Key Note Address

Understanding the past; Conceptualising the future

Mining and International Aid – Working Together for Development
13 December 2012
National Portrait Gallery, Canberra

The Reality of Partnerships

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The history of Australia's official aid agency working in partnership with the private sector to achieve development outcomes is a short one. Australia does not have a reputation for being innovative and inventive in its engagement with private sector in its development activities.

This isn't surprising because the private sector and government have two fundamentally different incentives. For the former, it's profit; for the latter, it's value for tax payers' money.

So AusAID has tended to occupy the space that's best suited to this model – supporting developing countries to improve their own governance systems which can support private sector growth.

Despite the hoopla, the latest embrace of Mining for Development initiatives would seem to be largely faithful to this enduring approach.

But let me start at the beginning.

And my starting point is this: the private sector is the engine of growth fueled by investment and oiled by productivity.

It creates vital financial flows and employment.

A healthy private sector is key to prosperity and in the developing world.

It is fundamental for poverty reduction.

Yet this pivotal role was until recently viewed internationally as a second order issue on the international aid agenda.

There were the exceptions but for the most part, engaging with the private commercial sector to create innovative approaches to development was the exception, not the rule.

Instead, any focus on the private sector in donor programs was squarely on how to improve the recipient government's own legislative and administrative framework to improve the commercial operating environment and so encourage commercial activity.

Or as aid speak describes it, Private Sector Development. Aside from that, the private sector was largely ignored except as sources of consultants and implementing agents of government and donor devised projects and activities.

In the last decade, however, there has been a major turnaround in this thinking internationally. The private sector has been recognized as a potential source of alternative, even complementary approaches to reduce poverty and improve services.

After being in the shadows for decades, doing aid business with business is now in the spotlight.

The private sector has increasingly embraced the concept of corporate social responsibility as an inherent element of their business model. At the same time, donors and developing country governments have looked to various forms of public-private partnerships and associations as alternative ways of meeting development goals.

Social entrepreneurship and inclusive business models are other approaches which have entered the aid lexicon. Along with the development of the different models and approaches, the recognition of the private sector's role is increasingly reflected in international statements. An example is the G20's 2010 Seoul Development Consensus which identifies the importance of the private sector in contributing to growth.

An early harbinger of the turnaround in global thinking and practice on private sector engagement in development was micro-credit which came to the forefront of development thinking in the mid 1970s through the creation of the Grameen Bank in Bangladesh.

Yet the adoption of other innovative private sector-inspired approaches did not begin to get real traction until the late 1990s. In part, this delay can be attributed to the broader global context of the last two decades of the 20th century.

The 1980s saw severe economic crises which led to development practice dominated by public sector solutions. It was the era of “IMF-imposed structural adjustment”. The post-cold war era of the 1990s started to see the move away from the strict conditionality and as this new “End of History” epoch took hold, there was a revived focus on poverty reduction.

There was also a willingness encouraged by a mounting public pressure to consider different ways of tackling what were seen as the major obstacles to poverty reduction and an improved quality of life for all.

The 2000 Millennium Development Summit provided the crucible for a new global development paradigm – the 2015 Millennium Development Goals. With it came a widespread frustration with traditional modalities, mechanisms and in some cases, the international architecture housing these traditions.

It was within that dynamic context that a willingness to explore and adopt innovative approaches which included private sector partnerships and solutions started to take hold.

Early initiatives included GAVI, GFATM and the UN Global Compact with business. The WEF itself has also played an important nurturing role. And the growing use of public-private partnerships for major infrastructure projects was also starting to influence development thinking.

At the same time, aid effectiveness became a major focus as donors grappled at first with the conundrum of why aid has not achieved better development outcomes and then more recently, with dwindling aid budgets.

Aid effectiveness principles emerged from a series of High Level donor meetings in Rome (2003), Paris (2005) and Accra (2008). But it wasn’t until the Accra meeting that the significance of the role of the private sector in development started to get some recognition in this forum.

By the time of the next high level donor meeting, held in Busan, in late 2011, the embrace of the private sector was firm and donors were keen to keep the private sector at the aid for development table.

Parallel to these developments, some donors were already championing innovative approaches and partnerships. For example, the UK was behind the concept of an International Finance Facility. First proposed by the UK’s Department for International Development (DfID) and the UK Treasury in the early 2000s, it is designed to frontload aid to fast-track progress in achieving the MDGs. The mechanism involves using government guarantees of future aid commitments to issue bonds on the global capital markets. The government pledges are used to repay the bonds. This concept evolved into the International Finance Facility for Immunisation (IFFIm) which was initiated in 2006 to accelerate the availability and predictability of funds for immunization and vaccine development.

More broadly, DfID has recently strengthened its emphasis on working with the private sector in areas such as financing through mobile phone banking (working with CGAP Technology and the Gates Foundation), basic services (e.g. with Unilever on water and sanitation for urban poor); and clean energy.

Another initiative was the innovative Advanced Market Commitment (AMC), which provides an incentive to pharmaceutical companies to undertake the needed research and development of vaccines for diseases affecting developing countries.

So where does Australia sit in all of this?

Australia has not been as creative or as bold as some other donors in exploring and initiating innovative ways to work with and through the private sector. Usually the late arrival looking for space at the innovation table, Australia has not had a hearty appetite for finding new ways of doing aid with the private sector.

Instead, the approach by the government's aid agency, AusAID, has been focused predominantly on strengthening the enabling environment by supporting countries to develop policy and legislative frameworks that facilitate private sector participation in the local economy.

In part, this reflects a politically driven conservative appetite for risk on the part of successive Australian governments when it comes to how aid dollars are spent. After all these dollars are tax payers' dollars. It also reflects the limitations a public sector agency has in exercising the degree of flexibility and entrepreneurship needed to get the best out of working with the private sector which thrives on opportunity and profit.

As a result, efforts to collaborate and engage with the private sector either in partnership or alongside partner governments have been the exception rather than the rule. Exceptions include Australia's decision in 2009 to join eight other donors in a 20-year, $250 million commitment to International Finance Facility for Immunisation.

AusAID's Enterprise Challenge Fund for the Pacific and South East Asia provides grants to firms to develop commercially successful ventures that may otherwise have not proceeded. Similarly, Australia's involvement in the Pacific Region Infrastructure Facility addresses important infrastructure gaps across the region. In the mid-2000s, AusAID worked with senior private sector figures to establish the Asia-Pacific Business Coalition for AIDS, a public-private partnership aimed at strengthening the corporate sector response to HIV. It also supported the Business for Millennium Development (B4MD) which brokers ethical commercial relationships between business and the developing country communities where the companies operate.

However, Australia’s significant and preferred effort in this area is supporting partner governments’ own efforts in strengthening their commercial operating environments. Direct engagement or partnership with the private sector to support innovative approaches to development conundrums has not been a significant element in AusAID’s programs or strategic framework. In other words, it’s mostly about private sector development, not private sector partnership.

However, the 2011 review of Australia’s aid program challenged the government to harness the power of business and encourage business innovation.

The review panel described as ad hoc and insufficient the engagement between business and the Australian aid program and concluded that developing a dialogue between the aid program and business should be a priority.

In response, a Consultative Forum for Business was held in Canberra in August this year with Foreign Minister Carr releasing AusAID’s Private Sector Development Strategy. That strategy acknowledges the AusAID’s role in supporting developing countries to identify and create the conditions needed for the private sector to flourish.

But it also recognises that supporting a business enabling environment is not always enough in fragile and conflict affected states (as well as remote island countries and in areas of entrenched poverty.)

Focusing on the subject of today’s conference, fragile and conflict affected areas, the types of interventions listed in the Private Sector Development Strategy are what you’d expect to find in a companion strategy for Fragile States. In other words, the starting point isn’t working with the private sector; it’s how to kick start or sustain a fragile state – as the strategy describes it, supporting interventions that create employment or help local businesses to get a grounding.

This is less to do with innovative partnerships with the private sector and more to do with buttressing the edifice of a weak state.

Looking more specifically at the mining for development initiatives first announced by the Prime Minister in October last year, there’s quite a long list. And looking at the list, you’d be forgiven for thinking that the essential modus operandi had changed from private sector development to private sector partnership for development.

But it hasn’t.

Essentially, the aim of the mining initiative is, in the words of the Prime Minister, to make sure resource rich developing countries use opportunities generated by mining to create much needed education and job opportunities for some of the world's most vulnerable people. Well-governed mining, gas and petroleum sectors can not only help reduce poverty but also reduce a developing country's dependency on aid." No arguing with any of that.

So what's happening under the initiative? The centerpiece is the International Mining for Development Centre in Perth. This centre will provide advisory, education and training services. Other activities under the M4D initiative include scholarships, public sector strengthening in mining regulation and administration and support for NGOs active in social and environmentally sustainable activities. Again all good stuff. But no new delivery modalities; certainly no innovation; certainly no direct public-private partnership project.

Another initiative announced this time by the then Foreign Minister Rudd and Resources and Energy Minister Ferguson was that Australia would undertake a pilot of the global Extractive Industries Transparency Initiative.

As I said earlier, Australia tends to hold back until innovative approaches have been tested and proven by others. EITI is no exception. It was first launched by the World Bank 10 years ago.

The next major announcement in this area came in June this year when Australia announced support to the Mongolian mining sector. This support, following earlier work to develop a legislative framework for the country's mining sector, was for funding through the World Bank to strengthen the mining and regulatory framework.

In August, Carr announced $4.9 million for the Extractive Industries Technical Advisory Facility which is already supported by the World Bank, IFC, Canada, Norway and Switzerland. Later that month, he announced another $5m to assist the African Union establish the African Minerals Development Centre.

In short, it's the same tried and true model. Like Henry Ford said, you can have whatever colour you like as long as its black. In aid, you can have as many private sector initiatives as you like as long as it's governance strengthening, building capacity and developing better legislative frameworks.

But there's nothing wrong with that at all. In fact, it's essential work needed to grow a healthy private sector. And it's what government does best – i.e. work with other governments.

The point of what I'm saying today is to urge you not to confuse the pithy political headline with the aid bureaucrat's reality.

The leopard really hasn't changed its spots – it can't because those spots are paid for by the taxpayer. There is still a regulatory requirement of value for money, zero tolerance for fraud and a risk management framework that would frustrate the most conservative of entrepreneurs.

We live in the era of aid effectiveness; not aid experimentation.

Innovative private-public partnerships demand an appetite for risk which in the current Australian political environment is near impossible to achieve.

So the reality of the activities under the Mining for Development Initiative is that it's still mostly about private sector development in the partner country; NOT partnerships with the private sector in the mining industry.

It's about supporting developing countries improve their own systems, legislation and bureaucratic frameworks to help them gain more from the mining receipts.

The onus is on the mining industry to use the environment that donors like AusAID help to create – that's where the real strength of the partnership lies.