# Submission to the Senate inquiry into Australia's trade and investment relationships with the countries of Africa

13 October 2017

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# Summary of World Vision Australia's recommendations

## World Vision Australia recommends that the Australian Government:

1. **Review Australia's aid for trade strategy and, more specifically, the regional allocation of aid for trade expenditure** to ensure funding is targeted towards regions with the greatest need, keeping in mind the trade barriers facing people living in poverty in the countries of Africa and the huge potential of Australia's future trade and investment with the countries of Africa
2. **Conduct a review of the breakdown and outcomes of Australia's aid for trade expenditure in Africa, with a view to ensuring that 50-60 per cent of aid for trade funding is allocated to productive capacity building** to improve the capacity of African countries and peoples, especially small-holder farmers, producers and micro-entrepreneurs, to engage in local, national and international trade
3. **Evaluate Australia's aid for trade portfolio in the countries of Africa** with a specific focus on how effective these investments have been to reduce poverty and promote inclusive economic growth
4. **Reverse the cuts to Australia's Official Development Assistance to Africa and the Middle East** since 2011-12, restoring funding to the region to at least 11.9% of the total aid budget while increasing the overall aid budget, which is likely to increase trade given the positive correlation between aid and exports
5. **Develop and implement a Climate Change and Trade Strategy for the Department of Foreign Affairs and Trade** that examines the current and future impacts of climate change on Australian trade and investment with the countries of Africa and identifies measures to support climate resilient trade with the countries of Africa, with a particular focus on supporting people living in poverty who have the least capacity to manage climate-related risks

6. Invest in programs that **improve the overall business enabling environment (including increased access to finance and stronger local value chains) to ensure people living in poverty in Africa benefit from market system development**, breaking down barriers for them to engage in local, national and international trade
7. **Develop a commercial strategy for trade and investment in Africa** in partnership with the private sector that recognises both the financial and social impact that can be achieved by integrating poverty reduction goals into the expansion of market, trade and investment opportunities
8. **Actively encourage Australian companies operating in Africa to implement and comply with international standards,** including:
    a. Implementing the United Nations Guiding Principles on Business and Human Rights and the Children's Rights and Business Principles within their operations and supply chains
    b. Complying with relevant international standards and agreements including the United Nations Convention on the Rights of the Child and International Labour Standards
    c. Proactively contributing to the achievement of the Sustainable Development Goals by 2030
9. **Facilitate cross-sector collaboration on designing and delivering corporate social responsibility policies and projects** by connecting Australian-based companies operating in Africa with local and international NGOs operating in Africa, and encourage annual integrated business reporting that includes corporate social responsibility outcomes
10. **Continue to partner with and support Global Compact Network Australia** to encourage Australian-based companies to adopt, implement and report on sustainable business policies that advance achievement of the Sustainable Development Goals

# Introduction to World Vision Australia's submission

World Vision is a worldwide community development organisation that provides short-term and long-term assistance to 100 million people worldwide. Through its work around the world, World Vision sees firsthand the importance of inclusive trade and economic growth to sustainably empower poor families to lift themselves out of poverty.

For six decades, World Vision has been engaging people to work towards eliminating poverty, with a particular focus on the most vulnerable children. Informed by Christian values, World Vision works with people of all cultures, faiths and genders to deliver humanitarian responses, enable social entrepreneurship and economic development, lead public policy and advocacy for change and educate communities about poverty, all with an emphasis on personal growth, social justice and spiritual values.

World Vision has an extensive presence in Africa. World Vision has the privilege to partner with communities in 25 countries in Africa: Angola, Burundi, Chad, Congo (DRC), Ethiopia, Ghana, Kenya, Lesotho, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Somalia, South Africa, South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.

World Vision Australia has a productive working relationship with the Australian Government as a key partner in delivering the Australian aid program. Alongside its international programs, World Vision Australia also implements community development programs and brokers public-private partnerships to benefit indigenous communities around Australia.

In particular, World Vision Australia has deep programming expertise in building the productive capacity of people living in poverty to enable them to more fully participate in and benefit from trade-related activities. Drawing on lessons from the field, World Vision Australia has developed and scaled three innovative program models to support social entrepreneurship and economic development in poor communities:

- **Savings 4 Transformation**: Setting up groups that facilitate savings, insurance and credit services for those traditionally outside the reach of formal financial institutions to increase their resilience to economic shocks.

- **Local Value Chain Development**: Improving the productive capacity of small-holder producers and increasing their market linkages in order for them to benefit from market systems development through increased incomes.
- **Scaling Small and Growing Businesses (SGBs)**: Working with World Vision's microfinance subsidiary, VisionFund, to provide access to credit and ongoing business coaching to those entrepreneurs who have graduated beyond microfinance yet are unable to access traditional bank loans, hence constituting the 'missing middle'. Scaling such SGBs achieves inclusive economic development by stimulating local economies through employment generation, increased market activity and the facilitation of trade flows.

Evidently, World Vision Australia brings expertise in economic development and poverty reduction as well as extensive field experience across Africa to inform the inquiry of the Senate Standing Committee on Foreign Affairs, Defence and Trade into Australia's trade and investment relationships with the countries of Africa.

Our submission responds to each of the terms of reference of the inquiry, with a specific focus on aid for trade and inclusive economic growth in order to both maximise trade with and reduce poverty in the countries of Africa. World Vision Australia recognises that international trade, as a key driver of job creation, can be both a powerful enabler of economic growth and a transformative tool for large-scale poverty reduction if it is done in an inclusive way.[1] In this sense, raising the productive capacity of small-holder local producers and traders is necessary, not only to reduce poverty, but also to deepen the capacity of the countries of Africa to trade effectively and at scale with Australia.

# Response to the terms of reference: Australia's role in inclusive trade and investment in Africa

World Vision Australia values the contribution Australian trade and investment has made and can continue to make in increasing employment, empowering communities and reducing poverty in the countries of Africa.

However, to unlock the true potential of its trade and investment, Australia should pursue more inclusive trade in Africa that increases the productive capacity of small-holder farmers, producers and micro-businesses to both expand trade flow and to reduce poverty. Australia's investment in economic infrastructure and trade reform in the countries of Africa therefore needs to be complemented by greater investment in supply-side capacity to fully realise the benefits of trade with Africa.

To this end, World Vision Australia welcomes the opportunity to respond to the terms of reference of the Senate inquiry into Australia's trade and investment relationships with the countries of Africa. The Senate inquiry is examining a range of dynamics related to Australia's trade and investment in Africa, with particular reference to:

a. existing trade and investment relationships;

b. emerging and possible future trends;

c. barriers and impediments to trade and investment;

d. opportunities to expand trade and investment;

e. the role of government in identifying opportunities and assisting Australian companies to access existing and new markets;

f. the role of Australian-based companies in sustainable development outcomes, and lessons that can be applied to other developing nations;

g. the role of Australian-based companies in promoting the achievement of Sustainable Development Goals; and

h. any related matters.

The following sections outline the positions of World Vision Australia in regard to each of the terms of reference, drawing on its substantial experience in economic development in Africa and around the world.

## a. Existing trade and investment relationships

Australia has well-established trade relationships with the countries of Africa, with two-way goods and merchandise trade with Africa valued at AU$7.3 billion in 2015-16.[2] This trade is mutually beneficial for both Australia and the countries of Africa. For countries in Africa in particular, inclusive trade can open up new opportunities for work for men and women living in poverty by enabling them to access new consumers, products and sources of finance.

In recognition of the role of trade in reducing poverty, the Australian Government has committed to increasing its aid for trade funding to 20 per cent of annual aid expenditure by 2020.[3] This funding is set aside to help developing countries to better integrate into and benefit from the global rules-based trading system and to improve the lives of their citizens, especially the poor and vulnerable. In 2017-18, Australia's aid for trade expenditure is expected to reach AU$771.1 million or 19.7 per cent of Australia's Official Development Assistance (ODA).[4]

**About aid for trade**

The World Trade Organization (WTO) defines aid for trade as "helping developing countries, in particular least developed, to build the trade capacity and infrastructure they need to benefit from trade opening."[5]

Aid for trade was borne out of the recognition that although international trade is an essential driver for economic growth and therefore poverty reduction, developing countries often lack the capacity to realise these benefits of trade.

The Sustainable Development Goals also highlight the importance of aid for trade, with Goal 8 calling for increased "aid for trade support for developing countries, in particular least developed countries" as a mechanism to "promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all."[6]

Aid for trade now represents approximately 30 per cent of global ODA flows each year.[7]

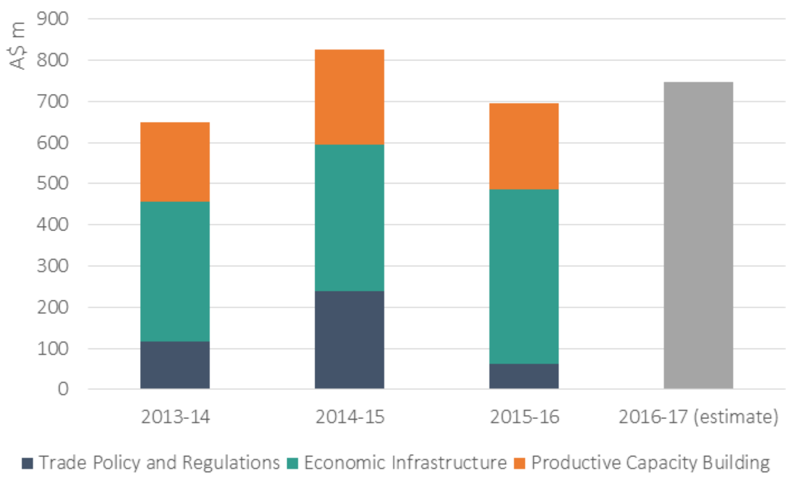
However, a minority of Australia's aid for trade budget is allocated to the countries of Africa. In 2014-15, the largest proportion of Australia's aid for trade was directed towards global/multi-country programs (32 per cent), followed by East Asia (28 per cent), the Pacific including Papua New Guinea (23 per cent), South and West Asia (10 per cent), and Sub-Saharan Africa and the Middle East (7 per cent).[8] Africa, despite arguably having the greatest need for trade capacity building, received the least funding. According to Global Finance Magazine, all ten of the poorest countries in the world are located in Africa, as measured by their gross domestic product and purchasing power parity per capita.[9] World Vision Australia therefore recommends that the Australian Government review its regional allocation of aid for trade funding to ensure expenditure is targeted towards countries with the greatest need, while also keeping in mind the huge potential of future trade with Africa. Australia should not divert aid for trade funding from other regions of the world, but rather increase net aid for trade funding to Africa and, in doing so, increase the proportion of the aid for trade budget allocated to Africa.

In addition to being allocated across geographic regions, Australia's aid for trade budget is distributed across three broad topic categories:

1. Trade policy and regulations
2. Economic infrastructure
3. Building productive capacity[10]

In recent years, Australia's aid for trade expenditure has been weighted more heavily towards economic infrastructure. According to the Performance of Australian Aid 2015 report, Australia spent 61 per cent of aid for trade funding on infrastructure, 30 per cent on productive capacity building and 7 per cent on macro trade policy and regulations over the reporting period.[11] Prior to 2013, Australia spent 50-60 per cent of aid for trade on productive capacity building.[12]

***Figure 1: Annual Australian aid for trade flows by type***




Source: Percentages and annual figures obtained from DFAT Performance of Australian Aid 2013-14, 2014-15 and 2015-16. (Note: annual expenditure in 'governance' has been included as part of 'trade policy and regulations')

Australia's weighting of aid for trade expenditure towards economic infrastructure is likely aimed at facilitating high-volume trade.[13] However, this tends to favour larger businesses and producer groups operating in the formal sector, rather than supporting informal and semi-formal financial intermediaries or businesses. While investment in infrastructure and in the enabling environment for large enterprise is critical to facilitate trade, it needs to be complemented by investment in supply-side capacity and in increasing the productivity of the labour force.

In their 2017 review of global aid for trade, the WTO and the Organisation for Economic Co-operation and Development (OECD) called for a greater focus on "aid for inclusive trade."[14] The OECD has separately called for aid for trade donors to invest more in interventions that connect "poor farmers to markets" and that "enhance supply-side capacity to ensure the benefits of export growth also reach poor groups."[15] Similarly, the Overseas Development Institute, a leading development think tank, has argued that aid for trade must be recalibrated to enhance the poverty reduction impact of trade.[16]

World Vision Australia therefore recommends that Australia review the balance of its aid for trade funding in Africa, ensuring that 50-60 per cent of aid for trade expenditure is aimed at productivity capacity building (the same proportion allocated to productive capacity building in 2013). Australia has in recent years underinvested in direct interventions that build the productive capacity of people living in poverty, despite it being important to not only reduce poverty but also to deepen the trade capacity of African countries. This trend needs to be reversed. Now is an opportune time to update Australia's aid for trade strategy so that it not only reflects the growth in Australia's aid for trade portfolio, but is fit for purpose for the shifting global aid for trade landscape.

**Recommendation 1: That the Australian Government review Australia's aid for trade strategy and, more specifically, the regional allocation of aid for trade expenditure to ensure funding is targeted towards regions with the greatest need, keeping in mind the trade barriers facing people living in poverty in the countries of Africa and the huge potential of Australia's future trade and investment with the countries of Africa**

**Recommendation 2: That the Australian Government conduct a review of the breakdown and outcomes of Australia's aid for trade expenditure in Africa, with a view to ensuring that 50-60 per cent of aid for trade funding is allocated to productive capacity building to improve the capacity of African countries and peoples, especially small-holder farmers, producers and micro-entrepreneurs, to engage in local, national and international trade**

**Recommendation 3: That the Australian Government evaluate Australia's aid for trade portfolio in the countries of Africa with a specific focus on how effective these investments have been to reduce poverty and promote inclusive economic growth**

## b. Emerging and possible future trends

There are two main trends related to Australia's trade and investment with the countries of Africa that are of concern to World Vision Australia. Firstly, despite Australian ODA to Africa increasing in the last three years, Australia's foreign aid to Africa and the Middle East is less than a tenth of what it was in 2011-12.[17] World Vision Australia recommends that Australian ODA to Africa be restored to 2011-12 levels, which is particularly relevant to this inquiry given the positive correlation between trade and aid. Secondly, climate change is increasingly affecting Australian trade in Africa, and so 'climate proofing' investments and supporting 'climate-friendly' trade will be increasingly important, now and even more so in the decades to come as climate change impacts intensify.

The first trend to consider is that the Australian Government has reduced its ODA to the countries of Africa and the Middle East over the last five years as it refocuses aid on the Asia Pacific region and reduces the overall aid budget. Australia's ODA to Africa and the Middle East has declined since 2011-12, both in absolute terms and as a proportion of the total aid budget (see Table 1). In fact, ODA to the region in 2017-18 (AU$52.3m) is less than a tenth of that allocated to Africa and the Middle East in 2011-12 (AU$576.6m).[18]

***Table 1: Australian Official Development Assistance to Africa and the Middle East***

| Financial year | Amount | Per cent of total Australian ODA |
|---|---|---|
| 2017-18 | AU$52.3m | 1.3% (of $3,912m) |
| 2016-17 | AU$52.3m | 1.4% (of $3,828m) |
| 2015-16 | AU$52.9m* | 1.3% (of $4,052m) |
| 2014-15 | AU$187.3m* | 3.7% (of $5,032m) |
| 2013-14 | AU$202.3m* | 4.0% (of $5032m) |
| 2012-13 | AU$527.3m* | 10.3% (of $5,149m) |
| 2011-12 | AU$576.6m* | 11.9% (of $4,825m) |

*Actual (not estimated) amount
Source: Percentages and annual figures obtained from Australian Aid Budget Summaries and Foreign Affairs and Trade Portfolio Budget Statements

This decline in Australia's ODA to African countries may be problematic for Australian trade in the region as there is an emerging correlation between aid and trade. Recent research undertaken by the Development Policy Centre at the Australian National University found that Australian aid has had positive and significant impacts on Australian exports to Asian countries, showing that there are commercial co-benefits from foreign aid. Between 1980-2013, every AU$1 of Australian ODA to Asian countries resulted on average in AU$7.1 in Australian exports to Asian countries.[19] The report concluded that aid increases exports to recipient countries more than other (non-tying) channels. The research could not be extended to African countries due to a lack of available data on aid and exports. Nevertheless, this research implies that if Australia intends to grow its trade and investment with the countries of Africa, then it should increase its foreign aid to the region. Instead of withdrawing from Africa, Australia should instead work with the emerging economies of Africa to assist their development and help integrate them into Australian and international markets.

Another trend that must be considered is the impact of the changing climate on Australia's trade and investment in Africa. The wide-ranging impacts of climate change are projected to reduce economic activity in Australian export markets, including those in Africa, according to the Garnaut Climate Change Review.[20] This is likely to result in reduced Australian export prices and terms of trade (the ratio of Australian export to import prices).

While the extent to which the climate changes this century depends largely on the success of global mitigation efforts to reduce emissions, some global warming is already locked in. Australia is already conducting trade in a world that is 1.2$^{o}$ Celsius warmer than it was one hundred years ago, with different patterns of rainfall, higher sea-levels, and more frequent and extreme weather events.[21] Worryingly, of the nine climate-related key regional risks identified for Africa by the Intergovernmental Panel on Climate Change, eight pose medium or higher risk even with high adaptation measures.[22] Of particular relevance to Australian trade with Africa are projections that future climate change will result in the countries of Africa experiencing:

- Increased stress on water resources, especially in drought-prone regions of Africa
- Reduced crop productivity from heat stress, affecting livelihoods and food security
- Adverse livestock effects from increased heat and water stress
- Increased migration leading to human suffering, political instability and conflict[23]

The Australian Government and Australian-based companies can help mitigate the effects of climate change on Australian trade and investment in Africa by improving the climate resilience of their own investments and by building the resilience of the countries in which they operate. In particular, the Australian Government should ensure that Australia's ODA integrates climate change considerations across all Australian aid investments. According to the National Climate Change Adaptation Research Facility based at Griffith University, this may include "a focus on climate proofing the infrastructure necessary for trade in goods and services such as tourism, assisting vulnerable communities to access export markets, and supporting climate resilience in key trade sectors such as tourism, agriculture and fisheries."[24] Those living in poverty have the least adaptive capacity to respond to the impacts of climate change on their economic activity and trade, so they should be prioritised and supported when investing in supply chain resilience in Africa.

Climate change may also bring opportunities for Australian-based companies to increase trade in 'climate-friendly' goods and services, such as trade in clean energy, adaptation services, resilient crops and other goods and services.[25]

**Recommendation 4: That the Australian Government reverse the cuts to Australia's Official Development Assistance to Africa and the Middle East since 2011-12, restoring funding to the region to at least 11.9% of the total aid budget while increasing the overall aid budget, which is likely to increase trade given the positive correlation between aid and exports**

**Recommendation 5: That the Australian Government develop and implement a Climate Change and Trade Strategy for the Department of Foreign Affairs and Trade that examines the current and future impacts of climate change on Australian trade and investment with the countries of Africa and identifies measures to support climate resilient trade with the countries of Africa, with a particular focus on supporting people living in poverty who have the least capacity to manage climate-related risks**

## c. Barriers and impediments to trade and investment

People living in poverty in the countries of Africa – small-holder farmers, producers, workers, consumers and small and micro business owners, and disproportionately women – remain unable to fully access local, national and international markets and the opportunities they bring.[26] Addressing the social and economic barriers facing these people is crucial to both increasing the trade capacity of African countries, and to increasing Australia's trade relationships with those countries.

Common trade barriers for people living in poverty include lack of access to finance, lack of access to markets and product information, outdated technology and practices to produce at scale, and limited technical and entrepreneurial capacity.[27] Women face such challenges to a higher degree than their male counterparts. At the broader national level, additional barriers such as weak national institutions and governance, weak economic infrastructure, absence of the rule of law, corruption, excessive or inadequate taxation, tariffs and regulations, and insecurity compound the problem.[28] Reducing both the local and national barriers to trade will increase economic opportunities for Australia while also increasing the size, productivity and resilience of the labour force and markets in the countries of Africa. A holistic approach to breaking down trade barriers that includes reducing impediments for small-holder farmers and micro-entrepreneurs, especially women, to engage in trade will be especially important.

**Case study: Savings groups reduce barriers to finance in Zambia**

People in Zambia have historically struggled to access finance, with around 50 per cent of the population facing financial exclusion.

World Vision Zambia has been working towards increasing financial inclusion in the country through savings groups. This involves setting up small groups to facilitate savings and access to small loans for those traditionally outside the reach of formal financial institutions to help them cope with household emergencies, develop their livelihoods and invest in the health and education of their children.

In 2012, there were less than 500 people involved in village saving activities. However, as of September 2017, World Vision Zambia has facilitated the formation and strengthening of about 3,100 savings groups with a total of approximately 51,400 individual savers, whose saving portfolio has together amounted to over US$2.3 million. The savings groups have increased local entrepreneurship, improved local governance, and contributed to better health and education outcomes for families and their children. In fact, savers with children who dropped out of school due to lack of finances have been able to take them back to school, while meeting all of their financial needs.

Since October 2015, World Vision Zambia has also trained more than 3,200 farmers in financial literacy under its Sustainable Enterprise and Economic Development program. The program has helped small-holder farmers to improve their money management skills and ultimately better manage their savings groups to acquire finances.

In World Vision Australia's view, the two key barriers that should be addressed as a priority for people living in poverty in Africa are:

1. Barriers to accessing finance
2. Barriers to accessing markets

Arguably the biggest problem facing small and micro enterprises in Africa is the lack of finance to start new or expand existing businesses. More than half of all micro, small and medium-sized enterprises (SMEs) do not have access to credit – a number which increases significantly when informal enterprises are taken into account. The credit gap for formal and informal SMEs in developing countries is estimated to be US$2.6 trillion.[29] Three quarters of the world's poor are 'unbanked', lacking access to formal financial institutions.[30]

Australia's aid for trade investments can play an important role in addressing this financing gap by investing in programs that provide finance to those SMEs demonstrating high potential, known as Small and Growing Businesses (SGBs), in the countries of Africa. These programs enable SGBs to expand, improve productivity, increase product quality, generate and maintain local employment and reach export markets. Informal and semi-formal financial institutions – as well as training and education in financial services – are also critical to enabling people living in poverty to graduate to the formal financial sector over time.

**Case study: Scaling Small and Growing Businesses in Ghana**

Working with World Vision's microfinance subsidiary – VisionFund – a program has been piloted to scale Small and Growing Businesses (SGBs) in Ghana, which is delivering promising initial results. The loan product has been designed to address a gap in the market by supporting those entrepreneurs who have graduated beyond microfinance but lack access to traditional bank loans and includes ongoing business coaching alongside the credit.

Since awarding its first SGB loan in December 2016, the program has disbursed 12 loans together valued at US$55,200. The loans are supporting local entrepreneurs in Ghana across a range of industries, including pharmacy, hospitality, retail and agriculture.

One loan recipient was female entrepreneur, Faustina Asare, who owns and operates a local restaurant. She began operations in 2000, selling food from a small wooden stall outside her house. But Faustina's business outgrew her initial wooden food stall and, in 2013, she moved her operations to the first floor of her house, where she and her younger sister now manage 8 full-time employees.

When Faustina heard about World Vision's SGB loan product, she saw a great opportunity to finance the upgrade of her restaurant space, such as tiling the dining area and expanding the kitchen, to grow her business.

With the help of the SGB loan, Faustina has improved the dining experience for her clientele, attracting new customers and encouraging her existing customers to dine more often. By improving and growing her business, Faustina has been enabled to better provide for her family as well as employ additional staff from the local community thereby contributing to inclusive economic development.

Another key barrier to address is lack of market access. According to the OECD, "linking farmers to markets and connecting them to deeper and more competitive value chains" is essential for integration into global markets and "successful globalisation."[31] However, many people living in poverty in Africa are economically and socially isolated, with limited access to local markets, never mind national and international markets.

Direct interventions such as Local Value Chain Development (LVCD) and other inclusive market system development programs can be an important aid for trade tool as they increase the ability of these groups to sell produce to national and international markets, and increase household income and wellbeing. LVCD programs are informed by a detailed market assessment to determine market demand and trends, including an analysis of the entire value chain – including all actors involved. Farmers and producers are given access to critical market information on demand and prices, as well as technical assistance to improve productivity. Where scale is an issue, farmers are supported to form producer groups to improve their ability to negotiate and work more effectively with private sector market actors.

**Case study: Developing local value chains improves market access in Tanzania**

World Vision's Local Value Chain Development (LVCD) approach in Tanzania is helping farmers overcome their isolation and disadvantage, empowering producers to work together to improve their productivity and access to markets. Through facilitation and coaching by World Vision, 7,000 farmers in Tanzania have been linked with each other, buyers and markets.

World Vision has supported these farmers to form 152 commercial producer groups to share their farming knowledge, carefully stage harvesting and to collectively identify and boost their competitive advantages. Trained LVCD market facilitators have also shared information on best practices and connected these groups to distant markets, ensuring more steady demand and fairer prices.

By working together, the farmers have been able to negotiate to get higher prices and learn modern farming techniques, including how to match crops to suit local soils and how to build storage structures so they can sell products like onions. This has resulted in greater crop production, higher incomes and better social outcomes, including:

- 800 per cent increase in yields for some farmers
- 49 per cent increase in the price farmers receive for their onions
- 62 per cent of famers added value to their crops in 2014
- 22 per cent of households increased their income

World Vision LVCD projects are now active in more than 35 countries, enabling more than 100,000 families to better access markets and trade. A Social Return on Investment analysis undertaken by World Vision on a LVCD project in Flotim, Indonesia, found that for every US$1 invested in the project, there was US$4.41 return of value for key stakeholders, with 70 per cent of this return experienced by the producer families.

Investment in LVCD programs should be aligned with Australia's broader aid for trade initiatives so that efforts to facilitate the movement of goods, for example, are complemented by direct interventions that increase the capacity of poor farmers to produce those goods.

World Vision Australia has seen firsthand the transformative impact that improved access to finance and strengthened local value chains can have on farmers and small businesses in Africa, enabling them to boost their productivity and capacity to sell to local and international markets.

**Recommendation 6: That the Australian Government invest in programs that improve the overall business enabling environment (including increased access to finance and stronger local value chains) to ensure people living in poverty in Africa benefit from market system development, breaking down barriers for them to engage in local, national and international trade**

## d. Opportunities to expand trade and investment

The 54 countries of Africa currently have a total population of more than 1.2 billion people. The already populous continent is projected to grow to 1.7 billion people by 2030 and to 2.5 billion by 2050.[32] This represents a huge potential market for Australia. However, currently a large segment of Africa's population is unable to engage effectively in trade due to lack of access to finance and markets, as mentioned earlier.

Empowering small-holder farmers and small-to-medium enterprises can significantly increase opportunities to expand Australia's trade and investment and improve its trade performance with Africa. These groups in the countries of Africa have enormous potential to increase the size and productivity of the labour force, improve the quality of goods and services to meet phytosanitary regulations, expand the consumer base, achieve scale and sell to export markets like Australia.

While the importance of providing economic infrastructure has been established, it is more effective when coupled with increases in labour force and supply-side capacity. As also mentioned earlier, Australia's aid for trade portfolio could be strengthened by increasing investment in the productivity and supply-side capacity of micro enterprises, SGBs, small-holder farmers and producers – particularly women and those operating in the informal sector. These interventions should be integrated as part of Australia's broader trade facilitation and reform efforts.

There is an immense opportunity to better align direct interventions that assist Africans living in poverty with aid for trade investment in infrastructure and trade reform. For example, efforts to facilitate the movement of goods across borders work best when complemented by measures that support small-holder farmers and micro-entrepreneurs to produce those goods. In particular, interventions should be pursued that develop and connect small-holder producers and enterprises to local value chains, provide finance to fund processing, storage and other value-adding activities, as well as increase the financial literacy of people living in poverty so they can better engage in trade. This in turn will increase the productivity and supply-side capacity of developing economies in Africa, with flow-on benefits for Australia's trade relationships with the countries of Africa.

In particular, there are opportunities to expand agriculture in Africa. Many economies in Africa heavily rely on the agricultural sector as a critical source of livelihoods, employment and food security for millions of people across the continent.[33] However, most of this agriculture lacks scale and is focused at the family-community level. There is significant potential to commercialise and scale-up these traditional forms of farming to become new sources of income and job creation for the countries of Africa, and a new source of trade for Australia.

**Recommendation 7: That the Australian Government develop a commercial strategy for trade and investment in Africa in partnership with the private sector that recognises both the financial and social impact that can be achieved by integrating poverty reduction goals into the expansion of market, trade and investment opportunities**

## e. The role of government in identifying opportunities and assisting Australian companies to access existing and new markets

The primary role of the Australian Government in supporting Australian companies in Africa is to partner with the countries of Africa to ensure the right conditions – trade regulations and policies, economic infrastructure, rule of law and productive capacity – are in place for Australian companies to do business there.

As mentioned earlier, investing in supply-side capacity in African countries in particular can increase trade opportunities for Australian companies. Therefore, to fully benefit from trade with the countries of Africa, the Australian Government should pursue inclusive economic growth in Africa and invest in capacity building at the local level.

By connecting disadvantaged people and communities in the countries of Africa to local, national and international markets, the trade capacity of the countries will be increased, which in turn boosts trade opportunities for Australian-based companies and simultaneously reduces poverty.

## f. The role of Australian-based companies in sustainable development outcomes, and lessons that can be applied to other developing nations

According to the Department of Foreign Affairs and Trade, there are more than 200 ASX-listed companies operating more than 600 projects in Africa.[34]

At a minimum, Australian companies operating in Africa must ensure that they comply with international standards and agreements that protect labour rights, child rights, human rights, indigenous peoples and the natural environment, making sure they conduct business in ways that are sustainable, transparent, ethical and inclusive. This includes paying their 'fair share' of taxes in all countries in which they operate.

Australian businesses operating in Africa should also explore opportunities to invest in shared value projects that reduce poverty while delivering commercial outcomes. Australian companies operating in Africa, including but not limited to the resource sector, have corporate social responsibility obligations to 'give back' to the communities or at least 'do no harm' when conducting their business.

Australian-based companies should have a vested interest in reducing poverty because there is increasing evidence that inequality undermines headline economic growth and trade. In fact, the OECD has found that a key determining factor of economic growth is the widening gap between the lower middle class and poor households compared to the rest of society.[35] In many African countries, income inequality is driven by limited employment opportunities, caused by shifts away from traditional agricultural livelihoods to commodity exports which do not translate into inclusive returns to the national economy. This income inequality entrenches disadvantage, which often leads to greater inequality, which can destabilise a society, lead to conflict and ultimately undermine trade and investment relationships in the long term.[36] In this sense, the economic interests of Australian-based companies are increasingly linked to the continued social and economic progress of Africa's emerging economies.

There is therefore value in the Australian Government promoting corporate social responsibility and encouraging Australian-based companies to comply with relevant international standards when conducting their operations around the world, including in Africa. The Government could also facilitate contacts between Australian companies and NGOs operating in Africa to see where their interests align, potentially leading to collaboration on corporate social responsibility projects.

**Recommendation 8: That the Australian Government actively encourage Australian companies operating in Africa to implement and comply with international standards, including: implementing the United Nations Guiding Principles on Business and Human Rights and the Children's Rights and Business Principles within their operations and supply chains; complying with relevant international standards and agreements including the United Nations Convention on the Rights of the Child and International Labour Standards; and proactively contributing to the achievement of the Sustainable Development Goals by 2030**

**Recommendation 9: That the Australian Government facilitate cross-sector collaboration on designing and delivering corporate social responsibility policies and projects by connecting Australian-based companies operating in Africa with local and international NGOs operating in Africa, and encourage annual integrated business reporting that includes corporate social responsibility outcomes**

## g. The role of Australian-based companies in promoting the achievement of Sustainable Development Goals

Achieving the Sustainable Development Goals (SDGs) is a shared responsibility. It requires action from all sectors – governments, businesses, non-government organisations and individuals alike.

Adopted in 2015, the SDGs are a set of goals to end poverty, protect the planet and ensure prosperity for all as part of a new global sustainable development agenda.[37] Of particular relevance to Australian-based companies are the following SDGs:

- **Goal 8 - Decent work and economic growth**: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- **Goal 9 – Industry, innovation and infrastructure**: Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation
- **Goal 10 – Reduce inequalities:** Reduce income inequality within and among countries
- **Goal 12 – Responsible consumption and production**: Ensure sustainable consumption and production patterns
- **Goal 13 – Climate action**: Take urgent action to combat climate change and its impacts by regulating emissions and promoting developments in renewable energy

Australian-based companies have a key role to play in achieving these and the other SDGs by leading by example. Australian companies should ensure their business models, operations and supply chains are sustainable, socially fair, environmentally responsible and economically inclusive.

Achieving the SDGs would not only be good for society or 'humanity' in abstract; it would be good for business. According to the Business and Sustainable Development Commission, achieving the SDGs would create at least US$12 trillion in opportunities in four economic systems alone: food and agriculture, cities, energy and materials, and health and well-being.[38] The Commission went on to say that "to capture these opportunities in full, businesses need to pursue social and environmental sustainability as avidly as they pursue market share and shareholder value."[39]

The United Nations Global Compact is the world's largest corporate sustainability initiative, encouraging businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. In Australia, the business-led Global Compact Network Australia (GCNA) brings together signatories to the UN Global Compact in Australia – including Australia's leading companies, nonprofits and universities – to advance corporate sustainability and the private sector's contribution to sustainable development. In 2016, the GCNA held 31 forums, webinars and other events on critical issues including business and human rights, anti-corruption and sustainable development, reaching more than 1,300 participants.[40] Business sector members of the GCNA include but are not limited to BHP Billiton, Rio Tinto, Fortescue Metals Group, Nestle, Shell, ANZ Bank and Westpac. World Vision Australia is also an active non-profit organisation member of the GCNA.

Since 2015, the GCNA has partnered with the Department of Foreign Affairs and Trade to both engage the private sector in sustainable development and provide a channel for businesses to connect with the Australian Government on sustainable development issues. Under this partnership, the GCNA has established the Sustainable Development Leadership Group focused on engaging business in development and promoting the SDGs. World Vision Australia recommends that GCNA's partnership with the Australian Government be continued and strengthened to advance the contribution of Australian-based companies to achieving the SDGs.

**Recommendation 10: That the Australian Government continue to partner with and support Global Compact Network Australia to encourage Australian-based companies to adopt, implement and report on sustainable business policies that advance achievement of the Sustainable Development Goals**

## h. Any related matters

The terms of reference for the inquiry are sufficiently extensive to cover the topics most relevant to Australia's trade and investment relationships with the countries of Africa. World Vision Australia does not wish to raise any other related matters.

# Call to action

It is time for the Australian Government to answer the calls of the WTO and OECD, among others, for a greater focus on aid for 'inclusive' trade.

Australia has underinvested in direct interventions that build the productive capacity of people living in poverty in Africa, despite it being important to not only reduce poverty but also to deepen the trade capacity of African countries and to maximise opportunities for Australian trade and investment in the region.

That is why Australia needs to prioritise building capacity and improving market access for the poorest communities in the countries of Africa to enable them to participate in local, national and global trade. Only by making trade more inclusive, can the true potential of Australia's trade and investment in Africa be realised.

World Vision Australia therefore calls on the Australian Government to:

- **Boost investment in productive capacity building to 50-60 per cent of Australia's overall aid for trade expenditure in Africa**, with an emphasis on empowering small-holder farmers and micro-entrepreneurs
- **Increase the overall aid budget as well as the proportion of Official Development Assistance to Africa**, matching Australia's foreign aid to areas where it is needed most
- **Help create the right enabling environment for trade to thrive in the countries of Africa**, by breaking down barriers, increasing access to finance and strengthening the resilience of local value chains for people living in poverty
- **Partner with NGOs and the private sector to deliver a step change in sustainable development**, advancing all 17 of the Sustainable Development Goals through cross-sector collaboration

World Vision Australia is happy to discuss its submission further if you have any questions, and would welcome the opportunity to present at any upcoming hearings of the Senate committee.

# Endnotes

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