

Joint Standing Committee on Foreign Affairs, Defence and Trade:

Inquiry into the role of the private sector in promoting economic growth and reducing poverty



The private sector's impact on economies across Asia is undisputed. Whether through the rapid expansion of multinational corporations or, on a different scale, the increasingly significant role played by small and medium enterprises. In both cases, the private sector has the potential to either facilitate sustainable economic growth and development, or to reinforce unequal and uneven wealth distribution. CARE's experience has seen that strengthening the livelihoods of poor and vulnerable communities through positive private sector engagement (PSE) can contribute to improving overall living standards, and conversely investing in social sustainability and inclusive business can improve the effectiveness of supply chains for companies. However to do so business and corporate responsibility need to be a central part of business operations, not 'nice to have' add-ons. To ensure private sector engagement in poverty alleviation leads to sustainable improvements in people's lives, and protects poor communities from risks of further marginalisation, CARE recommends the following;

Recommendation 1: Ensure inclusive and protective business practices that are based on a **sound understanding of the situation of women and other marginalised groups**. With appropriate regulation and investment in a strong enabling environment. For example through development or adherence to protective principles, such as the Linking for Change Savings Charter, and other internationally recognised principles.

Recommendation 2: Build the voice and power of, and access for, small scale actors, including investment in, building linkages with, and improving access (to markets, to services, to finance) for, micro enterprises.

Recommendation 3: Invest in innovative partnerships that can enable the above.

Ensuring inclusive and protective business practices

In many countries, CARE has a long history in creating access to markets for poor farmers and offering agricultural extension services. In some cases, CARE has helped to create social enterprises, while in others CARE has worked directly with companies on their labour policies and practices. The aim is to encourage businesses and industry bodies to address poverty and social injustice and so produce a 'return' for the partners, communities and groups on whose behalf CARE works. CARE's own work with our corporate partners has delivered clear social benefits in a number of value chains whilst at the same time delivering significant benefits for the companies involved. Benefits including;

- Securing future supplies: in a world where there is much greater competition for resources, companies can reduce risks to their access to materials by investing in, for instance in the food industry, smallholder farmers in developing countries
- Innovating and growing: meeting the needs of consumers in developing countries opens up enormous opportunities

- Reducing costs by improving resource usage and reducing waste
- Improved credibility with the growing number of consumers who expect companies to behave responsibly
- Motivating staff who expect companies to meet their responsibilities to wider society
- Improving credibility with socially responsible investors
- Mitigating legal and reputational risks, and ensuring a continuing social “licence to operate”

CARE International has undertaken efforts to co-create innovative 'inclusive business' opportunities with a number of national and multinational companies to **expand poor people’s access to goods, services and livelihood opportunities on fair terms**. Working to influence global and national value chains, support the creation of microenterprise, increase access, including to markets and financial services and advocate changes in regulation that bring about positive improvements in value chains.

CARE works to **encourage responsible practice on the part of the private sector in ways that will make positive changes for workers, producers and consumers**. Engaging with the private sector in ways that ensure fair and transparent interactions and which take into consideration the unique assets, perspectives and needs of local communities. Although it may challenge certain business practices, CARE’s approach is to influence business priorities through constructive engagement as a means to improve the long-term situation of poor and marginalised people and communities, whether as workers, producers or consumers.

Banking on Change

Financial inclusion is key to allowing people, especially women and youth, to become more empowered, more resilient and more able to start and maintain micro-enterprises. CARE Village Savings and Loan Associations (VSLAs) provide simple and basic savings and loan services in communities unreached by the formal financial sector. Providing a safer place to keep savings, a way of earning interest and access to credit to start micro-enterprises. Currently 2.5 billion people lack access to formal financial services. Representing a pool of customers with the potential to save US\$145bn a year. The Banking on Change initiative with Barclays and Plan provides basic financial education and training on the management of simple productive activities and has developed innovative solutions to linking VSLA groups to the formal banking sector, including development of innovative banking products. The partnership also recognises that protection mechanisms need to be in place to effectively and responsibly link informal groups of savers to formal banking products and services. Along with Barclays and Plan CARE has launched the **‘Linking for Change Savings Charter’** which sets out international principles to ensure that more banks responsibly link VSLAs into the formal financial system. The aims of which include;

- To set out international principles that enable organisations to effectively and responsibly link informal groups of savers to formal banking products and services
- To build a powerful global Alliance of leading organisations who share the vision of this Charter and agree with its principles
- To receive commitment from corporate leaders to develop and roll out new savings products for poor communities in the developing world
- To call for universal financial inclusion to be included in any post-2015 UN development framework.

The UN Guiding Principles on Business and Human Rights should be central to a **rights based approach to managing the involvement of the private sector in development**, given its widespread endorsement and the existing engagement of substantial numbers of companies. However, to

ensure they gain traction and deliver effective protection of rights it is essential to make the corporate responsibilities within the UN Guiding Principles on Business and Human Rights legally enforceable, both domestically and internationally. There are many other voluntary guidelines, such as the Voluntary Guidelines on Tenure of Land, Forestries, Fisheries which should also be adopted as key guidelines to corporate behaviour. Any partnership approach should invest in holding companies to account against the highest standards currently available, whilst also working to improve those standards.

Building the voice and power of, and access for, small scale domestic actors

CARE partners with businesses to **engage and empower workers through education, community dialogue, rights awareness and improved access to services**. This includes businesses in the garment, tea, cocoa and extractive industries. Through these programmes CARE is building the business case for worker engagement - proving that companies which empower their workers can also make significant gains in productivity.

Ethical Tea Partnership

The tea sector accounts for 19 per cent of Sri Lanka's foreign earnings and provides direct employment to over 310,000 people. Increasingly, however, the industry is at risk. Globally, exports compete with cheaper products from Kenya, India and other producers, where mechanized production is more common and production costs are lower. Domestically, the largely Tamil workforce, which is among the poorest in the country, is increasingly choosing to escape plantation life for opportunities in growing urban areas, resulting in a sector-wide labour shortage. Women, who make up the majority of tea pluckers, are subject to discrimination, including rarely rising to supervisor-level positions. The poverty and isolation of the estate communities, as well as ethnic divides between the workforce and many managers, has meant that there is no mechanism for managers and employees to discuss and resolve problems. Both factors contribute to low productivity and frequent strikes across the sector, undermining the long-term sustainability of the national tea industry.

Giving workers access to forums where they can address challenges around working conditions alongside estate managers empowers them and contributes to a more sustainable tea sector. Currently operating on 23 locally-owned estates across Sri Lanka, CARE's CDFs were designed by workers, the local community and stakeholders to benefit workers, their communities and plantation companies. Opening up new channels of communication between stakeholders across the plantation region, with representation from management, tea pluckers and workers, unions and community leaders and importantly enabling women an equal role to participate and hold office. The CDF model has brought benefit to business as well as tea workers. An assessment has shown that for every dollar invested in CDFs, over 42 dollars of social value was produced, with over 26 dollars of value accruing directly to plantations.

As a recent report shows¹, donors tend to focus on interventions at the macro and meso levels, but **micro-level programmes** 'may have a much larger redistributive impact for poor and marginalised populations'. Our experience suggests that to transform market systems to lift large numbers of people out of poverty, **micro and small businesses need proactive and appropriate interventions which focus on increasing power and voice**, which protect rights, and which focus on risk. Similarly a 'power lens' can increase effectiveness; from a gender perspective for example, addressing the social and political drivers of inequality, rather than simply focussing on getting women into markets, will dramatically improve the overall development outcome. Such an approach will work

¹ Kindornay, S. & Reilly-King, F. 2013. "Investing in the business of development: Bilateral donor approaches to engaging the private sector". <http://bit.ly/XrfwSY>

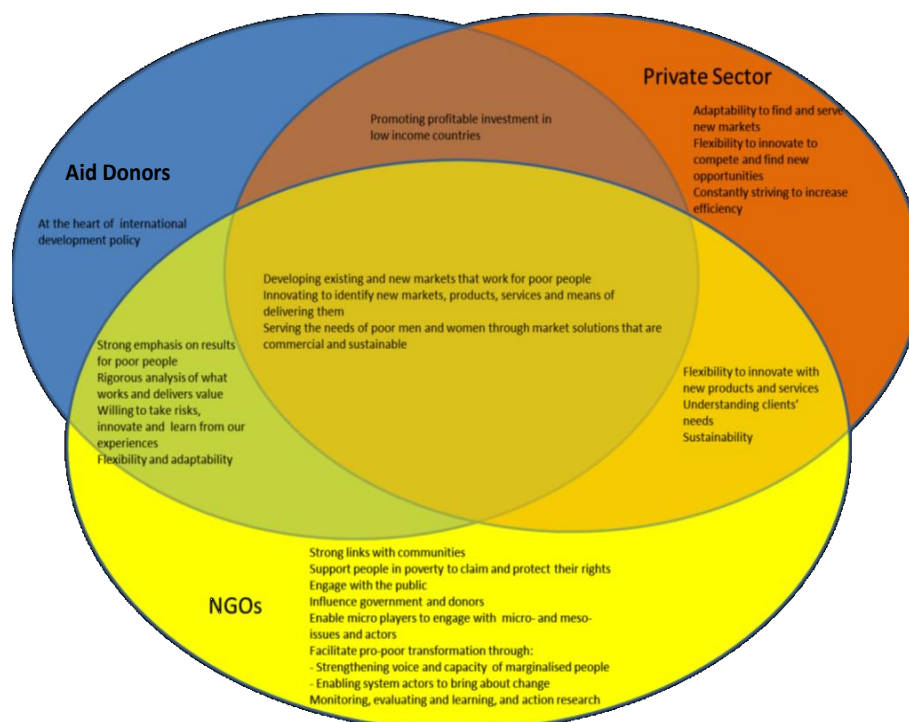
towards economic development and transformation which helps people to step up and out of poverty.

Inclusive market system development needs to **involve producers, small business owners, consumers and workers, especially women living in poverty, as key players**. They need to be enabled to participate in developing the strategies for market change with other actors. These approaches must build the adaptive capacity and resilience of market players, including the most marginalised, to strengthen the system to cope with shocks and stresses, such as unexpected weather events and price changes.

CARE has a global commitment to facilitating and designing **market-linkage initiatives for smallholders and subsistence farmers and local producers**. In Asia, CARE has experience across a range of ‘value chains’ – from vegetable harvesting in Nepal, to crab production in India and poultry farming in Vietnam. Typically, CARE’s focus is on improving people’s access to market information on pricing and demand, as well as providing training and mentoring on farming techniques, joining cooperatives, and household financial management.

Investing in innovative partnerships

CARE’s experience has shown that **innovation in partnerships** can enable a sustainable role for the private sector in poverty reduction.



The above outlines the potential complimentary roles of the donor community, NGOs and the Private Sector, recognising in particular the distinct role that NGOs can play in enabling engagement with micro enterprise and facilitating pro-poor transformation.

About CARE

CARE Australia was established in 1987 as part of the CARE international confederation, a non-religious and non-political organisation dedicated to fight against global poverty. In 2012 the CARE

International confederation served a total of 83 million people. Our support includes health care, education, economic development, water, sanitation and hygiene, agriculture and natural resources as well as emergency preparedness and response.

International research and our own experience points to the fact that gender equality and empowering women and girls are fundamental to the fight against global poverty. Women's empowerment is important in its own right. No single group of people is more disempowered and excluded around the world than women. CARE is committed to supporting gender equality and empowering women and girls through our work.

May 2014