CSOPartnership for Development Effectiveness

CPDE Background Paper on Private Sector Engagement in Development

September 2013

About this background paper

The CSO Partnership for Development Effectiveness (CPDE) commissioned this background paper to help distill for our membership CSO analyses and perspectives on aid and the private sector, provide a framework on donor approaches to engaging the private sector, and identify key concerns relating to development effectiveness. This backgrounder provides an overview of recent civil society papers on donor engagement with the private sector as a partner in development and draws from scholarly papers where appropriate. As a desk review, it does not draw on explicit evidence from the field.

It draws on the overview of trends, issues and analyses presented in the literature to frame a range of policy recommendations proposed by civil society on this issue. From these, CPDE as a platform can establish its own nuanced position.

The paper begins with an overview of which private sector are we talking about and the emerging international consensus on the role of the private sector in development (sections 1.0 and 2.0) and the motivations behind donors' preoccupation with partnerships (section 3.0). It discusses the approaches and partnership modalities pursued by donors and looks at the types of private sector actors they seek to engage (section 4.0). The paper finishes by raising key issues regarding donors' engagement with the private sector (section 5.0).

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Acronyms

B2B	Business to Business initiatives
CPDE	CSO Partnership for Development Effectiveness
CSOs	Civil society organizations
CSR	Corporate social responsibility
DAC	Development Assistance Committee
DCED	Donor Committee for Enterprise Development
EC	European Commission
G20	Group of 20
GPEDC	Global Partnership for Effective Development Cooperation
HLF4	Fourth High Level Forum on Aid Effectiveness
ITUC	International Trade Union Confederation
MSMEs	Micro, small and medium-sized enterprises
MDGs	Millennium Development Goals
NGO	Non-governmental organization
ODA	Official development assistance
OECD	Organization for Economic Cooperation and Development
PPP	Public private partnership
SMEs	Small and medium-sized enterprises
UN	United Nations

1.0 Overview – which private sector? And why now?

The private sector is an important and necessary part of development efforts. For the purpose of this paper, private sector is defined asorganizations that have a core strategy and mission to engage in profit-seeking activities through the production of goods, provision of services, and/or commercialization. It includes financial institutions and intermediaries, micro, small, and medium-sized enterprises, individual entrepreneurs, co-operatives, social enterprises and large corporations operating in the formal and informal sectors. It excludes non-governmental organizations (NGOs), independent foundations, and civil society organizations (CSOs).[1]

Historically,donors have promoted private sector development in developing countries – namely through plans and strategies to promote the private sector in developing countries.[2] In recent years there has been an increased focus on *partnership* with the private sector to address development challenges. This has moved beyond the promotion of public-private partnerships (PPPs) to include greater private sector involvement in the identification of development solutions, and the design and implementation of development activities. Countries have made numerous statements at the international level promoting the private sector as a partner in development. This approach coincides with a renewed focus on economic growth, trade and the private sector as driving forces behind development.[3]

The current context has also changed substantially. The emphasis on partnership coincides with the new circumstances developed countries face at home as a result of the aftermath of the financial crises in North America, the European Union and Japan. This has been characterised by a questioning of the level of assistance these countries should continue to provide to countries in the South and concern over the competitiveness of Northern economies.[4] With few exceptions, providers of official development assistance (ODA) – members of the Organization for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) – are implementing fiscal austerity programs that are decreasing or freezing the resources allocated to aid budgets. They are emphasizing "cost effectiveness" and "value for money," seeking to leverage shrinking aid budgets through innovative financing mechanisms, private sector–inspired solutions, and direct partnerships with private sector actors.[5] Developing countries are also recognized as key markets or investment sites for donor countries' firms and investors; partnerships are also a means to promote donors' own private sector abroad and maintain current levels of competitiveness.[6] The private sector is not only being afforded greater space to contribute to international and national policy discussions on development cooperation through concerted efforts by donors to engage them, but is also expected to serve asan important development partner.

2.0 Private Sector Engagement in Development Cooperation: International Trends

Within different international fora, donor governments have made successive commitments to increase their work with the private sector.Successive Group of 20 (G20) Summits in Seoul and Los Cabos in 2010 and 2012 respectively have emphasized the role of the private sector in development with a focus on promoting foreign and domestic private investment, support for job creation, and on PPPs[7] in relation to financing infrastructure needs.[8] The G20 Working Group on Development has recommended a number of ways the private sector can engage in development, including overcoming infrastructure challenges in developing countries through private sector financing models and institutional arrangements that support and promote PPPs.[9] The group also suggests that more incentives are needed to encourage private investment and job creation as well as engage the private sector in development. This includes through changes to the business model of multilateral development banks to enable and assist the private sector to collaborate on and invest in development through subsidies, public guarantees and innovative finance risk mitigation products.[10]

In the United Nations (UN) context, a number of initiatives and statements have emerged regarding the role of the private sector in development. Building on the UN Global Compact,[11] the UN launched the Business Call to Action in 2008. It serves as a leadership forum aimed at encouraging companies to develop commercially viable, inclusive business models that help accelerate progress towards achieving the Millennium Development Goals (MDGs). At the 2010 UN Millennium Summit, 11 bilateral donors issued a statement in support of private sector partnerships for development that recognized "the private sector as equal partners around key development issues."[12] Discussions on the post-2015 development framework also indicate a greater role for the private sector going forward, with Paul Polman, chief executive officer of Unilever and vice-chairman of the World Business Council for Sustainable Development appointed as a member of the UN secretary-general's High Level Panel of Eminent Persons on the Post-2015 Development Agenda.[13]

Participants at the Fourth High Level Forum on Aid Effectiveness (HLF4) in 2011 also gave prominent attention to the private sector.[14] The key outcome document, the Busan Partnership for Effective Development Cooperation, stated that the private sector has a central role to play "in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction."[15] In addition, a number of bilateral donors, multilaterals and several international business organizations endorsed a joint statement on expanding and enhancing cooperation with the private sector. As Kindornay and Reilly-King (2013) suggest, given the attention to the private sector at HLF4, it is unsurprising that the private sector was given a seat on the Steering Committee of the Global Partnership for Effective Development Co-operation (GPEDC) that emerged to guide the post HLF4 process. They add that labour unions, an obvious counterbalance to the private sector, instead have to share a seat with the rest of civil society.

The European Commission (EC) is also looking to partner with the private sector for development. The EC's 2011 "Agenda for Change" is exploring innovative ways of financing development, including blending loans and grants with private sector money, as a way to increase private sector participation in EU development policy.[16] The EC is also promoting PPPs to "leverage public sector activity and resources for delivering public goods," suggesting that "up-front grant funding and risk-sharing mechanisms" provide a means to encourage private investment and partnerships in development.[17]

Commitments at the international level have centered on the role of the private sector in supporting economic growth and development, as well as in addressing development challenges. As Kindornay and Reilly-King suggest, "donors see the solutions to development lying in markets – one market to promote solutions to growth (promoting private sector development) and another market to promote solutions to development (partnering with the private sector)."[18]

3.0 Motivations behind the Trends: Why focus on the private sector now?

There are a number of reasons why donors are targeting the private sector with increasing rigour, particularly through their ODA budgets. These include:

- addressing global development challenges and promoting economic growth in developing countries;
- harnessing non-aid flows to developing countries and declining aid resources;
- promoting domestic commercial interests; and
- capitalizing on private sector actors that are keen to engage in development processes.[19]

Donors suggest that working with the private sector will serve as a kind of 'game-changer' that will enable the development community to meet the MDGs[20]and address other development challenges. They emphasize the role of the private sector in contributing to job creation, taxes and technology transfers in developing countries, which raises government and citizen's incomes, enabling governments to provide essential services and, ultimately, contributing to growth and development.[21] Beyond their regular business operations, donors highlight the role of the private sector in meeting financing gaps to address development challenges. The lack of public financing to meet infrastructure needs in developing countries is an important rationale for pursuing PPPs.[22]Donors also highlight the need to harness additional resources to respond to climate change.[23] In addition, donors suggest that there is a shortage of funding for essential services for citizens due to the protracted economic crisis and austerity measures.[24] Indeed, a number of donors seek to harness the private sector as a means to deliver goods and services to poorer populations.[25]

These funding gaps have occurred not only in a time where development challenges are great, but many donors have also frozen or reduced their aid funding.[26] In 2011 aid from members of the OECD-DAC fell by 2.7% in real terms, the first decline in 14 years.[27] Provisional numbers for 2012 indicate a further fall of 4% in real terms.[28] At the same time, despite the growth in aid over the past decade, up until recently aid – as a proportion of total finance available to developing countries – has decreased significantly compared to non-aid flows like trade, foreign direct investment and remittances. This context has provided impetus for donors to look for and harness alternative forms of development financing.[29]

Donors want to leverage non-aid flows, including private sector finance, through their shrinking aid budgets, emphasizing cost-effectiveness and value-for-money.[30] They see the combination of public money with private sector human and financial resources and capacities as a way to achieve more impact and achieve sustainable and scalable results once donor funding has ended and businesses continue their work.[31] According to the International Trade Union Confederation (ITUC), there is also a perception among some governments and policy makers that the private sector simply "does it better."[32] Working with the private sector will lead to speedy delivery on development results, improve efficiency, lead to skills and technology transfer, and improve the effectiveness of private sector operations in developing countries.[33]

For many donors, engaging the private sector is also politically expedient. In the context of the financial crisis, it offers a means by which donors can promote their own commercial interests, alongside development objectives, although donors do vary in terms of the extent to which they see the promotion of their own commercial interests as an overt goal of private sector engagement.[34] CAFOD points out that, in the context of the United Kingdom's promotion of PPPs, PPPs are seen as a means to not only boost profits of the donor country's private sector, but also income for the donor government itself.[35] In a number of instances, bilateral donor approaches to private sector engagement represent a form of tied aid through the use of funding mechanisms that are only open to firms from the donor country.[36]

Another important motivator for donors is that the private sector is interested in engaging with the development sector[37] as a means to improve public image and brands.[38] Beyond image, companies based in donor countries are interested in opportunities to enhance their market access,[39] in the role donors can play in absorbing risks, and in helping the private sector to face competition from emerging markets.[40] On the financing side, companies see engagement as beneficial for accessing funding for initiatives that "do not have an adequate business case upfront or that they cannot afford but can be of strategic relevance in the exploration of new markets and products."[41] Working with donors also provides access to developing country governments,[42] existing development structures and networks, and donor expertise.[43]

4.0 Private Sector Engagement in Development Cooperation: Approaches

Donors take different approaches to engaging the private sector in development. At the policy level, bilateral donors have articulated their approaches to varying degrees ranging from a fully established strategy, complete with monitoring and evaluation frameworks, to no formal strategy, coupled with a dedicated website on private sector engagement.[44] At the program level, some donors have established structured funding windows with calls for proposals and clear funding guidelines, such as Denmark, Finland, and Sweden, while others (US, Switzerland) take a more open approach under which private sector actors provide proposals on a more ad hoc basis based on areas of perceived shared interest (Heinrich 2013).

The content of donor approaches to the private sector can be distinguished by their focus on private sector development and partnering with the private sector to:

1. promote private sector development and/or
2. address broad development challenges.[45]

The distinction between private sector partnerships aimed at private sector development versus addressing broader development challenges is an important one to make as the modalities of donor engagement vary depending on the goals of partnership.

The following section unpacks the various types of interventions donors are pursing in relation to private sector development, partnerships with the private sector for private sector development, and partnerships centred on addressing other development goals.

While it is incredibly difficult to assess the amounts of funding donors are allocating to private sector development and partnerships with the private sector based on these approaches,[46] an overview of DAC donor reporting on projects relating to economic infrastructure and services and productive sectors provides some indication of the growth in this area. In their review, the ITUC shows that contributions for infrastructure and services, and the productive sectors have grown at a much faster pace between 2006-2011 compared with flows for social infrastructure (72% and 82% respectively compared to 48%).[47] Similarly donor funding for Aid for Trade has grown in scale and importance, representing the single largest component of OECD-DAC donors combined ODA.[48]

4.1 Private Sector Engagement in Development Cooperation: Interventions and Partnership Modalities

4.1.1 Private Sector Development

Kindornay and Reilly-King provide a useful overview of bilateral donor interventions on private sector development.[49] Donors engage at three levels – macro, meso and micro. At the macro level, they focus on creating a business-enabling environment, which includes interventions at the government level in developing countries aimed at creating the right legal and regulatory framework to ensure the necessary conditions exist for the private sector to thrive. Interventions here tend to include technical assistance aimed at improving macro-economic conditions and institutional capacity building.

At the meso level, donors focus on "making markets work." This means addressing market failures and imperfections, enhancing competitiveness, and better integrating actors into markets through interventions such as aid for trade, building value chains, provision of finance and technological transfers.

At the micro level, donors focus on businesses and people. This entails building support services that enhance longer-term private sector development, such as technical assistance, capacity development and finance to small and medium-sized enterprises (SMEs) and investing in vocational skills training, health and education for people.

4.1.2 Private Sector Engagement for Development

Modalities centred on private sector engagement for development relate to instances where donors partner with the private sector to achieve development objectives. Within this category, one can distinguish between efforts to promote private sector development and other modalities that focus on development challenges in areas such as health, education or climate change, for example.

A) Private sector investment for private sector development

Partnerships with the private sector centred on private sector development have received considerable attention.[50] Here, donors engage with the private sector to achieve goals related to promoting private sector development in developing countries. Kindornay and Reilly-King identify the key modalities by which donors are engaging with the private sector at the macro, meso and micro levels (Table 1, adaptation of Table 4 in Kindornay and Reilly-King 2013, 27).

Table 1: Bilateral donor partnerships with the private sector for private sector development	
Macro level interventions: Business-enabling environment	• Engagement with the private sector including through business associations to assess their needs in the national development planning of aid-recipient countries. Can also include CSOs and trade unions (e.g., Germany, Sweden, United Kingdom) • Support for promoting and implementing national and international CSR standards like the UN Global Compact or the Extractive Industries Transparency Initiative (e.g., Canada, Denmark, Germany, Sweden)

Meso level interventions: Making markets work	• Matching initiatives[51] that couple firms, generally in traditional donor countries, with businesses in developing countries (and sometime CSOs), often with a focus on development impacts (e.g., Denmark, Finland, Germany, Norway, the Netherlands, Sweden, United Kingdom, United States) • Support for micro enterprises and SMEs, including farmers, with the goal of integrating them into global value chains (e.g., Austria, Canada, Italy, New Zealand) • Financing for donor countries' firms to encourage their investment in developing countries (e.g., Denmark, Finland, Germany) • Public-private partnerships (e.g., Germany, United Kingdom) • Partnerships between donors, civil society and the private sector aimed at establishing trade relationships and improving integration of SMEs into value chains (e.g., Denmark, Germany, United Kingdom, United States)[52] • Facilitation of capital market formation though investments in stock exchanges, index and equity funds, and the provision of lines of credit to private banks to facilitate investment
Micro level interventions: Investing in business and people	• Technical assistance to private sector enterprises in developing countries (e.g., Denmark, New Zealand, United Kingdom) • Economic empowerment initiatives that provide access to finance and opportunities to gain entrepreneurial skills, often directed at women (e.g., Australia, Austria, Canada, Norway, Sweden, Switzerland, United Kingdom, United States) • Skills training for youth and women (e.g., Canada, Germany, Japan, Switzerland, United Kingdom)

The ITUC has also examined private sector development partnerships looking specifically at contractual relationships between public and private authorities.[53] They examine relationships based on procurement, grants, guarantees and finance in the forms of loans and equity investments. Understood in this sense, ITUC identifies a number of relationships between the private and the public sectors depending on their roles (Table 2). The relationship between the private and public sector actors in private sector development work is important because it indicates the "extent to which the public party has influence, if not effective control or at least stewardship over the project."[54] The public sector may have more control when it operates as a customer or shareholder than an insurer or creditor, for example.

Table 2: Typology of Contractual Relationships between Donor Governments and the Private Sector in Development[55]

		Role of the Public Party				
Role of the private party		*Donor*	*Creditor*	*Shareholder*	*Customer*	*Insurer*
	Operator of for-profit project	Grants (subsidies) and other in-kind contributions (expertise)	Loans	Equity investment; PPP	PPP	Public guarantees, export credit
	Sub-contractor of public works			PPP	Procurement; PPP	
	Recipient of non-	Access to government officials and				

	commercial benefits	networking; Co-financing of philanthropic projects; Capacity development; Standard setting				

In addition to financing available to the private sector as an operator of for-profit projects and sub-contractor of public works, the ITUC identifies what it calls non-commercial benefits to the private sector, pointing to donor co-financed projects that partner businesses from developing countries with those in developed (business to business initiatives or B2B), capacity development and standard setting initiatives. This category would also include multi-stakeholder initiatives aimed at improving standards and implementing development projects jointly financed by the private and the public sectors.[56] While the ITUC suggests that co-financing of B2B initiatives are a non-commercial benefit,[57] it should be noted that in many instances, these partnerships do in fact lead to commercial gains for companies, which see B2B as an investment in their supply chain.[58]Corporate social responsibility (CSR) projects, however, which serve as another important kind of co-financed project, are carried out on a cost and risk sharing basis and may or may not necessarily relate to a company's core-business practices.

In addition to finance-based mechanisms, donors are also seeking to improve the business climate in developing countries[59] by influencing recipient governments through policy advice and capacity development.[60] For the ITUC, this also entails activities aimed at intangible outcomes, such as facilitating foreign private sector access to domestic markets, procurement opportunities and policy-makers in developing countries.[61] Kindornay and Reilly-King (2013) add donor support for private sector inclusion in national development planning to this list.

Donors are also working to influence private sector operations and business strategies to be more development friendly by engaging in CSR initiatives such as the UN Global Compact and industry standard setting initiatives.[62] They support the creation and implementation of voluntary-based norms and standards related to sustainability and improved development outcomes,[63] such as the Extractive Industry Transparency Initiative (EITI) and the Construction Sector Transparency Initiative.[64]

B) Private Sector Engagement to address development challenges

To address broad development challenges donors are promoting innovative financing mechanisms aimed at harnessing private sector finance.[65]Kindornay and Reilly-King found that the main modalities pursued by bilateral donors in this context include competition or challenge funds and programs aimed at harnessing private sector expertise, innovation and finance (e.g., Australia, Austria, Canada, Germany, Sweden, United Kingdom); support for research on scientific and technological innovations across sectors like agriculture, climate change and information and communication technologies (e.g., Germany, Sweden, United Kingdom); and the creation of knowledge platforms and learning tools related to the role of the private sector in development (e.g. Australia, Sweden and the UK). In addition to challenge funds and programs, donors are also supporting the creation of PPPs to deliver essential services to the public.[66] Finally, donors make use of advanced market commitments to address global challenges in areas such as agriculture and health, particularly in vaccine development.[67]

5.0 Private Sector Engagement in Development Cooperation: Key Issues

A number of key issues exist with how donors are approaching private sector engagement, outlined below.

5.1 Additionality and Partner Selection

Which companies donors target for partnership is important from the perspective of additionality. Heinrich (2013) provides one of most comprehensive overviews of different aspects and understandings of additionality to date. There are different ways of thinking about additionality. Input or financial additionality is about demonstrating that a company's investment would not go ahead without donor support, or put more broadly, that a donor subsidy is additional to what the private sector or other funders provide and does not replace their contributions.[68]For Heinrich, development additionality can refer to business behaviour or the impacts of the partnership. Behavioural additionality refers to how donor support has enhanced the scale, scope and speed of a project or brought about changes in the long-term strategies of businesses.[69] Output or outcome additionality refers to the results achieved by a partnership that could only be achieved with donor support. Kindornay and Reilly-King similarly define development additionality in terms of outcomes referring to the extent to which partnerships "work toward eradicating poverty and achieving other development goals, such as the MDGs or human rights standards." [70]

Heinrich points out that because assessments of additionality are done before project implementation, they are closely related to the concept of the counterfactual – "that is the changes brought about as a result of donor support, relative to what might have ordinarily happened."[71] Indeed, as Kwakkenbos (2012) points out, it is nearly impossible to know how much additional finance donors have leveraged from the private sector. Such assessments also aim to determine whether donor support is distorting markets and creating unsustainable asset bubbles. This creates difficulties for donors because they must rely on judgement calls and assessments prior to project implementation.

Many donors suggest that they require additionality to access funds, but how it is assessed is not often publicly available.[72] In her review of business partnership instruments, Heinrich found that many do not apply criteria of input additionality but look primarily at commercial viability and expected development impacts.[73] Kindornay and Reilly-King similarly point out that donors focus on technical eligibility guidelines (years incorporated, audited financial statements, etc.), rather than corporate track records related to positive social, economic, and environmental impacts comparable to what CSOs are expected to demonstrate for funding.[74] Heinrich found that many programs do not "define minimum levels of threshold criteria for the eligibility of businesses based on expected development impacts," nor do they list specific criteria in terms of the development outcomes donors are seeking to achieve, a finding consistent with Kindornay and Reilly-King's (2013) review of bilateral donor partnership mechanisms.

A few studies have sought to assess additionality ex-post. In the case of the Netherland's Private Sector Investment program, the evaluation found that there was a need for better scrutiny at the application phase and in instances where additionality was limited,it could have been addressed during the application phase.[75] The United Kingdom's Business Innovation Facility has begun assessing additionality and found that most companies (nine out of 11 respondents) saw donor support as partially additional – or in other words, enabled the business to be more commercially sustainable, take on less risk and reach scale based on better quality design and implementation of projects.[76] Only one company indicated that donor support was fully additional in that the activity would not have happened without donor support.

The size and nationality of the companies with whom donors partner can represent trade-offs from the perspective of additionality. For example, donors may want to work with bigger, more experienced and better organized firms because they can deliver larger-scale development results, set an example for other companies, and require less supervisory support.[77] However, these same companies are also more likely to have the funds necessary to launch initiatives without partnership. At the same time, smaller companies may be in greater need of grants as they are often the most credit constrained,[78] vulnerable to international competition and in need of enhanced capacity that aid can potentially afford them. However, from a donor's perspective, they are more expensive to manage and require stronger involvement of project staff for technical advice and support to succeed.[79] These same issues apply to where companies are domiciled.[80] International or donor country businesses are often more experienced and it is easier for donors to check their background before beginning a partnership. Companies from developing countries may have greater knowledge of the local context but donors face more "risks in terms of due diligence, financial robustness and ability to achieve results at scale."[81] When comparing small and large companies, larger companies have higher potential for achieving large scale development impacts while smaller companies, typically from recipient countries, are most likely to need additional financing, meaning input additionality will be higher though the number of beneficiaries (development additionality) may be smaller.[82]

Donors are not always clear on which private sector is best placed to partner for development or the implications of their partnership choices from an additionality perspective.[83]This is an extremely important point. At the policy level, it is unclear what characteristics donors find desirable in potential partners in terms of their nationality – national (donor), foreign (multinational) or domestic (recipient country) – and size – from micro to large enterprises in the formal and informal sectors. While some instances exist where donors seek to partner only with their own private sector (e.g., Denmark, Finland, United Kingdom), many challenge funds and programs are open to any private sector partner (Germany, Sweden, United States). At the same time, a number of donor programs include B2B initiatives (Denmark, Finland, the Netherlands), meaning that they target domestic and national and international firms.[84] In its review of B2B programs, the Donor Committee for Enterprise Development (DCED) found variations in the size of the companies targeted with some mechanisms focusing on large companies but typically involving smaller businesses in the target country.[85] Some donors also offer different support windows for SMEs and larger companies (e.g. Finland, Sweden).

5.2 Individual Initiatives versus Systemic Change

Donor approaches to engaging the private sector tend to focus predominantly on individual projects and programs to address development challenges in developing countries. Where they focus on regulatory and legal frameworks, it is at the developing country level, rather than addressing policies within donor countries, corporate accountability or global systems that undermine development.[86]Though some donors emphasize policy coherence for development in their work with the private sector, the pursuit of their own commercial interests alongside development objectives raises questions regarding whether their efforts are about policy coherence more generally or policy coherence for development, which is about improving the impact of non-aid policies on development outcomes. For example, a donor may engage in efforts with the private sector to support sustainable supply chains, but not address tariff barriers that inhibit developing countries from more easily accessing international supply chains. In addition, donor interventions mostly focus on activities in developing countries.[87] In relation to private sector partners, most donors promote voluntary solutions to poor corporate practices,[88] rather than promoting better regulations and legal frameworks.

The ITUC claims that progress on policy coherence for development will be fundamental to development efforts, requiring a new international governance system that addresses state and transnational actors in order to keep all players accountable.[89] This means moving beyond individual partnerships and companies to addressing the different national and global legal and regulatory frameworks in which the private sector operates and impacts development.

5.3 Aid Effectiveness and International Standards

In their review of bilateral donor strategies on growth and the private sector, Kindornay and Reilly-King found that only two donors specifically reference aid effectiveness principles.[90] That is, very little attention is given to democratic country ownership, donor alignment and harmonization, transparency and accountability, women's empowerment and results (discussed below). In terms of ownership, Kindornay and Reilly-King point out that donor strategies "create substantial space for donor intervention in multiple areas" including at the individual, firm and government levels.[91] In general, they found little discourse centred on ensuring developing countries have policy space to establish their own broad-based development strategies and reform processes. Furthermore, it is unclear how partnerships with the private sector are taking into consideration the perspectives of the poor[92] or treating developing country governments as stakeholders, consulting them on specific areas where they would like to see subsidized investments flow.[93] Partnerships with the private sector have the potential to by-pass country systems and traditional public procurement.[94]

Another important issue is donors' focus on transparency and accountability. Donors tend to focus on recipient governments' transparency and accountability, rather than transparency and accountability for their own flows, including to the private sector.[95]For example, in their review of donor policies on aid and the private sector, Kindornay and Reilly-King (2013) show that, owing to a lack of clear and transparent reporting, it is nearly impossible to accurately gauge how much money is going to the private sector for development partnerships. There is a need for donors to improve transparency around their partnerships with the private sector. The ITUC adds that the private sector itself also has a role to play in promoting accountability and transparency and should respect international human rights standards as well as voluntary initiatives.[96]

Finally, bilateral donors are mixed in terms of the extent to which they reference international norms and standards in their growth and private sector strategies.[97] Roughly half of OECD-DAC donors make reference to international voluntary initiatives related to corporate social responsibility. Eleven specifically refer to the International Labour Organization's conventions while ten refer to UN conventions and declarations on human rights. While references to conventions and frameworks aimed at addressing corporate behaviour in donor strategies are welcome, what is less clear is how donors plan to "embed these standards into the core business activities of companies receiving […] aid"[98] or the extent to which potential partners are assessed against compliance with these standards.

5.4 The Apolitics of Engaging the Private Sector – The Issue of Power

In most instances, bilateral donors take apolitical approaches to their partnerships with the private sector that fail to recognize political-economic realities in developing countries and power relations in partnerships.[99] Bilateral donors tend to assume that partnerships among development actors are beneficial for everyone, including recipient and donor governments, the private sector and civil society "- they are a win-win-win-win situation."[100] However, this positive view is unlikely to survive realities at country level, where the interests of and power dynamics between and among donors, recipient governments, civil society, and the foreign and national private sector differ. Donors seem to assume that the differences between and among these groups are not so great as to hinder consensus-making. Considering that some donors have made promoting their own commercial interests a priority in private sector partnerships, significant potential exists for conflict when these are not aligned with developing country priorities or could adversely impact certain sectors or communities. Moreover, as CAFOD points out, despite talk of stakeholders, which implies equality, “not all interested and affected parties have an equal stake … depending on who they are, they have very different degrees of influence.”[101] Disagreements will occur based on the diverse interests of these groups and their ability to alter or change outcomes. It is unclear how donors, recipient governments, the private sector and civil society expect to address the politics of private sector partnerships in development.

5.5 Monitoring and Evaluation

Across reviews of donor partnerships with the private sector, the lack of monitoring and evaluation policies is a key gap.[102] Drawing on the 2012 Reality of Aid Report,[103] the ITUC has argued that multilateral and bilateral donors have failed to fulfill their due diligence in assessing the impact of the private sector on poverty reduction, including interventions aimed at promoting inclusive business.[104] Rather, they focus on success stories.[105] While the G20 Working Group has designed a set of indicators to measure the value added and job creation impact of the private sector in development, it fails to look at the quality of jobs created and decent work with considerable gaps remaining on worker’s rights, wage rates and collective bargaining.[106]

In terms of partnerships with donor businesses to support private sector development in developing countries, the DCED points out that “we know relatively little about the results achieved and in particular their development impacts.”[107]Information that is available at project level is often on anticipated impacts or qualitative results; there is little information on how partnership outcomes are measured or can be attributed to donor support. This reality stands in stark contrast to the reporting requirements that bilateral donors place on recipient governments and CSOs.

6.0 Conclusions and Recommendations

The CSO Partnership for Development Effectiveness (CPDE), as a platform uniting CSOs from around the world to pursue development effectiveness, believes that policies and practices of all development actors must deepen the impact of aid and development cooperation on the capacities of the poor and marginalized to realize their rights and achieve the Internationally Agreed Development Goals.

This paper has raised key issues on the role of the private sector in development, how donors are engaging different private sectors, how new partnerships and interventions are being carried out, and the effectiveness of such modalities in developing countries. It highlights the recent growing international discourse on placing the private sector as the main driver and equal partner in economic and social development. This comes in the context of a protracted economic crisis in donor countries and a subsequent decrease of aid budgets. Much of the rationale for the increased focus on private sector-led development is the need for “cost effectiveness” and “value for money”. Beyond this, donor countries are also motivated to use PPPs to promote their commercial interests alongside development goals.

Close analysis of key issues shows that additionality of private sector engagement is difficult to assess and there are no clear guidelines from donors on which among the private sector is best placed to partner for development. This approach also focuses primarily on individual projects and fails to address global policies and systems that pose challenges to developing countries. Another issue raised is the lack of attention given to aid effectiveness principles in these partnerships, in particular in terms of democratic ownership. Moreover, better systems to monitor and evaluate the development impacts of these partnerships with the private sector are needed, as well as better transparency and accountability mechanisms not only for donor countries, but also the private sector partners with which they engage.

The perspectives and insights in this paper provide an overview of the challenges and opportunities that have arisen with this increased focus on private sector engagement for development.The following key messages and recommendations have emerged from this discussion and form the basis from which CPDE could further deepen and nuance its understanding of the issues and the policies we need to advocate with governments and the private sector.

International regulatory framework

- There must be a firm call to implement international and domestic policy and regulatory norms and framework to enable the private sector to contribute to development and the realization of human rights, within democratic and inclusive processes both at the country and international levels. Governments must be reminded to enforce the private sector observance of adopted ILO conventions. Donors must ensure that foreign companies and transnational corporations with whom they are engaged in partnerships guarantee their adherence to the guidelines established in the UN Code of Conduct for Transnational Corporations.

- Donors must deepen and strengthen the implementation of the Paris Declaration, Accra Agenda for Action, and the Busan Partnership for Effective Development Co-operation and support the establishment of international guidelines for development effectiveness of private sector actors.

Additionality

- Aid resources should primarily be used to reduce poverty and inequality and achieve development goals. The goal of any private sector engagement in development should be producing positive development outcomes and this should not be obscured by the drive to create and increase profit.

- Given the problems discussed in measuring additionality, donors need to clarify intended development outcomes and ensure that public investments to the private sector translate to sustainable livelihoods, observance of labor rights, generation of quality employment, and improvement of social and environmental outcomes.

- Donors should ensure financial additionality by establishing indicators that assess financial need as well as opportunity costs in relation to other development concerns, and by creating eligibility criteria that favors the domestic private sector and takes into account track records of the private sector actor in delivering development results.

Democratic ownership

- Donors and governments must ensure that partnerships with the private sector should be aligned with the country's development priorities, ensure citizen engagement, and involve multi-stakeholder processes among CSOs, local governments, trade unions, in addition to private sector actors. These must be consistent with the Busan principles and commitments on democratic ownership, use of country systems including procurement, and promote results that have an impact on reducing poverty and inequality, including gender inequality.

- Donors must provide developing countries space to pursue their path to economic growth and not impose their policies on domestic private sector development or allow donor country interests to guide implementation of PPPs.

- Donors and governments must take into account that the provision of, and access to, basic public services in developing countries should not be left to the private sector alone. A great majority of these services fulfill their citizens' basic human rights and the governments have the central responsibility to guarantee these rights to their constituents.

- Preference should be given to local private sector engagement for development over donor country companies or corporations.Aid-assisted engagements with the private sector should also prioritize the development of the local private sector, particularly micro, small and medium –sized enterprises (MSMEs) and social economy.

Assessment and monitoring

- An important challenge identified is to create coherent guidelines on monitoring and evaluating the effectiveness of private sector engagement in development programs. An international monitoring framework must be developed from which to review the extent to which PPPs or efforts on private sector development impact on developing countries' priorities.

- Development indicators should be based on international human rights standards and must allow quantitative and qualitative measurements of human development, gender equality, governance, and environmental sustainability. Indicators should not rely solely on conventional standards of measurement such as income and rate of growth. Environmental and social impact assessments must be mandatory on big-ticket investments such as infrastructure.

- There is a need to create donor coherence in assessing the private sector actors making sure they not only fulfill technical requirements, but also are committed to achieving development outcomesincluding social, economic and environmental aspects.

Transparency and accountability

- Donors and governments must set high standards for transparency in private sector engagements for development. Governance processes should strengthen the capacities of the poor and marginalized to be informed and participate in deliberating development options and be part of decision-making.

- Increased transparency and accountability also involves improving the tracking, disclosure, and comparability of private sector funding for development. This can be done through supporting transparency initiatives that aim to streamline data reporting and publishing and provide public access to information on aid.

Endnotes

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Kindornay and Reilly-King 2013.
[3]Kindornay and Reilly-King 2013.
[4]ITUC (International Trade Union Confederation). 2013. *The Private Sector and its Role in Development – a trade union perspective.* Geneva: ITUC; Kindornay, Shannon, Pablo Heidrich and Matthew Blundell. 2013. South-South Development Cooperation in Latin America: What Role for the Private Sector? *Integration & Trade Journal* 36 (17), January-June (forthcoming).
[5]Kindornay and Reilly-King 2013.
[6]Kindornay, Heidrich and Blundell 2013 (forthcoming); ITUC 2013; Heinrich, Melina. 2013. *DonorPartnershipswith Business for PrivateSector Development: WhatcanweLearnfromExperience?* Cambridge: DCED.
[7]Difficulties exist in defining PPPs owing to the diversity in their contractual arrangements, and that the term is increasingly being used to describe any form of engagement between private and public actors (ITUC 2013). Nevertheless, the OECD defines PPPs as contractual agreements between "government[s] and one or moreprivate partners (which may include the operators and the financers) according to which the privatepartners deliver the service in such a manner that the service delivery objectives of the governmentare aligned with the profit objectives of the private partners and where the effectiveness of the alignment depends on a sufficient transfer of risk to the private partners." OECD 2008 Public-Private Partnerships: In Pursuit of Risk Sharing and Value for Money, OECD. June 2008
http://www.oecd.org/gov/budgeting/publicprivatepartnershipsinpursuitofrisksharingandvalueformoney.htm.
[8]ITUC 2013, 8.
[9]ITUC 2013, 12.
[10]ITUC 2013, 13.
[11] In 1999, the UN Global Compact, a voluntary corporate responsibility initiative, was established which brings together over 8,700 corporate particpants who agree to follow 10 principles in areas relating to human rights, labour, the environment and anti-corruption.
[12]DCED (Donor Committee for Enterprise Development). 2010. *BilateralDonors' Statement in Support of PrivateSectorPartnerships for Development.* http://www.enterprisedevelopment.org/download.ashx?id=1645.
[13]Kindornay and Reilly-King 2013.
[14]Kindornay and Reilly-King 2013, 10.
[15]HLF4 (Fourth High Level Forum on Aid Effectiveness). 2011. *Expanding and Enhancing Public and PrivateCo-operation for Broad-Based, Inclusive and SustainableGrowth* http://www.oecd.org/dataoecd/25/36/49211825.pdf.
[16]ITUC 2012, 9.
[17]EC (European Commission). 2011. Increasing the Impact of EU Development Policy: an Agenda for Change, Brussels, 13.10.2011 COM(2011) 637 final
http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0637:FIN:EN:PDF. Page 8.
[18]Kindornay and Reily-King, 2013, 24.
[19]Byiers and Rosengren 2012; CAFOD 2013; ITUC 2013; Heinrich 2013; and Kindornay and Reilly-King 2013.
[20]ITUC 2013, 2.
[21] Kindornay and Reilly-King (2013) offer a full discussion of bilateral donor assumptions in this regard. While the overall narrative and assumptions are similar, donors incorporate issues relating to environmental sustainability and inequality to varying degrees in their assumptions on the private sector, growth and development.
[22]ITUC 2013, 16; CAFOD 2013, 8.
[23]CAFOD 2013, 8.

[24]CAFOD 2013, 8.
[25]Kindornay and Reilly-King 2013, 15.
[26]ITUC 2013, 2.
[27]Kindornay and Reilly-King 2013, 8.
[28]OECD, 2013.*Aid to poor countries slips further as governments tighten budgets.* http://www.oecd.org/dac/stats/aidtopoorcountriesslipsfurtherasgovernmentstightenbudgets.htm
[29]ITUC 2013, 16.
[30]ITUC 2013, 16; Kindornay and Reilly-King 2013, 9.
[31]Heinrich 2013, 5.
[32]ITUC 2013, 16.
[33] CAFOD 2013, 7-9; see also Byiers and Rosengren 2012, 6.
[34]Byiers and Rosengren 2012, 6; Kindornay and Reilly-King 2013, 15.
[35] CAFOD. 2013. *Public-Private Partnerships (PPPs) in International Development- Are we asking the right questions?* London: CAFOD. 7.
[36]ITUC 2013, 17. See Kindornay and Reilly-King (2013) for a full discussion of tied bilateral donor challenge funds and programs.
[37]Byiers and Rosengren 2012, 6.
[38] Kindornay, Shannon, Kate Higgins with Michael Olender. 2013. *Models for Trade-Related Private Sector Partnerships for Development.* Ottawa: The North-South Institute.
[39]ITUC 2013, 17.
[40]Byiers and Rosengren 2012, 6.
[41]Heinrich 2013, 5.
[42]ITUC 2013, 7.
[43]Heinrich 2013, 5.
[44]Kindornay and Reilly-King 2013.
[45]Byiers and Rosengren 2012; Kindornay and Reilly-King 2013.
[46]Kindornay and Reilly-King 2013.
[47]ITUC 2013, 3.
[48]Kindornay, Higgins and Olender 2013.
[49]Kindornay and Reilly-King 2013, 22.
[50]Heinrich 2013; ITUC 2013; Kindornay and Reilly-King 2013.
[51]Donors seek to match their domestic firms with firms in developing countries. Danish International Development Agency (DANIDA) Business Partnerships are one example.
[52]Heinrich (2013) provides an overview of different partnerships structures between donors, civil society and the private sector which fall into this category.
[53]ITUC 2013, 4.
[54]ITUC 2013, 5.
[55] Slightly adapted from ITUC (2013, 5).
[56]Heinrich 2013; Kindornay, Higgins and Olender 2013.
[57]ITUC 2013, 7.
[58]Heinrich 2013; Kindornay, Higgins and Olender 2013.
[59]Heinrich 2013; Kindornay and Reilly-King 2013.
[60]ITUC 2013, 7.
[61]ITUC 2013, 7.
[62]Kindornay and Reilly-King 2013; ITUC 2013.
[63]ITUC 2013, 8.
[64] http://www.constructiontransparency.org/
[65]Byiers and Rosengren 2012.
[66]CAFOD 2013.
[67]Advanced market commitments are stimulations of demand by donors for a specific product for which there is a need (e.g., cheap vaccines) but where the private sector may not see a profitable market. Funding may be pledged,

though is only actually committed if the product is created. The GAVI Alliance – a private-public partnership which aims to increase access to immunisation in poor countries – makes use of this model.

[68]Heinrich 2013, 14.

[69]Heinrich 2013, 14.

[70]Kindornay and Reilly-King 2013, 33.

[71] Heinrich 2013, 14; see also Kindornay and Reilly-King 2013 for a discussion.

[72]Heinrich 2013; Kindornay and Reilly-King 2013.

[73] Heinrich 2013, 17-18.

[74]Kindornay and Reilly-King 2013, 31.

[75]Heinrich 2013, 20.

[76]Heinrich 2013, 20.

[77]Heinrich 2013, 13.

[78]Kwakkenbos, Jereon. 2012. *Private Profit for Public Good? Can Investing in Private Companies Deliver for the Poor?* Brussels: Eurodad.

[79]Heinrich 2013, 10.

[80]Heinrich 2013, 11.

[81]Heinrich 2013, 11.

[82]Heinrich 2013, 18.

[83]Kindornay and Reilly-King 2013, 30.

[84]Kindornay and Reilly-King 2013, 30.

[85]Heinrich 2013, 7.

[86] ITUC 2013.

[87]Kindornay and Reilly-King 2013.

[88]ITUC 2013, 4.

[89]ITUC 2013, 24.

[90] Kindornay and Reilly-King 2013, 43-47.

[91]Kindornay and Reilly-King 2013, 44.

[92] CAFOD 2013.

[93]Byiers and Rosengren 2012, 24.

[94]ITUC 2013, 23.

[95]Kindornay and Reilly-King 2013, 47.

[96]ITUC 2013, 23.

[97] Kindornay and Reilly-King 2013, 39-40.

[98]CAFOD 2012, 7.

[99]Kindornay and Reilly-King 2013.

[100]Kindornay and Reilly-King 2013, 45.

[101]CAFOD 2013, 2.

[102]Kindornay and Reilly-King 2013; ITUC 2013; Heinrich 2013.

[103] "Aid and the Private Sector: Catalysing Poverty Reduction and Development?" available at http://www.realityofaid.org/roa_report/aid-and-the-private-sector-catalysing-poverty-reduction-and-development/

[104]ITUC 2013, 19.

[105]ITUC 2013, 19; Kindornay, Higgins, and Olender 2013; Heinrich 2013.

[106]ITUC 2013, 14.

[107]Heinrich 2013, 2.