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A large, stylized blue chevron graphic pointing to the right, with the text "High performance. Delivered." centered within it.

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

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

May 2014



1. Executive Summary

The Joint Standing Committee on Foreign Affairs, Defence and Trade (JSCFADT) review into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region is timely and has the advantage of being able to leverage existing global evidence and information about all forms of private sector engagement in development outcomes. Fortunately there is also a solid body of Australian research in the form of the “Business in Development Study 2012”¹ commissioned by the then Australian Agency for International Development (AusAID) and researched by Accenture in conjunction with Business for Millennium Development (B4MD). The study, based on 56 survey responses and interviews with 35 CEOs and business leaders found that the private sector, in the form of multinational businesses, can have a substantial impact on poverty alleviation especially when the poverty alleviation activities are rooted in their core business rather than Corporate Social Responsibility. This report is included as Appendix A with this submission.

Based on the Business in Development study findings and Accenture’s global experience working with private sector and international development organisations, the Accenture submission is focused on four key areas identified in the JSCFADT Terms of Reference:

- “The role of public-private partnerships in leveraging private sector investment in developing countries.
- Risks related to current and possible future approaches to enhancing the role of the private sector in development, and their management.
- The role Australian and international businesses could play to support development and inclusive growth in partner countries.
- What other donors (new and traditional) are doing in this area.”²

The private sector is the main driver in sustainably alleviating poverty. What is under review is how to better leverage the private sector poverty alleviation potential in alignment with the Australian Aid program. To be clear from the outset this is not to say that all private sector activity is positive. Private sector businesses, like any organisations, vary in their quality and activities and it should be noted that there is an underlying premise that prior to any engagement with the private sector, the Department of Foreign Affairs and Trade (DFAT) should conduct adequate due diligence just as they do today for others they engage in the aid program.

Considering that private sector activity takes many forms, the focus of this submission is on how the Australian Aid program can better scale and sustain the potential impact that large national and international businesses have in promoting economic growth and reducing poverty, primarily through their core business activities. Small and medium enterprise, management contractors, Non-Governmental Organisations (NGOs), Community Based Organisations (CBOs) and social enterprise all have a role to play, but there is an untapped opportunity for the Australian government to utilise the strengths and scope of large national and multinational companies who operate in developing countries.

This submission aims to provide content relevant for the JSCFADT when considering how the Australian Government, particularly DFAT will engage with the private sector to achieve development objectives. In an environment of budgetary constraints, this is an area where progress can be accelerated, efficiencies gained and initiatives brought to

¹ Accenture, Business in Development Study 2012, <http://www.accenture.com/us-en/Pages/insight-business-development-study-2012.aspx>
Accessed 28th April, 2014

² http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=jfadt/indo_pacific/tor.htm.
Accessed 28th April, 2014.



scale utilising the market power of large companies coupled with the development knowledge of DFAT and other international development sector players.

1.1 Accenture Submission

This submission outlines three key areas for the JSCFADT to consider:

1. **Australian and global insights.** A number of different channels provide insights into what the private sector is doing and what is motivating them to invest in activities that have a poverty alleviation impact.
2. **What other aid organisations are doing.** A brief overview of what a number of aid agencies are doing with regards to private sector development.
3. **Design and implementation considerations.** Pragmatic suggestions for the JSCFADT to consider when identifying ways DFAT might enhance how they engage in private sector development.

1.2 Conclusion

The scheduling of this review is timely as Australia has the advantage of being able to learn from similar organisations who are further along the journey of engaging with the private sector to achieve poverty alleviation outcomes. However, any delay to action risks missing an opportunity to leverage the potential of the private sector to drive scalable and sustainable development outcomes in alignment with the objectives of the Australian Aid program.

2. Australian and Global insights

Through Accenture's work on the Business in Development study, our global commercial practice, our offices in developing countries and our work in the International Development arena (via Accenture Development Partnerships), we have significant insight into what is motivating businesses to invest in activities that have a poverty alleviation impact.

Justine Greening, Secretary of State for International Development in the United Kingdom summed up the impact of economic growth and the private sector succinctly:

*"Economic development is absolutely and without question, the only way we can ultimately defeat poverty. It's not just speculation... this is the unequivocal lesson of the last 20 years. In the last 2 decades the number of people in the world living in extreme poverty fell by half. That's better lives for more than 700 million people. And there is no question why: the real driving force behind this reduction was economic growth. Wherever long-term per capita growth is higher than 3%, poverty falls significantly. It really is that simple. Growth reduces poverty through jobs...raising incomes for individuals through the dignity of work and providing tax receipts for governments to fund basic public services like health and education."*³

Last month in Mexico City, the First High-Level Meeting of the Global Partnership for Effective Development Co-operation and the implementation of the Post-2015 Development Agenda was held. At this forum it was acknowledged that businesses make an important contribution to poverty eradication and sustainability through strong and inclusive economic growth, wealth and decent jobs creation, entrepreneurship, productivity and innovation, knowledge sharing and technology transfer, and expanded access to goods and services for all. In this context, they emphasized the critical importance of promoting an enabling business environment conducive to inclusive and sustainable development, in accordance with national public policy and regulatory frameworks.⁴

2.1 The Business in Development Study

The Business in Development Study 2012⁵ provides a data source for understanding how Australian business leaders think about their business activities in developing countries and the extent to which they do or do not have a poverty alleviation impact. We recommend that the JSCFADT review the report in detail. Chapter Five in particular provides feedback from business leaders about the different ways in which DFAT could engage businesses to achieve development impact and we cover some of this in section 4 below.

Whilst the focus of the study was Australian businesses with operations in developing countries, these findings can be assumed to be applicable for other multinational businesses and national businesses in developing countries.

Essentially business leaders felt they did play a role in alleviating poverty, they would be doing even more in the future and they were prepared to explore working in partnership to achieve it. The main motivation was Brand, Trust and Reputation followed by Employee Engagement and Recruitment, things tied to core business rather than Corporate Social Responsibility. The top line statistics from the report include:

³ Justine Greening, "Smart Aid: Why it's all about jobs", Speech at the London Stock Exchange, 27 January 2014. <https://www.gov.uk/government/speeches/smart-aid-why-its-all-about-jobs> Accessed 1st May, 2014.

⁴ First High-Level Meeting of the Global Partnership for Effective Development Co-operation: Building Towards an Inclusive Post-2015 Development Agenda, (Consensus Draft of the Mexico HLM Communiqué, 16 April 2014) <http://effectivecooperation.org/wordpress/wp-content/uploads/2014/04/ConsensusDraftoftheMexicoHLMDeclaration.pdf>

⁵ Accenture, Business in Development Study 2012, <http://www.accenture.com/us-en/Pages/insight-business-development-study-2012.aspx> Accessed 28th April, 2014



93% of Australian businesses believe they can play a role in alleviating poverty in developing markets.

73% of survey respondents significantly agreed or agreed that the activities undertaken by their businesses that contribute to poverty alleviation in developing countries are increasing.

The key factors driving business to engage in poverty alleviation activities are: brand, trust and reputation (66%).

Australian businesses are prepared to explore new ways of partnering—57% identified AusAID as one of the key organizations that they would seek to engage with in the future.⁶

To be successful in developing countries, Australian businesses have had to be innovative and expand their capabilities beyond their core competencies to address challenges to business growth. The companies that are thriving are those that have built meaningful, sustainable relationships in the countries in which they operate.

The creation of employment opportunities, introduction of health and education programs, advancement of human rights and labour policies, infrastructure development and development of inclusive supply chain practices are not only key in addressing socioeconomic barriers to participation and capacity-building, but are underpinned by solid business drivers. This means they are sustainable and ultimately scalable in a way that traditional Corporate Social Responsibility is not.

One of the misconceptions is that business is looking for a 'handout' from aid programs. In reality, many of the business leaders interviewed suggested that they did not want direct funding from DFAT but instead were interested in seeing where existing DFAT activities could be aligned with their activities to achieve a greater overall impact.

For Example, hypothetically this could include a situation where DFAT continues to fund a local NGO to run financial literacy programs but ensures they are aligned to include content that helps people understand how to use a new mobile banking product. Or a situation where a fast moving consumer goods company wants to procure a raw material from a country and will provide a guaranteed supply chain and fair price but needs farmers to deliver higher quality and volumes of the commodity. This is an opportunity to work with an existing or planned DFAT farmer livelihood program finding ways to make sure the program helps the farmers to improve farming techniques to be able to seize the opportunity to connect into the new supply chain.

2.2 Technology as a means to greater development impact

Technology change is occurring at an ever increasing rate and this presents opportunities for new and innovative ways in which development impact can be achieved leveraging the power of new technology. Accenture recently launched the report "Remaking Customer Markets - Unlocking growth with digital"⁷. This report was based on a survey of 500 business leaders globally. Of particular relevance to this submission, the report found that when shaping their five year strategies companies are starting to consider growth options outside their traditional growth and industry areas. This was particularly prominent for companies in developing countries with "87 percent of executives based in China planning on this type of growth, versus 53 percent in both the United Kingdom and United States"⁸. But of particular note was the fact that:

⁶ Ibid

⁷ Accenture, Remaking Customer Markets - Unlocking growth with digital, <http://www.accenture.com/us-en/landing-pages/customermarkets/Pages/home.aspx> Accessed 28th April, 2014.

⁸ Ibid, page 11



“One-third of businesses are planning to pursue new market opportunities in, or in collaboration with, the public sector and/or the non-profit sector.”⁹

This further reinforces the findings from the Business in Development study that businesses are aware of value in partnering with others when working in developing countries.

Of further note, the report found that certain sectors were particularly suited to transformation via digital, including Health Care, Education and Financial Services. These are seen as ‘digitally contested markets’ because “digital technology is opening up traditional industries to new levels of competition, often from entirely new industries”¹⁰. Whilst the report looks at these trends from a purely business driven angle, these forecast changes present a potential opportunity for new forms of partnerships to unlock health care, education and financial solutions at scale for poverty reduction outcomes.

⁹ Ibid, page 11

¹⁰ Ibid, page 16

3. What other aid organisations are doing

In the last decade there has been a move by a number of international development aid organisations to implement different models of private sector engagement. Many detailed reviews have been developed of these approaches and for that reason we seek to offer only a few insights from our engagement with a number of these agencies.

3.1 International Finance Corporation (IFC) and the Asian Development Bank (ADB)

The International Finance Corporation (IFC) and the Asian Development Bank (ADB) define “Inclusive Business” (IB) as models where goods, services or livelihood improvements are brought to scale for the “Base of the Pyramid (BoP)” by making the poor part of value chain, suppliers or customers while business makes a reasonable profit (IRR of 8-20%).¹¹

The IFC has invested over \$7B USD in Inclusive Business since 2005 and the ADB launched its Inclusive Business initiative in 2010. A new ADB project (co-financed by the Government of Sweden and Credit Suisse) launched in December 2013, aims to help ADB's private sector departments doing impact assessments and due diligence work on IB models improve the enabling environment for IB and promote regional exchange and knowledge work with IB. Social benefit is realised by providing jobs, new markets for the poor to sell their products and services or providing access to affordable quality goods.¹²

3.2 The United Kingdom Department for International Development (DFID)

The Business Innovation Facility (BIF) began as a three year pilot programme (2010 to 2013) to support companies as they develop and implement inclusive businesses in Bangladesh, India, Malawi, Nigeria and Zambia. Funded by DFID, the primary focus areas included improving links to smallholder farmers, developing routes to market for affordable products and sharpening business plans for commercially sustainable ventures. This approach was based on advice and technical assistance sourced from a vast network of international experts, with on-the-ground knowledge and insight to help companies develop or scale up inclusive business models.

Example Project – Over 2,500 rurally-based sales women operating from 86 distribution hubs in Bangladesh

*The Business Innovation Facility supported the spin-off of a social enterprise involving women agents selling products from Consumer Goods & Retail partners (e.g., Danone) through a cost effective rural distribution model in Bangladesh. JITA was launched in January 2012 and is hoped to be a blueprint for similar models in other geographies.*¹³

DFID are now scaling up their investment in economic development, committing £1.8bn in 2013-2014, twice the amount as 2012-2013. Justine Greening has openly put economic development at the heart of DFID's strategy. Major trends include:

- A shift towards creating and supporting market-based programming e.g. investments and programmes targeting key failures and obstacles in making markets work for the poor (MM4P). BIF “2” will receive increased funding and evolve into a MM4P facility proactively targeting key sectors rather than one that focuses reactively to business-by-business applications for support.
- Working and engaging with big business (UK and foreign) to create more and better livelihoods and markets for inclusive growth. This includes both businesses with supply chains and new market focus in developing

¹¹ http://www.ifc.org/wps/wcm/connect/AS_EXT_Content/What+We+Do/Inclusive+Business Accessed 28th April, 2014.

<http://www.adb.org/themes/poverty/inclusive-business-base-pyramid> Accessed 28th April, 2014.

¹² IFC, ibid; ADB ibid

¹³ <http://www.youtube.com/watch?v=yIxt8c3oE60> Accessed 5th May, 2014.

countries (e.g. FMCGs, agriculture, Financial Services) but also financial partnerships to support private and commercial investment in industries and commerce. It will involve a push to get more business skills into development programmes and working with business associations e.g. CBI.

- More innovative and commercial forms of finance, including returnable capital alongside traditional grants e.g. the new £75m “IMPACT” fund-of-funds investing in impact investment funds that providing concessional debt and equity capital into social businesses and enterprise, a revamped and refocused CDC, first UK development bonds to improve healthcare in Africa bringing together private and public capital.
- Creation of an Innovation Group to look at new ways to enable development e.g. use of technology, supporting start-up/entrepreneur ecosystems.
- A reaffirmation of investments at the macro-level e.g. policy advice (e.g. £51m International Growth Centre providing policy advice direct to governments), free trade, governance (e.g. Commercial Law and Justice programme), infrastructure (e.g. via PIDG), improving basic services e.g. education, energy and water, land rights, supporting access to financial services particularly women.
- Closer working cross-Whitehall with other departments supporting trade and investment, particularly FCO, UKTI and HMRC e.g. the UK government’s High-Potential Prosperity Partnerships (HPPPs) with Mozambique, Angola, Tanzania, Ghana and Cote d’Ivoire, seconding tax specialists from HMRC to DFID teams.
- Recruitment of ex-private sector personnel into both HQ and Country/Regional Offices.

3.3 The Swedish International Development Agency (SIDA)

SIDA has established the Swedish Leadership for Sustainable Development network with a membership of 20 plus leading companies with Swedish connections. The network focuses on good leadership in sustainability and working towards reducing poverty by trying to find solutions to development challenges. The network aims to leverage member company’s skills and experiences in ways that are connected with the objectives of the SIDA’s overall poverty alleviation objectives. Members of the network include Ericsson AB, H&M Hennes & Mauritz AB, IKEA, Unilever and the Volvo Group.¹⁴

3.4 The United States Agency for International Development (USAID)

Over the last few years, USAID has increased its focus on working with the private sector. As Rajiv Shah, USAID Administrator, stated recently the best way for America’s chief development agency to help other countries reach prosperity and democracy is increasingly by creating partnerships not just with other governments, but with the private sector too.¹⁵ USAID has developed a number of pillars to its business engagement strategy including:

- USAID Missions as a source of country and industry knowledge and therefore a valuable resource based to help provide insights into the local business culture.
- Partnerships are an area that USAID has been growing, focusing on formal and informal partnerships with companies. The Global Partnerships Division is the hub for shaping these partnership opportunities.

¹⁴ <http://www.sida.se/English/Partners/Private-sector/About-Business-for-Development/Swedish-Leadership-for-Sustainable-Development/>
Accessed 1st May, 2014.

¹⁵ USAID Administrator Rajiv Shah on Public-Private Partnerships and the Future of Aid, Rajiv Shah spoke at the Wilson Center on February 14 as part of the “National Conversation” series, co-sponsored by NPR. <http://www.youtube.com/watch?v=JpHTeHfvg8> Accessed 2nd May 2014.



- Financing initiatives are another mechanism that USAID uses like many other agencies. They have a history of grants like Grand Challenges for Development offers awards to encourage new approaches to development challenges.¹⁶

3.5 The Center for Global Development

Although not a donor agency, the Center for Global development is leading a workgroup to explore new financing mechanism in the form of Development Impact Bonds (DIBs). DIBs are upfront funding for development programs by private investors, who are remunerated by donors or host-country governments—and earn a return—if evidence shows that programs achieve pre-agreed outcomes.¹⁷ This idea is still in its infancy but warrants a mention here as a potential new mechanism by which donor agencies can engage with the private sector for development impact.

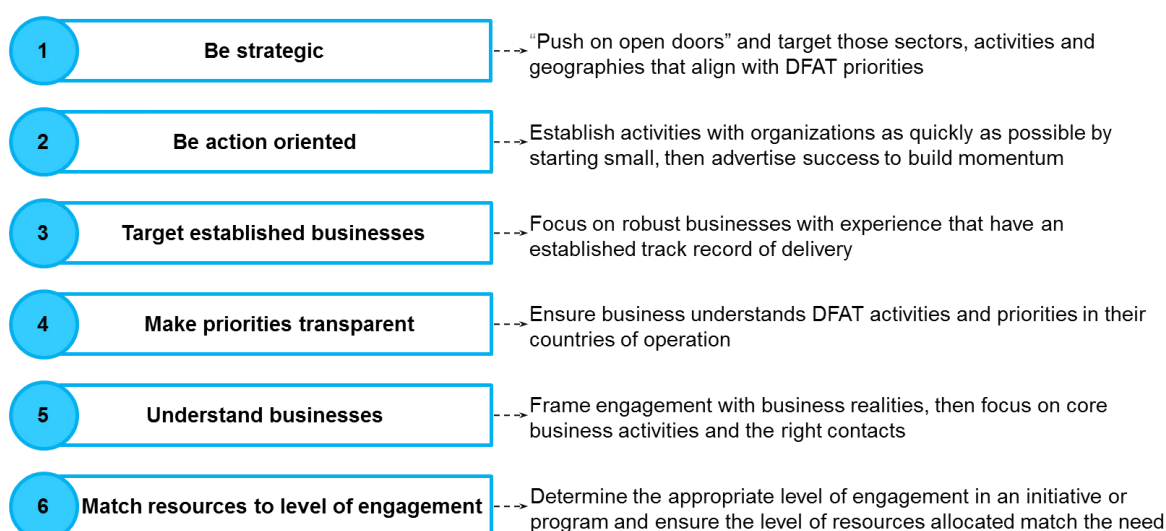
¹⁶ <http://www.usaid.gov/work-usaid/partnership-opportunities/corporate/commercial-engagement/ways-work-together> Accessed 1st May 2014.

¹⁷ Center for Global Development Studies, <http://international.cgdev.org/publication/investing-social-outcomes-development-impact-bonds> Accessed 30th April, 2014

4. Design and implementation considerations

Today the Australian Aid program is significantly complex in terms of geographic, thematic and organisational reach. Beyond the historical international development ‘private sector engagement activities’ DFAT has also had some focus in recent years on Australian multinational companies via the Mining for Development initiative and the Business Engagement unit. These have been relatively small scale to date and the time is right to reflect on the learning and consider ways to improve and scale.

The Business in Development study results showed that business leaders could see the immense potential of combining efforts with the Australian Aid program to achieve a shared goal but were also aware of the practical challenges. To be sustainable, business leaders emphasised that the poverty alleviation activities they undertake must be anchored to tangible business benefits, even if the business benefits only occur in the medium to long term. For this reason they made pragmatic suggestions about the ways in which AusAID (now DFAT) could engage business to achieve development outcomes¹⁸. These suggestions are also consistent without our experience working with DFID, SIDA, USAID and also other businesses on projects focused on poverty alleviation.

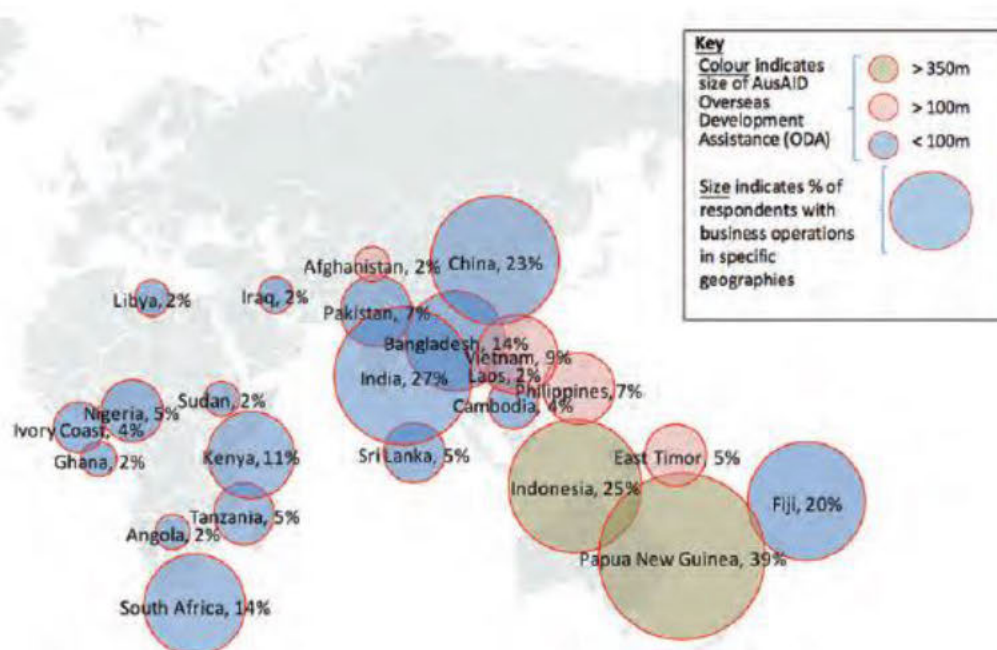


4.1 Be strategic

There must be structure and purpose to guide when DFAT might engage with the private sector. In every instance there must be enough common ground that the outcome of the engagement will lead to development impact that is aligned to the objectives of the Australian Aid program but that also the objectives of the business too. One without the other may lead to imbalance and a failed outcome.

As DFAT continues to explore ways to engage the private sector to achieve development outcomes there are a number of possible lenses that can be used to provide structure. One suggested lens for focus is geography. There is potentially a unique alignment between countries which are geographically strategic to the Australian Aid program and where businesses are able to achieve scalable and sustainable impact. Although now slightly dated, this diagram from the Business in Development study is a good illustration of the point. It is not always the countries where business have their largest operations that they have the largest impact.

¹⁸ Accenture, Business in Development Study 2012, <http://www.accenture.com/us-en/Pages/insight-business-development-study-2012.aspx> Accessed 28th April, 2014, page 57



Notes This map does not represent all countries where AusAID is active, nor does it represent all countries where survey respondents have business activities.

Of the 56 respondents, four selected "none" when asked about developing countries in which their businesses operate.

Sources: Accenture/B4MD Business in Development Survey, 2012; Australia's International Development Assistance Program 2011-12 Budget

4.2 Be action oriented

This was relevant two years ago and is even more relevant today. Business leaders were keen to see DFAT make a start rather than just talk about engagement. Take some initial steps to trial one or two types of engagement with business and review the results.

*"Business leaders also voiced concern that engagement with AusAID could result in lengthy discussions without the necessary supporting actions. Don't organize a talk-fest; the emphasis must be on action, even if it is a few small activities."*¹⁹

4.3 Target established businesses

Challenge Funds are mechanisms that have historically been used to engage the private sector to achieve development outcomes. Robin Davies and Margaret Callan at Australian National University (ANU) have been facilitating a working group to gather learning from both Australian and overseas Challenge Fund implementation and reach.²⁰ If publically available, the outputs from this group would be a valuable asset for the JSCFADT.

Whilst challenge funds have served a purpose, there is an untapped opportunity that really presents a chance for scale and sustainability. That is engaging with established businesses with a track record and operations of a certain size that enable reach. Whilst there are risks in public perception from the Australian Aid program being associated with big

¹⁹ Ibid, page 58

²⁰ ANU, <http://devpolicy.org/in-brief/17-heads-are-better-than-one-devpolicy-launches-informal-working-group-on-enterprise-challenge-funds-20130712-2/> Accessed 1st May, 2014.



businesses the potential business case for development impact is compelling and if well communicated could mitigate the risks.

4.4 Make priorities transparent

The Aid program is often quite opaque and it is difficult to know who to talk to in DFAT and where decisions are made, let alone what the priorities of the program are. To be able to engage and find common ground with businesses, DFAT's priorities should be transparent and easily accessible.

4.5 Understand business (invest in internal DFAT change management)

Should DFAT decide to pursue one or more channels of increased engagement with the private sector, there is a significant internal change management exercise required. Historically private sector engagement has been seen through the lens of creating business enabling environments and supporting small and medium national enterprises in fragile and conflict affected states. The idea of engagement with large national and multinational organisations is not completely new but it has been contained to a relatively small area within DFAT historically. If DFAT staff do not understand the value proposition they are unlikely to engage or if they do engage they may not approach it in the most effective manner. Helping staff to understand the drivers and benefits and giving them the tools to be able to work with the private sector will be very important.

From our engagement with DFID and The Swedish International Development Agency (SIDA) we have seen firsthand that internal change management is required to help staff understand the benefits and risks associated with new types of private sector engagement. Investing this time will reap longer term rewards.

4.6 Match resources to level of engagement

Make sure that there are sufficient resources within DFAT empowered to work in this area to match the public commitments made to the agenda. This is not just in Canberra but in the countries that have been selected as priority countries for fostering poverty alleviation via business in development.

4.7 Conclusion

In 2012 when Accenture and B4MD conducted the Business in Development study interviews there was considerable enthusiasm amongst Business Leaders about the potential of emerging markets for their business and also the real opportunity to make a positive impact on poverty alleviation through their core business activities. They were pragmatic about the different ways in which they could engage with DFAT and keen to get started. Since then, there have been a growing number of examples from overseas that suggest this is an area of great potential and that government, NGOs and other development sector players and the private sector working together can achieve much more than any one group individually.



5. Appendix

The Business in Development Study 2012: <http://www.accenture.com/us-en/Pages/insight-business-development-study-2012.aspx>



About Accenture

Accenture is a global management consulting, technology services and outsourcing company, with approximately 275,000 people serving clients in more than 120 countries. Combining unparalleled experience, comprehensive capabilities across all industries and business functions, and extensive research on the world's most successful companies, Accenture collaborates with clients to help them become high-performance businesses and governments. The company generated net revenues of US\$28.6 billion for the fiscal year ended Aug. 31, 2013. Its home page is www.accenture.com.

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