A private menagerie: Australia's parliamentary inquiry into the role of the private sector in development

By Robin Davies
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The federal parliamentary inquiry into the role of the private sector in development, commissioned back in February 2014, is finally done. The joint committee's report turns out to be an unruly menagerie of various people's pet preoccupations, but you can find some good things in it if you persevere.

The report, being compendious and lacking any real framework or definition of scope, defies easy summary. Almost anything the aid program does or might do touches on the private sector in either developing countries or in Australia, and sure enough this report touches on almost anything the aid program does or might do (with the notable exception of support for improved labour standards). The same can be said of the 154 public submissions to the inquiry, which have been assiduously mined for quotes. The committee might have interpreted its loose terms of reference much more strategically so as to focus squarely on public-private partnerships for development—particularly for social service delivery, inclusive supply chain development, local enterprise development, outward investment promotion and the production of global public goods. (The inquiry was directed to look at procurement policy, so the inclusion of material on that topic gives no cause for complaint.)

As it is, the report contains a great deal that is really off topic or ho hum, including recommendations in relation to public financial management (especially sovereign wealth funds), migrants' remittances, aid support for the development of infrastructure PPPs, gender equality in Seasonal Worker Program recruitment, aid transparency, and so on. Some of what is said under these headings is right and good, for example on women's empowerment and aid transparency, but not especially relevant to the objectives of the inquiry. One particularly egregious off-topic recommendation states that the Australian government should 'inform the Australian Parliament of any significant changes proposed by multilateral organisations that could impact on Australia's interests prior to any decision being taken' (Rec 24). On looking into the details, it becomes apparent that this responds to a submission [pdf] from the Minerals Council of Australia complaining about a 2013 decision of the World Bank's board, quite a balanced one in fact, to place constraints on lending for fossil fuel projects. What on earth has this to do with the role of the private sector in development?

The discussion below covers the report's recommendations in a very selective way as they relate, or do not relate, to four topics: the present untied-aid policy; support for the private provision of social services; the establishment of an Australian Development Finance Institution; and the role of the private sector in promoting poverty reduction and economic development under its own steam.

The tying of aid procurement

The report's most controversial recommendation is that the government 'review its untied grants policy' (Rec 24, again) and in particular 'review development and humanitarian assistance with a view to increasing the proportion of in-kind aid to better meet our new national objectives' (Rec 25). No argument is given for these recommendations other than that untying is believed to reduce 'badging' opportunities and that some other donors have untied aid procurement less than Australia has. Uniquely in this report, not a single quote from a public submission is adduced in support of these two recommendations (see pp. 220-222). The underlying thought, spelled out in the report's foreword by committee chair Dr Sharman Stone (Lib), is that victims of disasters and conflicts should not be deprived of fresh, high-quality, fairly-priced Aussie produce. Somehow, tying procurement of such produce would deliver 'value for money' and, somehow, said produce would be delivered 'just in time' to save on warehousing costs (p. *ix*). Fresh fruit, straight to your door.

This parrot is deathless. DFAT Secretary Peter Varghese did his best to bury it singlehandedly following the change of government (e.g. see here, p. 66). Eventually, some ten months later, the government itself got around to affirming unambiguously that aid procurement would remain untied. Most recently, the government's commitment to untied aid has been explained and quite heavily underscored in its aid-for-trade strategy (p. 7). However, Dr Stone—who represents the fruit growers of Victoria's Goulburn valley and earned her doctorate in economics and business for a thesis on international trade in food—is a sworn enemy of her own party's policy in this area. At one point she even unilaterally announced it would change. It did not, but Dr Stone still belongs to the same faction as Théophile Gautier's cat:

> *The eyes of the cat, fixed upon the parrot with an intensity that had something of fascination in it, plainly said … : "Green though it is, that chicken must be good to eat." (My Private Menagerie, 1869)*

In any case, the policy is presumably not about to change and it shouldn't. The UN World Food Programme, Dr Stone's primary bugbear, should buy its food as cheaply as it can get it, and as close to where it is needed as possible. The aid program should not be used to compensate Australia's farmers for any loss of competitiveness associated with the agricultural policies of other countries. Perhaps it was inevitable that the report would recommend in this way, given Dr Stone's role and known views. But it is very surprising that no other committee member from any party bothered to dissent, as is often done in these inquiries.

Private provision of social services

One recommendation of the report with which it should be easy to agree is that Australia should do more to support private providers of healthcare services in the region (Rec 4). However, the restriction of this recommendation to the health sector, and the notion that Australia should create a 'flagship' private healthcare initiative in this sector, appear to owe more to urgings from Australian suppliers of healthcare services than to any recognition of the significance of non-government social service providers. The same recommendation could as well have been made in relation to education services, or water supply and sanitation services. In all these areas, private suppliers, who are often non-profit suppliers but not charities, play an important role and deserve more support than they get from Australian aid, which in fact is close to nil. However, it doesn't follow that they necessarily need help from Australian suppliers of these same services, or Australian regulators of such suppliers. They might need much more basic things.

An Australian Development Finance Institution?

The committee was asked to consider 'additional … financial instruments the Australian government could use to enhance the role of the private sector in development'. This amounted to a request for advice on the merits of creating a bilateral Development Finance Institution (DFI). The report says rather contradictory things about this. Dr Stone's foreword says, 'the Committee has not recommended this approach. The Australian Government has shown what can be done by partnering with Australia's own world-class financial institutions'. However, DFAT's partnerships with Westpac and ANZ, whose actual outputs, by the way, are entirely unknown, have nothing to do with bringing additional financial instruments into play, and probably not a lot to do with encouraging foreign direct investment in developing countries. If anything, they have to do with increasing access to financial services and financial literacy in certain places, mainly in the Pacific.

The report in any case all but contradicts its own foreword by recommending a review to assess whether Australia should establish a DFI (Rec 21). In making this recommendation, the committee observes that Australia is unlikely to be able to compete with existing and new multilateral DFIs—entirely missing the point that bilateral DFIs are typically created to entice a donor country's own firms to invest in developing countries, with dual development and market development benefits, and little or no ongoing cost to aid budgets following initial capitalisation. Even donors whose aid is largely untied, like the US and Germany, maintain bilateral DFIs with tied procurement. The financing offered by DFIs isn't on aid terms, so the question of aid tying doesn't arise, or rather only arises in connection with any initial or subsequent injections of aid capital. While the fusing of commercial and development objectives, which is usually central to the DFI concept, might not be palatable to everybody, it is surprising that Dr Stone, for one, did not like it. It must be assumed the barrier was in fact the up-front cost of creating a DFI—which was assumed to be too high in the context of a diminished aid budget.

There should in fact be consideration of one proposition in particular: that Australia establish a bilateral DFI for the Pacific region, including Papua New Guinea and Timor-Leste, or perhaps pursue the establishment of an ANZ DFI, for this purpose. Both Jim Adams and Bob McMullan have argued for something like that proposition previously. A DFI for the Pacific need not be a mammoth institution. The costs to the aid budget would be relatively small given that most of the DFI's resource mobilisation capacity would rest on government guarantees rather than paid-in funds. Like other DFIs, the institution would be expected to become financially self-sustaining. And, if well built, a Pacific-focused DFI could be an accessible, responsive institution with priorities, governance arrangements, instruments and procedures appropriate to the region, which will probably never be well served by the larger institutions.

Unsubsidised private sector effort

The report has too little to say about what Australian business is doing and should be doing under its own steam to contribute to poverty reduction and economic development in the Asia-Pacific. According to the terms of reference, this topic should have occupied the inquiry a great deal; the scope of the inquiry was certainly not confined to the role of official aid in support of private sector activity. For example, in its discussion of social impact investment, the committee's assumption at all times is that the government must figure out how to climb into the picture. But the government need not do that, and risks creating distortions if it does.

When businesses themselves create and observe codes and standards, operate more inclusively, go well beyond the normal run of Corporate Social Responsibility activity, organise around development goals or modify supply chains in response to consumer or shareholder preferences, it will usually be enough that these actions are applauded and encouraged by governments and parliaments. Where governments are actually getting in the way, that's another matter—for example, the committee rightly recommends consideration of legislative change, mirroring changes overseas, to recognise 'benefit corporations' that are neither purely profit-driven nor entirely non-profit. On the whole, the report misses an opportunity to highlight what the Australian private sector is doing, and could and should be doing more of, independently of government.

Conclusion

Is there much that's good in this report? The answer to that question might not really matter, as the government is not likely to give it a lot of attention at this late stage in the policy development process. However, some of the committee's recommendations do have merit.

There is a case for considering a bilateral DFI, at least for the Pacific. DFAT should have a 'private sector and philanthropic communication and engagement unit' (Rec 28), provided it is equipped with a clear set of objectives and principles for engagement. That unit should 'introduce a mechanism through which partnerships can be established in a co-owned process to ensure risks, responsibilities and benefits are understood and properly assigned' (also Rec 28) and it should 'monitor and report annually on business partnerships established' (Rec 15). Volunteers should more often be placed with businesses (Rec 7), and less often with government and UN agencies. Women business leaders would benefit from greater opportunities to network and share experience (Rec 11). More could be done to support companies in making their supply chains inclusive (Rec 2), particularly through effective brokering between companies and local organisations. And more could be done to support partnerships to deliver global public goods (Rec 4), though not only in connection with drugs, diagnostics and vaccines.

What is most glaringly absent from the report of the inquiry is a clear articulation of the range of objectives that DFAT or an other official aid agency might have in entering into partnerships, particularly partnerships involving some kind of public subsidy, with private actors. Without this, it was difficult for the committee to offer a very useful or convincing discussion of the principles, instruments, administrative arrangements and due diligence processes required to make such partnerships work well. It's now up to the government, whether in a direct response to this report, or in its anticipated strategy for private sector engagement and development, to view the terrain with a clearer eye.

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