

# Private Finance

Private Finance for Development and  
Humanitarian Outcomes  
World Vision Australia's  
Public Policy Position

# World Vision Australia's position on private finance for development and humanitarian outcomes<sup>1</sup>

World Vision Australia sees private finance as a vital complement to international development and humanitarian efforts. World Vision Australia understands the profit imperative of private finance and calls on donors and governments to ensure commercial interests are aligned with development and humanitarian outcomes. Effective policy and regulatory settings are particularly important to ensure that foreign direct investment promotes economic development and poverty reduction in developing countries.<sup>2</sup>

World Vision supports innovative private finance instruments such as impact investing and development bonds which align financial incentives with development outcomes.<sup>3</sup> World Vision recognises that public finance, particularly the Official Development Assistance (ODA), has an important role to play in incentivising private investment in development.<sup>4</sup> World Vision encourages the Australian Government to use new mechanisms such as guarantees and debt instruments to leverage private sector investments in developing countries. However, this use of ODA should not extend to subsidising the operation of the private sector. The Australian Government should ensure that public finance delivers *additional* financing from the private sector, and does not flow to places where private finance would be deployed regardless of public support.

World Vision Australia recognises the role of remittances in improving the wellbeing of people living in poverty. World Vision Australia supports Government initiatives such as Send Money Pacific (SMP) which aim to lower the cost of remittances to the Pacific. World Vision Australia encourages the Australian Government to continue its efforts to lower the cost of remittances globally.

## World Vision's mandate to advocate for private finance

World Vision Australia has substantial experience engaging with the private sector. World Vision's Innovative Business Development group initiates strategic, innovative business models and partnership with selected transnational entities including corporations, multilateral and bilateral institutions. World Vision Australia's long engagement with the private sector has given it important insight into the operation of the private sector, private finance and the role it can play in international development and humanitarian efforts.

# World Vision Australia's policy recommendations for change

## Increasing private finance for development requires actions by NGOs, Government and the private sector

World Vision Australia's policy recommendations aim to increase private finance in development and humanitarian work, and ensure that it contributes to poverty reduction in developing countries.

### **World Vision Australia calls on the Australian Government to:**

1. Deploy the Official Development Assistance (ODA) to leverage private sector investment in developing countries through the use of innovative finance mechanisms
2. Ensure that ODA does not subsidise private sector activity, and effectively leverages additional private finance
3. Work with partner governments to ensure policy and regulatory frameworks encourage foreign direct investment, and ensure it contributes to poverty reduction
4. Contribute to international efforts to reduce taxes and impositions on remittances

### **World Vision Australia calls on the Australian and International Private Sector to:**

1. Invest in innovative finance mechanisms that generate positive development outcomes alongside financial returns; and
2. Explore opportunities to invest in developing countries, and ensure foreign direct investment contributes to poverty reduction and economic development

To encourage better use of and benefit from remittances, financial services firms and governments are urged to reduce the transaction costs on migrant remittances to less than 3 per cent by 2030.<sup>5</sup>

## Background

### Global public finance is insufficient to meet the world's development needs

For decades, public funds such as Official Development Assistance (ODA) have been the dominant vehicle for financing global development and humanitarian efforts.<sup>6</sup> Public funds are typically defined as capital sourced from public entities such as governments and multilateral donors. It is increasingly accepted, however, that global public finance is insufficient to meet the world's development needs, particularly in low-income and lower-middle income countries.<sup>7</sup>

Private finance – capital that is raised from non-public or private sources – dwarfs public capital flows to developing countries. In 2012, global public finance including ODA represented just 1 per cent of all capital flows to developing countries.<sup>8</sup> By way of comparison, Foreign Direct Investment (FDI) – where a private entity in one country invests in a new business in another country – amounted to more than 60 per cent of capital flows to developing countries.<sup>9</sup> This capital is raised from a wide and complex range of private sources of finance, including:

- **Private firms:** This is a broad category of private sector organisations that range from financial institutions and banks, multinational companies, as well as small, medium and large firms.
- **Institutional investors:** These include institutional investment funds such as superannuation, pension and mutual funds.
- **Private individuals:** Private individuals working in developed countries transfer millions of dollars in remittances to their families in developing countries.

Harnessing private finance is crucial to funding development and humanitarian programs to end poverty and build peace. The challenge is to direct private finance to support the achievement of development outcomes for people living in poverty and conflict. The United Nations Addis Ababa Action Agenda, the sister agreement to the Sustainable Development Goals (SDGs), emphasises the urgent need for the global private sector to contribute funds and expertise to achieve the global sustainable development agenda.<sup>10</sup> In particular, the Action Agenda calls for:

- **Increased FDI to Developing Countries:** Private actors are urged to invest in developing countries, particularly in sectors such as infrastructure and agriculture that impact the prospects of those living in poverty.<sup>11</sup> Currently, the bulk of global FDI funds flow to middle and high income countries, or to just a few sectors in low income and middle-income countries.<sup>12</sup>
- **Investment in Innovative Finance Mechanisms:** New investment vehicles have significant potential to harness private finance for development. There is growing interest in innovative finance mechanisms such as venture capital funding for development projects, impact investing, development bonds and new forms of debt funding.<sup>13</sup>
- **Reducing Barriers for Remittances:** Global remittance flows to developing countries were worth \$427 billion in 2014 and represent a major source of income for millions of families and communities.<sup>14</sup> However, the global average

cost of transferring remittances is 7.9 per cent of funds.<sup>15</sup> Financial services firms and governments are urged to reduce the transaction costs on migrant remittances to less than 3 per cent by 2030.<sup>16</sup>

Private firms are also urged to ensure their business practices are in line with sustainable development objectives. Though the financing for development agenda is relatively new, there are promising signs that private investors are increasingly willing to invest in development outcomes. For example, private investors represent a growing source of capital climate bonds and impact investing funds.<sup>17</sup>

Governments and donors have a critical role to play to mobilise private finance for development, and to ensure the commercial imperatives of private finance are aligned with achieving positive development outcomes for people living in poverty and conflict. The Action Agenda encourages the creation of strong regulatory environments in developing countries that both attract FDI but ensure that it results in inclusive and sustainable economic outcomes. Private investment in infrastructure and agriculture must likewise prioritise long-term poverty reduction outcomes. Public finance, particularly ODA, is necessary to facilitate the development of new investment vehicles. By lowering risk for private investors, through co-investment or guarantees, public finance can leverage greater investment in development from private sources.

In Australia, the Government has recognised the need to catalyse private finance for development. The Australian Government's aid policy supports the development of 'innovative models for private sector partnerships that leverage finance' and promotes the use of ODA as a catalyst for leveraging other sources.<sup>18</sup> Australia's aid policy also recognises the important role remittances play in development and the need to lower transaction costs.

# Key resources & references

## Key resources

United Nations, 'Third International Conference: Addis Ababa Action Agenda', Outcome Document, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

United Nations, 'Transforming our world: The 2030 Agenda for Sustainable Development', available at: <https://sustainabledevelopment.un.org/content/documents/21252030%20Agenda%20for%20Sustainable%20Development%20web.pdf>

Department of Foreign Affairs and Trade (DFAT), 'Australian Aid: Promoting Prosperity, Reducing Poverty, Enhancing Stability', 2014, available at: <https://dfat.gov.au/about-us/publications/Documents/australian-aid-development-policy.pdf>

## References

<sup>1</sup> Note World Vision International's (WVI) position: World Vision International supports efforts to secure foreign direct investment (FDI) in developing countries as an effective means for poverty reduction. FDI, however, should not result in harm to the environment or be exploitative to labour. World Vision International considers that developing countries have a right to restrict foreign investment and impose performance requirements on foreign corporations. World Vision International cautions against investment negotiations in the World Trade Organisation (WTO) in so far as they can undermine the ability of developing countries to exercise these rights. World Vision, 'Foreign Direct Investment and Corporate Codes of Conduct in National Development Strategies: Costs, Benefits and Policy Options', 2001, available at: <https://www.oecd.org/daf/inv/investmentstatisticsandanalysis/2421494.pdf>

<sup>2</sup>See, World Vision Australia, 'Economic Development and World Vision', 2013, available at: <https://www.worldvision.com.au/docs/default-source/publications/aid-trade-and-mdgs/economic-development-and-world-vision.pdf?sfvrsn=4>

<sup>3</sup> European Parliament, 'Financing for development Post 2015: Improving the contribution of private finance', 2014, available at: [https://europa.eu/eyd2015/sites/default/files/users/maja.ljubic/expo-deve\\_et2014433848\\_en.pdf](https://europa.eu/eyd2015/sites/default/files/users/maja.ljubic/expo-deve_et2014433848_en.pdf)

<sup>4</sup> Department of Foreign Affairs and Trade (DFAT), 'Creating Shared Value through Partnership: Ministerial statement on engaging the private sector in aid and development', 2015, available at: <http://dfat.gov.au/about-us/publications/aid/Pages/creating-shared-value-through-partnership.aspx>

<sup>5</sup> United Nations, 'Third International Conference: Addis Ababa Action Agenda, Outcome Document', 2015, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

<sup>6</sup> Organisation for Economic Co-operation and Development (OECD), 'The Where of Development Finance', 2013, available at: <http://www.oecd.org/dac/financing-sustainable-development/Where%20paper.pdf>

<sup>7</sup> United Nations Conference on Trade and Development (UNCTAD), 'World Investment Report 2014', 2014, available at: <http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=937>; European Parliament, 'Financing for development Post 2015: Improving the contribution of private finance', 2014, available at: [https://europa.eu/eyd2015/sites/default/files/users/maja.ljubic/expo-deve\\_et2014433848\\_en.pdf](https://europa.eu/eyd2015/sites/default/files/users/maja.ljubic/expo-deve_et2014433848_en.pdf)

deve\_et2014433848\_en.pdf

<sup>8</sup> World Bank, 'Financing for development Post 2015', 2013, available at: <https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf>

<sup>9</sup> World Bank, 'Financing for development Post 2015', 2013, available at: <https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf>

<sup>10</sup> World Bank, 'Financing for development Post 2015', 2013, available at: <https://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf>

<sup>11</sup> United Nations, 'Third International Conference: Addis Ababa Action Agenda, Outcome Document', 2015, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf);

<sup>12</sup> United Nations, 'Third International Conference: Addis Ababa Action Agenda, Outcome Document', 2015, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

<sup>13</sup> United Nations, 'Third International Conference: Addis Ababa Action Agenda, Outcome Document', 2015, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

<sup>14</sup> World Bank, 'Overview', available at: <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/overview>

<sup>15</sup> Department of Foreign Affairs and Trade (DFAT), 'Development assistance in the Pacific', available at: <http://dfat.gov.au/geo/pacific/development-assistance/Pages/economic-growth-and-private-sector-development-pacific-regional.aspx>

<sup>16</sup> United Nations, 'Third International Conference: Addis Ababa Action Agenda, Outcome Document' 2015, available at: [http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

<sup>17</sup> See Stockholm Environment Institute, 'Private Sector Finance and Climate Change Adaptation', 2014, available at: <https://www.sei-international.org/mediamanager/documents/Publications/Climate-mitigation-adaptation/policybrief-privatesectorfinance-adaptation.pdf>

<sup>18</sup> Department of Foreign Affairs and Trade(DFAT), 'Australian Aid: Promoting prosperity, reducing poverty, enhancing stability', 2014, available at: <https://dfat.gov.au/about-us/publications/Documents/australian-aid-development-policy.pdf>