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Pro-poor Private Sector Development and AusAID

In August this year AusAID launched its private sector development thematic strategy. Sean Rooney provides several insights on this new initiative.

AusAID's mission, clearly defined by the 2011 independent review into aid effectiveness and embraced by the Australian Government, is to help people in developing countries overcome poverty.

To achieve this goal the Australian Aid program is growing significantly. Increases in previous years sees aid spending at an all-time high, and this is set to increase from today's total of just under \$4.8 billion a year to around \$9 billion a year by 2016.

In practical terms, this growth in aid funding translates into an increase in the scale of existing aid programming, that is, doing more of same things but on a bigger scale. Importantly though, it also heralds an expansion in the scope of Australia's international development activities, taking the aid program into other areas not traditionally pursued, that is, doing entirely new things.

One such new focus area for AusAID is 'private sector development'.

The rationale for aid programming in this space according to AusAID is that "*a growing private sector—the engine of economic growth—is fundamental to moving people out of poverty*". Pursuing pro-poor economic development is appealing, and presents AusAID with an opportunity to demonstrate where the aid program can support an environment that enables both growth of the private sector and enhanced development outcomes.

Specifically there are three key opportunities to pursue, each one manifesting at different scales and in different ways.

Firstly, inherent in AusAID's reasoning for investment in private sector development is a basic assumption that economic growth (i.e., increasing national GDP) will translate into an overall reduction in poverty. Whilst macroeconomic growth can increase average household incomes, the strategy needs to promote growth that is shared across industries and across regions, reduces economic disparity, and targets the disadvantage that already exists in specific locations and sections of the community. The focus of AusAID programming at the macroeconomic scale needs to be nuanced beyond an increasing of national scale economic performance to enable citizens and poor and remote communities to participate in opportunities presented by national economic development initiatives and promote an equitable distribution of the results of economic growth.

Secondly, at the microeconomic scale, there are numerous examples from other countries of aid programming designed to support individual companies establish operations in developing countries. The idea being that, in doing so, these businesses will provide a combination of products, services and livelihood opportunities for locals, leading to other wider development outcomes. This so called 'inclusive business' approach is also appealing, however it requires care in its execution (especially given that taxpayer's money is involved). Discretion is needed to ensure program support facilitates viable pro-poor businesses and avoids funding otherwise marginal business propositions. Done appropriately, there can be an orientation to aid program investments in inclusive business that result in pro-poor outcomes. Furthermore, the aid program's approach must facilitate 'inclusive business' in overseas markets and leverage existing channels and structures such as Austrade, the Pacific Investment and Trade Commission, and other national and regional trade and investment infrastructure.

All issues that need to be carefully understood and managed in order to realise real development outcomes through private sector development.

Thirdly, effective engagement with the private sector will require an AusAID capability, culture and profile that can understand and respond to market and business imperatives. The design, delivery and evaluation of private sector development programming at scale requires AusAID to build capability in this domain and integrate this with existing aid programming. An appreciation of the drivers of business is required, and this needs to be accommodated within the organizational growth and change already underway within AusAID.

This approach involves AusAID working in equal partnership with the private sector in order to effectively execute private sector development initiatives and achieve mutually agreed goals. The program and relationship will need to extend beyond one of tendering and contracting services, to include a working knowledge of the private sector. And finally, a growing aid budget brings with it an increase in public profile and political scrutiny. AusAID will need to adjust to new forms of risk, be open to innovation in this new thematic area, and working differently with this stakeholder group to achieve substantive development outcomes. The potential of the private sector to generate jobs, incomes, and new business enterprise is significant, as are the internal challenges ahead in the new strategy's execution.

The challenges are not insignificant, but the existing and latent dynamism, energy and resources of the private sector continue as a fundamental and formidable pathway out of poverty and inclusion as a component of Australia's overall aid programming makes sense. We need to be open to the opportunity engagement with the private sector offers, and be prepared to overcome the challenges inherent in this new and welcome initiative.

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