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House of Representatives

Joint Standing Committee on Foreign Affairs, Defence and Trade

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

Submission by IDC Australia

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***“Our aim is to lift the living standards of the most vulnerable people in our region through aid for trade, better health and education outcomes, empowering women and girls and leveraging private sector involvement”***

‘Five billion dollar aid budget to focus on the region’

Media release, Minister for Foreign Affairs

The Hon Julie Bishop MP

January 18 2014

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## SUMMARY OF RECOMMENDATIONS

- 1) DFAT consider approaches that are appropriate for the Indo-Pacific region. Asia and the Pacific may require different approaches that fit with the Australian way of delivering aid and doing business.
- 2) As a precondition for participation, ensure that all private sector stakeholders engaged by the Australian aid program sign up and adhere to crucial gender equity and equality principles that are a prime focus for DFAT's traditional delivery partners (e.g. IDC Members; NGOs).
- 3) Establish a mechanism for private sector / business engagement that is aimed at utilising existing knowledge to generate innovation for private sector development in developing countries.
- 4) Partner with industry and other implementers to more effectively profile and promote the activities and value of the aid program, recognising the delivery (and deliverers) not just the investment.
- 5) The government should develop a detailed communication strategy to describe its approach to engage the private sector in the reduction of poverty in the Indo-Pacific region.
- 6) Engage early and more often with the IDC, and other relevant and experienced private sector stakeholders, in policy and strategy formulation and to draw and learn from the decades of experiences these stakeholders possess.
- 7) DFAT request delivery partners (IDC members, NGOs, multilateral agencies) to review their existing programs to determine where opportunities exist to leverage current aid investments to engage and stimulate private sector investments.
- 8) Forward DFAT programming to include specific indicators to evaluate progress towards and/or achievement of private sector development outcomes. For the current portfolio of Australian aid activities, consideration to include similar indicators, where logical, could be explored.
- 9) DFAT establish a *private sector development risk and investment committee* to advise on risk and opportunity in relation to private sector development activities. The committee could include representatives of DFAT, private sector, ACFID and the IDC.
- 10) 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. Ongoing consideration of such issues could form part of the charter of the earlier recommendation, the establishment of a *private sector development risk and investment committee*.

## **INTRODUCTION**

The IDC welcomes the opportunity to contribute to this Inquiry.

### ***About the IDC***

The IDC was formed in the late 1990s and at that time its prime focus of engagement was with the Australian aid program around the contracting aspects of involvement from the Managing Contractor community. Since this period, and most recently from about 2010, the IDC's focus has been squarely on ensuring that the delivery of development activities is achieved with the greatest impact.

Historically the private sector and specifically members of the IDC have managed the implementation of upwards of 20% of the Australian aid budget. IDC membership has recently been opened to individuals, which is seen as an important evolution to harness other voices of experience to positively contribute to the delivery of better development.

Our members include large multinational organisations, SMEs and individuals, which each bring global experiences, in addition to many years of positive contribution to the initiatives of the Australian aid program. The IDC currently represents a diverse group of 23 private sector implementing partners, ranging from SME's to some employing upwards of 50,000 employees, with the following breakdown: 12 large organisations; 8 SME/Academic-linked organisations; one individual member; and, two members who are also members of ACFID.

Our members are experienced development professionals and practitioners and greater harnessing of this intellect and experience can achieve better development outcomes and ensure aid budgets deliver value and leverage possibilities. Therefore the IDC represents a unique offering to the Australian aid program by being both traditional implementing partners as well as representing private sector interests engaged in our region.

### ***Our approach to this submission***

Our submission will primarily focus on the themes that the IDC considers are most relevant to its experiences. We welcome this more specific focus on the role and value of the private sector in development. The opportunities to accelerate success can be achieved by continuing to deepen a more strategic and partnership approach with DFAT's traditional private sector implementing partners – many of whom are Members of IDC Australia.

We will specifically discuss the following issues highlighted in the TORs:

- 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.
- 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.
- Risks related to current and possible future approaches to enhancing the role of the private sector in development, and their management.

We note that the TORs also highlight that the Foreign Minister seeks the Committee to pay attention to three particular issues, two of which we offer immediate recommendations for consideration:

1. What other donors (new and traditional) are doing in this area

We expect that other respondents will go into greater detail against this theme, including DFAT and hopefully the Office of Development Effectiveness, who we expect have been undertaking research, evaluations and analysis that have informed current thinking and approaches in the Australian aid program. Our comment is more general in nature: while there have been many approaches trialed and deployed, none on their own seem to be the panacea for poverty reduction. While it is useful to learn from past practice, and from the practice of others, it would be a shame for DFAT to not take a lead role in its priority region. This is a region for which the experiences of the Australian aid program are potentially more instructive for future programming options, noting other donor's experiences may not easily or effectively translate to this geography.

**Recommendation 1:** DFAT consider approaches that are appropriate for the Indo-Pacific region. Asia and the Pacific may require different approaches that fit with the Australian way of delivering aid and doing business.

2. The particular role of women in ensuring a thriving private sector

We are pleased this is a priority consideration for it is clear that positive private sector development, economic development/prosperity and their contribution to poverty reduction requires an equitable society and women's leadership. The importance of the role of women, of equity and equality in all its forms, is fundamental to the work of IDC Members. Moving forward and engaging with more and other private sector actors must not overlook the importance of these principles with all private sector development partners engaged by the Australian aid program.

**Recommendation 2:** As a precondition for participation, ensure that all private sector stakeholders engaged by the Australian aid program sign up and adhere to crucial gender equity and equality principles that are a prime focus for DFAT's traditional delivery partners (e.g. IDC Members; NGOs).

Throughout this submission we have drawn on (sometimes re-stated) earlier commentary we have provided, specifically in our response to the recent Senate Inquiry into the Australian aid program. We contend that these points are still relevant for the aid program and particularly the discussion on the role of the private sector in development. We do not feel they were adequately reflected in that Inquiry's final report and hence we are hopeful this Inquiry will explore these issues more deeply.

**COMMENTARY**

As a precursor to all other comments, we believe it is important to discuss the definition of 'private sector' for in the context of the aid program we argue the term is not homogenous. While possibly not exhaustive we view three distinctions in the context of this Inquiry:

1. **Private Sector Implementing Partners:** historically (though incompletely) referred to as Managing Contractors, private sector organisations such as the Members of the IDC continue to be significant contributors to effective development delivery. What seems to have been overlooked in the past is that while this category of the private sector maintains a core focus on development delivery, they are also employers in their own right, many being significant global and regional employers hence making further contribution to the productive sector. Importantly, we understand the aid program, and development more generally, and we speak the language of development and of the private sector.

2. ***The Australian Private Sector***: an increasingly important stakeholder to support the directions of the Australian aid program and in doing so contributing to their own business directions and Australia's national interests. Development, per se, may not be their core business, but this should not diminish the positive contribution that could be achieved. Some of the development delivery principles, such as those applied to the traditional private sector implementing partners, should be incorporated, but not to retard innovation and progress that are beneficial features of the private sector.
3. ***The Private Sector in the Australian aid program's priority region/s***: this must be a fundamental focus for enhancing the role of the private sector. Efforts must continue to focus on this important stakeholder group, in all its forms.

The importance of the private sector to growth in our region is crucial, and we applaud the Government's recognition of the links that exist between aid and trade. The recent structural changes from AusAID into DFAT provides an opportunity to re-think how the new aid program, and its structure, can better support the changing relationships with countries in our region as many of them move from chiefly aid to chiefly trade partners.

Opportunities exist to better utilise the expertise and knowledge of the private sector to assist in formulating innovative new mechanisms that can help underpin these changing relations. This can include means by which private capital could be leveraged alongside aid activities, and also how partnerships between private and non-government sectors can be better facilitated to leverage 'non-financial' capital alongside aid activities.

From an IDC perspective the means to reach-back into our Members' own in-house technical expertise (particularly in areas such as health, infrastructure, governance, trade, environment, and agribusiness) could be better understood. IDC members already play an important role in assisting 'non-aid' private firms with their operations in developing countries, and therefore we feel there is more that could be gained by involving the IDC in business engagement programs and initiatives.

**Recommendation 3:** Establish a mechanism for private sector / business engagement that is aimed at utilising existing knowledge to generate innovation for private sector development in developing countries.

We observe the increasing commentary about the aid/trade/diplomacy intersect and consider this to be useful and important in framing and supporting the future directions of the Australian aid program. Aligned to this are what appears to be a renewed level of vigour and attention to suitably branding, promoting and making visible the efforts and outcomes of the aid program. We consider this has not been undertaken as powerfully as it could have and welcome this new focus.

The IDC believes there is tremendous opportunity to leverage our Members' market presence to support many of the aligned trade and diplomacy objectives. 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.

**Recommendation 4:** Partner with industry and other implementers to more effectively profile and promote the activities and value of the aid program, recognising the delivery (and deliverers) not just the investment.

However, DFAT and its traditional delivery partners require a common understanding of drivers of the private sector and how it can contribute to poverty reduction in the Indo-Pacific region. Likewise others in the private sector require understanding of the principles of good development. Consequently, drawing from the above recommendation and working together, this shared understanding can mitigate initiatives missing the mark through the absence of a shared vision.

**Recommendation 5:** The government should develop a detailed communication strategy to describe its approach to engage the private sector in the reduction of poverty in the Indo-Pacific region.

We acknowledge there have been efforts in the former AusAID in engaging with business as part of a private sector development (business engagement) approach. However, the IDC and its Members were not drawn into this approach; in fact candid comments were that the IDC (traditional private sector implementing partners) were purposefully excluded from this engagement. On its own, that is a shame and in the context of loss of intellectual property loss from the AusAID/DFAT integration one could imagine that private sector knowledge and experience remains a gap.

The IDC provides opportunities for the Australian Government to leverage the broader knowledge base of many of the IDC Members. While many of the IDC Members have parts of their organisations dedicated to development assistance, they also have a wider pool of resources and experience which could be utilised to add greater value to development. The barriers to this occurring need to be considered in order to identify ways of improving this engagement.

**Recommendation 6:** Engage early and more often with the IDC, and other relevant and experienced private sector stakeholders, in policy and strategy formulation and to draw and learn from the decades of experiences these stakeholders possess.

DFAT has at its disposal a range of activities and flexible modalities that could be considered a vehicle to quickly achieve the Government agenda. Some activities such as the *Economic and Public Sector Program* in Papua New Guinea or the *Australia Indonesia Partnership for Economic Growth* in Indonesia are in a good position to support partner governments to achieve organisational or legislative change that would support, increased private sector engagement.

Similarly, *Australia Awards* programs targeting of potential awardees or short course activities provide opportunity with Partner governments to support the building of capacity of organisations to engage the private sector in activity that has poverty reduction outcomes.

**Recommendation 7:** DFAT request delivery partners (IDC members, NGOs, multilateral agencies) to review their existing programs to determine where opportunities exist to leverage current aid investments to engage and stimulate private sector investments.

**Recommendation 8:** Forward DFAT programming to include specific indicators to evaluate progress towards and/or achievement of private sector development outcomes. For the current portfolio of Australian aid activities, consideration to include similar indicators, where logical, could be explored.

In reviewing the role of private sector and identifying ways to improve the benefits of that role, it is also important to recognise some of the ways that the private sector already contributes. For many large firms such as the resources companies, or suppliers such as food, beverage, household goods and consumables, their presence in a poorer country can contribute to job opportunities for local communities as well as support other small companies along the supply chain. The role of the

private sector involvement in development projects also contributes, but using more of capacity building approach.

For example, when an aid program/project is delivered in a target country, local consultants play an important role in supporting any international experts in understanding local context and networks. They also bring an understanding of local approaches. However, their technical skills can be limited in many, although not all, cases. Working with the international team enables local consulting practices to build their own skill sets, with those skills being available after the program/project has been completed. This contributes to the development of the private sector in-country. It also provides further opportunities for international private sector partners to partner with the local firms to seek other projects in country in both the private and government sectors. This approach builds opportunities for the private sector in both the donor and recipient countries. There are numerous examples around the region where the development of the private sector has used the developing assistance sector as a foundation for building their business.

Development projects can also contribute to the stimulation of the economies of surrounding communities, as a result of the support structures required to implement these projects. For example, accommodation, office supplies, office administration, vehicles and drivers, but more importantly through the project related supplies such as equipment and supplies for water, wastewater, waste systems, building materials, and educational supplies. While many of these supplies are sourced from the major centres or internationally, there are also opportunities to build appropriate local suppliers. While these activities can often appear small it all contributes to economic development in a region, supporting poverty alleviation efforts.

However, for all of this potential up-side, one cannot ignore the risk of market distortion that can be created when large aid investments are deployed. Often these are unintended consequences, but disruptive nonetheless. For example, the introduction of the AusAID Adviser Remuneration Framework (ARF) and associated Adviser Support Costs was appropriately a public document. While the ARF did recalibrate adviser remuneration rates, the costs of residential rental in some geographies (notably PNG and the Solomon Islands) seemed to equally be recalibrated (by the local market) to the maximum allowed under the ARF, resulting in increased rental costs. All such risks associated with private sector development programming (human rights and capital alike) require a development approach to ensure no harm is done in the delivery of activities.

Another aspect of the link between private sector development and development assistance is to consider opportunities where some additional development assistance funding could improve development outcomes around a private sector investment. We highlight this via an example. If a resource or manufacturing company is to invest in a developing country, they will largely focus on what is required to set up their business i.e. site works, road access, training facilities for staff, housing, etc. Opportunities exist to expand this investment to ensure that the local community also has access to other facilities and programs that contribute to sustainable development for that community, for example, schools for their children, health facilities, and police stations. In turn the development of social facilities has the potential to enhance the sustainability of the project as it will be more attractive to staff if social facilities are available. In particular it will increase the potential for small businesses that support the main project but are too small to provide social facilities. This is occurring to some degree in some situations, but could be done in a much more systematic way. Increased discussions between the private sector and communities, facilitated by government, can help to identify the needs of both parties and encourage increased community development and poverty alleviation.

**Recommendation 9:** DFAT establish a *private sector development risk and investment committee* to advise on risk and opportunity in relation to private sector development activities. The committee could include representatives of DFAT, private sector, ACFID and the IDC.

Working in developing countries is challenging, and there are numerous systems and processes that need to be put in place to effectively address the fiduciary, reputational and personnel risks of working in these countries. The risks of all of these issues is greater in many of the countries where the Australian Government is providing support, so the private sector needs to have the appropriate appetite and investment strategies in place to ensure their businesses are not significantly impacted by these risks.

There are a number of frameworks that have been developed to guide the private sector operations in a professional and sustainable manner, regardless of jurisdiction, such as the Equator Principles, IFC Performance Standards, UN Global Compact, and Transparency International to name a few. All of these frameworks provide insights into the issues which need to be addressed and the type of safeguards that need to be in place. 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.

The key message is that the need to address all of these issues is paramount and supported by the business community, but it needs to be recognised that there are costs associated with their implementation. Mechanisms for the private sector to access support to implement these initiatives need to be identified.

There are increased management demands due to some of the above issues (perception, fiduciary/fraud/corruption, child protection) all of which are important and must be part of any delivery activity, which requires time and investment to effectively address the issues. These overheads need to be adequately reflected in the mechanisms to encourage increased involvement in development, though this recognition does not always manifest in activity design.

**Recommendation 10:** 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. Ongoing consideration of such issues could form part of the charter of the earlier recommendation, the establishment of a *private sector development risk and investment committee*.