# Part 1

Reports

# Aid and the Private Sector: A Catalyst for Poverty Reduction

The Reality of Aid International Coordinating Committee

## The private sector and development effectiveness

In the words of a review of donor policies in this *Report*, the "private sector" has emerged as the new "donor darling". According to this policy discourse, donor efforts to improve conditions and support expanding private enterprise activity will enable and rehabilitate a focus on economic growth. Long discredited in the 1980s as the strategic vector for development, economic growth, albeit now "sustainable" and "inclusive", has been reaffirmed as the primary path for progress and ending global poverty.

"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". This affirmation in the 2011 *Busan Partnership for Effective Development Cooperation* (BPd) – the key outcome of the Fourth High Level Forum (HLF4), held in Busan, South Korea in late November 2011 – comes with an explicit commitment to "enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction" [32 & §32(b)]. The private sector is considered a development partner crucial to overcoming the challenges for "effective development", which is *"driven* by strong, sustainable and inclusive growth [emphasis added]". [§28(a)]

Busan was not unique in its renewed emphasis on the private sector. It merely crystallized an increasing focus on the private sector among officials from DAC donor and middle-income aid providing countries at events like the 2010 UN Millennium Summit, recent G20 meetings, and in various bilateral donor statements and policies.

## Why engage with the private sector in development?

Growth in economic activity is essential for creating conditions for people to overcome multiple dimensions of poverty throughout the world. The private sector, often broadly defined, has been seen as the engine for economic growth. Yet the private sector includes a wide variety of actors, from large private enterprises whose primary purpose is to maximize profits for shareholders, to millions of individuals who conduct private economic activities to support themselves and their families. Not enough attention has been given by development actors to the nature of different private economic actors and activity, and related policies for improving and sustaining livelihoods for people living in poverty.

The potential contribution to economic activity by smallholder producers, farmers and workers in the agricultural sector for food security, for example, continues to be neglected by DAC donors. Despite recent attention to food security at the G8 meetings in L'Aquila (Italy, 2009) and Camp David (US, 2012), these donors, alongside the Gates Foundation, aim to modernize agriculture through private sector partnerships and research, but more often with major agribusiness firms. With notable exception of the cooperative movement and specialized micro-finance, civil society organizations (CSOs) have also largely ignored economic conditions for poverty reduction. CSOs directed only 10% of their aid resources from DAC donors to "productive sectors" in 2010, while more than half has been allocated to "social infrastructure and services" (human development priorities in education, health, reproductive services, etc.).[1]

The private sector is no doubt a major actor for creating economic opportunities for people living in poverty. It does so through investment, fair and decent employment, expanding markets, creating innovation and generating sources of revenue for government programs. But not all such investment or innovation has an impact on poverty and growing socio-economic inequalities in many countries experiencing strong economic growth.

From the point of view of development impacts, the purposes of engaging the private sector through aid resources must be clear. Too often, according to authors in this *Report*, the emphasis has been on donor economic interests that are merging donor investment and trade policy with development policy and with augmenting declining aid through expanding export credits or development finance institutions. But these approaches fail to ask how such approaches are empowering people to move out of poverty and truly benefit from being incorporated into growth and formal economies. According to the OECD Development Assistance Committee, best practice in private sector development (PSD) for reducing poverty suggests "greater efforts to address the needs and maximize the contributions of the many informal enterprises, family run farms and self-employed men and women that conduct business in developing countries".[2]

In renewing attention to the private sector, donors have, for the most part, failed to analyze how various forms of economic activities can genuinely contribute to poverty reduction, given the wide array of formal and informal private economic actors. These range from large global transnational corporations and financial intermediaries, domestic companies in developing countries, to micro, small, and medium–sized enterprises (MSMEs), and a variety of social enterprises.

While welcoming renewed attention to the private sector, *Reality of Aid* contributors stress that such engagement must be coherent within the overall goals of development effectiveness and the creation of inclusive national development plans – focusing on reducing both poverty and socio-economic inequalities. The implementation of donor private sector-support strategies would more likely take into account these development goals if they were guided by multi-stakeholder dialogue that includes the views and initiatives of communities of poor, marginalized populations and other social actors such as trade unions at the country level.

1 For details see the aid trends chapter in this *Report*.

2 OECD Development Assistance Committee, *Promoting Pro-Poor Growth and Private Sector Development*, 2006, page 10 accessible at http://www.oecd.org/dataoecd/43/63/36427804.pdf

Private sector actors can have many legitimate economic motives and incentives to invest. But if they are to be true partners in development, they must be prepared to collaborate in ways that improve the social and economic rights of poor and marginalized populations. Such initiatives would emphasize the deliberate creation of economic opportunities for these excluded populations, focus on the economic empowerment of women, create conditions for decent work, and support measures and funds that promote socio-economic inclusion and social protection. UN Special Human Rights Rapporteurs on extreme poverty and on food security recently proposed a US$20 billion global fund to augment government resources to support a minimum social protection floor in all countries, addressing unemployment, illness, disability or crop failures.[3]

To enable progress in these important areas for development, donor aid resources could be directed to those sections of the private sector and to other development actors, with capacities and initiatives, inter alia,

- to strengthen and develop smallholder agriculture,
- to support the development and improvement of conditions for those employed in the informal sector,
- to remove legal and institutional barriers for women in economic activity,
- to reform and monitor regulatory conditions for decent work,
- to direct investment to small and medium-scale enterprise, cooperatives and other forms of social enterprise.

Donors would for the most part avoid partnerships and initiatives with large for-profit corporations, which often are based in the donor country, and which at best, have only indirect spin-offs for people in poverty.

Unfortunately the evidence in this *Reality of Aid Report,* as noted above, suggests that for most donors the motivation and directions of engagement with the private sector lies elsewhere. Declining ODA is clearly driving renewed attention to the private sector. ODA in 2011 fell by 2.7% in real terms, breaking 14 years of real growth since 1997 (excluding debt cancellation). Moreover, the *Report* draws attention to the growing gap between donors' aid promises and reality – in 2011 ODA was more than US$40 billion below what would have been expected if donors had lived up to their 2005 Gleneagles commitments.[4] In a context of failed commitments and further declines in ODA in the coming years, several OECD country chapters highlight that aid is increasingly seen as a catalyst to generate additional financial resources for development through partnerships with the private sector. For some donors, public investment in Development Finance Institutions (DFIs), for example, is an attractive option, sometimes "cost-free" to the public purse, in the face of political pressures to continue to reduce overall aid spending.[5]

A policy focus on private sector-driven economic growth as the engine for development can also be an attractive political option for some

[3] See M. Tran, "UN Calls for $20bn to Fund Social Safety Nets in World's Poorest Countries", Guardian, October 9, 2012.

[4] For more details see the global aid trends chapter in this *Report*.

[5] In Belgium for example allocation of ODA resources to Development Finance Institutions is considered an "investment" and is therefore "off-budget" in the annual budget of the government. See "What's in it for development? Assessing the Belgian Investment Company for Developing Countries' (BIO) Development Outcomes" in this Report. See also "Private Profit for Public Good?" in this Report.

governments. For several donors in the past decade (Canada, New Zealand, the U.K. and Australia) this focus brings aid policy in line with a domestic political orientation that values a reduced role for government and a public-private orientation in the provision of public goods. From this perspective, increasing economic growth will generate employment and government tax revenues by expanding self-regulating markets and eliminating government policies that limit "market efficiencies". Development as economic growth also provides a rationale for allocating aid resources in ways that strengthen donor international economic policies, particularly trade priorities or support for donor-country corporate investment interests in developing countries.[6]

While almost all donor policies now place renewed attention on the private sector, contributions to the *Report* highlight the various and different ways in which OECD donors and other aid providers are relating to the private sector. In this regard, the private sector may be a direct **recipient** of aid for their investments and activities (subsidies and loans); the private sector can be a **contractor** in implementing aid projects; the private sector can be **partners** in public-private partnerships or through blending commercial loans with aid grants; and private sector-based organizations can be **providers** of aid-equivalent development resources (private philanthropic foundations and corporate donations).[7]

## Modalities for engaging the private sector in development

### 1) Development Finance Institutions

A primary and expanding modality for bilateral donor engagement with the private sector has been through Development Finance Institutions (DFIs), such as the World Bank's International Finance Corporation (IFC), or bilateral development finance agencies such as the Belgium Investment Company for Developing Countries (BIO), Swedfund in Sweden, Finnfund in Finland or SIFEM in Switzerland.[8] The scale of operations for DFIs has been increasing dramatically with estimates of US$40 billion in DFI investments in 2010 increasing to US$100 billion by 2015. DFIs organize their investment facilities and capital as "blended mechanisms", often bringing together donor aid grants, loans and investment guarantees with private resources from the corporate and financial sector.

A contribution from ALOP and APRODEV in this *Report* describes the Latin American Investment Facility, created by the European Commission (EC), with grants from the EC and loans from other European DFIs and regional Latin American banks. The EC's intention is to create more DFIs in other geographic regions of the world. For EC officials, these are attractive facilities to leverage EU aid (with loans from

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6 See for example, "Australia's Mining for Development Initiative" in this *Report*

7 The *Report's* authors concentrate on relationships with the private sector as recipients, contractors and partners. The aid trends chapter identifies US$12.2 billion contributed through foundations and corporations, with the Gates Foundation alone exceeding the annual disbursements of 11 DAC donor countries. While influence of private corporate-oriented foundations is becoming an increasingly important factor in bilateral development cooperation in many developing countries, the emphasis in this *Report* is on the policies and programs of official bilateral donors.

8 See "What's in it for development?" and the OECD donor chapters for Sweden, Finland and Switzerland in this *Report*. EURODAD provides a comprehensive overview of Development Finance Institutions in this volume and in a stand-alone report, *Private profit for public good? Can investing in private companies deliver for the poor?*

other actors up to 40 times the value of EU aid grants). They provide European visibility in a region (Latin America) where European bilateral donors, and also the EU, are downsizing traditional aid programs. They create conditions for continued policy dialogue on development priorities between European governments, regional governments and the private sector.

In Sweden, the government is increasing its funding through Swedfund, a state venture capital firm, adding €130 million in the next three years. The aim is "to encourage the growth of robust small and medium size enterprises in countries where it is not possible to mobilize private capital for these ends".[9] In Belgium, donor investment in private sector development (PSD) grew from €44.6 million in 2008 to €123.6 million in 2011, almost exclusively through BIO-Invest, the Belgian DFI. BIO-Invest has a strong focus on the finance sector (54% of its portfolio) and on infrastructure projects.

While the mandates for many DFIs refer to public policy goals for development, as investment banks they must also be attractive to private capital investors. They therefore look to balance risk in supporting development initiatives, where capital is not normally available, with the need to demonstrate returns for their private investors. A review of BIO-Invest highlights this dilemma with the ideal "business case" for an investment said to be "a profitable export-oriented company that has been growing for at least five years and is looking for Euro or US dollar financing, able to absorb €1 million to €3 million."[10] These are hardly opportunities for small local enterprises or for formal/informal economic activities, in need of small strategic capital infusions, in which the poor and marginalized may be engaged and benefit.

*Reality of Aid* authors offer several important critiques of DFIs from the point of view of "development effectiveness" of aid resources. Are DFI investments, based on blending ODA with capital and initiatives in the private sector, creating development outcomes that reduce poverty and strengthen the capacity of poor and vulnerable populations to claim their rights?

1) **Achieving public policy goals for development**

   The evidence suggests that it has been inherently difficult to reconcile corporate private sector interests for quick financial returns with achieving development goals for poverty reduction, which is the intended mandate for most DFIs, but which are often achieved over the longer-term. According to an evaluation of the World Bank's IFC investment portfolio, "fewer than half of the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of beneficiaries, or tracking of impacts".[11] The Finnish OECD chapter points out that Finnfund must support "Finnish interest", which in practice has meant creating commercial benefits for Finnish business.

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9 See "Sweden: Improving transparency, challenges in collaboration with the private sector", in this volume.

10 See "What's in it for development?" *op. cit.*

11 Quoted in EURODAD, *op. cit.*, and in the EURODAD chapter in this *Report*.

The Latin American thematic chapter questions whether the DFI modality is the most suitable one to tackle the problem of inequality in the region, where about 180 million people still live in poverty. The focus of the Latin American facility is on energy, environment and transportation, areas where the EU has high geo-political and economic interests. Only one of the projects examined supported small and medium enterprises directly, while others supported procurement for mega-infrastructure projects.

2) **Leveraging additional resources for development**

Analysis of DFI portfolios does not sustain the rationale that ODA is actually leveraging additional private sector resources *that would not otherwise have been invested*. It cannot just be assumed that public investment of aid resources has *caused* additional private investment. While some donors give priority to low-income countries through their DFI (e.g. Sweden), the vast majority of investment still goes to middle-income countries that have well-developed finance sectors. Over half of the World Bank's IFC investments, for example, are in the finance, infrastructure and extractive sectors.[12] The thematic chapter on BIO-Invest (the Belgian DFI) points to evidence from Nicaragua, Peru and Bosnia that DFIs are often in competition with other private sector investors to seek out low risk investment opportunities.

3) **Transparency, ownership and inclusion of beneficiaries**

The lack of transparency regarding intended investments, including their goals, implementation strategies and beneficiaries, is a common and serious issue for DFIs. It is difficult or impossible for analysts in most donor and recipient countries to track and monitor the impact of DFI investments, particularly where these investments use financial intermediaries in the private sector. While most donors now are implementing improved transparency for their aid allocations, DFIs and financial intermediaries have no obligations to meet minimum transparency requirements. Despite €500 million in ODA invested in BIO-Invest since 2001, BIO-Invest lies outside the law governing Belgian development cooperation. Commercial sensitivity is cited as a common rationale for very limited transparency for DFI investment portfolios.

It is little wonder then that the Latin American thematic chapter concludes their analysis of the EC-supported regional DFI with the observation that "the role of beneficiaries in setting strategic priorities is not clear and there is also little formal information available as to how specific choices are made as to which project to support".[13] The authors, among others in this *Report*, call for maximum transparency, monitoring and evaluation requirements that clearly address the overarching goal of poverty reduction in blending finance facilities.

## 2. Partnering and supporting private sector development

The *Report's* authors describe a diverse range of direct and indirect donor programs supporting private sector development (PSD) and private sector partnerships (public-private partnerships or PPPs). As noted earlier, most donors view the

[12] For a detailed discussion of the issue of "additionality" see Jesse Griffiths, "Leveraging private sector finance: How does it work?", Bretton Woods Project, April 2012, accessed at www.brettonwoodsproject.org/art-570165.

[13] See APRODEV and ALOP, "Aid for the Latin American Investment Facility" in this *Report*

private sector, however defined, as an important "development actor". But they continue to have different approaches and emphases in integrating PSD into their aid programs. A thematic chapter reviewing donor PSD policies, contributed by The North South Institute and the Canadian Council for International Co-operation (CCIC), creates a useful typology for understanding these different donor interventions:

- Macro level interventions, focusing on the business enabling environment (property rights, financial and business regulations, sound administrative and political governance);
- Meso level interventions, addressing market issues to better integrate actors into the market (aid-for-trade, creating and supporting value-chains, transfer of technical innovation);
- Micro level interventions, building support for targeted businesses and people (financial support to small and medium enterprises, vocational training, women's rights in the workplace, strengthening health and education systems for working populations); and
- Setting standards, through support for national and international corporate social responsibility standards (Extractive Industry Initiative, Publish What You Pay) and best practice research.

What are some examples? In Finland, an Industrial Cooperation Instrument is being used to strengthen commercial linkages for the mining and forestry sectors as a contribution to "aid-for-trade" donor goals. In October 2011, Australia launched its Australian Mining and Development Initiative (AMDI) to promote "sustainable mining" in developing countries. The Australian thematic chapter presents two case studies for PNG liquefied natural gas and an African Partnership Initiative to demonstrate the close relationship between this sustainable mining agenda and Australian mining interests. Rather than regulating Australian mining companies' operations abroad, these authors conclude, "The boundaries [in these programs] are unclear between improving mining operations, entrenching a flawed development model and spreading the 'resource curse'".[14]

Other donors such as Canada do not have a PSD program per se, but rather create a variety of initiatives related to "sustainable economic growth" that include direct investment initiatives in support of micro, small and medium enterprise, smallholder farmers and women entrepreneurs. They are contributing and leading several "Challenge Funds" with the private sector, such as the Advanced Market Initiative for the provision of vaccines.

The sector definition of what is included in PSD varies greatly among donors. Australia says that 27% of its ODA expenditures in 2012/13 will be in its "sustainable economic development" priority area, which includes all investments for food security and agriculture. Norway includes all budget support, all actions relating to debt cancellation and all multi-sector DAC sector codes when reporting its contributions to economic growth. For Canada, CIDA calculates that 22.3% of CIDA's disbursements in 2009/10 were for "sustainable economic growth" in a wide variety of sectors. A large proportion (33%) of these Canadian investments were directed to support for reforms in public sector financial management and in legal and regulatory regimes. CIDA has also had a history of working with like-minded donors to seek reforms of government

[14] "Australia's Mining for Development Initiative: Blurring the boundaries between private profit and public development", in this *Report*.

environmental and regulatory regimes in developing countries to create more "business-friendly" conditions for foreign investments by the extractive industries.[15] There are, however, no easy calculations of the amount of PPP and PSD disbursements within these priority areas.

The Netherlands chapter similarly stresses the importance for Dutch aid in creating the proper "enabling environment" for the private sector: through a wide range of thematic areas including good governance, macro-economic stability, appropriate physical and technological infrastructure, legal security, an effective tax system, labour law, access to social security, trade unions and employers' associations, and a strong civil society.

For the past decade, USAID has been promoting a Global Development Alliance, which is a market-based business model for US aid-supported partnerships between the public and private sector to work towards shared development goals. According to Rajiv Shah, USAID Administrator, "…[W]e have to do a far better job of working with private firms – be they domestic or foreign, established or entrepreneurial … We must partner with the private sector much more deeply from the start, instead of treating companies as just another funding source for our development work. … In short, we must embrace a new wave of creative, enlightened capitalism". (Rajiv Shah, October 20, 2011)

Since 2001, USAID has engaged in over 1,000 private sector partnerships with over 3,000 partners, most recently in the New Alliance for Food Security and Nutrition to leverage private sector investment. While this New Alliance emphasizes the importance of investing in smallholder farmers, according to American and African CSOs, it is not clear to what extent the latter will be consulted or benefit from corporate partnerships.

Middle-income aid providers for South-South Cooperation (SSC) have been increasing south-south resource and technical transfers in recent years.[16] For Brazil, international cooperation has grown from US$25 million in 2005 to more than US$360 million in 2009. But if financial and commercial cooperation between Brazil and other developing countries is included, the value of loans for export, for example, amounted to US$1.8 billion in these years.[17] Brazilian companies received these loans in support of the internationalization of their businesses either directly or through tied aid provisions.[18]

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15 See Blackwood, E., and Stewart, V., "CIDA and Mining Sector: Extractive Industries as an Overseas Development Strategy", in Brown, S. (editor), *Struggling for Effectiveness: CIDA and Canadian Foreign Aid,* Montreal: McGill-Queen's University Press, 2012.

16 *Reality of Aid* estimates South-South Cooperation as an ODA-consistent resource at US$15 billion, but also represents a much larger transfer of resources (perhaps up to US$50 billion) when non-ODA-like financing (investment and export credits etc.) are included.

17 See "Emerging Brazilian Cooperation" in this *Report* and World Bank & IPEA, "Bridging the Atlantic: Brazil and Sub-Saharan Africa, South-South Partnering for Growth", 2011, accessible at http://siteresources.worldbank.org/AFRICAEXT/Resources/africa-brazil-bridging-final.pdf.

18 The Brazilian chapter, "Emerging Brazilian Cooperation", gives an example for a Brazilian program, More Food Africa, which has three lines of action: "First a technical cooperation project is signed with authorities in each country [Ministries of Agriculture], with the objective of facilitating the exchange of technical assistance and extension activities for rural areas. The Brazilian Government offers credit through concessional lending to the country to import Brazilian agricultural machinery and equipment, considered by the partner country as necessary to implement its national strategy for the development of family farming. Finally, an agreement with the Brazilian industrial sector is made, in which African country partners formulate a list of machinery needed, which the [Brazilian] Ministry of Agrarian Development negotiates prices with the relevant trade unions in Brazil with predetermined conditions."

The authors of this *Reality of Aid* chapter note CSO concerns that large Brazilian companies operating in Africa may create unfair competition and take advantage of often weak monitoring in Africa of social and environmental impacts of projects. They suggest the need for greater transparency and due diligence in government aid funding in support of the internationalization of Brazilian private companies. How closely do Brazilian authorities assess these initiatives in relation to the official discourse on South-South Cooperation? To strengthen accountability, the authors also call for support to CSOs in Brazilian South-South Cooperation "to participate in the design, implementation and execution of projects, and to encourage mobilization of civil society in the partner countries and their integration into global citizenship movements".[19]

## Issues in Private Sector Development

The Canada chapter underscores the notion that donor initiatives for PSD should not be about creating conditions for the private sector to develop, but rather addressing the conditions for how the private sector can contribute to development, and in particular to a shared commitment to reduce poverty and inequality. Yet, as many of the *Reality of Aid* authors point out, donor or developing country governments have undertaken little due diligence in assessing the distributional impacts of different avenues to encourage economic growth on inequality, or the potential effects of various forms of private sector development on the livelihoods, assets and capacities of poor populations.

Not all donor-supported PSD is directed to or aligns with large-scale corporate interests in developing countries. Several donors give significant priority to micro-credit, to small and medium-sized businesses, women's economic empowerment and to smallholder agriculture. But unfortunately the sector coding published by the DAC does not allow analysts to distinguish the degree to which these investments make up a significant proportion of aid for PSD.[20] As noted earlier, donors somewhat arbitrarily assign very broad DAC sector codes in identifying their "economic growth" or PSD portfolio.

Beyond issues of basic transparency, *Reality of Aid* country contributors draw attention to several core issues that need to be addressed if PSD is to be effective in achieving development outcomes.

1. **Clarity about which private sector is being supported and why.**

   Channeling aid for PSD sometimes appears to be a goal in and of itself. As noted above, the "private sector" is highly diverse, which can be local, national or global in scope. PSD is often a "catch-all" for ad hoc interactions with numerous actors that may or may not be the most effective modality to address particular development issues for poor people, irrespective of their "innovative approaches" (US chapter). [21]

[19] See "Emerging Brazilian Cooperation" in this volume.

[20] The DAC sector coding does permit such disaggregation but this level of coding is not available on the DAC's Creditor Reporting System web site.

[21] With twenty years of significant private sector-driven growth, Ghana has recently moved to "low middle income" status. Nevertheless, the numbers of people living in poverty on less than $1.25 a day decreased only slightly from just over 7 million, to just under 7 million, despite rising per capita income.

Private sector development strategies should target the areas and sectors where poor people live and are economically active, taking account their interests and needs. Women in particular face many barriers and levels of discrimination in such areas as legal rights to assets, access to productive credits, employment discrimination, and basic rights to participate in the economy with equal access to opportunities and benefits.

Rosalind Eyben, working with PovNet at the DAC, has elaborated a useful matrix of economic, social and political strategies to empower people to move out of poverty and truly benefit from economic growth processes.[22] According to good practice and development experience, these strategies should address the following:

Promote economic empowerment: 1) Strengthening the poor's access to and control of productive assets; 2) Promoting decent paid and unpaid work; and 3) Making product and capital markets work better for poor people.

Take account of political empowerment: 1) Strengthening the capacities for direct political representation of poor people; 2) Supporting collective action (civil society, cooperatives, unions) for economic, social and political change, recognizing that political empowerment of people living in poverty is both complex and long-term.

Enable social empowerment: 1) Promoting social inclusion and non-discrimination; 2) Strengthening capacities for critical awareness among social actors of conditions affecting the lives of poor and discriminated populations; and 3) Stressing the importance of human capacities for the poor through equitable, responsive and accountable service delivery (in education and health).

1. **Few references to corporate responsibility standards in determining private sector partnerships.**

The Republic of Korean chapter draws attention to the strong role that the Korean private sector is assuming in Korean development projects, particularly large infrastructure projects. But the author also notes that there are few discussions in Korea to put in place guidelines and standards relating to corporate responsibilities towards the environment and the human rights of affected populations in developing countries. This is a situation not unique to Korea, which is a donor that only recently joined the OECD DAC. What measures have donors put in place to assess the implications of large-scale infrastructure projects for the rights of small farmers, of indigenous peoples, or other marginalized affected populations?

The North South Institute / CCIC chapter documents donor references to common international norms and standards for corporate responsibility in their economic growth and/or PSD strategies.[23] Seven of the 22 donors reviewed had no reference, while half (11) made explicit reference to two or more of the common voluntary standards or guidelines. However, there is insufficient information to assess the degree to which these standards are actually being taken into account in the determination and implementation of PSD programs.

22 Rosalind Eyben, "Empowerment and Pro-Poor Growth: Policy Guidance Note" A Draft Policy Note produced for the OECD DAC POVNET, December 2010, mimeo.

23 They looked at the UN Global Compact, the OECD Guidelines on Multinational Enterprises, the ILO core labour covenants, and the UN Human Rights Guiding Principles on Business and Human Rights.

Few donors actually have explicit accreditation procedures for considering which private sector partners to engage, unlike the various criteria that guide donor partnerships with CSOs. In Switzerland, for example, rather than enforce the standards mentioned in the policy, with companies whose subsidiaries may have been accused of human rights violations or environmental damage, the Swiss Agency for Development and Cooperation, SDC, will "invite [these] multinational corporations to participate actively in development dialogues to develop sensitivity to social and environmental issues". The Dutch government, by contrast, has made adherence to the OECD *Guidelines for Multinational Enterprises* mandatory for every company receiving ODA funding.

2. **Application of aid and development effectiveness frameworks.**

Some donors such as Sweden have published *Policy Guidelines for Sida's Support to Private Sector Development* to accompany significant increases in aid to PSD. Yet monitoring and assessment of opportunities against common aid and development effectiveness frameworks remains weak. An independent assessment by Swedish CSOs concluded that some PSD projects lacked clear development objectives or the ability to demonstrate development results. While Sweden has formally untied all of its aid, research suggests that aid allocated to cooperation with the private sector is primarily directed to Swedish companies. The chapter on Japan's aid notes the continued very close connection between allocations for Public-Private Partnerships and Japanese foreign and commercial interests.

Only a couple of donors (Spain and New Zealand) make reference to aid effectiveness principles in their PSD policies. In the Netherlands, CSOs advocate for the use of more robust aid effectiveness criteria for ensuring positive impacts of Dutch private sector investments in developing countries on poverty reduction, climate change mitigation and adaptation and sustainability. A recent overview of private actors as donors for development pointed to several unaddressed aid effectiveness issues: the fragmentation of projects as private donors avoid large-scale projects; increased volatility of aid as these donors seek short-term results; and increased visibility of private donors at the expense of ownership by national developing country actors.[24]

According to evidence in the Bangladesh chapter donor-supported private sector projects seldom follow the development principles of the Paris Declaration and the Accra Agenda for Action. They have generally been the result of direct agreement between the donor and the private sector actors, outside of the national development strategy and ownership of the national government. Governments at all levels are challenged even to monitor these projects. The Swiss chapter confirms this observation. Roughly half of all new Public-Private Development Partnerships are developed by the heads of the Swiss coordination offices in priority countries in direct contact with Swiss enterprises that are present locally. Project monitoring is undertaken by the enterprises, with weak oversight by the donor.

2. **Centrality of policy coherence in directing economic growth and PSD towards development goals.**

In Canada the former International Cooperation minister has been quoted as saying that she saw no difference between Canada's trade and foreign policy interests and Canadian development goals. A recent

[24] Development Policy Forum, "The Private Sector and Development Cooperation", Policy Paper, November 2011, page 16.

DAC peer review for Canada commented, "There should be no confusion between development objectives and the promotion of commercial interests." Indeed the issue of policy coherence between the stated purposes of donor programs that engage the private sector for development and other important policy areas is a critical condition for realizing more sustainable and equitable development outcomes from PSD.

To highlight the scale and reach of issues of policy coherence, a recent study by the Tax Justice Network (UK) [25] points out that rich individuals have hidden in tax havens abroad as much as US$21 trillion, and possibly US$32 trillion, from their home countries – an amount more than the American and Japanese Gross Domestic Product put together. Governments, mainly in the North, but also some in the South such as Nigeria, could derive between US$250 and US$300 billion in annual tax revenue from this "missing wealth". Some of this hidden wealth is no doubt the product of corruption in developing countries; but much of it is tax avoidance by a rich global elite that faces no scrutiny or repercussions. The NGO, Global Financial Integrity, has calculated that approximately 60-65% of the illicit capital flight from developing countries results from commercial transactions within multinationals, 30-35% from criminal activities such as trading of weapons, drugs and humans, and only 3% from corruption.[26] If an enabling environment for PSD in developing countries requires due process and the rule of law, perhaps wealthy countries could seriously tackle financial tax havens and exchange tax information to enforce tax laws and prevent the laundering of stolen assets.

To its credit, Sweden has issued a general ban to prevent Swedfund from making new investments in funds based in tax havens. Finland has also made the connection between PSD policies and the importance of government attention to illicit financial flows and tax havens, which will be included in the 2013 Guidance Note to Finnfund. Yet this same country opposed measures at the EU for wide-ranging country and project level transparency of tax payments by EU extractive industries active in developing countries.[27]

As the WTO Doha Round of trade talks remain dormant and rich countries pursue bilateral trade deals, wealthy countries, particularly the EU and the United States, persist in avoiding issues of agricultural subsidies in their jurisdictions. These subsidies continue to have significant impact on agricultural development opportunities for developing country smallholder producers. The 2010 UNCTAD Report on Least Developed Countries points out that, for the poorest countries to benefit from trade and investment liberalization, these policies must be tailored to strengthen domestic industrial growth.[28] Reduction of agricultural subsidies in developed countries was not part of the commitments in the G8 2008 L'Aquila Initiative or the 2012 New Alliance to Increase Food and Nutrition Security.

Many developed countries also take advantage of their economic weight to

[25] See Tax Justice Network, "The Price of Offshore Revisited" and "Inequality: You don't know the half of it", July 2012, http://www.taxjustice.net/cms/front_content.php?idcat=148.

[26] Quoted from Kristina Fröberg & Attiya Waris, "Bringing the billions back: How Africa and Europe can end illicit capital flight", Forum Syd, Global Studies, #37, 2011, page 47, accessible at http://www.forumsyd.org/upload/Bringing%20the%20billions%20back.pdf

[27] See the Finnish chapter in this *Report.*

[28] UNCTAD, *The Least Developed Countries Report 2010*, Geneva, November 2010, pages 7, 30 and 35, accessible at http://www.unctad.org/Templates/Page.asp?intItemID=1397&lang=1.

pursue open investment regimes to the benefit of their domestic corporations through bilateral trade and investment deals, while resisting measures for transparency and "publish what you pay" payments in developing countries by their extractive industries.

## Recommendations and Key Messages

The private sector has a crucial role to play in tackling the economic and social underpinnings that sustain poverty and inequality across the developing world. But the issue is less "value for money", or "leveraging" private finance, or "private sector development" per se, but rather how to employ aid as a catalytic resource in ways that create genuinely inclusive and equitable economic growth. The deployment of aid for these purposes must at its heart be about strengthening the economic rights for people living in poverty. Too often the focus of donors and southern aid providers has been on large-scale investments or infrastructure development to increase economic growth. And too often, these interventions target the formal economy instead of also addressing the realities of very significant informal economies.

The informal economy is often a "survival economy" where millions of people and their families live in poverty. ODA partnering with various private sector actors or contributing to private sector development in the South is not just a question of finance or increasing economic activity. It must also be a question of social justice – changing the underlying socio-economic conditions that keep people trapped in poverty-induced livelihoods in this informal sector, and often in a lifetime of unsustainable personal (micro) debt. Public and private sector options that reduce poverty, address inequality, and promote social justice, require appropriate country-level processes that are inclusive of the poor and that start from their situation and needs.

The global civil society *Reality of Aid 2012 Report* adopts a framework of human rights, social and economic justice. Based on the contributions to this *Report,* the Reality of Aid Network calls upon all aid providers, including official DAC donors, Development Finance Institutions (DFIs), multilateral organizations, and partners in South-South Cooperation, to implement the following recommendations:[29]

1. **Restore donor commitments to increase ODA resources dedicated to poverty eradication and reducing inequality.** Investments of aid in blended public/private funds and in public-private partnerships should clearly demonstrate the basis for considering private sector resources additional and aligned with human development goals.

2. **Ensure that aid-supported private sector investments, private sector development and an enabling environment for the private sector give priority to the local/national private sector and social economy.** These investments should be consistent with aid effectiveness principles and commitments of the *Busan Partnership for Effective Development Cooperation*. In particular all stakeholders, including the private sector, acknowledged in Busan that "cooperation for effective development" requires respect for the principles of country ownership, inclusive development partnerships, results

[29] These recommendations also draw upon BetterAid's "Civil Society Statement in Response to the "Joint Declaration on Expanding Public and Private Cooperation for Broad-Based, Inclusive and Sustainable Growth", November 28, 2011, accessible at http://www.betteraid.org/en/betteraid-policy/betteraid-publications/statements.html.

that have an impact on eradicating poverty and reducing inequality, and transparency and accountability. All stakeholders at Busan agreed to implement democratic ownership, create conditions that empower women, and give priority to the use of country systems.

3. **Develop and apply pro-poor analytical tools, indicators and monitoring frameworks, based on international human rights standards, the OECD Guidelines for Multinational Enterprises, core labour rights and standards monitored by the ILO supervisory system, and best practices identified by the OECD DAC PovNet**. These tools should be applied to all proposed private sector investments involving aid resources. The determination of priorities for private sector development should be based on an analysis of the specific areas and sectors where poor and marginalized people live and are economically active, and the impacts of these initiatives on their livelihood, assets and capacities. Analytical tools should be capable of gender-disaggregated analysis, taking account the empowerment of women as economic and social actors.

4. **Support a policy and regulatory environment for the private sector at the country level that enables them to contribute to development, consistent with the state's human rights obligations to its people, and through processes that are genuinely inclusive of all development and social actors**, not just limited to private sector and government actors. Several donors stress the importance of good governance, respect for human rights and the rule of law as critical dimensions of this enabling environment. Governance processes should therefore strengthen the capacities of the poor and marginalized to be informed about development options and provide input on these options, not just consulted on already established projects.

5. **Implement whole-of-government approach to policy coherence,** within which all DFI and aid investments for PSD or PPPs are 1) aligned with developing countries' investment priorities; 2) make development outcomes the overriding criteria for project selection and evaluation; 3) comply with high responsible investment standards; 4) target domestic companies as a preferred option; and 5) prevent tax avoidance and set high standards for transparency, including improving transparency of financial intermediaries.[30]

6. **Put transparency and accountability at the heart of all private sector engagement and development.** Full public access to all project documentation, project implementation plans and evaluations is essential if citizens, and particularly affected populations, are to have a meaningful voice and hold private sector actors accountable to development results or adverse consequences.

7. **End formal and informal tying of aid and aid-supported investments**, ensuring that public procurement takes account of public policy goals to strengthen national businesses and local capacities in developing countries and to eradicate poverty.

8. **Implement mandatory guidelines for public-private partnerships, building on the recently adopted OECD Principles for Public Governance of Public-Private**

[30] See also Eurodad's "Responsible Finance Charter" for a comprehensive guide to engaging in responsible finance at http://eurodad.org/4562/.

[31] The OECD Principles stress "active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality", including trade unions and CSOs. They also stress the importance of risk being born by those parties "for whom it costs the least to prevent the risk from realising or for whom realised risk cost the least" See http://www.oecd.org/governance/oecdprinciplesforpublicgovernanceofpublic-privatepartnerships.htm.

**Partnerships.**[31] Guidelines should include pro-poor and human rights indicators to measure impacts, a priority to work with the domestic private sector and entrepreneurs in developing countries, the obligation to consult with local stakeholders including CSOs, and access to mechanisms for accountability and effective remedies for those whose rights have been violated. Public-private partnerships should be based on a thorough analysis of the capacities of private sector partners based on real needs, community risks, accessibility, quality and affordability of goods and services produced and long-term sustainability. Major investments in infrastructure should carry out mandatory and transparent environmental and social impact assessments.

9. **Implement the ILO Decent Work Agenda and apply ILO core labour standards** in the implementation of aid-supported private sector investments and private sector development initiatives. Private sector initiatives must create access to productive employment and income opportunities, respect the right to work, promote systems of social protection, and strengthen voices of workers and all stakeholders through social dialogue. Advancing labour rights is essential to tackling the precariousness, poor quality and poverty-level remuneration of work for many people in the formal economy.

10. **South-South Development Cooperation aid providers should continue to develop partnerships in ways that adhere firmly to the principles of mutual benefit and equality**, distinct from the conditionality practices of DAC/World Bank donors. SSC aid providers continue to face tremendous domestic development challenges, and based on this experience, tend to be strategic and focused in their choice of partners. Nevertheless, the effectiveness of South-South Cooperation for development should respect the principles of development effectiveness, human rights and democratic ownership so that the acclaimed advantages of Southern aid providers in terms of their avowed respect for sovereignty and policies of non-interference are not abused.