



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

This submission relates to an overall governmental approach to engaging private sector in development, and particularly to the JSC's issue:

*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.*

**DelAgua advocates for the use of Results Based Financing<sup>1</sup> (RBF)** to harness the private sector's strengths of taking calculated investment risks, to realise bankable revenue streams.

The key benefits for the Australian government are:

1. Government can **focus on what it does best** (policy setting), and enable private sector to focus on what they do best (implementation).
2. **Results can be targeted** as narrowly (for example, provide access to clean drinking water to WHO 'highly protected' standard to people living on less than \$2/day in Cambodia) or as broadly (for example, reduction in health costs in Tonga) as desired.
3. The approach can be used **across all sectors** from health to climate change, and indicators (on which payment depends) can be dependent on multi-sectoral outcomes, such as gender benefits or targeting the poorest.
4. **better outcomes** through **new technologies**, new approaches, and innovation
5. **accountability** through work with innovative, ambitious, and appropriately incentivised **private sector**
6. **value for money** through **Payment On Delivery**
7. **quality** outcomes through independent **Monitoring, Reporting and Verification**
8. Reducing government overheads by paying for the results sought, not managing large input-based contracts.

Benefits for the private sector include:

1. Private sector can **focus on what it does best** (implementation and innovation), while government avoids crowding-out investment by focusing on policy setting.
2. Private sector does not benefit in the medium term from 'white elephant' projects. Nor do companies generally build a business model that is reliant on government grants – they want vibrant and sustainable markets. RBF is an intermediate **step toward markets that do not require aid interventions**.
3. Companies can build, optimise and grow from RBF. Recipient citizens can be involved in defining the results sought, and then receive worthwhile outcomes. This valuation of a product/service is the **basis for building markets** which drive the vast majority of development progress and poverty reduction globally.

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<sup>1</sup> Also called Results Based Payments, Output Based Aid, or similar terms.



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4. RBF **provides incentive for innovation**, optimisation and improvements in outcomes rather than the 'input+10%' model of most ODA grants. This harnesses the powerful profit motive.
5. Australian companies are sometimes outcompeted by foreign companies that bid at lower costs, but deliver poor quality. After grants are awarded, there is little that the Australian government can do. The approach of RBF **avoids the 'race to the bottom'** by making payment only on delivery of the required quality result.

RBF can be effective across the Indo-Pacific region, in all sectors, with the exception of conflict/post-conflict areas, or sectors of a sensitive political nature, such as policing or defence.

### **Other donors:**

RBF has shown considerable success in programs such as Global Partnership on Output-Based Aid (GPOBA) and the Public-Private Infrastructure Advisory Facility (PPIAF), in which Australia has had some contribution. The UK (DFID), Sweden, Switzerland, The Netherlands are all maintaining or increasing funding to RBF approaches.

Where Australia is a relatively small player, it makes sense to work with like-minded partners (such as DFID) and intermediaries (such as the World Bank). However, in Australia's region, it will be more effective for Australia, with appropriate partnerships and consultation with recipient countries, to be more closely engaged to maintain control and avoid the considerable intermediary overheads.

### **Return on Investment for Australia:**

Fundamentally the ROI is in establishing a safe and prosperous international neighbourhood for Australia. Compared to traditional development assistance, the ROI for Results Based Financing is associated with higher sustainability, efficiency and effectiveness of the approach. RBF transfers risk to those better able to manage them (the private sector for implementation, government(s) for policy setting). In the longer term, RBF builds market participants with an expectation that payment is on delivery, and results should last.

For a discussion of private sector innovation to address poverty reduction, please see a 2014 TEDx talk (10 minutes) by DelAgua's COO, entitled 'Closing the Loop' at: <https://www.youtube.com/watch?v=h0IUcmZmtXo>



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This final page provides an overview of DelAgua's Health program in Rwanda using private sector innovation and RBF approaches. This approach (and technologies) is suitable for overcoming comparable problems and building sustainable markets in Cambodia, Laos, Myanmar, most of the Pacific islands, rural Indonesia (particularly NTB), and remote or rural applications in low income countries or settings.

**DelAgua Health Rwanda Program** (the Program) addresses 2 leading causes of death by:

- targeting the poorest 30% of Rwandans, about 3 Million people in 600,000 households
- providing water filters for clean drinking water
- providing efficient cookstoves for cleaner air

More detail, and a short (9 minute) video is available at: <http://www.delaguahealth.com/> .

The Program is cutting-edge in development investments:

- **Public-Private Partnership** (PPP) between DelAgua Health (private sector) and Government of Rwanda Ministry of Health
- uses private sector capital to finance the investment, with **payment on delivery** of results
- **independent verification** of uptake – if we don't succeed, we don't get paid
- smartphone and sensor technologies to monitor interventions in real time
- independent researchers to confirm and optimise health outcomes
- **multiple outcomes**: reduced diarrheal and respiratory diseases; job-creation; gender benefits (women are most exposed to smoke); education (kids can go to school instead of collecting wood, and miss fewer school days through illness); technology transfer as well as reducing unsustainable fuelwood use, and avoiding more than 1 million tonnes of CO<sub>2</sub>e per year, reversing deforestation by addressing the root cause.

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