THE ROLE OF THE PRIVATE SECTOR IN SUPPORTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION

Australian Government
Department of Foreign Affairs and Trade

Department of Foreign Affairs and Trade

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

DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

EXECUTIVE SUMMARY

The evidence is clear. The private sector is the engine of growth. Successful businesses drive growth, create jobs and pay the taxes that finance services and investment. In developing countries, the private sector generates 90 per cent of jobs, funds 60 per cent of all investments and provides more than 80 per cent of government revenues. Private companies are providing an ever increasing share of essential services in developing countries, such as banking, telecommunications, health and education. Foreign investment, particularly in exporting industries, can accelerate domestic development.

Sustainable and inclusive private sector-led growth that contributes to reducing poverty does not happen of its own accord. To make this happen, the private sector needs to be encouraged and supported so it can produce high and inclusive growth while still generating the profits needed to succeed and grow.

The private sector is critical to economic growth and poverty reduction, but it cannot and does not act alone.

Government plays a central role in supporting economic growth and reducing poverty. It needs to provide good policy, strong institutions and efficient public goods and services to ensure the private sector can thrive and the benefits of growth reach all citizens. As well as developing and prosecuting policies which promote growth, governments must also commit to develop and sustain the institutions that implement, oversee and regulate those policies. This is the enabling environment that encourages the private sector to invest. The vast majority of constraints to growth identified by the private sector are directly linked to government decisions and action. Government's policy and legislative decisions determine to a large degree the scale and quality of economic growth and the private sector's role in it. The model of an open, export-orientated economy with a flourishing private sector gives developing countries the best chance of increasing prosperity and living standards.

The provision of public goods is a key determinant of quality of life for individuals and communities and, hence, the attractiveness of a country to private investment. It is in government's interest to promote growth that advantages the poor. This not only improves social stability, it increases the capacity of the poor to contribute and thereby further boosts economic growth.

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 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.

The broader international donor community also plays a key role in supporting economic growth and reducing poverty in developing countries. Traditionally, this role has been to support partner governments through the provision of official development assistance (ODA) to provide public goods and lay the foundations for private sector growth. ODA is used to improve private sector-led growth by working at three levels. First, it can build better business enabling environments. Second, it can improve the functioning of key growth markets and sectors. Third, it can work directly with specific businesses to maximise the development and poverty reduction impact of doing business.

It is important to note that ODA is a unique form of development support in that it steers towards the greatest development needs. Used well, ODA helps government and the private sector to meet respective roles and responsibilities. It also helps accelerate the transition of relationships from one that relies on ODA to one that is based on trade and investment. It is in the interests of donors and partner governments to accelerate the transition from aid dependency to on trade and investment. A growing and vibrant local private sector is key to this.

The context for development assistance has changed dramatically in the past decade. ODA must be a catalyst for promoting economic growth and reducing poverty through a strong emphasis on 'aid for trade' and building an enabling environment for the private sector.

The role of ODA is evolving to include greater and more direct engagement between donors and the private sector. There is increased attention to bringing together programs to more deliberately focus on the host government's capacity to undertake pro-growth investments and policies. Donors are continuing to look for new ways to engage the private sector as a delivery partner where its characteristics—including flexibility, supply chains and logistics expertise—makes it a value-for-money choice. Donors are also looking to use convening power to improve dialogue between a government and its private sector, which in turn helps donors identify which investments can most effectively catalyse improvements in the bilateral and global trading environment. The delivery of most programs remains grant based although donors are increasingly looking at alternative financing mechanisms that will more creatively leverage and bring in private investment to deliver development outcomes and deepen donor impact.

Despite this changing international context, most donors continue to place considerable emphasis on helping developing economies establish the right foundations and policies to foster entrepreneurial activity, private sector growth and inflows of private capital. There is strong evidence that effective policies and institutions are the best way to enable developing countries, and the private sector operating in those countries, to attract private finance to drive sustained growth. Direct partnership approaches are a small but growing part of most donor portfolios. Another area of growing interest for donors is connecting their own world-leading businesses with those in partner countries to harness expertise and cultivate business relationships. This includes accessing the right skills and putting in place appropriate internal structures and risk management approaches. Different types of partnerships are being explored by donors depending on the context, policy objective and type of private sector organisation involved.

Partnerships between donors, partner governments and the private sector are being used to achieve private sector development objectives. This is desirable because it enables governments to access private sector ideas, innovations and business models in search of solutions to intractable development problems. In other cases, 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.

Successful partnerships do not have to include a financial exchange. Many start with discussion between partner governments and the private sector to enhance mutual understanding of the role each plays in a well-functioning, growing economy. This understanding is the foundation for successful future financial partnerships. Financial partnerships occur when the government invests alongside the private sector or uses other financial instruments to enhance the development impact of private sector activities and investments. Private sector involvement in partnerships is usually motivated by access to information on potential investment opportunities, and the ability of the partnerships to change the risk-adjusted returns of a business activity.

Australia's aid program supports private sector-led growth at three levels:

- *Building better business enabling environments*. For example, reforming business registration, contracting laws and providing the infrastructure essential for business (such as electricity or transport connections).
- *Addressing constraints to growth in specific markets*. For example, problems related to how supply chains function, including infrastructure, access to finance, human resources and the connection between the parts of the supply chain.
- *Maximising the development impact of individual businesses*. For example, supporting businesses to implement business models that serve the poor as consumers, producers or employees.

The Australian aid program directly reflects and supports Australia's economic diplomacy focus on trade, growth and job creation. It does this through support to public and private efforts which bring faster and more sustainable private sector growth to the region. The Department of Foreign Affairs and Trade (DFAT) is increasing its direct engagement with business to help plan and deliver more effective private sector development programs.

DFAT 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. DFAT will ensure its external communications on private sector development are clear and appropriate and support more active and open interaction between the community, business and the department.

DFAT will invest in improving its analytical capability to identify key drivers and constraints to private sector growth and appropriate programming responses. This will be the foundation upon which DFAT builds coherent programs of support using the full range of capabilities across the newly integrated department. Greater use of portfolio partners, especially Austrade and the Australian Centre for International Agricultural Research (ACIAR), is integral to the development and delivery of focused, effective programs.

Direct partnerships with businesses will also increase as a result of the new development paradigm. These will initially focus on accelerating DFAT's understanding of the drivers and capacity for business to support its development effort. As trust and understanding develop, so too will the possibilities for financial relationships. DFAT is exploring the potential use and effectiveness of new partnering models and financial instruments. It will develop appropriate due diligence and have the appropriate skills, systems and procedures in place to identify and manage risks.

DFAT is shifting its focus to take advantage of the new development landscape. It will focus its efforts where Australian aid funds can uniquely add value in partnership with the private sector. DFAT will also continue to ensure that Australia's aid program serves as a constructive force shaping better enabling environments, drawing in more private sector finance and exploring ideas to further the impact and sustainability of Australia's development effort.

Contents

Key terms

Australian aid: Australia's official development assistance (ODA) to developing countries.

Development assistance: The financial assistance given by donors to support the economic, environmental, social, and political development of developing countries. It is distinguished from humanitarian aid by focusing on alleviating poverty in the long term, rather than a short-term response to a crisis or disaster.

Developing country: Those countries defined as low-income countries and middle-income countries according to World Bank gross national income (GNI) per capita criteria. Eighteen of the 20 countries making up Australia's nearest neighbours are developing countries.

Development: The advancement of a country economically and socially. This includes improvements in income per capita, macroeconomic stability, living standards and levels of health and education.

Development partners: The countries, institutions and organisations that Australia cooperates with to deliver development outcomes.

Donor: Developed country, philanthropic organisation or emerging economy providing development assistance (including aid) to developing countries or development organisations.

Economic growth: The increase in the output produced by a country, usually measured by gross national income or gross domestic product (GDP).

Inclusive growth: Is broad-based across sectors and considers both the pace and pattern of growth so that it benefits all of 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).

Partner governments: Those countries with which Australia has a development partnership.

Pro poor growth: focuses specifically on the welfare of the poor and may be obtained either in the absence of benefits to one or more groups or at the expense of one or more groups (as defined by the Organisation for Economic Co-operation and Development).

Private sector: Comprises all privately owned commercial enterprises and includes individual farmers and street traders, small and medium enterprises, large locally-owned firms and multinational corporations. Also includes enterprises in developing countries, developed countries, and multinationals.

Poverty: Defined by whether households or individuals have enough resources or abilities to meet their needs. If they do not, they are living in poverty. Extreme poverty is defined as living on less than US$1.25 per day.

I. SCOPE

This submission covers DFAT's development cooperation activities. DFAT has gathered portfolio and whole-of-government views and reflected these in the submission. The Australian Centre for International Agricultural Research is providing a separate submission which describes how it partners with the private sector on research to support economic growth and reduce poverty. Views from Austrade and from other government departments not in a position to prepare a full submission are in *Attachment D*.

II. SUMMARY

Australia is committed to finding the very best ways to alleviate poverty, improve economic outcomes and build stability and prosperity, particularly in the Indian Ocean and the Asia Pacific (Indo-Pacific) region.

When the private sector expands and increases its productivity the economy grows. When the poor can contribute and participate, this economic growth leads to reductions in poverty. Higher and more inclusive growth—in particular for girls and women—provide people with the best chance to find jobs, raise incomes and escape poverty. The Australian Government recognises the importance of private sector-led economic growth to increased prosperity, peace and stability in its region. Accelerating the transition from aid-based relationships to ones based on two-way trade and investment will see an increasing share of Australia's development effort put towards building the right conditions to encourage the growth of vibrant, sustainable and inclusive private sectors across the region.

This submission aims to provide the Joint Standing Committee on Foreign Affairs, Defence and Trade with (i) a clear picture of how the private sector can support poverty reduction and economic growth and (ii) the role donor governments, such as Australia, can play in supporting private sector growth.

Section 1 provides an overview of the role of economic growth in poverty reduction and the centrality of the private sector to this growth. It also outlines some of the factors that constrain private sector-led development and the complexities of private sector-led growth and poverty reduction.

Section 2 covers the role of partner governments in setting the right foundations to support private sector growth and the role of donor governments in helping them do this. The role of ODA is explained. This section also covers how like-minded donors and the international community have traditionally approached private sector development, how this is changing and the reasons behind donor governments looking to engage more directly with the private sector.

Section 3 provides an overview of the types of partnerships involved, including new approaches that donor governments are now exploring to engage more directly with the private sector in planning and delivering development activities.

Section 4 outlines current DFAT activities that support private sector-led economic growth in the region, bilaterally and through regional and multilateral approaches.

Section 5 looks to how DFAT can consolidate and build on its existing private sector development efforts as well as opportunities that could expand the impact of its programs to accelerate sustainable and inclusive private sector-led economic growth in the region.

US$1.35 trillion

is the global total of foreign direct investment in 2012

52%

of 2012 global foreign direct investment flows were absorbed by developing economies

30%

is the contribution of value added trade to the GDP of developing economies (average in developed economies is 18 %)

85%

of employment opportunities in developing countries are created by small and medium sized enterprises

III. THE REGION

This inquiry is considering the Indo-Pacific region, which includes developing countries of the Pacific Islands, the Association of Southeast Asian Nations (ASEAN), and the Indian Ocean Rim Association.

The Asia-Pacific region is the most dynamic in the world, with recent economic growth running at more than 6 per cent[1] and home to the largest cluster of high-growth emerging markets in the world and some of the world's most geographically isolated and dispersed populations.

Figure 1. Southern Asia

The economic outlook in the emerging economies of Asia (Southeast Asia, China and India) (Figure 1) remains robust over the medium term, anchored by the steady rise in domestic demand. As a whole, emerging Asian economies are expected to grow by 6.9 per cent per annum in 2014–18. GDP growth projections for individual countries reflect their stages of development and medium-term growth drivers. For example, Indonesia is projected to be the fastest growing economy within the ASEAN-6[2], with an average annual growth rate of 6 per cent in 2014–18, followed by the Philippines with 5.8 per cent.[3] While most Asian economies have grown quickly to middle-income status, also growing is the divide between rich and poor in these countries. As Table 1 shows, six of the 10 middle-income countries with the largest number of poor people are in this region.

[1] Asian Development Bank 2014, *Asian Development Outlook 2014*, viewed 29 April 2014
[2] The ASEAN-6 refers to the six largest ASEAN economies, many times larger than the remaining four ASEAN countries. The ASEAN-6 comprises Indonesia, Thailand, Malaysia, Singapore, Philippines and Vietnam.
[3]OECD 2014, *Economic Outlook for Southeast Asia, China and India 2014: Beyond the Middle-Income Trap*, viewed 9 April 2014

Table 1. Poverty in the 10 middle-income countries with the largest contribution to global poverty—1990 and 2008

Country	% of population				Poor people (millions)			
	US$1.25		US$2.00		US$1.25		US$2.00	
	1990	2008	1990	2008	1990	2008	1990	2008
India	51.3	37.4	82.6	72.4	435.9	426.0	701.7	825.1
China	60.2	13.1	84.6	29.8	683.2	173.0	960.6	394.3
Indonesia	54.3	22.6	84.6	54.4	96.3	51.5	150.0	123.6
Philippines	29.7	19.4	54.9	42.2	18.5	17.5	34.2	38.1
Vietnam	73.1	16.9	90.1	43.3	48.4	14.5	59.6	37.4
Pakistan*	61.9	21.0	87.0	60.2	66.9	34.9	93.9	99.9
Brazil	17.2	6.0	30.0	11.3	25.8	11.5	44.9	21.7
Nigeria	60.4	66.5	80.1	84.0	58.8	100.5	77.9	127.0
Angola	46.7	55.9	62.9	71.6	5.0	10.1	6.7	12.9
Sudan*	56.2	20.4	82.1	45.0	15.2	8.4	22.2	18.6

NOTE: all data are derived from consumption surveys, with the exception of Brazil and China which are derived from income surveys.
Source: Sumner (2012) based on data processed from World Bank (2012).

The economic dynamism of emerging Asia is not reflected across the whole of region. Economic growth in the Pacific region (Figure 2) has slowed in recent years to below 5 per cent.[4] Even then, most of this growth is attributable to Papua New Guinea (PNG) and the growth of their liquefied natural gas industry in particular. This is not surprising, given that the 22 countries and territories comprising the Pacific Islands cover 48 million square kilometres, but only have a total population of nine million people, approximately seven million of whom live in PNG. All 14 of the region's independent states are developing or least developed countries, with average per capita income ranging from US$2030 in Kiribati to US$25 373 in French New Caledonia.[5] While PNG, the Solomon Islands, Fiji and New Caledonia have a wide range of natural resources, other island states depend mainly on tourism, fisheries and remittances. For many smaller island states, high transport costs and limited economies of scale severely constrain economic development potential.[6]

Figure 2. Pacific islands

[4] Asian Development Bank 2014, *Asian Development Outlook 2014* viewed 29 April 2014.
[5] World Bank, GNI per capita, Atlas method (current US$) Kiribati 2013: http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/KI-4E-XN?di...; World Bank, GNI per capita, Atlas method (current US$) New Caledonia 2013: http://data.worldbank.org/indicator/NY.GNP.PCAP.CD/countries/NC--XR?disp...
[6] J Hayward-Jones, *Big enough for all of us: Geo-strategic competition in the Pacific Islands*. Lowy Institute for International Policy, viewed 9 April 2014.

1. ROLE OF THE PRIVATE SECTOR

TOR A. The current role of the private sector in accelerating the pace of economic growth
TOR C. Legislative, institutional, social and policy constraints
TOR F. Risks related to current and future approaches
TOR G. The role Australian and international business could play to support development and inclusive growth

Economic growth and poverty reduction

When economies grow and expand, people move out of poverty. Between 1981 and 2010, 700 million people were lifted out of poverty because of access to new opportunities in growing economies.[7] Countries that have made the most significant development gains are also those that have achieved sustained high growth rates.[8] From the landmark 2011 Busan forum[9] on aid effectiveness through to the current preparations for the post-2015 development framework, economic growth is now at the core of the development agenda for donors and recipient countries alike.

No country has experienced significant reductions in poverty that has not been accompanied by strong economic growth (Figure 3).[10] However, strong economic growth may not be associated with poverty reduction, and it may be associated with growing inequality. When the poor cannot, or do not, participate in economic expansion then poverty is not reduced and inequality rises.

Some 60 per cent of the world's poor now live in middle-income countries and 40 per cent live in five countries: China, India, Pakistan, Nigeria and Indonesia.[11] High levels of economic growth have helped hundreds of millions out of poverty. However, many have not seen this benefit, with inequality growing within what are otherwise increasingly prosperous countries.

People in rural areas, urban and peri urban slums, minority ethnic or religious groups and women and children are the most likely to remain in poverty.[12] High levels of inequality, in particular gender inequality, discourage the development of accountable government and 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.[13] Without steps to address these disparities, the risks this trend poses, including social instability, will continue to grow.

900 million

people in the region live on less than US$1.25 per day

60%

of the world's poor live in middle-income countries

$89 billion

would be added to the region's economies if women were able to more fully participate in the private sector

70%

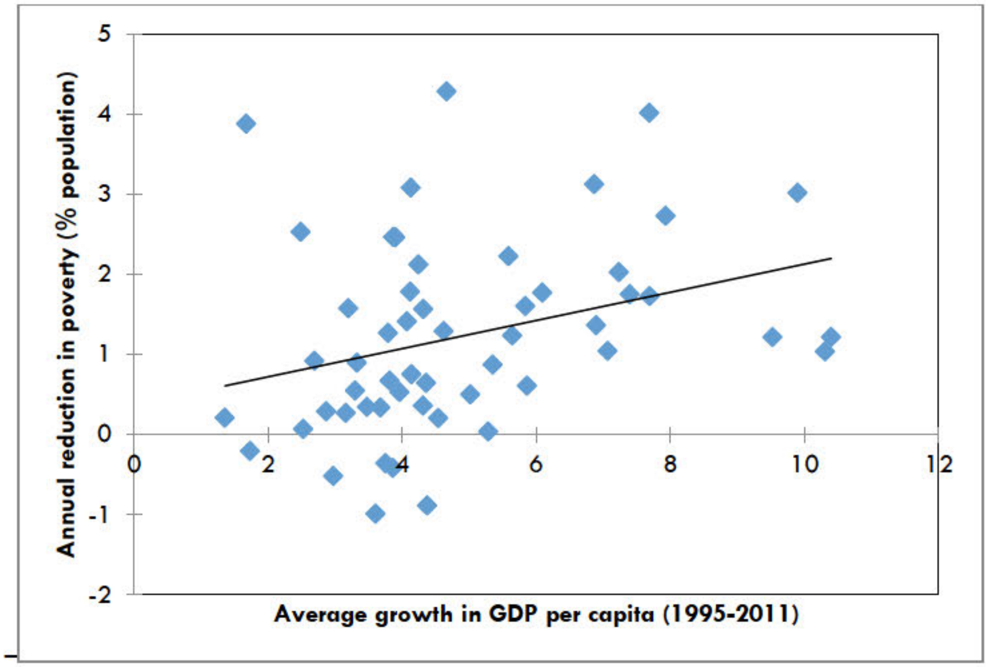
of health services accessed by the poor in Asia are privately owned

20%

of infrastructure in developing countries is privately financed

[7] World Bank 2014, *PovCalNet*,viewed 10 April 2014.
[8] Commission on Growth and Development 2008, *Strategies for sustained growth and inclusive development*, World Bank, viewed 26 April 2014.
[9] Fourth High Level Forum on Aid Effectiveness, Busan, 29 November to 1 December 2011.
[10] Commission on Growth and Development 2008, *Strategies for sustained growth and inclusive development*, World Bank, viewed 26 April 2014.
[11] A Sumner2012, *Where do the world's poor live? A new update*, Institute of Development Studies, working paper no. 393,viewed 16 April 2014.
[12] United Nations Development Programme 2014, *Humanity divided; confronting inequality in developing countries*, viewed 16 April 2014.
[13] N Birdsall,2007 *Income Distribution: Effects on growth and development*, Center for Global Development working paper no. 118,viewed 17 April 2014.

Figure 3. The correlation between growth and poverty



Source: World Development Indicators Database (downloaded April 2014)

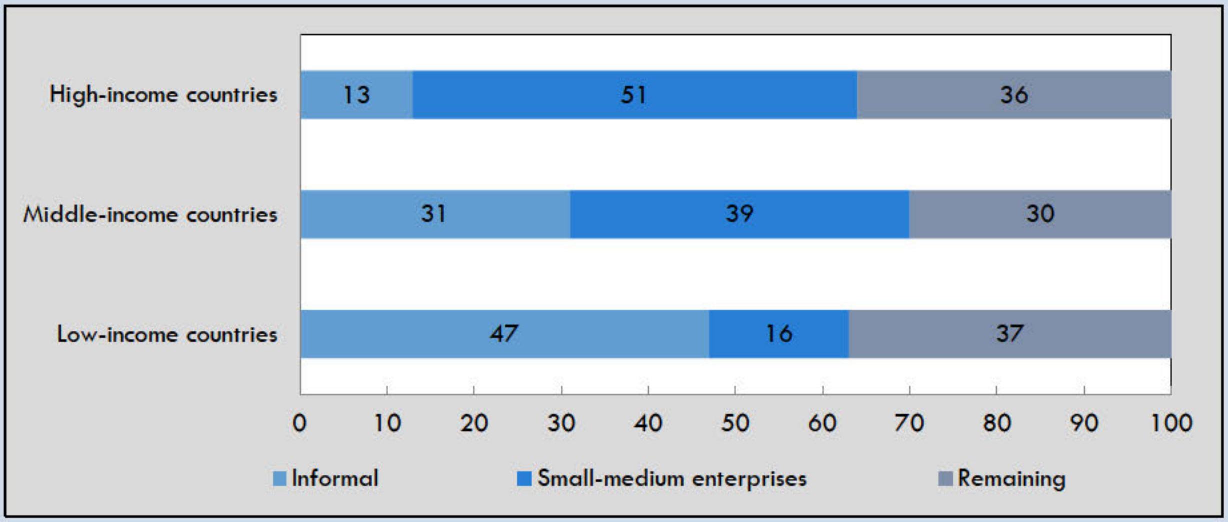
In this context, inclusive growth and pro-poor growth have emerged as new policy priorities for many developing countries. Inclusive growth refers both to pace and pattern of growth. These are interlinked and must be addressed together. Rapid growth is a necessary contribution for substantial poverty reduction, but for it to be sustainable it needs to be broad-based and inclusive of the large part of a country's potential labour force. While there is broad agreement on the basic policies that are important for inclusive growth, each country has different policy needs and priorities.

Inequality of income, opportunities, assets, and access to services, such as health, education, infrastructure and finance, hinder the poor's ability to benefit from and contribute to economic growth. More deliberate choices on the part of government and its private sector are needed to ensure poor women and men can participate in and then contribute to economic growth. Making the poor stakeholders in the country's economic future increases its growth potential and safeguards against inequality fuelled unrest. This can be done through formal and informal mechanisms, using community and non-government organisations.

Who is the private sector?

The private sector includes individual farmers and street traders, large locally-owned firms and multinational corporations. These firms are owned locally, by Australians or other overseas interests. The composition of the private sector in developing countries is different to developed countries. The following chart shows that almost half of private sector activity in developing countries is in the informal sector and so is not registered with, or taxed by, government. Most women's businesses operate in the informal sector.

Type of economic activity as a percentage of GDP



Source: Ayyagari, Beck, Demmirguc-Kunt in Unleashing Entrepreneurship (United Nations 2004)

As countries develop they typically transition from the informal to formal small and medium enterprises. This transition is important because the formal sector generally offers better conditions for workers, greater access to finance (and the growth potential it provides) and easier access to services such as electricity. Formalisation also makes it easier and more cost effective for governments to collect revenues from business.

The core motivation of private enterprise is to make profit. This means making rational decisions about whether an investment is going to generate a sufficient return or result in a loss. Equally, a successful, profitable business is also a sustainable business. Regardless of their development potential, private businesses cannot be forced into activities they assess are not in their best interests. Governments and donor countries need to remain mindful of this when exploring the potential role of the private sector in development.

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. Microenterprises provide a vehicle for those at the bottom to enter employment and climb the rungs of the economic ladder.

Small-medium sized enterprises (SMEs): Enterprises with between 10 and 100 employees that provide 78 per cent of formal employment in low-income countries. SMEs hold the potential for high-yielding investment with a multiplier effect on employment, productivity and growth (for example mobile phone providers).

Large enterprises and multinationals: More than 60 000 large national and multinational enterprises are critical contributors to investment, productivity and growth. Large firms may offer higher quality jobs, better pay, and more stability than SMEs. They are also able to supply foreign markets directly, import technology and undertake research and development that leads to innovation and productivity improvements.

The role of the private sector in economic growth and poverty reduction

Achieving high and sustainable economic growth is complex and context specific. One thing is clear—the engine of growth, no matter what country, is the private sector. The private sector drives productivity and participation which in turn drive economic growth. The private sector's essential role in economic growth in developing countries is now well established. The private sector:

- generates 90 per cent of jobs
- funds more than 60 per cent of investment in developing countries[14]
- contributes more than 80 per cent of government revenue in low and middle-income countries through company taxes, resource rents and income tax on employees[15]
- provides an ever increasing share of essential services such as banking, telecommunications, health and education
- invents, designs and produces most of the goods and services that the poor use and that drive an economy
- is the dominant producer of exports in almost every economy.

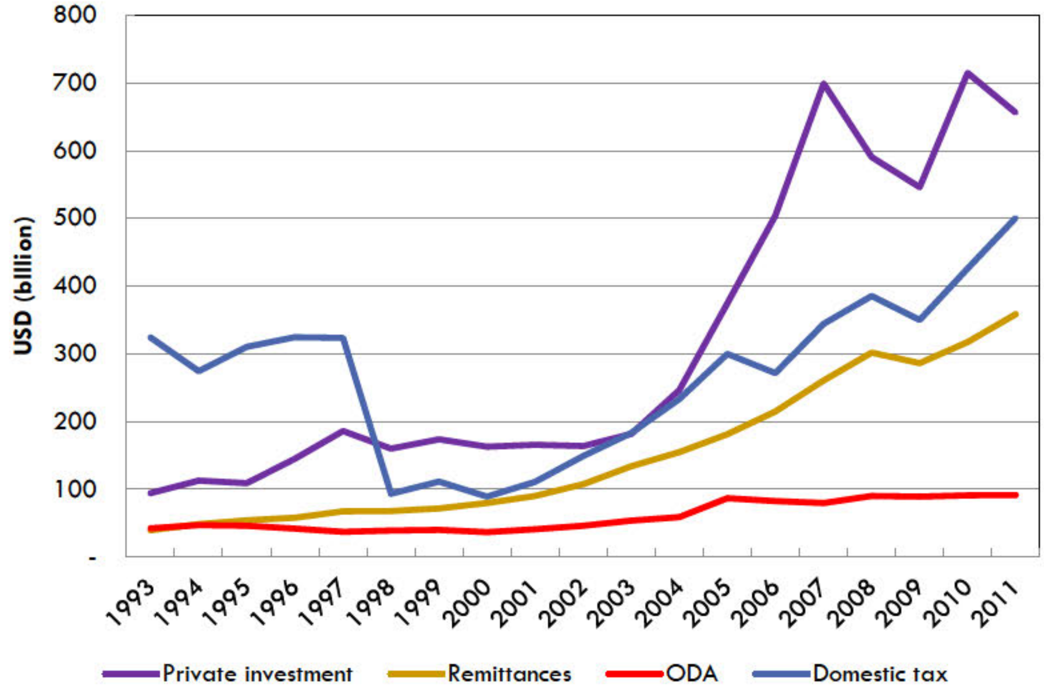
Self-employment or securing a wage or salary is one of the most critical factors in escaping poverty and is consistently identified by the poor as the key to exiting poverty.[16] As the private sector start to grow and make the transition from informal to formal employment, it is important to have supportive safeguards in place. These include sound legal institutions and systems that promote decent employment and protection, especially for marginalised or frequently exploited sections of the workforce.

The scale and diversity of the private sector operating in a country strongly influences overall financial flows into the economy. Private funding, from investments and remittances, has grown dramatically in the last decade, reducing ODA to an ever decreasing share of global development finance. This has led to the private sector having increased influence in how economies are shaped and developed. This influence spans the types of goods and services being produced, the geographic location in which production is occurring and the infrastructure (soft and hard) being built to support this production. It is also well established that higher private investment is associated with faster growing economies.

The choices of governments can also encourage or discourage the flow of private investment into an economy. In some cases, poor policy settings can exacerbate under-investment by the private sector in poorer or underserved areas when it undermines competition or crowds out[17] private sector investment. This can stifle entrepreneurial activity, job creation and market development, which unavoidably limits growth and poverty reduction potential within an economy.

[14] World Bank 2014, *World Development Indicators* viewed 10 April 2014.
[15] World Bank 2014, *World Development Indicators* viewed 10 April 2014.
[16] Narayan *et al*, 2000, analysed data from more than 60 000 poor people in 50 developing countries. The top two responses people gave when asked what provided the best prospect to escape poverty were starting their own business (60%) and getting a wage or salary (50%).
[17] 'Crowds-out': an economic concept where increased public sector spending replaces, or drives down, private sector spending. Crowding out refers to when government must finance its spending with taxes and/or with deficit spending, leaving businesses with less money and effectively 'crowding them out'.

Figure 4. Sources of revenue to developing countries (US$)—1993 to 2011



Source: World Bank Development Indicators Database (downloaded April 2014).

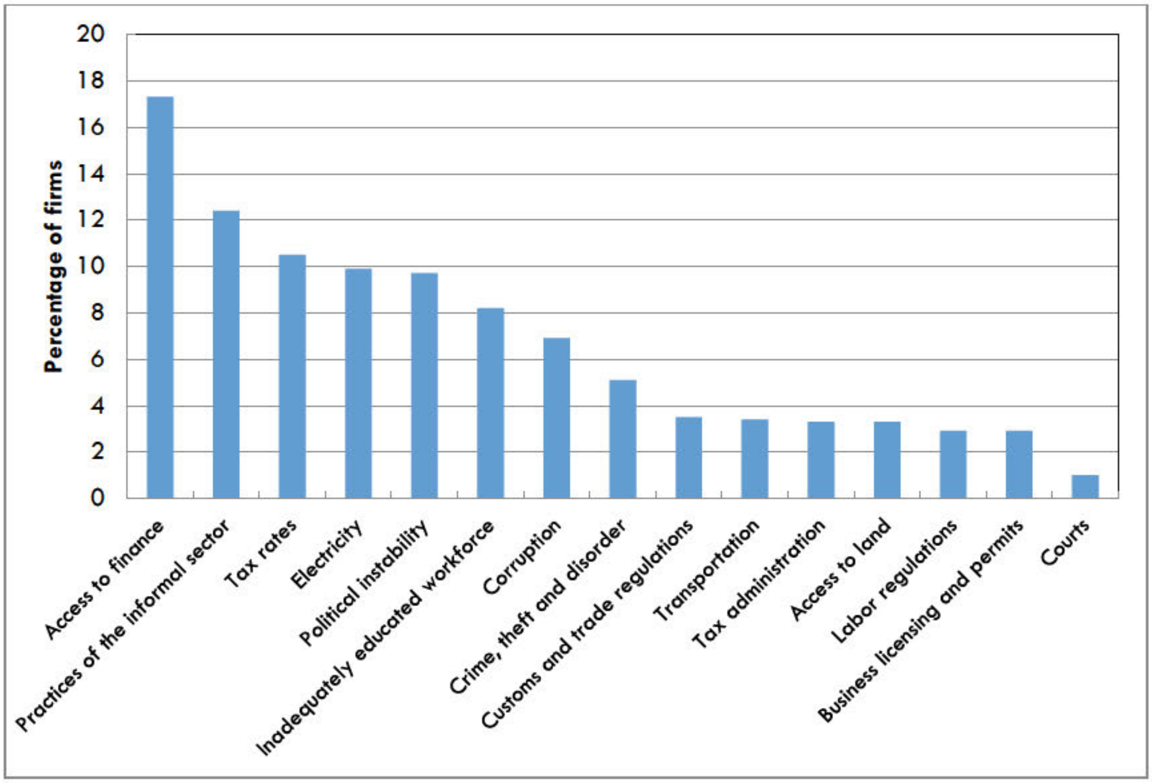
What constrains private sector growth?

While the private sector is critical to economic growth and poverty reduction, it cannot and does not act alone. 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. But when government and the private sector work effectively, an essential complementarity can evolve. The public sector can enable a stronger private sector through appropriate regulation, rule of law, institutions, public investment and security, while the private sector focusses on generating innovation, wealth and taxes, and additional services that can help the public sector better fulfil its mission.[18]

While the relative importance of the constraints to greater private sector investment differs from country to country, and from business to business, the issues themselves are fairly constant. Figure 5 presents the results of World Bank surveys of more than 26 000 firms in 53 countries. It provides a clear picture of the major constraints to private sector investment.

[18] International Finance Corporation 2011, *International Finance Institutions and development through the private sector*, viewed 15 April 2014 <http://www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/ifc+news/events/ifireport_sept2011>

Figure 5. Major constraints to private sector investment



Source: World Bank Enterprise Surveys Database (downloaded April 2014).

What is clear from Figure 5 is the vast majority of constraints are directly linked to government decisions and action. Without government playing its part to support a dynamic ecosystem for enterprise, there is little prospect for private sector-led growth. This means that to attract investment and enable businesses to operate, governments need to provide stable policies, finance, infrastructure, regulation and taxation regimes which are not overly burdensome. They also need to have contracts that can be enforced and provide access to a healthy and educated workforce.

In some cases, removing these constraints may not be sufficient to generate greater private sector investment.

The small island states of the Pacific provide a powerful example of this. Pacific Island countries cannot change their geographic isolation, small and dispersed landmasses, small populations or vulnerability to natural disasters.[19] These factors contribute to a perception of high risk and low return for private investors, particularly when compared to more connected, larger markets in Southeast Asia. While more can be done to improve the share of private sector investment in these countries, many may need to look beyond in-country private sector growth (for example, migration policies) to significantly improve economic growth and poverty reduction prospects.[20]

Irrespective of the environment, effective discussion among governments, the private sector and civil society is essential for generating government action to address constraints and unlock private sector potential. However, the operating conditions in developing countries can make change difficult and slow. Section 2 sets out the role of government, donors and other actors in supporting and facilitating the private sector to drive strong economic growth and poverty reduction. It also outlines how the approach to delivering development assistance has changed over the past 10 to 15 years.

[19] International Federation of Red Cross and Red Crescent Societies 2011, World Disasters Report 2011 – Focus on hunger and malnutrition viewed on 17 April 2014.
[20] World Bank 2014, Hardship and Vulnerability in the Pacific Island Countries viewed 10 April.

What is ODA?

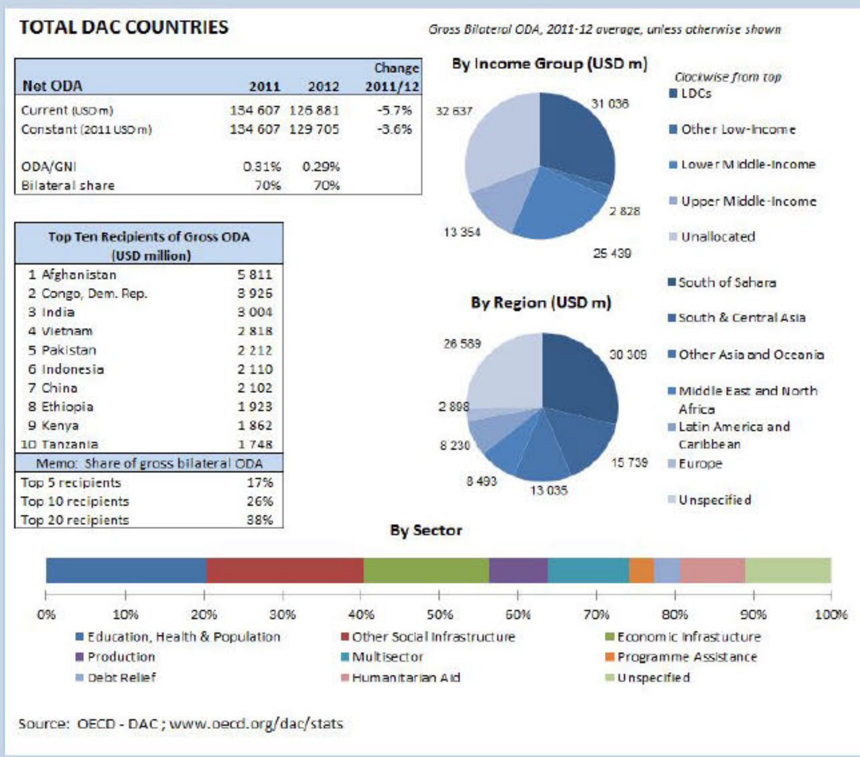
The OECD's Development Assistance Committee (DAC), formed in 1961, is the forum for OECD member states to meet to discuss issues surrounding aid, development and poverty reduction in developing countries.

Early in its history, the OECD – DAC considered what a donor could include when it reported its aid efforts. Its core distinction was between official transactions made with the main objective of promoting the economic and social development of developing countries, as opposed to other official flows like military assistance. The committee adopted the concept of ODA in 1969 and revised its definition in 1972. The revised definition remains unchanged.

ODA is defined by the DAC as concessional finance (grants or concessional loans) from developed country governments to developing countries with the objective of promoting their economic development and welfare, specifically financial flows to countries on the DAC list of ODA recipients (low and middle-income countries) and to multilateral development organisations that are provided by official agencies, including state and local governments. Each transaction is:

- administered with the promotion of the economic development and welfare of developing countries as its main objective
- concessional in character and contains a grant element of at least 25 per cent.

Total ODA flows 2011–12



TOTAL DAC COUNTRIES

Net ODA	2011	2012	Change 2011/12
Current (USD m)	134 607	126 881	-5.7%
Constant (2011 USD m)	134 607	129 705	-3.6%
ODA/GNI	0.31%	0.29%	
Bilateral share	70%	70%	

Top Ten Recipients of Gross ODA (USD million)	
1 Afghanistan	5 811
2 Congo, Dem. Rep.	3 926
3 India	3 004
4 Vietnam	2 818
5 Pakistan	2 212
6 Indonesia	2 110
7 China	2 102
8 Ethiopia	1 923
9 Kenya	1 862
10 Tanzania	1 748
Memo: Share of gross bilateral ODA	
Top 5 recipients	17%
Top 10 recipients	26%
Top 20 recipients	38%

Source: OECD - DAC ; www.oecd.org/dac/stats

All middle and lower-income countries are eligible to receive ODA, although some donors have suggested that eligibility criteria should be tightened. Any constriction in eligibility would indirectly affect the ability of donors to support private sector development activities, as these are often most appropriate in middle-income countries where there is more appetite for the private sector to invest but also genuine development needs that the private sector can assist in meeting.

2. THE ROLE OF PARTNER GOVERNMENTS AND OFFICIAL DEVELOPMENT ASSISTANCE

TOR B. Current Australian Government support for private sector development
TOR C. Legislative, institutional, social and policy constraints
TOR F. Risks related to current and future approaches

The role of partner governments

In many developing countries, economic growth and private sector development are hindered by poor policy choices, weak governance systems and limited capacity to provide key public goods and services. Although growth strategies in developing countries are necessarily context specific, a number of policies are important for fostering sustained growth. The report of the Commission on Growth and Development[21] provides an academic analysis that underpins current thinking on the role of governments in promoting economic growth. The report proposes that policies necessary to foster sustained economic growth include high levels of public investment in public goods and services such as infrastructure, health and education. This allows countries to import knowledge, use it and adapt it. Also important is allowing open markets to allocate resources within the economy and maintaining macroeconomic stability (building better enabling environments). Governments should also seek to reduce inequality to maintain political support for economic reform and ensure growth benefits the entire population.

Building better enabling environments

The credibility of a government's policies and the effectiveness of its regulatory institutions either promote or inhibit private sector growth. Improving the quality of the broader enabling environment can be technical (for example, better laws and regulations), political (for example, the state selling assets or addressing corruption), or capacity related (for example, skills needed to effectively regulate, legislate or administer).

Providing public good and services

Provision of public goods is a key determinant of quality of life for individuals and communities and, hence, the attractiveness of a country to private investment. Access to safe drinking water, sanitation, utilities, transport, medical care and schools is as essential to individual wellbeing as it is to boosting productive capacity of the economy.

1 billion hours

could be saved by business every year if regulations to start a business in developing countries were improved

13 days

is the reduction, from 2009 to 2014, attributable to improved business regulatory practices in the average time taken to start a business

Electricity access

is one of the greatest obstacles identified by business in starting up

158 and 105 days

is the average time taken to get electricity connected in South Asia (down from 168 days in 2010) and East Asia and the Pacific (up from 95 days), respectively

Law and order

The provision of law and order is one of the key public goods that impact on private sector investment choices. Weak law and order is often associated with higher risk environments. Consequently, the returns sought by the private sector need

[21] Commission on Growth and Development 2008, *Strategies for sustained growth and inclusive development*, World Bank, viewed 26 April 2014.

to be higher to compensate for these risks. This can result in the private sector choosing not to invest or encourage less desirable private sector activity. In addition to national governments, community organisations can promote and build awareness of the rule of law and access to justice, at local and national levels.

Weak law and order can impact on big and small enterprises. It manifests in many ways, with deficiencies in the legal system often having a significant effect. There is mounting macro-economic evidence that weak legal systems discourage investment and adversely affect economic development. There is equally strong evidence that improving property rights can enhance the possibilities for the poor to participate in markets, build wealth and improve their social and economic outcomes.

Health, education and infrastructure

Market-augmenting public goods, such as health, education and addressing gender inequality, bring benefits to society beyond the immediate benefits to individuals. The same can be said of investments in transport infrastructure, electricity and telecommunications. While there is debate around the responsibility for governments to provide these goods, the quality of services provided, public or private, depends heavily on the competency of the government institutions delivering or regulating them. In some economies (especially advanced economies), there is a mixture of public and private provision of these types of goods and services and developing countries, with assistance from development partners, are increasingly looking to similar approaches.

The role of official development assistance in supporting partner governments

Traditionally, the role of ODA has been to support partner governments, as the provider of public goods, in creating supportive enabling environments. However, changes occurring in developing countries and globally have led to changes in the way donors use ODA to support private sector-led economic growth. There is a greater attention to bringing together existing programs to more deliberately focus on the host government's capacity to undertake pro-growth investments and policies. This is increasingly being supplemented by innovative approaches that create incentives for the private sector to engage with the poor; as consumers of their goods and services and as employees in their businesses.

Donors continue to look for new ways to engage the private sector as a delivery partner where their characteristics—including flexibility, supply chains and logistics expertise—makes them a value-for-money choice. ODA is being used more actively to crowd in[22] or leverage increased privately financed investment, either on public infrastructure (such as roads or hospitals) or private investment (such as plant and equipment). Donors are using convening power to improve discussion between government and its private sector. This will help donors identify the investments that can most effectively catalyse improvements in the bilateral and global trading environment.

It is important to note that ODA is 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] 'Crowd in': an economic concept where the activities of donors brings in private investors to markets that would otherwise have been deemed too risky. Donors may do this by acting as an early mover and demonstrating the profitability of a sector or region.

ODA works at three levels to improve private sector-led growth. First, it can build better business enabling environments. Second, it can improve the functioning of key growth markets and sectors. Third, it can work directly with specific businesses to maximise the development and poverty reduction impact of doing business.

Building better enabling environments through effective institutions and policies

Improvement in the enabling environment improves the conditions for all business, local or foreign. Investing in reform at economy-wide level has the broadest private sector impact, but this usually requires a long-term investment and positive outcomes can be hard won. Economy-wide initiatives usually focus on reforms in business registration, contracting laws, and in the legal domain, as well as on basic infrastructure provision (where there are major infrastructure deficits). These initiatives are generally well regarded locally, but may meet resistance from those benefitting from the status quo. Improvement in the efficiency and communications of the regulatory institutions that govern trade better enables business between countries. For example, half of Australian businesses doing business internationally identified a lack of information on the foreign country's local regulations as a major barrier to doing business, and a third identified customs delays and costs. These proportions were higher for developing countries.[23]

The impact of domestic politics on business can be challenging in developing countries. As economies grow, there are more opportunities for 'rent-seeking' (profiting from political connections), particularly in industries dominated by monopolies, as well as those that involve licensing or heavy state involvement such as resources and construction. These environments are frequently impacted by corruption, lack of competition and poor regulation.

From a governance perspective, donors currently work with partner countries to strengthen the business and investment environment in a number of ways, including:

- prioritising accountability institutions to counter opportunities for corruption and malpractice and putting in place effective mechanisms for redress
- strengthening the regulatory and legal environment to give businesses greater certainty and predictability and help partner governments choose the right policies
- supporting policies, laws and practices that counter discrimination against women and that promote equitable outcomes for women entrepreneurs
- putting in place or enabling dispute resolution mechanisms (including alternative dispute resolution)
- working with civil society organisations, such as consumer groups, to keep business honest and advocate for increased market competition and stronger anti-trust laws
- brokering coalitions and discussion between government, business and civil society.

Central to donor assistance effectiveness in the enabling environment is the ability to understand the:

(a) impact of state institutions on growth performance

(b) political economy of economic growth and factors that drive economic policy making

(c) highest impact interventions in the political and government context.

When done well, successful interventions in the enabling environment represent good value for money, as input costs are relatively low and impacts are spread across the full scope of the private sector.

[23] University of Sydney and Export Council of Australia ,2014. *Australian International Business Survey: 2014 report* viewed 15 April 2014

It is also important to remember that human development issues, such as healthy and educated workforces, are among the most commonly cited constraints to private investment. Again, analysis of the context is critical, but in many cases investments in sectors such as health and education (and specific elements within them, such as technical and vocational training or rural health clinics) and in women's empowerment are made explicitly for their impact on economic development and private sector growth and are rightly considered by donors and partner governments as integral to their overall response to growing the enabling environment of the private sector.

Addressing constraints to growth in specific markets

Market-related issues are among the most complex and expensive to identify and resolve, as there is rarely a simple technical solution or an easy-to-explain cause and effect. For example, problems related to supply or value chains often involve a complex set of interrelated issues, including infrastructure, access to finance, human resources and market distorting impacts of government decisions. In some cases, governments will resist proper market functioning, as with state-owned enterprises or services, such as health and education, where rent seeking opportunities exist. In other cases, there may be strong demand from the local private sector but limited business skills and access to market information but markets that conspire to inhibit local productivity and participation. Unequal treatment of and opportunities for women are frequently found when analysing market inefficiencies.

ODA can play an influential and catalytic role in addressing these constraints, and while interventions are typically high cost and of long duration, they can have deep impact. Robust analysis of the key markets that can be developed or grown is a characteristic of successful interventions. In practice, this might mean agriculture (or certain elements of it) is identified as the key growth sector and donor programs will link investments in areas such as transport infrastructure, telecommunications and education around a common objective.

Maximising the development impact of individual businesses

Directly supporting one or more businesses has long been a challenge for donors. This carries risk and is time and resource intensive. However, this support maximises development possibilities beyond working solely with the public sector. The primary reason donors look to greater direct private sector engagement is to find new ways to connect the poor to the benefits of private sector growth. Given the rapid expansion of the private sector in developing countries, local governments and donors increasingly look to promote business activities that bring the poor into the market as producers, consumers and employees. This can take many forms, from the development of products designed to meet the needs of the poor through to using private sector distribution networks or having businesses explicitly bringing the poor (farmers, value adding) into larger supply chains.

Key issues can, however, arise when donor governments consider providing direct support to business, principally:

- *Additionality*—donors should not finance activities that a business would have financed themselves.
- *Neutrality*—support should not provide one business with an unfair advantage over its competitors.
- *Sustainability*—support should have lasting development impacts and lead to long-term commercial viability of a business.
- *Value for money*—the expected benefits need to be higher than other possible approaches or partners.

If these issues can be satisfied, successful partnering with business can lead to highly leveraged and sustainable outcomes, along with strong signal setting for business peers.

The changing international context

The global context of development cooperation has changed dramatically in the 14 years since the Millennium Development Goals[24] were agreed. Globalisation has created a more interconnected world where problems and solutions spill across national borders.

Traditional development cooperation is characterised by funding partner country governments and their country-driven priorities. But increased global interconnectedness has seen a shift to coalitions of countries and stakeholders coming together to address transboundary development challenges, such as infectious diseases, peace, security, migration, environmental sustainability, and food and water security.

Within this changing development landscape, new actors continue to emerge, bringing new ideas and resources to the global poverty reduction effort. These actors include emerging economies, non-government organisations, private businesses and individuals, philanthropic organisations, financial institutions and coordinating networks. While the entry of these new actors has made coordination ever more demanding, it has also created infinite new opportunities for innovative development partnerships. The formation of these new partnerships is being driven in part by the international economic outlook and domestic budget pressures in advanced donor countries that are requiring improved efficiency, effectiveness and accountability in expenditure of public funds.

Globally, private investment in developing countries is now more than six times the size of ODA flows. Remittances and domestic tax also contribute significant volumes of finance—around US$350 billion and US$500 billion respectively in 2011. The Gates Foundation's[25] 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 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.

Australian non-government organisations are a major source of development assistance fundraising and often have strong links to the Australian business community, including through board memberships. Opportunities exist to harness these links.

While ODA is a shrinking component of the international finance flowing to many developing countries, it is unique in that it can be directed to address specific development issues, such as market failures, and as leverage for policy discussion. By comparison, private finance goes where it will generate the greatest returns and remittances are spent by whoever they are sent to, on whatever they want.

The unprecedented economic growth that many developing countries have achieved has made them more confident about their development trajectory, more assertive in articulating their external assistance needs, and more capable of funding development from their own resources. Several countries, such as China and India, both of which are now middle-income countries, are simultaneously recipients and providers of international aid.

While the changing fortunes of some countries are opening up new possibilities, many remain trapped in fragile and conflict-prone situations and have made little progress in reducing poverty. The international community has struggled with solutions to assist these countries in moving towards stability and prosperity, as private capital is often reluctantly invested in such high-risk environments. In these situations, there is a continued need for ODA and for creative and innovative solutions to support stability and growth. Any solution must consider opportunities to bring the private sector in as a key actor.

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[24] The eight Millennium Development Goals form a blueprint agreed by all the world's countries and leading development institutions. They have galvanised unprecedented effort to meeting the needs of the worlds poorest.

[25] The Gates Foundation (or the the Bill & Melinda Gates Foundation) works to help all people lead healthy, productive lives. It is based in the U.S. and is the largest philanthropic organisation in the world. As of September 2013, the asset trust endowment totaled US$40.2 billion.

Aspects of the definition of ODA are up for discussion, including sectors that are eligible to receive ODA, countries eligible to receive ODA and the circumstances under which different types of financial instruments are eligible to deliver ODA.

These definitional discussions influence how donors work with the private sector, including what activities will be recognised and incentivised. For example, under current rules, grants and concessional loans are eligible as ODA. However, guarantees and equity investments often used by donors for direct partnerships with business only count as ODA if the investment fails or if it is channelled through multilateral organisations. Donors argue that these types of instruments can have development benefits and current DAC rules provide a significant disincentive for use.

Taking into account national circumstances, donors will want to reach national or international goals for ODA as efficiently and effectively as possible. Many donors are unwilling to undertake development cooperation activities that are not eligible as ODA.

The approach of other donors

Most donors continue to place considerable emphasis on helping developing economies establish the right foundations and policies to foster entrepreneurial activity, private sector growth and inflows of private capital. This results from the strong evidence that effective policies and institutions are the most effective way to enable developing countries, and the private sector operating in those countries, to attract private finance to drive continued growth. In addition to building enabling environments for private sector-led growth, donors have increasingly been looking at ways to work more effectively with key growth markets or directly with the private sector.

Donors have long worked with the private sector at the level of market development and on enabling the poor to access markets, enhancing the competitiveness of markets and integrating businesses into global markets. Like Australia, Austria, Germany, New Zealand, Norway, Sweden, Switzerland, the United Kingdom and the United States of America are all active this way. Thus far the focus of these activities has been on local, small and micro enterprises, but it is gradually expanding to incorporate multinational supply chains.

Direct partnership approaches are a small but growing part of most donor portfolios. This trend is likely to accelerate as donors become more experienced in using direct partnerships. The United States has the strongest focus on direct partnerships with business, in keeping with long-held policy and practice of promoting the power of the country's business, in particular in driving development. The United States Agency for International Development's (USAID) programs also help citizens develop ways to participate in social and economic decision making by encouraging cooperation between local civil society, local governments and the private sector.

Another area of growing interest for donors is connecting world-leading businesses with businesses in partner countries to harness expertise and cultivate business relationships. A desire for greater engagement with the private sector is highlighting the skills and experience needed in donor organisations to do this effectively. This includes accessing the right skills and putting in place appropriate internal structures and risk management approaches.

Different types of partnerships are being explored by donors depending on the context, policy objective and type of private sector organisation involved. Section 3 discusses the range of new partnerships being used by donors to supplement more traditional (but essential) government-focused activities.

Aid for trade

Trade is a driver of economic growth. But many developing countries, especially least developed countries, face significant internal constraints to trade. These can include cumbersome regulations, poor infrastructure and lack of workforce skills. Australia provides aid for trade to help developing countries address these constraints. Australia's approach to aid for trade aligns with the definition of aid for trade set by the World Trade Organization and the OECD.

Aid for trade covers many different sorts of activities, such as training customs officials to make the movement of goods more efficient, investing in roads and storage facilities, connecting farmers to overseas buyers, and helping women entrepreneurs to export.

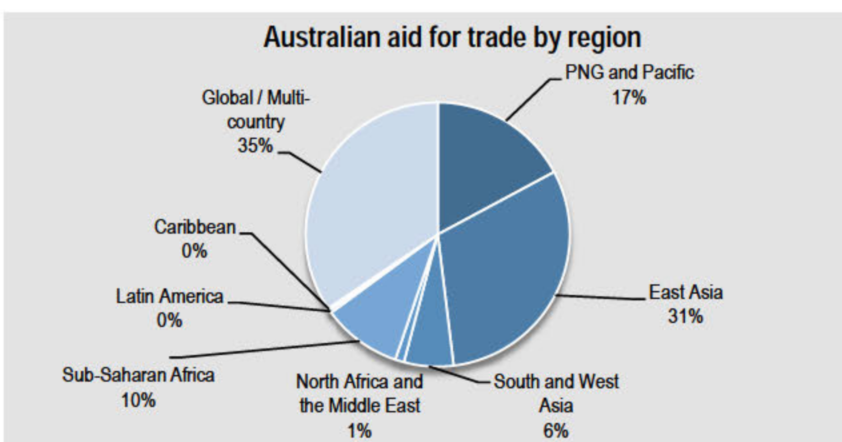
The private sector benefits from aid for trade. Aid for trade helps establish conditions that make it easier and cheaper to do business, such as lowering the costs of establishing a new business or shipping goods across borders. Aid for trade also provides the private sector with new opportunities to expand markets as governments liberalise trade barriers or harmonise regulations. The private sector can also be an important partner in aid for trade. ODA can leverage private sector resources and expertise. With the private sector as a partner, aid for trade initiatives can have a greater reach, achieve outcomes sooner and be more sustainable.

Australia's aid for trade in 2013-14 is estimated to be about $630 million (or around 12.5 per cent of Australia's aid program).

It focussed on three types of activity:

- building productive capacity, including in agriculture (54 per cent);
- economic infrastructure, including transport and storage (42 per cent); and
- assistance in trade policy and regulation (4 per cent).

By region, Australia's aid for trade is directed principally to global or multi-country initiatives (35 per cent of total aid for trade), followed by East Asia (31 per cent), and the Pacific, including Papua New Guinea (17 per cent).



3. PARTNERING WITH THE PRIVATE SECTOR

TOR E. The role of public-private partnership in leveraging investment
TOR F. Risks related to current and future approaches
TOR G. The role Australian and international business could play to support development and inclusive growth

Why partner?

Business, whether local or foreign, may look to partner with donors for a range of reasons. The most obvious is to influence and encourage government and donor efforts to create a better enabling environment or improve the functioning of specific markets or sectors in which they have an interest. The private sector also sees donors as useful sources of information given their engagement with and access to partner governments. Larger businesses may also look to donor partners for their convening power or ability to act as an interested third party to advocate for a project. In other cases, risks related to government corruption, rent-seeking and other capricious behaviour can see businesses seek out donor governments to act as an honest broker and advocate for fair and equitable business dealings in developing country contexts.

Developing countries are also emerging markets. For larger companies, more informed consumer demand, coupled with increasing global competition for commodities, requires greater focus on managing supply chain risks and securing long-term supply of materials. To achieve this, 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 and increasing the desire of businesses to partner with development organisations and governments.

Donors and partner governments are also increasingly aware of the limitations of publicly funded programs to drive sustainable economic growth. Partnering with the private sector is desirable to access ideas, innovation and different business models in search of solutions for intractable development problems. In other cases donors may look to 'crowd in' private financing to help bring solutions to scale when public resources are not sufficient. Working directly with companies whose scale or market influence is such that they can generate significant development outcomes through their business activities is also attracting attention from donors.

92%

of Australian business leaders believe businesses can play an important role in development

$1 to $8

is the multiplier that aid for trade can deliver in export earnings in partner countries

Brand trust and reputation

is the number one driver for businesses undertaking activities with development benefits

24%

is the proportion of funding obtained from private businesses, foundations and individuals for the GAVI Alliance.

What is a partnership?

The term 'partnership' defines a wide range of relationships between donors, governments, the private sector and civil society. Broadly, speaking there two types—non-financial and financial. Private sector involvement in partnerships or any business opportunity in developing countries is motivated by these three key factors:

1. access to information and increased understanding of potential investment opportunities in developing countries
2. acceptance of the risk associated with a potential investment in a developing country
3. acceptance of the profit that can be made from an investment in relation to the level of risk accepted (risk-adjusted return).

All these are forms of public – private partnerships. However, the term is often used to describe large, complex financial arrangements between the public and private sectors to deliver infrastructure or services.

What is a public – private partnership?

The term public – private partnership is used in this submission to describe any partnership arrangement between the public and private sectors. The term is sometimes used more narrowly to define large-scale, complex contractual arrangements between governments and the private sector, usually to provide public assets (for example, infrastructure) or services (for example, healthcare). This narrower definition refers to sharing resources, risks, responsibilities and rewards between public and private sector parties for project-level delivery of public services and/or assets. This may include a number of financial instruments and can involve varying levels of ownership, risk and responsibility allocated to the private sector.

Public – private partnerships are often used for the provision of infrastructure (for example, roads, airports, seaports, power generation and transmission, water supply and wastewater treatment) and are being explored for the provision of social infrastructure and services (for example, hospitals, schools and education facilities and public housing).

These partnerships 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. They are also essential to understanding the potential benefits, costs and risks associated with specific partnerships. In some cases this may require external expertise in the early stages of partnership development and in other cases support to re-negotiate contracts during the life of the agreement (which often run for up to 30 years).

Non-financial partnerships

Many partnerships do not involve direct financial contributions from the public or private sector, but leverage the knowledge, skills or assets of the private sector. Examples are distribution networks or relationships with customers to achieve development outcomes being sought by public sector organisations. Developing country governments, donors, global sectoral funds (for example, The Global Fund and the GAVI Alliance), and non-government organisations use these types of partnerships (for example, the WWF's partnership with USAID and Metafore in the Sustainable Forest Products Global Alliance).[26]

Partnering with the private sector presents new creative opportunities to address the design and implementation of development interventions. This can involve harnessing an advantage of a private sector firm, such as a distribution network, communications platform, skills or other assets, and partnering with them so the advantage can be capitalised upon to achieve outcomes sought by the public sector. This has implicit financial benefits for the public sector since it maximises the efficiency and effectiveness of interventions by harnessing its strengths.

[26] Metafore and WWF 2006. *Sustainable Forest Products Global Alliance* viewed 6 May 2014.

This model is flexible and so partnerships are different. They can seek to capitalise on a unique advantage or niche that the private sector firm offers. For example, the Global Fund and GAVI Alliance are working with Coca-Cola to find ways to strengthen Ghana's vaccine supply chain by sharing Coca-Cola's distribution and logistical expertise and using its marketing expertise to boost awareness campaigns.

Since these types of partnerships are the most fluid, they need to be highly strategic to have a significant development impact. Although they can be used in all sectors, they may better suit sectors that have a strong private sector presence and where companies have broad geographic reach or the specialist skills needed for successful development interventions.

Financial partnerships

A financial partnership between a government (donor or developing country government) and the private sector may be particularly useful when:

- the public benefit of an activity outweighs the return captured by a private investor or business undertaking that activity (for example, sourcing agricultural products from smallholders)
- public – private cooperation can reduce the project risk to an acceptable level, enabling the project to progress
- public sector finance can improve the development impact of private sector activities.

National governments, global sectoral funds, bilateral donors and multilateral development banks are using a wide range of financial instruments to attract private sector investment to developing countries. These are designed to draw in private, institutional investors (pension funds, private equity funds, commercial banks and investment banks) and often have complex contracts and partnership arrangements surrounding use. The primary purpose of these types of instruments is to enhance the risk-adjusted return of the private investor or remove other market barriers such as information asymmetry so the desired investment or activity can occur.

Partnerships focused on enhancing returns (co-financing and subsidies) are often used to encourage private sector investment in projects or sectors where the public benefit outweighs the return that may be captured by private investors. For a relatively small financial contribution from government, these types of partnerships ensure that the private investment goes ahead, delivering the public benefit. Further information is included in *Attachment A.*

Partnerships focused on sharing risks between the public and private sectors (such as guarantees, insurance, structured finance and development impact bonds) aim to reduce the level of risk of a project or investment to an acceptable level for private investors, thereby allowing the investment to go ahead. Further information is included in *Attachment A.*

Carnival Australia and DFAT memorandum of understanding: The evolution of a partnership

A good example of how partnerships mature is the relationship between Carnival Australia and DFAT. This began more than four years ago on the back of Carnival's participation in the Enterprise Challenge Fund[27]. As a result of this project, Carnival and DFAT (through the former AusAID) started to increase regular formal and informal meetings in Australia and Vanuatu to maximise the project's impact.

At the time, there were no policies on private sector development in DFAT and engaging with donor governments was outside Carnival's normal business model. As DFAT built its expertise in private sector development, in Vanuatu and in the Pacific Branch in Canberra, Carnival was increasing its understanding of how the public sector works and also of DFAT's business model. Crucial to this understanding was the leadership of a CEO who understood public and private organisations.

The time invested built trust and mutual understanding of each other's core business interests and capabilities, providing the basis on which to develop a formal memorandum of understanding which codifies specific areas of mutual interest and is producing spin-off investments from both organisations. These investments are boosting growth in tourism, retail, training and infrastructure and extending the impact of Australia's development assistance in the Pacific.

Carnival cruise passengers arrive on Mystery Island, Vanuatu. Photo: DFAT

Handicraft markets, Port Villa, Vanuatu. Photo: DFAT

[27] The Enterprise Challenge Fund (ECF) was a six year (2007-2013) Australian Government pilot grant fund that provided funds directly to businesses in Asia and the Pacific. The ECF closed in October 2013.

4. DFAT ACTIVITIES

TOR B. Current Australian Government support for private sector development

Australian aid

Australia's aid program contributes to its economic diplomacy efforts to deliver greater prosperity for Australia, the region and the world.

It does this by helping to build stronger communities and economies, as well as more stable governments in the region. Australia's development assistance is helping partner governments improve law and order, expand trade, create jobs, build skills, improve health, boost incomes, improve economic and social security, and empower women and girls.

Approximately 57 per cent of Australian aid funding is delivered through bilateral and regional programs. Approximately 31 per cent is delivered through multilateral organisations. The remainder is provided through other mechanisms. All of Australia's aid program funding is classified as ODA.

Most Australian aid is delivered through bilateral partner government systems. These programs are long-term investments to improve partner government capacity and systems. This improves the enabling environment for the private sector and helps countries transition to economic self-reliance.

Australia's aid program also funds not-for-profit organisations (or non–government organisations), such as World Vision and Oxfam, to deliver aid programs directly to people in need, particularly where the government or private sector is not able or willing to.

Community society groups also support engagement between communities and government in providing service. For example, Australia provides assistance to the Indonesian Government's National Program for Community Empowerment, recognised as one of the most successful community-driven development projects in the world. This program has generated jobs, provided loans to female small traders and home-based businesses and increased community access to markets, town centres, clean water supplies and health and education facilities.

In emergencies—when communities are devastated by cyclones and earthquakes or are recovering from conflict—DFAT staff travel to affected areas to provide immediate support. Australian aid also provides critical support to Australian and international organisations expertise in helping people in emergencies, such as the International Federation of Red Cross and Red Crescent Societies, the United Nations group of organisations (such as UNICEF and the World Food Programme) and other international organisations (such as the World Bank). Australia's funding, along with contributions from other countries, helps these organisations to operate and run projects in developing countries.

$1413 million

is the total Australian aid program expenditure on private sector development in 2012–13.

3 months 36 days

is the decrease in the average time it takes to form a company in the Solomon Islands as a result of the Australian aid-funded Pacific Private Sector Development Initiative

500 000 people (including 200 000 women)

in PNG, Tonga, Samoa, Vanuatu and Fiji now have access to basic financial services through mobile banking as a result of the Australian aid-funded Pacific Financial Inclusion Program

4,400 km

of road was constructed or maintained in 2011–12 in the region with the assistance of Australian aid

DFAT often outsources the management of large and complex projects to Australian or international companies that have the required expertise. In accordance with Australian Government procurement guidelines, these companies are selected through rigorous and competitive tender processes.

While DFAT manages the largest part of Australia's aid funding, many other government departments and agencies are involved in delivering the aid program. These departments or agencies partner with others involved in delivering aid, such as:

- academic institutions
- businesses
- multilateral organisations
- civil society organisations
- other government donors
- regional governments
- volunteers.

Australia's aid program focuses on the Indo-Pacific region (Figure 6). It is internationally recognised for its leading role in the region, particularly in the Pacific. Australia's aid is even more important given that two-thirds of the world's poor—some 800 million people—live in the Asia Pacific, yet this region receives less than one-third of global aid. Australia also provides assistance to Africa, the Middle East, Latin America and the Caribbean.

Figure 6. Australia's bilateral and regional aid programs in partner countries

Australia also contributes to partner country development through its policies in migration, agriculture, trade and technology transfer. Changes in these policy areas, coupled with supporting aid investment, can create significantly larger and longer lasting development impacts than can individual aid investments. For example, the Pacific Seasonal Workers Program has enabled more than 2000 workers from the Pacific and Timor-Leste to earn additional income as seasonal workers in Australia. The average worker remits $5000 to $6000 over a six-month placement, resulting in an approximate $18 million contribution directly to isolated Pacific communities. Workers have used their earnings to pay school feels, invest in community programs, make home improvements and invest in new local business ventures.

How Australian aid works with the private sector

DFAT works with the private sector to achieve economic growth and development outcomes in the region in three main ways.

Building better enabling environments for business: These activities focus on strengthening the enabling environment for private investment and business operations. They benefit ***all businesses*** operating in-country. These initiatives include reforming business registration processes, implementing contract laws, establishing institutions to provide support to businesses and enabling businesses to access finance and investments in the infrastructure that is essential for private sector-led growth (for example, transport networks, electricity and information and communications technology).

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***.

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.

Bilateral and multilateral

With these three ways of working with the private sector framing investment decisions, DFAT uses bilateral or multilateral approaches to implement initiatives, depending on country context and capacity to deliver most effectively. For bilateral or regional programs, DFAT has direct control over program design and implementation. Attachment B details this.. Bilateral or regional programs are generally implemented in partnership with recipient governments or with the support of managing contractors. They are in some cases delivered by multilateral organisations on DFAT's behalf.

Australia typically works with multilateral organisations by providing:

- core funding to organisations to spend according to their alignment with Australia's priorities. These funds are integral to the organisations' financial assets and are not tied to activities in- country or to specific outcomes. Donors influence spending decisions through their representation or participation in governing boards or other governance mechanisms of the organisations funded.

- non-core funding to implement particular programs that have a clearly identified sectoral or thematic or geographic focus. Funds are often termed 'earmarked funding', 'joint programs' or 'co-financed activities'.

DFAT generally chooses to support and partner with multilateral organisations for one or more of these reasons:

- governments are not able to work (because, for example, they are in conflict situations)
- the multilateral organisation has economies of scale, specialist expertise or financial structures that allow it to provide different types of development assistance (for example, guarantees)
- risks can be shared and coordinated across partners
- innovative approaches can be supported without domestic accountability constraints
- the multilateral organisation can use its balance sheet to raise and on-loan money to developing countries.

Who we work with in the private sector

DFAT works with many parts of the private sector, including formal and informal local businesses in-country, Australian businesses working or investing in developing countries in the region and multinational businesses.

Private sector organisations (as managing contractors) are also key delivery partners for the Australian aid program. In working with private sector organisations, DFAT uses transparent tendering processes to ensure the best value for money and effectiveness. The Australian aid program has been untied since 2006, which means it has no nationality or residency restrictions for suppliers tendering for aid activities. This ensures Australia has access to the best globally available goods and expertise at the most competitive prices.

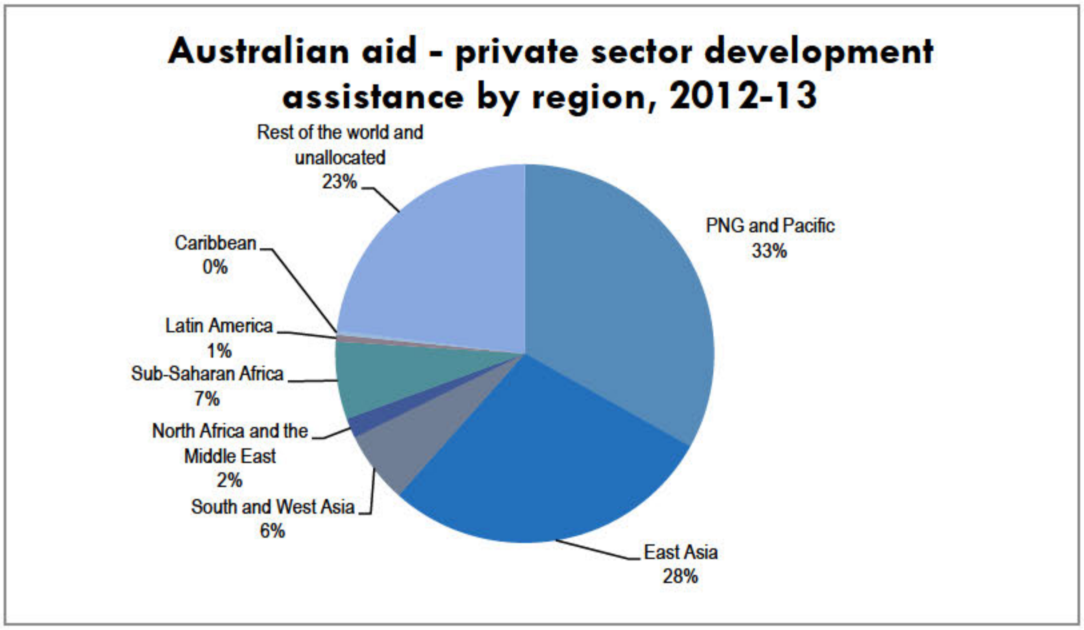
The key aid program activities that DFAT delivers to support private sector development are described next. More detailed coverage of specific projects is in *Attachment B* and in the case studies in *Attachment C*.

Untied aid

Since April 2006, Australia's aid program has been untied, meaning there are no nationality or residency restrictions for partners. Untied aid is the best way to ensure activities represent value for money, are cost-effective and use the best globally available expertise, thereby achieving the best development results. It also presents reciprocal opportunities to bid for international work.

The World Bank estimates that untying aid reduces the cost of goods and services by between 15 per cent and 30 per cent and as much as 50 per cent for food aid. The overwhelming evidence in support of the benefits of untying aid is clear and has led to most OECD countries to adopt it.

The Australian aid program has a branding policy that helps to identify programs delivered in-country as Australian aid and acknowledge Australian funding. Contractors, whether Australian or foreign, are contractually obliged to adhere to this.



Bilateral—Asia (East Asia, South and West Asia)

Private sector development activities in East Asia have focused on improving the enabling environment for private sector development. In 2012–13, more than $300 million was invested in sustainable economic development across the region. Given the high growth context of many countries in the region, DFAT has implemented a wide range of approaches across its three levels of private sector engagement.

This includes examples such as the East Asia regional transport and trade program in the Greater Mekong Sub-region (Cambodia, Lao People's Democratic Republic, Burma and Vietnam) which are reducing the cost and time needed to transport goods across land-based borders through cross-country exchange of traffic rights, licence recognition and opening permit quotas. The DFAT – World Bank Partnership for South Asia—Infrastructure for Growth is supporting analytical work and project interventions to encourage policy and institutional reforms. One example is the financial and legal advisory support provided to Power Grid, India's national and cross-border electricity transmission company, to access a syndicated loan. This support has helped Power Grid access the international loan market for the first time, setting a precedent for other Indian and regional public sector entities.

The Cambodia Agricultural Value Chain Program (CAVAC) program is a good example of the types of interventions DFAT is undertaking to catalyse growth in high-value markets. CAVAC helps address market failures in the agricultural value chains in Cambodia, in turn helping poor farmers increase productivity and earn higher incomes. The ways CAVAC does this includes bringing fertiliser companies and farmers together to improve fertiliser application or investing in irrigation infrastructure and supporting sustainable water management practices to allow farmers to grow two or three crops a year instead of just one. In Nepal, DFAT's Micro-enterprise Development Program has created more than 70 000 jobs in micro-enterprises since 1998. A majority of these micro-enterprises are led and/or owned by women. Due to its success, the Government of Nepal has scaled up the initial pilot across all 75 districts. And Timor-Leste's Market Development Facility works with business to identify and develop new services that provide increased income and employment opportunities for the poor, including working with fruit and vegetable wholesalers to increase the proportion of locally sourced produce for local hotels which is expected to create 10 900 jobs and increase incomes for 117 000 self-employed individuals.

The Enterprise Challenge Fund (ECF) for the Pacific and South-East Asia generated a high level of interest due to its direct funding of businesses in support of development outcomes. Grant funding from the ECF leveraged almost 1:1 from businesses and has led to highly successful projects, such as WING mobile banking Cambodia. Direct DFAT partnerships with larger businesses are also increasing in the region. For example, DFAT's partnership with Sagittarius Mines Inc. and Orica Philippines has facilitated the provision of scholarships for Filipino college students in mining-related fields, building professional expertise in this key growth sector.

Bilateral—the Pacific

Despite the constraints to growth and trade in the Pacific, DFAT has had considerable success with private sector development initiatives focused on enhancing the business-enabling environment and more recently maximising the development impact of key businesses in the region.

The Pacific Private Sector Development Initiative has been the most successful program in improving the business enabling environment in 14 Pacific countries. The first two phases have focused on business law reform, improving access to financial services, reforms of state-owned enterprises and public private partnerships. For example, in the Solomon Islands this program doubled the rate of company formation.

Programs have also strengthened key markets and sectors including financial services, agriculture, tourism and food processing. The Pacific Financial Inclusion Program has enabled more than 500 000 people, including 200 000 women in PNG, Tonga, Samoa, Vanuatu and Fiji to access basic financial services through mobile banking. The Market Development Facility also operates in Fiji and works with businesses in key sectors to innovate and expand for the benefit of poor people as employees, consumers or producers.

The largest example of direct partnership with business in the Pacific is the memorandum of understanding between DFAT and Carnival Cruises, the region's largest cruise tourism operator. This formalises the partnership between the organisations combining resources, networks and experience to promote economic opportunities, skills development and employment.

Bilateral—Africa

A number of programs in Africa focus on private sector development, often working in partnership with other donors in the region. Most have focused on strengthening key markets in the agriculture sector, given its importance in economies in the region. DFAT also has a growing mining governance program in Africa which partners with industry, governments and communities to promote investment, growth and job creation.

To strengthen the agricultural sector, the African Enterprise Challenge Fund awards grants and interest-free loans to private sector companies to support innovative business ideas in agriculture, agribusiness, renewable energy, adaptation to climate change and access to information and financial services. Overall, the AECF has benefited nearly 700 000 households and created 3750 new jobs (with one-third being held by women). DFAT is also funding insurance to assist Kenyan pastoralists to manage drought and its economic impacts.

Multilateral organisations

Much of DFAT's engagement and support for private sector development has been through multilateral organisations, particularly the multilateral development banks and global funds. Australia is a shareholder of the World Bank and the ADB and contributes to a number of global funds deal with specific issues across many countries (for example, health, agriculture, infrastructure and the environment).

The World Bank supports governments to build a better enabling environment for business (14 per cent of lending in 2012–13 supported such activities). Other multilateral funds, such as the Public-Private Infrastructure Advisory Facility, work with governments to assist them to implement the necessary policies, laws and regulations and develop effective institutions and government capacity to enable private sector investment.

Multilateral organisations and funds often strengthen key markets or sectors associated with large-scale or cross-border development challenges. The Private Infrastructure Development Group does this in infrastructure by funding early stage, high-risk project development activities not able to attract private investment. Many sectoral funds also work in this way. The GAVI Alliance, through the International Finance Facility for Immunisation, ensures developing countries have access to a secure and affordable supply of vaccines. The Global Partnership for Output-Based Aid provides performance-based subsidies for basic infrastructure or social service provision by the private sector to poor populations. This connects poor populations to markets for essential services and demonstrates the profitability of business models that serve poor consumers to private sector providers.

The ADB, the IFC and Multilateral Insurance Guarantee Agency (MIGA)— the latter two are members of the World Bank Group—focus on the private sector and provide guarantees to business operating in developing countries and undertake significant direct partnerships with business. These activities encourage private investment in developing countries and in key sectors within those countries and enhance the development impact of these investments. In 2012, the ADB provided loans of US$4 billion for private sector project finance and invested US$767 million in private equity funds. For every dollar lent for project finance, seven is invested by other partners (ADB has a leverage ratio of 1:7). The leverage ratio for ADB's private equity investments is 1:6. The ADB is also undertaking increasing amounts of public – private partnership transactions. The IFC has a US$50 billion portfolio of investment commitments with nearly 2000 companies in 126 countries. All activities undertaken by MIGA are direct partnerships with business.

Multilateral development banks and private sector development

Australia's largest exposure to private sector development is via its investments and engagement with the multilateral development banks. The ADB invested US$4.8 billion in private sector activities in 2012–13. Private sector development is a priority for the ADB. The ADB is aiming to have at least 50 per cent of its annual operations supporting private sector development and private sector operations by 2020. This builds on strong recent growth in private sector development in the ADB, with private sector development themed operations growing from an average of 29 per cent (2003–2007) to 38 per cent in recent years (2008–12). Private sector development operations approved by the ADB in 2013 included accelerating infrastructure investment in India, improving air and sea transport within Indonesia and supporting reforms for inclusive growth in Myanmar. In 2012–13, Australia provided $83.1 million in core funding to the ADB.

During this same period, the World Bank invested more than US$6 billion in supporting private sector development activities and the International Finance Corporation (IFC) (the private sector arm of the World Bank Group) invested US$18.3 billion in 612 projects. The Multilateral Investment Guarantee Agency (a member of the World Bank Group) guaranteed US$2.8 billion worth of investment guarantees for private sector investments in developing countries. During this period, Australia provided $207 million in core funding to the World Bank.

5. INNOVATION, ALIGNMENT AND NEW OPPORTUNITIES

TOR D. Additional partnerships, activities or financial instruments the Australian Government could use
TOR F. Risks related to current and future approaches
TOR G. The role Australian and international business could play to support development and inclusive growth

DFAT is responding to the changing global development environment, including the mounting evidence of the importance of the private sector in determining a country's development performance. The growing size and influence of non-ODA development finance, including from private investment, remittances and domestic revenue, is driving DFAT to think and act innovatively to ensure Australia's national interests continue to be advanced through development cooperation.

The Australian aid program directly reflects and supports Australia's focus on trade, growth and job creation. It does this through support to public and private efforts which bring faster and more sustainable private sector growth to the region. Long-term investments in governance, bilaterally and with other development partners, are starting to yield sustainable improvements to enabling environments. DFAT's investments in market-based initiatives are already showing potential and exposing DFAT to new partnership possibilities. Where development potential exists, DFAT will pursue more innovative partnerships, including directly with business.

US$1 trillion

is the annual infrastructure investment needed in emerging and developing economies

US$400 billion

will be the size of the impact investing sector by 2020

600 million

new jobs will be needed between now and 2030 to maintain current employment rates

50%

more food is needed by 2050 to feed the worlds estimated nine billion people

Innovation

Combining DFAT's broad range of development experience with the skills of private sector development practitioners and private enterprise will help DFAT plan and deliver more innovative and effective private sector development programs.

Active engagement with the private sector will help DFAT build monitoring and evaluation systems that can better determine what activities are delivering the biggest return. Robust evidence will support faster and more accurate decision making on what is and is not working, and how best to adjust DFAT's funding and programs in response to this knowledge.

To this end, DFAT is developing a performance framework for the aid program to ensure Australian aid is effectively contributing to international economic growth and poverty reduction in the national interest. Under the framework, performance at all levels of the aid program will be more closely linked to funding allocations. The framework will also include mechanisms to assess whether the aid program is making progress on delivering key Australian Government priorities, potentially including a stronger focus on aid for trade and private sector engagement in aid investments.

Using these evaluative tools, DFAT will ensure funding and support is maintained or increased to the programs that are delivering results. DFAT's largest investments in private sector development are currently delivered in partnership with multilateral development banks. DFAT is examining how to further leverage these investments to deliver broader private sector development objectives. DFAT will also use improved monitoring and evaluation tools to improve its long-term investments with partner governments that aim to improve their business enabling environment.

DFAT's commitment to deeper dialogue with the private sector will include more appropriate and effective communication on current and planned activities. This will increase private sector capacity to identify potential areas of mutual interest. Outreach and awareness are critical to ensure the Australian community and businesses can engage actively in the aid program.

The same is true for DFAT's communications in developing countries. Private sector development is a priority for all of Australia's partner countries. Effective advocacy and awareness of the results of Australian aid program investments to build the private sector will underpin Australia's economic diplomacy efforts. 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.

Alignment and integration

A key element of improving DFAT's private sector growth analysis is ensuring the private sector actively contributes to analytical and planning work. DFAT will look to ensure its key processes and guidance—from country-level planning through to individual project design—provide opportunities to have private sector perspectives and expertise at the table.

The government's economic diplomacy efforts will encourage private sector-led growth in partner countries. This will require DFAT to increase its use of analytical and diagnostic tools. DFAT will also need to improve its capacity to understand the key drivers of growth in the countries in which it works. To this end, DFAT will undertake political economy analysis and growth diagnostics progressively across all bilateral country relationships, to provide a strong evidence base for planning, investments and programming with partner governments, the private sector and other stakeholders. This will include consideration of how women can be more effectively positioned and supported to contribute to and benefit from private sector-driven economic growth. A clearer picture of the key drivers and constraints to private sector growth will be the foundation upon which DFAT builds coherent programs of support, using its full range of capabilities.

Integration is already demonstrating how this will take place in practice. As an example, this submission is a product of a newly integrated Trade and Economic Diplomacy Division working with foreign affairs, trade and aid policy areas across multiple divisions in Canberra and at Posts across the region.

Portfolio partners (Austrade and the Australian Centre for International Agricultural Research) are increasing collaboration with DFAT on private sector engagement under the economic diplomacy policy. There is considerable potential to further leverage the expertise of the two partners in supporting economic growth and reducing poverty in the region. Economic diplomacy deploys Australia's diplomatic assets, including the aid program, to support Australia's prosperity and that of development partners. The four pillars of economic diplomacy—trade, growth, investment and business—all promote development outcomes. Delivering the Australian Government's economic diplomacy priorities will facilitate greater portfolio and government collaboration in support of private sector growth initiatives, poverty reduction and regional security.

There is also considerable potential to tap into other domestic organisations which have a sharp focus and knowledge of private sector growth. DFAT will explore the potential to learn from and partner with other government agencies—federal, state/territory or local—where there is a capacity and desire to work on advancing the Australian Government's development agenda.

New opportunities

Developing more formal partnerships with businesses is essential if DFAT is to develop policies and programs that meet its economic diplomacy objectives and help partner governments achieve sustainable private sector-led growth. These partnerships, which may initially be non-financial, will provide DFAT with more exposure to how the private sector operates, its drivers and motivations and, most importantly, its capacity to contribute to Australia's development efforts. Partnering directly will accelerate DFAT's learning and build the foundation to explore potential financial relationships. DFAT is examining the potential of a broader range of financial instruments that may open up new opportunities to support and incentivise inclusive, sustainable private sector investment in developing countries where it may not have otherwise occurred.

To support the planning and development of these new partnering approaches, DFAT will increase its engagement with new and existing development partners, bilateral and multilateral, to gain greater exposure to and understanding of the potential use and effectiveness of new partnering models and financial instruments.

Effective partnering with the private sector, understanding and developing programs that support private sector growth and exploring potential use of new financial instruments will require DFAT to support staff to build the requisite skills and knowledge in these areas. In some cases, this will require sourcing specialist skills from outside DFAT, including from the private sector directly. DFAT will consider how its human resources are supported and enhanced to make the most of available opportunities.

While potentially yielding greater development returns, working with new partners in more innovative ways will expose DFAT to potential new risks. Balancing these risks and development returns will require DFAT to consider its overall response to risk management. DFAT will need to have the appropriate skills, systems and procedures in place to identify and manage these risks. Its capacity to undertake adequate due diligence will need to reflect the huge diversity in potential new partners and the high expectations from the Australian public on the effective use of aid program funding.

DFAT is shifting its focus to take advantage of the new development landscape. It will focus efforts where Australian aid funds can uniquely add value in partnership with the private sector. DFAT will continue to ensure that the aid program serves as a constructive force shaping better enabling environments, drawing in more private sector finance and ideas to further the impact and sustainability of Australia's development effort.

Improving health with the private sector

The private sector plays a major role in improving health across the region. For example, approximately 70 per cent of health services accessed by the poor in Asia are in private ownership, approximately 60 per cent of all financing for health in Asia is private out-of-pocket expenditure. Less than 1 per cent of total health financing in developing countries is from foreign aid. Of the 1556 new drugs that came onto the market between 1974 and 2004, only 21 were for diseases of poverty (for example, tuberculosis and malaria).

Australia has a comparative advantage in the health sector including:

- *expertise and experience in a mixed public – private health system*
- *expertise in global health research and product innovation (for example, cervical cancer vaccine)*
- *long-term trade, cultural and political relationships within the region and strong historical ties*
- *a strong history of and reputation for provision of flexible aid financing that meets country needs.*

DFAT invests in health—particularly health systems— in the Indo-Pacific region so women, men and girls and boys can access quality basic health services and live healthy and productive lives, thereby contributing to economic growth and regional health security.

The aid program already has a track record of working with the private sector to improve health in the Indo-Pacific region. We have invested in innovative financing, outsourced service provision and product development partnerships.

Building on current experience, the aid program could:

- *Engage with the private sector to better understand health markets. Australia could engage more proactively with private and corporate sectors to better understand the functioning of 'health markets' (for example, health workforce, goods and commodities) as it develops policies and programs. This may include initiating public and private discussion on key issues such as medicine quality, or access to services, and more detailed market analysis to inform aid investments and discussion with countries.*
- *Support governments to address market failures in health. Australia should continue to support countries to strengthen their health systems, in particular government's role in oversight of the health sector, rather than in provision of services. This includes building regulatory capacity, the ability to outsource services and working with the private sector in-country to understand and create market incentives for high quality, low-cost health care.*
- *Drive innovation in health service delivery, quality of care, financing and research and development, through public – private partnerships. For example, Australia can nurture innovative partnerships that tap the potential of smarter use of information communication technology (for example, information communication technology), or further invest in product development partnerships.*

Improving women's position as employees

Employment is recognised as a pathway to inclusive growth, and businesses have a critical role to play in ensuring that women have better employment opportunities. Many businesses are working to enhance productivity and create working conditions appropriate to women's specific circumstances, knowing that this is not only the right thing to do but also good for their bottom line.

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

The aid program can also 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.

Partnering for economic infrastructure[1]

The private sector plays an important role in the provision of public infrastructure, including for facilities owned and managed by the state. For example, governments commonly contract responsibilities for designing, constructing and maintaining public roads and increasingly look to the private sector to finance public – private partnership projects and to build, own and operate special industrial infrastructure.

There is generally seen to be considerable scope for increased private investment in public infrastructure provision, although the challenges for developing countries remain formidable. This applies particularly to 'natural monopoly' sectors, such as water and electricity distribution, where tariffs are politically sensitive, and expectations need to be managed accordingly.

DFAT works across the full range of economic infrastructure sub-sectors and is expanding opportunities for private participation, including through:

- *providing technical assistance aimed at improving the enabling environment for private participation in infrastructure provision, for example policy, legal and regulatory reform and institution-building activities*
- *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*
- *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.*

Role for Australian and international business

The Australian private sector has internationally recognised strengths in the fields of engineering and management consulting, project management, and financial, legal and transactions advisory services. Australian banks are well positioned to participate in public – private project financings while a number of Australian-listed civil engineering contractors operate in the Indo-Pacific region.

Strong competition, including from China, Japan and Korea, limits the scope for Australian firms to take the lead in constructing major power generation, port, railway or urban transport projects in countries such as Indonesia, but there are abundant niche opportunities for Australian specialist contractors in these markets as well in the Pacific.

Although Australia does not support tied aid funding, the development cooperation program has provided a solid platform upon which Australian consulting and advisory firms can build their presence in the region.

Private sector opportunities in agriculture and food

Agriculture is largely a private sector activity—even small-scale farmers are business entrepreneurs. In most middle and low-income countries large numbers of people make their livelihoods from agriculture and fisheries, and these sectors remain significant contributors to the economy. In Indonesia, for example, 40 per cent of people are employed in agriculture, in PNG it is 85 per cent, the Solomon Islands 75 per cent, Fiji 70 per cent and Myanmar 70 per cent.

Developing inclusive agriculture and food businesses enables poor people to become economically self-reliant and in turn creates a positive cycle of growth. Food security is essential for the social and political stability required for greater private sector investment. Agriculture sector growth and sustainability is needed to ensure future food demand is met. World Bank analysis shows that growth in the agriculture sector is two to four times more effective in lifting people out of poverty than comparable growth in other sectors. Increased income for farmers and traders, many of whom are women, enable them to invest in the health and education of their children and break the cycle of poverty.

There are many opportunities for growth in the agriculture sector, such as connecting farmers to new markets, supporting the adoption of new technology, creating small-scale businesses and helping larger agriculture and food companies operate in ways that deliver greater economic opportunities for the poor.

Role for Australian and international business

Australia is a highly efficient agricultural producer with extensive expertise in agricultural policy, research, marketing and agri-business management. The Australian aid program will draw on this expertise to support economic growth in the agriculture and food sectors by:

- *encouraging sound agricultural and trade policy*
- *improving market access*
- *creating conditions for small and medium-scale agriculture and food enterprises to flourish*
- *strengthening research collaboration*
- *enabling efficient and sustainable food production and distribution.*

This requires collaboration and coordination between government, the private sector, non-government organisations and research. Our aid investments will help to catalyse investment and action by the private sector to drive inclusive growth in agriculture. This creates a 'win-win' by creating profitable businesses that also provide economic opportunities for poor producers and consumers. The benefits in terms of market growth, increased trade and greater regional stability are mutual for the Australian economy and partner countries.

A role for business in tertiary education in Indonesia

Indonesian tertiary education is potentially a very large market for Australian providers. University quality and graduate productivity gains are considered to be a national economic growth priority for the Indonesian Government.

Australian aid could support Australian tertiary institutions to assist in improving the quality of Indonesian universities. Through targeted partnerships between universities, DFAT can play a role in improving the quality and subsequent productivity of Indonesian graduates in high demand sectors of the labour market.

DFAT could support these partnerships by:

- *shaping higher education assistance under the aid program to require institutions within the program to partner with Australian institutions*
- *facilitating institutional partnerships drawing on international best practice and DFAT's understanding of the education and training sector and labour market demand*
- *using lessons from these activities to promote future partnerships between Indonesia's tertiary sector and Australian institutions.*

Australian partnerships can help to raise the quality of faculties in Indonesian universities and increase the potential productivity of graduates of those faculties.

Role for Australian and international business

Australia has a strong comparative advantage in the education sector. Australia is a preferred tertiary destination with respected quality institutions. Australian institutions have a recognised tertiary teaching proficiency and, most importantly, a track record of linking tertiary education and training with industry demands.

Universities and other training providers could work with DFAT to establish new partnerships and competitive funding mechanisms to encourage ongoing partnering between institutions.

ATTACHMENTS

Attachment A – Financial partnerships explained

[Back to Section 3 – Financial partnerships]

Partnerships that focus on enhancing returns

Co-financing

These forms of partnerships typically take the form of co-financing through grants or concessional loans to make projects financially viable or grant funding for project preparation.

Why use this type of partnership: For many development issues, public or social returns outweigh the potential returns to private investors. This has led to widespread under-investment in these sectors. In these cases governments may provide concessional finance (grants or loans) to subsidise private returns, making an investment financially attractive for private sector investors. A relatively small financial contribution from governments ensures the private investment goes ahead delivering the public benefit.

How it works: The underlying logic of co-financing is to get projects to the point of financial viability for investors, thereby ensuring the project goes ahead. Concessional finance is generally provided on the principle of least concessionality, that is, the concessional financing package should be the minimum required to induce the investment.

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. *InfraCo Asia*[28] *and InfraCo Africa* are good examples of this approach.

Who uses these types of partnerships: Donors and developing country governments (national and subnational) use co-financing to encourage private sector investment in projects that are not financially viable for the private sector to invest in alone.

In what sectors: Generally sectors which generate a large public benefit, such as transport infrastructure, energy supply and transmission, water and sanitation, public transport, climate change and environment. This type of return enhancing instrument is mostly used where there are large upfront investment costs but the returns come in over a long time[29]. Concessional funding is also used by donors to support research and innovation.

Challenges: Grants or concessional loans can create perverse incentives if beneficiaries expect they will receive them in the future, weakening their incentive to access commercial finance.

Market distortions may arise when subsidising a small number of market participants. It is difficult to accurately quantify the funding required to make an investment financially viable, which presents the risk of subsidising private returns more than is necessary. This risk can be reduced by understanding the market barriers in the relevant sector and using competitive mechanisms.

ODA eligibility: All grants and concessional loans provided as co-financing are generally eligible to be counted as ODA. Whether a loan is concessional is subject to the OECD-DAC definition of concessionality.

Subsidies

These take the form of results based payments such as co-payments, user fees, advance market commitments/floor prices or feed-in tariffs.

Why use this type of partnership: As with co-financing, subsidies are used to enhance the private return of investments where the public or social good outweighs the financial return to the private investors.

How it works: Subsidies may take the form of results based payments from government or donors that are provided when the project achieves pre-agreed benchmarks. They help ensure that the incentives of the private investor/operator align with those providing the subsidy. Subsidies are often provided to encourage private sector providers to provide services to the poor, who are unable to pay the full costs of connection or use. For example, the *Private Infrastructure Development Group* (a company that is jointly funded by nine donors, including Australia), has a $14 million project-subsidy funding window that subsidises initial fees and/or user charges, or as one-off subsidies to extend the delivery of services to the poor who otherwise could not afford them.

Who uses these types of partnerships: Donors or national/subnational governments. Non-government organisations may also provide a subsidy for service provision for poor consumers.

[28] Australia is a core funding partner of InfraCo Asia. For more information on InfrCo Asia, see the section on PIDG in section 4 – DFAT activities.
[29] A good example of this is the Global Partnership for Output-based Aid's pilot project in Andhra Pradesh, which brought together local communities and businesses to provide 25 water purification plants from a donor contribution of $850 000. This investment brought clean water services to 75 000 people, for which they would be charged for at a lower rate into the future.

In what sectors: Subsidies are common where private providers are encouraged to serve poor consumers, for example water and sanitation and healthcare. They are also common where there is public benefit in undertaking activities in a more costly way, for example sustainable forest management or renewable energy.

Challenges: It is challenging to accurately assess the appropriate level of subsidy needed to incentivise private investment and service provision, while not providing windfall profits or creating market distortions. A good understanding of the market barriers in the sector and the use of competitive processes can be used to manage this risk.

ODA eligibility: Subsidies are ODA eligible as they are provided as grants.

Partnerships that share risks between public and private sectors

Guarantees

Loan guarantees, sometimes referred to as partial credit guarantees, provide payment to the lender of an agreed portion of the loan if the borrower defaults.

Why use this type of partnership: Many solutions to development challenges involve new technologies or processes and in some cases new sub-sectors. Commercial lenders may be unfamiliar with these business models, operations or sub-sectors. This unfamiliarity makes it harder for lenders to quantify and price risk, reducing their appetite to lend to businesses in these sectors. Guarantees provide confidence to private sector lenders, reducing their potential financial losses and allowing them to gain lower-risk experience and knowledge of new sectors, markets or business models.

How it works: Guarantees can be used by the public sector to reduce the risk carried by private lenders. The public sector, as guarantor, covers the cost of the loan if a default occurs, which encourages lending that would not have otherwise occurred[30].

Who uses these types of partnerships: Donors, bilaterally and through multilateral development finance institutions. The U.S Development Credit Authority, GuarantCo (part of PIDG) and the IFC (part of the World Bank Group) are well known providers of this type of support.

In what sectors: Such instruments are commonly used to promoting lending to high-risk, high-impact sectors that are underserved by commercial banks. These include small and medium enterprises (SMEs), microfinance, exporters and supply chain finance and intermediaries and agribusinesses that on-lend to agricultural SMEs, or smallholder farmers – in order to finance expansion, agricultural infrastructure, or strengthen the agribusiness supply chain, particularly around logistics, distribution and processing.

Challenges: A challenge of using guarantees is to ensure that the use of the guarantee does not encourage risky lending behaviour from financial intermediaries. The guarantee partially removes the incentives for lenders to undertake rigorous due diligence and to actively manage their loan portfolios. To mitigate this risk, guarantees should cover the minimum amount feasible to induce on-lending to the target sector.

ODA eligibility: Current ODA reporting systems measure flows of finance from a developed country government to developing countries. This means that unless a guarantee is called (because an investment fails), guarantees are not counted as ODA. This creates the situation where only unsuccessful guarantees are counted as ODA.

Insurance

Insurance against risks such as political instability, confiscation of assets and political violence allows the private sector to manage some of the risks associated with a very poor business enabling environment.

Why use this type of partnership: The range of risks faced by investors in developing countries have significant implications for the expected return of investments and the ability of investors to realise their return (for example currency transfer restrictions). This can impact negatively on the willingness of private investors to invest. Although the long-term solution to managing these risks is for donors to work with government to improve the enabling environment, insurance may be used alongside this as an interim measure to generate private sector investment in key projects.

How it works: Insurance for non-commercial risks (i.e. risks that cannot be controlled by the private sector) reduces the overall risk of the investment to acceptable levels and can also reduce borrowing costs. This type of insurance (often called political risk insurance) generally covers risks associated with currency inconvertibility and transfer restrictions; confiscation, expropriation, nationalisation; political violence, including war and terrorism; breach of contract; and sovereign financial obligation default.

[30] The US Government's development finance institution, OPIC, provided US$400 million in loan guarantees to Wells Fargo enabling them to lend to financial institutions in developing countries. These countries were then able to on-lend to portfolios of SMEs, renewable energy projects and housing projects.

Who uses these types of partnerships: Many governments provide political risk insurance to their domestic private sectors, through national export credit agencies in order to promote outward foreign investment, for example OPIC (US), Australian Export Finance and Insurance Corporation (EFIC). Multilateral organisations, such as the Multilateral Insurance Guarantee Authority (part of the World Bank) also provides insurance and has issued US$30 billion in political risk insurance since its establishment in 1988.

In what sectors: Insurance is a useful instrument in countries that have high political risk and is most commonly used for investments that have high upfront costs, for example mining and infrastructure, however can be used in any sector.

Challenges: The ability of developing country governments to attract private finance through the use of insurance products may reduce their appetite to make harder long term improvement to the enabling environment.

ODA eligibility: As with guarantees, insurance is only counted as ODA if it is paid out as a result of a claim.

Structured finance

This includes equity investments made by governments as well as other investments that cushion private sector investors from some financial losses, for example subordinated debt and first-loss funding.

Why use this type of partnership: The level of risk for many development related investments in developing countries is beyond the acceptable level of risk for many types of private investors, for example pension funds and commercial banks. Donors or governments may use structured finance to attract these types of investors.

How it works: Governments, usually donors, can structure investment funds in a way that allows the public sector to invest in the highest risk part of a project. Public investment may be provided in the form of subordinated debt or equity finance which takes the 'first loss'. This shields other investors from a pre-determined amount of financial losses, improving the financial and risk profile of an investment for private investors.

Donors use equity investments to encourage other equity investments from institutional investors or to leverage private debt finance. 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.

Who uses this type of partnership: Donors and multilateral development finance institutions, for example IFC and PIDG.

In what sectors: These types of instruments are relatively new and donors have used them predominantly for infrastructure and climate change funds. They require significant financial skills to establish and manage its investment portfolio.

Challenges: The use of these instruments often involves the establishment of a new fund or investment vehicle, which are often quite complex. Structuring the fund, attracting private investment in the fund and managing the fund and its portfolio of investments requires specialist skills. These skills are often not available within the public sector and donors may have difficult identifying and attracting these skills.

ODA eligibility: These types of investments are generally not ODA eligible, and may even be recorded as negative ODA (a flow of money from a developing country to a developed country) if the investment is successful and makes a profit.

Development impact bonds

Why use this type of partnership: Private finance for social sectors (health, education, social services) is very limited compared to sectors such as infrastructure and agriculture. Development impact bonds provide a financial mechanism which aggregates private finance to invest in development activities, transfers the risk of intervention failure from the public sector to the service provider and encourages innovation in service delivery.[31]

How it works: 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.

Who uses these types of partnerships: A small number of donors are considering funding development impact bond pilots. The UK has just announced that it will fund a DIB to reduce the rate of sleeping sickness in Uganda.[32] DIBs are currently a niche idea and have not yet been demonstrated as an instrument that could be implemented efficiently or at scale.

[31] For further information on development impact bonds see http://www.cgdev.org/page/development-impact-bond-working-group
[32] https://www.gov.uk/government/news/uk-development-bonds-will-combat-global-poverty

In what sectors: Pilots are being developed on enhancing early treatment of HIV in Africa and improving education outcomes in Uganda and South Asia.

Challenges: DIBs are in their early stages and are likely to be challenging to scale up because of their complex structures and high transaction costs. As investor returns are based on results achieved there is a need for rigorous M&E systems, including attribution of results to activities undertaken by service providers.

ODA eligibility: This has not been tested, however if donors are backing the bond i.e. paying back the private investors for delivering the results, this would be ODA eligible.

Attachment B – DFAT initiatives and activities

[Back to Section 4 – Who we work with in the private sector]

Bilateral - Asia (East Asia, South and West Asia)

Building better enabling environments for business

Private sector development activities in East Asia have been focused on improving the enabling environment for private sector development. In 2012-13, over $300 million was invested in sustainable economic development across the region, contributing to improvements in infrastructure, trade facilitation, health, education and women's economic empowerment. Some of these investments include:

- In South Asia, over $17 million has been invested in regional infrastructure and trade facilitation programs, with many of these programs leveraging significant additional investment from other bilateral donors such as the US and UK, developing country governments, multilateral development banks and the private sector.
- A regional program in East Asia focuses on transport and trade facilitation in the Greater Mekong Sub-region (Cambodia, Lao PDR, Burma and Vietnam). The focus of this program is improving transport facilities. It will reduce the cost and time it takes to transport goods across land-based borders by encouraging countries to exchange traffic rights, licence recognition and opening up permit quotas. The project is a partnership with the ADB. DFAT is investing $6 million (2010-2016).
- The DFAT-World Bank partnership for South Asia currently has a significant focus on infrastructure. The Infrastructure for Growth component of this partnership aims to foster an enabling environment for infrastructure development and service delivery. To do this, the partnership will support analytical work, provide technical assistance and improve knowledge generation and dissemination to enable policy and institutional reforms. One project being supported by this facility is provision of financial and legal advisory support that will enable Powergrid, India's national and cross-border electricity transmission company, to access a syndicated loan. This investment, along with a guarantee from the World Bank, will help Powergrid to access the international loan market for the first time, setting a precedent for other Indian and regional public sector entities. Total DFAT investment in the Infrastructure for Growth initiative is $20 million (2012 – 2016).
- In Pakistan, DFAT supports the Government of Pakistan in the economic recovery of the conflict-affected regions of Khyber Pakhtunkhwa, Balochistan and The Federally Administered Tribal Areas. This includes support for improving governance, and creating employment opportunities by providing small grants to rehabilitate and upgrade small and medium enterprises affected by conflict. It also supports construction of provincial highways, providing economic and social benefits to 300,000 people. DFAT invested $23.6 million in this program (2009-2013).

Strengthening key markets and sectors

To address market failures in the agricultural value chains in Cambodia, the Cambodia Agricultural Value Chain Program (CAVAC) is helping poor farmers increase their productivity and earn higher incomes by addressing market constraints in rice and vegetable value chains. Activities include bringing fertiliser companies and farmers together to improve fertiliser application. The companies provide technical information that empowers the farmers to make better choices. It has also invested in irrigation infrastructure and supporting sustainable water management practices to allow farmers to grow two or three crops per year instead of just one. DFAT is investing $61.3 million in this project (2007-2015). Further information on this program is provided in *Attachment C*.

In Nepal, the Micro-Enterprise Development Program assists low-income families become entrepreneurs, promotes the development of their enterprises and enables local service delivery institutions to support the micro-enterprise sector. This creates a new and dynamic business sector in rural areas of Nepal. Since 1998, the program has created more than 70,000 jobs in micro-enterprises ranging from beekeeping to produce trading to weaving. Due to its success, the Government of Nepal has scaled up the initial pilot program across all 75 Districts. DFAT is investing $44.2 million in the program (1998-2018). Further information on this program is provided in *Attachment C*.

The Market Development Facility (Timor-Leste) works with business to identify and develop new services or operational models that provide increased income and employment opportunities for the poor. This program engages with businesses willing to innovate in their approach to maximise development outcomes. Examples in Timor-Leste include working with fruit and vegetable wholesalers to increase the proportion of locally sourced produce for local hotels. DFAT will invest $8 million in this program (2013 – 2017) that will create 10,900 jobs and increase incomes for 117,000 self-employed individuals.

Maximising the development impact of individual businesses

The Enterprise Challenge Fund for the Pacific and South-East Asia (Cambodia, Laos and the Philippines) was a $20.5 million pilot program over six years (2007-2013). It awarded 21 competitive grants that encouraged businesses to pursue pro-poor business development opportunities. These projects were chosen to improve overall market conditions and generate business growth. Grant funding from the ECF leveraged $15.2 million in investment from businesses. Some of these projects have been highly successful, for example the WING mobile banking project in Cambodia while a small number (three) have not reached commercial viability.

Direct partnerships with larger businesses have also been undertaken in the East Asia region. In partnership with Sagittarius Mines Inc. and Orica Philippines, DFAT has facilitated the provision of scholarships for Filipino college students in mining-related fields. These industry funded scholarships are helping to build professional expertise needed to ensure the growth of a key sector, also contributing to DFAT's education objectives.

Bilateral - the Pacific

As outlined in earlier sections, constraints to growth and trade in the Pacific make private sector-led development challenging. Despite this, DFAT has had considerable success and is leading on economic growth in the Pacific, investing $462 million per year. Of this, $44 million is spent on regionally implemented programs. The remainder is spent at the country level. Private sector development initiatives are creating an enabling environment for business that encourages growth and investment. Other programs build the capacity of entrepreneurs and improve dialogue between governments and the private sector.

Building better enabling environments for business

Most private sector development programs in the Pacific focus on enabling environments because of the investment risks and difficulty of doing business in many small island nations.

The Pacific Private Sector Development Initiative, being implemented by the Asian Development Bank, is a regional technical assistance program which provides advisory services to governments to address legal and regulatory constraints to private sector development. The initiative works across 14 Pacific countries (Cook Islands, Fiji, Kiribati, Federated States of Micronesia, Nauru, Palau, Papua New Guinea, Republic of Marshall Islands, Samoa, Solomon Islands, Tonga, Tuvalu and Vanuatu) as well as Timor-Leste. The first two phases focused on business law reform, improving access to financial services, and reforms for state-owned enterprise and public–private partnerships. Phase III is expanding its focus to address a growing demand for assistance in competition policy and the economic empowerment of women. The initiative has achieved positive results. For example in the Solomon Islands business law reform has seen the average time it takes to form a company be reduced from three months to less than 36 hours. There is now an average of 271 new companies incorporating each year, more than double the pre-reform rate. Following an investment of $21 million in phases 1 and 2 of the program, DFAT will invest $24 million PDSI III from 2013-2019. Further information on this program is included in *Attachment C*.

The Strongim Gavman Program in PNG provides technical assistance to the PNG Government by seconding Australian Government officers into PNG's Treasury, Internal Revenue Commission, Customs, Immigration, Attorney-Generals, Finance and Auditor-Generals Departments. This supports macroeconomic stability and microeconomic reform in areas such as State Owned Enterprises, public private partnerships, competition, border management and effective taxation contributing to a more stable environment for business.

Strengthening key markets and sectors

The Pacific Financial Inclusion Program aims to increase the number of poor people with access to secure, affordable financial services and improve the financial literacy of Pacific Islanders. This enables individuals and families to accumulate savings, transmit funds securely and obtain insurance to protect against shocks and provide opportunities for further investment. DFAT has invested $10.5 million in this program (2008-2013) which has enabled over 500,000 people including 200,000 women in PNG, Tonga, Samoa, Vanuatu and Fiji access basic financial services through mobile banking.

Another regional technical assistance program is operated by the International Finance Corporation (IFC, which is the private sector arm of the World Bank Group), as part of the Pacific Partnership. Through this program the IFC combines investments with advisory services in addition to mobilising other private investors for large projects (for example Digicel, BSP and ENBPO). These large investments mean that 63,000 jobs across the Pacific have been created or saved in industries as diverse as fisheries, telecommunications, banking and tourism. DFAT will to invest $20 million in this program (2012-2017).

The Market Development Facility also operates in Fiji. It has supported 14 partnerships with business in the agriculture, tourism, food-processing and aquaculture sectors. These partnerships implement business innovations and expansion opportunities that will benefit poor men and women as employees, consumers or producers. DFAT will invest $ 8.2 million (2011-2018).

Maximising the development impact of individual businesses

The largest example of direct partnership with business in the Pacific is the Memorandum of Understanding between DFAT and Carnival Cruises, the region's largest cruise tourism operator. This formalises the partnership between the organisations combining resources, networks and experience to promote economic opportunities, skills development and employment. For example under this MOU, Carnival and DFAT are able to work together to expand tourism and income generation opportunities to communities in Milne Bay Province in PNG, particularly through the placement of two volunteers to the Milne Bay Tourism Bureau. In Vanuatu, DFAT is supporting the Government of Vanuatu to plan its infrastructure projects to ensure that future growth of cruise tourism is factored into infrastructure development in Port Vila harbour. Further information on the MOU is included in *Attachment C*.

DFAT is actively connecting economic growth initiatives to achieve greater impact and faster growth than feasible in isolation. Leveraging work being conducted with the International Trade Centre (ITC) to link traditional handicrafts into the world market, the ITC has partnered with Carnival Cruises who have expressed interest in purchasing bilum products.

The proposed Pacific Business Fund intends to leverage commercial equity to help existing businesses grow and expand, together with a business support services facility to provide services and technical assistance. This program is still in design phase, however, DFAT expects to invest up to $15 million (2014-2019). This will achieve expanded or diversified operations for selected businesses, with 25 per cent increased gross profits, $18 million additional new finance leveraged and 1100 new jobs created and/or saved.

Bilateral - Africa

A number of programs in Africa are focused on private sector development, often working in partnership with other donors in the region. Most have focused on strengthening key markets in the agriculture sector, given its importance in economies in the region. DFAT also has a growing mining governance program in Africa which is partnering with industry, governments and communities to promote investment, growth and job creation.

Strengthening key markets or sectors

The African Enterprise Challenge Fund awards grants and interest free loans to private sector companies to support innovative business ideas in agriculture, agribusiness, renewable energy, adaptation to climate change and access to information and financial services. Funding is awarded based on transparent competitive processes and seeks ideas from competent companies that are commercially viable, innovative and will have a large development impact. DFAT has invested more than $30 million in the AECF Research into Business and Zimbabwe windows since 2009. Overall the AECF has benefited nearly 700,000 households and created 3,750 new jobs (with one third being for women). Other donors to the AECF include Denmark, Sweden, the Netherlands, the UK and the International Fund for Agricultural Development. Canada has recently announced its intention to provide funding.

To strengthen the livestock industry in Kenya, DFAT is funding a pilot insurance product to help pastoralists manage drought and associated economic hardship. The International Livestock Research Institute is designing and implementing the pilot insurance program to demonstrate the commercial potential of providing affordable insurance to pastoralists, who have not traditionally been served by the private sector. Initial results indicate that insurance is linked to a 50 per cent drop in distress sales of livestock and a 33 per cent drop in reliance on food aid. DFAT has invested $2.75 million (2011-2015). The UK and the EU also provide funding to this program.

In the water and sanitation sector in Mozambique, DFAT 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. DFAT has invested $5 million in this program (2012-2014), co-financed by UNICEF and the Government of Mozambique.

Multilateral

Much of DFAT's engagement and support for private sector development has been through multilateral organisations, particularly the multilateral development banks (MDBs) and global funds. Australia is a shareholder of the World Bank Group (WB) and the Asian Development Bank (ADB). The World Bank Group consists of the International Bank for Reconstruction and Development (IBRD), the

International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA) and the International Development Association (IDA). Australia also contributes to a number of global funds that deal with specific issues across many countries (for example health, agriculture, infrastructure and environment).

Programs implemented by multilateral institutions (for example ADB and WB) that are co-financed by DFAT have been discussed in the bilateral activities section of this attachment as these programs are managed by country desks.

Building better enabling environments for business

In 2012-13, 14 per cent of World Bank (IDA and IBRD) lending was in support of financial and private sector development activities. Roughly 25 per cent of World Bank lending to the poorest countries in recent years (through IDA) have focused on strengthening the enabling environment for private investment and business operations, including supporting the development of regulatory frameworks and institutions. In 2012-2013, 53 projects worth USD 4.6 billion were approved in support of financial and private sector development. For example the World Bank invested $55 million in the Vietnam Inclusive Innovation Project. This project supports small and medium enterprises to scale up, particularly with technology and innovative growth.

In 2012-2013 the IFC invested a total of USD232 million in advisory services. In 2013 these services helped 43 governments implement 76 investment climate reforms and design and implement 9 public private partnerships.

The ADB also engages governments in dialogues on regulatory frameworks and reform as part of other private sector transactions that they undertake. Many financial institutions consider that ADB's involvement mitigates investment risk as governments are less likely to intervene erratically if the ADB is involved, partly a result of their use of guarantees.

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. For example in Lao PDR PPIAF has assisted the Government of Lao to attract much needed private sector investment in the highway network. DFAT is investing $16.3 million (2007-2014) in this fund.

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. To stimulate domestic private sector participation, a core area of the program promotes access to finance among 'unbanked' populations, develops business models which service the poor and supports public private partnerships that provide drinking water and sanitation for the poor. DFAT plans to invest a total of $27.5 million in this program (2011-2016).

Strengthening key markets and sectors

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. Australia is investing $16 million (2013-14) in the PIDG, which includes a contribution of around $14 million to IAD.

Many of the sectoral funds focus on overcoming market failures in particular sectors. For example the GAVI Alliance works through the International Finance Facility for Immunisation to drive down vaccine prices and increase the security of vaccine supply to ensure developing countries are able to access vaccines at an affordable price. GAVI secures vaccine supply to ensure developing countries are able to access vaccines at an affordable price. Its unique public-private partnership model leverages the expertise and comparative advantage of private sector partners, including pharmaceutical industry representatives and research and development organisations. GAVI has also piloted an Advance Market Commitment which guarantees a floor price for vaccines produced, thereby stimulating the development and manufacture of new vaccines and providing predictable pricing for developing countries. DFAT has invested $234 million (2006-2014) in GAVI and plays a leadership role in advocating the interests of Asia-Pacific countries. These ensure that GAVI's investments in the region are effective, tailored to the country context and align with the activities of other donors. Other donors active within GAVI include the UK, the Bill and Melinda Gates Foundation, the US, Norway and France.

The Global Partnership on Output-Based Aid (GPOBA) provides performance-based subsidies for basic infrastructure or social service provision by the private sector to poor populations. The service provider (usually the private sector) is responsible for pre-financing the project and following verification of service delivery GPOBA pays a subsidy to the service provider to bridge the gap between the cost of service provision and the customer's ability to pay. This is often in the form of subsidised connection fees with ongoing use fees paid by the customer. This connects poor populations to markets for essential services and demonstrates the profitability of base of the pyramid business models to private sector providers. DFAT has invested $43 million (2007-2018) in GPOBA and is actively drawing lessons from this innovative model to feed into bilateral programming. Other donors involved in GPOBA include the UK, Netherlands, Sweden, EU and the World Bank/IFC.

Maximising the development impact of individual businesses

In 2012 the ADB provided loans of 4 billion for private sector project finance and invested USD 767 million in private equity funds. For every dollar that is lent for project finance, seven is invested by other partners (ADB has a leverage ratio of 1:7). The leverage ratio for ADB's private equity investments is 1:6. Examples of these types of investments include:

- $60 million commitment by the ADB in 2013 to OrbiMed Asia Partners II LP, a $300 million pan-Asia fund focused on health care, managed by the world's leading (and largest) fund management platform dedicated to health care, with over 20 years of experience investing in the sector
- long-term financing in India to support the government's efforts to speed up infrastructure development by encouraging more private sector investment. The $400 million Accelerating Infrastructure Investment Facility will provide financing for about 31 subprojects involving public–private partnerships (PPPs)
- a $275 million loan in China to support leasing of energy-efficient and new-energy buses, and associated information technology systems that increase fleet operating efficiency for urban, suburban, and intercity bus services. The program fills a funding gap for cleaner transport.

The ADB is undertaking more public private partnership transactions (1 in 2012 and 4 in 2013). In these transactions overall, ADB project financing had a leverage ratio of 1:3.2 in private sector financing. Examples include:

- a package of contracts to provide health services to more than 10 million people in Bangladesh, making it one of the largest management contracts for delivering primary health care in South Asia
- a loan of $40.9 million in Tajikistan to improve the corridor's missing links, such as upgrading 263 km of the two-lane road from Sary Tash in the Kyrgyz Republic to Nimich in Tajikistan. With ADB's support, the governments outsourced the road maintenance operations to the private sector in these two countries to increase the sustainability of the road assets.

The IFC (the private sector lending arm of the World Bank Group) invested USD24.85 billion in 2012-2013 on private sector investment and development, mainly through direct partnerships. IFC focuses on long-term client relationships in emerging markets with activities ranging from strengthening local financial markets through direct investments to leverage additional private finance for their clients, to addressing constraints to private sector growth in a range of sectors by mobilising latent funding, and facilitating entrepreneurial activity, market growth and competition. They now have a US$50 billion portfolio of investment commitments spanning nearly 2,000 companies in 126 countries. Australia holds a 1.93 per cent share in the IFC.

All the activities of MIGA (guarantee providing arm of the World Bank Group) are direct partnerships with businesses, as guarantees are provided to enable private investment in a project that would not otherwise go ahead. For example, MIGA has extended a guarantee for a recent shareholder loan by a Japanese corporation to a Mongolian joint venture in the mining, construction and infrastructure sectors. The project aims to channel the gains of Mongolia's resource boom towards productive investments. MIGA has guaranteed US38 million for a period of up to 10 years against the risks of transfer restriction, misappropriation, war and civil disturbance.

Australia's support to the World Bank group has achieved significant private sector development results including:

- Access to business equipment, supplies, rented space and business training for 385 women in Indonesia;
- The construction, upgrade or rehabilitation of 171km of road in Tonga;

- Support for 71 business groups for marginalised communities attended by 1,600 people;
- Distribution of more than 53,000 grants to communities for small scale development projects in Afghanistan;
- Training in better agricultural practices and improved agricultural technologies for more than 1600 farmers (713 of which were female) in Afghanistan;
- Restoration of over 900km of roads and 70 bridges in PNG and Samoa.
- Construction 300km of rural roads, 16km of drainage systems and the electrification of 16 villages in Sri Lanka.

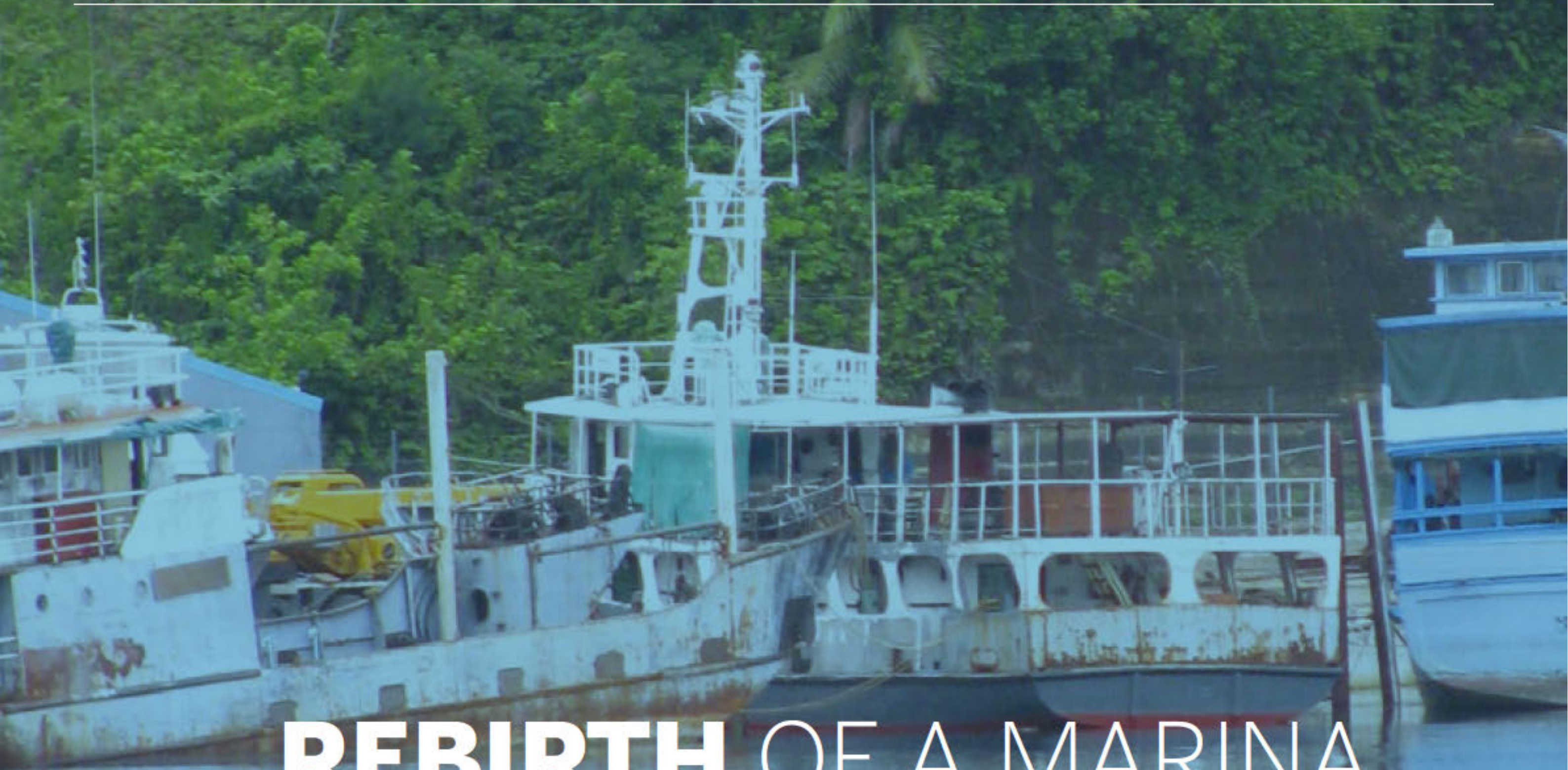
Attachment C – Case studies

[Back to Section 4 – Who we work with]

Australian Government
Department of Foreign Affairs and Trade

DFAT Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade

Attachment C: Australia's aid program case studies—working with the private sector



REBIRTH OF A MARINA

The sale and rehabilitation of Sasape Marina—formerly a State Owned Enterprise in Solomon Islands, highlights the real benefits of privatisation and private sector development.

The new Sasape International Shipyard. Photo: Sasape International Shipyard Ltd

In Tulagi, Solomon Islands, Rachel Ramoifuila leads a team of almost 40 painters, boilermakers, engineers, electricians, shipwrights, divers and administrative staff who collectively make up the heart and soul of Sasape International Shipyard Ltd. Having just celebrated her first anniversary as General Manager, Rachel appreciates how many things have changed for the better in the short period since the marina was upgraded.

"Our staff enjoy better working conditions, better remuneration and other benefits some of them have never dreamed of previously," says Rachel.

Robert Sikua, the chief machinist, has worked at the shipyard on and off since 1986.

He says that before the new investors took over, the old marina was run down, workers were poorly paid, and there was no job security.

"I enjoy my work here building things and conditions are much better since the new investors came in," he says.

It wasn't so long ago that Sasape Marina (as it was previously known) faced certain closure. Lack of investment and years of mismanagement meant that by 2008 the company was insolvent and both of its slipways were inoperable.

The Solomon Islands Government sought private partners to rehabilitate and operate the marina. With Asian Development Bank (ADB) technical assistance, co-financed by ADB and the Australian Government via the Pacific Private Sector Development Initiative (PSDI), the government held an open, competitive tender for the slipway assets. This was ultimately won in 2010 by a joint venture between Silentworld Shipping and Logistics (a Honiara-based company) and the National Provident Fund.

"Sasape Marina was an attractive prospect for us, as there were no operating large slipways in the region and there was high demand for one," says Glenn Bennett, Managing Director Silentworld. "The closest one was in Papua New Guinea, so effectively there was nowhere to maintain large vessels."

With the proceeds of the sale, the government was able to make severance payments for all staff and repay Sasape's debts. The company recruited workers (mostly from Tulagi) to help with the slipway upgrade. Sasape International Shipyard Limited is now the largest private sector employer on the small island of just 1200 people.

Workers at the new Sasape International Shipyard are involved in structural repair of ships, engineering, propeller and shaft repairs, engine and gearbox replacement and hydraulics work. Rachel Ramoifuila works closely with the company's managers to hire and train staff and oversee the operation as a whole.

A little more than a year since the renovated slipways have been in operation, employment and economic activity have markedly increased in Tulagi.

"We are enjoying new shops, and there is more variety of produce and fish at the market," says Rachel. "We are also enjoying more regular shipping services to and from Honiara and Malaita."

The benefits of a busy shipyard far transcend a boost in local retail. As more people relocate to Tulagi for work, there has also been an increase in the availability of essential services.

"There are now more police and nurses here. Tulagi Hospital and McMahon Highschool are undergoing renovations," adds Rachel.

The new Sasape International Shipyard.
RIGHT: The slipway under construction.
Photos: Sasape International Shipyard Ltd

The re-birth of Sasape International Shipyard Ltd demonstrates that real benefits can flow from the reform and privatisation of state-owned enterprises (SOE).

"The best-performing SOEs are those that operate with private sector discipline and under competitive market pressures," says SOE advisor to ADB, Laure Darcy. "This approach forces SOEs to focus on their core mandate of operating as successful businesses and delivering public services on a commercial basis. When this focus is lost and SOEs are not held accountable for results, performance deteriorates—as it did at Sasape Marina."

The Solomon Islands Government is committed to improving the performance of SOEs to ensure they provide better quality services to the public and are no longer a drain on government finance and the economy. The Government has made substantial progress in this regard since the new SOE Act was enacted in 2007.

"As SOE reform initiatives come to fruition, the foundation for private sector-led growth in the Solomon Islands continues to strengthen," says the Prime Minister of Solomon Islands, Gordon Darcy Lilo. "The government has made some important progress towards placing SOEs on a more commercial footing, and we will continue to work tirelessly to pursue this goal."

Sasape International Shipyard has allowed local shipowners to save both time and money by having their vessels serviced close to home. And while it is currently servicing only the local shipping industry, the company is looking to expand by attracting more ships from outside the Solomon Islands.

"Sasape has a huge potential to be one of the leading shipyards in the South Pacific. Working closely with our shareholders, the shipping industry and our staff we look forward to making this happen," says Rachel.

SALLY SHUTE-TREMBATH, ADB

Pacific Private Sector Development Initiative (PSDI) is a regional technical assistance facility cofinanced by the Australian Government, the New Zealand Aid Programme, and Asian Development Bank.

PSDI is working with ADB's 14 Pacific Developing Member Countries to improve the business environment and foster, private sector-led sustainable economic growth.

PSDI focuses on five key areas:

> business law reform
> improved access to financial services
> state-owned enterprise reform and public-private partnerships
> competition policy
> economic empowerment of women.

PSDI seeks to enable entrepreneurs in the informal sector to formalise their businesses, opening opportunities to access formal financial institutions and to take advantage of the modernisation of business laws.

ENRICHING THE **FERTILISER MARKET**

An agriculture program in Cambodia is working with businesses to help farmers increase their yields.

Eighty per cent of Cambodian households are involved in agriculture. So increasing farm yields, and therefore incomes, is very effective in reducing poverty.

The Australian Government is helping increase rice yields and farmer income through the Cambodia Agricultural Value Chain program (CAVAC).

Rice farming yields in Cambodia are far lower than they should be, mainly due to farmers' limited knowledge of modern farming techniques. The uncertainties of weather, diseases and pests, and market prices have an impact.

On top of this complex investment decisions about fertiliser, seed varieties, planting techniques and irrigation need to be made, but without the right information, this is difficult.

The challenge is providing the right information to farmers, at the right time, from trusted local sources. With the right information, farmers can have the confidence to make informed decisions about changing farming practices.

Currently, the two most prominent, and trusted, sources of information for farmers in Cambodia are their neighbours, and retailers that sell agricultural products. Historically, donor programs have tried to get better information to farmers by supporting government extension services. However this is expensive and such projects often reach only a small proportion of farmers.

CAVAC has a different approach, aiming for permanent and widespread sources of information for all farmers. For this reason CAVAC is working with the private sector—including fertiliser companies and their retailers.

Fertiliser is widely used in Cambodia and is very important in increasing yields, but farmers are often not aware how to use it correctly. Farmers need tailored advice which takes into account variables such as soil type and rice variety. CAVAC worked with two Cambodian fertiliser companies to improve the quality and delivery of advice provided to farmers.

These two companies had great success using this business model. This business success then encouraged an additional ten fertiliser companies to work with CAVAC to develop similar strategies. CAVAC is now following up with seven of these companies on further ideas to get better information out to rice farmers.

Based on market analysis, CAVAC uses commercial incentives to drive and sustain the provision of advice. Agribusinesses know that to distinguish themselves from the competition they need to encourage customer loyalty. This is the first step in changing the way agribusinesses interact with farmers. In the private sector, decisions are based on increasing market share and ultimately profits. Solutions are designed to meet business requirements as well as help farmers.

Working with the private sector has many advantages. Not only are companies sharing the cost of the initial investment (typically on a 50–50 basis) but eventually this model will be self-sustaining. Through this work it is expected that CAVAC will indirectly support half the farmers in Cambodia with a total activity budget of less than $500 000.

NICHOLAS WOLF AND CAVAC

Kompong Chhuck commune, Koh Andeth district, Takeo province. Photo: CAVAC

- CAVAC supports a private sector approach to agricultural services.
- CAVAC currently works with seven fertiliser companies to develop their ability to provide advice through approximately 5000 retailers.
- Half the farmers in Cambodia are serviced by the companies CAVAC works with.
- Better information on fertiliser use will lead to higher yields. Farmers are unlikely to buy more, but they will look at the type of fertiliser used and how best to apply it.
- Companies have an incentive to continue to provide good advice to increase or maintain market share.

TWO WHEELS OF A CART

A Micro-enterprise Development Program in Nepal has helped lift more than 43 000 people out of poverty. Pinki Devi Das is one of them.

While cooking breakfast for her in-laws and preparing offerings for an upcoming festival, Pinki Devi Das from Nepal's eastern Terai region explains her place as a wife in rural Nepal.

"If you have to do something you have to first ask your husband," she says. "Even if I wanted a tube of cream for 100 Rupees ($1), I could not afford to buy it."

In the conservative Maithili community where Pinki was raised, it was not common for girls to be educated, as the focus was (and still is) placed on boys of the household. It wasn't until she was 16, and already married, that she had an opportunity to go to school, but she left soon after.

"After marriage we put tika on our foreheads," she explains, pointing to the strip of red powder that signifies a married woman in Hindu culture. "When I went with tika on my forehead to school everyone teased me ... that's why I left school."

When Pinki's mother-in-law suggested that she take part in a Micro-enterprise Development Program (MEDEP) in her village, she embraced the opportunity. Prior to this, she had rarely left the house alone.

"I was so ignorant," she says with an embarrassed laugh. "I didn't even know my own village. Instead of Mansinghpattii I went to Manipatti!"

One of the trainers on the course inspired her to set up her own business. "He told me it's important to become independent. He said, 'I'm a man. I can spend 400 Rupees and no one is going to bother. If you spend 200 everyone will question you at home.'"

Beginning with just 1000 Nepalese Rupee ($11) of her own money, Pinki began making bangles made from laha (a native tree sap) and set up a small shop in her village on the road to the temple. With her contribution to the family income, she has gained herself a greater degree of independence and status in her family.

"I was not capable before, but now I don't have to ask for one, two or five thousand [rupees] from anybody. I have the capability myself."

Pinki now sends her bangles to shops in nearby cities and product exhibitions in Kathmandu. She hopes that one day, with the support of projects like MEDEP, she can set up a larger-scale manufacturing workshop with other local women.

"If I can achieve this much alone why can't we open a factory? If there are 10 women like me, we could export to the international market," she says. "If women get space and a skill then automatically their lives will improve."

Later, Pinki pays a visit to a nearby temple with her husband to place her offerings and make wishes for the coming year. She stands in front of the Monument of Sita and with eyes closed, gives thanks to the goddess of purity, courage and dedication.

"Men and women are two wheels of a cart," she smiles. "Why should women be left behind?"

LOONIBHA TULADHAR & PRAMOD KARKI

RIGHT: Thanks to training provided through MEDEP Pinki Devi Das has created a business making bangles. Photo: Pramod Karki

ABOVE: Thanks to training provided through MEDEP Pinki Devi Das has created a business making bangles.
RIGHT: One of Pinki's native tree sap bangles.
Photos: Pramod Karki

- More than half of Nepal's population lives in poverty.
- Eighty per cent of Nepal's population live in rural areas where economic opportunities are extremely limited.
- Nepal's Micro-enterprise Development Program targets women, unemployed youth, marginalised ethnic groups and poor families to create micro-enterprises which can help people to rise out of poverty and address social inequity.
- The program is spread over 38 districts of Nepal and has helped create 66 162 micro-entrepreneurs—70 per cent of them women. More than 43 000 of these entrepreneurs have already lifted themselves out of poverty.
- The program has helped transform lives. For example, Ms Kesha Kumari Damini, Chair of National Micro-entrepreneurs' Federation of Nepal and supported by the program is among six recipients of the international 2014 Oslo Business for Peace Award.
- The program is funded by the Australian Government and the United Nations Development Programme and implemented by the Government of Nepal.

PUTTING THE **PROFITS BACK**

Two brothers in Vanuatu have established a tourism business strong enough to support projects in their community.

ABOVE: The Millennium Caves. Photo: Department of Tourism, Vanuatu

In the remote Funaspef Village on Vanuatu's Espiritu Santo Island, thatched huts surround a grassy courtyard in which children play. It's an idyllic scene but life in this community hasn't always been fun and games. Until recently, job prospects were limited and growing enough food to eat was a struggle. But with the aid of two Australian Government training programs, two villagers have created a tourism business that is helping the village to flourish.

Almost daily, a group of tourists make their way through the village to the nearby Millennium Caves. Hidden in the tropical rainforest, the caves are 50 metres high with ceilings full of bats and swallows. While known to locals for many years, it wasn't until a visiting German TV crew broadcast pictures of the caves in 1998, that they gained global attention.

In 2000, two brothers, Michel and Sam Andikar from Funaspef Village established Millennium Cave Tours (MCT)—a guide service that assisted larger tourist operators to take visitors to the caves. Most of the profits, however, went to the tourist operators with very little returned to the villagers.

To improve their business skills, the Andikar brothers enrolled in a tourism course at the Australia-Pacific Technical College. Funded and managed by the Australian Government, APTC aims to improve the skills of Pacific workers.

"Before I am in the darkness with tourism but after my study I realise new things," says Sam Andikar.

"After the studies we start to manage this business … Now we have more confidence and skills and proven business success."

Today MCT is a thriving company, employing more than 30 locals. It has its own office, a professional website, and takes direct bookings via phone and email. Travel website TripAdvisor lists the Millennium Cave Tours as one of the top things to do in Vanuatu.

"My future life is to develop this business to be the professional standard business, and to help us in the community to survive and find a better life," says Sam.

"The people, before when they do the gardening it is hard work and long hours, and sometimes they haven't got money for soap, or school fees or if the kids are sick and need to go to the hospital. But this time they have money and that is a big change."

Villagers have also received support through the Australian Government funded Technical Vocational Education Training (TVET) Sector Strengthening Program in tour guiding, first aid and occupational safety. Ongoing monitoring and support is also being provided.

"My future life is to develop this business to be the professional standard business, and to help us in the community to survive and find a better life."

Tour guide Peter, says his job with Millennium Cave Tours has been life changing. "Before I work so hard to get the kerosene or soap or rice for my family. Now it is easier to pay. Now I feeling in my heart I am very glad because first time I am work and I am happy."

In addition to providing employment for local villagers, the company is now returning some of its profits back into the community. The Millennium Cave School Project, established in 2012, has already funded three new kindergarten schools and next year a primary school will be opened to service eight local villages.

"With the money that we bring in with the tours ... we invest in the school project to accommodate all the kids from the local communities. Our planning is to educate the kids so that in the future, when we are getting old, then they are the ones to carry the business so it will be sustainable every time," says Michel Andikar.

Since its beginning, MCT has also received substantial support through the Australian Government funded Technical and Vocation Education and Training Sector Strengthening Program which has provided training and coaching in business management, tour guiding, first aid and occupational safety. Ongoing monitoring and business mentoring continues to be provided to MCT by the TVET Program.

JACQUI BERRELL, APTC

Australia Pacific Technical College (APTC) delivers internationally recognised Australian vocational qualifications to existing workers in targeted industry sectors across the Pacific Island Forum countries.

APTC is a development initiative funded by the Australian Government and is committed to responding to Pacific Island labour market needs by improving participation and outcomes in:

> Training: Increased supply of skilled workers in targeted sectors in the Pacific region.

> Employment: Pacific Islander women and men with Australian qualifications realise improved employment opportunities nationally, regionally and internationally in targeted sectors.

> Productivity: Increased productivity of individuals and organisations in targeted industries and sectors.

ABOVE: Villagers work on the Lacruza Primary School. Due to be opened in Feb 2014, it is the fourth Millennium Cave School Project. Photo: Jacqui Berrell/APTC

SEASONAL WORKER PROGRAM

Providing Australian farmers with the labour they need and helping lift Pacific Islanders and Timorese out of poverty.

IN FOCUS: SEASONAL WORKER PROGRAM

Visas available: 12 000 from 1 July 2012 to 30 June 2016 (over 3 000 visas issued since February 2009 under the Seasonal Worker Program and the pilot scheme)

Eligible sectors: Horticulture with small-scale trials in tourism accommodation, aquaculture, cane and cotton

Eligible countries: Kiribati, Nauru, Papua New Guinea, Samoa, Solomon Islands, Timor Leste, Tonga, Tuvalu and Vanuatu

Period of employment in Australia: 14 weeks to 6 months

Average remittances for a six-month job placement: Around $5,000

Average annual per capita income: Samoa $3,500; Vanuatu $2,840; Papua New Guinea $1,640

ABOVE: Moana Dini from Ambae, Vanuatu on a Seasonal Worker Program in Australia. Photo: DFAT

Ansen Obed, from the Island of Efate in Vanuatu, proudly points to the concrete house he is building. "The house is not complete yet ... There's still more work to be done," he says. Ansen is building his new home with money he earned while on a six-month job placement in Australia. "I'm looking forward for my next working trip to Australia," he says. "I'm happy and like to thank the Australian Government and Vanuatu Government to help me to get to Australia to do this job."

Ansen is just one of many Pacific Islanders whose life has been transformed by working in Australia as part of the Seasonal Worker Program (SWP). Under the scheme, approved employers in horticulture can recruit people from eight Pacific island countries and Timor Leste to work on farms for up to six months in jobs such as fruit picking, pruning and packing. To participate, employers must first demonstrate that they have an unmet demand for low–skilled labour and a commitment to Australian job seekers.

Frank Bombaci, from Victoria, says he would not be able to pick asparagus on his farm without the help of seasonal workers through the program. "These guys, they know the work's there, they want to do it, they ask for more work. You've virtually got to drag them inside and say, 'Boys, enough's enough. Now go and have a sleep because you're working again tomorrow.' They're just loving it."

All seasonal workers are employed in accordance with Australian wage rates and conditions and provided with reasonably priced accommodation and transport. Employers are regularly monitored to ensure they meet their obligations to workers.

While the program does provide approved employers with an important source of temporary labour, particularly in remote areas of Australia, the primary objective is to contribute to the economic development of the Pacific Islands and Timor Leste. On average, seasonal workers earn $12,000 during a six-month job placement and send around half back to their homes. The remittances are often more than an average annual income in the Pacific and can typically support a household of five people covering food, household goods, housing construction, education fees and savings.

To improve their skills and prospects for employment when they return home, seasonal workers can undertake training in English literacy, numeracy, first aid and basic computer skills during their stay in Australia. Returning seasonal workers also receive recognition of prior learning against Australian Quality Training Framework competencies.

Remittances worldwide are growing as an important source of income in developing countries and are valued at around three times the size of Official Development Assistance. The Australian Government supports eligible countries to participate in the Seasonal Worker Program by improving their recruitment processes and their preparation of workers.

Billy Bailo is another worker from Vanuatu who has travelled to Australia under the program and will be returning to earn more money to improve life in his community. "In the village we live, there is no water supply or source," he says. "So we depend mostly on water catchment from the rain. So as part of the money, I was thinking I will change this. I already dug a hole but I need some extra money to buy cement and other things."

STEVEN KALEB

SHARING SAFER MINING PRACTICES WITH INDONESIA

SUPPORT FOR PRIVATE SECTOR DEVELOPMENT IN RESOURCES AND ENERGY

Mines Inspectors and Trainers from Indonesia visiting Australian coal operations in Central Queensland in 2012 as part of a training program funded by DFAT Resources and Energy Section. Photo: IM4DC

Mining inspectors ensure effective management of the mining industry by monitoring compliance with standards at mine sites and promoting best practice in occupational health and safety.

A good mines inspection system is part of the broader business enabling environment that serves the interests of all stakeholders. It means everyone knows what is expected of mining operations and of regulatory agencies. Strong performance and rigorous oversight help to prevent tension and conflict. Good regulation of mines – and community confidence in the industry and government – can help to create jobs and generate trade, investment, growth and private sector development.

Australia is sharing expertise to build the capacity of Indonesian authorities to supervise mining operations. Building on broad experience with mining activities across a range of commodities, Australian authorities have developed world leading practice in the regulation of mining projects through established inspection systems that ensure safe and environmentally sound operations.

National and local support for mining investment requires strong systems to prevent environmental damage, and to ensure occupational health and safety and compliance with project agreements. A robust framework for mine inspection is one of the systems required for countries to maximize the benefits of their resource industries and attract high quality investment projects.

In Indonesia, the passage of comprehensive new mining laws has created the need to train an additional 1000 inspectors. Through activities delivered via the International Mining for Development Centre, a partnership with the University of Queensland and the University of Western Australia, the DFAT resources and energy program is helping Indonesia improve the supervision of mine operations. The training program is developing content relevant to the Indonesian context, based on Australian and Indonesian experience of priorities for improved competence.

Activities have included a short course in Australia for senior Indonesian inspectors and trainers, and workshops in Jakarta and Bandung to confirm priorities. The program is working with academic and training institutions in mining provinces across Indonesia. Topics include advanced mines inspectors training, new competency standards and train-the-trainer activities. The goal is to help Indonesia reach its goal of 1000 mines inspectors within four years with increasing knowledge of modern mining and monitoring practices.

BUSINESS ENGAGEMENT

LEFT: A midwife educator demonstrates the neonatal resuscitation procedure during an Emergency Obstetric Care training session. Photo: Oil Search Health Foundation

In Papua New Guinea (PNG), women are up to 80 times more likely to die in childbirth than in Australia. More than half of all pregnant women deliver their babies in their villages without a trained health worker to provide life-saving care if an emergency arises.

The Australian Government is working to improve the skills of health workers in PNG through partnering with the Oil Search Health Foundation, the non-profit arm of Oil Search Limited, a major PNG oil and gas exploration company.

Trained health workers are critical in rural and remote communities. However, access to professional development for reproductive health workers in PNG has been limited—many workers have not had the opportunity to update their skills since graduation, which may have been up to 25 years ago.

A Reproductive Health Training Unit (RHTU) has been established to develop and deliver training packages in obstetric care for health workers and health educators. The Unit's work is made possible with support from the Australian Government, the Oil Search Health Foundation, the PNG National Department of Health and provincial government. The Australian Government has contributed up to $10 million over five years (2012–2016), with the Oil Search Health Foundation making in-kind contributions (e.g. logistical support) of up to $2 million.

Through the RHTU, participants are already receiving hands-on training with experienced educators about current clinical procedures and gaining professional confidence.

An Emergency Obstetric Care Course (EmOC) in PNG's Central Province was described as follows by a participant:

"The RHTU builds the capacity of rural healthcare workers so they can detect antenatal emergency signs early and intervene to reduce maternal mortality and morbidity. The training captures and addresses the relevant obstetric challenges that we healthcare providers in the rural areas face on a daily basis. I believe, as more training programs continue, there will be obvious changes in our indicators in the country."

Another EmOC participant, a nurse midwife, said the training had boosted her confidence as a health worker.

"My district is very remote and has experienced for many years now maternal complications and deaths. The training on the management of post-partum haemorrhage, which contributes to maternal deaths, made a lot of difference to our usual management of mothers in labour."

"After the training we also did patrols around the district to raise public awareness about the importance of antenatal care and supervised delivery. We soon noticed more mothers coming for antenatal care and our labour ward is beginning to fill up now."

The RHTU is one example of how the Australian Government is working in partnership with the PNG National Government and the private sector to draw on different strengths and capabilities in order to achieve development outcomes.

TIM SIEGENBEEK VAN HEUKELOM, OIL SEARCH HEALTH FOUNDATION

CRUISING TO PROSPERITY

A Memorandum of Understanding between the Australian Government and cruise company Carnival Australia is helping to improve the livelihoods of people in the Pacific. Ann Sherry, Chief Executive Officer, Carnival Australia shares her thoughts on the historic agreement.

ABOVE: Tourists from a P&O Cruises ship visit an island in Vanuatu. Photo: DFAT

The Pacific Islands are at the heart of the world's fastest growing cruise market. Last year, nearly 700 000 Australians took a cruise holiday with the biggest proportion—more than 300 000 passengers—cruising on South Pacific itineraries.

For some time, Carnival Australia has recognised that we have a special respons bility to connect cruising and economic opportunity for Pacific island communities.

We have made a commitment to engage in sustainable tourism by minimising our environmental and social footprint as well as ensuring that local people can share in the economic benefits of cruising to the region.

Carnival Australia operates or represents a total of seven local and international cruise brands. Its P&O Cruises ships have cruised to the South Pacific for more than 80 years.

When the Memorandum of Understanding was signed at Carnival Australia's head office recently, it was both fascinating and encouraging to hear first-hand from Vanuatu Prime Minister, The Hon Moana Carcasses Kalosil, who travelled to Sydney for the ceremony.

He said that when he visits communities in his country, people ask when the cruise ships can start coming to their islands. It was confirmation that these communities recognise the extent to which cruise ships deliver economic opportunity.

At Carnival Australia we feel particularly honoured that we are the first private business with which the Australian Government has signed an MoU under their Business Engagement agenda, but it is also a relationship that is bu lt on a track record of success.

We have already worked with The Australian Government's Enterprise Challenge Fund to improve infrastructure to support cruise ship visits and passenger shore amenities. It's a partnership based on trust and experience that makes us confident about the delivery of the real life opportunities contained in the MoU's accompanying schedules.

These include training packages associated with our recruitment of Ni-Vanuatu staff on our P&O Cruises ships, courses for new market vendors and community based businesses and increased direct sourcing of artwork, handicrafts and local produce.

We see our partnership with the Australian Government as an important investment in the future that connects cruising and economic opportunity for the island communities that have always made our passengers so welcome.

CARNIVAL AUSTRALIA

Attachment D: Views from Austrade and Department of Industry

[return to section I. Scope]

Portfolio agencies

Austrade have provided additional views as an annex.

Other government departments

While there has been interest in the inquiry terms of reference in DFATs consultation across government, no other Australian Government Department confirmed it would make a submission.

As an alternative to a full submission, DFAT extended an invitation for other Departments to provide views which could be included in as an annex to the DFAT submission. The Department of Industry accepted this offer and its views are annexed.

Annexure to the DFAT submission - Austrade

Australian Government
Australian Trade Commission

Australia UNLIMITED

THE AUSTRALIAN TRADE COMMISSION

The Australian Trade Commission (Austrade) is the Australian Government's agency charged with export promotion, investment attraction, promotion of international education, and strengthening Australia's tourism industry.

Austrade works with the private sector in Australia and globally to promote stronger trade, investment and education links in international markets. Expanding the international business activities of Australian enterprises and education providers in developing economies will help promote access to investment and capabilities, build skills among local workforces, strengthen supply chains, and ultimately drive economic growth and employment.

Australian businesses play an important role in promoting economic growth and stronger commercial activity in international markets through direct investment, employment creation, skills development, joint ventures, trade in goods and services, as well as technical transfers. Australia, as an open trading economy, has been at the forefront of international efforts to further liberalise the global trading system. Access to international markets, investment flows, and new technology helps developing markets to increase productivity, create efficiencies, and stimulate economic growth.[33]

Australian business activities in the region

In addition to its international development programs, the Australian Government plays an important role – through agencies such as Austrade and the Department of Foreign Affairs and Trade – in assisting Australian companies and education providers develop their international business. Australian Government agencies can also play a role in helping governments in developing countries to provide the infrastructure, regulatory environment and institutional capacity to promote economic activity and encourage deeper integration of local economies into the global trading system.

Through commercial engagement in developing economies, private sector firms are also providing training and other programs that assist local economic development. For example Wellard Rural Solutions[34] contract to supply the Government of Sri Lanka with high quality Australia dairy cattle, farming infrastructure, plant and equipment and farm management support services (assisted by the Export Finance and Insurance Corporation).

In the Pacific Islands, an overwhelming majority of Australian businesses that have invested and are engaged in these markets are concurrently providing some level of development support. This can take the form of activities such as providing training and skills programs (for instance financial literacy or trade-based skills programs), providing social infrastructure to local employees (for instance mosquito nets to lower risks of malaria), and encouraging the inclusion of women in local business culture.

Austrade and DFAT, through its broader economic diplomacy agenda, have a role to ensure Australian businesses understand their obligations both under domestic laws as well as international guidelines. In many countries in the region, Austrade has helped facilitate discussions between domestic regulators and resources companies which take into account economic development outcomes.

[33] See Porter, Michael E., and Mark R. Kramer. "Creating Shared Value: How to reinvent capitalism – and unleash a wave of innovation and growth". Harvard Business Review, reprint (Jan-Feb 2011). http://www.hks.harvard.edu/m-rcbg/fellows/N_Lovegrove_Study_Group/Session_1/Michael_Porter_Creating_Shared_Value.pdf
[34] See EFIC case study at: http://www.efic.gov.au/casestudies/Documents/EFIC-Case-Study-Wellard-Rural-Exports-Sri-Lanka.pdf

Opportunities for Australian businesses

Skills and Training

In addition to partnerships between Australian and international universities, a significant driver of economic growth and poverty reduction is vocational training and skills development. Australia has a strong skills framework and our education sector is well placed to deliver skills and vocational training in markets in the Indo-Pacific region. Increased access to high-quality, targeted vocational training encourages economic growth, expands employment opportunities and ensures local business have access to skilled workers that enable them to better compete in domestic and international markets.

For example, the Australian Pacific Technical College is a valuable example of a technical training facility delivered by Australian education and training institutions, that builds vocational and trade-based skills in the Pacific Islands region. The college provides TAFE-standard training in Papua New Guinea and Fiji, and also partners with a number of corporations with activities in those two countries to deliver specific training to relevant employees.

Austrade is aware of strong interest in many international markets in Australia's approach to identifying and addressing skills shortages. For vocational and on-the job training there are opportunities for Australian suppliers to provide courses in market, project-level training, curriculum development, as well as train-the-trainer programs.

In India, for example, Austrade is engaging with major Indian business groups to assess their skills needs and identify opportunities for Australian providers to provide training. 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, where Austrade recently undertook a mission to identify gaps that could be addressed by Australian education and training providers.

Development contractors

Austrade is aware of strong interest by Australian companies to participate in infrastructure and development projects however businesses, particularly SMEs, find identifying opportunities and tender processes both complex and resource intense.

Earlier this year Austrade supported a mission to the Asian Development Bank in Manilla and will run a series of briefings in October to explain tender process and requirements for projects funded by the ADB, IFC and other multilateral funding agencies. Austrade plans to work closely with DFAT to raise awareness of opportunities for Australian businesses to bid for work on projects and programs, increase understanding of tender processes, and promote Australian capabilities to project sponsors and key decision makers.

Potential partnerships between Austrade and DFAT

DFAT and Austrade are well positioned to collaborate on projects that would give practical effect to the Australian Government's economic diplomacy and aid for trade agenda.

Austrade can provide a unique understanding of the challenges faced by the private sector as it does business in developing economies in the region, which will be invaluable in moving into a new aid and development paradigm that constructively connects donors with the private sector. Additionally, Austrade has extensive relationships with in-market stakeholders, such as trade promotion agencies and local peak business bodies, which will be critical in delivering targeted programs in the region such as institutional capacity building.

DFAT and Austrade are working together to identify new, innovative strategies to engage the private sector in driving economic growth and development in the region including through leveraging current aid and development programs.

Annexure to the DFAT submission – Department of Industry

THE INQUIRY INTO THE ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION

THE ROLE OF SKILLS DEVELOPMENT

The Department of Industry offers input to this inquiry regarding the role skills development strategies which leverage the private sector can play in promoting economic growth and reducing poverty. This Annexure addresses the following Committee Terms of Reference:

- *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.*

Overview

High value diplomatic and economic outcomes can be achieved through assistance from Australia to develop skilling systems and strategies in developing countries.

The Australian Government's engagement with developing countries in recent years has highlighted the imperative they place on establishing systems to up-skill a significant cohort of their working-age population. Skills development is of significant importance to developing countries seeking to move from 'factor-driven' economies to 'efficiency' or 'innovation' driven economies[35]. Improved mid-level skills are central to improving productivity and encouraging private and foreign direct investment.

Dialogue with governments across the region has demonstrated strong levels of interest in Australia's approach to skilling, primarily through the formal vocational education and training (VET) system. Australia's system includes a strong alignment with the skilling priorities of industry and an adaptable approach to content and training; these are some of the areas of highest interest to other countries. The first order engagement priority ought to be in developing adaptable industry connected skills systems.

Australia's Skilling System

Australia's vocational training system is well regarded internationally and therefore well placed to expand services into the Indo-Pacific region to leverage economic development in these countries. The system is characterised as responsive to the needs of industry, standards-based and national. Standards establish clear expectations and outcomes from training and afford flexibility to consumers and suppliers in mode and delivery to suit unique circumstances and to respond to a wide range of calls for training in Australia. A consistent national system operates across the Australian federation in which states and territories hold responsibilities for training.

Current approach to skills development activity

Through ongoing engagement in the Indo-pacific region, the Department of Industry is aware of a growing call from countries for assistance with the development of skills systems. Many countries are working on improving access to, and quality of, schooling, and expanding their higher education systems. At the same time they are aware of the need to offer up-skilling strategies for the working-age population to avoid exacerbating economic inequality across the population. Any engagement in these areas, however, needs to be strongly connected to the industry priorities of each individual country.

[35] World Economic Forum's Global Competitiveness Report 2012-2013

The role of the private sector

The Australian training sector is active in opening up training opportunities in the Indo-Pacific and Asia on a commercial basis. This often leverages off government-to-government relationships and aid funding.

The ultimate objective is to create opportunities for Australian businesses in the traded sector to take advantage of developments in the skills capacity in off-shore countries. Assurance that developing countries have base skills available within their labour markets provides the basis for companies to expand their operations in these countries. Growth in real jobs and the formal economy in these countries add to economic self-reliance and further expand trade opportunities for Australia.

Opening opportunities for private effort

Historically, assistance to developing countries has focused on publicly supported scholarship placement opportunities with Australian training providers or individuals pursuing training options in Australia under student visa arrangements. These avenues remain a vital source of developing human capital capacity in developing countries. Nonetheless, consideration could be given to facilitating skills development in-country. Scholarships have a specific but limited role with respect to skills acquisition particularly given the size of the skills development challenges of many countries within the Indo-Pacific region.

Delivery by Australian training providers offshore provides many of the benefits of people-to-people engagement, as well as ensuring the delivery of quality training at levels demanded by potential Australian employers operating within the region.

VET Challenges in the Indo-Pacific region

Countries developing and implementing skills systems face similar challenges such as:

- poor engagement with industry;
- chronic under-skilling in foundation and technical skills across the working-age population;
- dominance of the informal economy which does not recognise nor utilise formally acquired skills;
- limited training facilities; and
- Poor quality training.

A role exists for publicly directed aid to create an environment for the Australian training sector to deliver professional advice and services directed particularly to addressing these challenges.

The most effective engagement with developing countries is based on guiding education and labour Ministries to activate their industry sectors to guide training. In parallel, assistance is directed to building flexible approaches to governance of training systems, including for training accreditation and delivery arrangements. Professional support is also directed to improving the quality of training delivery and management of training institutions. This requires ongoing government-to-government diplomatic relationships.

The Australian Government also seeks to work with Australian industry to identify areas of potential expansion in developing countries to assist in targeting Australia's assistance to relevant industries. Prominent examples include development of mining and petroleum extraction skills for Australian companies operating offshore. Transport and logistics, as well as tourism and hospitality, are also strong areas of growth for Australian companies offshore.

Attachment E: Source of statistics for side bars

Front-end

United Nations Conference on Trade and Development, World Investment Report 2013
World Bank and the International Finance Corporation, Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises

Section 1

Asia Development Bank, Key Indicators for Asia and the Pacific 2013
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Section 2

Goldman Sachs Global Economics Paper No: 164, Women Hold Up Half the Sky 2008
World Bank and the International Finance Corporation, Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises

Section 3

Accenture, Business in Development Study 2012: Australian business leaders provide insight into delivering business outcomes with social benefit in developing countries
GAVI Alliance, Web site 2014
OECD and World Trade Organisation, Measuring Trade in Value Added initiative- online data 2013
United Nations Global Compact and Accenture, CEO Study on Sustainability 2013
United Nations Global Compact, Web site 2014

Section 4

DFAT internal reporting

Section 5

United Nations Conference on Trade and Development, World Investment Report 2013
World Bank, World Development Report 2013: Jobs