

Delivering effective development through public-private cooperation

Wednesday, April 16
Mexico City, Mexico

Introduction: Understanding the role of the private sector in development and in development cooperation

The private sector has an important role to play in development. It is both a creator and destroyer of jobs and a key component in achieving economic growth. In aligning development and business goals, a careful assessment of what can realistically be achieved must be made. A key starting point is to identify what the aims and goals are – something that is not often explicit. Once these have been determined, an assessment of how best to achieve them, who are the relevant actors and what are the necessary resources should be made.

The private sector is not a homogenous entity. It represents a wide variety of actors, activities and interests that can be compatible or conflicting. Identifying how partnerships can maximize the positive impacts of the private sector while mitigating the negative is necessary to establish its credibility as a development actor as a whole. Furthermore it is crucial to reflect on the challenges that private actors face in implementing Busan commitments. There is a clear need for research and evidence to determine best practice and partners in order to achieve development outcomes that reduce poverty, increase economic growth and improve the wellbeing of vulnerable and marginalised communities.

The private sector serves as a beneficiary of development finance in providing service delivery through public contracts as well as a potential source of new development oriented flows. This sentiment is broadly reflected in the majority of discussions related to development, especially in the context of the post-2015 framework. The Busan Partnership Document emphasises the need to align development and business priorities to meet social and environmental objectives as well as promote economic growth. While these elements are not mutually exclusive they require a clear understanding of the roles and commitments required to achieve this alignment. Expectations for the private sector to plug financing gaps and deliver services from governments, international bodies, local authorities and civil society organisations are quite high. However these expectations are not uniform among the different stakeholders and often ill defined. There is urgent need to share these expectations in order to determine what is realistic and how to best align business and development priorities in a way that implements the Busan commitments to deliver real results for the poor through inclusive and sustainable development.

Section 1: A brief summary of how we got here and why this discussion is necessary

The role of the private sector in development and development cooperation is once again a much discussed topic in relevant national, regional and international fora. From new financing mechanisms at the national level such as the Dutch good growth fund, to regional discussions such as the forthcoming communication on the role of the private sector by the European Commission, to various initiatives at the UN, the private sector is being promoted as the critical component in achieving development goals and eradicating poverty. At the Fourth High Level Forum on Aid Effectiveness (HLF4) in 2011 the key outcome document, the Busan Partnership for Effective Development Cooperation, recognised the “central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction.” In addition a

number of bilateral donors, multilateral institutions and several international business organizations endorsed a joint statement on expanding and enhancing cooperation with the private sector.

CSO groups have adopted a cautious approach to these discussions as it is widely felt that there remain many unanswered questions and outstanding issues. Many of these questions and issues were articulated in the Betteraid [response](#) to the joint statement and subsequent [documents](#) assessing donor approaches to partnering with the private sector. Several of the issues identified include:

- A need for clarity in determining what comprises the private sector, who speaks for them, and how they intersect with the development agenda.
- What are the roles and responsibilities of different stakeholders in ensuring private sector activities support development effectiveness and achieve poverty eradication?
- What are the necessary elements for ensuring resources used to promote public private cooperation support and enhance the principles of the Busan partnership and other development goals?

There is a need to assess the roles, responsibilities, commitments and expectations of all stakeholders on how public private cooperation can promote development and poverty eradication. Linkages between work on the private sector and other work areas such as domestic resource mobilisation and inclusive development also require clarity as there are many relevant cross cutting issues. This document will elaborate on several of the questions highlighted above in order to promote an open and frank discussion.

Section 2: Who is the private sector? While the public sector is clearly defined there is a need to understand what the private sector is comprised of in order to determine needs and capabilities

The private sector is a blanket term for a heterogeneous group of actors. It represents a wide variety of actors, activities and interests that can be compatible or conflicting. Internally private sector agents have a range of different needs and interests between employers and employees. Externally, it is important to remember that the private sector does not operate in a vacuum and its interactions and power dynamics with civil society, governments and the environment have the potential to create both positive and negative impacts. The heterogeneity of the private sector has resulted in both positive and negative examples of its contribution to development cooperation. It is critical to disaggregate this grouping in order to identify partners that support, alongside with institutions, achievement of development goals and poverty eradication.

The manner in which governments engage with the private sector in the context of development cooperation is also not [uniform](#). Some donor countries stress the importance of supporting their own domestic firm's activities in partner countries. Other donors focus on increasing the capacity of firms in partner countries. There is also increased attention on the potential contribution of multinational corporations and private investors to development. All of these actors have different needs, contributions and roles to play that need to be clearly defined in order to determine the best allocation of resources to achieve development goals.

Many CSO groups stress the need to support small and medium sized enterprises (SMEs) in partner countries in order to foster a competitive and sustainable private sector through government policies that target these groups. SMEs are widely acknowledged as the largest creators of jobs but are not well represented in discussions concerning the private sector in development. Attention has been focused on large corporations and determining what reforms countries should implement to encourage their engagement. Supporting the development of SMEs through policy space and public support is different to offering incentives to attract foreign direct investment. Efforts to achieve

economic independence through sustainable industry must ensure that local industries can survive and compete in global markets and need to be afforded the opportunity to “mature.”

Much emphasis has also been placed on the role of private and institutional investors in providing financial resources for partner countries. This emphasis is often in the context of promoting Public Private Partnerships (PPPs). PPPs are supposed to encourage private sector participation in riskier investments by sharing risks with the public sector and to deliver intended development outcomes more efficiently. There is, however, rapidly growing evidence that PPPs are a very expensive method of financing and significantly increase the cost to the public purse. PPPs are by far the most expensive way to fund projects due to, for example, demands from equity funders and other lenders for 20-25 % annual returns on even the most bankable projects, costs of up to 10 % for arranging the financing. In addition, project costs are often much higher due to limited competition or poor procurement by the private sector. Equally important, this cost is often non-transparent and not accountable to auditors, parliaments or civil society organisations. Similarly, debt sustainability assessments do not currently take account of this cost as these are treated as off-budget transactions, thus perversely encouraging countries to use them in order to circumvent national or IMF agreed debt limits. PPPs may also not be appropriate for delivering essential services in health and education given the well-known negative impact of fees on poor people’s access. As recently stated by the president of the World Bank: "There's now just overwhelming evidence that those user fees actually worsened health outcomes. There's no question about it. So did the bank get it wrong before? Yeah. I think the bank was ideological."

The variety of actors in the private sector offers both risk and opportunity and need to be carefully assessed to determine where the greatest additionality lies in promoting development effectiveness.

Section 3: Roles and responsibilities of different stakeholders in ensuring public private cooperation supports development effectiveness

For the private sector to contribute to development effectiveness roles and responsibilities should be defined. As noted in the previous section the private sector incorporates a broad range of actors which necessitates a diverse range of responsibilities by all stakeholders at the local, national, regional and international level. There are several key issues and questions that should be addressed by different stakeholders.

Private sector

The diversity of the private sector necessitates a clear understanding of the expectations and commitments different actors are willing to make in the context of development cooperation. There are, however, several cross cutting elements that can apply universally. For the private sector to contribute to development it must be accountable to the countries and communities it engages in. This accountability needs to go beyond compliance to national laws but should also incorporate binding principles that support development effectiveness. Commitments to prevent tax avoidance and to engage actively with all stakeholders could serve as a clear contribution by the private sector. Participation and support of regular multi-stakeholder dialogue could identify emerging issues and mitigate negative externalities.

The private sector should incorporate a rights based approach in its business model and should internalise local, national, and international development objectives. The private sector should engage in co-planning with the full range of actors required for effective public-private partnerships in order to reach the poorest and least developed communities and advance equitable economic growth in developing countries. CSOs are critical actors in these partnerships, bringing the poorest of the poor and the informal sector to the table as partners and (potential) entrepreneurs. CSOs must be enabled to become part of this co-planning process, and not simply relegated to the role of

project implementer. There is in fact a track record, and obvious opportunity, for businesses to team up with CSOs and donors, which can help mitigate financial, fiduciary, and developmental risks.

Donors

It is important for donor to focus on how they can support the development of a vibrant domestic private sector in partner countries leading to economic transformation. This support must be guided by partner led development strategies and should give policy space for partner governments to pursue strategic sectors through targeted public procurement prioritising partner country domestic private sector over the international private sector. Donors should also ensure that their own national policies support development effectiveness by promoting transparency, responsible finance practice, and closing loopholes that facilitate tax avoidance and evasion. Engaging in regular multi-stakeholder dialogue will help to ensure that proposed strategies and interventions are needs based, align to development principles, and are targeted towards poor and marginalised communities. – Donors should make sure aid is not used where other development finance and other types of policy instrument are available, considering the opportunity cost of allocating aid to the private sector, if it means reducing aid to sectors such as health and education. Donors could also issue Memos of Understanding to dissolve partnerships that are not working, or are not achieving intended impacts after an agreed timeframe.

Partners

Partner countries need to have regulatory capacity and accountability mechanisms to ensure that private sector activities are aligned to development objectives. Officials should consult on a regular basis with local authorities, CSOs, representatives of the private sector and affected communities to identify what are the key constraints for the private sector to contribute to development. To promote this contribution strong, predictable and transparent regulatory frameworks need to be in place which provide incentives for responsible business.

Country ownership of private sector activities could be enabled by encouraging participation of different stakeholders in an inclusive and country-led development process and through transparent and inclusive engagement with private sector actors, donor partners and other stakeholders including civil society.

CSOs

CSOs can serve as an accountability mechanism for holding governments and private sector actors to account in the pursuit of responsible investment. CSO groups should also work to prepare the ground to reduce the risk for the private sector by: supporting the health, education, and necessary skills to develop a qualified labour force; and identifying, supporting and linking entrepreneurs, including facilitating access to financial services for small and medium enterprises. CSOs also have a responsibility to advance good practices and mutual learning in corporate social responsibility, drawing from the knowledge and experience of CSOs across different country contexts, including implementing the 'do no harm' approach and ensuring the right to decent work.

Citizens

Citizens need to actively exercise their rights and hold government, the private sector and other actors to account. Governments should ensure that the appropriate legal framework is in place that enables citizens to pursue these rights without fear of repercussions.

Section 4: What are the necessary elements for ensuring that public private cooperation including ODA and non ODA supports the principles of the Busan Partnership and other development goals? CSO groups have determined several elements that are required for effective cooperation with the Private Sector in order to achieve development goals.

International regulatory framework

There must be a firm call to implement international and domestic policy and regulatory norms and framework to enable the private sector to contribute to development and the realization of human rights, within democratic and inclusive processes both at the country and international levels. Governments must be reminded to enforce the private sector observance of adopted ILO conventions. It is crucial for donors to ensure that foreign companies and transnational corporations with whom they are engaged in partnerships guarantee their adherence to the guidelines established in the UN Code of Conduct for Transnational Corporations as the minimum bar and must not dilute industry, or country-specific measures.

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

Development and financial additionality

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

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

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

Democratic ownership

Governments must ensure that partnerships with the private sector are aligned with the country's development priorities, supports citizen engagement, and involve multi-stakeholder processes among CSOs, local governments, trade unions, in addition to private sector actors. These must be consistent with the Busan principles and commitments to democratic ownership, use of country systems including procurement, and promoting results that have an impact on reducing poverty and inequality, including gender inequality. In order to achieve this, living up to the transparency commitments, especially in aid activities devoted to help the private sector.

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

Enabling environment for the domestic private sector

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

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

Conclusion

The private sector serves as a beneficiary of development finance in providing service delivery through public contracts as well as a potential source of new development oriented flows. This sentiment is broadly reflected in the majority of discussions related to development, especially in the context of the post-2015 framework. The Busan Partnership Document emphasises the need to align development and business priorities to meet social and environmental objectives as well as promote economic growth. While these elements are not mutually exclusive they require a clear understanding of the roles and commitments required to achieve this alignment.

Expectations for the private sector to plug financing gaps and deliver services from governments, international bodies, local authorities and civil society organisations are quite high. However these expectations are not uniform among the different stakeholders and often ill defined. There is urgent need to share these expectations in order to determine what is realistic and how to best align business and development priorities in a way that implements the Busan commitments to deliver real results for the poor through inclusive and sustainable development.

ANNEX AND BACKGROUND RESOURCES

Busan Partnership doc: <http://www.oecd.org/dac/effectiveness/49650173.pdf>

Private sector and development

32. We recognise the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction. To this end, we will:

- a) Engage 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, public private partnerships, the strengthening of value chains in an equitable manner and giving particular consideration to national and regional dimensions, and the scaling up of efforts in support of development goals.
- b) Enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction.
- c) Further develop innovative financial mechanisms to mobilise private finance for shared development goals.
- d) Promote “aid for trade” as an engine of sustainable development, focusing on outcome and impact, to build productive capacities, help address market failures, strengthen access to capital markets and to promote approaches that mitigate risk faced by private sector actors.
- e) Invite representatives of the public and private sectors and related organisations to play an active role in exploring how to advance both development and business outcomes so that they are mutually reinforcing.

Joint declaration on expanding public and private co-operation for broad-based, inclusive and sustainable growth: <http://www.oecd.org/dac/effectiveness/49211825.pdf>

FIVE SHARED PRINCIPLES

We, Ministers of developing and developed countries, representatives of private sector entities and corporations and heads of multilateral and bilateral institutions and regional organizations, recognize the importance of the following principles to maximize the benefit of coordination and collaboration to support development:

- 1) Inclusive dialogue for building a policy environment conducive to sustainable development: We recognize that an inclusive dialogue between the public and private sectors is needed to improve cooperation amongst all actors, develop synergies and generate new effective partnerships for development. Governments should consult closely with the domestic and foreign private sectors in order to create an enabling environment for development which promotes peace and stability, the rule of law, enforcement of human rights, good governance with accountability and transparency, the absence of corruption, adequate economic and social infrastructure, stable economic policy, an educated workforce, clear property rights and enforceable contracts, enhances the competitiveness of the local private sector and promotes equitable growth.
- 2) Collective action: We believe that development requires the establishment of more permanent interactive platforms for dialogue both at the country and global levels – where they do not exist - to enable sustainable and competitive private sector development and the involvement of the private sector in finding solutions to development challenges. Consultation with the private sector in the elaboration of national and sector plans is a prerequisite to broadening country ownership of the development process and ensuring inclusive growth, and expanding economic opportunity for all segments of the population.

- 3) Sustainability: We recognize that aid and other development efforts should scale up development impact in a sustainable manner and align with local priorities and capacities. Public and private activities should comply with relevant national laws and respect applicable international norms promoting social, environmental, financial, economic as well as good governance progress.
- 4) Transparency: We recognize that long-term private sector development as well as effective national budgeting and governance benefit from policies which are predictable and designed and implemented in a transparent way. More progress can be made to encourage greater transparency of public-private cooperation including Public-Private Partnerships, building on, where appropriate, ongoing transparency and accountability initiatives in sectors which are critical to developing countries' economies. More transparency and a predictable institutional environment, including effective and transparent procurement systems, are critical conditions to unlock the full potential of private enterprise and open markets in a way that contributes to sustainable and equitable growth. We believe that it is important to promote transparency of all players relevant for public private cooperation including Public-Private Partnerships, including business, governments and international organizations, subject to valid concerns about commercially sensitive information.
- 5) Accountability for results: Our partnership should aim to foster discussion on options for monitoring, reporting and evaluation of development results, measuring the sustainable impact of public-private cooperation for development, including Public-Private Partnerships, and to sharing the lessons learned from our partnership.

CSO Response to Joint declaration on expanding public and private co-operation for broad-based, inclusive and sustainable growth: <http://www.betteraid.org/en/betteraid-policy/betteraid-publications/statements/533-betteraid-response-joint-declaration-private-co-operation.html>

CPDE Background Paper on Private Sector Engagement in Development: <http://www.csopartnership.org/downloads/CPDEBackgroundPaperPrivateSectorEngagementinDevelopment-final.pdf>

Resources from the proposal:

- <http://www.betteraid.org/en/betteraid-policy/betteraid-publications/statements/533-betteraid-response-joint-declaration-private-co-operation.html>
- <http://www.oxfam.org/sites/www.oxfam.org/files/bp-working-for-few-political-capture-economic-inequality-200114-en.pdf>
- <http://www.oxfam.org/sites/www.oxfam.org/files/rr-exploring-links-ipl-poverty-footprint-090513-en.pdf>
- <http://policy-practice.oxfam.org.uk/publications/making-markets-empower-the-poor-programme-perspectives-on-using-markets-to-empo-188950>
- <http://eurodad.org/Entries/view/1546054/2013/11/07/A-dangerous-blend-The-EU-s-agenda-to-blend-public-development-finance-with-private-finance>
- <http://eurodad.org/Entries/view/1543000/2012/05/29/Private-profit-for-public-good-Can-investing-in-private-companies-deliver-for-the-poor>
- <http://eurodad.org/Entries/view/1543121/2012/06/29/Doing-business-to-fight-poverty-An-evaluation-of-the-Belgian-Investment-Company-for-Developing-Countries-BIO>
- http://eurodad.org/uploadedfiles/whats_new/reports/charter_final_23-11.pdf
- http://www.oefse.at/Downloads/publikationen/oepol/Artikel2013/2_Kwakkenbos_Romero.pdf
- <http://eurodad.org/Entries/view/1546082/2013/12/05/Mining-without-development-The-case-of-Kenmare-Moma-mine-in-Mozambique>

- <http://eurodad.org/Entries/view/1546061/2013/11/12/The-Dutch-Good-Growth-Fund-who-profits-from-development-cooperation>
 - http://www.ccic.ca/files/en/what_we_do/2013-01-11_The%20Business_of_Development.pdf
 - http://www.realityofaid.org/roa_report/aid-and-the-private-sector-catalysing-poverty-reduction-and-development/
 - <http://www.ituc-csi.org/the-private-sector-and-its-role-in?lang=en>
-