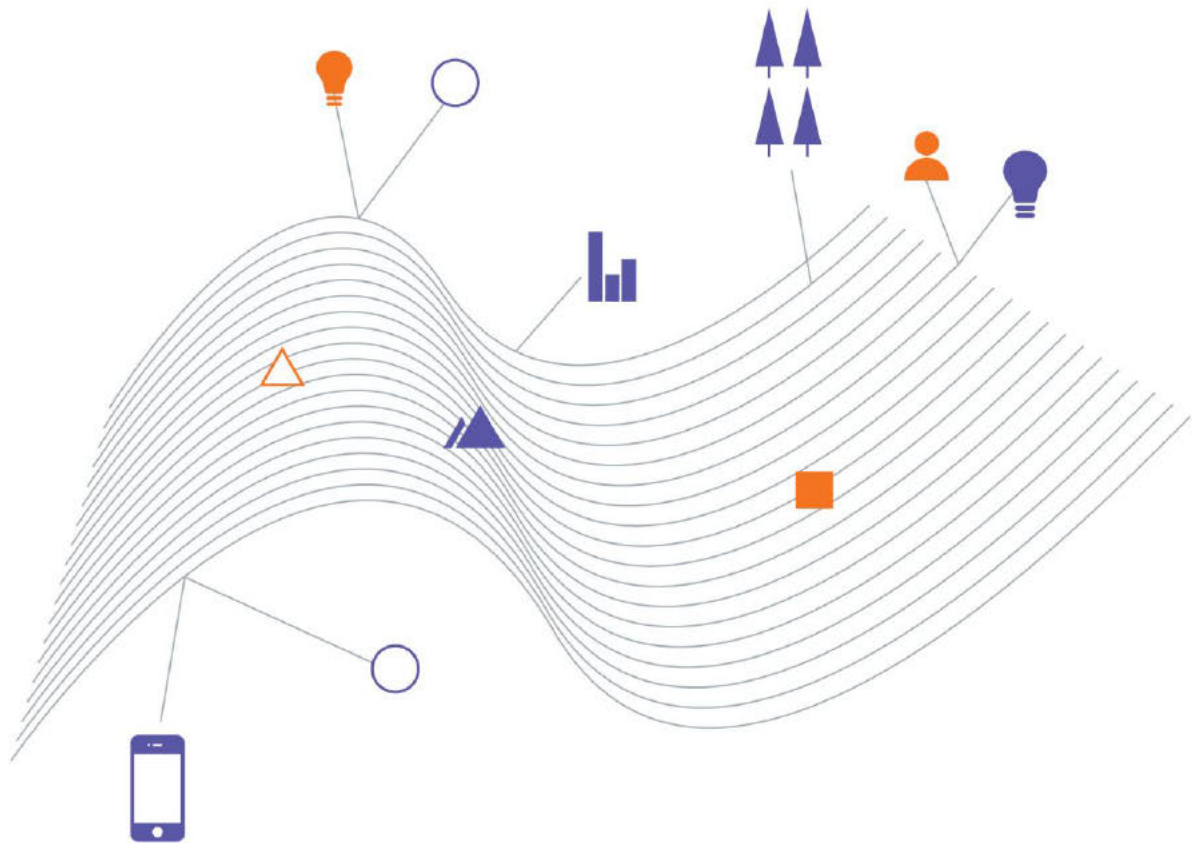




## **Inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region**

### **Submission by Coffey**

8 May 2014



In a  
turbulent  
world  
we provide  
clear thinking



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8 May 2014,

### **Inquiry into the role of the private sector in economic growth and reducing poverty**

Coffey would like to thank the Joint Standing Committee on Foreign Affairs, Defence and Trade for its invitation to provide a submission to the inquiry into the role of the private sector in promoting economic growth and reducing poverty.

The role of the private sector as a partner in development, investigating new partnerships and learning from existing programs is an important consideration for the future of aid and development in Australia.

Coffey is one of the first publicly listed Australian engineering consulting companies. Throughout our long history of working in the Indo-Pacific region, we have seen the development landscape change considerably. Poverty is reducing, other forms of investment are increasing – today the poor are more likely to live in middle income countries - and donors are starting to look more closely at the private sector as a partner in development. The private sector in the region is faced with development challenges and a partnership between donors and companies is uniquely placed to offer new and innovative solutions to reducing poverty.

For four decades, Coffey's international development team has devised solutions to numerous international development challenges. In Australia, Europe and the Americas, we work every day with our clients in government, and the public and private sectors across the developing world to help them achieve effective development outcomes. Our team includes more than 2,100 development professionals and we have more than 70 corporate and project offices worldwide.

Coffey has a range of expertise to contribute to economic growth and income generation. We are at the forefront of the design implementation of private sector development programs including management of grant funds; we have a long history working with mobile money programs and offer specialist expertise to help donors apply the Making Markets Work for the Poor (M4P) principles.

Coffey also works in the Indo-Pacific region providing geosciences and project management services for public and private sector clients.

Based on our insights and field experience, we have developed the following seven recommendations for the Joint Standing Committee to consider as part of their review. We welcome the discussion this inquiry will lead to and look forward to continuing our support of the Australian Aid program.

Yours Sincerely

Sam Spurrett  
General Manager - International Development (Asia Pacific)

## Summary of recommendations

- **Recommendation 1 - Donors should work closely with the private sector to accelerate economic growth and reduce poverty more effectively, sustainably and economically.**

The changing development landscape means that increasingly the private sector is a viable partner for donors to work with. With a number of successful case studies in Australia and globally, it is important to look at what it is about these programs that has worked, and how to design an effective program to support Australia's future role in our region.

- **Recommendation 2 - Understand the mutual benefits- what is in it for private sector to work with donors and for donors to work with the private sector?**

Public private partnerships for development should be established based upon mutual benefits between the private and public sector. Both parties need to understand there are benefits and risks for each other in working in a partnership.

- **Recommendation 3 – Take a flexible approach to program design and implementation.**

Working with the private sector on innovative programs and in challenging environments, it is often the case that the partners, interventions and outcomes cannot be clear at the outset. Program design has to incorporate an action-learning approach, which is iterative, knowledge-based and flexible.

- **Recommendation 4 – Understand the geographic and economic context of where programs will be working.**

Different approaches need to be pursued depending on the particular economic, cultural and business environment. A key lesson from the Enterprise Challenge Fund was that the business environment of the Pacific versus South East Asia required different approaches to a program design. Programs should be designed with a clear understanding of the cultural context and consider innovative tools in order to be able to respond during program implementation.

- **Recommendation 5 – Close the gap between policy and practice: an increased focus on women in private sector development initiatives.**

Women as suppliers, employees and consumers and women-owned businesses are a largely untapped source economic growth in the world and the UN states that investing in women and girls has a powerful multiplier effect on productivity, efficiency and economic growth. . Providing supportive policy to women's economic empowerment is important and must extend to program design, budget allocation and the capacities of consultancy teams. Donor programs should look at the business case for women's economic empowerment and fund programs in partnership with the private sector to ensure that both women and men are equally able to participate in the economy.

- **Recommendation 6 – Develop a platform for shared accountability of risks and a strong monitoring program.**

There is a reputational risk for the Australian Government in investing in the wrong partner or wrong project. Development partners to the Australian Government including the private sector have a part to play in risk management to ensure that the broader development objectives and social impacts are positive both during the program and in the long term.

- **Recommendation 7- Encourage Australian private sector companies to be role models in the region.**

Australian companies need to adopt a regional presence to continue to operate in our global and interconnected world and to understand our neighbours. Mechanisms that support this sharing experiences and creating links should be encouraged.

## Response to the terms of reference

### Recommendation 1 - Donors should work closely with the private sector to accelerate economic growth and reduce poverty more effectively, sustainably and economically.

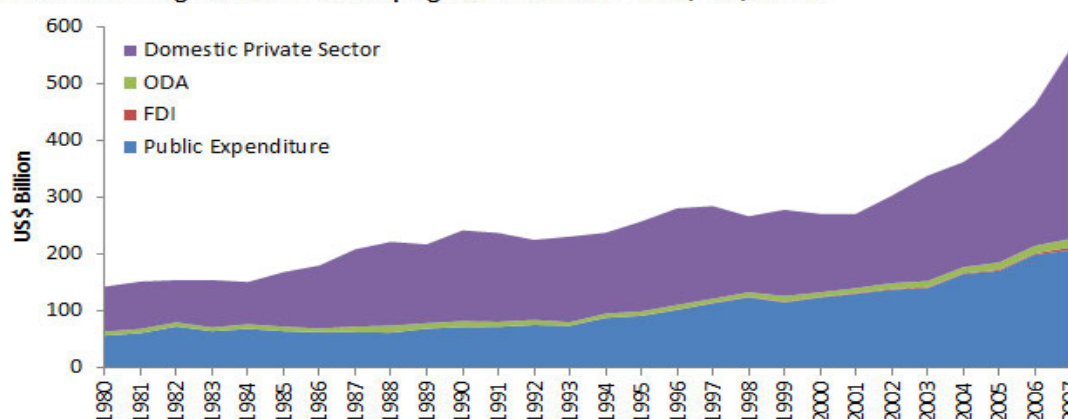
Since the time of the Washington consensus, economic development initiatives have followed two separate paths<sup>1</sup>. On the one hand the private sector has followed market driven opportunities to develop supply chains and provide goods and services. By contrast, the public sector – and most donors - has focused on a supportive enabling environment and investing in public goods such as infrastructure, health and education in order to entice the private sector to grow.

The development landscape has changed dramatically over the last few decades.

First, since 1980 there has been a dramatic drop in global poverty on a scale which is unprecedented in human history. In 1980 over half of the world's population lived in extreme (meaning 'dollar a day') poverty – now the figure is around 20%. This is a huge achievement. Most credible analyses suggest that this is primarily due to very rapid, broad-based and sustained economic growth in Asia – creating large numbers of initially relatively unskilled jobs accessible to in-migrants, rather than as a result of the efforts of donors. The private sector plays a role in economic development and reducing poverty by providing investment, tax and other government revenues. They can also provide flow on cash to communities, employment and skills training, building infrastructure such as roads and can also contribute to other social ventures such as health and education programs for staff and the surrounding communities.

Second, donors have begun to realise that they are, in reality, relatively small-time players in the development arena. Even looking at rural areas in developing countries, the impact of donor funds on total investment is marginal compared to other forms of investment. In the analysis below, it is clear that the overseas sources of funding (both foreign direct investment and donors) both constitute a marginal share of total agricultural investment. The clear message from this is that donors need to form partnerships in order to have impact. Having spent much of the past fifty years engaging with the public sector in developing countries, often with rather limited sustainable impact, donors are now increasingly actively engaging with the private sector. This is a positive development in terms of aid effectiveness. Given the constraints on Official Development Assistance (ODA) since the global economic crisis, the prospect of leveraging private sector finance to augment donor funds is an entirely pragmatic response to this reality.

Investment in agriculture in developing Countries 1980 – 2007, US\$ Billion



Source: Mitchell, J (2011) *The role of the private sector in rural areas Platform Knowledge Piece as a contribution to the Busan Conference on Aid Effectiveness*

<sup>1</sup> Karamchandani & Koh, (2013) Goods, Services and Jobs for the Poor - Monitor Deloitte submission to Brookings Blum Roundtable policy briefs

Third, there have been some spectacular successes in donor collaborations with the private sector. After decades of financial sector development donor projects in Africa, which failed to significantly reduce the huge majority of the population that were unbanked, a single US\$2.4m Department for International Development (DFID) challenge fund grant to the SafariCom mobile phone operator in Kenya in 2001 supported the R&D which led to M-Pesa, a mobile money transfer service. This grant, managed by Coffey under the Financial Deepening Challenge Fund, has transformed access to financial services in Sub-Saharan Africa. The Financial Times estimates that, in 2012, the 19 million M-Pesa users in Kenya used this service to transfer sums amounting to about 30% of Kenya's GDP<sup>2</sup>.

Finally, a majority of the world's 1.3 billion people living in extreme poverty now reside in middle income countries with broadly functional market systems and infrastructure – as opposed to low-income countries. This creates even greater opportunities to leverage dynamic private sector activities to benefit the poor. Coffey is working in middle-income countries, such as Nigeria, where there are tremendous prospects to influence the distributional impacts of dynamic service markets – to offer sustainable and beneficial job and income impact on very large numbers of low-income people.

Australian companies have recognised the importance of developing countries to their future growth with a growing middle class customer markets in Indo-Pacific, access to technical and skilled labour and offshoring considered as part of operations. Australian businesses are in a sense already playing a role in development in our region.

The Australian Aid program and other donors have recognised the private sector as a key partner in development and have piloted a number of approaches working with small-medium enterprises to large global corporations to achieve development outcomes. Examples include business development services, public private partnerships such as a challenge fund and market development programs.

As private sector investment in developing countries continues to grow and partnership opportunities also grow, it is important to look at how these programs have worked, what has been learned from the growing number of projects globally and how to design a program to support Australia's future role in our region.

## **Recommendation 2 - Understand the mutual benefits - what is in it for private sector to work with donors and for donors to work with the private sector?**

### **Private sector benefits**

The private sector is operating in a global business environment where companies are expanding from their home bases into other countries - frequently working in developing countries. There are a number of reasons that companies are expanding their international presence -

- A majority of the world's population (including the poor) now live in middle income countries and this is a growing market. The private sector is investing in ways to open up huge new opportunities for innovation, market development and growth in addressing the need of the growing bottom of the pyramid market.
- Operating resources such as oil, land, agricultural products or raw materials are becoming scarcer in developed countries as populations grow and companies are seeking new reserves in other countries.
- In addition, as companies are under increased pressure to operate more efficiently – faced with competition from around the world, companies are looking at lower overheads and efficiencies from operating in countries with a lower cost structure than the OECD.

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<sup>2</sup> This is not an isolated result. An Australian challenge fund grant to WING in Cambodia also for a mobile payment platform in 2008 has already reached over 500,000 Cambodians and WING estimates 10% of Cambodia's annual GDP is transacted through the service per year.

Both indigenous and foreign-owned companies can support to the development agenda. They bring technology, global supply chains, and often best practice in training. They bring their world class standards, investment capital and jobs, as well as corporate philanthropy<sup>3</sup> to the developing world.

However companies are being exposed to development issues<sup>4</sup> such as poor infrastructure, corruption and lack of governance, legal and economic barriers, finding skilled labour and reliable suppliers, accessing customer payments, and security challenges and are interested in linking into development organisations to help mitigate these costs of doing business.

The public sector can provide grant funding and provide skills and knowledge in community development and access to networks to address barriers to operations. Companies, particularly firms that are listed like Coffey, are rightly subject to very significant scrutiny of their operations in developing countries. Both foreign and indigenous firms can increase their 'social license to operate' through forming partnerships with donors.

### **Public sector benefits**

The public sector is also looking at the private sector as a partner for development.

In practice there are some high impact examples where the private sector and public sector have partnered to create commercially sustainable and scalable solutions that have changed the way the poor access markets. This includes micro-credit, contract farming and mobile phone banking. Coffey are working with GSMA (Mobile Telephony Association) to manage the grants mechanisms for Mobile Money for the Unbanked, mFarmer and mWomen.

These funds support projects that utilise mobile channels to deliver development benefits to the rural poor, women and under-served communities, boosting participation in local economies. These partnerships with private sector companies invest in innovative new ways to achieve ultimately development outcomes such as providing competitive price information on crops, health information to women and mobile money for those that are not able to or eligible to access formal financial services.

Donors see the private sector as an additional source of financing for development outcomes rather than relying on official development assistance (ODA) and the private sector is a source of innovation which is needed in development. Finally the private sector has efficient and lean business operations and the ability to scale up from small successful pilot projects to game changing transformation of a sector and a level of impact and sustainability that appeals to the public sector.

However both parties also face risks in working together.

Donor programs are often administratively intensive and companies often have small management teams especially in smaller to medium enterprises where donors often target programs or in regions such as countries in the Pacific where the business environment is very small. Companies have limited capacity and tolerance for accommodating multiple teams of consultants scoping, designing, monitoring and evaluating<sup>5</sup> and often limited time to spend on reporting.

Often in partnerships, the companies take the lead in implementation and therefore face the reputational risks with the communities and risk of operating in risky business environments. The public sector also faces reputational concerns working with the private sector, as there is still significant negative perception around donors working directly with the private sector in all forms - so programs need to have resources to ensure their funds are stimulating commercial activity that would not happen without concessionary finance – and that this activity is having a significant impact on low-income groups.

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<sup>3</sup> Runde, D, (2013) The Private sector is the driver of development, Centre for Strategic and International Studies

<sup>4</sup> Tewes-Gradi et al, (2014) Proving and improving the impact of development partnerships – 12 good practices for results measurement

<sup>5</sup> Newton Cain T, (2014) Lowy Interpreter - Pacific private sector engagement: Where to begin?

Another risk with donor – private sector partnerships is a lack of mutual understanding. The private sector and the public sector often speak very different languages and effective engagement with the private sector will require a capability, culture and profile that can understand and respond to market and business imperatives<sup>6</sup>. The amalgamation of AusAID into the Department of Foreign Affairs and Trade creates a good opportunity for improved mutual understanding between the areas of development, trade and foreign relations.

Both parties need to understand the benefits and risks each face in working in the partnership.

### **Recommendation 3 – Take a flexible approach to program design and implementation.**

In development, we know a lot about what does not work and less about what does work. For this reason, there is the need to work with new and innovative programs (often piloting approaches) and to work with new partners (such as the private sector).

First, to design new programs, it is important to evaluate the lessons from the Australian aid program and other donors in order to bring this learning to enrich the design process for the Indo-Pacific.

Second, innovative programs are often not able to be clearly planned from the beginning. Often the best partner, interventions or outcomes will be clear and the program needs to incorporate action learning - an iterative knowledge based flexible approach so that lessons from the changing operating environment or to take into account a new innovation can be input into the program as they are learned.

Given the challenges faced and the innovation required, investments designed with a) the flexibility to test underlying assumptions through smaller pilot programs which can be evaluated to inform future investments in very significant ways, and b) the capacity to apply this valuable experience and understanding to more substantial investments or scale up approaches, is critical.

Flexibility in design and an ability to apply contemporary learning provides a basis for managing risk. In practice, this should also include a contracting mechanism which is able to accommodate the fluidity of the economic environment and private sector responses over the period of the investment.

Contracting should be structured to encourage a wider number of participants in programs – and many we manage benefit from a consortium of organisations in implementing their aid programs. In the Australia Indonesia Partnership for Maternal and Neo-natal Health (AIPMNH) program, Coffey works in a partnership with the University of Melbourne's Nossal Institute for Global Health and has been approached by other organisations, including the private sector, to develop further partnerships. In future, designs and contracts should look at ways of bringing more partners to projects and there needs to be flexible financial and institutional approaches in order to do so.

For donors considering working directly with the private sector, the program and relationship will need to extend beyond one of tendering and contracting services to include a working knowledge of the private sector. The expectation of forming new partnerships, such as those between the private sector and NGOs, trade associations and Government agencies requires a new way of working in the process and the working relationship of the partners which may not have had experience of working collaboratively<sup>7</sup>. The principles of collective action should be considered in outlining the common aims between the two parties, having a mandate in the contract and to be explicit about how to work together. Government priorities change so the program needs flexibility to adapt to this but keep the disruption minimal.

It is also important to recognise that not everything that has been trialled has worked well, and in many cases there have been variable efforts at monitoring and evaluation. Projects are operating in challenging environments so it is important that any new programs have a strong monitoring and evaluation plan in order to learn lessons from both success and failure. A results-based management approach which includes feedback loops into the implementation so that the program can adapt within

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<sup>6</sup> Rooney, S (2012) Pro-poor Private Sector Development and AusAID, FDC Australia

<sup>7</sup> Brain et al. (2014) Meeting the Challenge a paper on Challenge Funds by Coffey International Development

its scope and not just at the time of the design is important. A number of Coffey programs use the Donor Committee for Enterprise Development (DCED) Standard for results measurement. The DCED Standard for results measurement is a framework for designing a results measurement system around good practice indicators. The Standard recommends a results-based approach that provides data collection in a timely manner in order to be useful for fund management and for partners involved.

Greater investment in results measurement in programs will improve the understanding of what works and feedback important information into the design of new programs.

#### **Recommendation 4 – Understand the geographic and economic context of where programs will be working.**

It was apparent in managing the Enterprise Challenge Fund for the Pacific and South-East Asia, that the two regions are vastly different and different approaches and tools were needed to address the context specific challenges. The Enterprise Challenge Fund was a six year (2007-2013) Australian Government pilot grant fund that provided funds directly to businesses in South East Asia and the Pacific on a cost-sharing basis to stimulate long term inclusive pro-poor economic growth.

In South-East Asia, a large number of small–medium enterprises were funded to develop new business models and supply chains, business skills and higher education. Monitoring revealed that the funded projects achieved high impact for low cost. The benefit to regional economies both large and small flows on to companies and prompted a higher likelihood of wider systemic impact. The challenge was finding funding for particular projects that involved the poor and had high returns to communities rather than finding funding for business.

In the Pacific, businesses faced challenges beyond access to funding - but also technical business skills, access to business support and experience within companies. Many of the Pacific businesses were struggling with saturation of the domestic market and to achieve scale requires export capabilities and an aid for trade approach (i.e. using aid to improve the infrastructure required to facilitate trade). As such, the challenge was up-skilling businesses and providing advice in accessing wider trading and export opportunities.

A one-size-fits-all approach to working with the private sector with a single scope for engagement (providing only grants) will only provide small returns and be unable to respond to the different challenges in multiple operating environments. However a blended and coordinated approach (that could involve more than one program), tailored to the context with a number of different engagement mechanisms (such as grants, loans, technical assistance, links into networks) and potentially involving multiple players is more beneficial.

Additionally over the course of the program implementation, the context can continue to shift and it is important to continually monitoring and research into the business context and adapt program management as it changes over the course of the projects. Future programs should look at innovative tools and partnerships to address challenges in private sector development

#### **Recommendation 5 – Close the gap between policy and practice: an increased focus on women in private sector development initiatives.**

The UN notes a growing recognition among governments and the private sector, that “investing in women and girls has a powerful multiplier effect on productivity, efficiency and economic growth”.<sup>8</sup> It has further estimated that low female participation in labour markets in Asia, for example, costs the region up to US\$47 billion each year.<sup>9</sup>

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8 UN News Centre, “Women’s Empowerment Vital for economic development and peace, Migiro says”, 17 May 2010 citing UN Deputy Secretary General Asha Rose Migiro, <http://www.un.org/apps/news/story.asp?NewsID=34718&Cr=migiro&Cr1> accessed 28.11.2012

9 UN Economic and Social Commission for Asia and the Pacific (ESCAP) cited in UN News Centre, “Women’s Empowerment Vital for economic development and peace, Migiro says”, 17 May 2010. <http://www.un.org/apps/news/story.asp?NewsID=34718&Cr=migiro&Cr1>



The Australian Aid Program has recognised the importance of women's economic empowerment, describing it in the 2011 DFAT Gender Equality Strategy<sup>10</sup> as one of four pillars around which its work on gender equality and women's empowerment has been structured. It is also explicitly linked to economic growth in the 2012 DFAT private sector development strategy, which notes, "Underpinning Australia's support for private sector growth is a focus on improving women's economic empowerment".<sup>11</sup> Despite a policy focus, there is a continuing challenge that donor agencies face in bridging the gap between policy and practice. The policy recognition of women's economic empowerment has not yet led to discernible increases in budgetary allocations. Neither has it led to the latter's thematic inclusion even in development initiatives focused on economic growth.

Based on the knowledge and experience from our programs, designers of private sector development programs should directly address the issue of women's economic empowerment and ensure there are resources available to the program. Donor policy supportive of women's economic empowerment is important – but needs to extend to program design and budget allocation. Some other issues that need to be taken into account include -

### **Understanding the business case for focusing on women**

An aspect of increasing a focus on the role of women in the private sector involves working with the private sector to educate them on the business case for including and supporting women. During the Enterprise Challenge Fund, Coffey conducted research into women's economic empowerment<sup>12</sup> looking at policy and practice implications. Interviews with the private sector helped to educate respondents that women's economic empowerment is not prejudicing the role of women above men, it is still important to choose the right person for the right job.

Companies found they had business challenges that could be addressed by better empowerment for women. There were industry inefficiencies and underuse of 50% of potential customers and suppliers (women). The case studies from this research found an important link between gender equality and commercial benefit and this is an area which should be explored further. For example - a key barrier to women accessing mobile phone banking is across the world women are less likely to own a mobile phone. WING Cambodia – a company funded by the challenge fund ECF, designed their payment system to be accessed from any phone including one borrowed by a client and provides a non-WING to non-WING service that both men and women without access to a mobile phone can use. WING has a higher than industry average proportion of women using their mobile payment platform.

There is also a need to increase the focus on monitoring outcomes for women in private sector activities beyond gender disaggregated data so that findings can be reported back to the private sector about what this means for their businesses.

### **Specific programs to support women's businesses**

It is also important to provide additional support for women's businesses which are a valuable, underutilised resource for economic development. As entrepreneurs, women contribute significantly to household income, job creation and growth of national economies. Companies owned or managed by women represent between 25% and 33% of formal sector businesses around the world and a larger percentage of informal sector businesses.<sup>13</sup> Women's businesses are typically more successful in surviving economic downturns, helping to build a robust private sector.<sup>14</sup> In many parts of the world where women have limited access to formal employment, small business enterprise becomes women's main source of income. In fact, informal businesses, where women are over-represented, account for up to one-half of all economic activity in developing countries.<sup>15</sup> However these

<sup>10</sup> "Opportunities for All" <http://www.ausaid.gov.au/aidissues/Documents/thematic-strategies/gender-equality-strategy.pdf>.

<sup>11</sup> See AusAID Private Sector Development Strategy, page 6: <http://www.ausaid.gov.au/Publications/Documents/private-sector-development-strategy.pdf>

<sup>12</sup> Nethercott, Jago-Bassing hwaighte, Jupp (2013) Women's Economic Empowerment – Practice and Policy Implications from the Enterprise Challenge Fund

<sup>13</sup> IBID, Buvanic et al, p26

<sup>14</sup> Ernst and Young (2009) Scaling up: Why women-owned businesses can recharge the global economy.

<sup>15</sup> IBID, Buvanic et al, p.26

businesses still face a number of specific enabling environment challenges such as access to tax file numbers or bank accounts which should be addressed through public sector regulatory programs.

Coffey is working in Nigeria in the Growth and Emerging Markets program for DFID and the World Bank and through the program is supporting the strengthening of women's economic empowerment in other market development programmes in the country.

Working with the private sector and the public sector to ensure there both women and men are able to participate equally is an important consideration.

### **Contextual understanding of different societies**

In working with development programs around the world, it is clear that opportunities for women's economic empowerment develop differently in different regions and social demographics. There is a different pace of change from opportunity to empowerment, a variable length of time it may take, and the differences in how it develops in different societies.

Our experience in the Asia-Pacific regions finds in South East Asia, women and men tend to have better access to business support and finance than those in the Pacific. Women's economic empowerment tends to be greater in Asia, particularly in the Philippines, than in the Melanesian countries in the Pacific<sup>16</sup>.

It is important that any women's economic consideration in programs is also considerate of the country and cultural context in which the program is implemented.

### **Partnering with the private sector to target specific outcomes for women**

In contexts where women face specific barriers to participation, private sector partnerships could be created with a specific objective of increasing women's empowerment. For example a program could target industries where women's participation is higher and lacking resources, provide a technical assistance program where gaps in accessing skills are an issue or target grant funding to companies to develop financial services for women and providing funding to support in these mutual objectives.

Grant funds could should be considered to develop innovative approaches to working with women, to specifically target women's economic opportunities and this could be achieved by strengthening the selection criteria or using 'funding windows'.

## **Recommendation 6 – Develop a platform for shared accountability of risks and a strong monitoring program.**

There is a reputational risk to the Australian Government for investing in the wrong partner or the wrong project.

While the private sector is the engine of economic growth it is important to recognise that not all of this is pro-poor. In many developing countries, there are rising levels of inequality, and poor corporate practices can have a significant negative effect on communities through poor environmental and social impacts. Development partners to the Australian Government, including the private sector, have a part to play in risk management to ensure that the broader development objectives and social impacts are positive both during the program and in the long term.

### **The right partners**

It is important to work with partners that have high social and ethical values and have a long term commitment to the market they are operating in. Selection processes around funding to the private sector needs to have appropriate due diligence and understanding of the company and how they operate.

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<sup>16</sup> IBID, Nethercott et al

Australian business practices and ethics are globally well-regarded. Ensuring that partner companies to the Australian Government conduct core business in an ethical and socially responsible manner, contribute to corporate responsibility and sustainable reporting initiatives linked to corporate or national targets and plans. Businesses with a long term commitment to the country they operate in as well as the communities they directly work with are stronger partners than those that operate with short term commitments.

The independent review of aid effectiveness for the Australian Government recommended that the aid program consider “establishing a mechanism to assist businesses seeking corporate social responsibility and / or inclusive business opportunities in developing countries”. It would also be appropriate that these mechanisms were country / context specific.

### **The right projects**

The selection of projects needs to be right for the context and project the expected long term impact of the funding. For example providing expensive technologies to communities that cannot be maintained after the program has been completed or funding agricultural programs that promote unsustainable farming practices leaving land un-usable following the project are unfortunately real failures that have occurred in development projects.

Business models matter and we need to focus on getting them right.

Firstly, the benefit to the communities and specifically poor communities should be the key rationale for providing aid funding. There needs to be a good understanding at the selection time of the country, industry, the target population and their social demographic.

Secondly, for business models that work with target poor and rural communities, the up-front costs may be very high and companies may face challenges in operating such as lack of infrastructure, unskilled labour and poor regulatory environment and access to funding (such as through grants) to mitigate these risks and invest in the public goods or infrastructure can be important. This may not be well understood by either partner from the outset.

Finally, innovation requires taking a risk and coupled with a challenging operating environment means that failure is a distinct possibility. This is a reputational risk to both the company and the public sector investor but needs to be accepted and managed from the outset.

### **Strong measurement and accountability**

Despite the challenge with finding the right partner and the right project, there have been some very large projects funded in public private partnerships. However after more than a decade of donor funding, there is little documented research and evidence of the development impact from these partnerships<sup>17</sup>. Monitoring programs have been small or ineffectual often relying on the private sector partners to self-report and there have been few rigorous evaluations of private sector programs.

Programs that do have monitoring approaches often looked at the wrong indicators – with a focus on the input and output level. However indicators which have traditionally been neglected are most important ones to an aid-funded program working with the private sector. Would the investment have happened anyway (additionality)? What has been the effect of the grant on jobs and incomes for low-income groups (impact)? Has the grant benefitted anyone beyond the immediate grantee project (systemic change)?

Development practitioners now have the tools and experience to improve performance significantly. A number of good practice frameworks (including the DCED Standard) exist and programs are actively working to improve their monitoring. Both donors and companies benefit from investing in results measurement. Donors learn about the effectiveness of the partnerships, what works and do not, how

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<sup>17</sup> Heinrich (2013), Donor Partnerships with Business for Private Sector Development: What Can We Learn from Experience?

partners should be selected. Companies access market information to inform their own performance and how it can be improved.

Donor should support this positive development by insisting on (and funding) credible monitoring programs for private sector development programs - to provide robust checks on partner performance, the short and longer term impact on the poor; ideally, linking the interim performance to draw downs of future funding. Coffey have responded to this challenge by establishing a large Evaluation and Research Practice in the United Kingdom, several key members of which have now transferred to Australia to support Coffey strengthen expertise in this area.

Economic development programs can often have long time frames with the full results occurring after a number of years - and often after the completion of the donor program. To realistically understand the full impact (as recommended in the Enterprise Challenge Fund), funds should be made available for evaluation a number of years post-program.

Finally, there are a number of programs around the world trialling new approaches and interested to learn from other programs. To improve the evidence around partnership programs, recent research conducted by Endeava<sup>18</sup> for the German Federal Ministry for Economic Cooperation and Development recommends developing centres of excellence to support partnership programs in implementing results measurement and sharing of knowledge and lessons.

### **Recommendation 7- Encourage Australian private sector companies to be role models in the region.**

Coffey is a global company with a significant presence in developing countries not only for our work in international development but also through our broader operations in geotechnical and project management. We recognised that our company needs to understand our region in order to grow.

Coffey has worked to develop strong links between our Australian business operations and our regional offices in Jakarta, Manila, Hanoi, Phnom Penh and Port Moresby. Coffey uses the following attributes and approach to team development -

- Coffey hires and promotes local staff to work for Coffey in our regional offices - delegating roles and responsibilities to staff in the regional offices. Coffey's in-country staff are a wealth of experience and expertise and share local knowledge and understanding of new business workings with the broader company. Almost all mid-senior management staff in our regional offices had been with the company for 10-20 years and take part in the management and decision making of the company.
- We bring best practice, including our commitment to health, safety and business operations, to all our operations and recognise that flexibility is needed to tailor approaches to the offices own needs, skills and operating environment.
- While we use technology to connect, it is also important to have a mobile workforce to develop people-to-people links encouraging team members travelling between locations to develop networks and share information.
- By building our team through encouraging training and skills development. We have also developed a mentor program for better people to people and professional to professional linkages.

Business in the Indo-Pacific needs to be approached with a long term strategy and is based on relationships. Too many foreign companies only see short term opportunities. It is important for more companies to develop a long term mutually beneficial approach to working in our region.

Developing a mechanism for sharing experiences and linkages in working in the Indo-Pacific region (for example through the Asialink program) would help companies to be role models in the region.

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<sup>18</sup> Tewes-Gradi et al, (2014) Proving and improving the impact of development partnerships – 12 good practices for results measurement