

Supplementary Submission

TO THE JOINT STANDING
COMMITTEE ON FOREIGN
AFFAIRS, DEFENCE AND TRADE



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

SUPPLEMENTARY SUBMISSION TO THE INQUIRY INTO THE ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION, IN RESPONSE TO THE LAUNCH OF AUSTRALIA'S NEW DEVELOPMENT POLICY

Introduction

In June 2014, The Hon. Julie Bishop MP, Minister for Foreign Affairs launched the Australian Government's new development policy, *'Australian aid: promoting prosperity, reducing poverty, enhancing stability'*.

Central to the launch of this policy has been an increased emphasis on the role of the private sector in delivering development outcomes. As articulated by Minister Bishop in her address to the National Press Club, "the private sector is the primary driver of poverty reduction". More specifically, and as articulated by the new development policy, Australia's aid program will focus on:

two development outcomes: supporting private sector development and strengthening human development.

Our focus on private sector development reflects the fact that it is the private sector that is the engine of economic growth. It recognises that people leave poverty when they have the opportunity to develop and use their skills more productively and get a job or a better paid job. With nine out of 10 of these jobs created by the private sector.....

To ensure our aid dollars are used as effectively as possible we will pursue innovative development solutions, including harnessing the capabilities of the private sector to support development¹.

In response to the launch of the new aid policy, Business for Millennium Development (B4MD) has put forward this supplementary submission for consideration by the Joint Standing Committee on Foreign Affairs, Defence and Trade given the complementarity between the scope of the Committee's Inquiry and the strategic private sector focus of the aid policy.

This supplementary submission builds on the recommendations provided in B4MD's previous submission to the Inquiry and seeks to provide committee members with specific examples of how such policy could be implemented in a way that genuinely supports private sector development while also strengthening human development through the modality of inclusive business.

¹ Australia's new development policy and performance framework: a summary, Australian Government, Department of Foreign Affairs and Trade, 2014

Inclusive Outcomes

“All new investments will explore innovative ways to promote private sector growth or engage the private sector in achieving development outcomes”.²

A central element to the future success of Australia’s aid program that seeks to partner more deeply with the private sector is the implementation of inclusive business models that generate mutually beneficial outcomes for private sector actors to flourish, while simultaneously lifting communities out of poverty and ensuring that connections to global markets work in favour of the poor.

To encourage thinking in this regard, B4MD suggests that the committee consider the application of two inclusive business methodologies that have been specifically designed (and put into practice) by B4MD, to achieve these ends.

These methodologies are identified as:

- i. LINC (Long Term Inclusive Commercial Enterprise)**
- ii. Inclusive Business 10-point Checklist**

The application of these methodologies is of direct relevance to one of the aid programs key investment priorities; agriculture³.

As it has been widely recognised, up to 70 percent of people living in extreme poverty are smallholder farmers and therefore, investing in agriculture is the most effective means to reducing poverty. Moreover, with most of these farmers being women⁴, the prioritisation of agriculture and the related food and agribusiness sector provides a close point of alignment with one of the aid program’s high level targets which is to empower women and girls⁵.

1. LINC (Long Term Inclusive Commercial Enterprise)

The LINC model capitalises on the shared interests of poor small holder farmers and food companies to increase yields, throughputs and incomes, while providing community ownership and voice to ensure human development outcomes.

The development of this unique LINC model has been driven by the market dynamic of growing demand for small holder produced commodities. This has necessitated food companies engaging directly with poor farmers in the developing world to lift and secure their supply of critical ingredients while also creating sustainable income earning opportunities for these farming communities.

² Australian aid: promoting prosperity, reducing poverty, enhancing sustainability, Australian Government, Department of Foreign Affairs and Trade

³ *ibid.* page 14.

⁴ Hiroyuki Konuma, FAO Regional Representative for Asia-Pacific, http://www.fao.org/asiapacific/rap/home/about-assistant-director-gen/speeches/detail/en/?speech_id=422, 2013

⁵ Making Performance Count: enhancing the accountability and effectiveness of Australia aid. Australian Government, Department of Foreign Affairs and Trade. Page 9.

On this basis, the LINC acts as the interface and linkage point between the food company and farming communities facilitating the objectives of both groups and ensuring that the needs of both are met. That is, private sector development and human development.

As a commercial yet not for profit entity, the LINC:

- Trains men and women farmers in association with the food company and in so doing addressing gender issues
- Sells farm inputs to poor farmers at affordable prices in association with the food company and as a result increases productivity (in conjunction with farmer training).
- Purchases agricultural commodities from the farmers creating a sustainable income stream and thus ensuring the reduction of extreme poverty
- Sells & ships agricultural commodities to the food company creating linkages to domestic and global markets. This direct linkage with food companies through offtake agreements mitigates barriers to market as well as supports private sector development through new procurement opportunities
- Reinvests profit into the community for social benefit strengthening human development.

Inherent to the success of the LINC as a not for profit entity is the shared voice that both the farmer and food company have.



For more information see attached LINC overview.

2. Inclusive Business 10-point Checklist

Though the LINC methodology charts the model of engagement between small holder farmers and food companies, ensuring that mutual benefits are genuinely achieved, a series of pre qualifier questions need to be asked in order to determine the overall objectives of the relationship between these groups.

As such, B4MD has developed its own *Inclusive Business 10-point Checklist* to ensure that projects under consideration meet predetermined criteria to be accepted as an inclusive business.

An inclusive business is a sustainable business that benefits low-income communities. It is a business initiative that, keeping its for-profit nature, contributes to poverty reduction through the inclusion of low-income communities in its value chain. In simple words inclusive business is all about including the poor in the business process be it as producers, entrepreneurs or consumers⁶

In this regard, the check list acts as an internal 'filter/check and balance system' for B4MD that the project is genuinely an inclusive business venture that has a clearly defined set of objectives that will deliver a range of inclusive outcomes for both the company and poor community.

INCLUSIVE BUSINESS 10-POINT CHECKLIST

- | | |
|-----|---|
| 1. | Is there a clear written statement of mutually agreed intentions which cover both commercial and social objectives of the project? |
| 2. | Is there active and sufficient community voice expressing their approval, co-creation, and ongoing participation in the project? |
| 3. | Does the project have commercially viable, scalable potential to positively impact at least a thousand low-income beneficiaries as measured by the MDGs? |
| 4. | Does the project bring the targeted beneficiaries up to a level of income well above the extreme poverty level of USD\$1.25 per day to at least US\$3 per day, a standard of income recognised as a minimum for a sustainable livelihood? |
| 5. | Is there a clear and deliberate focus on women's economic empowerment? |
| 6. | Do the poor own a legal entity which empowers them to negotiate equitably with the commercial client, own productive assets, and use surplus funds for broader social impact? |
| 7. | Is there sufficient mitigating protection for the targeted low-income beneficiaries against the repercussions of project failure/ exit of the commercial partner? |
| 8. | Does the project have a local NGO/ development partner that works to protect and promote the interests of the targeted beneficiaries, and that is able to objectively monitor and measure development impact? |
| 9. | Is the market opportunity long term in nature (minimum 10 year period)? |
| 10. | Does the project represent a new approach to business for the company, enabling it to access and serve markets in ways not previously achieved? |

⁶ <http://www.inclusivebusiness.org>, WBCSD, 2014.

How can DFAT foster inclusive agribusiness opportunities in line with the new aid policy?

In accordance with B4MD's first submission to the Inquiry, B4MD maintains the position that as a government agency it is not DFAT's role to *start* inclusive businesses. Nevertheless the department can *create* an environment that is conducive to the formation of inclusive businesses. In this regard, the department can prioritise how it will foster inclusive business opportunities as well as adopt a series of frameworks and methodologies that define the types of inclusive business initiatives that it will support in order to deliver on the objectives and priorities of the Government's new aid policy.

- END -



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What is the LINC enterprise model?

B4MD – Enabling Inclusive Business

B4MD have pioneered the LINC model driven by the market dynamic of growing demand for small holder farmer produced commodities. This has necessitated companies engaging directly with farmers to lift and secure their supply of critical ingredients.

The 'Long Term Inclusive Commercial' enterprise model (LINC) facilitates these objectives across fragmented groups of small-holder farmers and meets the needs of both farmers and the related company.

Over time, the LINC model will be applied to different market sectors and different market dynamics. For now, the model is undergoing rapid uptake amongst leading companies such as PepsiCo, Mondelez, Cotton On, Syngenta, Indofood, Olam and Ironbark Citrus.



LINC Enterprise — (Long-term Inclusive Commercial)

Capitalises on the *shared interest* of farmers and buyers to increase yields and disintermediate self interested traders in the supply chain



Trades commodities from a group of farmers to a Company

Reinvests what has traditionally been the traders margin into farm development

Expandable – new farmers are free to join the LINC as providers with the same rights as existing farmer suppliers

Sustainable – the LINC secures its funding through a margin on sales, negating the need for ongoing benevolent funding.

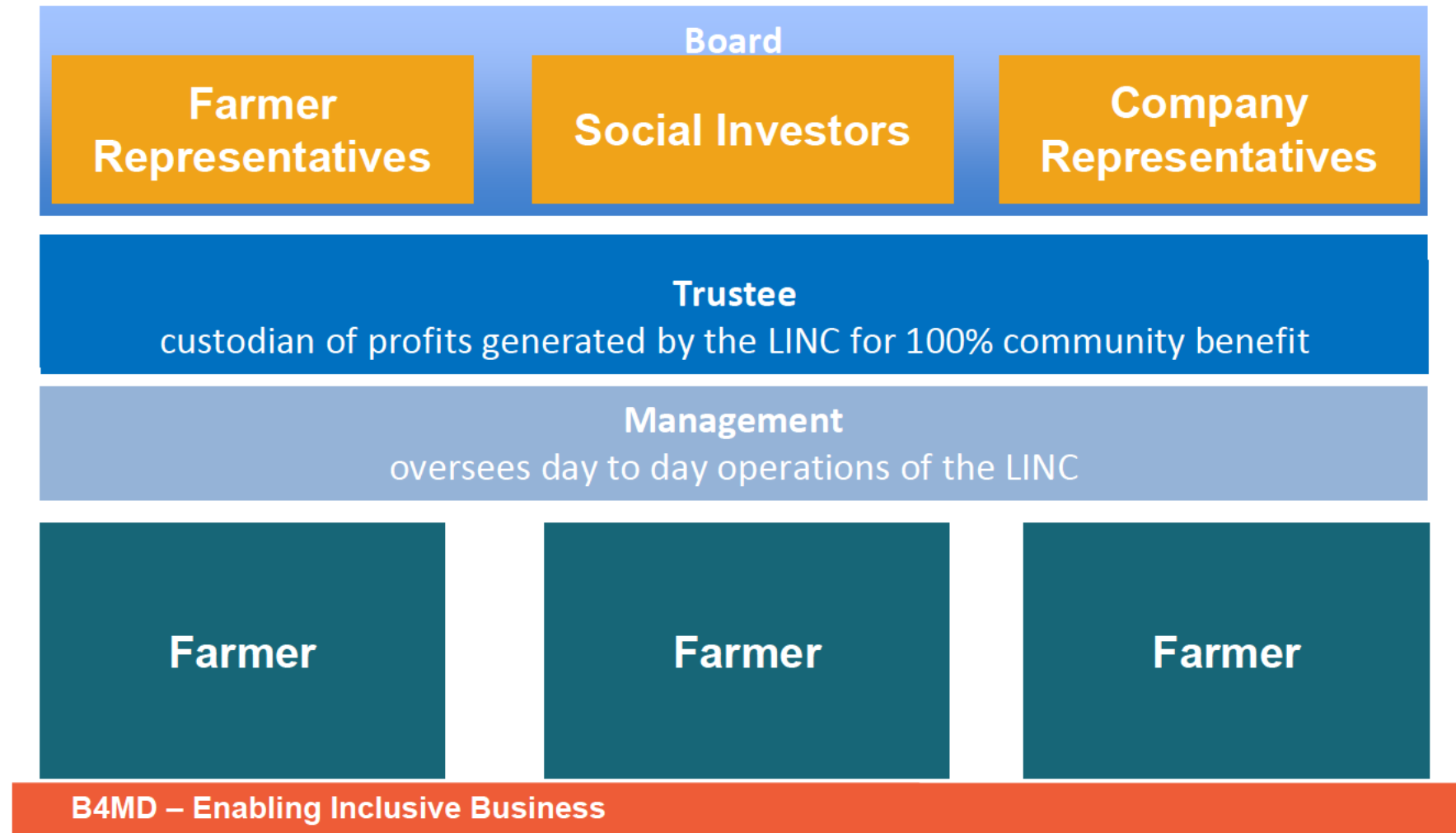
Strengthening Human Development

Supporting Private Sector Development



Governance

The buyer and farmers (or their representatives) govern the LINC entity.
All Board and Management of LINC's will be local nationals with strong social commitment



Funding Sources

The LINC is funded through a number of independent sources who are committed to the social outcomes of the LINC



Golden Mountain Potato Company (Myanmar)

LINC Elements:

- Improved Seed Technology
- Improved Crop Protection
- Improved Irrigation Systems
- Mechanisation
- Aggregated Transportation & Logistics
- Offtake Chip Stock for PepsiCo
- Double Farmer Income

Funding:

- LIFT Funded

Trustee:

- MercyCorps



PEPSICO

Ironbark Citrus (Laos)

LINC Elements:

- Established Nursery
- Introduction of New Seed
- Farmer Training
- Offtake into Thailand
- Replace Cassava
- Australian Farming Systems
- 10x increase in Income

Funding:

- Social Investor Funded

Trustee:

- Ironbark Citrus



Highland Pik Company (Papua New Guinea)

LINC Elements:

- Utilises Overproduced Root Crops
- Unique Feed Formulation
- Establishment of Pig Sheds
- TWL as offtake Partner
- Focus on Women Farmers
- Generation of New Forms of Income

Funding:

- Oil Search Ltd Funded (CSR)

Trustee:

- TBC



OIL SEARCH LIMITED

Kwale Agriculture – Cotton & Potato (Kenya)

LINC Elements:

- Improved Seed Technology
- Improved Crop Protection
- Farmer Training
- Cotton for Offtake Partner Cotton On
- Potato for Offtake Partner PepsiCo
- Generation of New Forms of Income

Funding:

- Base Resources (CSR)

Trustee:

- TBC

syngenta



PEPSICO

COTTON ON



BASE
RESOURCES

LINC is different to...

An NGO, because it doesn't use recurrent donations, but rather grows from a seed capital base, like a normal business.

A Co-Op, because the buyer and social investors are part of the governance structure.

A Trader, because it doesn't exist to make a profit but instead to build farmer productivity.

Direct Procurement, because it seeks to create intentional mutual benefit





What does the LINC Do?

- Engages new farmer communities
- Trains men and women, including providing farming manuals
- Sells farm inputs including seedling and tools
- Provides Microcredit loans and Micro-insurance
- Purchases, ships and sells commodities
- Promotes the social impact behind its business

Trusted Broker's Role

Determine the needs of farmer through consultations and surveys

Prepare business cases for the buyer to sell the merits of the LINC internally

Prepare LINC financial models

Brief government and secured endorsement

Send trial shipments, and preparing LINC quality programs

Recruit LINC management teams