Chapter 6—Partnering in the overseas aid program

Recommendation 15

The Committee recommends that the Australian Government:

- continue to support multi-stakeholder global partnerships that have demonstrated their effectiveness in meeting Australia's aid objectives;
- encourage partnerships in the Indo-Pacific region, using Australia's overseas diplomatic missions more effectively at the local level to identify opportunities and support small businesses;
- require the Department of Foreign Affairs and Trade to:

- ⇒ undertake routine systematic reviews of global partnerships to ensure that the impact of Australia's aid investments is both maximised and appropriately acknowledged; and
- ⇒ monitor and report annually on business partnerships established as a result of Australian Government private sector development business engagement activities.

Chapter 7—Public Private Partnerships—infrastructure

Recommendation 16

The Committee recommends that the Department of Foreign Affairs and Trade leverage the expertise of other Australian Government agencies, including the Department of Finance and the Future Fund, as well as Australia's financial institutions in order to further promote the establishment and management of sovereign wealth funds for development partners.

Recommendation 17

The Committee recommends that the Australian Government:

- participate in or support joint ventures between the private and public sectors, and wherever possible ensure technology transfer and local contractors are engaged; and
- as a means to mobilising domestic financial resources, provide capacity building assistance to partner governments to develop effective and transparent governance frameworks to support tax credits being used for building infrastructure.

Recommendation 18

The Committee recommends that the Australian Government follow the World Bank Group's social, legal and environmental safeguards when entering into Public Private Partnerships to ensure:

- the model is optimal for the outcome sought;
- in-country stakeholders are consulted closely;
- there is technology transfer and local capacity building included in contracts; and
- the partner government has, or is supported to develop, appropriate and transparent legal and regulatory mechanisms so they can fully participate, and any corruption is identified and addressed.

Recommendation 19

The Committee recommends that the Australian Government support and participate in Public Private Partnerships (PPPs), where found to be

effective, to address social and other infrastructure needs in the Indo-Pacific region, ensuring that the Department of Foreign Affairs and Trade:

- explore and encourage all opportunities to leverage Australian business expertise and participation in the financing and provision of infrastructure in developing countries in our region;
- engage with the business sector early and comprehensively to share information about opportunities;
- continue targeted public sector capacity building initiatives for recipient governments in relation to PPPs;
- ensure safeguards policies are implemented by all partners; and
- review and amend the Adviser Remuneration Framework to ensure that the necessary specialist skills can be attracted.

Chapter 8—Mobilising finance for development

Recommendation 20

The Committee recommends that in those countries or regions where access to finance is a development priority the Department of Foreign Affairs and Trade:

- develop a more expert understanding of the financial sector in priority countries or regions, including financing constraints for groups (such as women) targeted by the aid program;
- ensure current activities impacting on the financial sector (including in microfinance, agriculture and governance) are made public and coordinated within the Australian aid program and with other donors;
- assess current and potential public-private partnerships' access to finance including with:
 - ⇒ multilateral development banks and bilateral development finance institutions; and
 - ⇒ commercial banks and financial institutions.

Recommendation 21

The Committee recommends that the Australian Government should:

- analyse if there is a need for an Australian development finance institution, including by assessing the unmet demand for finance at both the country and sector-specific levels across the Indo-Pacific region; and

- identify challenges, costs and broader implications of the creation of a standalone development finance institution, comparing this with:
 - ⇒ expanding the role of the Export Finance and Insurance Corporation; or
 - ⇒ partnering with current Australian financial institutions to provide innovative financing.

Recommendation 22

The Committee recommends that the Australian Government through the Department of Foreign Affairs and Trade:

- continue to develop expertise and knowledge about the social impact investing sector in the Indo-Pacific region, with Australia's overseas diplomatic representatives assisting with this information gathering;
- work with the Australian Advisory Board on Impact Investing to identify areas of potential collaboration to promote more impact investing in the region;
- participate in relevant Australian, regional and global working groups on impact investing, including the working group on Development Impact Bonds; and
- develop a means of effective and continuous communication about the prospects for impact investing with potential investors, including the Australian public.

Chapter 9—Delivering the aid program

Recommendation 23

The Committee recommends the Department of Foreign Affairs and Trade:

- identify roadblocks and unhelpful red tape hindering optimal outcomes for existing contracts and partnership arrangements, in order to improve the flexibility and effectiveness for all of these arrangements;
- review existing contracting or sub-contracting requirements that currently limit the pool of potential aid delivery partners, including small enterprises, TAFEs and others with specialist skills; and
- foster expertise in building partnerships, including by shifting departmental culture toward a more positive approach to the private sector.

Recommendation 24

The Committee recommends that, in line with its new aid paradigm, the Australian Government:

- review its untied aid grants strategy;
- strengthen our representation, influence, and the articulation of Australia's interests through Australia's permanent representatives at multilateral organisations;
- inform the Australian Parliament of any significant changes proposed by multilateral organisations that could impact on Australia's interests prior to any decision being taken; and
- continue to prepare and publish an annual assessment of multilateral institutions to:
 - ⇒ determine how well they are meeting the objectives and intentions of Australia's aid program; and
 - ⇒ inform decisions on Australia's future funding contributions.

Recommendation 25

The Committee recommends that the Australian Government:

- review development and humanitarian assistance with a view to increasing the proportion of in-kind aid to better meet our new national objectives; and
- streamline tender information and advertising processes so more Australian businesses can participate in supplying aid products and services.

Recommendation 26

The Committee recommends that the Department of Foreign Affairs and Trade:

- support a structured program of secondment of key staff between selected private and relevant public sectors; and
- develop a best-practice strategy to support cross-department acquisition of networks, knowledge and expertise from targeted secondments.

Recommendation 27

The Committee recommends that the Department of Foreign Affairs and Trade develop and maintain close, consultative relationships with:

- global forums on private sector development;
- the Australian Council for International Development, accredited Australian NGOs, and in-country NGOs;

- businesses, their associations and peak bodies, including those in developing countries; and
- commercial contractors to the aid program.

Recommendation 28

The Committee recommends that the Department of Foreign Affairs and Trade:

- establish an effective private sector and philanthropic communication and engagement unit which offers a clear participation pathway for potential partners, and that:
 - ⇒ provides a register of relevant aid projects, but is flexible and remains open to innovative ideas;
 - ⇒ has systems in place to capture contacts and manage relationships more effectively, including those generated by Australia's overseas diplomatic representatives; and
- introduce a mechanism through which partnerships can be established in a co-owned process to ensure risks, responsibilities and benefits are understood and properly assigned.

Recommendation 29

The Committee recommends that the Department of Foreign Affairs and Trade establish a panel of independent expertise, which can:

- advise and help facilitate private sector engagement; and
- provide independent and expert guidance on partnership proposals, review risk profiles and examine due diligence processes quickly and transparently.

Recommendation 30

The Committee recommends that the Department of Foreign Affairs and Trade develop clear principles for all partnerships with the private sector.

- These principles should:
 - ⇒ include clear enunciation of our objective of promoting gender equity, reducing poverty and promoting economic growth in the Indo-Pacific region;
 - ⇒ require close engagement with countries, building capacity and governance, and in particular, reducing corruption;
 - ⇒ be incorporated into eligibility requirements for partnerships, guidance to staff and in partnership agreements.
- These partnerships should be desirable processes with the minimum of red tape impediment.

Recommendation 31

The Committee recommends the Department of Foreign Affairs and Trade periodically assess, with their partners, the effectiveness and cost of current risk management measures including safeguards.

Recommendation 32

The Committee recommends that:

- subject to a successful conclusion of the pilot, the Australian Government adopt and implement the Extractives Industry Transparency Initiative; and
- Australian aid engagement should prefer companies in the extractives sector which support the Extractives Industry Transparency Initiative.

Recommendation 33

The Committee recommends the Department of Foreign Affairs and Trade:

- ensure staff have a highly developed expertise in, and understanding of, international standards and guidelines for business operations, particularly in those sectors which are priorities for the aid program; and
- be able to identify opportunities and connect businesses in Australia and overseas to global platforms, processes and frameworks, for example, the UN Global Compact.

Recommendation 34

The Committee recommends that the Australian Government:

- continue to support improved aid-related data collection and use in policy-making with governments of countries in the Indo-Pacific region, particularly in relation to gender outcomes; and
- evaluate the performance of the 'Data for health' initiative as soon as practicable with a view to replicating this model in other sectors inhibited by data paucity, for example education – school participation and attainment.

Recommendation 35

The Committee recommends that the Australian Government market its aid effort in a more effective and powerful way, including by:

- reviewing and improving the effectiveness of its current international signage and branding; and
- developing effective ways to co-brand 'Australian Aid' and 'Australia Unlimited' to maximise recognition and benefits.

Recommendation 36

The Committee recommends that the Department of Foreign Affairs and Trade develop and implement as a matter of priority a new communications strategy for the aid program. This strategy should recognise:

- the wide range of stakeholders who have varying levels of understanding and interest in the activities of Australia's aid program; and
- that a key stakeholder is the Australian taxpayer.

Recommendation 37

The Committee recommends that the Department of Foreign Affairs and Trade make clear that 'Australia is open for business partnering' on its website. Specifically, the Department should:

- increase cross-promotion with relevant portfolio agencies to engage with business and capture opportunities which target development;
- test the website on a range of stakeholders, particularly those outside the traditional base, to ensure value and ease of access; and
- monitor and report on the usage of the engagement portal with a view to continuous improvement.

Background

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

Aid objectives of the Australian Government

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

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

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

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

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

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

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

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

Prioritising the Indo-Pacific region

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

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

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

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

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

Source Department of Foreign Affairs and Trade - correspondence

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

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

Background to the inquiry

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

Economic growth and development

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

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

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

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

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

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

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

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

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

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

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

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

Poverty

- 1.21 DFAT described poverty as ‘whether households or individuals have enough resources or abilities to meet their needs. If they do not, they are living in poverty.’ The Department also noted that ‘[e]xtreme poverty is defined as living on less than US\$1.25 per day.’¹⁸
- 1.22 Describing poverty in terms of being able to meet individual needs was discussed by Professor Betty Lovai, who remarked on a study about poverty:
- Papua New Guineans were saying, ‘we are poor’, or ‘we experience conditions of poverty because of lack of something, lack of basic services – lack of this and lack of that’. The government system is there, but it is not delivering... [Communities] defined [poverty] as having difficulty trying to sustain a reasonable livelihood.¹⁹
- 1.23 Opportunity International noted that:
- Poverty is a multi-dimensional problem that requires more than financial inputs. Addressing poverty needs to take into account access to water, health, energy, education, safety and other initiatives to empower women.²⁰
- 1.24 The Committee recognises that in addition to providing a broad indicator of well-being for individuals, measures of poverty, whether income-based or multi-dimensional, can assist in identifying which groups of people should be the target of development interventions. In this report, the Committee uses a multi-dimensional definition of poverty.
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17 The Synthesis Report of the Secretary-General, A/69/700, p. 10 and p. 28.

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

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

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

Stakeholder engagement

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

Structure of the report

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

The changing development landscape

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

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

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

Economic shifts

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The changing development environment

United Nations Development Agenda

- 2.9 In 2000, world leaders met at the United Nations (UN) Millennium Summit to review past UN activities and achievements and frame an ambitious development agenda for the new century: to improve the quality of life of the world's poor and halve extreme poverty by 2015.⁹
- 2.10 The resulting agreement, the Millennium Declaration, set out eight timed development targets, the Millennium Development Goals, to drive that process. These 'MDGs' would be the benchmarks for progress towards 'an environment – at the national and global levels alike – which is conducive to development and the elimination of poverty.'¹⁰
- 2.11 In 2010, at the 65th session of the General Assembly, member states noted that, while progress had been made on the MDGs, there was 'deep concern that it falls far short of what is needed'. It was requested that the Secretary-General report annually on progress and make

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

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

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

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

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

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

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

G20 and development

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

11 UN General Assembly, Resolution adopted by the General Assembly, A/RES/65/1:1, <www.un.org/en/mdg/summit2010/pdf/outcome_documentN1051260.pdf> viewed 26 February 2015.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<www.effectivecooperation.org/wordpress/wpcontent/uploads/2014/04/ConsensusDraftoftheMexicoHLMDDeclaration.pdf>.

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

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

26 According to the IFC website, in addition to Germany, donors supporting P4P include Canada, Japan, Korea, UK and U.S. Australia is not a member. Further information is available on Partnerships for Prosperity at <www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/idg_home/p4p_home> viewed 15 February 2015.

OECD's role in development

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

OECD donors—engaging the private sector

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

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

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

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

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

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

Canada

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

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

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

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

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

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

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

Germany

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

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

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

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

38 Government of Canada, '2015 Budget', <www.budget.gc.ca/2015/docs/plan/ch4-2-eng.html#The_Development_Finance_Initiative> viewed 27 April 2015.

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

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

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

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

New Zealand

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

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

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

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

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

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

development outcomes through strategic partnerships with others.⁴⁵

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

Sweden

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

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

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

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

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

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

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

51 For more information see <www.swedfund.se/en/about-swedfund/>.

United Kingdom

- 2.41 The United Kingdom's Independent Commission on Aid Impact (ICAI) is expected to release a review, *'Business in Development' – DFID's work to stimulate private sector contributions in development*, in the first half of 2015.⁵²
- 2.42 Examples of the UK Department for International Development's (DFID) approach to private sector development include:
- 'Making Markets Work for the Poor (M4P)'. According to the Springfield Centre, DFID is supporting over 40 different market systems development programs. These programs address the key constraints in market systems so that they work for poor consumers, producers and employees.⁵³
 - 'Business Innovation Facility (BIF)', which, according to Business for Millennium Development, provided 'practical, hands-on advice and technical expertise to support companies to develop or scale up inclusive business models'.⁵⁴
 - 'DFID Impact Fund'. Managed by the UK's development finance institution, the CDC Group, 'aims to provide finance to more than 100 enterprises in Sub-Saharan Africa and South Asia'.⁵⁵

United States

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

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

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

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

55 UK AID, The Impact Program <www.theimpactprogramme.org.uk> viewed 12 March 2015.

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

have found new ways to focus our resources and maximize our impact.⁵⁷

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

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

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

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

- 2.46 Examples of USAID public-private partnerships include:

- *Global Development Alliances (GDA)* – a model to develop public-private partnerships in operation since 2001.⁶² Australian Trade and Development Business Network and the Institute for International Trade observed that:

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

57 USAID, Annual Letter 2014, <www.usaid.gov/annual-letter>, viewed 15 February 2015.

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

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

60 Millennium Challenges Corporation USA, 'About MCC' <www.mcc.gov/pages/about> viewed 6 March 2015.

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

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

business interests (rather than purely philanthropic interests) and one or more of USAID's development objectives⁶³

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

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

2.47 Submissions also referenced two additional US agencies which provide financial products:⁶⁶

- Development Credit Authority – provides loan guarantees for investors in more than 70 countries, providing over US\$3.1 billion in loan guarantees since 1999.⁶⁷
- Overseas Private Investment Corporation (OPIC) – assists US companies to develop business operations and markets in countries of interest. OPIC supports investors with risk-management tools, including financing, guarantees, and political risk insurance...OPIC launched a program focusing on impact investment and over the past five years, more than \$2.4 billion in funding has been placed in impact investments.⁶⁸

Emergence of non-OECD donors

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

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

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

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

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

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

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

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

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

often at the expense of other market participants, including Australia.⁷⁰

2.49 As an indication of the scale:

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

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

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

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

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

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

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

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

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

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

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

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

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

The contribution of global foundations

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

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

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

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

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

77 The Hon Julie Bishop MP, 'First resident ASEAN Ambassador', <foreignminister.gov.au/releases/Pages/2013/jb_mr_130918a.aspx?ministerid=4>, viewed 3 June 2015.

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

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

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

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

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

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

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

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

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

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

The importance of donor coordination

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

Recommendation 1

The Committee recommends that the Australian Government:

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

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
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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*; icddr,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
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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.

Women empowered through a thriving private sector

- 4.1 Equal participation in developing economies helps drive private sector growth, and women can share in the benefits as employees, employers and consumers.
- 4.2 Promoting women's participation in a thriving private sector requires action in many spheres: empowering them with access to family planning support; providing finance and the skills to start a business; training and education to support entry into public life as leaders in business or the services sector; and ensuring they can do so confidently, safely and without experiencing violence, discrimination or reprimand.
- 4.3 These factors encompass the full range of human rights issues for women and girls, the topic of a concurrent inquiry being conducted by the Joint Standing Committee on Foreign Affairs, Defence and Trade. This chapter considers the private sector's role in transforming women's lives, and examines how market-based approaches can help overcome poverty and discrimination.

Women's empowerment and economic growth

- 4.4 The relationship between gender equality and economic growth is widely acknowledged. The World Bank Group notes:

Expanding women's economic opportunities benefits women and the societies in which they live, and is crucial to delivering sustainable economic development. Documented benefits of gender equality include better economic performance, higher business profits, greater investment in children's education, and

less poverty. Women in the private sector offer a powerful source of economic growth and opportunity.¹

- 4.5 Both Coffey and the International Women's Development Agency (IWDA) cited the UN Deputy Secretary's view that:

...investing in women and girls has a powerful multiplier effect on productivity, efficiency and economic growth.²

- 4.6 At the same time, the Asian Development Bank's (ADB) Private Sector Development Initiative (PSDI) nominated 'the road blocks to women's economic advancement' as one of the five core constraints which prevented many countries in the region from achieving their growth potential.³

- 4.7 The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) asserted:

The links between the empowerment of women and advancement of a host of social and economic indicators are well established. Unfortunately, across the globe social and political factors have a significant influence on women's ability to participate in the economy, and these factors can be deeply embedded in convention, culture and society.⁴

- 4.8 The factors that inhibit a woman's participation in economic life also have a direct impact on the operations and profitability of individual businesses. Business for Social Responsibility stated:

Gender discrimination, gender-based violence, and gender disparities related to health, financial knowledge and services, and education, are all widespread and common. Such issues can impact business profitability and growth potential, and can increase risks in supply chains, operations, and consumer segments.⁵

- 4.9 Emphasising the transformative power that increased economic opportunity can have for women in society, the IWDA explained:

1 World Bank Group, *Submission 75*, p. 15.

2 Coffey, *Submission 35*, p. 6 and IWDA, *Submission, 122*, p. 16, citing UN Deputy Secretary General Asha Rose Migiros in UN News Centre, 'Women's Empowerment Vital for Economic Development and Peace'.

3 The others being: inadequate infrastructure; outdated business laws; burdensome regulation; and limited access to finance. Asia Development Bank (ADB) Private Sector Development Initiative (PSDI), *Submission 87*, p. 3.

4 The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT), University of Adelaide, *Submission 111*, p. 19.

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

Expansion of economic opportunities, including opportunities to trade and access to export markets can improve women's financial circumstances and provide a platform for empowerment and a catalyst for wider transformation in gender relations...When women are able to take up opportunities and new roles and are accepted as having skills and capacities in one sphere it can help to change women's status elsewhere – including in the household, extended family and at community level.⁶

- 4.10 Evidence also shows that when women have their own income, and control of these funds, the quality of life for the whole family improves, and the incidence of poverty in the community reduces. World Vision reported on Rokhshan Mohammad, a mother of seven children, and now a beekeeper:

Now that I can earn some money, my children are back to school and I can pay for my husband's medicines. Most importantly we have more food in our family. My dream is for my children to complete their education and have a better future.⁷

- 4.11 Economic empowerment can support gender equality. However, the IWDA identified the following factors that can exacerbate existing gender inequalities:

- ...economic opportunities in themselves may fail to reduce gender-based violence and in some cases may increase women's exposure to violence. As women's bargaining power increases and men's household power or perceived role as primary provider is challenged, men may seek to assert power and control through physical means.
- New economic opportunities and greater involvement in the formal economy has, for many women, not been a liberating experience but rather, associated with a growing feminisation of responsibility for both productive and reproductive roles.⁸

- 4.12 Social norms – and the expectations attached to them – are culturally based. The IWDA observed:

In all countries, expectations about attributes and behaviours appropriate to women or men are shaped by culture, tradition and

6 IWDA, *Submission*, 122, p. 3.

7 Cited in World Vision, *Submission 3*, p. 13.

8 IWDA, *Submission 122*, p. 13, summarising S Chant 'The "Feminisation of Poverty" – a Contested Concept in Need of Better Gender and Poverty Indices: Reflections from Comparative Research in Gambia, Philippines and Costa Rica', 2009, Paper prepared for a workshop on 'Needs, Development and Gender Equity', University of Oslo, 12–15 March; S Chant, *Gender, Generation and Poverty: Exploring the 'Feminisation of Poverty' in Africa, Asia and Latin America*, 2007.

history. The general pattern is that women have less personal autonomy, few resources at their disposal and limited influence over the decision-making processes that shape their societies and their own lives.⁹

4.13 The Solomon Islands Chamber of Commerce and Industry provided an extensive list of barriers to women.¹⁰ In particular:

Social and cultural expectations are that women are the primary care givers and therefore her 'rightful place' is in the home. Her role in entrepreneurship is not that highly regarded.¹¹

4.14 Oxfam Australia cited both social and sexual limitations on women's economic participation in the region:

- Lack of educational opportunities due to poverty and the prohibitive cost of education, lack of access to schools and teachers, domestic responsibilities, family attitudes that may not see investing girls' education as worthwhile, early marriage, and violence and lack of gender-appropriate facilities (such as toilets) in schools.
- Lack of access to sexual and reproductive information and services which would enable girls and women to stay in school and engage in the workforce for longer, and reduce the burden of their caring responsibilities.
- Acceptance of gender-based violence at the individual, household and community levels, and lack of services and opportunities for survivors of violence to effectively advocate for the kinds of change that could lead to social transformation.
- Deeply entrenched stigma and stereotypes linked to women in positions of social, economic and political leadership that result in the exclusion of women and girls from decision-making positions in key institutions, structures and systems.¹²

4.15 World Vision Australia observed that achieving economic equality, therefore, requires a full appreciation of the cultural context of disadvantage:

A well-rounded understanding of the socio-cultural factors inhibiting women's economic participation is necessary for identifying viable income generation opportunities and ensuring sustained impact. This will also support greater recognition of intersecting factors of marginalisation, such as disability, to

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

10 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, pp. 6–8.

11 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, pp. 6–8

12 Oxfam Australia, *Submission 72*, p. 27.

facilitate the inclusion of all women in opportunities to provide for themselves and their families.¹³

- 4.16 In a country-specific example, Dame Carol Kidu DBE, former Member of Parliament in Papua New Guinea (PNG), stated:
- [PNG is] dealing with enormous complexity – not only the interface between tradition and modernity as we try to go forward but also the interface between a multiplicity of cultures before. We have to expect problems, but I believe we are making some advances as well as some retrogression.¹⁴
- 4.17 In this context, Professor Betty Lovai, also from PNG, drew attention to the deep division between the experience of urban and rural women in PNG, and noted the challenge of only having urban based data available when seeking to address rural problems.¹⁵
- 4.18 In order to collect data, it must first be available. In impoverished countries across the region, registrations of births, marriages and deaths are often not required, collected or accessible.
- 4.19 World Vision Australia stated that nationality, identity and government recognition are fundamental rights, and lack of birth registration can lead to limitations later in life.¹⁶
- 4.20 Using India as an example, Business for Millennium Development identified one of the constraints faced in accessing finance for low and low-middle income earners as a lack of identity.¹⁷ Noting the ‘power afforded by birth registration and official recognition’, World Vision suggested ‘electronic birth registration as a low cost, high impact intervention with multiple benefits for the rights of all children, and particularly girls.’¹⁸
- 4.21 The need to establish an enabling environment for women’s economic and social empowerment was also widely discussed. Oxfam Australia noted

13 World Vision, *Submission 36*, p. 13. See also IWDA, *Submission 112*, p. 1.

14 Dame Carol Kidu DBE, *Committee Hansard*, 3 February 2015, pp. 1–2.

15 Professor Betty Lovai, *Private Capacity, Committee Hansard*, 3 February 2015, p. 2.

16 World Vision Australia, *Submission 37*, Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Human Rights issues Confronting Women and Girls in the Indian Ocean-Asia Pacific Region, p. 7.

17 Business for Millennium Development, *Submission 93*, Attachment: Landscape Study – Building inclusive business, p. 58.

18 World Vision Australia, *Submission 37*, Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Human Rights issues Confronting Women and Girls in the Indian Ocean-Asia Pacific Region, p. 7.

that ‘reinforcing the low status of women and girls are discriminatory laws and institutions that act as crucial barriers to equality’.¹⁹

- 4.22 Transparency International referred to the importance of having robust governance structures and anti-corruption measures to support women’s participation in the economy, noting:

Our findings show that where countries are more open, accountable and respect the rule of law, there is better education, health and access to clean water and sanitation; More pregnant women getting proper healthcare and having healthy births; More children and young people going to school and learning to read; Families having access to clean water and having piping to take their sewage away. All contribute to women’s capacity to participate in economic activities.²⁰

- 4.23 Support to help countries build capacity in their judicial and legal systems can help enforce domestic laws criminalising rape in marriage, forbidding child and forced marriage, female genital mutilation and other forms of violence. Law enforcement and applying sanctions to those who break the laws protecting women also depend on countries having robust systems of registering births, marriages, divorces and deaths. Australia’s new aid initiative to collect health and medical data will assist governments greatly. However, the ultimate outcome is to have countries’ capacity built so they can collect and utilise their own demographic data.

19 Oxfam Australia, *Submission 72*, p. 27.

20 Transparency International, *Submission 41:1* pp. 1, 6.

Recommendation 9

The Committee recommends that the Australian Government seek to protect the rights of women and vulnerable groups, and help build country capacity in achieving gender equity and governance systems to support this, including by:

- continuing to support programs that collect health data, and monitor and assess the rates and prevalence of domestic violence;
- helping to strengthen country legislative frameworks, law and order, and legal and judicial systems to support real reductions in violence in communities; and
- assisting countries in the Indo-Pacific region to put in place and maintain robust births, deaths and marriages registers.

Women's empowerment principles

4.24 In describing the transformative power of the private sector in liberating women from poverty, and the corresponding benefits to business through diversified markets and innovation, the IWDA stated:

The private sector has the potential to contribute to reducing poverty and reducing gender disparities by connecting women to markets and economic opportunities, helping to reshape attitudes and norms among women and men about gender relations, and demonstrating the benefits of greater gender equality.²¹

4.25 While noting the risks, research into women's economic empowerment conducted by Coffey at the time of the Australian Government's Enterprise Challenge Fund found:

- business challenges could be addressed by better empowerment for women;
- there were industry inefficiencies and underuse of 50% of potential customers and suppliers (women); and
- an important link between gender equality and commercial benefit.²²

4.26 The United Nations (UN) Global Compact provided the Committee with the *Women's Empowerment Principles* which it jointly developed with UN

21 IWDA, *Submission 122*, p. 1.

22 Coffey, *Submission 35*, p. 7.

Women. It described these principles as ‘the first global set of practical business principles focused exclusively on how business can contribute to the empowerment of women in the workplace, market place and community’.²³ The principles suggest businesses:

- Establish high-level corporate leadership for gender equality
- Treat all women and men fairly at work – respect and support human rights and non-discrimination
- Ensure the health, safety and well-being of all women and men workers
- Promote education, training and professional development for women
- Implement enterprise development, supply chain and marketing practices that empower women
- Promote equality through community initiatives and advocacy
- Measure and publicly report on progress to achieve gender equality.²⁴

4.27 Throughout the inquiry, the Committee heard evidence about the many and varied ways Australian businesses and development partners are addressing the needs of women in their different economic roles as consumers, employees, as producers of food or goods, or as business operators.

4.28 The Committee considers embracing mechanisms and principles that further commit businesses to taking gender supportive action, such as the UN’s Women’s Empowerment Principles, can help make transformative changes that reach beyond the immediate business to the market place and community. Requiring businesses that wish to work with Australia’s aid program to embrace such principles will help ensure gender-positive private sector development.

23 UN Global Compact Network Australia, *Submission 79*, p. 2.

24 UN Global Compact Network Australia, *Submission 79*, p. 2.

Recommendation 10

The Committee recommends that:

- the Australian Government require all organisations partnering with Australia's aid program to be signatories to the UN Women's Empowerment Principles or otherwise demonstrate genuine commitment to these principles;
- the Department of Foreign Affairs and Trade (DFAT) ensure staff:
 - ⇒ have an expert understanding of the UN Women's Empowerment Principles and the UN Global Compact;
 - ⇒ are able to connect businesses, in Australia and overseas, to local representatives of UN Women and UN Global Compact; and
- DFAT use its web-based information system to identify which agencies or businesses are signatories to the UN Women's Empowerment Principles, including through linking to the searchable database on the Women's Empowerment Principles website.

Empowering women as employees

- 4.29 As already noted, many women in developing economies are employed in the informal sector.
- 4.30 Women make up 40 per cent of the world's workforce and, moreover, according to the World Bank Group, they participate in sectors that are 'critical for economic growth in some of the poorest countries' – agriculture, textiles, and tourism rely heavily on the employment of women.²⁵
- 4.31 Only 18 per cent of workers in developing countries earn formal wages and salaries.²⁶ The Australian Council for International Development (ACFID) observed that it is 'women and other marginalised and

25 World Bank Group, *Submission 75*, p. 15.

26 United Nations Development Programme - Istanbul International Center for Private Sector in Development, *Exhibit 40: UNDP (2014), Barriers and Opportunities at the Base of the Pyramid*, p. 67, citing ILO (2014), 'Developing with Jobs'.

vulnerable populations that find themselves limited to work in the informal economy'.²⁷

- 4.32 The IWDA reflected on how caring responsibilities can contribute to women seeking informal sector employment:

The need to be close to home with more flexible hours makes it difficult for women and girls to take on regular paid jobs, or travel away from home for employment. This translates into a more limited choice of jobs, jobs that are often casual or insecure with lower remuneration, poorly regulated conditions and weaker claims to social protection.²⁸

- 4.33 At the same time, BRAC referred to the important role the informal sector plays in providing employment for the poor. For women, even though employment conditions may not be good, working in the sector can shift attitudes and raise women's social status:

In the past, for example, a poor family would often marry off their daughters at the age of 13 or even earlier due to the dowry this would provide. Partly because large numbers of women and their daughters now take garment industry jobs, many families living in poverty now have a different vision for their children's future. School enrolment rates have increased and education for girls is now the norm in Bangladesh. But there is a negative side. Despite high employment, wages remain low in the garment sector, with millions working long hours in dangerous conditions.²⁹

- 4.34 The Committee was informed of a number of projects which are improving the lives of female workers, including:
- Better Factories Cambodia (BFC) – involves independent monitoring to ensure adherence with national and international labour standards. Funding from the Garment Manufacturers Association in Cambodia, the Royal Government of Cambodia, and income from paid services make up 70 per cent of BFC's annual budget, and the remaining 30 per cent is funded by donors, including Australia.³⁰
 - HERproject – provides women working in global supply chains with workplace programs promoting health, economic empowerment, and women's rights. Programs exist in more than 250 factories and farms in

27 Australian Council for International Development, *Submission 52*, p. 7, citing World Bank Group (2012) 'World Development Report 2013: Jobs'.

28 IWDA, *Submission 122*, p. 11.

29 BRAC, *Submission 105*, pp. 1–2.

30 Australian Council for International Development (ACFID), *Submission 52*, p. 10; and 'Better Factories Cambodia' <www.betterfactories.org>, viewed 12 March 2015.

10 countries including eight in Asia (Bangladesh, Cambodia, China, India, Indonesia, Myanmar, Pakistan, and Vietnam).³¹

- 4.35 Australian Volunteers International (AVI) described how, in conjunction with Engineers Without Borders Australia (EWB), it is providing opportunities for women to pursue employment in non-traditional fields:

...[through] an initiative to strengthen the emerging engineering sectors and implement an integrated response to long-term technical needs across the profession...[AVI and EWB will] implement leadership and outreach programs to encourage more women and girls in technical sectors, encourage linkages and skill sharing between young Australian professionals.³²

Women as producers and small business operators

- 4.36 In addition to being employees, women are also active producers and business operators in micro and small businesses.

- 4.37 International development firm Coffey noted findings from a study on women-owned businesses which indicated:

In many parts of the world where women have limited access to formal employment, small business enterprise becomes women's main source of income. In fact, informal businesses, where women are over-represented, account for up to one-half of all economic activity in developing countries.³³

- 4.38 Noting the importance of job creation, ACFID submitted that with Micro, Small, and Medium Enterprises (MSMEs) employing around one third of the world's labour force, they are 'driving economic growth and job creation.'³⁴ Further to this, the World Bank Group advised:

SMEs with female ownership represent 30 to 37 percent (eight to 10 million) of all SMEs in emerging markets. These businesses have unmet financial needs of up to US\$287 billion – their biggest barrier to growth and development.³⁵

- 4.39 Many poor women running micro-businesses selling goods or agricultural produce operate in the informal business sector. The Solomon Islands Chamber of Commerce and Industry submission advised:

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

32 Australian Volunteers International, *Submission 37*, p. 11.

33 Coffey, *Submission 35*, p. 7, citing Ernst and Young's study 'Scaling up: Why Women-owned Businesses can Recharge the Global Economy, 2009.

34 ACFID, *Submission 52*, p. 6.

35 World Bank Group, *Submission 75*, p. 15.

The active participation of women and youth in the national economy can be realized by encouraging job and wealth-creation and empowering them to advocate on environmental issues, as these affect business and the economy. Most of our women participating in business activities are in the informal economy and own very small businesses, especially food and personal services that only end up unprofitable, being used to put food on the table at the end of the day.³⁶

4.40 The Solomon Islands Chamber of Commerce and Industry also advised of work through the Solomon Islands Women in Business Association (SIWIBA), which has provided local women with opportunities to showcase their products and earn income at a regular Flea Market. SIWIBA currently has 73 women businesses registered in the formal sector.³⁷

4.41 Business Millennium for Development (BM4D) drew attention to findings of the United Nation's Food and Agriculture Organisation, with specific reference to the Committee's focus on the particular role of women in ensuring a thriving private sector:

Investing in agriculture is the best way to reduce poverty because up to 70 percent of the people living in extreme poverty are small holder farmers – and most of them are women.³⁸

4.42 Yet, as discussed in chapter three, in relation to Australia's Seasonal Worker Program in 2013-14, of the 1473 participants, only 13 per cent were women. While the Department of Employment advised that it is focusing on increasing the participation of women for future years,³⁹ the Committee is of the view that this needs immediate rectification to allow women to gain valuable experience using advanced agricultural practices.

4.43 The Business Council of Co-operatives and Mutuals referred to the power of collective business initiatives to jump-start women's empowerment:

Since democratic member control lies at the heart of the cooperative model of enterprise, the formation of cooperatives can play a very important part in working towards the economic and social inclusion and empowerment of women. Cooperatives run by and for women offer particular opportunities for them to control their own economic activities and destiny. It is also

36 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 6.

37 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, p. 8.

38 Business Millennium for Development (BM4D), *Supplementary Submission 93.1*, p. 2.

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

predicated on the idea of autonomy and independence – doing with, not to or for.⁴⁰

- 4.44 Noting the high costs of the economic disenfranchisement of women, the ADB PSDI also commented on the factors which prevent women in the Pacific region from gaining leverage up the value chain in business:

Many of the barriers are systemic and legal and cut across gender – being unable to inexpensively form a company and engage in contracts harms everybody but, because women are predominantly engaged in the informal sector, they are especially disadvantaged. Interventions to improve the business environment should be mindful of these multiple constraints and incorporate gender analysis to evaluate the impact on women.⁴¹

- 4.45 The following programs illustrate how women are being supported through a range of projects connecting micro-businesses with larger private sector actors:

- Hapinoy – is expanding access to healthcare related goods in the Philippines for 200 low-income communities by distributing essential products through a network of woman-owned micro-businesses.⁴²
- Living Goods – is a social franchise that deploys rural women as micro-entrepreneurs to use traditional trade and scale access to a wide range of essential health products at affordable prices. Living Goods screens and trains these independent health promoters, who make a modest income selling and delivering uniform branded products such as anti-malaria treatments, clean-burning cook stoves, fortified foods, and solar lamps at 10–14 per cent below retail prices.⁴³
- Fair Winds Trading – is a for-profit trading company that purchases goods from artisans and provides technical assistance to improve quality control. It acts as a consultant on supply chains and market access to enable Rwandan women weavers to become direct vendors of baskets to Macy’s Herald Square store in New York. Fair Winds also connects the women with a local training company which coordinates exports. Macy’s reports increased sales and benefits from the positive branding associated with the project.⁴⁴

40 Ms Melina Morrison, Chief Executive Officer, BCCM, *Committee Hansard*, Canberra, 20 August 2014, p. 10.

41 ADB PSDI, *Submission 87*, p. 11.

42 Business call to Action, *Submission 124*, p. 2.

43 Abt JTA, *Submission 5*, Attachment, p. 7.

44 The North-South Institute, *Exhibit 9: S Kindornay, S Tissot, and N Sheiban, Value of Cross-Sector Development Partnerships*, NSI North-South Institute Research Report, January 2014, Text Box 2, p. 12.

- The Marasin Stoa Kipa project – is a pilot village-based, social franchising, malaria diagnosis and treatment initiative; located in the Kutubu area in the Southern Highlands Province of PNG. Local community members, usually women, are trained in basic malaria diagnosis (using a Rapid Diagnostic Kit) and basic malaria treatment (with pre-packaged, dosage for weight category, malaria medication).⁴⁵

Women as consumers of goods and services

- 4.46 In addition to being employees and employers, women play a significant role as purchasers of goods and services in both developed and developing economies. According to the World Bank Group, the financial power of women is expanding, and much of it in emerging markets.⁴⁶
- 4.47 Women have traditionally played a central role in making consumer decisions as primary carers and household managers. Reflective of this, research has shown that 80 per cent of decisions on the purchase of consumer goods are made by women.⁴⁷
- 4.48 In some locations, the private sector is developing innovative products and focussing on affordable services to address women's unmet needs, effectively breaking down barriers to participation. However, maternal health and reproductive services, access to childcare, and provision of innovative financial services are necessary to support women's economic and social empowerment.⁴⁸

The unmet need for child, maternal and reproductive health services

- 4.49 In many low income nations, women's capacity to participate in the economy is limited by poor maternal health and limited access to contraception. Associated problems include high birth rates with high maternal and infant mortality, and poor child health, most often in rural areas where access to services is often lowest.⁴⁹
- 4.50 Where governments lack the capacity to meet these needs, the private sector plays an important role in provision of health services and sexual and reproductive health products, particularly in the poorest nations.⁵⁰

45 Oil Search Ltd, *Submission 104*, p. 10.

46 World Bank Group, *Submission 75*, p. 15.

47 World Bank Group, *Submission 75*, p. 15.

48 World Bank Group, *Submission 75*, p. 15.

49 Oil Search Ltd, *Submission 104*, p. 5.

50 Marie Stopes International, *Submission 33*, p. 1; Abt JTA, *Submission 5*, Attachment: J Thomason, S Mitchell, D Brown, 'Extending Health Services to the Poor through the Private Sector', p. 3; Oil Search Ltd, *Submission 104*, p. 6.

4.51 The International Centre for Diarrhoeal Disease Research, Bangladesh (icddr,b) referred to the Scaling Up Zinc for Young Children (SUZY) Project, launched in Bangladesh in 2003, which illustrated how choices of carers and consumers of health services can drive private sector innovation and growth. The icdd,r advised that its initial consultations with carers identified that 90 per cent of healthcare provider visits for childhood diarrhoea were to private providers, and thus:

... This led to an early, strong emphasis on the private sector in distribution efforts and scale-up has been based on private sector infrastructure e.g. private pharmacies. icddr,b purchased patent rights from the French company Nutriset to enable a Bangladeshi pharmaceutical laboratory to manufacture and distribute a zinc formulation that can be dissolved in water. ACME Laboratories Ltd, a local pharmaceutical manufacturer, were awarded a contract to distribute the zinc tablets, marketed under the name 'Baby Zinc.' In addition, a local communications agency was engaged on a publicity campaign to raise awareness and promote product use. The campaign achieved some notable successes, particularly in raising awareness of zinc treatment...recent national surveys indicate that nearly 40 per cent of diarrheal episodes in under five children are now treated with zinc.⁵¹

4.52 Marie Stopes International (MSI) discussed the importance, in particular, of access to family planning services for the broader economic wellbeing of women, noting that 'more than 222 million women have an unmet need for contraception'.⁵² Its submission stated that:

Access to family planning is a basic health right. It is also recognised globally as one of the most cost-effective approaches to improving maternal health and as a key driver of equitable economic development. Reducing unintended pregnancies supports economic development through improving education opportunities for women and girls; expanding the workforce; increasing household and community income; increasing per capita investment in education; and supporting savings across public health services.⁵³

4.53 To address this need, MSI and its partners have been using franchising models to create sustainable business to ensure women's access to reproductive health services:

51 icdd,r, *Submission 151*, pp. 5–6.

52 Marie Stopes International, *Submission 33*, p. 1.

53 Marie Stopes International, *Submission 33*, p. 1.

We engage owner-operators of healthcare businesses – often women – that serve low income clients... We build provider capacity to offer family planning, provide on-going supervision and auditing to ensure quality, and support marketing under a common brand to increase demand. With a focus on quality, MSI's social franchising model also builds provider skills in business and entrepreneurship, supporting a platform for greater economic participation... Evidence has shown that social franchising in the private sector improves service quality and utilisation. Indeed at a global level, in 2012 approximately 1 million people were using a method of contraception supplied to them through an MSI social franchise. This work will avert an estimated 1,100 maternal deaths, prevent approximately 290,000 unsafe abortions, and save roughly AU\$36 million for families and health systems.⁵⁴

- 4.54 Abt JTA referred to the successful USAID franchising model, Strengthening Health Outcomes through the Private Sector (SHOPS), which provided 60,581 women with family planning and reproductive health counselling through community outreach activities.⁵⁵
- 4.55 Abt JTA's submission also documented the high reliance on private sector services to support maternal and child health in Sub-Saharan Africa and South Asia, where 51 and 79 per cent of mothers respectively accessed care from the private sector. In relation to unmet needs for family planning services, over one third of Sub-Saharan modern family planning users accessed private services, while among the lowest three quintile income levels this rose to 50 per cent.⁵⁶
- 4.56 The Committee considers that franchising models that encourage women to become trained distributors of health care products, including contraception, are supporting the empowerment of women. To space children and reduce family size are key ways for women to become more financially independent. They are also less likely to die in childbirth, and their children are more likely to survive.

Demand for childcare services

- 4.57 Women's increased participation in the workforce, as employees or business operators, means ongoing care for children and new childcare arrangements must be in place.

54 Marie Stopes International, *Submission 33*, pp. 6-7.

55 Abt JTA, *Submission 5*, pp. 2-3.

56 Demographic Health Surveys, in half of 21 Sub Saharan nations, in Abt JTA, *Submission 5*, Attachment, pp. 4-5.

- 4.58 The review by icddr,b on impacts of providing micro-credit to women found that while women's involvement in paid work had a number of positive benefits, it can have unintended negative impacts of the health status on young children:

Women's participation in employment and other activities may involve leaving the supervision of small children to other caretakers less able to respond to their particular health needs, such as for breast-feeding or the preparation of energy dense weaning foods. Therefore, interventions tackling women's empowerment also need to focus on 'collective empowerment' and not just individual needs. This can be accomplished through a number of low-cost methods such as the establishment of community centres or providing loans to women to establish low cost day care for other women.⁵⁷

- 4.59 Citing the Women's Empowerment Principles, which guide companies on women's needs in the workplace, the UN Global Compact Network Australia submitted an example of how one company responded to the care-giving roles of its staff:

Recognizing the need to support working parents, a Kenyan communications company offers free on-site day care and an in-house physician, in addition to comprehensive medical coverage that includes pre- and post-natal care.⁵⁸

Women's access to banking and financial services

- 4.60 In addition to health and childcare, access to financial services for personal banking or funding business start-ups is needed to support the economic empowerment of women.
- 4.61 The private sector is providing access to financial services, including through education, promoting entrepreneurship, supporting savings accounts and assisting overseas workers remit money to their families.
- 4.62 Women's World Banking observed that meeting women's needs provides both social and economic benefits for business:

The private sector needs to realize what an enormous market opportunity there is to serve the 1 billion unbanked women around the globe. The business case is clear – women are typically good clients and in the Women's World Banking network, the

57 icddr,b, *Submission 151*, p. 7.

58 UN Global Compact Network Australia, *Submission 79, Women's Empowerment Principles*, p. 6.

members with over 75% women clients have the lowest Portfolio at Risk 30.⁵⁹

- 4.63 Women's World Banking highlighted its publication: *Gender Performance Indicators: How well are we serving women?*⁶⁰ It also referred to the transformative effect that access to financial services can have on the lives of poor women and girls:

If you give a woman a loan to start or grow her business, and provide her with a convenient, confidential savings account in her own name along with insurance to provide a safety net against sudden health shocks or the death of a family member, then that woman has a sustainable path out of poverty for herself and her family...⁶¹

- 4.64 ACFID advised:

... the positive impact of savings on enabling a reduction of high levels of indebtedness and re-investment in business activity is an important component of assisting women to transition their business activities from the informal to formal sectors. With the added protection of savings and micro-insurance, women's economic enterprise will be able to withstand small shocks and in so doing, begin to build economic resilience.⁶²

- 4.65 Research by Coffey found that women were less likely to own a mobile phone, and that this was a significant barrier to them accessing mobile phone banking. Coffey provided a case study that demonstrated how this was addressed:

WING Cambodia – a company funded by the [Australian Government's Enterprise Challenge Fund], designed their payment system to be accessed from any phone including one borrowed by a client and provides a non-WING to non-WING service that both men and women without access to a mobile

59 Women's World Banking, *Submission 40*, p. 1. Note: Risk 30 refers to the share of the portfolio for which payments are more than 30 days overdue.

60 Women's World Banking, *Submission 40*, p. 3. According to the WWB's website, this tool is: '...a full suite of financial and social performance indicators that allow financial institutions to analyse outreach to women, suitability of product design to meet women's needs, product diversity, service quality, client protection, and staff gender diversity, as well as to understand how serving women clients contributes to their financial sustainability and generates positive social outcomes.'

61 Women's World Banking, *Submission 40*, p. 1.

62 ACFID, *Submission 52*, p. 8.

- phone can use. WING has a higher than industry average proportion of women using their mobile payment platform.⁶³
- 4.66 Financial institutions reported a substantial increase in the uptake of banking services by women in PNG and across the Pacific when they implemented electronic access in small businesses in remote regions.⁶⁴
- 4.67 DFAT advised that over 200,000 women in PNG, Tonga, Samoa, Vanuatu and Fiji now have access to basic financial services through mobile banking facilitation under the Pacific Financial Inclusion Program.⁶⁵
- 4.68 Westpac reported that it is currently monitoring outcomes under its mobile banking initiative which it anticipates will have long term positive effects for women. However, Westpac also stated:
- ...potentially in the initial stages, there actually could be a flare-up in domestic violence because of a change in behaviour of women when they are banking. We need to look at both obstacles, potentially a positive knock-on effect in the long term but initially some ripple effects there. We are aware that we need to support some kind of broad based behavioural change when we do implement mobile banking in other countries.⁶⁶
- 4.69 The icddr, b, referring to the negative social impacts of financing women for business development, argued that research is required to guide development of micro-credit programmes for rural women. It identified a range of possible unintended consequences for consideration, including:
- loan control and misuse by male members of households;
 - increased workloads and responsibilities, and financial sustainability overtime;
 - criticism that the programmes have difficulty reaching the most vulnerable populations whether related to choice or exclusion;
 - apprehension about the gender and power relations and the cultural constraints placed on women, which can lead to poor outcomes; and
 - the association between health decline and business failure.⁶⁷

63 Coffey, *Submission 35*, p. 7.

64 World Bank Group, *Submission 75*, Box 11, p. 16; Mr Greg Pawson, General Manager, Westpac Pacific, *Committee Hansard*, Sydney, 7 November 2014, p. 27.

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

66 Ms Susanna Robinson, Head of Communications and Sustainability, Westpac, *Committee Hansard*, Sydney, 7 November 2014, p. 29.

67 icddr,b, *Submission 151*, p. 7.

Education and training services for women

- 4.70 In 2014, the *Millennium Development Goals (MDG) Report* recorded that substantial progress had been made in decreasing gender disparities in education globally.⁶⁸ Increased economic empowerment has meant that more families are seeking education services for their girls. Growing numbers of poor children are also attending private fee paying schools.⁶⁹
- 4.71 However, in some areas, the opportunities for women and girls to have an education or train for jobs are limited. The Solomon Islands Chamber of Commerce and Industry referred to the cultural and supply issues effecting girls in the Solomon Islands:
- Infrastructure - dormitories and facilities in boarding schools are prioritized for boys over girls
 - There is limited knowledge about scholarships that will increase women/ girls' access to business studies
 - Women are restricted from applying for scholarships for study because of family obligations – time away for study will impact on family wellbeing, although the long term benefits are likely to be greater
 - Access to training in technical areas is also a barrier... Training organisations like the APTC are said to be very limiting, restricting access for women. We are informed that they have only 10 spaces available for each recruitment
 - Technical skills to maintain sustainability of a business is usually lacking among women entrepreneurs
 - Women have no financial back-up from the government
 - Women have very little or no skills training from the government.⁷⁰
- 4.72 Evidence was presented on the potentially greater role of the private sector in providing opportunities for women through education or training.
- 4.73 The Australia Pacific Islands Business Council identified a role for the private sector to engage with government to assist with labour market planning, to ensure skills are developed to meet the needs of business, and to reduce the need for importing overseas labour into a market which has much less than full employment.⁷¹

68 United Nations, *Millennium Development Goals (MDG) Report 2014*, UN, New York 2014, Overview, p. 4.

69 GRM Futures, *Submission 57*, p. [1], Mr Brian Bennett, Chief Executive Officer, Encompass Credit Union Limited, *Committee Hansard*, Brisbane, 20 August 2014, p. 15.

70 Solomon Islands Chamber of Commerce and Industry, *Submission 123*, pp. 8-10.

71 Australia Pacific Islands Business Council, *Submission 91*, p. 3.

- 4.74 Oil Search provides training to local people including those working for the Oil Search Health Foundation, many of whom are women.⁷² Expertise is aimed in particular at training staff at the primary healthcare level in the areas of maternal, child and reproductive health, HIV and malaria.⁷³
- 4.75 The company has also set up the PNG Reproductive Health Training Unit on request of the PNG National Department of Health. This partnership program delivers PNG-contextualised reproductive health continuing professional development to public health workers and educators (pre-service, post-graduate and in-service educators).⁷⁴

Women as leaders in business and in the community

- 4.76 Women may be active participants in the economy, yet they are under-represented in leadership roles. Research shows that including more women in the workplace and on corporate boards improves creativity and promotes competitiveness. Mixed-gender teams also consistently outperform those composed of only one gender.⁷⁵
- 4.77 Women's credentials in the business world are strong:
- As entrepreneurs, women contribute significantly to household income, job creation and growth of national economies. Companies owned or managed by women represent between 25% and 33% of formal sector businesses around the world and a larger percentage of informal sector businesses. Women's businesses are typically more successful in surviving economic downturns, helping to build a robust private sector.⁷⁶
- 4.78 The World Bank Group has acknowledged the importance of an inclusive approach at corporate level to bring about change in market dynamics:
- Women in the private sector offer a powerful source of economic growth and opportunity. By strengthening women's roles as leaders, entrepreneurs, employees, and consumers, IFC – in close

72 Mr Peter Botten CBE, Managing Director, Oil Search Ltd, *Committee Hansard*, Canberra 29 August 2014, p. 8.

73 Oil Search Ltd, *Submission 104*, pp. 6–7, 12.

74 Oil Search Ltd, *Submission 104*, p. 12.

75 World Bank Group, *Submission 75*, p. 15 citing Wooley et al (2010) Evidence for the Collective Intelligence Factor in the Performance of Human Groups <www.sciencemag.org/content/330/6004/686>.

76 Coffey, *Submission 35*, p. 7.

collaboration with the World Bank – helps transform local markets.⁷⁷

4.79 The ADB PSDI advised that legislative reforms in the Pacific region have empowered women at corporate level:

The reforms of the Companies Acts in Samoa and Solomon Islands have increased the number of women directors and shareholders in both countries. Since the Companies Act was passed in Solomon Islands, the number of women directors has increased by nearly 200 and the number of women shareholders by over 100, demonstrating that the systemic reforms have provided greater opportunities for women. This trend appears to be accelerating. Similarly in Samoa, approximately 32% of directors and 38% of shareholders are women.⁷⁸

4.80 Westpac referred to two initiatives within its sustainability strategy for supporting women to achieve leadership in the Pacific:

- The Westpac Outstanding Women Awards – which support women in PNG across five categories: entrepreneurs, women in the community, private sector, public sector and young achievers.
- The Making Women Count initiative – which offers annual education grants to women and children across the Pacific region in Westpac’s seven countries of operation every year, to help children stay in school and women to return to school to complete their education.⁷⁹

4.81 The Australia PNG Business Council advised that it has been active in PNG supporting the establishment of the Business Coalition for Women (BCFW).⁸⁰ The World Bank Group noted that the BCFW consists of approximately 40 businesses, with a fast growing membership indicating private sector enthusiasm for the initiative:

The BCFW creates an opportunity for businesses to share their experiences, challenges and solutions, particularly around workplace policies and practices, opportunities for women-owned small businesses, reducing gender-based violence and harassment, and encouraging leadership development.⁸¹

77 World Bank Group, *Submission 75*, p. 15.

78 ADB PSDI, *Submission 87*, pp. 11–12.

79 Ms Robinson, Westpac, *Committee Hansard*, Sydney, 7 November 2014, p. 30.

80 Mr Frank Youn, Executive Director, Australia Papua New Guinea Business Council, Australia Fiji Business Council, Australia Pacific Islands Business Council, *Committee Hansard*, Sydney, 7 November 2015, p. 19; and see Foundation for Development Cooperation, *Submission 78*, p. 10.

81 World Bank Group, *Submission 75*, p.15.

4.82 While progress is being made in the business sector, women across the Pacific region continue to have the lowest representation in Parliament globally and have lower levels of education.⁸² Oil Search noted, for example:

In Papua New Guinea, 2.7 percent of parliamentary seats are held by women, and 6.8 percent of adult women have reached a secondary or higher level of education compared to 14.1 percent of their male counterparts.⁸³

4.83 The IWDA spoke of the importance of having female leadership at parliamentary level to effect real change:

Part of the issue is when you have a very strong 'big man' culture in parts of the Pacific, although women have really important leadership and voice, if they are not there in the space which makes policy, sets priorities and allocates budgets, the chances that those budgets will reflect the priorities of women are really pretty small.⁸⁴

4.84 Opening opportunities for women in the public sector and in the judiciary has also been seen as an important foundation for women's empowerment.⁸⁵ Dame Kidu spoke of advances for women in PNG's judiciary:

The female magistracy has increased enormously. With our focus program even the number of female judges has increased and, hopefully, will continue to increase. I found that this whole focus area with the magistrates and also with female prosecutors and people that with that type of support, dare I say, they have done things that perhaps our male colleagues might not have done. The female public prosecutors, after the passage of the amendments to the rape act and things like that, they took it on themselves to produce a book... There is a taking up of ownership once they see leadership, yes. Women at the local level in the magistrates courts,

82 DFAT, *Submission 21*, p. 21; Mr 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. 18.

83 Mr Botten, Oil Search Ltd, *Committee Hansard*, Canberra, 29 August 2014, p. 14.

84 Ms Joanne Crawford, Research and Policy Advisor, IWDA, *Committee Hansard*, Canberra, 29 August 2014, p. 14.

85 DFAT, 'PNG Men Champion Gender Equality', <www.aid.dfat.gov.au/LatestNews/Pages/png-men-champion-gender-equality.aspx> viewed 6 March 2015.

hopefully, will make a big difference because before they were very male dominated.⁸⁶

- 4.85 The Committee also heard about advances for gender equity in the public service. The National Public Service GESI (Gender Equality and Social Inclusion) legislation was championed by Dame Kidu in the PNG Parliament. Coffey, under an Australian Government contract and in consultation with the PNG Government, provided gender and equity advisors and co-ordinated consultations to develop the GESI policy.⁸⁷
- 4.86 Australia is working together with Pacific island nations to address the under-representation of women in their parliaments. The Pacific Parliamentary Partnerships program and the Pacific Women's Parliamentary Partnerships projects are joint initiatives, funded by the Australian Federal, State and Territory parliaments, the UN Development Programme and Pacific Parliaments.⁸⁸
- 4.87 The Committee views the Australia's Pacific Women's Parliamentary Partnership as one good means of building the capacity of women to become parliamentarians across the Pacific and to support the institutions where they work, so that gender equity is better addressed in each nation. Australia's women parliamentarians continue to engage with their Pacific counterparts through forums, mentoring and peer exchange programs. In addition to capacity building, this program is building some strong networks between women parliamentarians across the region.
- 4.88 The program could now be broadened to allow other women aspiring to leadership roles in their communities to participate, for example, cooperative chairs or leaders in education or health developments. This would diminish any suggestions that Australia is engaging in partisanship in supporting some and not others to be elected into their parliaments.
- 4.89 The people-to-people links being established also support collective action at international fora in support of policies that promote gender equity, poverty reduction and improved outcomes for women. An example of this is the network of Asia and Pacific Parliamentarians for Population and Development. In particular, Australia funds the male parliamentarians' committee of this network, through which male parliamentarians act as

86 Dame Carol Kidu DBE, *Committee Hansard*, Canberra, 3 February 2014, p. 3.

87 Response to Questions on Notice, Coffey International, *Committee Hansard*, Canberra, 1 December 2014, tendered 12 December 2014.

88 Through the Parliamentary Skills Centre, see Australia's Parliament House, Parliamentary Strengthening, 'Pacific Parliamentary Partnerships' <www.aph.gov.au/About_Parliament/International_Program/Parliamentary_Strengthening#PPP>, viewed 6 March 2015.

role models and champions working together to reduce gender-based violence.

Recommendation 11

The Committee recommends that the Australian Government:

- continue to support existing women’s leadership programs, including the Pacific Women’s Parliamentary Partnerships Project and the network of Asia and Pacific Parliamentarians for Population and Development and its committee on male parliamentarians involvement in elimination of violence against women;
- support and extend business leadership programs such as the Business Coalition for Women in Papua New Guinea across the Indo-Pacific region, including linking to women in leadership initiatives operating in Australia; and
- explore the future transition of the Pacific Women’s Parliamentary Partnerships Project to one where all women’s leadership positions are included for development and support.

Gender equality mainstreaming—roles for donors and business

4.90 Women’s full economic and social participation are objectives universally espoused by international donors, with the economic and social advantages of this demonstrated across a wide range of indicators.⁸⁹ However, as the World Bank Group notes, women are routinely excluded from advancing in business:

...widespread gender disparities in business opportunities continue. For example, of 143 countries examined by a 2014 Women, Business and the Law study, limit the kind of work women can do, and 28 have ten or more legal differences between men and women that can hinder women’s economic opportunities.⁹⁰

89 World Bank Group, *Submission 75*, p. 15.

90 World Bank Group, *Submission 75*, p. 15.

- 4.91 In its study of donor investment in business development for poverty reduction, the North South Institute and Canadian Council for International Co-operation referred to the broad range of social and political strategies necessary to achieve real results for women from economic growth:

To address these challenges, donor policies might include gender budgeting, collection of disaggregated data on gender, measures to tackle legal and cultural discrimination against women which restricts women's participation in the formal economy, measures to strengthen women's organizations, measures to create the enabling regulatory framework that protects women's rights, and training and skills acquisition programs that take into account women's domestic responsibilities.⁹¹

- 4.92 The need for a well-integrated global strategy was a reiterated recommendation. GRM Futures advised, that in relation to gender empowerment:

... engaging the private sector can be a powerful way to promote gender equality and particularly women's economic empowerment. Typically an integrated approach will be most effective whereby gender issues are consistently considered and incorporated throughout private sector engagements in ways that steadily improve gender equality.⁹²

- 4.93 The IWDA advocated for high level policy recognition of the value of women's home care activities to support women's transition to work:

Australia's policy dialogues and aid program need to give greater priority to policies that make visible and value unpaid household and care work and enable care needs to be met in ways that spread the social and economic costs of that care more evenly across society. Priorities include improving parental leave and flexible work policies, expanding early child development and child care services, investing in women's access to time-saving technology and infrastructure, and innovating to increase men's active participation in caring and domestic responsibilities. Expanding opportunities through private sector initiatives will not enable more women to gain employment and will not erase pay gaps if

91 The North South Institute, *Exhibit 11: North South Institute and Canadian Council for International Co-operation, Investing in the Business of Development: Bilateral Donor Approaches to Engaging the Private Sector*, p. 42.

92 GRM Futures, *Submission 75*, p. 5.

women have to spend more time caring for children and elderly family members than their male counterparts.⁹³

- 4.94 The Overseas Development Institute felt that donors could also play an advocacy role with business to address the incidence of violence that can result from women seeking a more independent role in society:

Business can play a role in addressing a wide variety of social issues which act as indirect constraints to growth but are also very serious development issues in their own right. Gender violence is a very serious problem in many Pacific countries, impacting directly on labour productivity. Donors can work with companies to play their role, with other sections of society, to address the problem through awareness raising, workplace policies and procedures, protection and prevention programmes and positive approaches to empower women within the workforce⁹⁴

- 4.95 The Australian Government has recognised that market levers can be imperfect drivers of equitable growth in countries undergoing rapid economic development. DFAT's submission stated: 'Unequal treatment of and opportunities for women are frequently found when analysing market inefficiencies'.⁹⁵ It further advised:

The aid program can... achieve a win-win by deepening existing investments in supply chain improvement to effectively resolve inefficiencies and market failures that relate to women's unequal access to and control over skills, inputs, assets and decision making. Working with Australian, multinational and local businesses to address legal, logistical and attitudinal challenges facing women along their supply chains can benefit all sides: women as suppliers and employees; businesses in terms of increased efficiency and productivity; and consumers in terms of improved competition and reduced prices. The focus is on getting women to benefit through entry into non-traditional or emerging high-value supply chains, as well as through a better bargain when they are already engaged as entrepreneurs or employees in a supply chain.⁹⁶

93 IWDA, *Submission 122*, p. 13.

94 Overseas Development Institute, *Submission 51*, p. 8.

95 DFAT, *Submission 21*, p. 19.

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

Monitoring and evaluation

- 4.96 The need for well targeted key performance indicators and more sophisticated data disaggregation to support effective programing for women as part of the broader aid trajectory was widely addressed in the evidence.
- 4.97 The IWDA endorsed the focus on women and aid effectiveness in the Government's development policy framework:
- Collecting good information and acting on it in a virtuous cycle is critical I think and, frankly, progress on something as central as gender equality and women's empowerment should matter the way meeting budget performance targets or financial management targets matter. That has not been the case so far and that is one of the reasons, I think, why we see the gap between rhetoric and change on the ground – so really strong policy commitments but quite a gap in terms of action. So I think the performance framework and the accountability arrangements will be really key in getting the traction that the government wants in the area of gender equality and women's empowerment. Resources are too scarce in this area to waste time by reinventing the wheel or not acting on evidence.⁹⁷
- 4.98 The IWDA drew attention to the broader deficiencies of global data collation on outcomes for women as information is collected at household level, without individual differentiation nor distinction by gender.⁹⁸
- 4.99 Referring to outcomes for women under the mobile phone banking initiative WING in Cambodia, Coffey recommended expanding the scope of evaluation beyond a narrow focus on gender disaggregation to capture the longer term benefits of private sector engagement at a business level.⁹⁹
- 4.100 Discussing the effectiveness of the Asian Development Bank's investment in private sector partnerships, ADB emphasised the importance of monitoring gender-based outcomes, for example on specific products, on a long term basis, and of having an independent auditing process:
- We have the development and monitoring framework where we put the long-term outcomes of our investments. So, for instance, if I am talking about support to the banks then I look at the credit to GDP ratio over a period of time and say, okay, this is going to be

97 Ms Joanne Crawford, Research and Policy Advisor, *Committee Hansard*, Canberra, 29 August 2014, p. 10.

98 Individual Deprivation Measure, Women's Development Agency Inc. *Submission 122*, p. 16, and see <www.iwda.org.au/research/assessing-development/65>

99 Coffey, *Submission 35*, p. 7.

our target by virtue of our intervention. Then we look at the number of loan accounts and if we are looking at gender outcomes we talk about the increase in the number of bank accounts that women have. And it is similar when we look at SME support. So we do have tangible outcomes that are put into our project profile and then we monitor it, and it is not just an internal assessment, we have an independent evaluation.¹⁰⁰

- 4.101 As GRM Futures Group argued, for aid effectiveness, the Government should undertake a systematic assessment of all factors impacting on women's capacity to engage in employment, and monitor the positive and negative impacts:

...a systematic analysis of the role business plays in all development challenges is vital to guide effective ODA investments – whether it is to minimize or mitigate any negative effects that businesses may have, alert business to the benefits of socially responsible investment, or to leverage and scale up their potential positive effects.¹⁰¹

- 4.102 Further, GRM noted in relation to the capacity of the private sector to deliver on goals for women:

Typically an integrated approach will be most effective whereby gender issues are consistently considered and incorporated throughout private sector engagements in ways that steadily improve gender equality.¹⁰²

- 4.103 According to DFAT, Australian businesses could quantify outcomes for women as part of their business process:

Australian businesses can demonstrate to local and multinational companies their experience in increasing productivity by combating and preventing discrimination of women and improving work-life balance. They can quantify the benefits of investing in women's employment for companies and for a country's development, and disseminate this evidence through sector associations and other networks of influence. Australian mining companies could share successful models with their business partners in developing economies, as they are often frontrunners in recruiting, training and employing women in non-

100 Ms Lakshmi Venkatachalam, Vice President, Asian Development Bank (ADB) *Committee Hansard*, Canberra, 18 June 2014, p. 7.

101 GRM Futures, *Submission 57*, p. [1].

102 GRM Futures, *Submission 57*, p. 10.

traditional roles, both in Australia and in their overseas operations.¹⁰³

- 4.104 At Senate Estimates in February 2015, in relation monitoring gender outcomes, DFAT advised:

In the gender sphere, we are asking questions now about, for example, does the investment properly analyse gender gaps and opportunities and does that inform the design of the investment? Does it look at risks to gender equality and how are they managed? What is the progress of the specific investment in implementing strategies to promote gender equality and women's empowerment? We are looking at the monitoring and evaluation systems in individual investments to make sure that they collect sex disaggregated data and include measures to measure greater gender equality outcomes. We are looking at whether there is specific expertise applied to individual investments to make sure that they are able to achieve intended outputs. We are looking at how delivery partners treat gender equality in their own policies and practices.¹⁰⁴

Next steps for the Government

- 4.105 The relationship between gender equality and economic growth is widely acknowledged. In addition to workplace productivity gains, women with an income do much to reduce poverty overall, including by providing educational opportunities and better health care for their children.
- 4.106 Approximately half the world's population is female; many small business owners are women; and evidence supports the view that women's involvement in the workplace improves business outcomes. Yet women are still underrepresented particularly in decision-making, discriminated against at work, and frequently subject to violence.
- 4.107 There was strong support for implementation of a well-integrated global strategy to promote women's capacity to find safe and fair employment, to keep it and gain economic independence. In this regard, Australia's new development policy and performance framework, which includes the requirement that 80 percent of all Australian aid projects address gender

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

104 Mr Scott Dawson, First Assistant Secretary, Contracting and Aid Management Division, Foreign Affairs and Trade Operations, DFAT, *Senate Estimates Committee Hansard*, Senate Foreign Affairs, Defence and Trade Legislation Committee, Canberra, 26 February 2015, p. 41.

issues in their implementation, is key to improving opportunities for women in the Indo-Pacific region.

- 4.108 The Committee will be watching with keen interest as DFAT progresses new initiatives to ensure that women are adequately supported, and that gender outcomes are effectively measured and reported.

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.

Partnering in the overseas aid program

6.1 In addition to the work done by Australian government agencies, Australia's aid program is delivered by a number of organisations including: private sector organisations; partner governments; multilateral organisations; non-government organisations (NGOs); and multi-stakeholder partnerships. In launching the new Australian development policy and associated performance framework the Foreign Minister stated:

The performance framework that I will announce today is agnostic about how aid is delivered, other than to ensure it is effective and efficient and we partner with the most effective organisations that have the capability to achieve the best possible results.¹

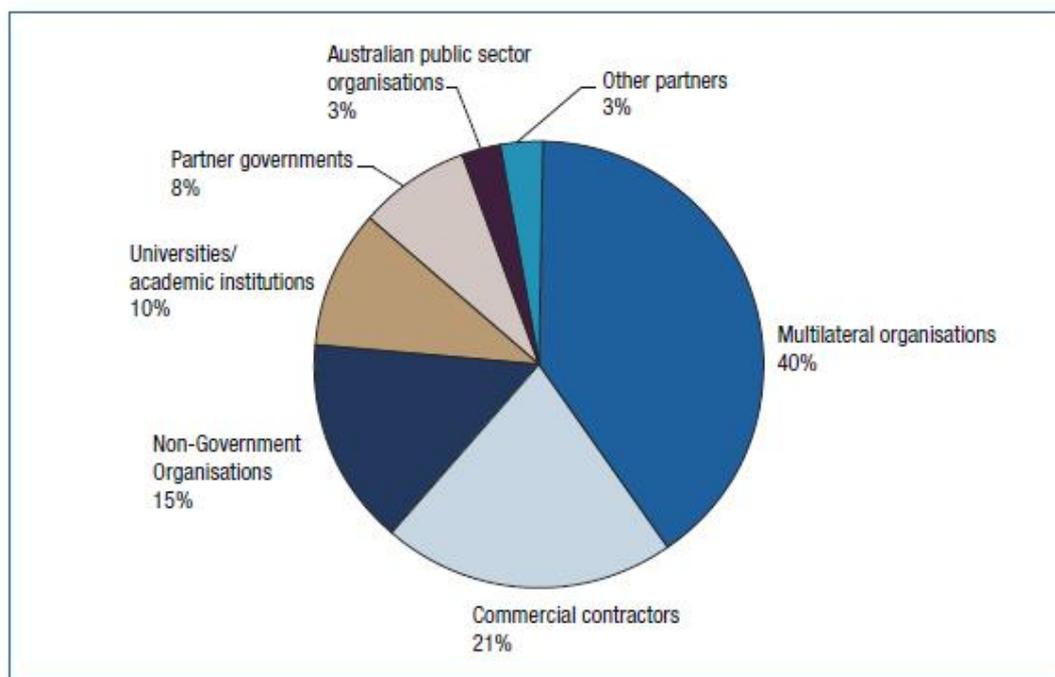
6.2 Many individuals and organisations have an interest in, or are impacted by, the aid program and its activities; and can work in conjunction with a delivery partner to ensure that the outcomes of an aid activity are achieved.

6.3 The figure below shows the proportion of overseas development assistance (ODA) funding managed on behalf of the Australian Government by different types of organisations.² As illustrated, in 2013-14 the three largest delivery partners were: multilateral organisations (40 per cent), commercial contractors (21 per cent), and non-government organisations (15 per cent).

1 The Hon Julie Bishop MP, Minister for Foreign Affairs, 'The New Aid Paradigm', *Speech*, delivered 18 June 2014.

2 Figure 6.1 excludes ODA appropriated to Australian government departments and agencies other than the Department of Foreign Affairs and Trade (DFAT).

Figure 6.1 DFAT administered ODA in 2013–14, by delivery partner type



Source DFAT, *Performance of Australian Aid 2013–14*, February 2015, p. 12.

Private sector partners and partnerships

- 6.4 The private sector can contribute to development in various ways: through core business activities; global foundations; and initiatives such as the promotion of a healthy workforce or philanthropy. It is made up of businesses of varying size and legal structure, and may be owned and/or operated by individuals located in developing countries, emerging countries, Australia or in other developed countries.³
- 6.5 Explaining why an explicit focus on partnering with the private sector is needed, GRM Futures Group stated:

We would venture that the private sector effort and intensity in the aid program has been underdone hitherto, and an effect of that has been to miss several significant potential opportunities that the private sector can provide to achieve results at scale that are sustained. We strongly feel that the private sector partnership – the whole idea of integrating the private sector – is not a panacea

3 DFAT, *Submission 21*, p. 11

for all aid but offers significant potential, particularly in terms of realising value for money in the aid program.⁴

- 6.6 This potential of scalability was also highlighted by the Rt Hon Stephen O'Brien MP (United Kingdom) and Global Advocate for the Roll Back Malaria Partnership:

In the end, whatever quantum you throw at development, it has now got to be done in partnerships. There is no way you can just look to the bottomless pit of your constituents' – and my constituents' – hard earned taxpayer money and keep throwing it out for public good. You need the efficiency of the private sector to help you view the greatest impact on delivery but, equally, you will never do it at sufficient scale unless the public sector is involved and there is political ownership.⁵

- 6.7 Abt JTA proposed a number of factors that may have limited private sector participation in the aid program to date:

- Historically there has been reluctance on the part of the Australian Aid Program to recognise the private sector as a legitimate partner in international development.
- There has been a lack of [a] clear framework that supports collaboration.
- There has been a lack of economic incentives for collaboration.
- There has been a lack of political commitment to collaboration.
- There has been no clear vision for how and where the private sector can engage in development.⁶

- 6.8 Australia's overseas development policy now includes a target on engaging with the private sector:

All new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes.⁷

- 6.9 The report recently released by the Department of Foreign Affairs and Trade (DFAT) – *Performance of Australian Aid 2013-14* – discussed the target and outlined the use of the term 'engaging with the private sector':

4 Dr Alwyn Chilver, Director Growth, Private Sector and Livelihoods, GRM Futures Group, *Committee Hansard*, Brisbane, 11 August 2014, p. 1.

5 Rt Hon Mr Stephen O'Brien MP (United Kingdom), Global Advocate for the Roll Back Malaria Partnership, *Committee Hansard*, Canberra, 3 June 2014, p. 1.

6 Abt JTA, *Submission 5*, p. 1.

7 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.

This target will ensure that opportunities to engage with the private sector or promote private sector-led growth are explored in the design of all new aid investments, not only those with a focus on economic development. Engagement with the private sector may include consultation during the design of new investments, co-financing arrangements, public private partnerships and participation in governance arrangements and joint evaluation activities.⁸

- 6.10 The Development Policy Centre shared the view that private sector engagement ‘has the potential to serve development ends across any and all sectors’.⁹
- 6.11 While contracting private sector entities to provide services for program management and construction has been the ‘most common form of donor engagement with business’, the Overseas Development Institute suggested ‘donors can operate as much more than just a source of financial aid to companies and developing countries’.¹⁰
- 6.12 A number of submissions shared the view put forward by Oxfam Australia that the targeted outcome should determine the partner in aid delivery:
- In any context, Australian aid should be directed to partners that are best placed to achieve [aid] objectives. This may include private sector partners in various contexts and the private sector should be encouraged to think innovatively about ways in which it can profitably contribute to reducing poverty.¹¹
- 6.13 The World Bank Group contended:
- ...ending extreme poverty and boosting shared prosperity cannot be done without the jobs, services, and financial strength provided by the private sector.... 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.¹²

8 DFAT, *Performance of Australian Aid 2013–14*, p. 7.

9 Development Policy Centre, *Submission 103*, p. 4.

10 Overseas Development Institute (ODI), *Submission 51*, p. 5.

11 Oxfam Australia, *Submission 72*, p. 31

12 World Bank Group, *Submission 75*, p. 5.

Multinationals and Australian company partnerships

- 6.14 As noted, over 20 per cent of Australian aid administered by DFAT is currently delivered by commercial contractors, many of whom are multinational or large Australian multiservice firms. The new policy aims to change the way the Australian Government partners with the private sector. Evidence reflected on this changing relationship, including public perception.
- 6.15 Ms Margaret Callan, Visiting Fellow at the Development Policy Centre, reflected on public perceptions of aid:
- ... there is actually quite a large risk for the Australian aid program to be perceived as providing funds to large, wealthy companies to operate in developing countries rather than going more directly to partners in those countries. There are a couple of aspects to this, but in general I think we should be working closely with the local private sector.¹³
- 6.16 Concern over working with big business was raised by AID/WATCH, who stated that 'to see the private sector, or more specifically, big business as the driver of equitable and sustainable development is a leap in logic without adequate evidence'. It further stated that 'aid should not focus on further incorporating the private sector as it pertains to big business'.¹⁴
- 6.17 The Overseas Development Institute recommended '[d]onors not adopt a generic, ideological view on what types of business are more developmentally beneficial.'¹⁵
- 6.18 In response to a question from the Committee on the effectiveness of private sector delivery, Dr Mark Dybul from the Global Fund to Fight AIDS, Tuberculosis and Malaria responded 'we do support private sector organisations where they are the best option for implementation'. He later noted that 'the nice thing about many public-private partnerships is that the private sector pays.'¹⁶
- 6.19 From an industry perspective, Policy Cures pointed out that working with large multinationals was critical to achieving certain outcomes:

13 Ms Margaret Callan, Visiting Fellow, Development Policy Centre, Australian National University, *Committee Hansard*, 29 August 2014, p. 27.

14 AID/WATCH, *Submission 44*, pp. 2, 9.

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

16 Dr Mark Dybul, Executive Director, The Global Fund to Fight Aids, Tuberculosis and Malaria, *Committee Hansard*, Canberra, 11 February 2015, pp. 2-3.

Only the pharmaceutical industry can convert promising academic discoveries into products that can drive down regional disease burdens, and drive up regional life-expectancy and productivity.¹⁷

Preferring partnerships with Australian businesses

6.20 The particular benefit of partnering with Australian companies was canvassed in evidence. The Development Policy Centre remarked:

Inclusive business partnerships and service delivery partnerships, in particular, are most sensibly pursued with firms headquartered in Australia or in our neighbouring countries. It would be difficult to engage in effective dialogue with more far-flung companies, and those in other donor countries are likely to be in dialogue with their own governments in any case.¹⁸

6.21 The skills and reputation of Australian companies was often highlighted as a competitive advantage. Coffey observed that 'Australian business practices and ethics are globally well regarded'.¹⁹ More specifically, the University of Queensland's Sustainable Minerals Institute suggested:

Australia has a competitive advantage and globally leading reputation in all aspects of exploration, mining and mining governance, as well as, to a certain degree, in minerals refinement and associated activities.²⁰

6.22 Austrade and the Department of Industry²¹ observed that a number of countries are seeking Australia's experience in skills development.²² TAFE Directors Australia noted that 37 TAFE institutes had partnerships in 32 countries, including in China.²³

6.23 The Embassy of Mongolia in Australia encouraged expanding development cooperation in the areas of common interest and those in which Australia has specific expertise:

Apart [from] mining and resource endowed economic development, Mongolia and Australia also share similarities

17 Policy Cures, *Submission 63*, p. 7.

18 Development Policy Centre, *Submission 103*, p. 30.

19 Coffey, *Submission 35*, p. 9. Also see Collabforaction, *Submission 80*, p. 7.

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

21 Note: following Machinery of Government changes in December 2014, the Department is now called Department of Industry and Science.

22 DFAT, *Submission 21*, Attachment D – Annexure to DFAT Submission – Views from Austrade and Department of Industry, p. 71.

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

within other sectors such as agriculture, and infrastructure challenges related to large surface, services dedicated to disperse population.²⁴

- 6.24 Identifying which Australian companies encapsulate the expertise sought by our partner countries is one way in which the Australian Government could prioritise its private sector engagement. The Overseas Development Institute suggested:

DFAT develop an approach that plays to its strengths and geographical priorities to improve development outcomes by focusing on development interventions in areas such as mining, skills development and countering gender violence.²⁵

National interests, commercial interests and ODA

- 6.25 A range of evidence proposed that the primary purpose of partnering in the aid program should not be to promote Australia's commercial interests or otherwise benefit Australian companies.

- 6.26 AID/WATCH 'argued strongly against the use of aid to primarily service Australia's national and commercial interests'.²⁶ Oxfam Australia suggested:

[DFAT] should ensure that aid guidelines and funding agreements follow its stated position that aid will not be directed to advancing the commercial interests of Australian companies.²⁷

- 6.27 In February 2014, at a public hearing of the Senate Foreign Affairs, Defence and Trade Committee's inquiry into Australia's overseas aid and development assistance program, DFAT's Secretary clarified this saying 'when I talk about aid for trade I am not talking about using the aid program to advance the commercial interests of Australian companies'.²⁸

- 6.28 In order to address the perceived conflicts of the aid program working with Australian companies, the Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide suggested the need to:

24 Embassy of Mongolia in Australia, *Submission 53*, p.3.

25 Overseas Development Institute, *Submission 51*, p. 8.

26 AID/WATCH, *Submission 44*, p. 1.

27 Oxfam Australia, *Submission 72*, p. 32.

28 Mr Peter Varghese, Secretary, DFAT, *Senate Foreign Affairs Defence and Trade Committee Hansard*, Canberra, 21 February 2014, p. 66.

... strongly brand Australia's commercial objectives as complementary to our long held humanitarian ethics and commitment to global justice.²⁹

- 6.29 While acknowledging the concerns raised about perception and profit motives, the Committee is of the view that partnering with business, and other organisations operating in the private sector, allows the Australian Government to access their expertise and experience where it coincides with aid program priorities. It can and must be a win-win scenario.
- 6.30 In many cases, Australian and/or multinational businesses do not need or want financial support from the Australian Government in order to expand into a new market in a developing country. Private sector businesses provided the Committee with their own examples of investments that support a healthy and educated workforce, which benefits them and the country. The aid program must identify opportunities that maximise development outcomes from what may already be a long-established business activity.
- 6.31 In considering how to engage with the private for-profit sector to enhance development outcomes, the Committee received evidence that demonstrated there are few areas where the private sector could not be engaged, whether through its own employment strategies, corporate social responsibility initiatives, philanthropy or through multi-stakeholder partnerships.

Multi-stakeholder partnerships and the Australian Government

- 6.32 According to B4MD, development partners recognise that achieving sustainable and inclusive development requires involving the most effective development partner to achieve agreed outcomes.³⁰ However, this need not mean that only two organisations are involved in achievement of partnership objectives. DAI reflected on this point:
- ...it is worth remembering that just as development is about more than economic growth, so development assistance is about more than money: effective catalytic assistance complements funding with the technical knowledge, implementation expertise, and human capital built up over decades in the agencies, think tanks, NGOs, academic institutions, and development firms that make up the development community.³¹

29 The Australian Trade and Development Business Network and the Institute for International Trade at the University of Adelaide, *Submission 112*, p. 5.

30 Business for Millennium Development (B4MD), *Submission 93*, p. 5.

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

- 6.33 CSL suggested partnerships with the private sector include a number of organisations, maintaining ‘economic and social development in low-income countries is best achieved through multi-stakeholder collaborations’.³² Similarly, the UN Global Compact Network remarked:
- We consider that finding solutions to poverty and other global issues requires a multi-stakeholder approach that absolutely must include business as it is the primary source of economic activity.³³
- 6.34 The Australian Council for International Development (ACFID) suggested using NGO ‘convening and brokering power to facilitate new multi-stakeholder initiatives for development’.³⁴ Similarly, the Centre for Social Change argued for a strong role for NGOs, suggesting that they provide the local knowledge:
- ... the role of the private sector in promoting sustainable economic growth and alleviating poverty can be successful as long as there is a consultative and planning role for NGOs and practitioners with existing trust of and links with the communities, who can use genuinely participatory techniques at a grassroots level.³⁵
- 6.35 Chevron noted that in its experience successful projects ‘fully engage a network of local and international partners to leverage respective strengths’; and ‘activate project beneficiaries early in the analysis, planning and project development’.³⁶ Chevron reflected:
- We also have learned that economic growth - particularly in developing countries - is a shared agenda that requires equal commitment and participation from civil society, governments, business and NGOs.³⁷
- 6.36 In discussing the benefits of multi-stakeholder partnerships, Roll Back Malaria explained:
- ...although still hosted by the UN and the WHO, [the Roll Back Malaria Partnership] is a global public-private partnership to fight malaria. We have realised since the launch in 1989 that the best

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

33 Ms Alice Cope, Executive Manager, United Nations Global Compact Network Australia, *Committee Hansard*, 20 August 2014, p. 27.

34 Australian Council for International Development (ACFID), *Submission 52*, p. 6.

35 Ms Carly Stephan, Program Manager, Centre for Social Change, *Committee Hansard*, Canberra, 11 August 2014, p. 32.

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

37 Chevron Australia Pty Ltd, *Submission 39*, p. 1.

way to achieve results is to take the strengths of every different partner around the table.³⁸

- 6.37 The North-South Institute noted that when establishing a multi-stakeholder partnership and bringing together partners who are often from different backgrounds, it is necessary to build trust and shared understanding.³⁹

Understanding partnering with the private sector

- 6.38 Evidence suggested that there is more to understanding the private sector than acknowledging it has a profit motive. Understanding the private sector, according to GHD, begins with acknowledging that it is not homogenous.⁴⁰
- 6.39 Business for Social Responsibility submitted that it is necessary to '[u]nderstand private sector assets and where they can add value or support scale', including:
- ...capital and human assets, technology and innovation capacities, community networks and investments, access to hard-to-reach populations as well as their networks and influence.⁴¹
- 6.40 Cardno stated that the change of approach outlined in the new development policy requires the Australian Government 'to really understand the private sector – how it works, what incentives it is driven by and how it assesses and values risk'.⁴²
- 6.41 In terms of incentives for partnering, DFAT noted market drivers are now aligning with development goals:
- ...larger companies are moving beyond traditional corporate social responsibility programs to creating shareholder returns as well as social returns for the communities with which they interact or the consumers who buy their products. These shifts are creating closer alignment between corporate and donor interests.⁴³
- 6.42 However, the Foundation for Development Cooperation cautions:

38 Mr Herve Verhoosel, Head of External Relations, Roll Back Malaria Partnership, *Committee Hansard*, Canberra 3 June 2014, p. 1.

39 The North-South Institute, *Exhibit 10*, 'Models for trade-related private sector partnerships for development', January 2013, p. x.

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

41 Business for Social Responsibility, *Submission 10*, p. 12.

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

43 DFAT, *Submission 21*, p. 24.

There is a view among aid ‘professionals’ that...because shareholder and even staff pressure is demanding that companies engage more deeply in greater corporate social responsibility, and that the aid community can find ways to assist the private sector in this way to alleviate its burdens of guilt or at least, of mercenariness. But once this position is adopted, the relationship between the two becomes an awkward and limited one and the focus on the person in the developing community is lost.⁴⁴

- 6.43 Professor Moran of the Sustainable Minerals Institute encouraged the Australian Government to recognise that partnering includes risks for the private sector:

One should not take the view that the companies are clamouring for involvement with government resources for partnerships. There are risks to companies that can be difficult for the companies to control, so they want a very clear outlook on where they are exposed as a result of such partnerships.⁴⁵

- 6.44 GRM International noted that ‘negotiating genuine, hard-nosed, long-term partnerships requires the necessary time’ to first build the relationship.⁴⁶ For partnerships or collaboration between the private sector and the Australian Government to then be successful ATAB and IIT suggested that it is necessary to share objectives and have a common understanding of how a partnership works, and ultimately have a strategic framework to guide the partnership.⁴⁷

- 6.45 Translating high level commitment into practical guidance is required to implement a partnership. Professor Stephen Howes from the Development Policy Centre commented:

There is a lot of lofty rhetoric about involving the private sector and, at the end of the day, the poor old bureaucrat can be left confused about what they are actually meant to do! So everyone needs really clear messages – not just at the high level but at the strategic level: ‘this is what you are meant to do’.⁴⁸

44 Foundation for Development Cooperation (FDC), *Submission 78*, p. 3.

45 Professor Moran, Director, Sustainable Minerals Institute, *Committee Hansard*, Canberra, 11 August 2014, p. 12.

46 GRM International, *Submission 57*, p. 6.

47 ATAB and IIT, *Submission 112*, p. 23; See also Accenture, *Submission 23*, p. 10, the North-South Institute, *Submission 85*, p. [3].

48 Professor Stephen Howes, Director, Development Policy Centre, Australian National University, *Committee Hansard*, Canberra, 29 August 2014, p. 29.

- 6.46 Abt JTA also commented on the need for a common understanding of the operations and terminology of the partnership:

Better understandings need to be developed of the management of the differences in private and public sector motivations, expectations and ways of 'doing business' and other 'people issues'. Definition of 'core partnering issues' and how to create an 'enabling partnering environment', for example in use of terminology and language, context and culture, equity, power within partner relationships, leadership, trust between partners and partner involvement in planning and evaluation.⁴⁹

- 6.47 Acknowledging the need to increase its understanding of business, DFAT indicated its work with businesses 'will initially focus on accelerating [its] understanding of the drivers and capacity for business to support its development effort.'⁵⁰

What the private sector brings to a partnership

- 6.48 Throughout the submissions the strengths of businesses were addressed in terms of what the private sector could bring to a partnership:

- provision of goods and services as its core function:

[RESULTS International Australia noted that] products and services that [it is] focusing on often do involve the private sector in the development and delivery of those services, such as the development of drugs and vaccines and the delivery of education services.⁵¹

- understanding of country context and needs:

[Australia Fiji Business Council noted its] members have long experience in-country and are deeply familiar with local conditions and challenges. Some of these businesses have been operating in Fiji for more than a century, and some of their owners and managers have decades, even life long, experience in the country.⁵²

49 Abt JTA, *Submission 5*, Attachment: Jane Thomason and M. Hancock, 'PNG Mineral Boom: Harnessing the extractive sector deliver better health outcomes', Development Policy Centre, Discussion Paper 2, p. 25.

50 DFAT, *Submission 21*, p. 4.

51 Mr Mark Rice, Global Health Campaigns, RESULTS International Australia, *Committee Hansard*, 20 August 2014, p. 79.

52 Australia Fiji Business Council, *Submission 92*, p. 2.

- having new ideas and approaches:

[Accenture suggested certain sectors are] particularly suited to transformation via digital, including Health Care, Education and Financial Services. These are seen as ‘digitally contested markets’ because ‘digital technology is opening up traditional industries to new levels of competition, often from entirely new industries’⁵³
- having skills and experience needed by developing countries and donors:

[Oil Search explained it contributes through] our logistics, our supply chain, our governance processes and our actual presence on the ground.⁵⁴
- being an advocate:

[World Food Programme advised that] Business can leverage their communication channels to raise awareness of its cause with consumers or employees.⁵⁵
- being a source of funding for development:

[According to DFAT] partnerships with the private sector enable governments to leverage private sector finance to bring proven development solutions to scale when public resources are not sufficient.⁵⁶

6.49 An additional strength of the private sector is its capacity for innovation and prompt adaptation. As aid is complex and ever-evolving, Cardno Emerging Markets and METIS Analytics stated:

Successful private sector entrepreneurialism is characterised by the need to: be outcome-focused; recognise there are multiple pathways to achieving successful outcomes, and what works in one place and time may fail in another; experiment and innovate, opening new more efficient/effective pathways to success; acknowledge failure as an acceptable condition of success, provided it is learned from; and to ensure learning occurs ‘real time’, allowing entrepreneurs to respond quickly and adapt.⁵⁷

53 Accenture, *Submission 23*, p. 6. Also see: Accenture, ‘Remaking Customer Markets – Unlocking growth with digital’, <www.accenture.com/us-en/landing-pages/customermarkets/Pages/home.aspx> viewed 28 April 2014.

54 Mr Peter Botten, CBE, Managing Director, Oil Search Ltd, *Committee Hansard*, 29 August 2014, p. 1.

55 World Food Programme, *Submission 90*, p. 3.

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

57 Cardno Emerging Markets and METIS Analytics, *Submission 20*, p.1.

- 6.50 As highlighted by Chevron, for many organisations in the private sector, partnering is intrinsic to doing business:

Every year, we invest tens of billions of dollars in every corner of the world. We partner with governments, NGOs and community leaders to build lasting relationships, understand their needs and priorities, manage the impacts of our operations and make strategic social investments throughout the lifecycle of a project.⁵⁸

- 6.51 The Burnet Institute observed that Australian aid programs often operate in the same locations or are focused on the same populations as some businesses, and suggested:

... engaging the active participation of those enterprises may reap additional benefits at no extra cost to the Australian Government. In fact, our experience in PNG demonstrates that the management expertise of private sector companies may enhance the effectiveness and impact of the program. DFAT Posts could actively promote such engagement with Australian (and other donor) aid programs and at least insist on corporate responsibility to Do No Harm.⁵⁹

- 6.52 ACFID, Pacific Islands Trade and Invest and others reminded the Committee that businesses are made up of individuals and encouraged a greater focus on opportunities for building those people-to-people links.⁶⁰

Business councils and development support

- 6.53 Business councils called for greater recognition of how they can support development including by identifying partnership opportunities, providing the link between government and business, consultation and collaboration, and providing services such as information distribution.

- 6.54 Discussing how representative bodies and business networks can provide a conduit between business and government in Australia, the Burnet Institute suggested that:

Business networks and coalitions offer the Australian Government focal points to pursue dialogue about the role of the private sector in inclusive development and to collate examples and case studies of such experiences in the field.⁶¹

58 Chevron Australia Pty Ltd, *Submission 39*, p. 2.

59 Burnet Institute, *Submission 9*, p. 6.

60 ACFID, *Submission 52*, p. 6. See also Pacific Islands Trade and Invest (PT&I), *Submission 60*, p. 9.

61 Burnet Institute, *Submission 9*, p. 7.

- 6.55 Similarly, the Australia Pacific Islands Business Council suggested that business councils, both those in Australia and in developing countries, could provide invaluable knowledge and experience to Australian aid officials, but proposed this needed to be done through a formal mechanism on a regular basis.
- 6.56 The Council outlined a possible engagement framework to harness the expertise of both local and donor country private sectors:
- Annual Seminar – which could involve a range of interested stakeholders in each country including NGOs and which would canvass broad development issues and brief participants on various Australian aid activities.
 - High level Bilateral Business and Officials Council – to assist in identifying, structuring and delivering development projects to achieve the most effective and efficient outcomes. Such a Council might consist of two high level representatives each of the Australian Government, the relevant national Government, the Australia Pacific Islands Business Council and from the national Chamber of Commerce and Industry as the peak business body.⁶²
- 6.57 Abt JTA also suggested that business councils can support development outcomes by being a source of information beyond traditional business activities:
- Business associations, like the Australia PNG Business Council, can also play a role in health, for example malaria. By distributing good practice guidelines to firms and acting as an information resource, these associations can help firms that lack the resources to create malaria programmes themselves. They can also encourage manufacturers of drugs and insecticide treated nets to provide more comprehensive information about malaria to consumers and to combat the problem of counterfeit drug sales which is prevalent in many developing countries.⁶³
- 6.58 The Centre for Social Change submitted that social infrastructure, and specifically local chambers of commerce, could be used as a means of ‘developing an economic system that can support a diverse range of business activities’.⁶⁴

62 Australia Pacific Islands Business Council, *Submission 91*, p. 3.

63 Abt JTA, *Submission 5*, p. 4.

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

What the Australian Government could bring to a partnership

- 6.59 As the Australian Government's representative when partnering for development, it is argued that DFAT could assist by:
- Strengthening the alignment between industry capacity needs and technical/vocational training.⁶⁵
 - Improving connections to governments and other donors, including through influencing and encouraging efforts to create a better enabling environment or improve the functioning of specific markets or sectors.⁶⁶
 - Understanding country context and being a useful source of information to the private sector given its' engagement with and access to partner governments'.⁶⁷
 - Leveraging its convening power to improve discussion between a government and its private sector, and identify investments that can 'most effectively catalyse improvements in the bilateral and global trading environment'.⁶⁸
 - Mitigating risk through financial partnerships, including 'when the government invests alongside the private sector or uses other financial instruments to enhance the development impact of private sector activities and investments'.⁶⁹

- 6.60 While DFAT identified its strengths, evidence suggested that there were some challenges faced by business in understanding DFAT's priorities, its role in-country and in finding entry points into the aid program. Accenture submitted:

The Aid program is often quite opaque and it is difficult to know who to talk to in DFAT and where decisions are made, let alone what the priorities of the program are. To be able to engage and find common ground with businesses, DFAT's priorities should be transparent and easily accessible.⁷⁰

Producing positive partnering outcomes

- 6.61 The Committee agrees with the ANZ that effective management and clear articulation by the Australian Government of what it sees as the role for

65 GRM international, *Submission 57*, p. 7.

66 DFAT, *Submission 21*, p. 23.

67 DFAT, *Submission 21*, p. 23.

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

69 DFAT, *Submission 21*, pp. 1-2.

70 Accenture, *Submission 23*, p. 12.

the private sector is of particular importance.⁷¹ Articulating the clear purpose of aid and any projects being undertaken will help potential partners and the Australian public – notably taxpayers – understand the value propositions.

- 6.62 The benefits of multi-stakeholder partnerships have been clearly demonstrated by a number of large global partnerships, including the Gavi Vaccine Alliance and the Global Fund to Fight AIDS, Tuberculosis and Malaria, who are effectively leveraging private sector resources to achieve significant advances in health, education and the delivery of global public goods. Further, the Committee notes that when local in-country agents or entrepreneurs are included in the partnerships there can be significant gains.
- 6.63 In terms of what each partner can bring to a multi-stakeholder partnership, evidence suggested the private sector offers additional resources, efficiencies and the potential to integrate development activities into core business for increased sustainability; NGOs' are well known for their strong local knowledge and networks; and the Australian Government can play a convening and coordinating role, particularly in relation to host government negotiations.
- 6.64 The Committee took evidence that the Australian Government needs to more actively manage its badging and its partnerships to ensure all opportunities are realised and that they continue to produce positive outcomes for Australia's aid investment. DFAT should ensure that its staff, both in Australia and overseas, are able to identify potential partners and take action to convert contacts to contracts.
- 6.65 There also needs to be a mechanism for demonstrating the achievements. Austrade's key performance indicators in relation to developing international markets may provide a useful guide for DFAT in devising appropriate measures for private sector development business engagement activities.

71 ANZ, *Submission 48*, p. 1.

Recommendation 15

The Committee recommends that the Australian Government:

- continue to support multi-stakeholder global partnerships that have demonstrated their effectiveness in meeting Australia's aid objectives;
- encourage partnerships in the Indo-Pacific region, using Australia's overseas diplomatic missions more effectively at the local level to identify opportunities and support small businesses;
- require the Department of Foreign Affairs and Trade to:
 - ⇒ undertake routine systematic reviews of global partnerships to ensure that the impact of Australia's aid investments is both maximised and appropriately acknowledged; and
 - ⇒ monitor and report annually on business partnerships established as a result of Australian Government private sector development business engagement activities.

Current Australian Government support for private sector partnerships

6.66 The terms reference asked the Committee to consider current Australian Government support for private sector development through bilateral and multilateral investments. This section provides an overview of programs brought to the Committee's attention in the evidence.

Strengthening the private sector in developing countries

6.67 DFAT described partnerships with the private sector aimed at 'strengthening key markets and sectors':

These activities are intended to improve the function of particular markets, for example by enhancing connectivity between parts of the value chain (physical infrastructure or facilitating business to business connection), improving the information available to market players, or supporting the development of new products

or services to meet an unmet market. They benefit businesses and consumers within a particular market.⁷²

6.68 DFAT provided the following programs or activities as examples of strengthening key markets and sectors:

- Cambodia Agricultural Value Chain Program
- Microenterprise Development Program (Nepal)
- Pacific Financial Inclusion Program
- International Finance Corporation - Pacific Partnership
- Africa Enterprise Challenge Fund
- Pilot Livestock insurance program (Kenya)
- Pacific Infrastructure Development Group
- Global Partnership on Output-Based Aid.⁷³

6.69 DFAT also described partnerships aimed at ‘maximising the development impact of individual businesses’:

These activities partner with specific businesses. These businesses are usually chosen because of their large impact in a sector or economy and their ability to transform markets and create broader development benefits. These types of activities may include the use of finance instruments, such as co-finance, to encourage businesses to invest or undertake their operations in a particular way.⁷⁴

6.70 The following programs were highlighted as maximising the development impact of individual businesses:

- Market Development Facility⁷⁵
- Enterprise Challenge Fund for the Pacific and South-East Asia
- Carnival Cruise - DFAT Memorandum of Understanding (MOU)⁷⁶
- Pacific Business Fund/Pacific Business Investment Facility.⁷⁷

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

73 DFAT, *Submission 21*, Attachment B.

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

75 According to DFAT, the Market Development Facility (MDF) began in Fiji in July 2011 and has since expanded to Timor-Leste (in 2012) and Pakistan (in 2013). MDF is now expanding further to Papua New Guinea and Sri Lanka in 2015.

76 DFAT refers to this as a direct partnership which commits resources, networks and experience (DFAT, *Submission 21*, p. 32).

77 The Development Policy Centre noted that this was also known as the Pacific Business Investment Facility and was announced in December 2013, Development Policy Centre,

- 6.71 The Development Policy Centre provided a list of additional programs it considered to be ‘pure private sector development activities supported by the Australian aid program’:
- AgResults program, a plurilateral initiative launched under G20 auspices to trial the use of incentive payments to spur private sector innovation in agriculture;
 - agriculture ‘value chain’ programs in Indonesia.⁷⁸

Social outcomes—health and education

- 6.72 The Committee received evidence about partnerships funded by DFAT which were primarily aimed at improving social outcomes, especially those relating to gender equality.
- 6.73 The Development Policy Centre observed that DFAT undertakes programs that, while not directly supporting the private sector, provide a high level of interaction with the private sector to generate social outcomes. These included the Mining for Development Initiative, the Australia-Pacific Technical College and the Better Work Program in Asia.⁷⁹

Global multi-stakeholder partnerships

- 6.74 The Committee heard directly from a number of global multi-stakeholder partnerships which include private sector participation. Australia provides funding to some of these: the Global Fund to Fight Aids, Tuberculosis and Malaria; Gavi; and the Global Partnership for Education.⁸⁰
- 6.75 The Global Fund to Fight AIDS, Tuberculosis (TB) and Malaria, was established in 2002 and channels 82 per cent of the international financing against TB, 50 per cent against malaria, and 21 per cent against AIDS.⁸¹ The Global Fund described its work with the private sector as follows:

The Global Fund works with the private sector in all aspects of its work ranging from mobilization of resources support in program

Submission 103, p. 9. The ADB noted that it was partnering with Australia to establish a Pacific business investment facility (*Committee Hansard*, Canberra, 18 June 2014, p. 3).

⁷⁸ Development Policy Centre, *Submission 103*, pp. 9–10.

⁷⁹ Development Policy Centre, *Submission 103*, p. 10.

⁸⁰ DFAT, ‘Health, education and environment funds’ <www.dfat.gov.au/aid/who-we-work-with/multilateral-organisations/Pages/health-education-and-environment-funds.aspx> viewed 6 March 2014.

⁸¹ The Global Fund to Fight AIDS, Tuberculosis and Malaria, *Submission 142*, p. 1.

implementation, provision of commercial services, to public advocacy and good governance.⁸²

- 6.76 Gavi was established in 2000, and is 'dedicated to saving children's lives and protecting people's health by ensuring access to new and underused vaccines for children living in the world's poorest countries.'⁸³ Gavi stated that the private sector advances its mission:

... through shaping the vaccine market to reduce prices, ensuring predictable and flexible funding, sharing business expertise and advocating for the importance of immunisation.⁸⁴

- 6.77 The Global Alliance for Improved Nutrition (GAIN) was established in 2002 and has an exclusive focus on malnutrition. GAIN discussed the reasons for its focus on working with the private sector:

The recognition that a large burden of malnutrition sits with the moderately and chronically malnourished is leading to a new orientation from a unique focus on treatment, to one that includes prevention. This is opening opportunities for market-based approaches that benefit from private sector experience and distribution channels. Malnutrition will remain extremely difficult to address while the burden of effort falls on constrained aid budgets, and stretched national health services. These critical investments in public health need to be matched by sustainable reforms to food systems, led by governments but involving key economic actors from the private sector.⁸⁵

- 6.78 RESULTS International Australia alerted the Committee to the Global Partnership for Education (GPE), whose current board Chair is Australia's former Prime Minister Julia Gillard. According to the GPE's website:

Private sector corporations and private foundations are the newest members represented on the Global Partnership Board of Directors. Their commitment to advance our objectives include working with communities to advocate for education rights, monitoring education sector reform, and increasing awareness of gender equality issues or child labor. They participate with other GPE partners in the elaboration of education strategies in

82 The Global Fund to Fight AIDS, Tuberculosis and Malaria, *Submission 142*, p. 4.

83 Gavi the Vaccine Alliance, *Submission 143*, p. 21.

84 Gavi the Vaccine Alliance, *Submission 143*, p. 2.

85 Global Alliance for Improved Nutrition, *Submission 107*, p. 4.

developing country partners and help develop policies to overcome the worst barriers to quality education.⁸⁶

Product Development Partnerships

6.79 The Committee received a substantial body of evidence promoting Product Development Partnerships (PDPs) as an effective means of leveraging private sector investment and action on global health issues. Policy Cures provided the following summary of PDPs and their relationship with the pharmaceutical industry:

The pharmaceutical industry plays a key role in alleviating regional burdens of TB, malaria and HIV that are slowing economic growth and perpetuating poverty. However, to create the low-or-no profit new medicines that are wiping out these diseases, the industry requires a sympathetic policy environment, in particular greater support for public-private partnered R&D that reduces the cost and risk for both the public and private partners. The key partnered approach used by industry is Product Development Partnerships. PDPs leverage two additional private dollars for each public dollar invested and, working with industry, have created 70% of all new global health drugs and vaccines registered since 2000.⁸⁷

6.80 The Committee received submissions from the following PDPs:

- Foundation for Innovative New Diagnostics, which has delivered 11 new diagnostic tools for TB, malaria and sleeping sickness;⁸⁸
- Aeras, a PDP focusing on TB vaccines;⁸⁹
- Medicines for Malaria Venture;⁹⁰
- TB Alliance: Global Alliance for TB Drug Development;⁹¹
- Sabin Vaccine Institute Product Development Partnership;⁹² and,
- International AIDS Vaccine Initiative (IAVI).⁹³

86 Global Partnership for Education, 'Private Sector and Foundations' <www.globalpartnership.org/private-sector-and-foundations> viewed 6 March 2015.

87 Policy Cures, *Submission 63*, p. 1.

88 Foundation for Innovative New Diagnostics, *Submission 70*.

89 Aeras, *Submission 29*.

90 Medicines for Malaria Venture, *Submission 81*; and MMV and TB Alliance, *Submission 99*.

91 TB Alliance: Global Alliance for TB Drug Development, *Submission 59*.

92 Sabin Vaccine Institute, *Submission 13*.

93 International AIDS Vaccine Initiative, *Submission 16*.

- 6.81 In March 2015, the Minister for Foreign Affairs announced further support for PDPs, with an additional \$30 million investment over three years. The TB Alliance, the Foundation for Innovative New Diagnostics, and Medicines for Malaria Venture will receive \$10 million each.⁹⁴

Additional partnerships for social outcomes

- 6.82 Marie Stopes International suggested the Australian Government explore programs similar to those provided by other donors such as USAID's Strengthening Health Outcomes through the Private Sector (SHOPS) and the African Health Markets for Equity (AHME) program.⁹⁵
- 6.83 ACFID observed that Grand Challenges Canada is 'supporting bold ideas with big impact in global health' and suggested:
- ... the initiation of a 'grand challenges fund' within the Australian aid program to support innovative business models or projects with a potentially high pro-poor impact, including in the key areas of health, education and agricultural development.⁹⁶
- 6.84 Abt JTA also observed that a number of other 'global public goods' such as environmental issues and disease threats could be addressed through partnerships with the private sector.⁹⁷

Private sector partnering with other Australian Government agencies

- 6.85 The delivery of Australia's development aid programs is a whole-of-government effort, with many Australian government departments and agencies contributing specific experience, skills and knowledge. It is estimated that around eight per cent of total ODA, will be delivered by other government agencies over 2014-15.⁹⁸
- 6.86 DFAT highlighted the importance of greater use of portfolio partners, and particularly the Australian Centre for International Agriculture Research (ACIAR) and Austrade, in program design and delivery.⁹⁹ Austrade primarily provides information and advice to advance Australia's trade

94 Minister for Foreign Affairs, 'Tackling TB and Malaria in the Indo-Pacific', *Media release*, 23 March 2015

95 Marie Stopes International *Submission 33*, pp. 11-12.

96 ACFID, *Submission 52*, p. 13

97 Abt JTA, *Submission 5*, p. 2.

98 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.

99 DFAT, *Submission 21*, p. 3.

and investment.¹⁰⁰ ACIAR was established to ‘partner researchers from Australia with those in developing countries’.¹⁰¹

- 6.87 According to DFAT, one way Austrade is contributing to building partnerships that support development is through undertaking missions in the ASEAN region to assess skill needs and identify opportunities for Australian education and training providers:

Austrade is currently working with an Indian hospital enterprise that is seeking an Australian partner to deliver some of its training needs. A similar level of activity is being undertaken within the ASEAN region.¹⁰²

- 6.88 In addition to its work with partner countries, NGOs and education institutions, ACIAR submitted that ‘the private sector is emerging as a key research partner’, and described its role as broker ‘facilitating the link between public research and the private sector’:¹⁰³

...we are particularly focused on seeing the research make a difference, to seeing an impact in practice on the ground. That is where the private sector is so important. We recognise that aid funding and public funding are diminishing relative to other sources of capital – remittances, private capital flows – so we are changing and evolving the way we partner, the partnerships we form and the ways in which we work. Our work recognises that, in terms of poverty alleviation and the terms of reference for your inquiry, economic growth in agriculture is between two and four times more effective at lifting people out of poverty than economic growth in other parts of the economy.¹⁰⁴

- 6.89 The Department of Employment and Department of Industry provided information on the work they are doing to support regional development, including under the Seasonal Worker Program and through in-country skill development.¹⁰⁵

100 DFAT, *Submission 21*, Attachment D – Annexure to DFAT Submission – Views from Austrade and Department of Industry, p. 71.

101 Australian Centre for International Agriculture Research (ACIAR), *Submission 22*, p. [4]; and Dr Nick Austin, Chief Executive Officer, ACIAR, *Committee Hansard*, Canberra, 29 August 2014, p. 1.

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

103 ACIAR, *Submission 22*, p. [10].

104 Dr Austin, ACIAR, *Committee Hansard*, Canberra, 29 August 2014, p. 1.

105 See Department of Industry and Department of Employment, *Committee Hansard*, Canberra, 29 August 2014, pp. 50–58; Department of Employment, *Submission 47*; and DFAT, *Submission 21*, Attachment D – Annexure to DFAT Submission – Views from Austrade and Department of Industry, p. 71.

6.90 The Australian Federal Police submitted that the private sector can be engaged in post-conflict reconstruction, noting that the engagement of youth can have 'a powerful role in mitigating the causes of conflict'.¹⁰⁶ At the public hearing, the AFP explained:

We also work with the private sector where we have joint interests – in particular in some of the regional locations where we will co-work with private agencies on a program where we think they will be more effective in how they deliver and develop capabilities...in the Solomon Islands we work with some of the organisations that deliver safety and care for women who have been sexually assaulted or that deal with domestic violence situations.¹⁰⁷

6.91 The Committee notes that across Australian Government agencies there are a vast range of programs that address similar areas to those the aid program is seeking to address overseas. Innovation does not need to come from international counterparts, it is entirely possible that programs underway or pockets of expertise, including but not limited to within the Departments of Health, Industry, and Education, and the Indigenous Affairs Group with the Department of the Prime Minister and Cabinet, could provide the foundation for development partnerships.

6.92 Smaller, agile agencies such as ACIAR, demonstrate the possibilities for public-private partnerships. ACIAR's support for research into improving sustainable agricultural production in developing countries is helping communities become self-sustaining and economies to grow. In addition, the Committee considers that ACIAR is an excellent example of an agency that has successfully promoted its work and expertise, gaining an international reputation for its achievements.

106 Australian Federal Police (AFP), *Submission 101*, p. 1.

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

Public Private Partnerships—infrastructure

- 7.1 In announcing Australia’s new development policy, the Minister for Foreign Affairs highlighted the importance of ‘tackling infrastructure bottlenecks in our region which are hampering economic growth’, and reaffirmed the importance of private sector support.¹
- 7.2 The private sector is a major beneficiary of infrastructure investment. It can make a sizeable contribution to the provision and maintenance of infrastructure, particularly through complex large scale projects, which may involve Public Private Partnerships (PPPs).

Infrastructure needs in developing countries

- 7.3 In addition to energy, communications, transport infrastructure and water, there is a need for social infrastructure such as hospitals, education facilities and public housing.²
- 7.4 Financing infrastructure investment was identified as a priority by the G20 under Australia’s presidency in 2014.³ The Asian Development Bank (ADB) stated ‘the Asia and Pacific region requires infrastructure investment of at least \$8 trillion until 2020’.⁴ Inadequate infrastructure has a huge impact at the country level.

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

2 Department of Foreign Affairs and Trade, (DFAT), *Submission 21*, p. 24.

3 Mr Sam Gerovich, First Assistant Secretary, DFAT, *Committee Hansard*, Canberra, 23 June 2014, p. 2.

4 Asian Development Bank (ADB), *Submission 120*, p. 2

7.5 The ADB also suggested that Australia is well placed to support investments in infrastructure in the Indo-Pacific Region:

Australia is home to many of the world's leading infrastructure investment managers – by some counts, the Macquarie Group is the world's largest and most prominent infrastructure investment manager. Macquarie has won mandates to manage infrastructure funds in a number of developing member countries and most recently it secured the management mandate of the Philippine Investment Alliance for Infrastructure, a US\$685 million private equity fund, formed with local and international pension funds and ADB. The fund prioritizes investments in PPPs and other infrastructure sector investments.⁵

7.6 The ANZ also suggested:

Australian companies are highly skilled in different aspects of infrastructure provision, including for electricity, ports, telecommunications and water. ANZ finances essential infrastructure projects by state-owned enterprises and provides high-level expertise in many developing markets. Australia is also a leading supplier of natural resources and energy, food and agriculture, and health and education services.⁶

7.7 There are particular needs in the Pacific:

- The World Bank Group observed that only 20 per cent of households have access to electricity, short runways limit the types of aircraft that can land, and internet costs are amongst the highest in the world.⁷
- Holland Commodities International contended that the lack of infrastructure such as wharves and storage facilities limit access for ships to collect cargo, which ultimately reduces export capacity and potential for economic growth.⁸

7.8 For businesses, lack of infrastructure limits economic opportunities. For smaller enterprises, including in agriculture, the Australian Centre for International Agricultural Research (ACIAR) advised:

Several elements underpinning agricultural growth need to be considered...physical infrastructure including irrigation, roads, storage, power supply and telecommunications networks – especially the 'last mile' to reach all farmers.⁹

5 ADB, *Submission 120*, p 3.

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

7 World Bank Group, *Submission 75*, p. 10.

8 Holland Commodities International Pty Ltd, *Submission 4*, p. 2.

9 Australian Centre for International Agricultural Research (ACIAR), *Submission 22*, p. 7.

- 7.9 Lack of infrastructure also has a significant impact on the livelihoods of individuals, and especially women. The International Women’s Development Agency observed:

Improvements to rural water and irrigation systems and transportation infrastructure reduce the amount of time women spend on arduous tasks such as fetching water and tending family crops. These investments will bring returns in the form of increased women’s engagement in market-based activities, greater productivity and reduced time burden.¹⁰

- 7.10 Governments in the Indo-Pacific region find it challenging to provide the infrastructure needed. Adam Smith International submitted:

Countries in the Indo-Pacific often struggle to deliver public projects on time and to cost. Poor governance is the root cause of many of the challenges. Combinations of inadequate planning, poor project implementation and perceptions of corruption among officials diminish the return on capital spend and normally result in a misallocation of public resources. The result is that developing countries typically achieve very poor value for money in infrastructure, and achieve little development impact.¹¹

- 7.11 The ADB Private Sector Development Initiative also observed that where public infrastructure has been provided, a lack of maintenance has resulted in rapid deterioration.¹² ADB further noted that, in the Pacific, state owned enterprises ‘absorb large amounts of scarce capital, on which they provide very low returns’:

Many commercial SOEs compete with the private sector, yet do so with the benefit of subsidized debt and equity. Meanwhile, the infrastructure SOEs – usually monopoly providers of goods and services such as power, ports, water and airports – are often inefficient, driving up input costs for the private sector and draining government budget resources that could be better spent elsewhere.¹³

- 7.12 Noting the significant infrastructure needs in developing countries, Adam Smith International suggested that ‘[m]ost governments have inadequate resources and public savings to finance the infrastructure they require.’¹⁴

10 International Women’s Development Agency Inc. *Submission 122*, pp. 13-14.

11 Adam Smith International, *Submission 17*, p. 3.

12 ADB PSDI, *Submission 87*, p. 10.

13 ADB PSDI, *Submission 87*, pp. 9-10.

14 Adam Smith International, *Submission 17*, p. 3.

7.13 The ADB stated that bilateral and multilateral development finance ‘can meet only a small part of the region’s needs for investment in economic and social infrastructure and public services.’¹⁵ In order to fund the provision of additional infrastructure, the ADB suggested countries have three options:

- review traditional sources of funds and explore additional funding from them;
- investigate mechanisms for generating more financial resources from off-budget sources; and
- consider a greater role for PPPs in procuring infrastructure and identifying and addressing impediments to the development of PPP transactions.¹⁶

Sovereign Wealth Funds

7.14 Oil Search observed that by setting up and effectively managing a Sovereign Wealth Fund (SWF), governments such as that of Papua New Guinea (PNG) can address infrastructure needs.¹⁷ Further, Pacific Islands Trade and Invest suggested that:

...DFAT considers working in partnership with Australian financial institutions to establish and manage sovereign wealth funds (SWF) in countries where no such investment funds exist. We see a great opportunity to extend this service to help countries meet the longer-term maintenance and operating costs of social and economic infrastructure and services.¹⁸

7.15 The Australian Government has been supporting the establishment of SWFs through both bilateral initiatives, including assisting PNG with technical advice and capacity building, and as a founding member of the International Forum of Sovereign Wealth Funds (IFSWF).¹⁹

7.16 The IFSWF is a voluntary group of SWFs. In addition to providing a forum for the exchange of views amongst SWFs, the IFSWF developed the ‘Santiago Principles’, ‘which are a voluntary set of principles and practices identifying appropriate governance and accountability arrangements for SWFs, as well as prudent and sound SWF investment practices’.²⁰

15 ADB, *Submission 120*, p. 2.

16 ADB, *Submission 120*, p. 2.

17 Mr Peter Botten CBE, Managing Director, Oil Search Ltd, *Committee Hansard*, Canberra, 29 August 2014, p. 3.

18 Pacific Islands Trade and Invest, *Submission 60*, p. 2

19 Department of Finance, ‘International engagement’, <www.finance.gov.au/investment-funds/international-engagement.htm>, viewed 19 May 2015.

20 Department of Finance, ‘International engagement’, <www.finance.gov.au/investment-funds/international-engagement.htm>, viewed 19 May 2015.

- 7.17 Noting that SWFs go to the heart of sovereignty and long-term independence of a nation, the Committee found that the Australian Government's current activities, providing capacity support and continued involvement in the IFSWF, are an appropriate way to promote SWFs with development partners. In addition, the Committee endorses the suggestion made by Pacific Islands Trade and Invest in relation to DFAT examining options, possibly through the innovationXchange, to engage Australia's financial institutions to provide services related to the establishment and management of SWFs.

Recommendation 16

The Committee recommends that the Department of Foreign Affairs and Trade leverage the expertise of other Australian Government agencies, including the Department of Finance and the Future Fund, as well as Australia's financial institutions in order to further promote the establishment and management of sovereign wealth funds for development partners.

The role of the private sector in government financed infrastructure

- 7.18 Transparency International stated:
- Around the world, municipal and national governments use public procurement processes to build roads, provide school textbooks, stock medical clinics and construct drinking water systems. These different activities account for a public contracting market that is estimated globally at US\$ 2 trillion.²¹
- 7.19 The Overseas Development Institute also observed that donor funded infrastructure projects 'rely heavily on direct contracting of construction companies to carry out this work.'²² This may exclude the engagement of local contractors.
- 7.20 Governments may also indirectly fund infrastructure delivered by private companies. For instance, under the tax credit scheme which operates in Papua New Guinea, resource companies provide infrastructure and offset

21 Transparency International, *Submission 41*, p. 2.

22 Overseas Development Institute, *Submission 51*, p. 5.

the costs of doing so against tax payments. The past president of the Australia Papua New Guinea Business Council observed:

... we believe that better outcomes by as much as 50 per cent can be achieved for the same amount of money by not channelling the money through a government agency because, among other things, there is leakage and overpayment for the same result. I suppose, at the end of the day, the biggest concern is the quality of the product... it is in the interests of whoever the developer is, reputation-wise, to make sure they deliver a good product, so they do that.²³

7.21 Oil Search, whose annual budget for infrastructure exceeds \$100 million, described how it works with governments to provide infrastructure:

...Oil Search provides project management and construction skills to deliver these projects, using government money in the form of tax credits, in an efficient and transparent way. Oil Search is also providing capacity building within Government Departments that administer these projects, thereby providing a growing platform for the Government to increase their efficiency in delivery of this core infrastructure.

The roads, schools and hospitals provide the backbone for further economic growth in previously remote areas around the country. These partnerships are beneficial to the Government, the people in the impacted areas and the Company in building its relationships and reputation, whilst providing a stable operating environment for its operations.²⁴

7.22 Government and donor contracts are not confined to large scale infrastructure. Cardno described how, under a \$27 million Australian government contract, it is supporting the Timor-Leste Government implement a \$250 million community infrastructure program:

We have trained up engineers and social facilitators to go out to every single village in Timor-Leste to identify what their community infrastructure development needs are, whether that be a toilet block, a community hall, an addition to a school building, a road or a bridge or something like that... They receive a rolling

23 Mr Peter Taylor, Past President, Australia Papua New Guinea Business Council, *Committee Hansard*, Sydney, 7 November 2014, p. 20.

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

grant every year of another \$50,000, provided they build and maintain that infrastructure and it achieves its intended purpose.²⁵

7.23 Supporting governments to manage procurement processes and contracts was highlighted in the evidence. DFAT stated it is:

Promoting increased and more effective use of private sector contractors by public sector agencies, for example piloting performance-based approaches for road maintenance by contract and for water connections.²⁶

7.24 Noting the potential for bribery in the public works and construction sector, Transparency International referred to the importance of transparent procurement and high public financial management standards and noted:

Efforts being led by the Construction Sector Transparency Initiative (CoST), the Global Initiative on Fiscal Transparency (GIFT), the Open Contracting Initiative and the Open Government Partnership (OGP) represent important multilateral processes that are setting a new and common bar for what is transparent and accountable procurement, including the full range of documents that should be publicly disclosed.²⁷

7.25 The Committee's evidence clearly demonstrated that the infrastructure needs in developing countries are significant, and that current government and donor budgets are not sufficient to meet the needs. Roads, hospitals, power supply, sanitation and other infrastructure are required to support greater economic growth and poverty reduction.

7.26 To address these needs governments are increasingly looking to attract finance from the private sector. However, with the large sums of money involved, transparency and strong governance mechanisms must be in place.

7.27 Australia is providing some excellent examples of enterprises which are using tax credits to help build infrastructure.

25 Mr Mark Pruden, International Development Business Unit Manager (Asia Pacific), Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, p. 23.

26 DFAT, *Submission 21*, p. 39.

27 Transparency International, *Submission 41*, p. 3.

Recommendation 17

The Committee recommends that the Australian Government:

- participate in or support joint ventures between the private and public sectors, and wherever possible ensure technology transfer and local contractors are engaged; and
- as a means to mobilising domestic financial resources, provide capacity building assistance to partner governments to develop effective and transparent governance frameworks to support tax credits being used for building infrastructure.

Public Private Partnerships

7.28 Australia, often through multi-donor platforms managed by multilateral development banks, is supporting countries to develop PPPs and attract private financing for these projects. This support includes helping to develop legal and regulatory frameworks and building the capacity of governments to manage PPPs.

7.29 PPPs are contractual arrangements between the private sector and national (or subnational) governments.²⁸ The Overseas Development Institute noted that PPPs 'should be viewed as mutually beneficial business partnerships rather than mechanisms for aid delivery.'²⁹

7.30 In discussing the benefits of PPPs in health, Abt JTA noted that PPPs can support government policy goals by:

- Making capital expenditures affordable in the near term;
- Providing Government budget stability through defined and predictable health expenditures;
- Transferring risk to the private sector for construction delays or cost overruns for a large and complex building project;
- Transferring significant operational risk for the delivery of complex health care services, while capturing the efficiencies of private sector management; and
- Providing an economic engine for growth for locally owned businesses.³⁰

28 Development Policy Centre, *Submission 103*, p. 4; DFAT, *Submission 21*, p. 24.

29 Overseas Development Institute, *Submission 51*, p. 6.

30 Abt JTA, *Submission 5*, p. 3.

7.31 ADB observed that PPPs are not a panacea, and the ‘most successful PPPs are not just about finance, but rather those successes have had a focus on long-term delivery of services and a “fit for purpose” infrastructure services solutions.’³¹ ADB further suggested:

PPP should be chosen when it represents better ‘value-for-money’ compared to traditional infrastructure procurement. Better value-for-money can be accomplished when the PPP procurement delivers high-quality services at a lower cost than traditional infrastructure procurement, and the private sector is more experienced to manage such services than the public sector.³²

7.32 The World Bank Group considers that a ‘well-structured PPP can deliver greater efficiency in the use of resources, stronger performance incentives, improved governance and greater transparency’.³³ On the latter point, it noted:

...by using a PPP process, a government will typically face enhanced scrutiny by outside parties, such as lenders and investors, whose capital will be at risk over the long-term, and dependent on the performance of service delivery. The increased scrutiny of the long-term commitment required under a PPP usually requires information about the true long-term risks – and therefore costs – to deliver the public service. This scrutiny can generate a more informed and realistic debate on project selection, and a focus on outputs and outcomes.³⁴

7.33 The Overseas Development Institute highlighted the importance of well-designed contractual arrangements for PPPs:

One of the key determinants of the success of private-public partnerships to develop infrastructure is in making sure that the contractual agreement between parties is clear, transparent, enforceable and has accurately assessed the risks associated with the investment and how these risks will be shared by the parties. ...Successful public private partnerships require a clear legal and regulatory framework to be in place which supports the drafting and implementation of these agreements; competent and accountable public authorities to manage the state commitment to such contracts; the presence of a selection of private sector

31 ADB, *Submission 120*, pp. 2-3.

32 ADB, *Submission 120*, pp. 2-3.

33 World Bank Group, *Submission 75*, p. 3.

34 World Bank Group, *Submission 75*, p. 3.

companies with sufficient technical and financial capacity to participate in such investments.³⁵

7.34 Despite the benefits of a well-designed and implemented PPP, Oxfam Australia raised concerns about PPPs, suggesting that for some projects there had been a lack of:

- accountability for social, health, livelihood, food security, and gender impacts, in the absence of adequate monitoring and evaluation of projects or grievance mechanisms for affected communities;
- transparency, for example, on benefit sharing, social and environmental impacts, and food security implications;
- participation by governments, workers and communities in project design and implementation, including free, prior, and informed consent of affected communities and their members;
- demonstrable focus on rights, sustainability, and empowerment;
- attention to benefiting women and including them in decision making;
- alignment with national government policy or international guidelines, for example, the Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security, or national government policy.³⁶

7.35 Both Oxfam Australia and the Australian Council for International Development (ACFID) encouraged careful assessment and consultation prior to implementation. ACFID observed that impacts of large scale infrastructure, including those delivered through PPPs, should be 'properly identified, accounted for and mitigated in line with the specific social and environmental risks they may pose, either definitely or potentially'. ACFID further cautioned:

Often large-scale infrastructure can have flow-on effects such as involuntary displacement of local people, abrogation of indigenous custom, and/or destroying physical cultural resources. These can be coupled with environmental impacts such as degradation of land, air or water quality; and/or other natural resource depletion.³⁷

35 Overseas Development Institute, *Submission 51*, p. 6.

36 Oxfam Australia, *Submission 72*, pp. 23-24.

37 Oxfam Australia, *Submission 72*, p. 24; Australian Council for International Development (ACFID), *Submission 52*, pp. 19-20.

7.36 The then B20 Sherpa, Mr Milliner, observed that consultation and coordination efforts are improving, and in the context of the cross border planning of infrastructure in Africa:

There are a whole series of people [from] a mixture of public and private industries and NGOs who are all working with African governments around the planning and prioritisation of a whole series of basically nation-state building infrastructure assets through Africa. I think that is a good example of where they are trying to coordinate at the right level. Ultimately then it will have to be implemented at a state level where it will involve procurement processes and all those things.³⁸

Government capacity building and safeguards

7.37 Highlighting the complexity of PPP arrangements, DFAT stated:

[PPPs] have worked to draw in private investment for public assets and services, but the contractual arrangements are complex and special skills are needed to negotiate and manage them effectively. These skills are particularly difficult for developing country governments with low capacity to access and retain.³⁹

7.38 The Committee found that the Australian Government and the international private sector can help to address these capacity constraints. As noted by Jacobs, 'one of the challenges then is how we ensure that recipient governments have capacity to manage and ensure we get the right outcomes'.⁴⁰ Jacobs suggested governments are 'looking to places like us to see how they can do more and how they can learn. That is also the opportunity, in leading organisational capacity strengthening for these groups.'⁴¹

7.39 Mr Milliner noted that the B20 was working with multilateral development agencies to provide recommendations on infrastructure to the G20, and that:

What we need to do is to increase substantially the capability in those countries. Quite often it is done on a one-off project basis where the [multilateral development banks] will come in and provide the capacity-building piece around a particular project, either at a government, administrative or bureaucratic level

38 Mr Robert Milliner, B20 Sherpa, B20 Australia, *Committee Hansard*, Canberra, 18 June 2014, p. 4.

39 DFAT, *Submission 21*, p. 24.

40 Dr Michael Shirley, Group Vice President, Infrastructure and Environment, Jacobs, *Committee Hansard*, Melbourne, 15 August 2014, p. 34.

41 Dr Michael Shirley, Jacobs, *Committee Hansard*, Melbourne, 15 August 2014, p. 36.

around the procurement process, funding and funding arrangements – getting through laws and everything in place... We work through with the various agencies how that expertise is used in a more sustainable way so that we can actually accelerate the rate of investment.⁴²

7.40 Complex Program Group noted that institutional development is ‘generally a long-term and progressive process’ and suggested:

- using simple management contracts and leases, which can be managed by the native government, as a first step towards establishing a private sector presence; or
- using sophisticated PPPs (namely, the Inverted Bid Model) that establish their own internal governance and contract management system, and that can be contract managed by an external entity with appropriate expertise;
- that an independent expert team should initially manage the project using best-practice project and contract management processes (and as part of the project’s required outcomes, progressively mentor and coach local government teams, as well as contextualise the best-practice processes).⁴³

7.41 Complex Program Group further observed that PPPs can be used to build the capacity of firms in developing countries by requiring organisations with responsibility for the overall project to engage firms on terms that are:

... specifically tailored to foster local capability development, as well as address other key Sustainability Development Goals (SDGs) such as the increased participation of women and minorities in the workforce.⁴⁴

7.42 Adam Smith International expressed concern that under DFAT’s Adviser Remuneration Framework ‘DFAT is pricing itself out of the market for quality companies and quality advisers’, and suggested:

DFAT should give itself the space in the foreign aid program to appoint high-quality Australian professional services companies and management consultancy companies that do fantastic work around things like PPPs with the state level governments in Australia that at the moment do not work on the foreign aid program.⁴⁵

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

43 Complex Program Group, *Submission 154*, p. 2.

44 Complex Program Group, *Submission 154*, p. 5.

45 Mr Jonathan Pell, Director, Asia Pacific, Adam Smith International, *Committee Hansard*, Sydney 20 August 2014, p. 58.

7.43 Oxfam Australia further recommended that when funding PPPs the Australia Government ensure:

- assessments on the suitability (including long term costs) of the model are done;
- appropriate levels of stakeholder consultation;
- there are safeguard procedures and redress mechanisms; and
- the partner Government has appropriate legal and regulatory mechanisms to deliver a PPP.⁴⁶

7.44 Similar recommendations were made by ACFID, which encouraged the Australian Government to ensure that any PPPs funded by Australia comply with World Bank social, legal and environmental safeguards⁴⁷ and that:

The Australian Government should follow the lead of the Asian Development Bank and appoint Principle Sector Specialists on Safeguards. The role would be responsible for ensuring coordination of, compliance with, and capacity development on, adherence to safeguards for development both in Canberra and at Post.⁴⁸

7.45 DFAT is preparing an infrastructure strategy, and has outlined its current approach:

[It] does not solely focus on physical infrastructure. It also focuses on the governance and policy arrangements needed to provide safe, sustainable and reliable infrastructure. Partner delivery systems need to be carefully evaluated and sometimes strengthened; civil society engaged; feasibility studies and detailed engineering designs prepared; and open and transparent procurement processes carried out, before works can begin. As a result infrastructure programs have long lead times.⁴⁹

7.46 DFAT acknowledges the need for safeguards:

The effective development of infrastructure requires appropriate action to safeguard communities and infrastructure investments from environmental and displacement/resettlement risks. It is

46 Oxfam Australia, *Submission 72*, pp. 25-26.

47 For further information on the safeguards, see World Bank, 'Safeguard policies', <web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTPOLICIES/EXTSAFEPOL/0,,menuPK:584441~pagePK:64168427~piPK:64168435~theSitePK:584435,00.html>.

48 ACFID, *Submission 52*, p. 19.

49 DFAT, Infrastructure, <www.dfat.gov.au/aid/topics/investment-priorities/infrastructure-trade-facilitation-international-competitiveness/infrastructure/Pages/infrastructure.aspx> viewed 1 April 2015.

important that gender and access for people with disabilities are also integrated into infrastructure activities to support inclusive development.⁵⁰

- 7.47 PPPs can complement other models of public and private infrastructure provision. However, the Committee also notes the complexity of providing large scale infrastructure, particularly through PPP arrangements. Appropriate safeguards must be in place to address social and environmental issues, including potentially the resettlement of communities.

Recommendation 18

The Committee recommends that the Australian Government follow the World Bank Group’s social, legal and environmental safeguards when entering into Public Private Partnerships to ensure:

- **the model is optimal for the outcome sought;**
- **in-country stakeholders are consulted closely;**
- **there is technology transfer and local capacity building included in contracts; and**
- **the partner government has, or is supported to develop, appropriate and transparent legal and regulatory mechanisms so they can fully participate, and any corruption is identified and addressed.**

PPPs for healthcare

- 7.48 Bupa, which operates a PPP in Spain observed that ‘Healthcare PPPs are often characterised by public funding, public control, public ownerships and private management’, and suggested that:

A public-private partnership to deliver health and care services in developing countries can represent a number of benefits to the host country. In many instances, developing countries are faced with a plethora of issues in need of being addressed yet have little

50 DFAT, Infrastructure, <www.dfat.gov.au/aid/topics/investment-priorities/infrastructure-trade-facilitation-international-competitiveness/infrastructure/Pages/infrastructure.aspx> viewed 1 April 2015.

funding and in many cases lack the skilled labour to meet these needs.⁵¹

- 7.49 However, others have raised concerns around the suitability of PPP models to deliver healthcare. Oxfam Australia restated a now infamous PPP arrangement which replaced a tertiary care hospital in Lesotho, which had led to significant cost overruns, with its Government ‘locked into an 18-year contract that is diverting scarce public funds from primary healthcare services in rural areas, where three-quarters of the population live.’ Oxfam contended that:

Lesotho’s experience supports international evidence that health PPPs of this kind are high risk and costly, and fail to advance the goal of universal and equitable health coverage.⁵²

- 7.50 Also referring to the Lesotho example, Abt JTA suggested that while there have been concerns about which health issues governments should address, the PPP model itself showed positive results:

...there has been an independent evaluation of the Lesotho hospital, showing some very positive outcomes ... I think it is fair to say that some NGOs and others are disputing the reasonableness of the amount of money that has been spent on a tertiary referral hospital and the lack of investment in the rest of the services, there is no doubt – I think the evidence stands – that the hospital is providing more services, higher-quality services, better-quality staff and a better outcome for a tertiary referral hospital.⁵³

Attracting the private sector to infrastructure PPPs

- 7.51 The then B20 Sherpa, Mr Milliner, highlighted the pressing need to attract private funding for infrastructure:

There is a very big deficit on infrastructure spending. Depending on how you assess it, there is a \$20 trillion or \$30 trillion gap between the capability of current governments to fund what needs to be done by about 2030. It needs to come from the private sector.⁵⁴

- 7.52 Private investors of all types – institutional investors and impact investors – are interested in funding infrastructure in the region. Impact

51 Bupa, *Submission 115*, pp. 3-4.

52 Oxfam Australia, *Submission 72*, p. 23.

53 Dr Jane Thomason, Chief Executive Officer, Abt JTA Pty Ltd, *Committee Hansard*, Brisbane 11 August 2014, p. 22.

54 Mr Robert Milliner, B20 Sherpa, B20 Australia, *Committee Hansard*, Canberra, 18 June 2014, p. 6.

Investing Australia observed that ‘areas like energy have a great track record and a number of people actually working in them’.⁵⁵ Impact Investing Australia also noted that diaspora communities are investing in sovereign bonds and infrastructure projects.⁵⁶

7.53 With respect to institutional investors, the ADB observed:

Both international and emerging market domestic institutional investors represent significant potential sources of capital that seek long-term infrastructure investment in developing economies. Theoretically the match is a good one; PPPs can offer institutional investors’ investment options in the current low interest rate environment and provide investors with a relatively predictable (inflation adjusted) cash flow. Coupled with banks’ long-term lending restricted by regulatory requirements, non-traditional lenders such as insurers and pension funds are poised to take a larger share of the long-term infrastructure investment (PPP) pie.⁵⁷

7.54 DFAT observed that ‘ODA is being used more actively to crowd in or leverage increased privately financed investment.’⁵⁸ It suggested that:

A constraint to greater private investment in areas such as infrastructure is the cost (time and money) of project preparation and the lack of ‘investor ready’ projects. To address this, many donors provide grant funding for project preparation in an attempt to provide information to investors on the financial viability of projects.⁵⁹

7.55 In addition to project preparation, Complex Program Group stated:

Whilst equity is often available, there is a significant shortage of available debt finance in developing countries. Project bonds guaranteed by MDBs or government aid agencies so as to increase project credit ratings to investment grade can viably increase the availability of finance.⁶⁰

7.56 Adam Smith International noted that barriers to entry for private investors in infrastructure can be overcome:

The barriers to entry for private capital can be low-cost. Often the issues revolve around insufficient rates of risk-adjusted return for

55 Mrs Rosemary Addis, Co-founder and Executive Chair, Impact Investing Australia, *Committee Hansard Melbourne*, 15 August 2014, p. 40.

56 Impact Investing Australia, *Submission 66*, pp. 9-10.

57 ADB, *Submission 120*, pp. 2-3.

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

59 DFAT, *Submission 21*, p. 44.

60 Complex Program Group, *Submission 154*, p. 2.

investors. Support can be effective when it helps governments instate a coherent framework that addresses these issues: fiscal incentives for market entrants; guarantee facilities to share commercial and sovereign risks; output based contracts for maintenance and operation. Such mechanisms provided by governments within a supportive regulatory and policy framework can overcome the barriers to investment, unleashing the investment power of the private sector.⁶¹

7.57 DFAT highlighted some of the ways in which the Australian Government, often through multi-donor facilities, is supporting private investment in infrastructure in the region:

- The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor fund that provides technical assistance to governments in developing countries. This allows them to implement the necessary policies, laws, regulations and develop effective institutions and government capacity that supports an enabling environment conducive to private investment. It also supports governments to develop specific infrastructure projects with private sector participation.⁶²
- The Water and Sanitation Partnership is a multi-donor partnership that supports poor people access affordable, safe and sustainable water and sanitation services. It works in 25 developing countries with national and sub-national governments. The domestic private sector is increasingly important in the supply of water and sanitation services as they often provide wider, more cost effective access, particularly to the poorest in peri-urban, small towns and rural areas.⁶³
- The Private Infrastructure Development Group (PIDG) is a multi-donor organisation which encourages private infrastructure investments in developing countries to enhance economic growth and poverty reduction. The PIDG operates globally through a number of donor-owned, project development companies. InfraCo Asia Development (IAD), one such facility, operates across East Asia as a project developer, funding early stage, high risk investments by taking an equity stake in projects. It develops projects that would not attract private sector financing because of high levels of risk. Once projects are developed/proven they will be sold to private investors.⁶⁴

61 Adam Smith International, *Submission 17*, p. 4.

62 DFAT, *Submission 21*, p. 51.

63 DFAT, *Submission 21*, p. 51.

64 DFAT, *Submission 21*, p. 51.

- Supporting the preparation and transaction of individual public-private partnership projects to best-practice standards, for example through the Philippines PPP Project Development and Monitoring Facility.⁶⁵

7.58 Mr Daniel Runde from the Center for Strategic and International Studies suggested Australia could become the donor of choice in support of the region's energy and infrastructure needs:

Australia should also support ...energy strategies and large infrastructure projects by providing finance, risk sharing and advice to governments to enable the full spectrum of energy and road infrastructure projects favored by developing countries...Supporting the energy needs of the developing world will require that Australia establish development finance capability similar to the U.S. Overseas Private Investment Corporation (OPIC) and USAID's Development Credit Authority.⁶⁶

7.59 DFAT further noted that in addition to financing solutions provided through PIDG:

A number of proposed infrastructure financing facilities such as the Global Infrastructure Facility (World Bank) and the ASEAN Infrastructure Fund (partnership between ADB and ASEAN) plan to use equity investments from the public sector to raise debt finance through bond issuance.⁶⁷

7.60 In November 2014, G20 Leaders agreed to establish the Global Infrastructure Hub – a knowledge sharing network with a four year mandate, to be located in Sydney:

The Hub will work to address data gaps, lower barriers to investment, increase the availability of investment-ready projects, help match potential investors with projects and improve policy delivery.⁶⁸

7.61 The Committee found the Global Infrastructure Hub to be a valuable initiative to improve the quality of infrastructure investments, ensure a project pipeline, and harness the collective expertise of stakeholders,

65 DFAT, *Submission 21*, p. 39.

66 Mr Daniel Runde, William A Schreyer Chair in Global Analysis, and Director, Project on Prosperity and Development, Center for Strategic and International Studies (CSIS), *Committee Hansard*, Canberra, 2 October 2014, p. 2; and CSIS, *Submission 136*, p. 2.

67 DFAT, *Submission 21*, p. 46.

68 Global Infrastructure Hub, 'Fact Sheet', <www.globalinfrastructurehub.org/files/2015/03/Global-Infrastructure-Hub-fact-sheet-20150305.pdf>, viewed 7 May 2015.

including governments and the private sector. The Committee notes the work underway by the Australian Government to implement the initiative, and encourages efforts to expedite the Hub's establishment and operation.⁶⁹

- 7.62 Further, the Committee understands that DFAT is in the process of developing an infrastructure strategy. The Committee encourages DFAT to address issues raised in the evidence, particularly in relation to:
- public sector capacity to implement PPPs; and
 - the need to ensure transparency and proper consultation with the developing nation governments, capacity building to allow for genuine partnering through good governance, technology transfer and training.
- 7.63 In addition, DFAT processes and guidance should ensure that the necessary specialist skills can be attracted to aid projects and safeguards policies are in place and implemented.

69 The Hon Joe Hockey MP, Treasurer, 'Support builds for the Global Infrastructure Hub', *Media release*, <www.joehockey.com/media/media-releases/details.aspx?r=471>, viewed 21 May 2015.

Recommendation 19

The Committee recommends that the Australian Government support and participate in Public Private Partnerships (PPPs), where found to be effective, to address social and other infrastructure needs in the Indo-Pacific region, ensuring that the Department of Foreign Affairs and Trade:

- explore and encourage all opportunities to leverage Australian business expertise and participation in the financing and provision of infrastructure in developing countries in our region;
- engage with the business sector early and comprehensively to share information about opportunities;
- continue targeted public sector capacity building initiatives for recipient governments in relation to PPPs;
- ensure safeguards policies are implemented by all partners; and
- review and amend the Adviser Remuneration Framework to ensure that the necessary specialist skills can be attracted.

- 7.64 While acknowledging the good work underway, the Committee reminds DFAT of the need to promote its expertise and initiatives, including by:
- ensuring all donor recipient countries are familiar with both PIDG and PPIAF; and
 - running regular forums where successful PPPs can be showcased.

Private provision of infrastructure

- 7.65 Adam Smith International observed that to reach the rural poor may require other approaches than large-scale PPPs:

The need for project finance and bankability places a focus on large pieces of infrastructure where transaction costs are proportionately low. This in turn tends to favour network infrastructure in urban or peri-urban areas. The financing challenge is far greater in the case of distributed or off-grid infrastructure. This leaves a critical gap in service delivery for the rural poor. Attracting private sector investment in infrastructure

for the rural poor is significant, and calls for an entirely different approach.⁷⁰

- 7.66 DFAT noted that, for example in the water, sanitation and healthcare sectors, governments or donors may offer subsidies ‘to encourage private sector providers to provide services to the poor, who are unable to pay the full costs of connection or use.’⁷¹ DFAT also observed that:

These take the form of results based payments such as co-payments, user fees, advance market commitments/floor prices or feed-in tariffs... subsidies are used to enhance the private return of investments where the public or social good outweighs the financial return to the private investors.⁷²

- 7.67 However, the Foundation for Development Cooperation observed that high amounts of aid or concessional finance may reduce the incentives for private investment in infrastructure:

Rather than Pacific governments approaching donors to fund energy infrastructure, the same funds could be directed to reduce risk, increase the capacity, or accelerate the roll-out of energy supply by leveraging available commercial finance and/or funding packaged by private sector infrastructure suppliers.⁷³

- 7.68 To address the significant infrastructure needs, entrepreneurs and the private sector are designing and implementing innovative solutions. For example, in the water and sanitation sector in Mozambique:

[The Australian Government] has provided support to train local entrepreneurs to supply sanitation services in small towns in the Nampula Province. Training sanitation entrepreneurs helps to address capacity constraints of local governments in small towns, allowing the local private sector to supply sanitation services.⁷⁴

- 7.69 Business for Millennium Development and Opportunity International both discussed an innovative Australian social business – Barefoot Power – which is providing lighting solutions aimed at the two billion people who do not have access to grid electricity. Opportunity International noted that Barefoot Power had created products specifically designed to meet the needs of weavers and that Opportunity International

70 Adam Smith International, *Submission 17*, p. 4.

71 DFAT, *Submission 21*, p. 44.

72 DFAT, *Submission 21*, p. 44.

73 Foundation for Development Cooperation, *Submission 78*, pp. 6-7.

74 DFAT, *Submission 21*, p. 50.

was working with its microfinance institutions to develop loan products that enable families to purchase those products.⁷⁵

7.70 The World Bank Group also provided an example of innovation by the private sector in Papua New Guinea, expanding accessibility to technology, and helping to improve safety and security:

...with US\$1.5 million in Pacific Partnership support, telecommunications company Digicel has designed solar-powered mobile charging stations for rural PNG which could allow 500,000 people who are not on the electricity grid to charge and use mobile phones for connectivity and trade. The solar systems have been designed to also provide street lighting to rural areas of PNG, improving security in the high-crime country, and are expected to provide income for approximately 500 new solar entrepreneurs by 2015.⁷⁶

7.71 Clearly innovation through private sector investment is the key to success in many cases. The Committee believes that the Australian Government's new innovationXchange, housed within DFAT, provides an opportunity to explore new solutions to intractable infrastructure challenges.

75 Business for Millennium Development, *Submission 93, 'Landscape Study'*, p. 50; Opportunity International, *Submission 76*, p. 18.

76 World Bank Group, *Submission 75*, p. 20.

Mobilising finance for development

8.1 The private sector in developing countries can find it difficult to attract the finance it needs to grow. Financial sectors in the region are maturing and innovative approaches are being taken to the market by Australian and other commercial banks in the region. The public sector, often through standalone financial institutions, is also providing financial products such as insurance, debt or equity directly to businesses and for specific projects in developing countries.

Increasing access to finance for businesses operating in developing countries

8.2 International Financial Consulting observed:

...emerging economies feature heavy reliance on cash and other forms of collateral, which are impractical for growing businesses that require working capital, asset finance and trade credit products, among others.¹

8.3 Many submissions called for additional financial instruments that focused on micro, small and medium size enterprises with a pro-poor agenda.²

8.4 The Australian Government has primarily relied on grants and contributions to multilateral development banks (MDBs), such as the World Bank Group and Asian Development Bank (ADB) for funding private sector development.

1 International Financial Consulting, *Submission 89*, p.2.

2 For example, see: Pacific Islands Trade and Invest, *Submission 60*, p. 6; Oxfam Australia, *Submission 72*, p. 33; BMZ, *Submission 54*, p. 3.

8.5 The use of different financial instruments, however, may impact on international measures of Australia's contribution to development given:

...guarantees and equity investments often used by donors for direct partnerships with business only count as ODA [Overseas Development Assistance] if the investment fails or if it is channelled through multilateral organisations.³

Multilateral development banks

8.6 MDBs provide a full range of financial services for businesses. These banks have long-standing programs to support investment in developing countries.⁴

8.7 The World Bank Group entities include the Multilateral Investment Guarantee Agency, which 'insures against political risk and provides credit enhancement'; the International Development Association which offers partial credit guarantees; and its private sector arm, the International Finance Corporation (IFC).⁵

8.8 The IFC has been helping developing country firms grow for over 50 years and 'now has an investment portfolio of close to US\$50 billion in nearly 2,000 companies in 126 countries.'⁶ The World Bank Group described the IFC:

IFC employs a broad suite of financial products to help alleviate poverty and spur long-term growth by promoting sustainable enterprises, encouraging entrepreneurship, and mobilizing resources that would not otherwise be available. Financing products, which are tailored to the specific needs of each project, include loans, equity, trade finance, syndications, structured finance, and client risk-management services.⁷

8.9 Describing the diversity of financial instruments in use, the World Bank Group provided the following list of IFC products:

- Loans: IFC finances projects and companies through loans from its own account, typically for seven to 12 years. IFC also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending.
- Equity: Equity investments provide developmental support and the long-term growth capital that private enterprises need. IFC

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

4 World Bank Group, *Submission 75*, p. 2; and Ms Lakshmi Venkatachalam, Vice President, Asian Development Bank (ADB), *Committee Hansard*, Canberra, 18 June 2014, p. 2.

5 World Bank Group, *Submission 75*, p. 2.

6 World Bank Group, *Submission 75*, p. 6.

7 World Bank Group, *Submission 75*, p. 7.

invests directly in company equity, and also through private equity funds.

- Trade finance: The IFC Global Trade Finance Program guarantees the trade-related payment obligations of approved financial institutions.
- Syndications: IFC's Syndicated Loan Program, the oldest and largest syndicated lending program among multilateral development banks, is an important tool for mobilizing capital to serve development needs. In FY13, it accounted for nearly half the funds mobilized by IFC, syndicating about US\$3.1 billion in B-loans and parallel loans, provided by more than 60 co-financiers - including commercial banks, funds, and DFIs.
- Structured finance: Products include partial credit guarantees, structured liquidity facilities, portfolio risk transfer, securitizations, and Islamic finance. IFC uses its expertise in structuring - along with its international triple-A credit rating - to help clients diversify funding, extend maturities, and obtain financing in the currency of their choice.
- Client risk-management services: IFC provides derivative products to its clients to allow them to hedge their interest rate, currency, or commodity-price exposures.⁸

8.10 The World Bank Group also noted 'the Australian financial markets are an important source of funds for IFC...ANZ and Westpac have both participated in IFC's syndications program', and that:

IFC launched a stand-alone Australian dollar domestic debt issuance program in 2007, and the ten different maturities of Australian dollar 'Kangaroo bonds' in the market now total over A\$8.8 billion. The bonds offer an attractive yield for Australian (and international) investors, and are repurchase-eligible with the Reserve Bank of Australia.⁹

8.11 The Asian Development Bank provides similar financial products and submitted that it is looking to further promote innovative financing solutions including:

...greater use of credit enhancement products; expand local currency financing solutions and to seek to increase the capital available for debt and equity investments with high development impact but larger risks.¹⁰

8 World Bank Group, *Submission 75*, p. 26.

9 World Bank Group, *Submission 75*, p. 23.

10 Asian Development Bank, Pacific Liaison and Coordination Office, *Submission 86*, p.4.

Bilateral Development Finance Institutions

- 8.12 A number of submissions suggested that, in order to promote private sector activity, Australia needs to consider using an even broader range of financial instruments or other risk reduction tools.¹¹ A number of bilateral donor countries have established Development Finance Institutions (DFIs) for this purpose.¹²
- 8.13 Mr Daniel Runde from the Center for International and Strategic Studies (US) described the role of DFIs:
- DFIs fill the investment gap in countries where business, investment, or political climate would otherwise dissuade private sector engagement, and are crucial in driving the expansion of local and international companies into the developing world.¹³
- 8.14 The Overseas Development Institute further described DFIs:
- DFIs act as both a catalytic and additional source of investment and development finance that provides money either for direct investments in particular projects or for development-orientated funds in commercial finance institutions within developing countries.¹⁴
- 8.15 Mr Runde observed that ‘following initial funding, most development finance institutions are self-sustaining, and often turn a profit on investments.’¹⁵ Further, Grace Mutual observed:
- Investment stretches National aid budgets by preserving the capital to be re-used once it has been returned upon repayment. Australia can provide funding in such a way that it gets repaid and re-circulated multiple times.¹⁶
- 8.16 In addition to DFIs funded by donors, many developing countries also have their own publicly funded financial institutions. A recent study by the European Union noted:

11 International Financial Consulting Ltd, *Submission 89*, pp. 3-4; Impact Investing Australia, *Submission 66*, p. 17; ANZ, *Submission 48*, p. 7; Mr Guy Winship, Chief Executive Officer, World Education Australia, *Committee Hansard*, Sydney, 7 November 2014, p. 40.

12 Details on development finance institutions can be found at <www.edfi.be/members.html>; <www.ofid.org/ABOUT-US/OFID-Sister-Institutions/Bilateral-Institutions>; and <www.miga.org/documents/IFI_report_09-13-11.pdf>.

13 Mr Daniel F. Runde, William A. Schreyer Chair in Global Analysis, Director Project on Prosperity and Development, Center for Strategic and International Studies (CSIS), *Submission 136*, p. 5.

14 Overseas Development Institute, *Submission 51*, p. 6.

15 Mr Runde, CSIS, *Submission 136*, p. 5.

16 Grace Mutual, *Submission 6*, p. 3.

... while MDBs and bilateral DFIs contributed approximately USD 37.8 billion in development finance in 2011, national development banks and funds have total reported assets in excess of USD 2 trillion and the real figure is much larger as this does not include Chinese development banks.¹⁷

8.17 Australia does not have a DFI. While some of submissions promoted the use of DFIs and suggested that Australia create its own¹⁸, Fairtrade Australia and New Zealand encouraged the Committee to consider recent research on DFIs by the European Network on Debt and Development (Eurodad).¹⁹

8.18 Eurodad's report contended a range of issues including that:

- DFIs show minimal support for companies from low-income countries.
- developing countries have virtually no say in how these institutions are run, or the decisions they make.
- DFIs lack transparency and often have no option for affected community to seek redress.²⁰

8.19 Adam Smith International referred to the recent deliberations by the UK on the creation of a new DFI, and also encouraged Australia to consider the large number of DFIs already operating:

Our concern at the time was that there are a lot of development banks already. I think what the UK avoided doing, which Australia should also avoid doing, is becoming another development bank. There is the ADB, the World Bank, and even the BRIC countries are setting up a development bank as well. These are big, big amounts of money which Australian and UK money will never be able to compete with.²¹

17 Australian Council for International Development (ACFID), Exhibit 74: Financing for Development Post-2015: Improving the contribution of private finance, 2014, p. 23.

18 Daniel F. Runde, CSIS, *Committee Hansard*, Canberra 2 October 2014, p. 3; International Financial Consulting Ltd, *Submission* 89, pp. 3-4.

19 Ms Molly Harriss-Olson, Chief Executive Officer, Fairtrade Australia and New Zealand, *Committee Hansard*, Canberra, 29 August 2015, p. 42; and see Exhibit 78, 'Eurodad – A Private Affair'.

20 Eurodad, 'Call for review of unaccountable institutions channelling public money into private sector projects in developing countries', <http://www.eurodad.org/Entries/view/1546238/2014/07/10/Call-for-review-of-unaccountable-institutions-channelling-public-money-into-private-sector-projects-in-developing-countries>, *Media release*, viewed 18 May 2015.

21 Mr Jonathan Pell, Director, Asia Pacific, Adam Smith International, *Committee Hansard*, Sydney 20 August 2014, p. 59.

Building financial sectors which meet the needs of SMEs

8.20 Despite the long term, and profitable, presence of DFIs and MDBs in developing countries, businesses often find it difficult to access the finance they require. DAI noted:

Despite the influx of resources to the developing world, access to finance remains a challenge, especially for growing SMEs, while for microenterprises and for marginalized groups access to the formal financial system itself remains an issue.²²

8.21 As discussed in chapter three, microfinance (including credit) and new technologies are increasing access to financial services for individuals and micro-entrepreneurs. Australian Government initiatives, including the Pacific Financial Inclusion Program and Memoranda of Understanding (MoUs) with major Australian banks, are expanding access to financial services in the region.²³

8.22 Formal businesses, such as small and medium sized enterprises (SMEs), face particular challenges. Impact Investing Australia observed that for many investors, funding SMEs is ‘costly and difficult’, emphasising that high due diligence costs, and small transaction sizes drive up the costs of investing in small firms.²⁴ It also observed that lending criteria by financial institutions can make it difficult for firms to access finance.²⁵

8.23 Lending criteria, rather than funds available for lending, was highlighted by Pacific Islands Trade and Invest which referred to its recent survey of Pacific Island exporters:

Access to finance for growth is still their No. 1 challenge. So despite the liquidity that is actually in the Pacific Island countries, there is still a real struggle for small businesses to get their hands on that. A lot of that is around the fact that they are not cash flow positive businesses, they do not have the assets, the collateral, that often financiers are going to provide as well.²⁶

8.24 Noting that ‘development of the financial sector and capital markets is an important priority for ADB’²⁷, the bank indicated:

22 DAI, *Submission 110*, pp. 6-7.

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

24 Impact Investing Australia, *Submission 66*, p. 9.

25 Ms Sandy Blackburn-Wright, Co-founder, Impact Investing Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 59.

26 Mr Caleb Jarvis, Vice-President, Australia Pacific Islands Business Council; and Trade Commissioner, Pacific islands Trade & Invest, *Committee Hansard*, Sydney, 7 November 2014, p. 25.

27 Ms Venkatachalam, ADB, *Committee Hansard*, Canberra, 18 June 2014, p. 2.

The second pillar to facilitate development of micro, small, and medium sized enterprises is access to growth capital on a systematic scale. We support this by interventions in local or regional banks and financial institutions by providing funds for on-lending.²⁸

- 8.25 In the Pacific, Australia is providing a \$15 million grant to the ADB for the Pacific Business Investment Facility. The facility will fund tailored business advisory services for SMEs, to enable them to attract commercial finance. In addition, it will provide concessional loans to a small number of SMEs, in parallel with commercial finance, and facilitate links to trade and supply chain finance, including that provided by the ADB.²⁹
- 8.26 The World Bank Group has also increased its focus on SMEs, including through a number of platforms which donors can support with either grant or non-grant funding. The platforms ‘catalyze investment, development and impact, while offering varying levels of potential returns to donors’.³⁰ The platforms often include some form of risk sharing instrument, combined with technical assistance to financial institutions or to individual businesses. Platforms include:
- The Global SME Financing Facility which supports high-impact projects with high-risk profiles, such as in conflict-affected areas, women-owned businesses, and those engaged in sustainable energy and climate change activities.
 - SME Ventures for SMEs in fragile and frontier countries in sub-Saharan Africa and Asia.
 - The Global Agriculture and Food Security Program (GAFSP) Private Sector Window aimed at MSMEs, smallholders, and farmers businesses.
 - Global Trade Supplier Finance (GTSF) for emerging market suppliers and SME exporters, helping to address the huge shortfall in supply chain finance.³¹
- 8.27 Financial sectors in many developing countries are also evolving to meet the needs of all businesses – whether micro or multinational. Australian banks are part of the changing face of financial markets in the region. ANZ discussed its recent efforts:

28 Ms Venkatachalam, ADB, *Committee Hansard*, Canberra, 18 June 2014, p. 2.

29 ADB (2014), *Establishment of the Pacific Business Investment Trust Fund and Technical Assistance for the Pacific Business Investment Facility*, p. 3 and p. 9, <www.adb.org/sites/default/files/project-document/82541/47373-001-tar.pdf> viewed 2 May 2015.

30 World Bank Group, *Submission 75*, p. 26.

31 World Bank Group, *Submission 75*, pp. 26-27.

We now have around 17,000 staff in 15 Asian markets and around 2,000 staff in 12 Pacific markets with over two million customers across Asia and the Pacific

...

ANZ has minority stakes in several banks in mainland China, and banks in each of Indonesia, Malaysia and the Philippines.³²

8.28 Recognising that for some firms, access to finance will continue to be a challenge, ANZ suggested that DFAT continue to consider 'increasing access to debt or equity financing to enterprises to overcome poor availability of financial services in some countries.'³³

8.29 DAI commented on recent innovations in financial markets and suggested to bridge the micro and SME financing gap donors should focus on financial markets in developing countries:

...our focus now must be on innovations that build on improvements in financial markets and work around remaining marketplace problems. International donors focus on private sector development to promote economic growth coincides with an exciting era in financial intermediation as new technology, regulations, and institutions help to reshape services and blur lines between banks and other financial intermediaries.³⁴

8.30 Further, International Financial Consulting suggested that to address enterprise level finance challenges, Australia has the opportunity to take a lead role with:

...a well-defined new initiative to support private sector development...structured specifically to facilitate maturity and health in the [access to finance] ecosystem in partner countries. This would yield unprecedented market access for trade with Australia.³⁵

8.31 The Committee notes that, to date, multilateral development banks and bilateral development financial institutions have had limited success in meeting the financing needs of SMEs. The Committee welcomes the advice that these institutions are creating new vehicles and providing guarantees to banks and other financial institutions to encourage them to service SMEs. However, there is also a role for Australia to support its own SME market to enable this vibrant sector to expand to emerging

32 ANZ, *Submission 48*, p. 2.

33 ANZ, *Submission 48*, p. 7.

34 DAI, *Submission 110*, pp. 6-7

35 International Financial Consulting, *Submission 89*, pp. 2-3.

markets building the private sector both in Australia and across the region.

Australia's Export Finance and Insurance Corporation

- 8.32 The Australian Council for International Development suggested adapting the Australian Government's Export Finance and Insurance Corporation's (Efic) products to better assist Australian companies and NGOs to provide new services and programs in developing countries.³⁶
- 8.33 For over 50 years, Efic has provided financial services to Australian companies operating in international markets, including developing and emerging economies:
- ...our role is to ensure the companies that have viable commercial export and international business opportunities have the finance that they need to succeed in international markets and in growing their businesses internationally. Efic provides its financial services and financial solutions in circumstances where the private sector is unwilling or unable to provide adequate support.³⁷
- 8.34 Efic observed 'businesses of all sizes in Australia that are conducting business in emerging and frontier markets really are struggling with access to finance'.³⁸ The Committee had particular concerns that Australian small and medium sized enterprises (SMEs) were not being adequately served.
- 8.35 Efic identified SMEs as facing particular challenges, and emphasised that support for SMEs is now a core business focus. Efic reported that 90 per cent of its transactions in 2013-14 supported SMEs, and that it has:
- recruited additional staff to support its SME work, especially in regional areas where many Australian exporters are based;
 - introduced an accelerated execution process and simpler documentation for SME transactions, reducing transaction processing time; and
 - lowered its minimum support thresholds allowing Efic to support smaller, emerging exporters.³⁹

36 ACFID, *Submission 52*, p. 15.

37 Mr Andrew Hunter, Managing Director and Chief Executive Officer, Export Finance and Insurance Corporation (Efic), *Committee Hansard*, Sydney, 7 November 2014, p. 1.

38 Mr Hunter, Efic, *Committee Hansard*, Sydney, 7 November 2014, p. 1.

39 Mr Hunter, Efic, *Committee Hansard*, Sydney, 7 November 2014, p. 1; and Efic, *Annual Report 2013-14*, <www.efic.gov.au/about-efic/our-governance/reporting/annual-report/>, viewed 4 June 2015.

- 8.36 Further supporting SMEs, the Australian Government has amended Efic's Act 'to allow Efic to support exporters of goods, not just capital goods, increasing the number of exporters eligible for Efic assistance.'⁴⁰
- 8.37 While noting that Efic is working to address constraints facing SMEs, the Committee questioned whether Efic is doing enough to assist SMEs to access aid and development opportunities.
- 8.38 Efic's annual report notes that it is supporting Australia's economic diplomacy agenda by working with DFAT, its portfolio agencies and other Government departments and agencies 'to ensure greater referral generation and coordination'.⁴¹ Efic also has partnerships with MDBs:
- In 2011, EFIC signed a US\$65m risk sharing agreement (later increased to US\$90m) with the Asian Development Bank to help extend the commercial banking sector's capacity to support Australian exporters into some of Asia's most challenging markets. The agreement works within the ADB's Trade Finance Program (TFP), which provides guarantees and loans through banks to support trade in Asia.⁴²
- 8.39 Despite these relationships and the fact that approximately 60 per cent of financial products or services provided by Efic in 2013-14 supported exports or investments in emerging and frontier markets, Efic advised that 'none had a specific 'development aid' focus'.⁴³
- 8.40 Further, Efic suggested that any moves to expand its role to provide financial services to firms in developing countries would significantly change its focus, and that this may have broader implications for the organisation. Efic stated:
- The reason Efic has been around for 50 years is that we stick to what we do really well, which is export finance... What we are good at is assessing technical risk and the ability of the [Australian] company to complete an export contract.⁴⁴
- 8.41 The Committee acknowledges Efic's concerns that expanding its mandate could have implications for its ongoing viability, but limiting itself to what it has always done may in turn limit Australian companies expanding into

40 Export Finance and Insurance Corporation Amendment (Direct Lending and Other Measures) Bill 2014, <www.aph.gov.au/Parliamentary_Business/Bills_Legislation/Bills_Search_Results/Result?bld=r5358>, viewed 6 June 2015.

41 Efic, *Annual Report 2013-14*, <www.efic.gov.au/about-efic/our-governance/reporting/annual-report/>, viewed 4 June 2015.

42 Efic, Response to Questions on Notice p. [4].

43 Efic, Response to Questions on Notice p. [1].

44 Mr Hunter, Efic, *Committee Hansard*, Sydney, 7 November 2014, p. 7.

or entering emerging markets, and ultimately supporting the objectives of Australia's aid program to grow private sector development.

Determining needs and opportunities for Australia

- 8.42 The use of financial instruments to promote development outcomes should be determined in light of what is required to support the development of sustainable financial sectors in partner countries. The Australian Government's, and specifically DFAT's, activities must complement, not duplicate, the work of other donors.
- 8.43 DFAT needs to continue to build its knowledge and expertise so it can best identify and assess options for partnering, and effectively engage with bilateral development finance institutions, multilateral development banks and commercial banks and financial institutions.
- 8.44 The Committee encourages further engagement with Australia's leading commercial banks and other financial institutions, particularly those that are already active across the region, to identify innovative financing options.

Recommendation 20

The Committee recommends that in those countries or regions where access to finance is a development priority the Department of Foreign Affairs and Trade:

- **develop a more expert understanding of the financial sector in priority countries or regions, including financing constraints for groups (such as women) targeted by the aid program;**
- **ensure current activities impacting on the financial sector (including in microfinance, agriculture and governance) are made public and coordinated within the Australian aid program and with other donors;**
- **assess current and potential public-private partnerships' access to finance including with:**
 - ⇒ **multilateral development banks and bilateral development finance institutions; and**
 - ⇒ **commercial banks and financial institutions.**

- 8.45 The Committee is aware that the capital bases of publicly funded institutions, including national development banks, are very large and an Australian DFI may have difficulty in competing with these larger, established organisations.
- 8.46 While the use of non-grant funding to achieve aid program outcomes should be explored, the Committee does not believe that the Australian Government should create a standalone Development Finance Institution at this time. Instead, the Committee suggests that DFAT and the Treasury review existing institutions, and consider how they address finance needs across the region.
- 8.47 To better understand the risks and opportunities related to development finance, DFAT and Efic should be looking to Australia's peers. For example, in April 2015, the Canadian Government announced the launch of a 'Development Finance Initiative' housed in its export credit agency.

Recommendation 21

The Committee recommends that the Australian Government should:

- analyse if there is a need for an Australian development finance institution, including by assessing the unmet demand for finance at both the country and sector-specific levels across the Indo-Pacific region; and
- identify challenges, costs and broader implications of the creation of a standalone development finance institution, comparing this with:
 - ⇒ expanding the role of the Export Finance and Insurance Corporation; or
 - ⇒ partnering with current Australian financial institutions to provide innovative financing.

Private investment, impact investing and innovation

- 8.48 Increasingly, private investors – philanthropists, institutional investors and individuals (including members of diasporas) – are investing in developing and emerging markets and, in the case of impact investors, looking to make both social and financial returns. Targeting these impact investors is seen as one way in which to attract additional finance to achieve social and economic outcomes.

- 8.49 Impact Investing Australia observed ‘there is not only the potential to be leveraging private investment, but we need to.’⁴⁵
- 8.50 The Committee took evidence of the ‘investments that intentionally seek to deliver a positive social and/or environmental impact, in addition to a financial return.’⁴⁶ Impact Investing Australia went on to note that:
- [Impacting investing] is different from grant funding because there is the financial return and it is different from mainstream investment because there is the clear accountability for the social. In some forms, also, you have really the first time that we are linking social outcomes to financial performance.⁴⁷
- 8.51 Many submissions referred to the growth in impact investing, providing different estimates of its scale. Impact Investing Australia suggested that within a decade, the global market could reach between US \$500 billion and several trillion and \$32 billion in Australia.⁴⁸ These are not just investments in developed markets.
- 8.52 Save the Children Australia referred to a survey of 125 investment organisations by J.P Morgan and Global Impact Investing Network conducted in 2013, which found ‘70 per cent of their current impact investment assets under management are in emerging markets.’⁴⁹
- 8.53 Microfinance is the largest and most developed sector for impact investing.⁵⁰ However, investments are starting to occur in other sectors, as Opportunity International observed:
- Impact investments have been made in a wide variety of sectors including agriculture, microfinance, renewable energy, small and medium enterprises, healthcare, affordable housing and community development.⁵¹
- 8.54 Dr Logue noted impact investments:
- ...which have so far been in the form of debt instruments, include vaccine bonds, green bonds and microfinance bonds [and are] all

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

46 Impact Investing Australia, *Submission 66*, p. 4.

47 Mrs Rosemary Addis, Impact Investing Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 38.

48 Impact Investing Australian, *Submission 66*, p. 3.

49 Save the Children Australia, *Submission 38*, p. 10.

50 Impact Investing Australian, *Submission 66*, Attachment: *Impact – Australia: Investment for social and economic benefit*, p. 75.

51 Opportunity International, *Submission 76*, p. 6.

examples of innovative products that have attracted significant amounts of private and public capital.⁵²

8.55 Impact Investing Australia noted that impact investing ‘involves a mix of investors with different priorities, and appetites for risk and return (on both the social and financial sides).’⁵³ Interest in impact investing is also wide spread, including individuals, members of diaspora communities and organisations such as philanthropic trusts, foundations, institutional investors including super funds, and venture capital funds.⁵⁴

8.56 World Education Australia described how it was using a crowd-funding model to attract individual investors:

We get capital interest-free from the Australian public – you can go online and look at goodreturn.org – and we then lend it on interest-free through registered financial institutions in the countries in which we work. The clients pay interest on that so that our partner organisations are sustainable.⁵⁵

8.57 Impact Investing Australia observed that crowd-funding is not paid back and acts like seed capital for social entrepreneurs. It further noted:

There has been some very exciting deal by deal progress made but nothing that can compare, say, to the UK, where they have had 15 years of policy environment that has been incredibly supportive. So they are years ahead and will remain years ahead until we have an enabling policy environment in Australia.⁵⁶

8.58 QBE Insurance noted that it had first pursued impact investing through its foundation and that it was now looking to invest \$100 million through its investment portfolio:

Importantly, we are not looking to give away \$100 million. I think we really do believe that you can have your cake and eat it too. We really do believe you do not always have to make a choice between your investment profit and your investment purpose. I think there is a clever way of getting a win-win-win out of this situation, if it is done right. And that resonates with senior management and board at QBE.⁵⁷

52 Dr Logue, UTS, *Submission 1*, p. [1].

53 Impact Investing Australia, *Submission 66*, p. 3.

54 Ms Sandy Blackburn-Wright, Co-founder, Impact Investing Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 63; Impact Investing Australia, *Submission 66*, pp. 9-10.

55 Mr Winship, World Education Australia, *Committee Hansard*, Sydney 7 November 2014, p. 40.

56 Ms Blackburn-Wright, Impact Investing Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 66.

57 Mr Gary Brader, Group Chief Investment Officer, QBE Insurance Group, *Committee Hansard*, Sydney 7 November 2014, p. 38.

- 8.59 The National Australia Bank is also supporting impact investing:
In September 2014, NAB announced a \$1 million fund to support organisations in delivering finance solutions for important social and environmental issues. The fund will provide access to capital designed to increase the number of impact investments in the market for communities to prosper, both here in Australia and potentially in the Indo-Pacific.⁵⁸
- 8.60 Impact Investing Australia noted that impact investing comes in many different forms ‘including debt, equity, public-private partnership structures, and hybrid combinations.’⁵⁹ It further commented on the collaboration between different parties to promote this investment:
...investments could involve modest amounts of grant or risk-taking seed capital, or loan guarantees in order to facilitate and attract other forms of private investment. Often this ‘first layer’ capital is sourced from government and/or philanthropy; providing a powerful catalytic role in risk management, and spurring on other sources of investment capital.⁶⁰
- 8.61 The challenges faced by impact investors are not too different from those faced by other investors, as Save the Children Australia observed:
Despite all the enthusiasm and the clearly growing market for impact investment, as with last year, survey respondents identified one of the most limiting characteristics of the market as being a ‘shortage of high quality investment opportunities with a track record’.⁶¹
- 8.62 Dr Logue also commented on the need for education to build the market for impact investing:
As observed with the current nascent market in Australia, connections between supply and demand can be hindered by the lack of common language, understanding of the requirements of investors, understanding of the challenges of social enterprises, and a lack of intermediaries to provide such education.⁶²
- 8.63 In relation to impact investing, URS:
There is a range of different things that are being trialled, from social impact bonds to the B-corporation movement. There is a

58 National Australia Bank, *Submission 149*, p. 3.

59 Impact Investing Australia, *Submission 66*, p. 3.

60 Impact Investing Australia, *Submission 66*, p. 6.

61 Save the Children Australia, *Submission 38*, p. 10.

62 Dr Logue, UTS, *Submission 1*, p. [7].

range of things that are happening elsewhere, and ... it is good for the Australian program to evaluate what might work best and the regional priority there... I do not believe, and I think there is a range of writings that point to this, that there is something off the shelf that we should just pick up and deploy holistically through the Australian aid program.⁶³

- 8.64 The National Australia Bank referred the Committee to a recent report which explored nine approaches relevant to the measurement of impact investments. The report noted:

There is a growing demand for measurement frameworks and agreed approaches. If impact investment is to become a significant force for social change then the social and environmental performance needs to be measured with the same level of robustness as financial approaches. This requires an approach that supports consistency, comparability and the ability to learn by experience.⁶⁴

- 8.65 Impact Investing Australia noted that work is underway to accelerate impact investing, and that Australia is the only country outside of the G8 and EU which participates on the International Social Impact Investment Taskforce established in 2013.⁶⁵ Impact Investing Australia further noted with respect to impact investing in the region:

I feel that Australia could absolutely be a leader in this field. We have the location, the regional presence in the financial systems and the strength that could really start to leverage not only development outcomes but also our trade interests in the region.⁶⁶

Connecting investors to opportunities

- 8.66 New types of platforms are emerging to connect those who wish to invest in developing countries to businesses and projects in developing countries.
- 8.67 Dr Logue referred to platforms designed for impact investors, including: the Social Stock Exchange in London, the Impact Investment Exchange in

63 Mr Mel Dunn, Vice President International Development, URS, *Committee Hansard*, Brisbane, 11 August 2014, p. 54.

64 National Australia Bank, Exhibit 88: Bessi Graham and Elliot Anderson, *Impact Measurement: Exploring its Role in Impact Investing*, National Australia Bank, The Difference Incubator and Benefit Capital 2015, p.7.

65 Impact Investing Australia, *Submission 66*, p. 15.

66 Ms Anna Bowden, Executive Manager, Impact Investing Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 39.

Mauritius and Social Venture Connection in Canada.⁶⁷ Dr Logue further suggested:

Such platforms and exchanges provide part of the essential market infrastructure necessary for an impact investing market to emerge and grow, including in developing countries, and the opportunity for foreign aid to be a catalyst in the development of such infrastructure and so mobilize private investors.⁶⁸

8.68 Other platforms and individual governments have focused on specific investors – notably the diaspora. Impact Investing Australia stated:

... some countries such as Israel and India have utilised Diaspora Bonds, where high net worth and other private investors from the diaspora have pooled funding to support infrastructural and other development projects in their home country.⁶⁹

8.69 Impact Investing Australia also drew attention to non-government platforms such as Homestrings:

Homestrings... connects high net worth diaspora investors to investment projects in their home countries. The program partners with home-country governments on developing the selected programs for investment, and outcome measurements. The fund is user-driven, so applicable to many geographical regions, but had an original focus on Africa. Homestrings currently has over 17 investments underway in various sectors, including: healthcare and hospital infrastructure development; agricultural value chain investments; real estate development; and sovereign bonds.⁷⁰

8.70 Dr Logue recommended supporting intermediaries which can facilitate connections between investors and social enterprises, or projects.⁷¹

Development Impact Bonds

8.71 One example of an impact investing instrument is the Social Impact Bond (SIB) which aims to attract private finance to address social challenges. Impact Investing Australia observed:

...in the UK market, the social impact bonds are just one per cent of impact investing. So, whilst the bonds are a useful tool, they are not the only tool, and there are many, many other tools.⁷²

67 Dr Logue, UTS, *Submission 1*, p. [4].

68 Dr Logue, UTS, *Submission 1*, p. [4]-[5].

69 Impact Investing Australia, *Submission 66*, pp. 9-10.

70 Impact Investing Australia, *Submission 66*, pp. 9-10.

71 Dr Logue, UTS, *Submission 1*, p. [4].

- 8.72 The Impact Investing Group noted that the first social impact bond was launched in 2010 in the UK and (at the time of its submission) Australia (the NSW Government) had launched three SIBs.⁷³ The United Kingdom became the first country to consider using the SIB model to address international development challenges, and in April 2014 announced that it would research and design the first Development Impact Bond (DIB) aimed at addressing sleeping sickness in Uganda.⁷⁴
- 8.73 DFAT described DIBs:
- Development Impact Bonds (DIBs) are results-based contracts in which private investors provide the upfront funds for social or development programs and public sector agencies pay back investors their principal plus a return if, and only if, these programs succeed in delivering development outcomes. It is not a bond in a strict financial sense, but a mechanism to leverage private sector investment while driving efficiency in delivery through a payment for results approach.⁷⁵
- 8.74 As a DIB is similar in form and function to a SIB in that they both seek to attract private investment to address specific issues and governments only pay if the outcome is achieved, experience with SIBs can contribute to understanding the potential of a DIB.
- 8.75 Dr Logue observed that ‘SIBs are not an actual bond (i.e., in the sense of a debt instrument) but rather a multi-stakeholder partnership’.⁷⁶ QBE Insurance Group noted that ‘they are going to look like, feel like and act like private equity’ and suggested ‘the word “bond” is probably going to become less relevant to the actual structures.’⁷⁷
- 8.76 Professor Shergold highlighted additional benefits of using SIBs to fund social programs:
- ... first, they reduce the call on government but, second, they also allow you to attract additional funding from the private sector beyond what the government is going to be able to spend.⁷⁸

72 Ms Blackburn-Wright, Impact Investing Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 64.

73 Impact Investment Group, *Submission 108*, p. [11]

74 Department for International Development and The Rt Hon Justine Greening, ‘UK Development Bonds will combat global poverty’, <www.gov.uk/government/news/uk-development-bonds-will-combat-global-poverty>, *Media release*, viewed 1 May 2015.

75 DFAT, *Submission 21*, pp. 46-47.

76 Dr Logue, UTS, *Submission 1*, p. [6]; National Australia Bank, *Submission 149*, p. 2.

77 Mr Brader, QBE Insurance Group, *Committee Hansard*, Sydney 7 November 2014, p. 33.

78 Professor Peter Shergold, Chair, New South Wales Social Investment Expert Advisory Group, *Committee Hansard*, Sydney 7 November 2014, p. 15.

- 8.77 Professor Shergold further noted that addressing social issues sooner may reduce the need for other government interventions in the future and ‘that is what is going to flow on into the budgetary advantage.’⁷⁹
- 8.78 Dr Logue also observed that state or national governments benefit from future cost savings if programs funded by SIBs are successful. However, she further noted that when considering the approach for development challenges ‘donor organisations that may provide the guarantee for the bond are not necessarily the ones that are reaping the cost savings.’⁸⁰
- 8.79 The evidence highlighted two key challenges in designing SIBs and DIBs – measuring outcomes and determining the financial return or premium paid to the investor.⁸¹ QBE Insurance observed:
- I suspect the biggest challenge will be hard numbers...[SIBs] only work if it is very clear what the outcomes are, if it is fairly clear what the cost of those outcomes are and, therefore, the benefit either to the donor or the local government of having the problem improved.⁸²
- 8.80 With respect to measurement, Cardno observed:
- Measurement is very difficult in any development context, and it is particularly important and tricky in the context where release of payment to a private investor is entirely linked to demonstrating achievement. That puts an increased onus and importance on it.⁸³
- 8.81 DFAT elaborated on how the need for measurable outcomes influences the purpose of the DIB:
- ... it has to be a very clear intervention that you can measure, like a vaccine or a pill, that gets to an individual and that has a pretty immediate result. It probably would not work for some of the big, intractable problems like reducing maternal mortality over a 10 year period, which requires multiple complex inputs and changes in a society to achieve, because that is very hard to measure and

79 Professor Shergold, Chair, New South Wales Social Investment Expert Advisory Group, *Committee Hansard*, Sydney 7 November 2014, p. 17.

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

81 Professor Peter Shergold Chair, New South Wales Social Investment Expert Advisory Group, *Committee Hansard*, Sydney 7 November 2014, p. 14; DFAT, *Submission 21*, pp. 46-47; Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, p. 2.

82 Mr Brader, QBE Insurance Group, *Committee Hansard*, Sydney 7 November 2014, p. 34.

83 Mr Mark Pruden, International Development Business Unit Manager (Asia Pacific), Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, pp. 20-21.

you probably could not generate the finance or the recurrent finance to sustain that for 10 years.⁸⁴

8.82 With respect to pricing and determining the potential return for investors: Cardno Emerging Markets and Metis submitted:

- Pricing: The DIB model relies on funders' ability to ensure outcomes are valued at commercial prices that do not exceed the value society places on achieving those outcomes. Until there is a body of DIB price precedents/benchmarks, it is likely this value will need to be negotiated with potential investors.
- Risk/reward structure: The DIB model relies on partners to agree on an appropriate risk-return profile that weighs up factors such as the type and amount of risk; the investment term, liquidity and size; outputs vs. outcomes.⁸⁵

8.83 Unlike the current experience with SIBs, with development impact bonds aid agencies would take on the role that governments have played to date. Dr Logue observed that 'it is very different when the donor is not in the same national context or region that is recouping the benefits of that instrument.'⁸⁶ Cardno Emerging Markets and Metis observed that:

Host government counterparts may be reluctant to support the DIB process due to its need for flexible implementation strategies which will likely include authorisation for locations and activities from different entities in the host country.⁸⁷

8.84 Cardno also observed an additional challenge with the DIB model:

The mechanism is tricky. You are genuinely competing in the private sector for capital. If you are an investor looking at your 20 different investment options, at this stage would you choose supporting the reduction of sleeping sickness in Uganda with all the various things that could go wrong in achieving that outcome, particularly if you are a private investor who is not really comfortable or familiar with operating in that environment, relative to much safer investment options?⁸⁸

84 Mr Benedict David, Principal Sector Specialist for Health, Development Policy Division, DFAT, *Committee Hansard*, Canberra 23 June 2014, p. 13

85 Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, pp. 3-4.

86 Dr Logue, UTS, *Committee Hansard*, 20 August 2014, p. 5.

87 Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, pp. 3-4.

88 Mr Pruden, Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, p. 21.

- 8.85 A number of submissions encouraged the Australian Government to explore the use of DIBs.⁸⁹ Most submissions, however, also recognised that DIBs are a very new concept with high transaction costs.⁹⁰ The Fred Hollows Foundation observed:
- ...we need to think about the up-front development costs when it comes to building this type of architecture and then ensuring that the size of early deals is sufficiently large to ensure that those up-front costs are worth making.⁹¹
- 8.86 In considering whether to use a DIB, Cardno suggested:
- [A DIB] genuinely needs to be assessed against all other mechanisms. It is not a replacement for all other types of aid. It is, I guess, a supplementary mechanism that I think has great potential in particular circumstances, particularly its ability to be taken to scale.⁹²
- 8.87 Cardno Emerging Markets and METIS Analytics suggested that the Australian Government:
- Conduct scoping work to develop a framework concept note to: identify and assess opportunities based on development objectives, target countries and potential locations; and develop a core model which outlines operational and financial relationships among contributing partners and means of outcome verification.⁹³
- 8.88 The Committee notes that a number of challenges were highlighted with DIBs. These included measuring outcomes, determining the return on the bond and working with partner governments, delivery partners and investors in different countries. Also of concern is the potential for high transaction cost of DIBs relative to existing partnership models.
- 8.89 A better understanding of the risks and benefits should be gained before progressing any Australian DIBs. The Committee encourages DFAT to fully engage with state and international government counterparts, multilateral development banks, and the private sector, including commercial financial institutions and advisory bodies, to learn from their experiences with SIBs and DIBs.

89 Global Alliance for Improved Nutrition, *Submission 102*, p. 10; ChildFund Australia, *Submission 8*, p. [3]; Vision 2020, *Submission 34*, p. 6; Accenture, *Submission 23*, p. 9.

90 DFAT, *Submission 21*, pp. 46-47; The Fred Hollows Foundation, *Submission 14*, p. 6; Vision 2020, *Submission 34*, p. 6.

91 Dr Lachlan McDonald, Senior Health Economist, Fred Hollows Foundation, *Committee Hansard*, Melbourne, 15 August 2014, p. 64.

92 Mr Pruden, Cardno Pty Ltd, *Committee Hansard*, Melbourne, 15 August 2014, p. 22.

93 Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, pp. 3-4.

Drawing on best practice

- 8.90 Impact Investing Australia, noting the Australian experience with social impact investing, suggested that ‘there is good capacity to partner with local expertise’.⁹⁴
- 8.91 The NSW Social Impact Investment Policy was launched in February 2015 and includes actions to support the growth of the impact investing market in New South Wales. Supporting this policy is the Office of Social Impact Investment (OSII) which is a joint team from the NSW Department of Premier and Cabinet and the NSW Treasury. As well as promoting the impact investment market, OSII has created a Social Impact Investment Knowledge Hub.⁹⁵
- 8.92 The National Australia Bank noted that it was in discussions with various partners about SIBs and encouraged building upon existing models:
- As the social impact bond market develops, it’s important to leverage global best practice to increase the speed-to-market and scale of these products.⁹⁶
- 8.93 Submissions suggested that the Australian Government participate in global groups including:
- United Kingdom’s Department for International Development (DFID) ‘open source’ knowledge platform (once established).⁹⁷
 - the Development Impact Bond Working Group, a partnership between the Center for Global Development and UK-based Social Finance, established in June 2013.⁹⁸

Growing the Australian market for impact investing

- 8.94 Impact investors face similar challenges to other investors, as well as a limited number of projects to invest in and a lack of platforms and market infrastructure to connect social entrepreneurs with impact investors. Partnerships with governments and other organisations are important for building the impact investing market both in Australia and in our region.
- 8.95 Impact Investing Australia noted that work is underway to grow the impact investing sector in Australia:

94 Impact Investing Australia, *Submission 66*, p. 18.

95 Department of Premier and Cabinet, New South Wales, ‘Social Impact Investment Knowledge Hub’, <www.dpc.nsw.gov.au/programs_and_services/social_impact_investment/about_us>, viewed 1 May 2015.

96 National Australia Bank, *Submission 149*, p. 2.

97 Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, pp. 3-4.

98 Impact Investing Australia, *Submission 66*, p. 8; Cardno Emerging Markets (Australia) Pty Ltd and METIS Analytics Pte Ltd, *Submission 20*, pp. 3-4.

An Australian Advisory Board has been established, bringing together leaders from across sectors. The appointment and role of the Advisory Board is aligned with the structures now in place in all participating countries under the governance adopted by the International Taskforce. The intention is to utilise links to the global work to elevate issues and action in a way that builds longer term capability, engagement and momentum locally.⁹⁹

8.96 The Committee encourages the Australian Government to address factors to grow the impact investing market in Australia and to better enable investors to connect to opportunities in developing countries of the region.¹⁰⁰ It should:

- establish clear polices and clarifying requirements including for domestic charitable trusts and foundations;¹⁰¹
- help build capacity within the market;¹⁰²
- provide information to the market;¹⁰³ and
- review taxation arrangements.¹⁰⁴

8.97 The Australian Government's final report of the Financial System Inquiry, released on 7 December 2014, included discussion on impact investing. The Committee supports the report's conclusions that the Australian Government should:

- Explore ways to facilitate development of the impact investment market and encourage innovation in funding social service delivery.
- Provide guidance to superannuation trustees on the appropriateness of impact investment.
- Support law reform to classify a private ancillary fund as a 'sophisticated' or 'professional' investor, where the founder of the fund meets those definitions.¹⁰⁵

99 Impact Investing Australia, *Submission 66*, p. 16.

100 ACFID, *Submission 52*, p. 11; Impact Investing Australia, *Submission 66*, p. 16;

101 Ms Jessica Roth, Representative, Impact Investment Group, *Committee Hansard*, Sydney 7 November 2014, p. 54; and Impact Investment Group, Responses to QoN 7 November 2014; National Australia Bank, *Submission 149*, p. 2.

102 National Australia Bank, *Submission 149*, p. 2; Impact Investing Australia, *Submission 66*, p. 16; Dr Logue, UTS, *Submission 1*, p. [7].

103 National Australia Bank, *Submission 149*, p. 2; Impact Investing Australia, *Submission 66*, p. 16.

104 Ms Jessica Roth, Representative, Impact Investment Group, *Committee Hansard*, Sydney 7 November 2014, p. 46; Mr Gary Brader, QBE Insurance Group, *Committee Hansard*, Sydney 7 November 2014, p. 34; Save the Children Australia, *Submission 38*, p. 11.

105 Australian Government, *Final report of the Financial System Inquiry*, <www.fsi.gov.au/publications/final-report/appendix-1/> viewed 1 May 2015.

- 8.98 Australia's location and links to the financial sectors in the region ensure we are well-placed to play a leading role in the nascent impact investment market. The Australian private sector is already well-advanced in its thinking on both establishment and evaluation of impact investments. The Australian Government should embrace the opportunity to work in partnership with leading Australian organisations to maximise development impact through innovative financing.

Recommendation 22

The Committee recommends that the Australian Government through the Department of Foreign Affairs and Trade:

- **continue to develop expertise and knowledge about the social impact investing sector in the Indo-Pacific region, with Australia's overseas diplomatic representatives assisting with this information gathering;**
- **work with the Australian Advisory Board on Impact Investing to identify areas of potential collaboration to promote more impact investing in the region;**
- **participate in relevant Australian, regional and global working groups on impact investing, including the working group on Development Impact Bonds; and**
- **develop a means of effective and continuous communication about the prospects for impact investing with potential investors, including the Australian public.**

Delivering the aid program

- 9.1 The new Australian Government development policy aims to broaden engagement with the private sector. As the department responsible for implementing the policy, the Department of Foreign Affairs and Trade (DFAT) will have to rethink the way it does business. DFAT will need to find opportunities to leverage its networks, to build its capacity and fully embrace innovation and engagement with the private sector.

Limitations of current program delivery

- 9.2 Current procurement and contracting approaches provide some lessons for DFAT's future approaches to partnering with the private sector. Some evidence suggested that the current approach to delivery of Australia's aid program: reduces its effectiveness; stifles innovation; limits the pool of potential commercial providers; and impacts on the ability of a contractor to manage their own risks.
- 9.3 There have been limited opportunities for the private sector to contribute to the Government's broader understanding of the countries receiving Australian aid. Further, there was the view that 'the expertise of the private sector hasn't always been sought or reflected in the design and implementation of aid projects'; and that when consultation has taken

place, it has generally been after the key development decisions have been made.¹

- 9.4 Abt JTA reflected on DFAT's approach to selecting delivery partners, estimating that 'five years ago 45 per cent of [aid funding] was let under competitive tendering to private companies...that reduced to 16 percent'.² Abt JTA further suggested that DFAT's approaches to identifying partners favour NGOs:

The point I would like to make is, we are all implementing partners of the aid program and we all have our strengths and weaknesses...I think there needs to be a level playing field, and the aid program should partner with those who are best able to deliver the service or partnership they are looking for.³

- 9.5 DFAT's approaches to program design and contracting were raised in the evidence. Cardno Emerging Markets and METIS Analytics submitted that, in relation to DFAT:

Current aid delivery mechanisms stifle private sector innovation due to a culture of risk-aversion (fear of failure) resulting in highly prescriptive and inflexible designs/contracts, with few incentives for the private sector to innovate and provide new, cost-effective solutions to achieving development outcomes (as opposed to contractual compliance).⁴

- 9.6 Similar views were expressed in an Independent Review of the UK Department for International Development's (DFID) Private Sector Development programs, which stated:

Existing processes (such as the business case) do not properly support effective and timely decision-making. They currently

1 ASPI, *Submission 112*, p. 5, and see Australia Papua New Guinea Business Council, *Submission 71*, p. 3; Australian Centre for International Agriculture Research (ACIAR), *Submission 22*, p. 10.

2 Dr Jane Thomason, Chief Executive Officer, Abt JTA, *Committee Hansard*, Brisbane, 11 August 2014, p. 24. *The Performance of Australian Aid 2013-14* (p. 12) states that if ODA appropriated to other Australian Government departments and agencies is excluded, 21 per cent of the aid program in 2013-14 was competitively tendered.

3 Dr Thomason, Abt JTA, *Committee Hansard*, Brisbane, 11 August 2014, pp. 20-21.

4 Cardno Emerging Markets and METIS Analytics, *Submission 20*, p.1. See also Mr Marshall, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 33; Dr Danielle Logue, Senior Lecturer, University of Sydney, *Committee Hansard*, Sydney, 20 August 2014, p. 3.

place too much emphasis on the initial project design and relatively little on supervision and learning.⁵

- 9.7 To address these issues, GRM International suggested DFAT could explore how to be more flexible in design and contracting:

A more partnership approach rather than a strict contractual relationship would allow key people to contribute far more as the programs are developed, because these sorts of projects are always extremely complex, and sometimes that is not recognised. [DFAT] think there is a point in time where it is fixed, and there you go – ‘Go off and implement it.’⁶

- 9.8 Coffey encouraged DFAT to consider how to reconcile procurement and partnership requirements to achieve better outcomes:

In future, designs and contracts should look at ways of bringing more partners to projects and there needs to be flexible financial and institutional approaches in order to do so.⁷

- 9.9 Following a review that encouraged the Australian Centre for International Agriculture Research (ACIAR) to engage the private sector from the design stage to maximise impact, ACIAR advised that its preferred approach is partnership rather than procurement:

We occasionally have an open tender process for our programs. But that is not our preferred method for a number of reasons. In many cases it disadvantages countries where the capacity to tender is limited. It is also quite an expensive process. In many cases we do it through a commissioning and negotiation... Our job is to try and identify the sweet spot where there is benefit to Australia and developing countries.⁸

Reducing red tape for partnering

- 9.10 In its submission, Austrade noted ‘strong interest by Australian companies to participate in infrastructure and development projects’, but further submitted that ‘businesses, particularly SMEs, find identifying opportunities and tender processes both complex and resource intense.’⁹

5 Australian Council for International Development (ACFID), *Exhibit 73, ‘Independent Commission for Aid Impact – Report 35 – May 2014, DIFD’s private sector development work’* (UK), p. 35.

6 Mr Marshall, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 33.

7 Coffey, *Submission 35*, p. 7.

8 Dr Nick Austin, Chief Executive Officer, ACIAR, *Committee Hansard* 29 August 2014, p. 44.

9 DFAT, *Submission 21*, p. 69, Attachment D: Austrade Annexure.

- 9.11 Reflecting on its experiences, TAFE Directors Australia raised concerns at the practice of bundling aid tenders – a single tender for multiple services and education – which it claimed favours multinational professional service providers. TAFE Directors advised that rather than being because it had failed to meet the tender requirements or it was more expensive:

It is just that the tender often is for multiple services and education will be a segment of that service, so a TAFE institute would be unlikely to tender successfully for a multiple domestic service operation in, for example Cambodia...I have to say it is just not the experience of other countries, particularly our major educational competitors.¹⁰

- 9.12 Adam Smith International observed that, when DFAT does tender its programs, an outcome of DFAT's current approach is to limit the number of commercial contractors who deliver the aid program and suggested that this is a risk for the aid program.¹¹ It further noted:

I think there is definitely a trend in the Australian aid program to have either very small contracts or very big contracts and not an awful lot in between. I think there needs to be diversity in the contracts being offered to attract diversity in the suppliers as well. ... DFID has a much broader supply base and also a much easier procurement process which attracts specialist companies of all sizes as well as the really top players like McKinsey and KPMG.¹²

- 9.13 Both Coffey and Dr Tess Newton Cain also cautioned DFAT about overburdening the development stakeholder with red tape. Citing Dr Newton Cain in relation to the Pacific, Coffey commented more broadly that:

Donor programs are often administratively intensive and companies often have small management teams especially in smaller to medium enterprises where donors often target programs or in regions such as countries in the Pacific where the business environment is very small. Companies have limited capacity and tolerance for accommodating multiple teams of

10 Mr Martin Riordan, TAFE Directors Australia, *Committee Hansard*, Sydney, 20 August 2014, pp. 53-54.

11 Dr David Carpenter, Senior Adviser, Research and Evaluation, Adam Smith International, *Committee Hansard*, Sydney, 20 August 2014, p. 59.

12 Mr Jonathan Pell, Director, Asia Pacific, Adam Smith International, *Committee Hansard*, Sydney, 20 August 2014, p. 57.

consultants scoping, designing, monitoring and evaluating and often limited time to spend on reporting.¹³

- 9.14 The Committee believes the Australian Government needs to review Official Development Assistance (ODA) contracting practices. Despite pockets of innovation, DFAT's current contracting and procurement approaches are limiting who can participate in the design and delivery of aid contracts and the overall effectiveness of aid. While acknowledging the complexity of the environments in which aid is delivered, the Committee is of the view that current aid contracts do not have sufficient flexibility to permit contractors to adapt to the changing context in which they operate.
- 9.15 In addition, DFAT's approach to designing very large aid activities, with components that may then be sub-contracted, limits the ability for smaller, specialised firms and Australian institutions to directly engage or participate. This includes our TAFE sector.
- 9.16 Much innovation comes from small and medium size enterprises (SMEs) and specialist institutions, some of which will have no experience working with government, or capacity to meet extensive compliance requirements. The Australian Government needs to do more to enable SMEs to participate in Australian development projects.

Recommendation 23

The Committee recommends the Department of Foreign Affairs and Trade:

- **identify roadblocks and unhelpful red tape hindering optimal outcomes for existing contracts and partnership arrangements, in order to improve the flexibility and effectiveness for all of these arrangements;**
- **review existing contracting or sub-contracting requirements that currently limit the pool of potential aid delivery partners, including small enterprises, TAFEs and others with specialist skills; and**
- **foster expertise in building partnerships, including by shifting departmental culture toward a more positive approach to the private sector.**

¹³ Coffey, *Submission 35*, p. 4; Dr Tess Newton Cain, Lowy Institute for International Policy, *Submission 82*, p. 7.

Tied versus untied aid issues

9.17 Some submissions considered whether the Australian aid program should be restricted to Australian firms. The *2012 Business in Development Study* described untied aid, however, as a means of improving aid effectiveness and efficiency:

The policy of untied aid represents the Australian Government's long standing commitment to openness in trade and competition, and prohibits discrimination based on foreign ownership, affiliation or location.¹⁴

9.18 In its submission DFAT, noting Australia's untied aid policy has been in place since 2006, asserted that 'this ensures Australia has access to the best globally available goods and expertise at the most competitive prices'.¹⁵

9.19 DFAT argued that another perceived benefit of most OECD member countries having untied aid¹⁶ was that Australian businesses, and individuals, have the opportunity to tender for work funded by other donors.¹⁷ For example:

- Asian Development Bank (ADB) data indicated that in 2013, Australian companies were awarded contracts to the value of around \$78 million from a total of \$7 billion in procurement. The vast majority of the contracts awarded were for consulting services.¹⁸
- In 2010 World Bank Group listed major contracts awarded to Australian businesses, valued at around \$75 million.¹⁹
- The World Food Programme (WFP) identified that in 2013, \$5.6 million worth of commodities were purchased from Australia from a total of \$1.16 billion purchases made worldwide. Explaining its procurement

14 Accenture, *Exhibit 1, 'Business in Development Study 2012'*, p. 1.

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

16 The OECD's Recommendation to Untie Official Development Assistance (2001) has supported adoption of the policy. The OECD also notes that Australia, Finland, France, Germany, Ireland, Japan, the Netherlands, Norway, Portugal, Sweden, Switzerland and the United Kingdom currently exceed the requirements of the recommendation. See OECD 'Untying Aid: the Right to Choose' <www.oecd.org/development/untyingaidtherighttochoose.htm>

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

18 Asian Development Bank (ADB), *Asian Development Bank and Australia: Fact Sheet*, <www.adb.org/publications/australia-fact-sheet> viewed 15 April 2015.

19 Procurement under World Bank-financed projects results in the award of about 20-30,000 contracts with a total value of about \$20 billion each year. Of these, about 7,000 contracts (particularly large-value contracts) are reviewed by Bank staff prior to contract award, and are made publicly available after contract signature. World Bank Group, <www.web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:51565~pagePK:95864~piPK:95915~theSitePK:40941,00.html>, viewed 15 April 2015.

strategy, WFP indicated that it aims to buy 'as close to where it is needed as possible'.²⁰

- 9.20 Austrade advised that in addition to assisting contractors to gain access to ADB or World Bank projects, its staff overseas 'look for opportunities fuelled by third-country donors in markets where we are active':

Japan has a big ODA program with a very strong focus across South-East Asia but also more widely. We have put a lot of effort into sending staff from our Japan office to a number of South-East Asian markets – Indonesia and Vietnam – to work with our local teams to look to access the Japanese contractors that could be competing to deliver or delivering those aid programs, as well as other commercial activity.²¹

- 9.21 Both the Development Policy Centre and World Vision Australia supported untied aid with recommendations that the Australian Government maintain the policy.²²

- 9.22 While there is evidence suggesting a range of benefits of untying aid, there are still questions as to the implementation of untied aid policies by various OECD member countries. A report by the Overseas Development Institute indicated examples of unlevel playing fields, lack of transparency as well as some data problems. It noted that '[u]ntying and tying practices rarely appear on the evaluation agenda and so opportunities to know more are systematically missed.'²³

- 9.23 The Committee notes that in the past Australia has gone well beyond the requirements of the OECD recommendations in relation to supplying untied ODA. Untied aid means that procurement of all goods and services by these agencies using our funds is open to any suppliers. The Committee considers that the 'badging' opportunity in these circumstances is lost.

- 9.24 There is also some concern that Australia's provision of untied aid may not be in Australia's, or the recipients, best interests. For example, in relation to the humanitarian program, Australia provides funding to

20 World Food Programme, <www.wfp.org/procurement>, viewed 15 April 2015. In the 2013-14 financial year, Australia contributed \$46 million to the WFP

21 Mr Laurie Smith, Executive Director International Operations, Austrade, *Committee Hansard*, Canberra, 25 June 2014, p. 7.

22 Development Policy Centre, *Submission 103*, pp. 28-29, World Vision Australia, *Submission 36*, p. 18.

23 Overseas Development Institute (2009), *Aid untying: is it working?*, p. 57; p. 59. The study was undertaken under the auspices of the Secretariat for the Evaluation of the Paris Declaration and the OECD/DAC.

multilateral organisations, such as the World Food Programme (WFP), which in turn procures agricultural products and other goods and services on its behalf.

- 9.25 Australian companies may tender to provide products to the WFP, but they may well be competing against businesses from countries that maintain domestic subsidies. In addition, while noting there is a UN purchasing portal through which Australian businesses can apply to register, there is neither a guaranteed qualification nor does it mean that once qualified the business will receive an invitation to tender. This is all at the discretion of the WFP. Australians need a level playing field to win a part of their own aid budget to supply product.
- 9.26 Many Australian businesses wish to tender for global aid supply and services contracts. Better systems are needed to ensure that Australian businesses and institutions are aware of opportunities and are able to navigate international, as well as Australian, procurement processes.
- 9.27 The Government should review its tendency to donate via untied aid. We should be aware of where our ODA funds go, to ensure it best supports our region, our aid objectives and our priorities.

Recommendation 24

The Committee recommends that, in line with its new aid paradigm, the Australian Government:

- **review its untied aid grants strategy;**
- **strengthen our representation, influence, and the articulation of Australia's interests through Australia's permanent representatives at multilateral organisations;**
- **inform the Australian Parliament of any significant changes proposed by multilateral organisations that could impact on Australia's interests prior to any decision being taken; and**
- **continue to prepare and publish an annual assessment of multilateral institutions to:**
 - ⇒ **determine how well they are meeting the objectives and intentions of Australia's aid program; and**
 - ⇒ **inform decisions on Australia's future funding contributions.**

Recommendation 25

The Committee recommends that the Australian Government:

- review development and humanitarian assistance with a view to increasing the proportion of in-kind aid to better meet our new national objectives; and
- streamline tender information and advertising processes so more Australian businesses can participate in supplying aid products and services.

DFAT's capacity to partner

9.28 The role of the Australian Government in development partnerships is different to that of traditional aid tender-procurement relationships in that the Government's level of influence and role in decision-making is not unilateral. There will be an increased need for respect, diplomacy and mutual understanding throughout the initiation and lifecycle of any such partnerships.

9.29 As the agency responsible for Australia's aid, trade and foreign policy, DFAT must have the ability 'to walk the talk' of the private sector – to understand its priorities and how to use these to drive development outcomes. DFAT also needs to:

- understand the barriers and business imperatives faced by the private sector;
- define and articulate where it can add value in private sector partnerships relative to other stakeholders; and
- be prepared to take calculated risks, and to do business differently compared with its previous untied aid to UN agencies or NGOs, or tedious red-tape bound, inflexible tender processes.

9.30 DFAT's capacity to engage and partner with the private sector was raised throughout the evidence. The North-South Institute stated that:

...realizing the full potential of collaborations with the private sector depends on the management and maintenance of the relationships between partners.²⁴

24 The North-South Institute, *Submission 85*, p. 3.

- 9.31 Accenture suggested that DFAT will need to invest in significant internal change management to succeed in engagement with the private sector, and noted that development agencies in UK and Sweden had initiated such processes:
- If DFAT staff do not understand the value proposition they are unlikely to engage or if they do engage they may not approach it in the most effective manner. Helping staff to understand the drivers and benefits and giving them the tools to be able to work with the private sector will be very important.²⁵
- 9.32 The Development Policy Centre reflected on the incentives for DFAT to work in partnership with the private sector. It noted that donors:
- ...exist fundamentally to allocate and distribute money through contracts and agreements...They have little inclination or capacity to work with private actors in ways that do not involve the disbursement of funds, or perhaps involve only small amounts of funding for third parties (e.g. NGOs).²⁶
- 9.33 This was a view shared by the Foundation for Development Cooperation:
- More partnerships with business will require a shift from conventional approaches to management of aid projects to more direct engagement of aid staff and an increase in their capacity to understand and manage these partnerships.²⁷
- 9.34 Further to the submission made referring to DFAT's capability, Coffey raised the issue of the readiness of DFAT to build and maintain relationships with the private sector:
- The private sector and the public sector often speak very different languages and effective engagement with the private sector will require a capability, culture and profile that can understand and respond to market and business imperatives.²⁸
- 9.35 Coffey further noted that the merger of AusAID and DFAT may have been beneficial in relation to DFAT's aim to increase engagement with the private sector.²⁹ URS suggested:

25 Accenture, *Submission 23*, p. 12.

26 Development Policy Centre, *Submission 103*, p. 21.

27 Foundation for Development Cooperation, *Submission 78*, p. 2.

28 Coffey, *Submission 35*, p. 9.

29 Coffey, *Submission 35*, p. 10.

...that the aid and trade arms of DFAT work together, with the private sector, to explore where existing private sector activity could be expanded for additional economic development and poverty reduction outcomes.³⁰

9.36 Austrade noted that they 'have a good understanding of Australian business, grounded in [their] interaction with many thousands of businesses every year' and that this understanding extends to other countries:

...it is clearly a high priority for us to develop very strong networks in market because they are networks we need to build out so that we can assist Australian companies to speed the time to market or to find the right sorts of partners offshore.³¹

9.37 Accenture encouraged greater private sector participation within DFAT, and suggested this may be done through 'hiring private sector people or setting up a corporate advisory unit.'³² Using their own organisational practices as examples:

- Accenture highlighted the value placed within its own organisation on having people who have worked both in the commercial practice and on international development, including with not-for-profit clients.³³
- Coffey suggested that while it uses technology to connect, it is 'also important to have a mobile workforce to develop people-to-people links encouraging team members travelling between locations to develop networks and share information'.³⁴

9.38 The Foundation for Development Cooperation suggested that DFAT build its capability by taking a comprehensive approach to engaging with the private sector, including:

...continued dialogue between government and business councils; exchanging information on aid projects and business investment plans; reviewing best practice of existing organisations with a private sector orientation; and exchanges and secondments of staff between the aid program and business groups.³⁵

30 URS, *Submission 19*, p. 4.

31 Mr Laurie Smith, Executive Director International Operations, Austrade, *Committee Hansard*, Canberra, 25 June 2014, p. 2.

32 Mr Joshua Kennedy-White, Managing Director - Health and Public Sector, Accenture Australia, *Committee Hansard*, 27 October 2014, p. 7.

33 Ms Morgana Ryan, Global Lead Organisational Strengthening, Accenture Development Partnerships, Accenture Australia, *Committee Hansard*, 27 October 2014, p. 1.

34 Coffey, *Submission 35*, p. 10.

35 Foundation for Development Cooperation, *Submission 78*, p. 2.

- 9.39 The Committee notes that capacity building can be achieved in various ways; through skill-transfer, by bringing in short-term external expertise, or providing existing staff with training or work experience outside the organisation. As much as this applies to Australia's aid program when trying to build a developing country's workforce capacity, it also applies to DFAT's internal change management objectives.
- 9.40 Reflecting on the large body of evidence about the need for DFAT to have a better – broader and deeper – understanding of the private sector, consideration should be given to mechanisms that would enable staff to undertake temporary assignments outside the department with commercial entities or NGOs that are working with the private sector.
- 9.41 Encouraging staff to identify opportunities for secondments through existing networks could kick-start the development of a structured program within the department. It may also be useful to consider best-practice in other government agencies within Australia or internationally. One such example is the Canadian Government's Interchange program.

Recommendation 26

The Committee recommends that the Department of Foreign Affairs and Trade:

- **support a structured program of secondment of key staff between selected private and relevant public sectors; and**
- **develop a best-practice strategy to support cross-department acquisition of networks, knowledge and expertise from targeted secondments.**

Resourcing of the new aid paradigm

- 9.42 In addition to the capacity of individuals within DFAT, ATAB and the IIT considered it important that DFAT devote appropriate resources to implement its priorities, as identified in the development policy. It also suggested that this be complemented through 'support for Austrade and relevant business networks'.³⁶

³⁶ Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) at the University of Adelaide, *Submission 111*, p. 27.

9.43 In 2012, the then Joint Standing Committee on Foreign Affairs, Defence and Trade in its inquiry into Australia's overseas representation recommended that Australia increase its overseas resourcing so as to capture emerging opportunities.³⁷ Accenture made a similar observation that appropriate resourcing needs to be in place in the countries where the aid program works:

Make sure that there are sufficient resources within DFAT empowered to work in this area to match the public commitments made to the agenda. This is not just in Canberra but in the countries that have been selected as priority countries for fostering poverty alleviation via business in development.³⁸

9.44 The North-South Institute also encouraged DFAT to consider the staff resourcing commitments required for partnerships:

Deeper integration among public, private, and non-profit actors can lead to greater value, but the management and maintenance of these engagements is a challenging task; benefits and costs of a potential partnership should be carefully examined.³⁹

Building a knowledge base

9.45 Appropriately skilled people and allocation of resources may set the foundation for engagement and partnering. However, harnessing the collective knowledge of DFAT and its partners was also highlighted as a necessary component.

9.46 Cardno noted that 'expanding the role of the private sector in development... is not an inherently new approach', and suggested:

DFAT and the Australian government have the advantage of lessons learned from many like-minded large bilateral donors pursuing similar policies over an extended period, USAID and DFID in particular, but also of course a range of initiatives from within DFAT's own portfolio.⁴⁰

9.47 Supporting the Foreign Minister's view that partnerships should be based on who can deliver most effectively, Dr Newton Cain encouraged DFAT

37 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's Overseas Representation – Punching Below our Weight?*, October 2012, p. 14.

38 Accenture, *Submission* p. 12.

39 The North-South Institute, *Submission 85*, p. 3.

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

to take an ‘agnostic approach to finding out what lessons have already been learned’, including by:

...engaging strategically with current and possibly new partners around sharing of knowledge and brokering of knowledge. We think that will inform DFAT’s thinking and policy. We think it will help remedy the deficits of expertise that might be there.⁴¹

- 9.48 DFAT’s existing partners, including commercial contractors, multilateral organisations and NGOs also have experience working with the private sector.⁴² NGOs advised that some of their partnerships with the private sector are currently funded through the Australian NGO Cooperation Program.⁴³
- 9.49 The Committee was referred to a large body of material related to partnering with the private sector. Much of the material was developed by, or in consultation with, different types of private sector organisations, including Accenture/B4MD’s *Business in Development Study 2012*, commissioned by Australia’s aid program,⁴⁴ and Ernst & Young’s *The Power of Three Together – governments, entrepreneurs and corporations can spur growth across the G20*. A full list of exhibits received by the Committee is available at Appendix B.
- 9.50 Submissions also referred to a number of global platforms on private sector development and private sector engagement, which DFAT either supports or is a member of, including the Donor Committee for Enterprise Development (DCED),⁴⁵ Business Call to Action (BCtA),⁴⁶ Consultative Group to Assist the Poor (CGAP),⁴⁷ and Devex Impact.⁴⁸
- 9.51 Evidence presented to the Committee demonstrated the breadth and depth of knowledge that is available in relation to engagement with the

41 The Hon Julie Bishop MP, Minister for Foreign Affairs, ‘The new aid paradigm’, *Speech*, delivered 18 June 2014; Dr Newton Cain, Lowy Institute for International Development, *Committee Hansard*, Canberra, 29 August 2014, p. 29.

42 ACFID, *Submission 52*, p. 23. Also see: Save the Children, *Submission 38*; Fairtrade Australia and New Zealand, *Submission 7*; Mr Mel Dunn, Chair, International Development Contractors Australia, *Committee Hansard*, Brisbane, 11 August 2014, p. 48.

43 World Vision, *Submission 36*, p. 8; Marie Stopes, *Submission 33*, p. 6.

44 *Exhibit 1: Accenture and Business for Millennium Development*, ‘Business in Development Study 2012’.

45 The North-South Institute, *Submission 85*, p. [2]; see <www.enterprise-development.org> viewed 6 March 2015.

46 Business Call to Action, *Submission 124*, p. 1; and <www.businesscalltoaction.org/> viewed 6 March 2015.

47 The Springfield Centre, *Submission 67*, p. 4, and <www.cgap.org> viewed 6 March 2015.

48 Collabforaction, *Submission 80*, p. 9, and <www.devex.com/impact> viewed 6 March 2015.

private sector. DFAT also has relevant expertise. The Committee encourages DFAT to look to its counterparts and build mutually beneficial relationships to harness their collective knowledge for greater development impact.

Recommendation 27

The Committee recommends that the Department of Foreign Affairs and Trade develop and maintain close, consultative relationships with:

- **global forums on private sector development;**
- **the Australian Council for International Development, accredited Australian NGOs, and in-country NGOs;**
- **businesses, their associations and peak bodies, including those in developing countries; and**
- **commercial contractors to the aid program.**

Moving beyond procurement to partnership

9.52 Moving away from a relationship with the private sector that has to date been predominantly based on procurement brings challenges and opportunities.

9.53 Focusing on the private sector purely as an administrator of government funding clearly limits the ability of businesses operating in a range of sectors to contribute to development outcomes. Further, as a Commonwealth entity DFAT is bound by the *Public Governance, Performance and Accountability Act 2013*. The Act details rules relating to Commonwealth entities, including procurement and grants rules. However, the Act does note that rules may make different provisions for different entities.⁴⁹

9.54 In terms opportunities, RESULTS International Australia observed:

The early involvement of private sector partners in the design of aid projects, rather than acting as contractors which provide goods and services which meet a specification that the government

49 *Public Governance, Performance and Accountability Act 2013*, s. 101 – s.102.

agency has decided in advance, can lead to more effective and innovative project design.⁵⁰

9.55 Abt JTA suggested factors for DFAT to consider when assessing the value of a private sector organisation as a development partner, include:

... establishment of a case showing a clear benefit in utilizing a private sector partner for reasons such as physical presence in an isolated area, unique delivery capacity and opportunity to reduce cost of delivery through leveraging private funds.⁵¹

9.56 Australian Volunteers International proposed that DFAT adopt a checklist to 'ensure maximum innovation in the design and delivery of international projects':

A design and delivery checklist would become part of the procurement process demonstrating that all options have been considered. This could include: a) the different modalities available for delivery and their value in different settings b) the potential for international volunteering organisations and other non-government organisations as working partners with Australian public and private sector organisations.⁵²

9.57 Mr Runde from the US Center for Strategic and International Studies suggested that the usual donor arrangements '[are] often difficult to navigate for companies, with multiple entry points and confusing contractual processes'. Mr Runde suggested that DFAT consider USAID's Global Development Alliance as a more suitable approach.⁵³

9.58 Evidence received by the Committee described the Global Development Alliance program:

...established in 2001, [it] aims to address business and development objectives through a market-based business model for partnerships between the public and the private sectors. Alliances are established through a co-owned process whereby USAID and private sector actors work together to design, fund and manage projects so that risks, responsibilities and rewards are equally shared.⁵⁴

50 RESULTS International Australia, *Submission 58*, p. 7.

51 Abt JTA, *Submission 5*, p. 4.

52 Australian Volunteers International, *Submission 37* p. 18.

53 Mr Daniel Runde, William A Schreyer Chair in Global Analysis, and Director Project on Prosperity and Development, Center for Strategic and International Studies (CSIS), *Committee Hansard*, 2 October 2014, p. 2.

54 The North-South Institute, *Exhibit 10*, 'Models for Trade-Related Private Sector Partnerships for Development', p. 109.

9.59 Professor Howes from the Development Policy Centre proposed that DFAT establish frameworks for engagement and a facility whereby ‘you can deal with several companies rather than just having one-by-one bilaterals’.⁵⁵ Ms Callan, also from the Development Policy Centre, further commented:

I think that, with a framework and some programs like the Enterprise Challenge Fund, the government’s aid program is able to set up mechanisms that are very clear about what their target is, what their objective is and how they would measure success. If you can set up a mechanism and then have a contestable call for applications to be involved in that mechanism then it is a much easier area to work in.⁵⁶

9.60 After reviewing the evidence the Committee is concerned that processes through which the Government partners with the private sector have often been difficult for companies to navigate, with multiple entry points and confusing contractual processes. These problems need to be resolved.

Recommendation 28

The Committee recommends that the Department of Foreign Affairs and Trade:

- **establish an effective private sector and philanthropic communication and engagement unit which offers a clear participation pathway for potential partners, and that:**
 - ⇒ **provides a register of relevant aid projects, but is flexible and remains open to innovative ideas;**
 - ⇒ **has systems in place to capture contacts and manage relationships more effectively, including those generated by Australia’s overseas diplomatic representatives; and**
- **introduce a mechanism through which partnerships can be established in a co-owned process to ensure risks, responsibilities and benefits are understood and properly assigned.**

55 Professor Stephen Howes, Director, Development Policy Centre, Australian National University, *Committee Hansard*, Canberra, 29 August 2014, p. 30.

56 Ms Margaret Callan, Visiting Fellow, Development Policy Centre, Australian National University, *Committee Hansard*, Canberra, 29 August 2014, p. 30.

- 9.61 The Australian Government's new innovationXchange has been established to find and collaborate with new partners in new ways to co-create solutions to 'tackle our toughest challenges and seize the most exciting opportunities'.⁵⁷
- 9.62 While noting that a reference group has been established as part of the innovationXchange, the Committee consider that there may also be benefit in DFAT establishing a dedicated panel of independent expertise, which can critically analyse private-sector partnership proposals, review risk profiles and examine due diligence processes quickly and effectively.

Recommendation 29

The Committee recommends that the Department of Foreign Affairs and Trade establish a panel of independent expertise, which can:

- **advise and help facilitate private sector engagement; and**
- **provide independent and expert guidance on partnership proposals, review risk profiles and examine due diligence processes quickly and transparently.**

Principles to guide partnering

- 9.63 Submissions suggested principles for partnering with the private sector to promote greater participation by the poor in the activities of business:
- **Additionality** – donors should not finance activities that a business would have financed themselves or would have otherwise happened anyway. Use of public funds should not displace potential private sector investment, but instead should leverage, incentivise or support activities that would not have been made either at all or in a timeframe that would generate the most advantage.
 - **Neutrality** – support, financial or otherwise, should not provide one business with an unfair advantage over its competitors, nor distort markets in which the intervention is being targeted.
 - **Sustainability** – support should have lasting development impacts and lead to long-term commercial viability of a business. However, there needs to be acceptance of relatively high risk when operating in developing markets.

⁵⁷ DFAT, 'innovationXchange – About Us', <www.dfat.gov.au>, viewed 5 April 2015.

- Value for money – in addition to applying to all investments, in relation to the private sector, in order to address concerns around use of public funds to support business, the expected benefits need to be able to be demonstrated as providing outcomes higher than other possible approaches or partners.⁵⁸
- 9.64 The Development Policy Centre and GRM International also emphasised that government funds should be matched by co-investment and sharing of risks. It was suggested that ‘skin in the game’ or ‘hurt money’ is necessary to ensure that when a project is identified as failing, it is in the interests of all parties to make decisions quickly.⁵⁹
- 9.65 The North-South Institute suggested the partnership principles be captured in project guidelines and eligibility requirements for private sector partners.⁶⁰ Further, the North-South Institute submitted that private sector partners ‘bring different skills and capacities to the partnership, which should be valued and harnessed in project design, implementation and monitoring and evaluation.’⁶¹
- 9.66 The Development Policy Centre proposed an extra innovation principle for partnerships:
- They should capitalize as far as possible on private sector ingenuity to propose and develop projects. Ideally, donor funding should be used for purposes of the private sector proponents’ own devising within parameters determined by the donor.⁶²

Challenges of putting principals into practice

- 9.67 The Development Policy Centre argued that partnerships which fail to observe these principles are likely to be ‘short-lived, ineffective and wasteful, or even harmful.’⁶³ The Development Policy Centre went on to suggest, however, that ‘[d]etermining whether additionality will be or has

58 Development Policy Centre, *Submission 103*, p. 21; GRM International, *Submission 57*, p. [6]; Overseas Development Institute, *Submission 51*, pp. 6-7.

59 Development Policy Centre, *Submission 103*, p. 21; and Dr Alwyn Chilver, GRM Futures Group, *Committee Hansard*, Brisbane, 11 August 2014, p. 35.

60 The North-South Institute, *Submission 85*, p. 3.

61 The North-South Institute, *Exhibit 10*, ‘Models for Trade-Related Private Sector Partnerships for Development’, p. 14.

62 Development Policy Centre, *Submission 103*, pp. 20-21.

63 Development Policy Centre, *Submission 103*, p. 20.

- been achieved is a difficult and subjective matter'.⁶⁴ This was a point on which the Overseas Development Institute (ODI) agreed.⁶⁵
- 9.68 In relation to the collection of information, GRM International suggested that the Australian Government ensure that 'the vital verification and evaluation functions of public-private engagements are independent.'⁶⁶
- 9.69 Referring to the findings of a recent review of DFID, Australian Council for International Development (ACFID) encouraged the Australian Government to take heed of the lessons learnt with regard to working with the private sector:
- '[The report] says that DFID needs to accept that it is the companies themselves which drive development of the private sector and donors are adjuncts to that process, not the reverse. Sometimes governments can try to over-engineer where the private sector might be going in the aid space'⁶⁷
- 9.70 The Foundation for Development Coordination raised the potential of:
- ...inadvertent creation of a disabling, instead of enabling environment for business if government becomes too involved with the private sector in applying processes, procedures and other requirements⁶⁸
- 9.71 Identifying and implementing aid activities is not a new role for DFAT. However, the types of activities being undertaken and how they are delivered are likely to be different when working in partnership with more businesses.
- 9.72 There was general agreement across stakeholders, including DFAT, about the principles that should underpin partnerships with the private sector. However, many stakeholders had been stymied by overly bureaucratic processes which made them think twice about partnering with DFAT. This also prompted some to be wary of the effectiveness of any partnerships.

64 Development Policy Centre, *Submission 103*, p. 21.

65 Overseas Development Institute (ODI), *Submission 51*, p. 6.

66 GRM International, *Submission 57*, p. [6].

67 Mr Marc Purcell, Executive Director, *Committee Hansard*, Canberra, 14 July 2014, p. 1.

68 Foundation for Development Cooperation, *Submission 78*, p. 10.

Recommendation 30

The Committee recommends that the Department of Foreign Affairs and Trade develop clear principles for all partnerships with the private sector.

- These principles should:
 - ⇒ include clear enunciation of our objective of promoting gender equity, reducing poverty and promoting economic growth in the Indo-Pacific region;
 - ⇒ require close engagement with countries, building capacity and governance, and in particular, reducing corruption;
 - ⇒ be incorporated into eligibility requirements for partnerships, guidance to staff and in partnership agreements.
- These partnerships should be desirable processes with the minimum of red tape impediment.

Managing partnership risks

9.73 Delivering an aid program involves managing many risks. As the Australian Government's recent report on the performance of aid stated:

By their nature, aid programs operate in fragile, often dangerous and corrupt environments. Appropriate mechanisms need to be in place that mitigate the risks of fraud and corruption, but also support the achievement of the objectives of the Australian aid program.⁶⁹

9.74 In its submission, DFAT recognised that working with new partners in new ways could expose DFAT to new risks. It stated that its approach to risk management needs to meet 'the high expectations from the Australian public on the effective use of aid funding'.⁷⁰

9.75 However, GRM Futures Group maintained that working through for-profit partners is not dissimilar to working with the not-for-profit sector under the aid program, commenting:

⁶⁹ Department of Foreign Affairs and Trade (DFAT), *Performance of Australian Aid 2013–14*, p. 15.

⁷⁰ Department of Foreign Affairs and Trade, *Submission 21*, p. 36.

...there is an inherent sort of feeling that working with an NGO, or even working with a government, is okay and is safe and working with business is much, much riskier and much, much more dangerous, when actually the due diligence you need for both is basically precisely the same.⁷¹

9.76 Discussing potential risk from the perspective of the Government taking a position as small equity partner to encourage private capital, Impact Investing Australia suggested:

... that we do not always talk about the fact that we take quite a lot of risk when we make grants. The money is gone; we hope it is going to do good things, often with the best of intentions.⁷²

9.77 Adam Smith International agreed that working with the private sector carries no greater risk, but added the caveat 'as long as DFAT is adequately equipped to manage the program'.⁷³

9.78 In addition to DFAT's capacity to manage a partnership, partner selection is particularly important. The Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT) reflected on the risks of working with unsuitable partners:

No doubt there are unscrupulous companies and some whose only interest in working with an aid donor is to try and influence government spending decisions in their favour or indeed attract aid money to pay for what they would otherwise have had to do themselves.⁷⁴

9.79 Along these same lines, GRM International suggested that the Australian Government should be aware of the possibility that a business may seek an association with the Government primarily to 'enhance their perceived credibility and environmental or social responsibility'.⁷⁵

9.80 Control Risks, a global risk consultancy, recommended that DFAT's processes should include both an upfront assessment and a requirement for partners to have internal risk management processes in place:

71 Dr Alwyn Chilver, Director Growth Private Sector and Livelihoods, GRM Futures Group, *Committee Hansard*, Canberra, 11 August 2014, p. 33.

72 Ms Rosemary Addis, Co-founder and Executive Chair, Impact Investing Australia, *Committee Hansard*, Melbourne, 15 August 2014, p. 41.

73 Mr Jonathan Pell, Director Asia Pacific, Adam Smith International, *Committee Hansard*, 20 August 2014, p. 57.

74 Australian Trade and Development Business Network (ATAB) and the Institute for International Trade (IIT), University of Adelaide, *Submission 111*, p. 18.

75 GRM International, *Submission 57*, p. [7].

The government should have high quality risk management strategies and vetting procedures in place for assessing both Australian and local business partners to ensure they do not bring unnecessary risk to the government by virtue of their actions or reputation. The government's business partner risk management strategy should include a positive requirement on partner organisations to prove their organisations have sufficient risk mitigation programmes.⁷⁶

- 9.81 Suggesting that international development contractors are 'some of the most highly scrutinised actors in the Australian aid program', URS advocated for 'consistency in expectation of performance in the management of these risks across all implementing partners of the Australian aid program'.⁷⁷
- 9.82 Save the Children Australia agreed with this view and suggested that '[c]ommon standards for the use of Australian aid money should be uniformly applied including fraud control and performance reporting'.⁷⁸
- 9.83 There were concerns raised in the evidence about DFAT's ability to embrace the change in direction of the aid program due to a perceived culture of risk aversion within the organisation. GRM International, observed:
- Risk management is absolutely essential to everything that we do, that DFAT does and so on, so that is completely accepted. I think over the last couple of years that has become really a driving force for decision making rather than just one of the key considerations in a program, which has made people very reluctant to innovate and take chances.⁷⁹
- 9.84 ACFID commended the Foreign Minister's comments on risk when announcing the new development policy as a means to addressing what it perceived to be DFAT's risk aversion. ACFID noted:
- [DFAT's] management culture and structure which does not lend itself well to entrepreneurial activity initially in taking risks...if you are going to play in this private sector space with Australian companies or overseas developing-country businesses, you need to be able to have a higher tolerance for risk and what the private

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

77 URS, *Submission 19*, p. 5.

78 Save the Children Australia, *Submission 38*, p. 13.

79 Mr Kenneth Marshall, Regional Director, Asia Pacific, GRM International, *Committee Hansard*, Brisbane, 11 August 2014, p. 34.

sector might do, and then look at ways that you might align or support it.⁸⁰

- 9.85 The International Development Contractors Australia (IDC), which represents a number of the major contractors currently implementing aid funded programs suggested:

DFAT take up the long standing offer to engage with the IDC to get a shared understanding of the true cost elements of ensuring appropriate service delivery that mitigate key reputation, fraud, corruption and fiduciary risks to the aid program.⁸¹

The Australian Government's current risk management framework for the aid program

- 9.86 Describing its risk management framework, DFAT states:

DFAT considers risk at all stages of the aid management cycle...DFAT undertakes a range of risk management measures including fraud control, partner government system assessments, due diligence assessments, multilateral organisational assessments as well as the application of safeguards on environmental protection, resettlement and child protection.⁸²

- 9.87 One of DFAT's risk management measures is the process of NGO accreditation, which:

...provides DFAT and the Australian public with confidence that the Australian Government is funding professional, well-managed organisations that are capable of delivering quality development outcomes and are accountable to their stakeholders.⁸³

- 9.88 The process of accreditation:

...evaluates an NGO's structure, policies, links to the Australian community, partnership arrangements, program, financial and management systems, and how these are applied. Accreditation is

80 Mr Marc Purcell, Executive Director, ACFID, *Committee Hansard*, Canberra, 14 July 2014, p. 7.

81 International Development Contractors Australia (IDC), *Submission 11*, p. 1.

82 DFAT, 'Safeguards and Risk Management' <www.dfat.gov.au/aid/topics/safeguards-risk-management/Pages/default.aspx> viewed 6 March 2015.

83 DFAT, *Australian NGO Accreditation Guidance Manual 2014* <www.dfat.gov.au/about-us/publications/Pages/australian-ngo-accreditation-guidance-manual.aspx> viewed 12 March 2015.

not an assessment of the quality or impact of an NGO's development activities.⁸⁴

- 9.89 The Department's website states that 48 NGOs are accredited to receive funding under the Australian NGO Cooperation Program.⁸⁵ It also notes that the 'aid program directly funds more than 330 Australian, local and international civil society organisations and non-government organisations.'⁸⁶
- 9.90 ACFID noted that NGO accreditation process is 'a very rigorous system' and advised that DFAT does not have the same requirement for the private sector.'⁸⁷
- 9.91 With respect to commercial partners, DFAT stated that 'in accordance with Australian Government procurement guidelines, [Australian and international] companies are selected through rigorous and competitive tender processes.'⁸⁸
- 9.92 The Department's website provides information for commercial contractors who may wish to work with the aid program. The website includes the *List of Laws, Rules, Guidelines, Codes and Policies for Contractors undertaking Aid Activities for DFAT*.⁸⁹
- 9.93 In addition, the website includes the *DFAT Aid Statement of Principles*, which 'underpins a partnership between DFAT and commercial contractors supporting delivery of the Australian aid program to':
- Deliver lasting results and impact
 - Maximise value for money
 - Work collaboratively and facilitate effective two way communication
 - Be accountable and transparent
 - Effectively manage risk, fraud and corruption

84 DFAT, *Australian NGO Accreditation Guidance Manual 2014* <www.dfat.gov.au/about-us/publications/Pages/australian-ngo-accreditation-guidance-manual.aspx> viewed 12 March 2015.

85 DFAT, 'Who We Work With' <www.dfat.gov.au/aid/who-we-work-with/ngos/ancp/Pages/australian-ngo-cooperation-program.aspx> viewed 6 March 2015.

86 DFAT, 'Who We Work With' <www.dfat.gov.au/aid/who-we-work-with/ngos/Pages/non-government-organisations.aspx> viewed 15 March 2015.

87 Mr Marc Purcell, Executive Director, ACFID, *Committee Hansard*, Canberra, 14 July 2015, p. 6.

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

89 DFAT, *List of Laws, Rules, Guidelines, Codes and Policies for Contractors Undertaking Aid Activities for DFAT* <www.dfat.gov.au/about-us/publications/Pages/list-of-laws-rules-guidelines-codes-and-policies-for-contractors-undertaking-aid-activities-for-dfat.aspx> viewed 12 March 2015.

- Support and implement DFAT policies and procedures.⁹⁰
- 9.94 To better understand the risks inherent in the Australian Government's new approach, the IDC suggested:
- [DFAT] establish a private sector development risk and investment committee to advise on risk and opportunity in private sector development initiatives. To ensure the broader focus of the aid program is considered, we suggest such a committee would benefit from representatives of Department of Foreign Affairs and Trade, the private sector, ACFID and the IDC.⁹¹
- 9.95 The Committee recognises that not all individuals or organisations are suitable partners for the aid program, nor are all projects suitable for funding from the Australian Government. Processes need to be in place to ensure DFAT pursues activities which achieve development outcomes but do not inadvertently work with partners which may not achieve objectives or which damage the reputation of the country.
- 9.96 While new partners and new types of activities expose DFAT to different risks, managing risk in the delivery of aid is not new. The Committee notes that for private sector organisations, requirements are currently embedded in procurement arrangements and contracts. DFAT should build upon existing due diligence, risk management, grant and contracting arrangements in developing any additional requirements for private sector partners.
- 9.97 Further, the Committee suggests that DFAT should engage with current partners, particularly commercial contractors, to hear their response to the effectiveness and cost of implementing current DFAT risk management measures including the implementation of safeguards.

Recommendation 31

The Committee recommends the Department of Foreign Affairs and Trade periodically assess, with their partners, the effectiveness and cost of current risk management measures including safeguards.

90 DFAT, 'Aid Statement of Principles' <www.dfat.gov.au/about-us/publications/Pages/dfat-aid-statement-of-principles.aspx>, viewed 12 March 2015.

91 Mr Mel Dunn, IDC Australia, *Committee Hansard*, Brisbane, 11 August 2014 p. 51.

Due diligence for private sector partners

- 9.98 The due diligence process helps to mitigate the risks associated with partnering. In its submission, DFAT stated that '[i]ts capacity to undertake adequate due diligence will need to reflect the huge diversity in potential new partners'.⁹² Evidence received indicated that this capacity already exists in some portfolio and aid delivery partners.
- 9.99 The Export Finance and Insurance Corporation (Efic) is Australia's export credit agency and one of DFAT's portfolio agencies.⁹³ Efic's General Counsel and Board Secretary advised of the due diligence processes it uses in working with the private sector:
- ...when we initially enter into a transaction, quite a lengthy due diligence process is undertaken in compliance with our OECD obligations to ensure: firstly, that the companies are aware of their obligations; and secondly, that we do enough due diligence to make sure that the people we are entering into the arrangements with are appropriate.⁹⁴
- 9.100 The International Finance Corporation (part of the World Bank Group) highlighted being able to rely on its processes as one of the benefits of partnering with the organisation:
- ...partners not only access over 50 years of development finance experience, but also benefit from IFC's thorough Integrity Due Diligence (IDD) procedures, comprehensive Environmental & Social Performance Standards and rigorous results measurement frameworks.⁹⁵

International instruments, principles and standards

- 9.101 Submissions proposed that underpinning DFAT's engagement with business, and therefore any associated due diligence process, should be an expectation about the conduct of businesses. In particular it was suggested that DFAT only partner with businesses that operate in accordance with the UN Guiding Principles on Business and Human Rights, and a range of

92 DFAT, *Submission 21*, p. 36.

93 'Efic provides financial services and financial solutions to ensure viable commercial export and international business have opportunities to succeed in international markets' – Mr Andrew Hunter, Managing Director and Chief Executive Officer, Export Finance and Insurance Corporation (Efic), *Committee Hansard*, Sydney, 7 November 2014, p. 1.

94 Mr John Hopkins, General Counsel and Board Secretary, Efic, *Committee Hansard*, Sydney, 7 November 2014, p. 5.

95 World Bank Group, *Submission 75*, p. 8.

other international instruments covering human rights, labour standards, the environment and anti-corruption.⁹⁶

- 9.102 Observing that the ACFID Code of Conduct is required for NGO accreditation, Union Aid Abroad - APHEDA suggested '[it] be adapted and applied to bilateral and private sector partner stakeholders.'⁹⁷ Others, including Save the Children Australia, suggested the 'Australian Government should assure itself of the commitment of private companies to doing business responsibly by adhering to global frameworks'.⁹⁸
- 9.103 Supporting a similar position, World Vision Australia noted that '[a] company's ability to create or extract value for communities, countries and their environment is closely correlated to their capability and commitment to embedding best practice standards'.⁹⁹ It also advocated for the use of global standards, as they:
- ...provide guidance to companies on the performance expected of them when operating internationally and in contexts with different legal, social and economic risks and drivers... They provide some rigour to what may otherwise be a subjective interpretation of the responsibility of business in society.¹⁰⁰
- 9.104 This view was also supported by ACFID who suggested DFAT:
- Utilise and build on existing global standards of good practice for private sector engagement including the OECD Guidelines for Multinational Enterprises; the UN Guiding Principles on Business and Human Rights and the 10 Principles outlined by the UN Global Compact.¹⁰¹
- 9.105 According to UN Global Compact Network Australia, in May 2014 there were over 8,000 business signatories to the Compact.¹⁰² The Network advised that there were 112 signatories in Australia – '30 corporates, over 40 SMEs, approximately four business associations, eight universities and some other academic institutions, and about 25 non-profits'.¹⁰³

96 World Education, *Submission 121*, pp. 1-2; ACFID, *Submission 52*, pp. 5-6; UN Global Compact Network Australia, *Submission 79*, p. 3. Human Rights Law Centre (HRLC), *Submission 118*, p. 7.

97 Union Aid Abroad - APHEDA, *Submission 46*, p. 8.

98 Save the Children Australia, *Submission 38*, p. 13.

99 World Vision Australia, *Submission 36*, p. 18.

100 World Vision Australia, *Submission 36*, pp. 18-19.

101 ACFID, *Submission 52*, pp. 5-6.

102 UN Global Compact, *Submission 79*, p. 1.

103 Ms Alice Cope Executive Manager, Global Compact Network Australia, *Committee Hansard*, Sydney, 20 August 2014, p. 28.

- 9.106 Referring to the jointly developed UN Global Compact and UN Women *Women's Empowerment Principles*, the Network suggested:
- They provide a platform through which the Australian Government could help ensure that any expansion of the private sector's role in development has positive outcomes for women, men, children and communities.¹⁰⁴
- 9.107 Other principles and standards target specific sectors, in particular extractive industries and the financial sector, or investors. These include the Extractive Industries Transparency Initiative (EITI) and the Equator Principles.¹⁰⁵
- 9.108 The Chief Executive Officer of Oil Search responded to a question on the value of codes of conduct for business and participation in EITI by explaining:
- [t]his is not a tick box for us; this is not something that we do just because we can put a little plaque on the wall or put it in our sustainability report...I think that most sensible reasonable companies will do [participate in the EITI] and have an obligation to do it.¹⁰⁶
- 9.109 The Committee notes that the Australian Government is the leading financial supporter globally of the Extractives Industry Transparency Initiative, and that the Government is currently undertaking a pilot within the Australian resources sector. Evidence indicated strong cross-sectoral support for Australia to promote this measure, including from the Minerals Council of Australia and its members.

104 UN Global Compact Network Australia, *Submission 79*, p. 2.

105 Adam Smith International, *Submission 17*, p. 6, Transparency International, *Submission 41*, pp. 2–3, Oxfam Australia, *Submission 72*, p. 20; Mr Frank Maiolo, Managing Director, South East Asia and International Development, URS, *Committee Hansard*, 11 August 2014, p. 54.

106 Mr Peter Botten, CBE, Managing Director, Oil Search Ltd *Committee Hansard*, Canberra, 29 August 2014, p. 9.

Recommendation 32

The Committee recommends that:

- subject to a successful conclusion of the pilot, the Australian Government adopt and implement the Extractives Industry Transparency Initiative; and
- Australian aid engagement should prefer companies in the extractives sector which support the Extractives Industry Transparency Initiative.

9.110 Outlining its use of global standards and sector specific frameworks to guide its operations with the private sector, the World Food Programme advised:

The context for work with the private sector is provided by the United Nations Global Compact, which guides United Nations organisations in engaging with businesses while ensuring the integrity and independence of the United Nations system. The ‘Guiding Principles for Public–Private Collaboration for Humanitarian Action’ issued by the World Economic Forum (WEF) and the United Nations Office for the Coordination of Humanitarian Affairs (OCHA) provides a complementary framework.¹⁰⁷

Global standards— implications for small businesses

9.111 While there was general support for the Australian Government to require that private sector organisations adhere to these high level operational standards, there were concerns that this could exclude some organisations, such as microenterprises and SMEs, particularly in developing countries, from working with Australia’s aid program. The IDC noted:

For larger businesses that are investing internationally these practices are often a core part of their business and they have the resources to comply with them. For the medium to smaller size businesses this task can be daunting and they require support to navigate the necessary requirements.¹⁰⁸

9.112 Control Risks also considered the implications for SMEs:

¹⁰⁷ World Food Programme, *Submission 90*, p. 3

¹⁰⁸ IDC, *Submission 11*, p. 17.

...the pre-entry barriers and the challenges faced post-entry are often beyond those that SMEs have the resources to handle alone... Control Risks suggests the government considers how it may be able to provide more assistance to SMEs in dealing with these risks.¹⁰⁹

Demonstrating commitment to standards

- 9.113 The Committee recognises that businesses can demonstrate their commitment to non-financial standards, including by:
- reporting on their goals using common standards such as those developed by the Global Reporting Initiative;
 - joining the UN Global Compact, which requires companies to align their operations and strategies with ten universally accepted principles in the areas of human rights, labour hire, environment and anti-corruption, and to report on this commitment;
 - becoming a member of the BCtA; and
 - having their products certified as meeting international standards by organisations such as Fairtrade.
- 9.114 However, in order to be meaningful the compact, principle or standard must have value and relevance in the marketplace, and be able to reflect the performance of that enterprise or company.

¹⁰⁹ Control Risks, *Submission 74*, p. 6.

Recommendation 33

The Committee recommends the Department of Foreign Affairs and Trade:

- ensure staff have a highly developed expertise in, and understanding of, international standards and guidelines for business operations, particularly in those sectors which are priorities for the aid program; and
- be able to identify opportunities and connect businesses in Australia and overseas to global platforms, processes and frameworks, for example, the UN Global Compact.

Monitoring and evaluating results

9.115 The need for effective monitoring and evaluation of aid activities was widely acknowledged. The North-South Institute drew attention to the ‘gap in the availability of information on the effectiveness of particular partnership models and their results.’¹¹⁰ It suggested that ‘the establishment of clear monitoring and evaluation criteria that can demonstrate the value added of collaborative efforts are critical.’¹¹¹

9.116 With respect to individual activities, Coffey observed:

It is also important to recognise that not everything that has been trialled has worked well, and in many cases there have been variable efforts at monitoring and evaluation. Projects are operating in challenging environments so it is important that any new programs have a strong monitoring and evaluation plan in order to learn lessons from both success and failure.¹¹²

9.117 In setting up frameworks to monitor programs and evaluate their effectiveness, a number of submissions urged the Australian Government to be realistic about what outcomes it can expect and the extent to which it is able to claim responsibility for those results. Cardno reflected on these issues in the context of growing the private sector:

This might seem an obvious point, but [DFAT’s] strategy needs to acknowledge explicitly the sheer size and scope of the economic

110 North-South Institute, *Submission 85*, p. [2].

111 The North-South Institute, *Submission 85*, p. 3.

112 Coffey, *Submission 35*, p. 5.

growth and private sector development endeavour relative to the limited resources that a donor has at its disposal for this purpose. In an endeavour as large and complex as private sector development, donors need to be comfortable with the many agents, risks and factors that they cannot control and that complicate the donor's ability to directly produce, measure and claim results.¹¹³

- 9.118 Stakeholders also expressed concerns that contracts and the criteria for assessment of outputs under the aid program should not focus on short term goals. For instance, Pacific Islands Trade and Invest commented on the time taken to achieve development goals:

Our final point urges Australian stakeholders to take a patient approach to economic growth and poverty reduction in the Pacific Islands. ... This is especially so when compared to high growth regions such as South or Southeast Asia that benefit from vast economies of scale not found in the Pacific Islands.¹¹⁴

- 9.119 Further to this, evidence suggested that long term evaluations (a five year period was frequently cited) followed by further evaluation one or two years later would allow for a more realistic assessment of effectiveness, reflective of development cycles.¹¹⁵

- 9.120 The Global Reporting Initiative (GRI) suggested that 'measuring the success of private sector development in enabling sustainable economic development must involve a transparent and accountable approach'. GRI argued for the adoption of international best practice.¹¹⁶

- 9.121 Outlining its intentions for monitoring and evaluation of private sector development programs, DFAT stated that it will:

... use fit-for-purpose monitoring and evaluation systems that enable the department to make faster and better decisions on what is working and what is not so it can respond accordingly.¹¹⁷

113 Mr Mark Pruden, Cardno Pty Ltd, *Committee Hansard*, Canberra, 15 August 2014, p. 18.

114 Pacific Islands Trade and Invest, *Submission 60*, p. 8.

115 Mr Geoffrey Schahill, General Manager, Abt JTA Pty Ltd, *Committee Hansard*, Brisbane 14 August 2014, p. 20; Ms Carly Stephan, Centre for Social Change, *Committee Hansard*, Canberra, 11 August 2014, p. 30; Mr Christopher Rowlands, Manager, Social Entrepreneurship and Economic Development Unit, World Vision Australia, *Committee Hansard*, Canberra, 15 August 2014, p. 12.

116 Global Reporting Initiative, *Submission 148*, p. 3.

117 DFAT, *Submission 21*, p. 3.

9.122 Rather than seeing monitoring as a report that is delivered once a year, GRM advocated for monitoring to become an integral way in which to improve the effectiveness of aid activities:

...generate really hard evidence as you go – this whole learning agenda, result measurement and result management in real-time... there are systems now in place, and GRM is adopting and adapting those across its portfolio...it is not the report at the end of the year that you submit to AusAID, or DFAT now, saying, 'We've done this; we've achieved this'; it has got to drive day-to-day decision making just like corporates do.¹¹⁸

9.123 Coffey also reflected on how donors involved in private sector development now have tools for monitoring:

Development practitioners now have the tools and experience to improve performance significantly. A number of good practice frameworks (including the [Donor Committee for Enterprise Development] DCED Standard) exist and programs are actively working to improve their monitoring. Both donors and companies benefit from investing in results measurement. Donors learn about the effectiveness of the partnerships, what works and do not, how partners should be selected. Companies access market information to inform their own performance and how it can be improved.¹¹⁹

9.124 The DCED Standard referred to by Coffey is explained below:

The DCED Standard is a framework to assist practitioners articulate their objectives and systematically set and monitor indicators which show whether events are occurring as expected. It consists of eight steps:

- Articulating the Results Chain
- Defining Indicators of Change
- Measuring Changes in Indicators
- Estimating Attributable Changes
- Capturing Wider Change in the System or Market
- Tracking Programme Costs
- Reporting Results
- Managing the System for Results Measurement.¹²⁰

118 Dr Chilver, GRM Futures Group, *Committee Hansard*, Canberra, 11 August 2014 p. 34.

119 Coffey, *Submission 35*, p. 9.

120 Summarised from: <www.enterprise-development.org/page/implementing%20standard> and *Guidelines to the DCED Standard for Results Measurement: Defining Indicators of Change* <www.enterprise-development.org/page/download?id=2132>, viewed 12 March 2015.

- 9.125 In parallel to corporate financial reporting requirements, Collabforaction noted developments in corporate non-financial reporting, and referred to two broad frameworks for reporting – the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines and the International Integrated Reporting Council’s Integrated Reporting Framework.¹²¹
- 9.126 The Committee received evidence from the GRI Focal Point for Australia, stating that it ‘has established alignment with key frameworks and indices including CDP (formerly the Carbon Disclosure Project), UN Global Compact, OECD Guidelines and ISO 26000, among others’, and noted that the guidelines:
- ...are a practical tool for business to identify sustainability impacts through a multi-stakeholder engagement process, enhance their management and externally demonstrate accountability and transparency towards their stakeholders. The Guidelines provide measures across economic, environmental, social, human rights, labour practices and product responsibility aspects.¹²²
- 9.127 The GRI’s work is being used to help measure the contribution of business to the forthcoming Sustainable Development Goals:
- Given one of the Sustainable Development Goals will focus exclusively on the role of business, GRI has formed a partnership with the UN Global Compact and the World Business Council on Sustainable Development (WBCSD)...GRI’s role in the partnership is to support transparency and accountability convening measurement practices, reporting standards and certification schemes.¹²³
- 9.128 Business operations, organisations operating in different sectors, those addressing specific challenges, and those producing specific products have developed specialised reporting requirements and indicators to measure progress. Global platforms have also been working to improve measurement. BCtA described its recent efforts using a mobile-enabled data collection tool embedded in daily operations of member companies to collect data and allow donors, BCtA and the member company to track their economic and development impact.¹²⁴

121 Collabforaction, *Submission 80*, p. 2.

122 Global Reporting Initiative, *Submission 148*, p. 3.

123 Global Reporting Initiative, *Submission 148*, p. 3.

124 Business Call to Action, *Submission 124*, p. [3].

- 9.129 Using its operations as an example, IDH The Sustainable Trade Initiative provided details of its use of a combination of donor led and business led measuring and results reporting:

IDH developed its overall intervention logic in accordance with the Standard for Measuring Results in Private Sector Development of the Donor Committee for Enterprise Development (DCED). Programme performance is measured on four result areas and corresponding key performance indicators. These are based on (among others) GRI environmental indicators, ILO standards and OECD guidelines... impact and performance are assessed by credible, independent third parties... Through dissemination of publications, thematic studies, best practice documents and other types of outreach, IDH contributes to wider knowledge generation.¹²⁵

- 9.130 The Committee considers that measuring the performance of aid activities should take into account the long term nature of development, as well as meaningful short term goals. Appropriate indicators, particularly to assess the effectiveness of programs on gender outcomes, need to be developed. An effective system must ensure that indicators can be measured, including social outcomes, and partners have the capacity to do so.
- 9.131 In addition to information generated through partnerships or activities, the Committee notes that data collected by other organisations can also be very useful in determining the success or failure of Australian aid and in making decisions about future funding. DFAT needs to ensure its networks support the collection and use of this information.

The importance of data collection

- 9.132 The Minister for Foreign Affairs stated 'data is key – if you can't measure it you can't do it'.¹²⁶ Measuring outcomes from activities needs to be done in a way that is both meaningful and able to demonstrate value for money to Australians.
- 9.133 Noting the gap in available data in developing countries, the Minister for Foreign Affairs announced that one of the first initiatives of the innovationXchange would address this:

... a US\$100 million partnership with Bloomberg Philanthropies on 'Data for Health'...will build the capacity of governments in

125 IDH The Sustainable Trade Initiative, *Submission 84*, p. 7.

126 The Hon Julie Bishop MP, 'Address to 10th anniversary of WaterAid Australia', *Speech*, delivered 25 March 2015.

developing countries to collect and use vital health information to build better health systems. This focus on using information to drive decision-making is a traditional blind spot in development. It seems basic, but it can change everything if we have both the right data and the knowledge to use it properly.¹²⁷

- 9.134 However, in many developing countries across the Indo-Pacific collecting data is a real challenge, both in terms of availability and integrity. The Australian aid program should continue to contribute to improved data collection and use across the region. The new health data collection supported through our ODA will be of great assistance. As it matures, similar projects to collect data across other sectors should be considered.

Recommendation 34

The Committee recommends that the Australian Government:

- continue to support improved aid-related data collection and use in policy-making with governments of countries in the Indo-Pacific region, particularly in relation to gender outcomes; and
- evaluate the performance of the 'Data for health' initiative as soon as practicable with a view to replicating this model in other sectors inhibited by data paucity, for example education – school participation and attainment.

Coordinating effort between donors

- 9.135 A need for better co-ordination between donors and across programs was reflected in Carnival Australia's statement that DFAT should:

...find clearer points of differentiation with other governments and aid bodies (eg. NZAid) and help guide the private sector down the most appropriate path – where presently there exists mass confusion over responsibilities and jurisdictions¹²⁸

127 The Hon Julie Bishop MP, Minister for Foreign Affairs, Address to launch of innovationXchange, Canberra, *Speech*, delivered 23 March 2015.

128 Carnival Australia, *Submission 65*, p. 2.

9.136 With respect to programs aimed at supporting SMEs in the Pacific, the Foundation for Development Cooperation stated:

Ironically, the array of similar business and market-related programs offered by different agencies and governments intended to build the private sector, can be confusing and frustrating for business...but coordination and communication between initiatives is limited leading to a fragmentation of effort in engaging business, and presenting a challenge to business in identifying which program to support or participate in, and then keeping up with varying compliance requirements.¹²⁹

9.137 At the individual program level, GRM International observed that the lack of donor co-ordination could impact on effectiveness of aid activities:

Often well-intended support to local businesses or capacity development of service providers can distort local markets and undermine the development of sustainable services. Giving away free advice, products and other services may be well meant, but is rarely sustained and usually limits and delays the emergence of a healthy and sustainable market for those products and services. It is all too common for one market-friendly program to be undermined by a donor or charity that insists on direct, free provision. Ensuring intervention teams are alert to these risks, and encouraging coordination, discussion and debate of these issues amongst development actors is essential to ensure effectiveness...¹³⁰

9.138 With reference to the Pacific, Dr Newton Cain suggested 'we would hope to see a real commitment to donor integration and cooperation, as envisaged by the Cairns Compact [on strengthening development coordination in the Pacific].' However, Dr Newton Cain observed:

[t]here is certainly more scope for domestic actors (governments, business groups, civil society) to drive greater integration from their side of the fence and also lead by example ... However, the current reality is that this type of activity is not well established in Pacific island countries, whether in this arena or others.¹³¹

129 Foundation for Development Cooperation, *Submission 78*, p. 7.

130 GRM International *Submission 57*, p. 6.

131 Dr Newton Cain, Lowy Institute for International Policy, *Submission 82*, p. 7.

9.139 The Australian Strategic Policy Institute provided a practical suggestion to address this lack of coordination:

Since Australian businesses have complained they find the array of similar business and market-related aid programs offered by different bodies confusing, a register or prospectus of aid projects could be developed to discuss where businesses might add value.¹³²

9.140 The Committee recognises that Australia is well-regarded for its public service capacity building and private sector development activities, particularly in the Pacific. However, countries in receipt of Australian development assistance are sovereign nations; they determine and implement their own policies and programs and receive support from a range of other donors. The need to minimise duplication through effective coordination cannot be overstated.

Branding and communicating the contribution of Australian aid

9.141 Many Australians are not aware of the success stories of Australia's aid program. There was a strong consensus in the evidence that more needs to be done to badge our contribution in donor countries and to transmit information about the Australian Government's development activities to the Australian public and business community.

9.142 According to DFAT:

Branding remains a key mechanism for enhancing the visibility of the Australian Government's international development initiatives. It is a powerful tool in the diplomatic toolbox, one that demonstrates Australian aid in action, reinforces Australia's standing as a good neighbour, and strengthens the aid program's contribution to wider foreign policy objectives. It also gives the Australian public a tangible and clear indication of where taxpayer dollars are being spent.¹³³

9.143 Jacobs noted with respect to building projects funded by the Australian government, that:

¹³² Australian Strategic Policy Institute, *Submission 112*, p. 5.

¹³³ DFAT, *Submission 21*, p. 35.

From the projects I have visited on site over the last 10 years or so, I do not think there is a significant investment in building the profile of those jobs, where they come from and what they are trying to achieve...It is certainly not overtly built into the contracts uniformly that we would do. There is an opportunity, because a number of the things that we have done in the past have been high profile in a range of locations.¹³⁴

- 9.144 Several submissions highlighted that recognition of aid efforts goes beyond branding. Indonesia is the largest recipient of Australian Aid, yet the Australia and New Zealand Banking Group Limited advised:

... a number of the business leaders in Indonesia were saying that we were missing an opportunity to direct more of the activities of a substantial amount of money we deliver to that country into areas where we felt we could achieve a stronger influence in terms of outcomes and seeing that it was Australian money at work. We are probably less focused on showcasing what we do as a country for those countries than other aid donors who are more targeted and take more credit for what they do within country.

...

I am not saying that government-to-government they do not appreciate it. It is a question of how widely it is understood what our contribution as a country is. Certainly that was the feedback we were getting from senior Indonesian businessmen. We were highly regarded and highly effective in terms of what we do, but we go about it quietly.¹³⁵

- 9.145 Discussing how to ensure awareness of aid funding, Impact Investing Australia emphasised that it is 'about telling the story'. In the context of impact investing and social impact bonds Impact Investing Australia founder Ms Addis advised:

Around any of these things there is going to be a process, and there is an opportunity to badge that, I think, in the strength of the partnerships. If we are choosing partners effectively and working out how to work together, then not only will you build into it about it being respectful, where everybody is acknowledging the contributions, but also people will want to tell those stories, because everyone is still working out how to do this well, and so,

134 Dr Michael Shirley, Group Vice President, Infrastructure and Environment, Jacobs, *Committee Hansard*, 15 August 2014, p. 37.

135 Mr Graham Hodges, Deputy Chief Executive Officer, Australia and New Zealand Banking Group Limited, *Committee Hansard*, Melbourne, 15 August 2014, p. 26.

as to actually creating some demonstrations where the Australian government is in the mix.¹³⁶

9.146 As to more effective promotion of Australia's aid program, IDC suggested DFAT leverage its network of members:

Our Members and the private sector more generally, have a necessary requirement to positively promote their activities and their achievements. A more effective partnership-type approach to promoting the focus and achievements of the aid program and the efforts of those implementing the program's activities to achieve those results (private sector contractors in many cases) might benefit the public diplomacy imperatives of the Government, including domestic priorities.¹³⁷

9.147 Better branding is one method of enhancing the visibility of the Australian Government's international development initiatives, including with better signage, activity websites and documentation. The Committee recognises that requirements for Australian branding may differ across partners, project and countries. However, every opportunity should be taken to maximise the exposure of the good work of Australian aid. Periodic reviews on the effectiveness of existing approaches should be undertaken.

9.148 Noting that the aim of the aid program is to help move a country from aid dependence to being a trade and investment partner, DFAT should explore options to co-brand aid funded activities with the Building Brand Australia Program – Australia Unlimited, administered by Austrade.

Recommendation 35

The Committee recommends that the Australian Government market its aid effort in a more effective and powerful way, including by:

- **reviewing and improving the effectiveness of its current international signage and branding; and**
- **developing effective ways to co-brand 'Australian Aid' and 'Australia Unlimited' to maximise recognition and benefits.**

9.149 A better communications strategy for the aid program needs to be developed. The Committee is of the view that this strategy should

¹³⁶ Ms Addis, Impact Investing Australia, *Committee Hansard*, 15 August 2014, p. 43.

¹³⁷ IDC, *Submission 11*, p. 4.

recognise that there are a wide range of stakeholders with varying levels of understanding and interests in the activities of the aid program and the work of the DFAT. In developing the strategy, DFAT should consider whether the department is effectively reaching out to:

- the Australian public, including the business community and school children;
- stakeholders in countries in which the aid program operates;
- current and potential aid delivery partners;
- other donors; and
- those with in-depth knowledge of aid and development, e.g. think tanks and academics.

- 9.150 The Committee recognises the value of complementary approaches to ensuring the visibility of Australia's aid program. The Committee commends the release of the new DFAT publication – *Business Envoy* – as a means to capture business information from countries within the region and to engage with business.
- 9.151 With the integration of aid and the elevated role of the private sector, DFAT can use this magazine to gather feedback and information about the business sector, as well as include news and opportunities for and about business relevant to Australia's aid program.
- 9.152 The Committee notes that the aid publication *Focus* ceased at the time of the departmental merger. A dedicated aid publication, online or hardcopy, to replace this should be considered.
- 9.153 Specific stakeholders could also be targeted, for example by communicating aid program successes through global knowledge hubs, networks and groups of which Australia is a member.

Recommendation 36

The Committee recommends that the Department of Foreign Affairs and Trade develop and implement as a matter of priority a new communications strategy for the aid program. This strategy should recognise:

- **the wide range of stakeholders who have varying levels of understanding and interest in the activities of Australia's aid program; and**
- **that a key stakeholder is the Australian taxpayer.**

- 9.154 The Australian Government is committed to transparency across the aid program and there is a wealth of information available through DFAT's website. However, this can be difficult to navigate. Other donors including the US, Canada and multilateral organisations provide detailed program information and downloadable data.
- 9.155 Portfolio agencies appear to have clear entry points on the front pages of their websites for anyone interested in finding out more about the agencies' work and how the private sector can access or apply for program assistance, register and tender for projects.
- 9.156 The Committee concludes that DFAT should consider ways to increase visibility on its website both in relation to access to data, and 'how to engage with the department', and create a dedicated engagement portal.

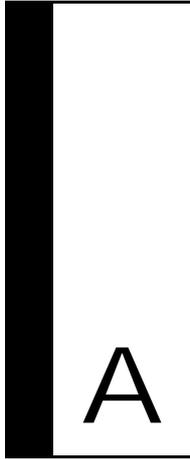
Recommendation 37

The Committee recommends that the Department of Foreign Affairs and Trade make clear that 'Australia is open for business partnering' on its website. Specifically, the Department should:

- **increase cross-promotion with relevant portfolio agencies to engage with business and capture opportunities which target development;**
- **test the website on a range of stakeholders, particularly those outside the traditional base, to ensure value and ease of access; and**
- **monitor and report on the usage of the engagement portal with a view to continuous improvement.**

Hon Dr Sharman Stone MP
Chair
Foreign Affairs and Aid Sub-Committee
17 June 2015

Hon Teresa Gambaro MP
Chair
Joint Standing Committee on
Foreign Affairs, Defence and Trade
17 June 2015



Appendix A—List of Submissions

- 1 Dr Danielle Logue, UTS Business School, University of Technology, Sydney
- 2 UNAIDS Regional Support Team Asia and the Pacific
- 3 Manufacturers Association of Tonga
- 4 Holland Commodities International Pty Ltd
- 5 Abt JTA
- 6 Grace Mutual Limited
- 7 Fairtrade Australia and New Zealand
- 8 ChildFund Australia
- 9 Burnet Institute
- 10 Business for Social Responsibility
- 11 International Development Contractors
- 12 Office of the Chief Trade Adviser
- 13 Sabin Vaccine Institute
- 14 The Fred Hollows Foundation
- 15 DelAgua Health
- 16 International AIDS Vaccine Initiative
- 17 Adam Smith International
- 18 Micro Enterprise Development Programme
- 19 URS Corporation
- 20 Cardno Emerging Markets
- 21 Department of Foreign Affairs and Trade
Attachment 1 Department of Industry
Attachment 2 AUSTRADE

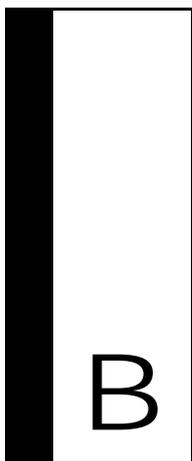
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- 22 Australian Centre for International Agricultural Research
 - 23 Accenture
 - 24 Mentor MicroBank Foundation
 - 25 The Asia Foundation
 - 26 Kiribati Chamber of Commerce and Industries
 - 27 Secretariat of the Pacific Community
 - 28 Woolworths Limited
 - 29 Aeras
 - 30 Australia Africa Business Council (Vic)
 - 31 Mr Richard Willcock
 - 32 TAFE Directors Australia
 - 33 Marie Stopes International
 - 34 Vision 2020 Australia
 - 34.1 Vision 2020 Australia - Supplementary submission
 - 35 Coffey
 - 36 World Vision Australia
 - 37 Australian Volunteers International
 - 38 Save the Children Australia
 - 39 Chevron Australia Pty Ltd
 - 40 Women's World Banking
 - 41 Transparency International
 - 41.1 Transparency International - Supplementary submission
 - 42 ActionAid Australia
 - 43 CARE Australia
 - 44 AID/WATCH
 - 45 Osaka Gas Australia Pty Ltd
 - 46 Union Aid Abroad - APHEDA
 - 47 Department of Employment
 - 48 Australia and New Zealand Banking Group Limited
 - 49 Pfizer Australia
 - 50 WWF - Australia
 - 51 Overseas Development Institute
 - 52 Australian Council for International Development

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- 52.1 Australian Council for International Development – Supplementary submission
- 53 Embassy of Mongolia in Australia
- 54 Federal Ministry for Economic Cooperation and Development - Germany
- 55 Business Council of Co-operatives and Mutuals
- 56 Jacobs
- 57 GRM Futures Group
- 58 RESULTS International (Australia) Inc.
- 59 Global Alliance for TB Drug Development
- 60 Pacific Islands Trade & Invest
- 61 Dr Taha Chaiechi
- 62 Ducere
- 63 Policy Cures
- 64 Cargill
- 65 Carnival Australia
- 66 Impact Investing Australia
- 67 The Springfield Centre
- 68 Imperial Health Sciences
- 69 Australian Lawyers Alliance
- 70 FIND
- 71 Australia Papua New Guinea Business Council
- 72 Oxfam Australia
- 73 Confidential
- 74 Control Risks
- 75 World Bank Group
- 76 Opportunity International Australia
- 77 International SOS (Australasia) Pty Ltd
- 78 Foundation for Development Cooperation
- 79 Global Compact Network Australia
- 80 COLLABFORACTION
- 81 Medicines for Malaria Venture
- 82 Dr Tess Newton Cain, Lowy Institute for International Policy
- 83 Dr Morris Namoga
- 84 IDH The Sustainable Trade Initiative of the Netherlands

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- 85 The North-South Institute
 - 86 Asian Development Bank- Pacific Liaison and Coordination Office
 - 87 Asian Development Bank - Pacific Private Sector Development Initiative
 - 88 Ernst & Young
 - 89 International Financial Consulting Ltd
 - 90 World Food Programme
 - 91 Australia Pacific Islands Business Council
 - 92 Australia Fiji Business Council
 - 93 Business Millennium Development (B4MD)
 - 93.1 Business Millennium Development (B4MD) – Supplementary submission
 - 94 Australian Business Volunteers
 - 95 Books 4 Botolan
 - 96 Land Equity International
 - 97 Confidential
 - 98 CBH Group
 - 99 MMV and TB Alliance
 - 100 SECMED - Risk 2 Solution Group
 - 101 Australian Federal Police
 - 102 Aspen Medical
 - 103 Mr Robin Davies, Ms Margaret Callan, Development Policy Centre - ANU
 - 104 Oil Search Limited
 - 105 BRAC
 - 106 Centre for Social Change
 - 107 Global Alliance for Improved Nutrition
 - 108 Impact Investment Group
 - 109 Newcrest Mining Limited
 - 110 DAI
 - 111 Australian Trade and Development Business Network
 - 112 ASPI
 - 113 CSL Limited
 - 114 Minerals Council of Australia
 - 115 BUPA Australia
 - 116 Woodside Energy Ltd
 - 117 GHD

118	Human Rights Law Centre
119	Medibank
120	Asian Development Bank
121	World Education Australia
122	IWDA
123	Solomon Islands Chamber of Commerce
124	Business Call to Action Initiative
125	Queensland Government
126	Mr Roland Rich
127	Malaysian Ministry of Foreign Affairs
128	BHP Billiton
129	Embassy of the Socialist Republic of Vietnam
130	United Nations Development Programme - International Center for Private Sector in Development
131	Confidential
132	Confidential
133	Confidential
134	East Timor Eye Program
135	Centre for Mining Development/Sustainable Minerals Institute
136	Center for Strategic and International Studies
137	Confidential
138	Confidential
139	Confidential
140	Confidential
141	Confidential
142	The Global Fund to Fight AIDS, Tuberculosis and Malaria
143	GAVI Alliance
144	Ministry of Planning and Investment Socialist Republic of Vietnam
145	Med-Con Pty Ltd
145.1	Confidential – Supplementary submission
146	Confidential
147	CSIRO Development
148	Global Reporting Initiative - Focal Point Australia
149	National Australia Bank

- 150 Minister for International Development - Canada
- 151 icddr,b
- 152 Alan Beattie Consulting Pty Ltd/People Places Planet Pty Ltd
- 153 Mr Paul Flanagan
- 154 Complex Program Group
Attachment 1 Complex Program Group



Appendix B—List of Exhibits

1. Accenture
Business in Development Study 2012
2. Mentor MicroBank Foundation
Empowering Community Prosperity
3. Impact Investing Australia
G8 Social Impact Investment Forum Outputs and Agreed Actions
4. Medicines for Malaria Venture
MMV at a Glance Developing medicines, defeating malaria
5. Medicines for Malaria Venture
Medicines that matter: Tafenoquine
6. IDH The Sustainable Trade Initiative of the Netherlands
The IDH Aquaculture Program
7. IDH The Sustainable Trade Initiative of the Netherlands
Annex II – Press Releases IDH 2014 Palm Oil agreement to accelerate Indonesian traceable and sustainable palm oil
8. IDH The Sustainable Trade Initiative of the Netherlands
Multistakeholder Partnerships for Business & Development
9. The North South Institute
The Value of Cross-Sector Development Partnerships
10. The North South Institute
Models for Trade-Related Private Sector Partnerships for Development
11. The North South Institute
Investing in the Business of Development

12. The North South Institute
Trade-Related Private Sector Partnerships: Understanding the Models
13. The North South Institute
How to Engage the Private Sector for Development
14. The North South Institute
Mapping Private Sector Engagements in Development Cooperation
15. World Food Programme
Guidelines on Cooperation between the United Nations and the Business Sector
16. World Food Programme
WFP Private-Sector Partnerships and Fundraising Strategy (2013-2017)
17. World Food Programme
Executive Director's Circular (Private Sector Partnerships Division)
18. East Timor Eye Program
First Team Visit July 2000
19. Encompass Credit Union
Association of Asian Confederation of Credit Unions – Organisation Profile
20. Encompass Credit Union
Association of Asian Confederation of Credit Unions – Management Report 2014
21. Opportunity International
Opportunity International Annual Review 2013
22. Opportunity International
Social Performance Report
23. TAFE Directors Australia
Annual Report 2013
24. Policy Cures
Australia's Global Health R&D Investment: Achieving its Potential
25. Policy Cures
Organisation Profile
26. Policy Cures
Creating the Tools of Tomorrow: Investing in Global Health R&D
27. RESULTS International
ACTION Global Health Advocacy Partnership – From Rhetoric to Reality
28. RESULTS International
Under-nutrition in the Land of Rice

29. RESULTS International
Drug-Resistant Tuberculosis
30. Transparency International
Ending Secrecy to End Impunity: Tracing the Beneficial Owner
31. Transparency International
Leaving the Corrupt at the Door: From Denial of Entry to Passport Sales
32. Transparency International
Regulating Luxury Investments: What Dirty Money Can't Buy
33. Transparency International
Combating Illicit Financial Flows: The Role of the International Community
34. Transparency International
Countering Small Bribes: Principles and Good Practice Guidance for Dealing with Small Bribes including Facilitation Payments
35. Transparency International
Anti-Bribery Due Diligence for Transactions: Guidance for Anti-Bribery Due Diligence in Mergers, Acquisitions and Investments
36. Transparency International
Transparency in Corporate Reporting: Assessing Emerging Market Multinationals
37. Transparency International
Business Principles for Countering Bribery: A Multi-Stakeholder Initiative led by Transparency International
38. Transparency International
Curbing Corruption in Public Procurement: A Practical Guide
39. Transparency International
OECD Working Group on Bribery - Annual Report 2013
40. United Nations Development Programme - Istanbul International Center for Private Sector in Development
Barriers and Opportunities at the Base of the Pyramid, Overview, Report
41. DFAT
Assessment of the Economic Impact of Cruise Ships to Vanuatu AUGUST 2014, Summary, Report
42. Ducere
Ducere Business and Management Course Guide 2014
43. Ducere
African Children's Stories 1st-6th Collections

44. Oxfam
Balancing the scales –Using gender impact assessment in hydropower development
45. Oxfam
Women Communities and Mining: The gender impacts of mining and the role of gender impact assessment
46. Oxfam
Community-company grievance resolution: A guide for the Australian mining industry
47. Oxfam
OECD Guidelines for Multinational Enterprises
48. Oxfam
Guiding Principles on Business and Human Rights
49. ANZ
2013 Corporate Sustainability Review
50. ANZ
Moneyminded Report 2013
51. Dr Tess Newton Cain, Lowy Institute for International Policy
Triple Bottom Line Consulting and University of Bath – Practice Brief Two: Designing a challenge fund: important considerations
52. Ernst & Young
The Power of Three Together, governments, entrepreneurs and corporations can spur growth across the G20
53. IWDA
The Economy is like a floating Coconut
54. IWDA
Gender Matters
55. Australian Business Volunteers
Perspectives Winter 2014
56. Australian Volunteers International
Pillars of Peace – Understanding the key attitudes and institutions that underpin peaceful societies
57. Australian Volunteers International
The Right Person for the Job – International Volunteering and the Australian Employment Market

58. ACIAR
ACIAR Annual Report 2012-13
59. ACIAR
Lessons learned from past ACIAR impact assessments, adoption studies and experience
60. ACIAR
Returns to ACIAR's investment in bilateral agricultural research
61. Oxfam
Midterm Evaluation of the Gender Justice Program in Indonesia 2013
62. Oxfam
A Dangerous Diversion
63. IM4DC
Mid-Term Review of International Mining for Development Centre (IM4DC)
64. Abt JTA
The end line study of the Lesotho Hospital Public Private Partnership
65. Abt JTA
The latest progress report for the North Fly Program in Western Province, Papua New Guinea Lesotho Outcome Report
66. Asian Development Bank – Pacific Liaison and Coordination Office
Focus Area Action July 2014
67. Asian Development Bank – Pacific Liaison and Coordination Office
Country Summary Report with Progress Snapshot
68. Asian Development Bank – Pacific Liaison and Coordination Office
Development Effectiveness Report 2013 Private Sector Operations
69. Asian Development Bank – Pacific Liaison and Coordination Office
Technical Assistance Report
70. Asian Development Bank – Pacific Liaison and Coordination
Design and Monitoring Framework
71. Asian Development Bank – Pacific Liaison and Coordination Office
Development Effectiveness Report 2011
72. Asian Development Bank – Pacific Liaison and Coordination Office
Development Effectiveness Report 2012
73. Australian Council for International Development
Independent Commission for Aid Impact – Report 35 – May 2014, DIFD's private sector development work

74. Australian Council for International Development
European Union, Directorate-General for External Policies – Financing for development post 2015: improving the contribution of private finance
75. Transparency International
Bribe Payer’s Index
76. Transparency International
Global Barometer
77. Minerals Council of Australia
Enduring Value – the Australian Minerals Industry Framework for Sustainable Development - Summary Booklet, Self-assessment protocol
78. Fairtrade ANZ
Eurodad, European Network on Debt and Development – A private affair
79. AFP
AFP International Network Map September 2014
80. Impact Investing Australia
Delivering on Impact The Australian Advisory Board Breakthrough Strategy to Catalyse Impact Investment
81. Impact Investing Australia
Impact Investment The Invisible Heart of Markets
82. GAVI Alliance
The 2016-2020 GAVI Alliance Investment Opportunity
83. RESULTS International Australia
From Rhetoric to Reality July 2014
84. RESULTS International Australia
Under-nutrition in the Land of Rice July 2014
85. Accenture
Project Laser Beam - Final report Sept 2014
86. Accenture
Exploring Value Proposition Impact Sourcing
87. Coffey
Scaling Up – From Vision to Large -Scale Change
88. National Australia Bank
Impact Measurement: Exploring its Role in Impact Investing

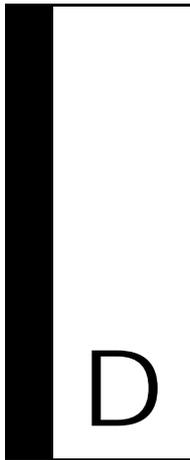


Appendix C—Answers to questions on notice

Answers to questions on notice

1. Asian Development Bank Pacific Liaison and Coordination Office answers to questions on notice from public hearing on 18 June 2014
2. Austrade answers to questions on notice from public hearing on 25 June 2014
3. Australian Council for International Development answers to questions on notice from public hearing on 14 July 2014
4. Abt JTA answers to questions on notice from public hearing on 11 August 2014
5. International Mining for Development/Sustainable Minerals Institute answers to questions on notice from public hearing on 11 August 2014
6. Impact Investing Australia answers to questions on notice from public hearing on 11 August 2014
7. Marie Stopes International answers to questions on notice from public hearing on 15 August 2014
8. Oxfam Australia answers to questions on notice from public hearing on 15 August 2014
9. BUPA Australia answers to questions on notice from public hearing on 20 August 2014
10. Ernst & Young answers to questions on notice from public hearing on 29 August 2014
11. Minerals Council of Australia answers to questions on notice from public hearing on 1 September 2014
12. Australian Volunteers International answers to questions on notice from public hearing on 3 September 2014

13. Export Finance and Insurance Corporation answers to questions on notice from public hearing on 7 November 2014
14. Impact Investment Group answers to questions on notice from public hearing on 7 November 2014
15. World Education Australia answers to questions on notice from public hearing on 7 November 2014
16. Coffey answers to questions on notice from public hearing on 1 December 2014
17. The Global Fund to Fight AIDS, Tuberculosis and Malaria answers to questions on notice from public hearing on 11 February 2015



Appendix D—Witnesses who appeared at public hearings

Canberra, Tuesday, 3 June 2014

Roll Back Malaria Partnership

The Right Honourable Mr Stephen O’Brien MP (United Kingdom), Global Advocate

Mr Herve Verhoosel, Head of External Relations

Canberra, Monday, 16 June 2014

Business for Millennium Development (B4MD)

Mr Mark Ingram, Chief Executive Officer

Mr Michael (John) Cook, Principal Project Consultant

Mr David Faulmann, GM Marketing, Communications & Stakeholder Engagement

Canberra, Wednesday, 18 June 2014

Asian Development Bank

Ms Lakshmi Venkatachalam, Vice President

Mr Jacob Sorensen, Senior Advisor to Vice President, Private Sector and Cofinancing Operations

Ms Sallyanne Shute-Trembath, Senior External Relations Officer, ADB Pacific Liaison and Coordination Office

B20 Australia

Mr Robert Milliner, Sherpa

Canberra, Monday, 23 June 2014

Department of Foreign Affairs and Trade

Ms Rebecca Bryant, Assistant Secretary, Economic Engagement Branch, Trade and Economic Diplomacy Division

Mr Blair Exell, First Assistant Secretary, Development Policy Division

Mr Sam Gerovich, First Assistant Secretary, Trade and Economy Policy Division

Mr Benedict David, Principal Sector Specialist for Health, Development Policy Division

Canberra, Wednesday, 25 June 2014

AUSTRADE

Mr Laurie Smith, Executive Director International Operations

Canberra, Monday, 14 July 2014

Australian Council for International Development

Mr Marc Purcell, Executive Director

Mrs Joanna Pradela, Head of Policy, Aid & Development Effectiveness

Ms Priyanka Sunder, Government Relations Advisor

Brisbane, Monday, 11 August 2014

Trade and Investment Queensland

Mr Sean Bohannon, Senior Trade Officer, International Aid and Development

Mr Adam Stevenson, General Manager, Priority Sectors and Client Services

Sustainable Minerals Institute, University of Queensland

Professor Christopher Moran, Director

University of Queensland Energy Initiative

Professor Christopher Greig, Director

Centre for Social Responsibility in Mining, University of Queensland

Professor Saleem Ali, Director

Abt JTA Pty Ltd

Dr Jane Thomason, Chief Executive Officer

Mr Geoffrey Scahill, General Manager

Centre for Social Change

Ms Carly Stephan, Program Manager

GRM Futures Group

Dr Alwyn Chilver, Director, Growth, Private Sector and Livelihoods

Mr Kenneth Marshall, Regional Director, Asia Pacific, GRM International

Mrs Tara Sands, Business Development Manager, GRM International

East Timor Eye Program

Dr William Glasson, AO, Advisory Board

Foundation for Development Cooperation

Mr Stephen Taylor, Executive Governor and Deputy Chairman

International Development Contractors Australia

Mr Mel Dunn, Chair

Mr Samuel Spurrett, Member of the Executive

URS

Mr Mel Dunn, Vice President International Development

Mr Frank Maiolo, Managing Director, South East Asia and International Development

Impact Investing Australia

Ms Sandy Blackburn-Wright, Co-founder

Melbourne, Friday 15 August 2014**Oxfam Australia**

Ms Pam Anders, Director, Public Engagement

Ms Serena Lillywhite, Mining Advocacy Lead

Ms Daisy Gardener, Corporate Accountability and Fair Trade Adviser

Save the Children Australia

Ms Melissa Wells, Senior Economist

Mr Stephen McDonald, Head of Strategic Partnerships

CARE Australia

Mr Paul Kelly, Principal Executive, International Programs

World Vision Australia

Mr Andrew Johnson, Manager, Political Engagement, Government and Multilaterals Department

Mr Christopher Rowlands, Manager, Social Entrepreneurship and Economic Development Unit

Cardno Pty Ltd

Mr Mark Pruden, International Development Business Unit Manager (Asia Pacific)

Australia and New Zealand Banking Group Limited

Mr Graham Hodges, Deputy Chief Executive Officer

Ms Jane Nash, Group Head, Corporate Sustainability and Financial Inclusion

Jacobs

Dr Michael Shirley, Group Vice President, Infrastructure and Environment

Mr Greg Hoxley, Manager, Service Delivery

Impact Investing Australia

Mrs Rosemary Addis, Co-founder and Executive Chair

Ms Anna Bowden, Executive Manager

Australia Africa Business Council (Vic)

Mrs Diane Fleming, President

Ducere

Mrs Diane Fleming, Executive Director, Ducere Foundation

Ms Shelly Freeman, Consultant

Burnet Institute

Professor David Anderson, Deputy Director and Head, Office for Business Development, Innovation and Research

Professor Robert Power, Head, Centre for International Health

Marie Stopes International

Ms Narelle Magee, Board Director

Ms Maya Goldstein, Policy Adviser

Vision 2020 Australia

Mr Brandon Ah Tong, Director, Policy and Advocacy

Brien Holden Vision Institute Foundation

Ms Stephanie Looi, Global Service Development Manager

Royal Australian and New Zealand College of Ophthalmologists

Dr Laurence Sullivan, International Development Committee Member

CBM Australia

Mr Braedan Hogan, Advocacy and Policy Officer

The Fred Hollows Foundation

Dr Lachlan McDonald, Senior Health Economist

Sydney, Wednesday, 20 August 2014

UTS Business School, University of Technology, Sydney

Dr Danielle Logue, Senior Lecturer

Business Council of Co-operatives and Mutuals

Ms Melina Morrison, Chief Executive Officer

Encompass Credit Union Limited

Mr Brian Bennett, Chief Executive Officer

Opportunity International Australia

Mr Robert Dunn, Chief Executive Officer

Mr Christopher Murdoch, Global Chief Strategist

Mr Mark Phillips, Advisor

Global Compact Network Australia

Ms Alice Cope, Executive Manager

AID/WATCH

Ms Thulsi Narayanasamy, Director

Dr James Goodman, Member, Management Committee

Carnival Australia

Mr Peter Taylor, Vice President, Corporate Affairs

TAFE Directors Australia

Mr Martin Riordan, Chief Executive

Mr Peter Holden, Director, International Engagement

Adam Smith International

Mr Jonathan Pell, Director, Asia Pacific

Dr David Carpenter, Senior Adviser, Research and Evaluation

International SOS

Dr Myles Neri, Group Medical Director, Medical Services

Ms Melissa Lysaght, Director of Corporate Affairs

Ms Sybil Wishart, Government Services Manager

Policy Cures Ltd

Dr Mary Moran, Executive Director

BUPA

Mr John Rizzo, Head of Strategy, Australia and New Zealand

RESULTS International Australia

Ms Maree Nutt, Chief Executive Officer

Mr Mark Rice, Global Health Campaigns Manager

Canberra, Wednesday, 27 August 2014

Transparency International

Mr Pascal Fabie, Group Director, Network, Chapters and Programs

Ms Margaret Murphy, Senior Programme Coordinator, Global Advocacy and Policy

Mr Gregory Thompson, Executive Director International, Transparency International Australia

Canberra, Friday, 29 August 2014

Oil Search Ltd

Mr Peter Botten CBE, Managing Director

Mr Ross Hutton, Manager, Partnerships and Strategy, Oil Search Health Foundation

International Women's Development Agency

Ms Joanne Crawford, Research and Policy Advisor

Ernst & Young

Mr Mark Nixon, Partner

Mr Peter Layton, Executive Director

Professor Stephanie Fahey, Lead Partner

Lowy Institute for International Policy

Dr Tess Newton Cain, Non-Resident Fellow

Development Policy Centre – Australian National University

Professor Stephen Howes, Director

Ms Margaret Callan, Visiting Fellow

Australian Strategic Policy Institute

Dr Karl Claxton, Analyst

Fairtrade Australia & New Zealand

Ms Molly Harriss Olson, Chief Executive Officer

Australian Centre for International Agricultural Research

Dr Nick Austin, Chief Executive Officer

Mr David Shearer, General Manager, Corporate Programs

Dr John Dixon, Research Program Manager, Cropping System and Economics and Principal Adviser Research

Department of Employment

Ms Susannah Smith, Director

Mr Mark Roddam, Branch Manager

Department of Industry

Dr Melissa Louise McEwen, General Manager

Mr Craig Robertson, Head of Skills Policy Division

Canberra, Monday, 1 September 2014

Minerals Council of Australia

Mr Brendon Pearson, Chief Executive

Ms Melanie Stutsel, Director, Health, Safety, Environment and Community Policy

Canberra, Wednesday, 3 September 2014

Australian Volunteers International

Ms Dimity Fifer, Chief Executive Officer

Australian Business Volunteers

Ms Sarah O'Connor, Chief Executive Officer

Canberra, Monday 22 September 2014

Australian Federal Police

Assistant Commissioner Mandy Newton, National Manager, International Deployment Group

Canberra, Thursday, 2 October 2014

Center for Strategic and International Studies

Mr Daniel Runde, William A Schreyer Chair in Global Analysis and Director, Project on Prosperity and Development

Canberra, Monday, 27 October 2014

Accenture Australia

Mr Joshua Kennedy-White, Managing Director

Ms Morgana Ryan, Global Lead, Organisational Strengthening, Accenture Development Partnerships

Canberra, Wednesday, 29 October 2014

GAVI, the Vaccine Alliance

Dr Seth Berkley, Chief Executive Officer

Ms Helen Evans, Special Representative of the Gavi Chief Executive Officer in the Indian Ocean, Asia Pacific Region

Sydney, Friday, 7 November 2014

Export Finance and Insurance Corporation

Mr Andrew Hunter, Managing Director and Chief Executive Officer

Mr John Hopkins, General Counsel and Board Secretary

Mr John Pacey, Chief Credit Officer

NSW Social Investment Expert Advisory Group

Professor Peter Shergold AC, Chair

Australia Pacific Islands Business Council

Mr Greg Pawson, President

Mr Caleb Jarvis, Vice-President

Mr Frank Yourn, Executive Director

Australia Papua New Guinea Business Council

Mr Greg Pawson, President

Mr Peter Taylor, Past President

Mr Frank Yourn, Executive Director

Australia Fiji Business Council

Mr Greg Pawson, President

Mr Frank Yourn, Executive Director

Westpac

Mr Greg Pawson, General Manager, Westpac Pacific

Miss Susanna Robinson, Head of Communications and Sustainability

Pacific Islands Trade and Invest

Mr Caleb Jarvis, Trade Commissioner

QBE Insurance Group

Mr Gary Brader, Group Chief Investment Officer

World Education Australia

Mr Guy Winship, Chief Executive Officer

Impact Investment Group

Ms Jessica Roth, Representative

Small Giants

Ms Mele-Ane Havea, Director of Portfolio

B Lab Australia & New Zealand

Mr Phillip Vernon, Member Representative

Canberra, Monday, 1 December 2014

Coffey

Mr Sam Spurrett, General Manager International Development (Asia Pacific)

Ms Amanda Jupp, Project Manager

Canberra, Tuesday, 3 February 2015

Dame Carol Kidu - Private capacity

Professor Betty Lovai - Private capacity

Canberra, Monday, 9 February 2015

Mr Paul Flanagan - Private capacity

Canberra, Wednesday, 11 February 2015

The Global Fund to Fight AIDS, Tuberculosis and Malaria

Dr Mark Dybul, Executive Director

Mr Bill Bowtell AO, Chief Executive Officer, Pacific Friends of the Global Fund to Fight Aids, Tuberculosis and Malaria