Chapter 2
Frameworks to Enable Positive Development Practice

Development Assistance and the Private Sector in Mexico

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Introduction

The incorporation of the private sector as a development actor in the system of International Development Cooperation is relatively new, or at least its reference in official documents. This does not mean that companies and individuals in particular are just starting to participate in development projects, but, taking off from the current globalization process, their participation is being recognized.

Many theoretical and practical efforts are aimed at addressing the deficiencies of the current economic model that foster exclusion and poverty. The so-called traditional development actors such as UN agencies and the sector of non-profit civil organizations mainly organized these efforts. This situation has led to disagreements with the business sector and some multilateral institutions like the World Bank and the International Monetary Fund.

Facing limited development results, specifically regarding the Millennium Development Goals (MDGs) to reduce the proportion of people living in poverty on the planet by 50% by 2015, generated international pronouncements and agency commitments to deepen and unite their efforts in the pursuit of these objectives. This is the point when the inclusion of the private sector in international development agenda is taken into consideration.

Through the Paris Declaration (2005), the Mexican government agreed to come up with strategies and operational programs on national development (paragraph14). Similarly, the signatories agreed to coordinate aid at all levels, as well as other development resources, in dialogue with donors and encouraging the participation of civil society and the private sector, (paragraph15).

The High Level Forum in Accra, Ghana (2008) issued the Accra Agenda for Agenda calling on governments to develop partnerships with the different development actors, both public and private, including the business sector and civil society organizations (paragraph 16).

But the Busan Partnership for Effective Development Cooperation (November 2011) is more explicit. It contains a specific section on the Private Sector and Development, which states: "We recognize the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction." Subparagraph (a) talks of engaging with representative business associations, trade unions and others to improve the legal, regulatory and administrative environment for the development of private investment; and also to ensure a sound policy and regulatory environment for private sector development, increased foreign direct investment, (FDI), public-private partnerships, (PPP), the strengthening of value chains in an equitable manner. In sub-paragraph (b) the participation of the private sector in decision-making and implementation as well as in both the definition and the selection of strategies is recognized (paragraph 32).

Framework

It is difficult to find a precise definition of the "private sector"[1] in the system of international cooperation. Following the Eurodad (2011) observation that there is no common or consensual definition on who comprises the "private sector", international organizations engaged in international aid, such as the OECD Development Assistance Committee (DAC), sometimes included in their definition academia, volunteers not belonging to the formal government sector, and others, such as all private participants ranging from small landowners to multinational companies, (IBON: 68:2012).

According to the Report *Unleashing Entrepreneurship* of the United Nations' Commission on Private Sector and Development, the concept of the private sector contains at least four types of actors in the development processes: 1) financial corporations and institutions, (multinationals, large, medium, small and micro), 2) associations and foundations (international, regional, national), 3) academic institutions, and 4) private networks (which may include associations of retired executives who give advice to local businesses, student organizations, and increasingly migratory flows, with remittances becoming a growing source of funding) (UNDP: 30: 2004). For the purposes of our paper, we therefore consider the term "private sector" as a synonym for corporate sector, including financial institutions. This is due to the ambiguity of the concept offered on the sector by different development actors, which is just a product of its recent inclusion in development terminology.

Frameworks for guiding the private sector in development

In Mexico the legal provisions that guide and regulate the actions of the various development actors, including in this case the private sector, have a greater number of provisions coming from international organizations and multilateral bodies compared to national or local ones.

At the international level, there is the so-called Global Compact (2000), which followed from the adoption of the UN Millennium Declaration (2000). Both instruments are the result of international deliberation and created a consensus on priority actions for development and poverty eradication in the new millennium. The former sets out Ten Principles for Social Investment, which are proposed to guide the role and participation of the corporate world in different levels of development projects and assure their alignment with the Millennium Development Goals (MDGs), emanating from the Millennium Declaration.

For their part, the MDGs, as a basis for action in international development cooperation, open the door to private sector participation-as-ally for the attainment of these same objectives, mainly with

[1] From a large number of official documents reviewed from international organizations such as the OECD or government agencies engaged in international aid like the Spanish AECID, JICA (Japan) and the GTZ (Germany), it can be stated that the notion of the private sector is vague and in the analytical discourse – the reference directly excludes the corporate sector, the multi-national, transnational and national as well.

reference to the eighth MDG on partnerships for development (Prandi and Lozano: 12: 2009).

The OECD as part of the International Development Cooperation system has produced guidelines and recommendations addressed by governments on multinational companies to ensure that their activities are in harmony with government policies, thereby enhancing their contribution to sustainable development. These guidelines contain 11 voluntary principles (OECD: 4: 2008).

At the national level, there is the legal and regulatory framework for the private sector in development in the Constitution of the United Mexican States. Regarding development, the Constitution creates executive power to act through the Law of International Cooperation for Development (LCID), as well as tools for programming, promotion, coordination, advocacy, coordination, execution, measurement, evaluation and control of actions and programs for International Development Cooperation between Mexico and other countries and international organizations (Article 1).

The Law creates a special instrument: the Mexican Agency for International Development, (AMEXCID), which defines three models for development cooperation: i) Horizontal, ii) Triangular, and iii) Vertical. (art. 4 sections I, II, IV, V and VI). Thus, surprisingly, this law does not contemplate any action related to the role of the private sector.[2]

However in article 11, the LCID states, "it is the imminent obligation of AMEXCID to identify options for international cooperation and, where appropriate, develop assessments prior to project implementation arising from them." Therefore it has to be understood that the doors for the participation of private actors are not completely closed.

Beyond that this legal regulation, the involvement of business in development is not a recent development. In the drive for profit, businesses have found different ways to participate in state competitions linked to development opportunities, such as investment in strategic areas of social development, or production and supply of goods and services. One "traditional" mechanism of private participation in development in the country and in Latin America has been the so-called Public-Private Partnerships (PPPs). In Mexico PPPs already have a legal framework in the newly enacted Law on Public-Private Partnerships (LAPP), which are covered in constitutional articles 25 and 134.

In the law, PPPs are defined as arrangements that can be done "with any scheme to establish a long-term contractual relationship between public sector bodies and the private sector for the provision of services to the public or end user and infrastructure, which is wholly or partly provided by the private sector, with objectives to increase social welfare and investment levels in the country" (LAAP: Article 2: 2012).

Likewise the LAPP recognizes as agents of these partnerships all law enforcement agencies at the local, state and national level (article 4) and are subject to international treaties (article 6). Similarly the Commercial Code, Federal Civil

[2] As Gabriela Sánchez states: "Considering that international development cooperation is a normative principle of foreign policies, the social and private sector, the legislative power and all other government orders are not only not subject to the law, but are not even part of designing, formulation and execution of the different instruments the law foresees, among others there is the Mexican Agency for International Development Cooperation, AMEXCID, and the Program of International Development Cooperation". In SÁNCHEZ GUTIERREZ GABRIELA: The Mexican Law of International Development Cooperation; Document, consulted June 15 2012.

Code, the Federal Administrative Procedure Act and the Code of Civil Procedure have been established as extra laws thereof (article 9).

For now there are no local legal frameworks for the private sector or financial services at the local level for development projects. However, there are regulatory frameworks for specialized government institutions responsible for specific areas of social development, such as in the Ministry of Communications and Transport, the Ministry of Finance and Public Credit, among others.[3]

With the enactment of the LAPP, Mexico is one of the countries that have has specific legislation on Public-Private Partnerships, and is therefore entering into a new phase of a model that legitimizes detailed far-reaching privatization mechanisms.

This trend towards legal frameworks that guarantee these PPP models also have guidelines and legal support, starting with the principles of the International Finance Corporation, which is an instrument of the World Bank that is gradually increasing its stake presence in spaces for deliberation and coordination system of international development cooperation (UNDP: 33:2004). Meanwhile the International Labor Organization also has eight guiding principles for PPPs (ILO: 4-6: 2006). In 2007 the OECD launched its Principles for Private Sector Participation in infrastructure (IMTA-OECD: 11-46: 2008).

Therefore, we can say that governments have formal regulations for governing the competencies, scope and limits of private sector participation in development in terms of social development agendas, even with a human rights approach.

But in any investment or public-private partnerships, responsibility for monitoring and enforcing human rights obligations lies with the state. But there is no necessary guarantee that the state will ensure the private sector does not violate the rights of people or continues to put their priority on profit in joint partnership projects. It is no wonder then that in the early PPPs, in the ILO and the OECD, as well as in the Busan Declaration, there is stress on the struggle against corruption in multinational companies.

Terms and Roles for the Pricate Sector in Development Assumed by the Private Sector

According to the Social Investment Principles of the Global Compact, there are seven possible models of private sector participation in development projects for social investments by companies that are consistent with the expectations of both economic growth and impact and involvement of the recipient population. These models range from only expectation of profit on the one hand, to philanthropy on the other, passing through five other models that qualify both these poles, (Prandi: 16: 2009).

Table One demonstrates that the private sector can integrate social development as part of its objectives in its business model. Prandi and

[3] The transport sector is the more advanced in these kinds of frameworks as it already operates under three well-structured modalities: Concessions, Lending & Credit Services, and Benefits from Active Projects. Previously the legal framework guiding these practices was a combination of the Acquisition Law and its regulation, the Budget Law, Transportation Law and other applicable juridical orders, (Vasallo: 254:2010).

Table 1 Models for Private Sector Participation in Development Projects

Increase of philanthropic intention → ← Increase in the connection of the principal entrepreneurial activity

MODELS	Principal Activity of the Company	Responsible Business	Inclusive Business	Shared Values	Socially awareness in Business	Investment in Social Matters	Philanthropy
DEFINITIONS	The only responsibility of business is to obtain economic benefits	The awareness on environmental and social impact is integrated in economic strategies of the company	Specific inclusion of the less fortunate sectors in the value chains of the organization	Seeks to improve competitiveness of the company while showing progress in meeting social objectives	No loss, no dividends, the company's activity are the social objectives	A strategic investment for long term corporative sustainability	Donation of private resources for social purposes

Expected high economic return — Minimal or zero economic return expected

Lozano assert "the private sector has recently begun to take innovative and creative positions based on the incorporation of the MDGs at the periphery or even the core of its business strategy. This addition can be directly linked to the core business of these companies or it can be more peripheral in the business model and only partially alter corporate policies" (Prandi: 16: 2009).

In relation to these models, the most common in Latin America are: Corporate Philanthropy, Corporate Social Responsibility (CSR) and Public-Private Partnerships (PPPs). Corporate philanthropy is based on a direct transfer of funds, material good or human capacity for the betterment of a sector or social group.

With respect to Corporate Social Responsibility, Antonio Vives says: "Companies, as part of their corporate social responsibility in developing countries, may also contribute resources to improve the delivery of public services in the hands of the public sector itself, for example to make available technical and managerial volunteers, exploiting comparative advantages of the companies in these areas" (Vives: 54:2009).

Out of the three common forms of private sector participation in development in Latin America, PPPs have higher recognition or weight among the different actors of development. They are a way of assuring profit for the private sector, since as prerequisites for the implementation of a project, impact studies are undertaken for public sector investment that are meant to ensure both social results and private sector profit.

"Mexico has been one of the countries in Latin America that so far has more resources allocated to fund projects through a public works concession. The experience of concessions in Mexico has gone through different stages with greater and lesser success. Despite the problems that were acknowledged in the early nineties in what were called the National Highways, Mexico has evolved rapidly in recent years and is now one of the most active countries in both concessions as other ways to bring the private sector into the provision of infrastructure," (Vasallo: 244: 2010).

The most common form of involvement of the private sector in Mexico in development has been public-private partnerships, particularly in the areas of transport, telecommunications and management of natural resources such as water, energy, etc. One study indicates that this form of partnership in the transport sector has existed since the 1960s (Vasallo: 244:2010).

The Ministry of Communications and Transport has promoted three models of public-private partnership: Grants, Projects Servicing and Asset Utilization. (SCT: 2:2011)

Scope and areas where the private sector is present

A study of experience in several countries suggests that economic infrastructure, such as transport, is generally more favorable for the creation of public-private partnerships, (PPPs) than social infrastructure, (e.g., health care and education).[4] There are three apparent reasons:

> "First, the sound projects aimed at solving obvious limitations in infrastructure such as roads, railways, ports and electricity are likely to have high rates of profitability and therefore attractive to the private sector. Second, often charging user fees is more feasible and also more convenient in economic infrastructure projects. Third, usually economic infrastructure projects have a market that combines construction with the provision of related services (e.g. construction and operation and maintenance of a toll road) than social infrastructure projects. Therefore, it is not surprising that public-private partnerships are used predominantly for road infrastructure. In general, PPPs allow the government to avoid or defer infrastructure spending without compromising their benefits" (Akitoby, et al: 16: 2007).

The current enthusiasm for PPPs in management and partnership with private investment is evident, especially because they are virtually guaranteed investments that mitigate the government's fiscal constraints, circumventing controls on spending and move public investment off budget (Akitoby: 16: 2010).

Among the limitations facing organizations and networks promoting CSR practices, Petkoski, Jarvis and Garza identified weak domestic pressure, weak judicial systems and institutions, the competitive position of nations, with a minimal influence of local consumers and workers, smaller rewards for responsible corporate attitudes, minimal government support, management's expectation for short-term gains, and the predominance of small and medium enterprises (SMEs), which represent 95% of the private sector and rarely have the luxury of long-term planning.

4 In Mexico the private sector accounts for 84% of total economic activity. If total production would be divided based on economic sectors, 60% would correspond to activities of credit for services, (commerce, transportation, financial services,), around 35% is in the secondary sector, (manufacturing activities, mining, construction and the gas and electricity sub contracting), and the remaining goes to the primary sector," (Foncerrada:26:2010).

According to the OECD:

> "International business has undergone a powerful structural change and the guidelines themselves have evolved to reflect these changes. With the rise of service industries and those based on knowledge, technology and service companies have emerged in the international market. Large enterprises still account for a significant portion of international investment and there is a trend towards large-scale international mergers. Simultaneously, foreign investment by small and medium enterprises also increased, which now plays a significant role in the international arena. Multinational enterprises, like their domestic counterparts, have evolved into a wider range of business arrangements and types of organization. Strategic alliances and closer relations with suppliers and contractors tend to blur the limitations of the corporation" (OECD: 1:2008).

Meanwhile the Economic Commission for Latin America (ECLAC) makes proposals in its 2012 outlook report to the governments in the region to promote a private sector with a more social horizon and increased transparency. This report states: "The state must address the private sector involvement in infrastructure with a strategic vision, seeking partnerships and tools most appropriate to increase the quality of services provided and goods." The report places particular emphasis on private participation in transport and telecommunications sectors, saying to the national authorities: "The regulators and the entities responsible for the procurement of services and infrastructure should have greater autonomy to help ensure greater coordination among stakeholders" (ECLAC: 142: 2011).

Results of the private sector's involvement

Some of the ways through which companies can contribute to development are technology transfer and management know-how in various sectors, support for the creation and management of new businesses, identifying environmental issues, education and awareness of workers conditions in developed countries, the momentum and building of public-private partnerships for development, implementation of corporate volunteer programs, and the promotion of CSR in their value chain, among others (CEOE-CEPEPYME: 23: 2011).

According to ECLAC there has been a trend in the region towards modernization of governments in the provision of services with high quality standards. This implies a new paradigm based on the administrative needs of efficiency, effectiveness and accountability. This paradigm is called "new public management", which has slowly redefined the role of states with public servants becoming administrators or directors of a social enterprise (ECLAC: 54-55:2011).

International financial institutions linked to development are relying on approaches for consolidating public-private partnerships. It is noted that "the World Bank [is] working on PPPs through the International Finance Corporation (IFC), while the Inter-American Development Bank (IDB) does it through the Multilateral Investment Fund (MIF), and available resources and specific offices dedicated to the creation of such alliances. For its part, the OECD, as well as having a division for promoting private sector development, has launched a network that deals with analyzing public-private partnerships. Hence the significance of the private sector in the programs of international financial institutions has grown tremendously in recent years. According to the platform Beyond 2015, private sector financing by multilateral development banks increased tenfold since 1990, from less than US$4 billion to US$40 billion dollars a year" (Ramiro: 2011).

According to the Secretariat of Communications and Transportation (SCT) of Mexico it was able to award 18 grants for a road of 1,306 kilometers through its three models of public-private partnerships, with the model of Servicing seven packages awarded with a length of 605 kilometers and with the Model Asset Utilization three packages awarded with a length of 1,200 kilometers, (SCT: 6-9: 2011). As Vasallo states: "... during the writing of this book, the SCT was preparing seven additional packages affecting longer than the 1623.5 km and had an investment of USD 3123.2 million," (Vasallo: 257: 2010).

According to Areli Sandoval in the 2006 Social Watch Report, the reality of the private sector's participation in the management and provision of social services has been negative: "In the process of health care, education, clean water and housing, the increased coverage has been determined by the ability of the population to pay for those services, transnational capital has displaced the domestic private sector and, contrary to the claims, the government has de-nationalized key social sectors such as education, health and social security" (Sandoval: 2: 2006).

The Social Watch report cites a number of human rights violations in different projects of public-private partnerships in the region, starting with the mega projects in the Puebla-Panama Plan, the Free Trade Agreement with the United States, among others, not to mention the serious environmental impact that these large projects and initiatives cause in different regions (Sandoval: 2: 2006).

Final Conclusion

Official Development Assistance (ODA) is emphasizing the importance of innovative financing mechanisms, attracting private sector resources or attempting to engage them in identifying solutions to development challenges. Donors do so, even though they say they wish to be focused on the fight against extreme poverty, or in the best case, to advance the Millennium Development Goals, instead of creating the conditions for sustainable development that would ensure the exercise of peoples' rights and achieve equality and equity.

This new emphasis in the official discourse in the Mexican case on the role the private sector as "development actor and partner" continues to show more risks than opportunities. The regulatory and policy framework for the participation of private sector actors in the development of the country is insufficient and imprecise and therefore do not ensure respect and recognition of international instruments related to the environment, sustainability and human rights.

The private sector largely ignores or disregards the evolution of ODA and its priorities, principles and strategies that have been discussed in the international High Level Forums, including the Paris Declaration, the Accra Agenda for Action, as well as the Istanbul Principles for CSO Development Effectiveness that were acknowledged by the 2011 Busan Forum, promoting development effectiveness through the work of CSOs.

One of the main challenges for the private sector's participation and performance as a complementary development actor is precisely how it aligns its priorities and timeframes with the different strategies and commitments in the global development agenda. Therefore it is crucial that the private sector remains in the category of "complementary" actor, serving as support to the development tasks that both government and civil society organizations are already doing.

As affirmed by Prandi and Lozano:

> "The private sector can join this new 'global social agreement', as experience, ability, technology and innovation that permeates corporate actions can facilitate the right conditions for their inclusion. The ultimate goal is the mutual benefit at a local and global scale. In this new framework of corporate responsibility, the private sector's potential is huge and alliances with certain involved stakeholders are vital." (Prandi y Lozano 2009:40)

In a context of financial crisis and recession, companies are natural actors seeking to survive and thrive by finding new areas where to settle and grow. They are familiar with the externalities affecting all development actors and that is why the sector has been establishing alliances and partnerships that address global risks. By taking into consideration various aspects of CSR, the more developed a community or population is, the better the conditions for the consolidation of a company.

Hence the insistence that the private sector continues its policy of expansion, finding new opportunities for growth, but at the same time strengthen relationships and partnerships for social development: "the company must discover, share synergies, and with joint efforts, also generate new ways of relating to excluded strata of society and thus reverse, multiply and transform their economic investment in a manner that results in new forms of growth for these populations while generating benefits" (Prandi: 12: 2009).

According to various experts, the private sector in a developing country such as Mexico still faces a number of dilemmas, whereby the solution or response they choose may be favorable or unfavorable to the development of the country. Some of these dilemmas have been identified by Prandri: Provide decent jobs or work under appalling working conditions; Create and share knowledge or protect your property and its usage; Pay corresponding taxes or evade their contribution; Restore the environment or cause serious harm; Stabilize governments or support oppressive measures and corruption. Prandi (2009:18) Several additional ones could be added: Accountability or lack in transparency; Act under the principles that have been developed and are consensual in the framework of development cooperation or ignore them; and Promote and respect individual and collective human rights or violate them.

As discussed in Busan at the High Level Forum, is a Global Partnership for Effective Development Cooperation possible with a private sector that does not solve or overcome these dilemmas through their actions.

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Australia's Mining for Development Initiative: Blurring the Boundaries Between Private Profit and Public Development

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Australia's Aid Program: Private Sector Development and the 'National Interest'

The release of the *Independent Review of Aid Effectiveness* in 2011 has done little to change the character or content of Australia's international aid program. The Australian Government's aid agency, AusAID, responded to the *Independent Review* with a new framework for aid effectiveness that retains the dual focus of Australian aid on "overcom[ing] poverty" and "the national interest".[1]

AusAID understands the national interest in terms of Australia's economic and security interests. It links poverty with political instability, radicalisation and the potential for Australia's neighbours to be "influenced" by other non-friendly countries. Australian aid is also described as "good for Australian business" because it opens markets in recipient countries for Australian exports, currently worth AUS$90 billion annually.[2]

Despite pressure from civil society groups, the *Independent Review* did not support AusAID formally adopting a 'rights-based' approach to development, citing as one of its reasons the potential for a human rights focus to override or conflict with a focus on poverty.[3] Accordingly, AusAID's new aid effectiveness framework did not develop a comprehensive policy on human rights or clarify the inseparability of overcoming poverty and promoting human rights.

However, AusAID's response *was* very clear about the relationship between economic growth and overcoming poverty. "Sustainable economic growth" was confirmed as one of five strategic goals of the aid program and is described as "the best way to help people out of poverty". A key component of this strategic goal is providing support to recipient governments to develop policies that promote "private sector development and trade".[4]

Australia's version of aid effectiveness lays the groundwork for the substantial use of public development money to finance private sector development in the name of poverty reduction and the national interest. This chapter will discuss the problems with this approach that stem from the unclear boundaries between private profit and public development by focusing on AusAID's recently announced Mining for Development Initiative.

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1 AusAID, 2011, *An Effective Aid Program for Australia: Making a Difference – Delivering Real Results,* p.1

2 *ibid.* p.6

3 Australian Government, 2011, *Independent Review of Aid Effectiveness,* p. 113.

4 AusAID, 2011, *An Effective Aid Program for Australia: Making a Difference – Delivering Real Results*, pp. 33-34

Mining for Development Initiative: Overview and Critique

AusAID launched its AUS$127 million Australian Mining for Development Initiative (AMDI) in October 2011 with the official aim of promoting "sustainable mining" in developing countries. The AMDI is based on the belief that mining has the potential to reduce poverty by increasing economic growth, but that the mining sector needs good management practices and strong regulation if the benefits of mining are to be shared and environmental impacts are to be minimised.[5]

Mining projects have long been associated with dispossession of indigenous peoples and other communities from their land, irreversible environmental destruction, increasing economic and social inequality, government corruption, corporate rent-seeking and violent conflicts. These effects are sometimes referred to as the 'resource curse' or 'Dutch disease'.[6]

There are three main components of the 'resource curse'. First, in economic terms, overdependence on mining tends to crowd out other sectors of the economy that provide more jobs in the long-term. It also creates large disparities between the few that directly benefit from mining and those faced with price inflation and social dislocation. Second, in political terms, the availability of resource rents encourages increased corruption both within and beyond the mining country. Third, in ecological terms, mining causes environmental damage at the local level, global problems like climate change and inter-generational inequities through the exhaustion of non-renewable natural resources.[7]

The Australian economy has become increasingly resource-dependent in recent years. Although the mining industry is credited with maintaining high economic growth and contributing to job creation, these benefits are often over-stated.[8] Mining in Australia has resulted in an increased concentration of economic wealth and political power, while exacerbating conflicts with indigenous people over land rights, reducing the viability and competitiveness of other export industries and increasing the cost of living, particularly with respect to housing.[9] Nonetheless, AusAID argues that, as a "global leader in extractive industries", the Australian Government, together with Australia's mining industry, universities and NGOs, can share expertise, ensuring that economic growth from mineral wealth translates to human development in developing countries.

However, the opposite impacts are more the rule. The negative impacts of a mining boom as experienced in Australia have been amplified in less developed countries that rely heavily on mining oil, gas, coal, gold and other minerals for export. For example, in the fifteen years following the discovery of oil in Equatorial Guinea in 1990, rapid economic growth rates of up to 10 per cent corresponded with a worsening of infant and

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5 AusAID, 2012, *Mining for Development,* http://www.ausaid.gov.au/aidissues/mining/Pages/home.aspx

6 Classic texts on the resource curse include: Karl, T. 1998, *The Paradox of Plenty: Oil Booms and Petro-States,* Berkeley: University of California Press and Auty, R. 1993. *Sustaining Development in Mineral Economies: The Resource Curse Thesis,* London: Routledge.

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under-five mortality rates by around 20 per cent. This is a story that has been repeated in resource-rich countries across the Global South.[10]

Unlike the other aspects of Australia's aid program, the primary focus of the AMDI is Africa, with projects currently based in Liberia, Ghana and Mozambique.[11] The centrepiece of the initiative is the International Mining for Development Centre, which is partnered with the University of Queensland and the University of Western Australia. In March 2012 the Centre hosted a forum that brought together African government ministers and mining executives with Australian and multinational corporations Rio Tinto, Woodside and Chevron.[12]

Given Australia's national (i.e. private business) interests in overseas mining developments and the poor social and ecological record of mining in Australia and in developing countries, NGOs and academics have raised concerns that the AMDI is an expensive exercise in providing direct financial and regulatory support to mining projects and indirect support by rebranding their image as 'sustainable'.[13] Australia currently has a number of other mining-related projects funded by AusAID, who have flagged their intention to bring them under the AMDI umbrella at some stage. Many of these projects have been used as examples by AusAID of their 'sustainable mining' agenda.

The following case studies of the liquefied natural gas project in Papua New Guinea and the Australia Africa Partnerships Facility indicate that while Australia's 'sustainable mining' agenda is playing an effective role in promoting Australian mining interests, it will not seriously address environmental and human rights abuses caused by the industry.

Case study: PNG LNG project

The US$15 billion liquefied natural gas (LNG) project currently being constructed in the Southern Highlands of Papua New Guinea (PNG) is the country's largest industrial development to date. The primary project developer is US multinational ExxonMobil and will include an extraction plant, processing facilities, pipeline and export terminal at Port Moresby. It is projected to double PNG's GDP over its 30-year life.[14]

The Australian Government's Export Finance and Insurance Corporation (EFIC) is partly financing the project with a US$350 million loan from the EFIC's taxpayer-funded 'National Interest Account'. The EFIC justifies its involvement in

10 Shaxson, N. 2007, 'Oil, corruption and the resource curse', *International Affairs,* 83:6, p. 1123

11 AusAID, 2011, *Australia's Mining for Development Initiative,* p.2

12 International Mining for Development Centre, 2012, *First Australia-Africa Local Supplier Development in Mining, Oil and Gas Forum a Success*, 28 March, http://im4dc.org/first-australia-africa-local-supplier-development-in-mining-oil-and-gas-forum-a-success/

13 Witcombe, R. 2011, 'Govt's Smart Aid Will Do Little : Mining Watchdog', *Probono Australia,* 8 November, http://www.probonoaustralia.com.au/news/2011/11/govt%E2%80%99s-smart-aid-will-do-little-mining-watchdog and 'Smart aid? Gillard funds mining for development', *Probono Australia,* 27 October, http://www.probonoaustralia.com.au/news/2011/10/smart-aid-gillard-funds-%E2%80%98mining-development%E2%80%99

14 ACL Tasman (2009) *PNG LNG Economic Impact Study: An Assessment of the Direct and Indirect Impacts of the proposed PNG LNG Project on the Economy of Papua New Guinea,* p.vi http://www.pnglng.com/media/pdfs/publications/acil_tasman_impact_study_revision_01.pdf

the PNG LNG on the basis that it will support Australian exporters. It says that Australian companies have been, or are likely to be, awarded over AUS$1 billion worth of contracts.[15] Two Australian companies - Oil Search and Santos - are major investors, owning over 40 per cent of the project. Australia's four biggest banks – Commonwealth, ANZ, NAB and Westpac – have also provided loans.[16]

In response to reports of human rights abuses, corruption and environmental damage, a 2009 report by Jubilee Australia questioned the responsibilities of the Australian Government beyond the interests of Australian corporations. AID/WATCH campaigned against the EFIC's secrecy, lack of accountability and poor social and environmental standards over a decade ago.[17] The EFIC's 'Environment Policy', introduced in 2000 as a result of these criticisms, was not strong enough to override Australia's corporate interests in the PNG LNG project.

In addition, the Australian Government is concurrently supporting the project using Australian aid money. AusAID is using official development assistance (ODA) to implement the Australian Government's Joint Understanding on the project with the PNG Government. With this agreement, AusAID is "building capacity" for managing the skilled migration and trade requirements of the construction phase of the project and AusAID's Chief Economist is modelling revenue flows for the broader economy. Aid money is also being used by the PNG's Department of Finance and Deregulation and the Treasury to assist in establishing a sovereign wealth fund.[18]

AusAID maintains that its work is separate from the work of both the EFIC and its broader assistance program in PNG.[19] However, the ODA and EFIC components of the project are inseparable and are potentially displacing funds from other aid projects. In the first instance, AusAID's assistance towards skilled migration and trade is providing a direct commercial benefit to the project, and in turn Australian contractors, investors and financiers. More fundamentally, the aid-funded Joint Understanding agreement between Australia and PNG and the EFIC loan can only be understood as part of the same commercial package.

The then Australian Trade Minister Simon Crean announced the Joint Understanding and the EFIC loan in the same press release on 8 September 2009, thus blurring the distinction between ensuring the financial viability of the project and maximising public benefit from an existing

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15 Export Finance and Insurance Corporation, 2012, *EFIC case studies: PNG LNG Project*, http://www.efic.gov.au/casestudies/Pages/PNGLNGproject.aspx

16 Jubilee Australia, 2009, *Risky Business: Shining a Spotlight on Australia's Export Credit Agency,* p. 37

17 Arvanitakis, A. 2000, 'Who the EFIC Are You?', *Green Left Weekly,* 26 July, http://www.greenleft.org.au/node/21887

18 Baxter, P. 2010, *Australian Senate: Estimates,* 20 October, http://greensmps.org.au/content/estimates/papua-new-guinea

19 Rudd, K, 2011, *Australian Parliament: Questions on Notice,* 4 November http://greensmps.org.au/content/questions-notice/export-finance-and-insurance-corporation-and-png-lng-project

private development.[20] Government export credit agencies and commercial lenders engaged the Italian consultancy firm D'Appolonia to write a report on the project's compliance with social and environmental standards. To satisfy lender requirements, a key recommendation of the report was for bilateral donors to assist the PNG Government in developing a sovereign wealth fund and transparency initiatives.[21] The project's *Environmental and Social Report* also boasts about the advantages of the *Sovereign Wealth Fund Law* passed by the PNG Parliament in February 2012 and the PNG Government's steps towards implementing the Extractive Industries Transparency Initiative.[22]

Despite these claims, reports by media, NGOs and local activists suggest that the negative social and ecological impacts of the 'resource curse' are already being felt during the construction phase of the project. The distribution of royalty payments has required land identification and incorporation, which has caused conflicts between and within customary land groups and outsiders that have fraudulently registered land. ExxonMobil has engaged its own private security force using violence against local resistance and aggravating tensions between local people, creating fears that the project may become the 'next Bougainville'.[23]

The economic impacts study for the project envisaged that only 20 per cent of construction jobs would go to local people, which in any case will only last until 2014.[24] Local people have complained about poor wages and conditions and a diversion of teachers and health workers to the project. They suggest that the presence of more highly paid skilled workers from outside the community has caused social tensions, including increased drug and alcohol abuse and price inflation.[25] The project has also been linked to deforestation, pollution from seabed drenching and localised air pollution.[26]. In January 2012, 62 people died in a landslide from a quarry used by the LNG project developers in the Hela region.

Case study: Australia Africa Partnerships Facility (AAPF)

Africa has traditionally been a minor region (around 3 per cent) of Australia's ODA activity. The Australian Government has indicated their intention to significantly increase the number of African countries that receive Australian aid

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20 Crean, S, 2009, *Australian Government Support for Gas Projec in PNG,* 8 December , http://www.trademinister.gov.au/releases/2009/sc_091208.html

21 D'Appolonia, 2012, *Report of the Independent Environmental and Social Consultant, Environmental and Social Compliance Monitoring: Papua New Guinea LNG Project,* p.74

22 PNG LNG Project, 2012, *Quarterly Environmental and Social Report: First Quarter 2012,* p.II

23 Loewenstein, A. 2012, *Mining and Gas Company Vandalism on Papua New Guinea*, 27 May, http://antonyloewenstein.com/2012/05/27/mining-and-gas-company-vandalism-in-papua-new-guinea/

24 ACL Tasman (2009) *PNG LNG Economic Impact Study: An Assessment of the Direct and Indirect Impacts of the proposed PNG LNG Project on the Economy of Papua New Guinea,* p.vi

25 Oxfam Australia, 2011, *Listening to the Impacts of the PNG LNG Project: Central Province, Papua New Guinea,* pp. 15-18

26 Jubilee Australia, 2009, *Risky Business: Shining a Spotlight on Australia's Export Credit Agency,* p. 42-4

and a doubling of aid volume, with expenditure expected to rise to AUS$625 million by 2016-17.[27] In 2011, the Australian Government provided mining-related assistance to 33 countries across Southern, West, East and Central Africa.[28] The majority of AusAID's mining-related projects in Africa since 2006 have focused on funding scholarships and providing technical assistance through earmarked funding to multilateral institutions, primarily the World Bank.[29]

A separate study of Australian aid effectiveness in Africa commissioned by the *Independent Review* found that the driving rationale behind this increase was the Australian Government's desire to be seen internationally as a strong "middle power" country, but that there was a tension between this broad political goal and the aid effectiveness agenda.[30] The study recommended increasing the effectiveness and integrity of aid spending in Africa by focusing primarily on food security, water and sanitation and maternal and child health.[31]

The review also noted that there was a strong commercial rationale for Australia's engagement with the African resource sector given the commodity boom in Africa and Australia's investment in resource extraction. Private Australian investment in African resources has grown from AUS$20 billion in 2008 to over AUS$50 billion today, with 230 Australian companies engaged in 650 projects in mining, exploration and extraction.[32] Back in 2005 the then Shadow Foreign Affairs Minister Kevin Rudd, argued that given China and India's increased investment in the continent, there needed to be a "new era of engagement" with Africa so that Australia would not be left behind in the "new scramble for Africa".[33]

AusAID and the Department of Foreign Affairs and Trade have provided financing for mining-related projects under the AUS$59.16m Australia-Africa Partnerships Facility (AAPF) for three years to July 2013.[34] The APPF project document is explicit about Australia's commercial interests, stating:

"Australia has a strong interest in helping African countries develop their mining sector and encourage greater investment, including by identifying and addressing barriers to industry development and by providing targeted support."[35]

The APPF primarily provides "capacity building assistance" with a focus on the sectors of mining and natural resources, public policy and food security.[36]

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27 Commonwealth Government, 2012, *Budget Australia's International Development Assistance Program 2012-2013,*

28 *Mining for development in Africa,* AusAID, date unknown, p.10

29 Annex A Past AusAID Supported Mining-Related Projects (2006-07 to 2010-11)

30 Joel Negin and Glenn Denning, 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, pp4

31 Joel Negin and Glenn Denning, 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, pp18

32 International Mining for Development Centre, 2012, *Australian Mining Investment Win Africa Worth More than $50 Billion: DFAT*, 14 February, http://im4dc.org/australian-mining-investment-in-africa-more-than-50-billion-dfat/

33 Lyons, T. 2009, 'Australia in Africa – the human dimension', *Australia Strategic Policy Institute*, [accessed 30/7/2012] at <http://www.aspi.org.au/research/spf.aspx?tid=8>

34 http://www.cardno.com/en-au/Projects/Pages/Projects-Australia-Africa-Partnerships-Facility.aspx [accessed 19 June 2012]

35 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.4

36 Australia-Africa Partnerships Facility, 2012, *Australia's Partnership and Development Program in Africa,* <http://www.aa-partnerships.org/> [accessed on 23 May 2012]

Although the AAPF project documents describe the facility as flexible to country needs, AusAID notes that Australia's interest in mining will mean that this is a priority sector.[37] Bias for mining over other sectors is programmed into the funding proposal criteria that give greater weighting to 'priority sectors'.[38]

Capacity building under the AAPF includes the provision of workshops and training to government ministers and senior bureaucrats. Trade Minister Simon Crean in an address to the Mining Indaba Conference in Africa in 2010 noted that "capacity building is [also] a key part of our trade agenda".[39] Since October 2011, a significant amount of training has taken place through study tours organised through the Independent Centre for Mining Development (IM4DC) under the AMDI. In 2011, Australia hosted a series of study tours for more than 120 African officials from 19 African countries.[40] These study tours also include Australian and African mining executives, which help establish networks for future mining contracts.

AusAID flagged a tenfold expansion of the scholarships ('Australian Awards') program in Africa, with places expected to expand from 109 in 2009 to 1,000 by 2013.[41] African scholarships are already being given to the "sectoral priority" of mining related activities and the APPF will coordinate with the scholarships program.[42] Awards for study in Australia provide revenue for the Australian education sector while subsidising the training needs of the mining industry. The West African Exploration Initiative (WAXI), for example, provides awards to study, with the main focus being to explore the potential for mining of the Leo-Man Shield resource base in West Africa.[43]

Workshops, trainings and scholarships are not the most immediate way to reduce poverty or inequality and the magnitude of spending does not correspond to the development outcomes they achieve.[44] An independent review of Australian aid in Africa found that "scholarships generally do not target the poor and they directly affect a very small number of individuals".[45] Independent researchers have recommended that AusAID scholarships instead focus on providing training in the areas of health and food security in order to more directly address poverty reduction.[46]

37 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.4

38 Australia-Africa Partnerships Facility, 2012, *Australia in Africa,* <http://www.aa-partnerships.org/about_africa.asp> [accessed 21 May 2012]

39 Crean, S. 2010, *"The Australia Africa Partnership": Address to the Mining Indaba Conference,* 2 February, http://trademinister.gov.au/speeches/2010/100202_indaba.html [accessed 21 May 2012]

40 AusAID, date unknown, *Mining for development in Africa,* p.11

41 AusAID, 2010, *Looking West: Australia's Strategic Approach to Aid in Africa 2011-2015,* p 12

42 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.13

43 < http://www.waxi2.org/> [accessed on 25 May 2012]

44 Negin, J. and Denning, G. 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, p.26

45 Ibid

46 Ibid

In addition to training activities, Africapractice and a Communications consultant have been funded under the AAPF for public relations activities to promote the mining industry. Africapractice assist with "promotion literature … and media engagement opportunities to raise the AAPF and AusAID's profile in Africa and Australia".[47] Since 2011, AusAID and the AAPF have also funded an "awareness campaign"[48] that targets government and mining industry decision makers.[49]

These projects have successfully used Australian public funds to promote 'brand Australia' and support private interests in the myth of 'sustainable mining':

> "Team Australia had a successful and prominent presence at the 2012 *Investing in African Mining Indaba* conference in Cape Town, South Africa, last month…[who provided] African delegations with valuable perspectives on mining for development… our presence at the conference reinforced Australia's brand in Africa's mining sector".[50]

Conclusion

In providing public development money to finance, provide regulatory support and market public-private mining sector developments, AusAID is promoting corporate sustainability. The CEO of Anglo America echoed this understanding at a conference on 'sustainable mining', stating that mining companies "simply will not make those investments if there is a fear of arbitrary and unpredictable regulatory change".[51]

Socially and ecologically sustainable mining is a fallacy, whether in Australia or the Global South. Mining is by definition unsustainable, because it is based on the depletion of non-renewable resources. Countries in the Global South are entitled to exploit their natural resources, but there is little evidence of democratic support for the mining projects being supported by AusAID.

At best, AusAID is diverting resources from public and civil society institutions that could promote human rights, reduce poverty and support popular self-determination. However, evidence from the construction phase of the PNG LNG project indicates that using ODA for mining governance will not be able to align mining sector profitability with these public policy goals for development.

AusAID funded mining programs in Africa demonstrate the impact of incorporating the 'national interest' into the aid agenda. Here activities are supported that are central to Australia's trade and political interests. Instead of focusing on recommended areas of development such as maternal and child health, aid money is being used to fund projects with no tangible

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47 'What's on', *The AAPF Argus,* Issue 3, Feb 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0003_eng.pdf> [accessed 3 April 2012]

48 'Australia helps promote the Africa Mining Vision at AU mining ministers conference', *The AAPF Argus,* Issue 2, Jan 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0002_eng.pdf> [accessed 3 April 2012]

49 *Mining for development in Africa,* AusAID, date unknown, p.5

50 'Australia strengthens partnerships with African governments at Mining Indaba', *The AAPF Argus* Issue 4, March 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0004_eng.pdf> [accessed 3 April 2012]

51 missing footnote please check doc file

development benefits such as public relations exercises for the mining industry.

What is clear is that the current mining programs in PNG and Africa, and programming provisions under the AMDI demonstrate a clear lack of sustainable credentials. These projects support commercial interests, not only of mining companies, but also of education institutions and other business interests in Australia who benefit from development contracts. Training mining industry employees is also a clear form of corporate aid.

In the AMDI, the boundaries are unclear between improving mining operations, entrenching a flawed development model and spreading the 'resource curse'. Instead, the Australian Government should regulate Australian mining companies operating overseas to require them to fund such initiatives from their immense profits, not aid money.

Private sector in development: The invisible return of the invisible hand

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The current model of development based on market fundamentalism with its emphasis on export-led growth has failed to deliver sustainable growth and social progress in either the developing world, emerging countries or the industrialised world. Modest and fragile gains in poverty reduction - where they have occurred - cannot be accepted as a serious international response to the shared challenge of, and responsibility for, world development. Nor do they weigh heavily against the growth of inequality, the acceleration of environmental degradation or the brutal impact of the crisis on the lives of millions of working families.[1]

Statistics may show that many people have been lifted out of poverty over the last years, mainly as a result of the performance of a few successful states such as China and Brazil. But evidence also demonstrates that inequality has risen sharply, particularly in recent years. The crisis in governance is also more than ever a fundamental challenge at all levels: Following the neoliberal credo of the so-called Washington Consensus, state and other governance structures have been weakened and reduced to powerless tools through the adoption of unconsidered deregulations and privatisations of public goods and services and inadequate development support strategies.

Blind confidence in the "invisible hand" of the free market has not delivered progress, but rather has provoked rampant informalisation and precarious conditions for working populations, which has seriously darkened the prospects for the new generations. Fragile states, civil wars and exclusion have destroyed societal solidarity and a commitment to the common interest of people. Jobless growth patterns and externalisation of profits to low tax havens have deprived many developing countries of the benefits of economic growth for development.

Developing countries were the first to feel the perverse impact of free market driven globalisation. However over the years, the deregulation of especially the financial markets and lack of any serious common standards and control mechanisms has now also reached into and profoundly affected the developed world. The recent crisis shows that in Europe and elsewhere in the OECD countries, the welfare state development model, based on redistributive solidarity, has been under severe attack by the rampant greed of the markets and their anonymous players. It seems as if the Washington Consensus took a few decades to arrive on European mainland.

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1 ITUC 2nd World Congress, "Resolution on a Sustainable and Just Development Model for the 21st Century", Vancouver, British Columbia, June 21 – 25, 2010, accessible at http://www.ituc-csi.org/IMG/pdf/2CO_04_A_development_platform_for_the_21st_century_03-10-d.pdf.

2 See for example the crucial areas of climate change and environmental and social sustainability, the lack of consensus on Rio+20 conference, the undermining of Kyoto and subsequent discussions.

Beyond the financial and economic crisis, a governance crisis is rapidly spreading, weakening the capacity of states and the intergovernmental institutions to act. The failure of recent global summits and pacts, [2] the political crisis in "Euroland", the powerlessness of an outdated UN system and the multiplication of new economic and political decision making centres in the world (the BRICs, G8, G20, etc.) have opened up an new and urgent debate about world governance.

"It's the economy, stupid":[3] The end of aid and back to basics in Busan

The 4th HLF in Busan in November 2011 constituted, through the ambiguity of its outcomes, both the culmination and synthesis of the aid effectiveness agenda, but may also have brought the aid effectiveness process to its end.

In a contradictory move, the Busan outcome reaffirmed the values of the Millennium Declaration, the aid effectiveness principles from Paris and Accra, and then set them face-to-face with the economic growth paradigm,[4] the "mutual interest" approach of the new development players (BRICS),[5] but also the interests of the private sector.[6]

Although nobody wanted it to be said, the devastating conclusion of the Paris Declaration Survey released on the eve of the Busan Forum put the total failure of donors to respect their commitments massively in the spotlight. Incapacity or lack of political will? No one is interested in taking the blame; the escape route is called "growing donor aid effectiveness fatigue".

At the same time, multiple reports on growing inequality,[7] development-led globalisation,[8] and many other worrying indicators should reveal to the development community and policy makers that development aid has not brought development because of policy incoherence. It was not a matter of aid, but "it's the economy stupid". On the positive side there is increased awareness of the need for improved policy coherence, such as in the recently adopted OECD Development Strategy[9] or in the EU "Agenda for Change".[10]

This complex new picture and the complete lack in the Busan outcome of any indication of action plans, targeted commitments and timetables, combined with the ineffectual idea of the "building blocks" has brought the aid effectiveness process to its end. At the same time, the "back to business" (sic) approach based on expectations and practices of the new middle

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3 Campaign slogan on Bill Clinton's election headquarters in the 1992 elections.

4 Busan Global Partnership for Effective Development Cooperation (GPEDC), § 28 a) "*This calls for a framework within which:* a) Development is driven by strong, sustainable and inclusive growth."

5 § 30 & 31

6 GPEDC, § 32 e) "*…to advance both development and business outcomes so that they are mutually reinforcing*"

7 See for example, http://www.ilo.org/global/about-the-ilo/newsroom/comment-analysis/WCMS_179430/lang--en/index.htm

8 See the Report of the Secretary General of UNCTAD to the 2012 UNCTAD XIII Conference: http://unctad.org/en/docs/tdxiii_report_en.pdf

9 See the OECD Strategy at http://www.oecd.org/belgium/50452316.pdf

10 See the EU Agenda for Change at http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

income aid providers, but, above all, traditional donors' pretext of aid effectiveness fatigue, and new ideological growth agenda, is being promoted in the G20 and other policy forums.

On top of that, all quarters of the aid/development community seems to have found in the post-2015 development framework debates a new focus for policy attention and have shown much more commitment to this emerging agenda, than to the implementation of the complexity of commitments in the Busan Global Partnership.

The invisible hand of the invisible private sector

In the 18th century, the invisible hand of the market was already called upon to create the "wealth of nations".[11] That this "mysterious hand" was driven by self-interest was not only the philosophical argument that underscored Adam Smith's approach, it has been proven again and again to lead to unequal and unsustainable development patterns.

If the Washington Consensus was a political manifesto that emerged from the globalisation decades of the 1980s and 1990s, it is not surprising that the logic of the predominance of market-driven approaches has made its reappearance in the current situation of multiple global crises. The mantra of the 1990s was the structural adjustment targeting of the role of the state. This time, the mantra is the private sector itself, which will bring along growth acting as a "catalyst for development", but will also bring resources and save us from a catastrophe of declining aid resources through "innovative financial mechanisms".[12]

However the pre-Busan preparatory process clearly demonstrated that this approach remained primarily ideological (driven by neoliberal governments, and not by business themselves) and in the result was a nearly faith-based type belief in Busan in private sector benefits for development. Any evidence-based analysis of the past development decades would have demonstrated the contrary, or at least have shown the imbalance between those who have profited from the neoliberal development pattern and those who have not.[13.]

In an effort to carry forward the commitments made in Busan, a multi-stakeholder group was established as a "building block on private sector and development", mainly consisting of donor governments, multilaterals and a handful of business organizations, such as the Business and Industry Advisory Committee to the OECD (BIAC) and the International Chamber of Commerce (ICC). The multi-stakeholder group is convened with an aim to "develop concrete initiatives for improv[ing] understanding of the role of the private sector in development and sharing lessons learned, in order to propose specific actions for greater development effectiveness".[14]

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11 Adam Smith, *The Wealth of Nations*, 1776

12 GPEDC, §32 c)

13 See the ILO and UNCTAD reports quoted above.

14 "Expanding and Enhancing Public and Private Cooperation for Broad Based, Inclusive and Sustainable Growth" A Joint Statement for endorsement by representatives from the public and private sectors at the Fourth High Level Forum on aid Effectiveness, November 11, 2011, accessed at *www.oecd.org/dac/aideffectiveness/49211825.pdf* .

Dialogue, rights-based approaches and inclusiveness on the way to sustainable development

The development community has become gradually an arena with more and more actors and interests, with the Busan Global Partnership for Effective Development Cooperation being the best illustration of the most advanced and all-encompassing development framework to date. It is also, as shown above, the political crossroads of the aid-driven development agenda and the other economic development agendas. It has brought to the forefront a number of crucial issues, particularly in crisis-affected donor countries.

Valid domestic accountability concerns in donor countries should not lead to short term accounting practices that do not do justice to the intricacy and complexity of development and development cooperation. Impact and value for money should only be measured in relation to aid's contribution to realize sustainable development outcomes. It is essential to acknowledge that impact and "value" in development is far more than the direct result of aid, and is in no way a linear result of aid. This recognition will require a dialogue-based and narrative-impact assessment, rather than the traditional methods that proved very limited in assessing the complexity and reality of development beyond tracking money.
Creating, beyond bureaucratic regulations and accounting sheets, permanent, rights-based, participative, multi-stakeholder structured dialogues on development policies at all levels, is crucial and a prerequisite for ensuring, ex-ante, maximum impact, accountability and visibility.

CSOs, trade unions and others have argued strongly for the broad human rights framework as the main value and indicators for assessing impact in the achievement of development results in-country (including human rights, gender equality, decent work and environmental justice). This framework does not only refer to the established national developmental goals, but also to respect for the internationally agreed commitments such as ILO conventions and standards, UN-based resolutions on human rights, women's rights (CEDAW), and the UN convention on Economic, Social and Cultural Rights, etc.

Caminando se hace el camino

The debate on the private sector and development is far from new. Following the Great Depression of the 1930s, UN institutions, and in particular the ILO, were created to structure and restrain the uncontrollable and unpredictable outcomes of the "invisible hand". Gradually an international framework has emerged and adapted to the new challenges of global political and economic change in the past decades. The adoption of a set of universal core labour standards by the ILO in the 1990s was a clear response to the rampant undermining of labour protection under the globalisation drive, the Washington Consensus and the structural adjustment programmes with their deregulation, liberalisation and privatisation agendas.

The Decent Work Agenda,[15] promoted by the ILO since 1999, and the Global Jobs Pact (ILO, 2009) have in turn built upon these norms, translating social and political strategies to deal with the challenges of the globalisation. They are

15 http://www.ilo.org/public/english/dw/ilo-dw-english-web.swf

intended to address practical paths towards rights-based, inclusive and sustainable development by focusing on,

- Creating jobs – an economy that generates opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods.

- Guaranteeing rights at work – to obtain recognition and respect for the rights of workers. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that work for their interests.

- Extending social protection – to promote both inclusion and productivity by ensuring that women and men enjoy working conditions that are equal, safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income, and permit access to adequate healthcare.

- Promoting social dialogue – Involving strong and independent workers' and employers' organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies.

There is increased awareness that these dimension of development have rarely found their place in the traditional aid agenda. The relatively recent commitment by the trade union movement to the aid agenda[16] also demonstrates that from the social partners side, engaging on the development aid issues has not been high on its agenda.

But the changing paradigm coming out of the Busan High Level Forum (HLF), favouring an more "holistic" approach to development effectiveness, does fits much better the overall focus of trade unions on development, with its greater orientation toward economic, trade and investment policies, rather than the more narrow aid agenda.

The trade unions defined their position in a short statement to the Busan HLF highlighting the following elements:

> Private sector actors are very diverse and have the potential for contribution to sustainable development, in terms of job creation, improved living wages and transfer of technologies. To maximize these positive contributions, priority should be given to the **local private sector and to social economy** entities.
>
> - **Social partners** (workers' and employers' organizations) and social dialogue should be recognized as fundamental in promoting the private sector as a partner in sustainable development. Social dialogue is essential to ensure broad based democratic ownership of economic and social development objectives, including respect of core labour standards and the promotion of social equity. Through social dialogue employers and workers representatives contribute to shape effective social and economic development strategies and enhance conflict management and social peace. Social partners should be recognised as development actors in their own right.

16 The Trade Union Development Cooperation Network was launched in 2007 following the 1st ITUC Congress resolution from Vienna (November 2006). The engagement with CSO platforms started with the Ottawa Civil Society Forum in 2008.

- Private sector actors should respect and apply the **ILO principles and labour standards** as elaborated in the ILO Conventions and monitored by the ILO supervisory system. The private sector, and more in particular the transnational companies should observe the *Guiding Principles on Business and Human Rights:* Implementing the *United Nations 'Protect, Respect and Remedy' Framework*, the *ILO Tripartite Declaration on Multinational Enterprises and Social Policy*, the *OECD Guidelines for Multinational Enterprises*, the *UN Global Compact*, and follow the best practice of the IFC (WB)-ILO cooperation on promoting core labour standards throughout the production chain.

- **Transparency and accountability** should be at the heart of private sector engagement. Companies should report on their financial affairs, including tax and procurement procedures, on a country-by-country basis.

- **Private-Public Partnerships (PPP)** should be based on a thorough analysis of real needs, appropriateness on the longer term, fair risk sharing for the community, accessibility and affordability of the services and goods produced. They should genuinely respect a multi-stakeholder approach.

- **Social economy** entities (including cooperatives) should be supported and their potential as key actors for sustainable development should be developed.

- Private sector should adhere to the **development effectiveness principles and agenda**: the *Paris Declaration* and *Accra Agenda for Action* commitments as well as the internationally agreed standards on human rights, gender equality, labour rights and decent work, disability and environmental sustainability.

- **Policy coherence** is essential for equitable development: social, employment, economic, trade, financial and environmental policies have to go hand-in-hand in order to contribute to the achievement of the Internationally Agreed Development Goals (IADGs).

- **Country ownership** should be supported and promoted by respecting and using country systems by default (including local public procurement).

- **Democratic and inclusive ownership** of development should be supported by social integration and participation. The role of social partners and social dialogue are essential for ensuring ownership and effectiveness in elaborating and implementing the economic and social development strategies.

- The private sector must promote and adhere to international **transparency and accountability standards** in development cooperation.[17]

[17] Quoted from "Private sector in development", Trade union statement for the 4th High Level Forum on Aid Effectiveness in Busan, November 2011, accessable at http://www.ituc-csi.org/IMG/pdf/private_sector_in_development_tu_messages_for_hlf4.pdf.

Fighting the windmills?

The inclusion of the decent work target as MDG 1b for poverty reduction and the recent adoption of the Ministerial Declaration on "promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals"[18] in an indication that the development community worldwide is now integrating in concrete terms the social dimension of development as a key element of its sustainability.

Engaging with the private sector in development will above all be an in-country challenge and social dialogue, as a truly democratic multi stakeholder process will be crucial in this respect. The importance of power relations and the ownership by autonomous and recognised partners is crucial for producing lasting results and for driving development on a sustainable path. This has been demonstrated in many recent reports, such as the 2011 Norad report on Social Dialogue in Developing Countries,[19] evidence from the ILO [20] and its Decent Work Country Programmes,[21,] the joint strategy by ILO, IMF and the ITUC following the 2010 Oslo summit on the Challenges of Growth, Employment and Social cohesion,[22] and the more recent EU plans for promoting social dialogue in development.[23] Development aid can certainly support capacity development and capacity building of social partners as shown in some of the ILO programmes in the past decade.[24.] However building strong and mature labour relations will need long-term approaches and will involve a capacity for high-risk mitigation on the part of all partners, including development partners that would like to engage.

At the European Union and international level, the social and labour agenda, as a counter-part of the private sector engagement, has been recognised. But the reality at the level of individual donors is far from reassuring, as demonstrated by studies by the trade union confederation LO in Denmark and by the recent UK TUC report: "A decent job? DFID fails the TUC's Decent Work test".[25]

The way forward?

Trade union engagement with the private sector is not in the first place a development issue; however, the changing paradigm of development has recognised the key role the economic and social agendas for sustainability in development.

In this context, three strategic areas will be instrumental for dealing with the private sector in development:

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18 http://www.ilo.org/pardev/partnerships-and-relations/un-system/WCMS_185169/lang--en/index.htm

19 http://www.norad.no/en/tools-and-publications/publications/norad-reports/publication?key=268452

20 http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_176786.pdf

21 http://www.ilo.org/public/english/bureau/program/dwcp/index.htm

22 http://www.osloconference2010.org/

23 http://www.ituc-csi.org/social-dialogue-unearthed.html

24 PRODIAF Promotion du Dialogue Social en Afrique http://www.ilo.org/wcmsp5/groups/public/---ed_mas/---eval/documents/publication/wcms_160680.pdf

25 http://www.tuc.org.uk/international/tuc-21502-f0.cfm

- The promotion of social dialogue at country level as an instrument for economic and social policy, promoting ownership by workers and employers and ensure redistributive developmental policies. Donors and multilateral organisations, as well as the bilateral and multilateral actions of social partners themselves, can contribute to supporting capacity building and development in the long term, and to the establishment of a social dialogue "infrastructure" at country level to allow for structured social dialogues to take place.

- The application of the international agreed framework of ILO principles and standards at work, including its supervisory mechanism and technical assistance instruments. The interaction between a universally agreed standard system and a country-based implementation assessment has proven to be an effective way of protecting workers and employers from unwarranted interventions and unilateral imposition of rules and policies. Especially the Freedom of Association and collective bargaining as a fundamental right has been the pivotal piece of the enabling environment for workers and employers to defend their rights. The ILO as a tripartite structured dialogue and as a unique experience in the UN family also give positive grounds as to the benefits of a genuine multi-stakeholder system based on consultation, on co-decision and on joint monitoring and follow-up strategies.

- The promotion of policy coherence for development as a prerequisite for genuine development strategies. The costs of incoherence have so dramatically reversed much of the efforts of development aid that the issue of policy coherence has to be recognised as the key issue for improving international cooperation. Progress in policy coherence will be fundamental to the chances for genuine development strategies that are rights-based and owned by the countries and their populations. This calls for a new international governance system that can address not only the national state actors, but also the diversity of transnational actors and players. This new development governance should learn from the failure of the government-only based approach and opt radically for a multi-stakeholder approach that can keep all players accountable.

Progress in these areas should give the private sector the opportunities it needs and allow the potential it has to contribute to development. However, it is essential to resist the "believers" approach as preached by some in the recent preparatory debates for the post- 2015 development framework whereby aid will be replaced by the benefits of the "invisible hand".

Corporate Social Responsibility in Peru: An analysis from Non Government Organizations

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Why should corporate social responsibility be important in Peru?

Socio-economic actors in Peru usually respond to this question by referring to the changes that have taken place in the world and the country over the past decades. Accordingly, an issue that is immediately raised is Peru's growth pattern, which has caused a chain of reactions involving intense social conflicts, especially in the mining sector, the primary factor creating growth in recent years.

Peru's economic performance, with historical and growing inequality, is another critical issue, leading to the need to implement more effective policies to improve the impact of the economy on society. Hence an economy based primarily on exporting raw materials not only requires that extractive activities adapt international standards to make their products competitive, but also a new way to understand and interacting with social environments in relation to these activities.

As pointed out by Baltazar Caravedo, corporate social responsibility (CSR) "is not only to ensure markets for corporations operating in and exporting from Peru, it is intended to extend the benefits to the State and the society from foreign investment, offer new opportunities for employment and income, and boost the internal market".[2] In other words, the goal is to build a competitive economy, capable of reducing poverty and providing living conditions and terms of production that will benefit all its members.

In this context, there are those who consider the progress achieved in social responsibility quite significant, as suggested by Rossana Arbocco.[3] Others, such as Baltazar Caravedo, after a decade of intensive discourse on what the social responsibility of corporations should be, point out that not more than 1% of Peruvian companies have CSR programs. [4] Both statements expressed quite well the actual situation for CSR found in Peru: undeniable progress compared to the past, but, on the other hand, very weak advancements with regards to CSR's expected scope and impact.

Remarkable in the discourse on CSR in Peru is the little significance given to an essential feature, the potential and the challenges in forming alliances between organizations, specifically NGOs and corporations. In general, it seems that CSR has begun to be perceived as an alternative source of financial resources, in the context of a gradual decline in funds from international cooperation. In this regard, this chapter seeks to explore the potentialities and challenges in an area that is crucial to understanding: that is, how Peru, as a middle income country, is mobilizing its resources for development as well as the social awareness of NGOs' continued role as development agents.

[1] Eduardo Toche, Centro de Estudios y Promoción del Desarrollo DESCO; Perú

Non-governmental organizations and corporate social responsibility

Generally the view is held that NGOs are not likely to establish linkages and alliances on CSR with other entities, particularly corporations. But there is evidence that this is not true. It is important to develop an analysis that identifies what types of NGOs have major issues with these relationships, and the "conditions" that might allow NGO-corporate engagement.

The first distinction is grouping NGOs by origin. On one hand, there are international NGOs based in Peru, the so-called INGOs, and on the other hand, there are NGOs of national origin.

It is well known that the best and major relationships made with the private sector are to be found among the INGOs. This is because of confidence generated by their seemingly established "neutral" image in comparison to their national counterparts, which are perceived to be "politicized".

However, the crucial factor may be the internal processes of these INGOs: they follow standardized criteria of management and evaluation of their respective international centers, that is, ensuring management for results.

Country level NGOs could be grouped according to two dimensions: the "historical" NGOs and the "new " NGOs. The criteria differentiating them is not so much the length of time they exist, but actually a differentiation around objectives, lines of work and way of organizing themselves.

The "new" NGOs seek to be very precise and specific in their objectives, intending to be identified not so much as an NGO, but more as a "social enterprise". In this aspect, they seek efficiency and competitiveness by adopting business practices. But unlike business corporations, their objectives would be directed to improving social indicators strictly relating to their lines of work.

These "new" NGOs tend to be organized around specific lines of work, and generally, focus on their "technical" expertise, which in other words, puts aside factors considered "political". In doing so, the concern is to obtain results, narrowly defined, with much less consideration of a number of decisive circumstances that are part of the everyday life of a person, basically what can be consider the cultural dimension.

The range of topics in which "new" NGOs intervene is more or less wide, but the focus is on aspects such as sustainable environment, children, micro-credit, risk management and humanitarian interventions, nutrition, maternal and child health assistance, improvement of health and education indicators, good governance, among others. This focus seeks to highlight their "technical" understanding and, therefore, is directed to obtain results, but without a major concern about real and sustained change that could result from their intervention.

In other words, their projects are formulated and standardized in ways that seldom incorporate specificities from the context in which such interventions are applied. Thus, the technical impeccability may have limited impact on the factors that are important to change if the intervention is to be sustainable.

The "new" NGOs tend also to be organized around a business model, meaning that they establish very clear hierarchies in their decision-making processes. In this way, they are seeking to streamline institutional synergies and improve the operational management of the group, generate competitiveness and comparative advantages, maximize the use of the capacities in place, and develop efficient systems of internal and external information management. These characteristics provide these NGOs with an approach that appreciates very much how they profile themselves and make their proposals plausible, "how they sell themselves", in relation to the corporate world.

In the case of the "historical" Peruvian NGOs, their objectives are broad and generic, for example, "to promote a better quality of life of the population traditionally excluded". Their interventions are therefore multidimensional, (address different aspects of conditions affecting development) and, generally, comprehensive (i.e. these different aspects interrelating within a defined territorial space, such as an urban or rural orientation). Among these organizations are those that at some point became known as "Aid and Development NGOs", in other words, NGOs devoted to the promotion of development.

However, alongside development NGOs, are those organizations that are dedicated to specific issue areas such as human rights, gender, environment, labor rights, indigenous peoples, among others. The common denominator, which clearly differentiates them from "new" NGO, is, above all, their approach: they are guided by approaches that promote the exercise of rights. This implies that they focus more on the mobilization and organization of the population, than seeking "results" based on a rigid system of indicators.

These NGOs clearly direct their actions towards social empowerment in their projects. This is the measure of their sustainability, unlike "new" NGO, which tend to match the result of the project strictly with the objectives of the organization, without adapting them to the expectations of the so-called "beneficiaries".

Accordingly "historical" NGOs, the so-called development NGOs as well as the thematic ones, emphasize the building of a democratic institutional framework in which the key is citizens' participation through the strengthening of civil society. This is a framework that in general is perceived to be a "political" one. It is a framework that tends to give these organizations a national scope and, therefore with a purview much broader than the ones proposed by "new" NGO. The latter are more restricted to very specific and localized conditions, although it must be recognized that often their impact turns out to be much more effective.

On the other hand, these "historical NGOs", being "politicized", are prone to develop a significant degree of distrust of the State and as well corporate enterprises. This distrust in turn often creates a more closed attitude to organizational transparency, due to a widely held view among them that transparency can be a practice that can cause them problems (i.e. "giving information to the enemy"). But from another point of view, this secrecy is also an entrenched institutional practice whose origin is surely in their formation in large part by founders from left-wing parties, which in the past were semi-legal or illegal.

It is also important to note that aspects of organizational culture in "historical NGOs" are the product of relations that have been maintained for a long time with international cooperation agencies. One of their challenges is the enormous difficulty to "demonstrate and document" the results of their work, in part due to their notion that the promoters of development should be "invisible", and leave the realization of results to society.

Another important aspect for the "historical NGOs" is their focus in seeking resources from development cooperation agencies, usually without consideration for the diversification of their sources, or even less, the possibility of building a resource mobilization strategy. Indeed, then partnerships with corporations - given the current funding context and their possibilities - are designed as a substitute for declining opportunities in their relations with cooperation agencies. While not fully an alternative resource mobilization strategy, in the best case, exploring these corporate relationships means identifying an alternate source of income, while facing the gradual removal of international cooperation.

For "historical NGOs", in contrast to the "new " NGOs, these factors give the perception that the former, as organizations, have difficulties to even come up with concrete outputs, with deficiencies in their accountability, poor management and with little capacity to measure impacts.

It evident then why "new" NGOs and the majority of the INGOs are the ones more likely to successfully approach corporate enterprises. This is largely the result of the strengths of "new" NGOs and INGOs in the way they are organized -- "they do more and argue less" – and the nature of their projects, generally characterized by short-term and immediate results. This orientation is often opposite to the goals of "historical NGOs", such as strategic alliances with long-term objectives.

Something shared by all NGOs in Peru, regardless of their characteristics, is the little inclination they have for networking. All NGOs form their goals and operate in an isolated manner, while frequently declaring their intentions to work together. The truth is that they do not generate capabilities for networking and collaboration. "Historical NGOs" have been somewhat more successful, because some of their networks have existed for a long time, such as the *National Coordinator of Human Rights (CNDH), the Group of Citizen's Proposal (GPC)*, the *National Association of Centers (ANC)*, and the *Peruvian Environmental Network*, among others.

However, these networks did not particularly aim to establish broader socio-economic alliances, in which corporations, universities or other social organizations are involved. Summing up, in general NGO shortcomings become more evident in the absence of spaces for reflection on what kind of role civil society and the private sector need to engage around aid and development issues, including corporate social responsibility.

Lessons learned and conclusions

Contrary to what is sometimes portrayed, Peru still lacks an appropriate enabling environment for the development of corporate social responsibility (CSR). Developing such an environment is partially hindered by an absence of a full analysis of both the contextual aspects important for economic growth and the seemingly positive evolution of social indicators, which, however, are still worrying. But to pay exclusive attention to these factors may miss other aspects that can be seen as equally important, such as the fact that the economic model has created increasing economic "informalization".

Informalization turns out to be significantly high in sectors that generate major employment in the country, such those represented by the Association of Peruvian Entrepreneurs and the Peruvian Association of Micro and Small Enterprises. Informalization of large parts of the economy restricts the scope for CSR to mediumsized and large corporations. Informalization can also be extended to social organizations and NGOs. A general characteristic of these organizations is their high degree of informality and organizational precariousness.

Accordingly, a reading of NGOs on their mobilization of resources and adaptation to the environment of CSR, would conclude the following:

1. An important aspect that sidelines the analysis and diagnostics by NGOs is the context of profound and rapid changes arising in the global international cooperation architecture (including the withdrawal of aid funding from Latin America by donors) and these NGOs are the most affected negatively by these changes.

2. .CSR is not a matter of public policy, and in the best cases, the initiatives of the State focus on very circumstantial aspects of corporate behavior relating to management of short-term and sectoral level issues, such as conflict management. This is reflected in the limited standards produced by the State and its complete lack of definition with regards to CSR.

3. Even so, it cannot be denied that there has been a certain progress in the last decade, although in a very uneven manner and induced by the circumstances that need to be managed by the actors involved in CSR. To give an example, mining entrepreneurs have developed a discourse with more content than their colleagues in other productive branches, promoted by the fact that their activities endanger public goods owned by the population living in the environment of their production units. In the same way, those dedicated to financial services or deliverables have been driven to a greater sensitivity to their clients and communities with whom they engage. Similarly, the exporters of agricultural products are very attentive now to comply with existing international standards.

4. However, there has never been a holistic reflection on the extent to which the private sector sees themselves and is recognized as agents of development. Entrepreneurs have a reduced sense of the community and are, in general, limited to the scope of their activity (customers, suppliers, population affected by mining, workers in their companies, etc.).

5. On the other hand, NGOs and other entities engaged in international cooperation are also encountering the same difficulties, and with a few exceptions are trying to evolve out of these conditions.

6. This situation is highly complex and creates a diversity of perceptions and even contradictions. Hence the differences between wider social responsibility and corporate social responsibility can hardly be identified. When this happens, the roles of other actors are generally invisible.

7. In addition this diversity of perceptions often does not include ways of understanding sustainable development, which theoretically should be the take off point from where the discourse of CSR should start.

8. The difficulties encountered in establishing partnerships between the actors in social responsibility and CRS are not particular to this environment. They have to be seen as due to more general factors such as organizational weaknesses, few mechanisms to facilitate conflict resolution, the absence

of information and, above all, the high level of distrust among these different actors.

9. The lack of clear rules significantly hinders awareness of objectives and without this basic transparency it becomes almost impossible for different actors to work on the possibility of building strategic alliances.

10. There are large power imbalances between the different actors involved, which hinders the creation of a proper equitable relationship among them: on one side, the corporation has considerable resources, and on the other, NGOs have the *know-how*, but resources are the decisive factor.

11. In general, NGOs have a more social approach, since they seek to promote public goods and social development, while the corporate world is guided by practical ways in which to first realize their own profits, even though, as already noted, they also incorporate the social dimension, especially those corporations engaged in the extractive industry, seeking benefits for their workers and their communities.

12. In the discourse on social responsibility led by NGOs there are two issues that seem to be emphasized: the need to promote networking and a more intense exchange of information.

13. Finally, a key element that is repeated but is seldom discussed in alliances between NGOs and the corporate world is the assumption that the latter are the financers of the process. This element is crucial because at any time this can also appear as an obstacle for creating a common interest ("the corporations pay, the NGOs execute what the corporate wants") and for generating an adequate equity among the members of an alliance.

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2 In, http://www.rstodos.org/index.php?option=com_content & view = article & id = 63 & Itemid = 81

3 Rossana Arbocco; "CSR: a long way to go". In, power; April 19, 2012; Lima, Peru, p 90.

4 Baltazar Caravedo: "today, companies that have bad reputation begin to lose clients". In supplement to Corporate Social responsibility; La República newspaper, April 27, 2012; Lima, Peru; pp. 2-5.