AID WATCH

Joint Standing Committee of Foreign Affairs,

Defence and Trade

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

Submission

AID/WATCH

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EXECUTIVE SUMMARY

AID/WATCH welcomes the opportunity to respond to the call for submissions in response to the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region.

AID/WATCH is an independent watchdog that campaigns against the use of Australia's aid budget to further Australia's economic and security 'national interests'. We challenge foreign policy practices that undermine the ability of communities to determine their own futures, and promote development alternatives based on social and ecological justice.

We work with communities in the Global South who have been adversely affected by Australia's aid policy. We collaborate with movements and organisations in the Global South campaigning against a narrow vision of economic development which directly advantages the private sector and Australia's commercial interest to the direct disadvantage of the poor and the environment. We seek to challenge these systems of inequality and injustice that are perpetuated through Australia's aid and trade policies.

In this submission AID/WATCH recommends caution in the involvement of the private sector as a driver of poverty alleviation and urges the Government to utilise an evidence-based approach to policies that determine the role of the private sector, and to pay adequate attention to overwhelming evidence where the private sector has clearly acted against the interests of the poor and marginalised. The profit motives of the private sector are inconsistent with the delivery of effective, targeted aid and reconciling ethical practices with the pathway towards profit is an existing challenge which is far from being resolved.

The Government has been firm on its commitment to considering Australia's commercial interests and poverty alleviation as mutually reinforcing objectives and AID/WATCH strongly disagrees with this assessment. While we do not think that the two aims are mutually exclusive, we have over 20 years experience in drawing attention to examples of how poor people and the environment have been harmed when Australia's national and commercial interests are pursued through the aid program at the expense of programs with poverty alleviation as the clear aim.

AID/WATCH argues strongly against the use of aid to primarily serve Australia's national and commercial interests. Our arguments draw on extensive research that shows that pursuit of Australia's interests often serves to further marginalise and disadvantage the poor whom the aid program purports to assist. AID/WATCH has exposed many cases of this, such as Australian Aid Land Reform programs in Melanesia which threaten customary land through a promotion of land privatisation, and the Cambodia Railways Project which benefitted an Australian company and led to forced displacement and further impoverished of over 4000 families.

We are concerned that programs which the Government is seeking to reduce or eliminate include programs which demonstrate merit in their commitment to poverty alleviation whilst many of those that remain directly benefit Australia's private sector – such as the Mining for Development Initiative – which are to the clear detriment of people and the environment.

AID/WATCH is concerned with the emphasis on the private sector, and related to this, the Aid for Trade agenda and an apparent reluctance to engage with critiques of these policy choices. In this submission, we raise serious concerns about the risks associated with opening an even larger space for the private sector to become involved in development, both because existing risks and flaws in the involvement of this sector are not being addressed and also because we view the role of the private sector in aid and development as already significant.

AID/WATCH recommends that the most important role that big business can play is ensuring that the private sector conducts itself in accordance with human rights and labour standards and that the mechanisms for holding the sector accountable for breaches of these standards are strong and enforceable. To see the private sector, or more specifically, big business as the driver of equitable and sustainable development is a leap in logic without adequate evidence.

For the aims of economic growth and reducing poverty, the Australian Government could play a stronger role in ensuring the private sector pay fair taxes. AID/WATCH is a member of the Australian Tax Justice Network and we advocate for a tightening of Australia's tax laws and international tax rules so that developing countries are not cheated out of their fair share of tax revenue – currently a significant hindrance to gaining from existing private sector involvement.

Our submission provides a summary of five key issues for the Committee to take into consideration for this Inquiry.

KEY ISSUES

1) Acknowledging the breadth of the private sector

The Terms of Reference for this Inquiry seek to explore the role of the private sector though it is our opinion that the effectiveness of the inquiry is limited without an acknowledgement of the scope of the private sector. Further clarification is required on whether the Government's focus is on local, small-scale participation in the formal economy or whether this refers to big business, particularly the involvement of large Australian private companies.

The Government's call for an increased focus on the private sector in development could manifest in very different areas. For example, it could refer to increasing the use of Australian companies in the delivery of aid – an unwelcome trend which resulted in untied aid ensuring Australian companies were not benefitting from aid as a rule– or it could refer to encouraging small private enterprises to be encouraged within developing countries. Policy recommendations for both of these possibilities would vary vastly so the persistent ambiguity of the private sector message must be corrected.

This problem is encountered internationally with the international biennial Reality of Aid report stating that not enough attention has been given by development actors to the nature of different private economic actors and activity, and related policies for improving and sustaining livelihoods for people living in poverty[1]. The last report in 2012 – for which AID/WATCH was a key contributor – focussed on the role of the private sector in development with many other organisations and individuals arriving at similar conclusions to us.

Given the inclusion in the terms of reference for an exploration of returns on investment to Australia, the aid for trade focus of the government, and other decisions by the Department, we are operating on the assumption that the Government's reference of the private sector refers predominantly to big business. This is contrary to our experience which identifies that the local, small-scale private sector would benefit from further exploration.

The aid program should focus on supporting particular participants in the local private sector of developing countries that can play a role in reducing poverty. In particular, many small and micro-enterprises in developing countries, such as small-scale farmers, live-stock keepers, fishers and forest foragers could benefit from increased support under Australia's aid program. However it is important that small scale farmers or those living as part of the informal, subsistence economy are not coerced into the market, for example through aid programs incentivising cash crops over genuine food sovereignty.

Growth in small scale agriculture benefits the poorest at least twice as much as growth in other sectors of the economy[2]. Despite research supporting this, the Government, through the aid program, has tended to support large scale development requiring foreign investment, usually by Australian companies who directly benefit – a process we call boomerang aid.

AID/WATCH does not believe that the Australian Government should be supporting Australian big business with the pretence of contributing to poverty alleviation. This has to date been the trend, through support, for example, to multinational mining companies, multinational cruise lining companies, or contracts to a plethora of Australian companies who provide logistics or land titling capacity.

Since 2012, AID/WATCH has campaigned against the Mining for Development Initiative, the Government's aid program which offers 'sustainable mining' as a possibility for the development of resource rich countries and communities. We advocate for sustainable development and in most cases, mining is proposed on land that is suitable for agriculture. We encourage the aid program to promote and support agriculture as a sustainable alternative. Small farms have the capacity to be incredibly productive: the 200 million small farms in China alone produce 20 percent of the world's food despite occupying only 10 percent of the world's agricultural land and with this in mind, we urge the Government to take a measured approach in focussing on this section of the private sector.

2) Conflation of economic growth and poverty alleviation

AID/WATCH recognises the role that economic growth can play in promoting development however we question the logic of trickle-down economics or the contention that economic growth directly leads to poverty alleviation as the evidence demonstrates that this is rarely the case. Income disparities in countries around the world have been worsening and growing economies do not result in increased wages or better development indicators.

Economic inequality has become significantly worse over the last 30 years and arguably this is not solely because of a failure of aid, but because of a strengthening of those systems that contribute to poverty and inequality – an unfair trade system, a financial system relying on economic growth rather than equitable growth, large-scale development reliant on the exploitation of the environment and natural resources, and corporate hegemony and control of policy decisions.

A UNDP report entitled '"Humanity Divided: Confronting Inequality in Developing Countries" published earlier this year states that there is substantial evidence that increases in inequality over the last two decades were mainly due to trade and financial globalization processes that weakened the bargaining position of labour and they recommended increased regulation of trade and financial flows not less. The widening income gap comes as some major developing countries - such as China and India - have seen strong economic growth and an overall increase in national wealth stemming predominately from economic liberalisation policies.

Julie Bishop has stated that, “economic growth, driven by the private sector and supported by trade liberalisation, has been the key to reducing poverty on a large scale”[3]. This statement is at best misleading and one-sided and at worst, completely false. The Minister goes on to offer China as an example for how economic growth has led to poverty alleviation however does not take into consideration the increases in inequality noted in this report. To suggest that China is an example of market liberalisation reducing poverty is also misleading given the high level of state involvement in the Chinese economy.

The UNDP report goes on to say, “The sharpest increases in income inequality have occurred in those developing countries that were especially successful in pursuing vigorous growth and managed, as a result, to graduate into higher income brackets”, such as China and India. This is one study of many that details the impact that the focus on economic growth can have on increasing disparities, and of the existing financial system failing to assist the world’s poorest.

The report said income inequality increased by 11 percent in developing countries over the two decades between 1990 and 2010. The majority of households in developing countries — more than 75 percent of those nations' populations — are living today in societies where income is more unequally distributed than it was in the 1990s.

In light of evidence such as this, the current government should clarify how they have arrived at the conclusion that economic growth has a positive effect on the poor and marginalised in light of significant evidence to the contrary. There are other country specific case studies to demonstrate this.

The issues of using economic growth and per capita income as a proxy for poverty reduction and human development are illustrated in the case of the richest country in Africa, Equatorial Guinea. The people of Equatorial Guinea have experienced high economic growth and a continent leading average income that exceeds Italy and Spain. But a closer look at the statistics reveal tremendous inequalities where the majority of the population are in deep poverty and the country has the world’s fourth worst infant mortality rate whilst the rich have captured virtually all the benefits of that economic growth.[4]

Similarly, despite decades of economic growth, vast proportions of Indonesia's population remain desperately poor, even by the World Bank's very low and simplistic threshold for measuring poverty. Moreover, economic inequality in Indonesia is on the rise, currently, 80 percent of the country’s wealth is held by the richest 20 per cent of households[5]. And if this is broken down to focus on the super-rich the picture is even grimmer. In 2011, Indonesia's richest 40 individuals held wealth estimated at US$85 billion, up from US$20 billion in 2008 and equivalent to the total wealth held by the country's poorest 30 million. There are numerous other case studies of this, including PNG which currently receives the bulk of Australia’s aid. To focus on economic growth is to deny the system which fuels income inequality and deny a focus on the extreme poor.

3) The role of the national commercial interest in aid program delivery

AID/WATCH is dismayed to see the inclusion of ‘returns on investment to Australia through supporting private sector involvement’ as part of the Terms of Reference for this Inquiry. Australia is a signatory to the Paris Declaration of Aid Effectiveness which acknowledges that aid should not be driven by donor priorities. We have been at the forefront of the challenge to remove Australia's national interest as an objective of the aid program and are therefore disappointed to see the Government seeking to directly gain financially through the aid program. AID/WATCH can identify numerous examples where aid spent in Australia's national interest has been to detrimental to those it seeks to support. For example, AID/WATCH has ongoing concerns about the militarisation of aid in Iraq and Afghanistan and the policy alignment of aid and border protection policies which have see the diversion of aid funds to processing of asylum seekers and other parts of supporting an inhumane refugee policy.

Australia was ranked poorly in the Real Aid Report in 2011[6], with 43 per cent of Australian aid deemed 'substandard'. This was because a relatively high proportion of it was, either given in the form of donor-driven technical assistance or failed to support country ownership. This result reflected not only inefficiencies within AusAID, but the agency's attempt to satisfy the government's state effectiveness agenda.

In the Senate Estimates (Foreign Affairs, Defence and Trade Committee) hearings in November 2013, The Acting Departmental Secretary of DFAT stated that national interest does not necessarily mean that there must be a commercial advantage to Australia and AID/WATCH urges the Government to steer clear of policies made without placing poverty alleviation as central.

Julie Bishop, in her recent speech states that the Government will be using a new Development Paradigm, combining aid for trade and a preference for private sector involvement focussing on economic growth as a solution for poverty alleviation. Aid for trade is not a new concept in development. Much of what is being presented as part of the new paradigm for development are not new at all. They have been tried, tested and arguably, have failed as the Minister herself points out in acknowledging the continued existence of global poverty. The greater policy coherence the Government is aiming for with the amalgamation of AusAID into DFAT is a euphemism for aid becoming entirely subservient to foreign policy.

Development initiatives of the past have prioritised economic development and liberalisation of economies have not proved successful and indeed worsened poverty and inequality. The well documented disastrous effects of the World Bank and International Monetary Fund's (IMF's) Structural Adjustment Programs were based on increasing the role of the private sector, creating economic growth by deregulating trade and privatisation of state industries. As far back as the early 1990s, AusAID (then AIDAB), supported the Pipawar Mine in India in order to promote Australian business and foster 'economic growth'. AID/WATCH investigations revealed that the mine had negative health, environmental and economic impacts and was campaigning against similar issues as we continue to do so 20 years later.

Oxfam recently released a report, 'Banking on Shaky Ground' that gives evidence of Australia's Big 4 Banks (Westpac, National Australia Bank, ANZ and the Commonwealth Bank) backing companies accused of forcibly removing some of the world's poorest people off their land in developing countries. These land grabs by palm oil, sugar and timber companies have enabled illegal logging and deforestation, destroyed crops and left people homeless and without access to food or their community. This has happened despite the fact that these 4 banks are signatory to a number of human rights and sustainability commitments including the United Nations Global Compact, The Equator Principles, and OECD Guidelines for Multinational Enterprises. The report articulates the enormous gap between the strong ethical commitments made by the

banks and their practices, which in this example, facilitate land grabs of the marginalised and poor for the purposes of profit. In the case of the private sector, it is crucial to note the voluntary nature of being signatory to various commitments and the lack of transparency of their actions, as well as the difficulty in then bringing them to account.
Despite the evidence in this report, when questioned about it, Julie Bishop refused to engage, instead retorting that the private sector are "a force for good". This response is of serious concern to us as it demonstrates a dismissal of issues related to involving the private sector in development.

4) Aid for trade, the private sector and poverty alleviation

The Department of Foreign Affairs and Trade (DFAT) is seeking to increase the focus on Aid for Trade, strengthening developing countries ability to benefit from trade, with the assumption that trade can play a role in development and poverty alleviation. AID/WATCH does not agree with the Aid for Trade policy focus as we see it as a tool to further trade liberalisation without an acknowledgement of how trade liberalisation disproportionately benefits wealthy countries and increases disparities.

Studies show that aid for trade programs have had insignificant effects on poverty alleviation measures[7] and the Government needs to consider the basis for going down this path in the name of 'poverty alleviation' and as an avenue for strengthening the private sector. Free trade in and of itself is not a pathway to development and this assumption needs to be eroded. Trade agreements have already led to increased inequality and an undercutting of government services both of which are counter to aid efforts to make a positive difference in the lives of the poor and marginalised.

PACER-Plus - leveraging private sector involvement without people in the Pacific reaping benefits

Australia is currently negotiating the PACER-Plus trade agreement with the Pacific Island Nations which seeks to liberalise trade in goods, services and investment, as well as improve trade and investment facilitation and economic cooperation which in turn will make the region more appealing to the private sector. However the agreement is an example of how aid is used as a bargaining chip by Australia to further economic interests in the region without playing adequate regard to the possible negative impacts on the Pacific Island Countries. Potential impacts are significant such as undermining a key source of revenue for Pacific governments through the removal of tariffs. These are an important source of revenue for many Pacific island countries and form a large part of health and education budgets

In recent months, PACER-Plus negotiations have faced roadblocks due to disagreements over the development assistance component. A recent report written by the Pacific Network on Globalisation (PANG) states that the aid component to build the capacity of the Forum Island Nations (FICs) by establishing 'The Office of the Chief Trade Advisor' (OCTA) has strings attached. As a result aid for the establishment of OCTA has meant the Pacific cannot access independent capacity building and research assistance. The report states that "both capacity building and research will be funded bilaterally and therefore open to influence by donor governments."[8]

5) Risks of opening further space for private sector

The Foreign Minister, Julie Bishop rightly states that aid is not a panacea for poverty and we agree. Poverty needs to be looked at as actively produced and enforced by unequal systems and policies and working to address these issues on a systems level is necessary. Involving the private sector in ensuring that companies have strong and accountable systems is the most important way that the sector can contribute to poverty alleviation.

The importance of 'fostering enablers' for development is currently a key focus internationally with this year's OECD flagship report focussing on assessing policy coherence and illicit financial flows. The report explores 'enablers for development such as a fair trading system, food and nutrition security, sustainable use of natural resources, innovation and technology and a transparent financial system'[9]. Essential, then, is the need to remedy existing systems which perpetuate poverty and the private sector has a significant role to play in building more transparency, fighting tax evasion which according to the Tax Justice Network sees as much as US$255 billion is lost every year to governments around the world because of the no or low taxation of funds in offshore centres[10].

AID/WATCH pushes for a more accountable and transparent aid program. The lobbying capacity of the private sector is significant and opening this door to further their involvement in delivering aid is a cause for concern given the already existing lack of transparency in how they become involved. Below we give two examples of how the mining sector – through the Australia African Mining Industry Group (AAMIG), as well as an individual company, Carnival Cruises have utilised direct links to Government to lobby for financial returns for Australian companies.

Mining for Development Initiative – whitewashing a dirty industry

AID/WATCH's campaign – UnderMINING Development – investigates the Australian Governments 'Mining for Development Initiative' which promotes 'sustainable' mining through Australia's apparent expertise. Our research shows that claims that such a program supports the MDGs are spurious. Mining projects have long been associated with what is referred to as the "resource curse": the dispossession of Indigenous peoples and other communities from their land; irreversible environmental destruction; increasing economic and social inequality; government corruption; corporate rent-seeking and violent conflicts. There is little evidence to demonstrate where mining has had a positive effect on peoples' levels of poverty or indeed 'lifted' people out of poverty.

The unique threat posed by the extractive industries to host populations was affirmed by Professer John Ruggie in the early days of his mandate as UN Special Representative on human rights and transnational corporations (TNC's). In his first interim report in 2006, in which he presented an overview of corporate human rights abuses he had examined from 27 countries around the word, Ruggie wrote, "The extractive sector – oil, gas and mining – utterly dominates this sample of reported abuses with two-thirds of the total...The extractive industries also account for most allegations of the worst abuses, up to and including complicity in crimes against humanity...The extractive sector is unique because no other sector has as enormous and as intrusive a social and environmental footprint."[11]

Minimal effort has been made to articulate how large-scale mining, as promoted through the 'Mining for Development Initiative', is "sustainable", either for economies or the environment. This is problematic, especially when the current context is considered, particularly our

Governments' responsibility to consider and respond to widespread protests in developing countries against large-scale mining projects involving Australian aid funding. In addition, claims of Australia's expertise in environmentally safe mining can be called into question with numerous disasters involving Australian mining companies such as BHP Billiton's Ok Tedi mine in PNG and Rio Tinto's Panguna mine, also in PNG – where aid money is currently being used to urge the reopening of the mine.

Of relevant concern is the case of the AAMIG lobbying on behalf of 9 Australian mining companies to secure Government Aid Funding[12] through the Direct Aid Program to subsidise their Corporate Responsibility (CSR) programs in Africa. Very little scrutiny and accountability exists around the ways in which Australian companies receive contracts and benefits through the aid program. At least one of these mining companies is allegedly guilty of human rights abuses and corruption in Africa. AID/WATCH published an open letter to the Minister for Foreign Affairs at the time, Bob Carr[13] and subsequently received notice from the lawyers of one of the mining companies funded through the aid program, threatening AID/WATCH, as well as 2 other NGO's who were speaking out against their human rights abuses in Africa. The Government chose not to respond to questions related to their partnering with such companies who not only have allegedly committed human rights abuses, but who subsequently go on to silence NGO's who legitimately speak out against their track records.

One of the biggest risks then, of greater involvement of the private sector is the lack of engagement by the government when evidence demonstrates the damage inflicted through involving the private sector in development.

Leveraging Private Sector without analysis of impact – Carnival Cruises Australia

Carnival Cruises Australia, one of the largest operators of international cruise tourism signed a Memorandum of Understanding (MoU) with AusAID last year which is cited by the Government as a positive example using the private sector to facilitate sustainable development in Vanuatu. Julie Bishop has touted the relationship that the Australian Government has with Carnival Cruises as an example of a partnership which is beneficial to local people[14] despite criticism both of the relationship between the Government and Carnival Cruises, as well as criticism that there is little evidence that cruise tourism in Vanuatu is making demonstrably beneficial impacts.

In 2009, Carnival was awarded a grant of $805,000 under the Enterprise Challenge Fund to improve the provision of services to its passengers and to enhance Ni-Vanuatu opportunities in Tourism. Despite the Australian Government and Carnival Cruises celebrating the outcomes of the considerable grant an achievement, this has been heavily critiqued.

A documentary by SBS Dateline, 'Vanuatu's Broken Dreams', details the real impacts of this project on the ground with locals still wondering where the thousands of dollars in landing fees from luxury liners are ending up and showing toilets built solely for the use of tourists despite adequate sanitation facilities on Mystery Island for locals[15]. Despite over 10 years of tourism to the small island, the only evidence of development is the basic water system beside the graveyard –that only supplies the tourist toilets – out of bounds for locals.

Furthermore, a detailed study of the impacts of tourism claims that the data that tourism contributes directly to poverty alleviation is still sporadic and often tokenistic and it has recently been argued that we are still a long way from being able to provide policy makers with the evidence for informed decision making that the benefits of tourism reach the poor[16].

“Global travel intermediaries, expatriate managers and investors, especially out of Australia and New Zealand, control the tourism sector. While the extent to which ni-Vanuatu are benefiting directly from the country’s growth in tourism is difficult to establish because of the lack of consistent data, the high concentration of expatriate ownership and management, coupled with an inherent dependence on the international travel supply chain suggests that the ni-Vanuatu are not sharing equitably in tourism sector growth.[17]”

Despite this, in 2013, the Government went on to sign the MoU with Carnival Cruises, “to improve the livelihoods of people in the Pacific”[18]. Ann Sherry, CEO of Carnival Australia said the MoU was an important step forward to enable Pacific Island communities to share in the economic benefits of cruising[19] and there has been a significant increase in the number of cruise ships docking in Vanuatu, a clear win for the company which globally saw the Carnival Corporation clock in a net profit of well over $1 billion in 2013[20].

This deal was made with Carnival Cruises in the absence of a transparent competitive process, despite the recommendations of the 2011 Independent Review of Aid Effectiveness recommending the Government to steer away from one-on-one, bilateral partnerships with the private sector.

AID/WATCH’s long-standing Land is Life! Campaign focuses on protecting land in Melanesia and through our links with the Melanesian Indigenous Land Defence Alliance (MILDA) we have encountered questions from locals in Vanuatu who question the benefits of cruise tourism despite the obvious role in plays as central to Vanuatu’s economy.

RECOMMENDATIONS

- Aid should not focus on further incorporating the private sector as it pertains to big business, small-holder and local business should be prioritised
- Economic growth and poverty alleviation cannot be understood as mutually reinforcing in the face of overwhelming evidence of where economic growth has led to greater wealth disparities
- The best way to work with the private sector is to ensure that they are accountable and ethical through enforceable, measurable guidelines and standards
- Tax justice and creating fair trade need to be central to aid policy as it relates to the private sector
- The Government needs to review all current relationships with the private sector to ensure and measure benefits of their involvement
- The Government cannot continue seeing the private sector as a ‘force for good’[21]. Analysis and understanding of the role the private sector has played in developing countries must take into account the evidence that shows how big business has led to human rights abuses, environmental degradation and often limited benefits to the poor
- Any further engagement of the private sector in development should be subject to vigorous scrutiny both in the tendering process as well as the implementation process
- The government needs to make decisions on implementing changes to the aid policy based on evidence, involving research and adequately responding to areas where decisions are not delivering results.
- Climate change and the environment need to be actively considered and play a central role in aid policy

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ENDNOTES

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