THE ROLE OF THE PRIVATE SECTOR IN PROMOTING ECONOMIC GROWTH AND REDUCING POVERTY IN THE INDO-PACIFIC REGION

ANZ Submission to the
Joint Standing Committee on Foreign Affairs, Defence and Trade

May 2014

EXECUTIVE SUMMARY

ANZ welcomes the opportunity to provide a submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade's inquiry into the role of the private sector in promoting economic growth and reducing poverty in the Indo-Pacific region.

This submission sets out ANZ's views on how Australia's aid program can be focused to best facilitate private sector development and contribute to increasing growth and reducing poverty in the region.

ANZ has a long-standing, substantial and growing presence in the Indo-Pacific region, including some of Australia's largest investments in Greater China, India, Indonesia and Vietnam as well as in 11 countries in the Pacific.

Poverty alleviation occurs where there is equitable economic growth and development.[1] Development economists underscore the significance of economic growth in development policy.[2]

Fostering development of a large and productive private sector boosts growth. It encourages investment and entrepreneurship, creates jobs and contributes to increased living standards.

To this end, we suggest a greater proportion of Australian aid should be directed towards improving economic infrastructure to increase economic growth.

We support continued emphasis in Australia's aid strategy on the importance of good governance, particularly economic governance and the creation of stable well-functioning economic institutions.

Business can add value to aid activities which support growth. The Australian private sector can best contribute in areas of competitive advantage where Australian expertise complements identified needs in partner countries.

ANZ supports the Committee's engagement with the private sector in the development of Australia's aid program and in reviewing how to enhance the role of the private sector in development.

We look forward to a clear articulation of the role the Government sees the Australian private sector playing on a country and regional level. Effective management of this process will be important in working with the private sector on this important issue.

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[1] See L. Alan Winters, Neil McCulloch, and Andrew McKay, "Trade Liberalization and Poverty: The Evidence So Far", *Journal of Economic Literature* Vol. XIII, March 2004, p. 74.
[2] For example, Paul Collier, William Easterly and Jeffery Sachs.

ANZ's presence in the Indo-Pacific region

ANZ employs more than 47,000 people worldwide including 21,000 in Australia. We have the largest presence of any Australian bank in Asia and are one of the top four corporate banks in Asia. We are also the largest banking group in New Zealand and in the Pacific.

ANZ provides a full range of banking and financial services to retail and business customers. Within Asia, ANZ is represented in Cambodia, China, Hong Kong, India, Indonesia, Japan, Laos, Malaysia, the Philippines, Singapore, Taiwan, Thailand, Vietnam, and South Korea. ANZ is also represented across the Pacific in American Samoa, the Cook Islands, Fiji, Guam, Kiribati, New Caledonia, Papua New Guinea, Samoa, the Solomon Islands, Timor Leste and Vanuatu.

Our super regional strategy is an important, practical means to support the international growth of Australian businesses and the economic growth of countries in which we operate. We directly support trade and manage risk through our capabilities and on-ground presence. Indirectly, we transfer skills and knowledge to customers assisting them to develop their businesses.

In recent years ANZ has made significant progress on becoming a leading regional bank. We now have around 17,000 staff in 15 Asian markets and around 2,000 staff in 12 Pacific markets with over two million customers across Asia and the Pacific. Our business outside Australia and New Zealand has increased its contribution to ANZ's total after tax profit to 19% in the most recent half-year results.

Our strategy is focussed on connecting clients with opportunities across ANZ's regional network. It leverages the continued economic growth of Asia and capitalises on the significant trade and investment flows across the region. For example, Australian companies and ANZ assist governments across the region with core infrastructure needs, providing expertise in infrastructure management and governance.

In addition to ANZ's core franchise, ANZ developed a number of strategic partnerships to facilitate market entry in Asia. ANZ has minority stakes in several banks in mainland China, and banks in each of Indonesia, Malaysia and the Philippines.

ANZ also acquired some Asian assets from RBS in 2009 and has fully integrated and grown these businesses over the past five years. This includes the former RBS retail, wealth and commercial businesses in Taiwan, Singapore, Indonesia and Hong Kong, and RBS' institutional businesses in Taiwan, the Philippines and Vietnam.

We have six specialist shared service and operations hubs to support our expansion in the Asian region and the Group more broadly. These are located in Melbourne, Fiji, Bangalore, Chengdu (to support Chinese speaking customers), Manila and Wellington.

Consolidating parts of our business in regional hubs delivers efficiencies in our back office operations. It also supports the skills base in host countries, lowers total costs, extends the working day, increases resilience and business continuity by spreading operations geographically, and assists economies of agglomeration.

Improving financial inclusion

Governments and financial sector regulators throughout the Asia Pacific have recognised the important role that money management skills and the ability to save play in people's financial and social inclusion. ANZ is a leader in research and education of adults in this field. We are committed to making a significant contribution to the economic development and wellbeing of the communities we serve.

ANZ's MoneyMinded program is our flagship financial education program. It is based around eight topics which can be tailored to meet the needs of individuals. The program includes activities and guides for facilitators, workshop summaries and case studies for participants.

First developed in Australia, it has been adapted for use in 17 countries in which ANZ does business. Since it started in 2005, the program has been delivered to more than 240,000 people. It is delivered in partnership with community organisations in in Australia, American Samoa, Cook Islands, Fiji, Hong Kong, India, Indonesia, Kiribati, New Zealand, Papua New Guinea, Samoa, Solomon Islands, Singapore, Taiwan, Timor Leste, Vanuatu and Vietnam.

In 2010, MoneyMinded Pacific was developed to help people in the Pacific improve financial knowledge, skills and confidence. Program impacts are regularly evaluated. Outcomes from some Asian and Pacific programs are summarised in Box 1.

ANZ would be interested in exploring options for partnering with the Australian Government to further build on these programs.

Box 1. MoneyMinded outcomes in Asia and the Pacific

After completing the MoneyMinded program in **Indonesia**:

- around 58% of respondents reported after the program that they had started to save
- 85% reported that they are now more confident in managing their money

After completing the MoneyMinded program in **India**:

- the proportion of respondents that reported always having money left by the next payday increased four-fold from around 9.5% to around 40.5%

After completing the MoneyMinded program in **Vietnam**:

- the proportion of respondents who reported that they were never able to save money reduced from 25.6% to 8.7%
- the proportion of respondents who reported they kept a close eye on expenses increased from 17% to almost 48%.

MoneyMinded Pacific has also had positive outcomes for participants. For example after completing the program in **Fiji** and **Papua New Guinea**:

- the proportion of participants reporting being unable to save decreased from 25.5% to 4.3%
- 74.5% of participants increased their monthly savings deposits
- participants who regularly save a set amount increased by 34.0%
- 98% of participants reported a greater capacity to make ends meet
- 95.8% of participants were better able to cope with unexpected expenses
- 91.5% of participants encouraged children and family members to save

Source: ANZ, "Corporate Sustainability Review", 2013 and ANZ, "MoneyMinded Summary Report", May 2012.

Aid should promote reliance on the private sector to generate economic growth

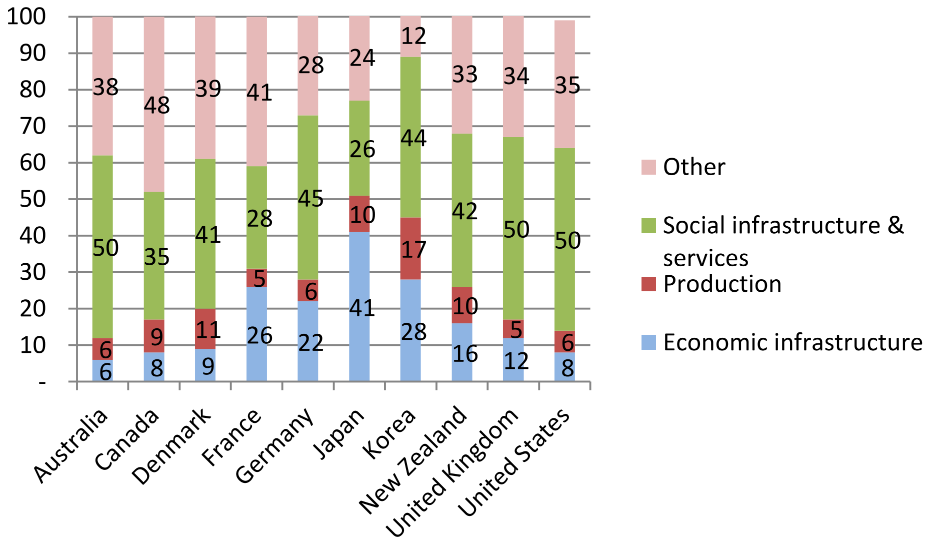
The private sector is the leading generator of growth in most economies. As the previous Government noted in its response to the 2011 Independent Review of Aid Effectiveness in Australia, "countries that make it easier for the private sector to set up businesses, grow, and employ people generally have higher incomes and fewer poor people."[3]

A leading requirement for private sector development and economic growth is for a country to have in place adequate economic infrastructure and services. This includes reliable energy sources, transport and storage services, communications, banking and financial services, and access to quality, well-regulated business and other services.

We note that a better functioning financial system has been shown to benefit broader economic activity across the economy including by providing poor people with access to financial services. According to the Organisation for Economic Cooperation and Development (OECD), "the less developed an economy the stronger the impact of the financial sector on economic growth."[4]

Despite this, Australia accords a lower priority to economic infrastructure and services than its OECD peers (see Figure 1).[5] A small proportion of Australian aid supports economic development through economic infrastructure.

Figure 1 – OECD Donor Aid Sector Allocations



Source: OECD DAC, Development Aid at a Glance 2012.

Figure 1 shows that the overwhelming majority of our aid is directed towards other goals – especially social infrastructure and related services and production. While social infrastructure and services (including spending on governance) are

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3 Commonwealth of Australia 2011, "An Effective Aid Program for Australia, Making a Real Difference—Delivering Real Results", p. 34.

4 OECD, "Promoting Pro-Poor Growth, Private Sector Development", 2006, p.55.

5 We note the previous Government's aid strategy (see footnote 3) uses an alternative definition of ODA sectors (graph 8, p. 39) and reports that 16 per cent of Australia's ODA spending is on 'economic growth'. No definition of what this includes is provided.

crucial to supporting economic growth, it is important to strike the appropriate balance between supporting social goals and directly assisting donor recipients develop critical infrastructure and 'backbone services'.

Australia spent 6 per cent of total aid on economic infrastructure in 2012 and more than eight times this on social infrastructure and services (50 per cent). Australia's aid allocation that year also included 6 per cent on production and 38 per cent on 'other' areas of spending.

Australia spends less on economic infrastructure than many OECD countries including New Zealand (16 per cent), the United Kingdom (8 per cent), the United States (8 per cent), Germany (22 per cent), the Republic of Korea (28 per cent) and Japan (41 per cent).[6]

ANZ would like to see aid programs reoriented to increase the share of development assistance to directly support economic growth.

Activities to support effective economic governance will foster private sector development

Good governance creates the conditions necessary to facilitate investment, reduce corruption and boost economic growth.

Priority should also be accorded to fostering private sector activity by providing assistance to improve economic governance. Australia has a competitive advantage in good governance and we should make more of this – it is an exportable capability.

This means directing an increased share of aid funding towards support for improving the quality of economic management to remove impediments to growth. We note that Australia already allocates a large share of aid towards government-related activities (21 per cent of aid spending in 2012)[7]; it is unclear what share of this is devoted to improving economic institutions.

Australia's aid program to support economic governance in Indonesia is a good illustration of efforts to improve economic governance. The Australia Indonesia Partnership for Economic Governance (AIPEG) provides a program of support to strengthen the Indonesian government's capability for policy development, coordination and implementation in areas affecting economic performance. It has been effective over time in contributing to improved regulation of key sectors of the economy such as the financial system, tax administration, trade, and public financial management.

We acknowledge that the budget and scope of the AIPEG is shaped by the importance of Australia's bilateral relationship with Indonesia. Nevertheless, ANZ would welcome the introduction of similarly structured Australian-funded economic governance programs in each country in the region that receives Australian aid.

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[6] In 2007, Australia spent only 2 per cent of its aid on economic infrastructure and services. This was a quarter of the United States' allocation and one sixth of what Germany allocated that year. OECD DAC, "Development Aid at a Glance 2007".

[7] OECD DAC, "Development Aid at a Glance", 2013. The OECD classifies this as social infrastructure and services aid.

Aid programs can directly enhance the contribution Australian companies make when they invest in the Indo-Pacific region

Australian private sector investment contributes to growth and poverty alleviation in the developing countries in which they invest. To support this, the Australian government should complement private sector interests and give weight to markets of importance to business, particularly in those sectors in which Australia has a competitive advantage and where the expertise Australia can offer is complementary to needs in the Indo-Pacific region. Such an approach will likely increase the benefits to the particular country by focusing Australia's contribution in areas where we are strongest and consolidating the impacts of Australian public and private sector organisations.

For example, as mentioned above, Australian companies are highly skilled in different aspects of infrastructure provision, including for electricity, ports, telecommunications and water. ANZ finances essential infrastructure projects by state-owned enterprises and provides high-level expertise in many developing markets.

Australia is also a leading supplier of natural resources and energy, food and agriculture, and health and education services.

ANZ is training locals in bank branches across the Indo-Pacific in the delivery of financial services and by its presence is improving the standard and quality of financial services in developing countries. We also provide financial literacy education (as highlighted above), banking services to unbanked rural and remote communities and microfinance programs in a number of Pacific countries.

The Australian government can enhance this support for our staff and the communities in which we operate by supporting the training of officials who regulate the financial sector in those countries to improve the efficiency and effectiveness of financial regulation. This helps facilitate expansion of private sector investment and creates a greater impact by coordinating Australian public and private sector activity.

Programs to support institutionalisation of better regulatory systems can contribute to improvements in the investment environment. For example, training to assist Pacific countries implement more open financial markets under the Pacific Agreement on Closer Economic Relations (the 'PACER Plus') negotiations would create better conditions for private sector development in areas which are directly complementary to business interests. ANZ recommends this type of assistance be delivered.

Expanding markets through trade should be a significant part of a private sector development strategy

Trade generates growth in its own right. More open markets create jobs, increase investment and contribute to poverty alleviation.

Aid assistance should be targeted toward activities which enable developing countries to reap the benefits of more open markets. This means:

- providing assistance that explains the benefits of domestic regulatory reform and helps officials build the case for this reform, as well as
- assistance in developing measures to implement binding commitments to liberalisation, including through multilateral, regional and bilateral trade negotiations.

Both encourage private sector development. For example, Australian government aid programs to assist implementation of commitments under free trade agreements such as the ASEAN-Australia-New Zealand FTA (AANZFTA) help open markets and create favourable conditions for trade, investment and private sector development across the Association of Southeast Asian Nations region.

Training programs under the Australian-funded Government Partnerships for Development program and the former Public Sector Linkages Program are well regarded. These programs help build the capacity of government officials to understand the costs of regulatory impediments to the broader economy and the importance of implementing sound regulation in key service areas of the economy. This is vital to boosting private sector provision of quality, affordable services in banking, telecommunications, transport and distribution.

Government approach

ANZ welcomes efforts to ensure Australia's aid strategy reflects a 'whole of country approach' balancing aid and private sector roles. This should take account of information from diplomatic posts and Austrade to identify complementarity between Australia's export and outward investment capabilities and demand for Australian goods and services. Export Finance and Insurance Corporation priorities and aid for trade policies should complement this overall strategy.

ANZ also supports approaches to engaging the private sector in the region previously identified by AusAID, including:

- Financing for development: that is, increasing access to debt or equity financing to enterprises to overcome poor availability of financial services in some countries
- Business to business partnering: this involves aid agencies matching private sector financial contributions for partnering between foreign and local companies that promotes an exchange of knowhow and resources
- Improving human capital and entrepreneurship: providing training, vocational education and related business development services to raise labour productivity, employability or entrepreneurship
- Inclusive business models: encouraging enterprises to adopt global standards of social and environmental behaviour.

We would be pleased to provide further information on the issues raised in this submission.

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