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Business accountability FOR development

Mapping business liability mechanisms and donor engagement with the private sector in development

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PART I:
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PART II:
Understanding donor engagement with the private sector in development
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Supported by the CPDE in cooperation with ITUC-TUDCN and EURODAD

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INTRODUCTION

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INTRODUCTION

The role of the private sector in development is currently one of the most debated issues in international cooperation. It is inscribed in a wider context where financial resources for official development assistance (ODA) are shrinking, development cooperation is evolving beyond the traditional "aid" concept, and the actors/entities that can be key players in development are growing. Luckily, development is more and more seen as a holistic process that should be supported by integrated global policies (such as trade, investments etc.), bringing about improvements in terms of both economic and social progress, the latter being based on the full respect of human rights.

Civil society organisations (CSOs) have been advocating for a human rights-based approach to development (HRBA) since the very inception of the aid/development effectiveness agenda process.[1] HRBA brings about fundamental principles such as accountability based on international human rights commitments. As the UN Office of the High Commissioner for Human Rights (OHCHR) put it, the HRBA is a broader "conceptual framework for the process of human development that is normatively based on international human rights standards and operationally directed to promoting and protecting human rights". [2]

The Millennium Declaration in 2000 and later the Accra Agenda for Action (AAA, 2008)[3] recognised human rights as a cornerstone for achieving lasting development impacts: donors and partner countries are encouraged to ensure that their development policies are designed and implemented in ways consistent with their agreed international commitments on human rights (§13, c). The Busan Declaration, in 2011[4], reiterates that promoting human rights, democracy and good governance are an integral part of development efforts (§3), underlining the necessity of being consistent with agreed international commitments on human rights, decent work, gender equality and environmental sustainability and disability (§11).

However, at the same time and quite inconsistently, the Busan Partnership document only makes direct reference to rights-based approaches (RBA) when referring to the role of civil society organisations (CSOs), in fact relegating RBA to CSO-specific engagements, and not to the overall stakeholders' development agenda. The same thing happened in the 2013 Mexico HLM Communiqué of the Global Partnership for Effective Development Cooperation Declaration (GPEDC). [5]

As noted by OHCHR, the "proliferation of actors in international development has made it necessary to develop a more multidimensional approach",[6] hinting at accountability of private business, whose actions directly impact on development processes and human rights.

In recent times, the private sector has been progressively seen as an important player in generating development processes. The role of the private

1 See "CSOs on the Road to Busan", April 2011: http://cso-effectiveness.org/IMG/pdf/cso_asks_final_.pdf and CPDE recommendations on Human Rights-Based Approach, January 2014: http://www.csopartnership.org/wp-content/uploads/2014/03/HRBA_recommendations_en.pdf

2 OHCHR (2006), FAQ on Human Rights-Based Approach to Development Cooperation, p. 15. http://www.ohchr.org/Documents/Publications/FAQen.pdf

3 See: http://siteresources.worldbank.org/ACCRAEXT/Resources/4700790-1217425866038/AAA-4-SEPTEMBER-FINAL-16h00.pdf

4 See: http://www.oecd.org/development/effectiveness/49650173.pdf

5 See Mexico communiqué: http://effectivecooperation.org/wordpress/wp-content/uploads/2014/05/FinalConsensusMexicoHLMCommunique.pdf

6 OHCHR (2013), Who Will be Accountable? Human Rights and the Post-2015 Development Agenda, p. 17. http://www.ohchr.org/Documents/Publications/WhoWillBeAccountable.pdf

sector is echoed in all development fora, such as the GPEDC,[7] the OECD-DAC,[8] the European Union,[9] and lastly in the context of the Sustainable Development Goals (SDGs) process at the United Nations (UN) level,[10] as well as, the Financing for Development (FfD) process. The pivotal role of business in development discourse is based on the equation between economic growth and sustainable development, (voluntary) corporate responsibility, enabling environment provided by states, and finally public-private dialogues (private sector involved in policy making).

As a consequence of this paradigm, growing percentages of traditional official development assistance (ODA) – public resources – are being destined to support private sector initiatives in developing countries. This brings about serious concerns in terms of accountability, transparency, ownership, and, last but not least, development results.

How can we ensure that business – in particular multinational enterprises (MNEs) – really contribute to development in the countries where they operate? How can responsibility of their actions be granted against development impacts? How to keep them accountable for spending public money? These seem quite immediate questions. However, they still need to be answered.

This study goes in this direction, highlighting existing business accountability mechanisms in general on one hand, and putting forward specific criteria to grant effectiveness of private sector initiatives in development on the other hand:

Part I – Mapping business accountability mechanisms

Nowadays, there are various mechanisms already in place that are supposed to regulate, guide and assess business behaviour (whether or not in a development context). Still, it seems very difficult to make them function in reality, because of a substantial lack of binding commitments. The first part of this publication intends to provide a commented mapping on existing mechanisms at the global level on private sector accountability, including an assessment of their effectiveness and limitations.

By all means, this mapping is not expected to be exhaustive, but it rather points at some specific instruments that, in our opinion, better address the issue of business accountability. These instruments, and their principles, should be fully incorporated in donors' development cooperation policies and programmes supporting the private sector.

7 See Busan Declaration art. 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"

8 See: http://www.oecd.org/dac/povertyreduction/promotingpro-poorgrowthprivatesectordevelopment.htm

9 See European Commission's communication: http://europa.eu/rapid/press-release_IP-14-551_en.htm and EU Council conclusions: http://data.consilium.europa.eu/doc/document/ST-16856-2014-INIT/en/pdf

10 See Lou Pingeot (2014), "Corporate influence in the Post 2015 process", Working Paper, Misereor and Global Policy Forum. https://www.globalpolicy.org/component/content/article/252-the-millenium-development-goals/52572-new-working-paper-corporate-influence-in-the-post-2015-process.html

Part II – Understanding donor engagement with the private sector in development

The second part of this study is focused on the analysis of the support to the private sector that involved the use of aid funds. It provides an insight on the current donor policies and trends, both at the bilateral and the multilateral level. The private sector is not a new actor in the context of aid flows. What is new is that donors are increasingly looking at ways in which they could use aid to trigger private sector investments in the right places and increase their development impact. Exploring the difference between this new approach and previous ones is precisely the main objective of this report. In particular, this report looks at how donor policies and practices have evolved over the last few years and in which direction they are moving (i.e., leveraging aid modalities). Examining the potential, limitations and challenges of these different approaches is also an integral part of this research, drawing conclusions and recommendations to improve private sector engagement for development.

PART I:

MAPPING BUSINESS ACCOUNTABILITY MECHANISMS

There is considerable international consensus over the responsibilities of the private sector embodied in international instruments that address the behaviour of business enterprises.

The International Labour Organization (ILO) itself is an example of a global accountability mechanism based on standards and binding commitments, including a supervisory system, in which employers' representatives are institutional constituents.

Two significant intergovernmental instruments addressing business behaviour date back to an era when the behaviour of multinational enterprises (MNEs) in developing countries became a major issue for intergovernmental organisations: the OECD Guidelines for Multinational Enterprises, adopted in 1976, and the International Labour Organization (ILO) Tripartite Declaration of principles concerning multinational enterprises and social policy, adopted in 1977.

A most recent instrument in this respect is the UN Guiding Principles on Business and Human Rights (UNGPs) adopted in 2011.

ISO 26000 Guidance on Social Responsibility, completed in 2010, is a private instrument of which large parts are based on authoritative international instruments including ILO standards.

Recent years have seen the emergence of social dialogue at the international level. Sometimes this has resulted in, or has been based on, "transnational company agreements" (TCAs) between specific multinational companies and international trade union organisations.

1. THE INTERNATIONAL LABOUR ORGANISATION (ILO) SUPERVISORY MACHINERY

Description

The ILO is a unique system, which is based on three fundamental features:

- *Binding legal framework based on standards:* International labour standards are legal instruments drawn up by the ILO's constituents (governments, employers and workers) and setting out basic principles and rights at work. They are either *conventions*, which are legally binding international treaties that may be ratified by member states, or *recommendations*, which serve as guidance for legislation. Ratifying countries commit themselves to applying the convention in national law and practice and reporting on its application at regular intervals.

  Representative employers' and workers' organisations play an essential role in the international labour standards system: they participate in choosing subjects for new ILO standards and in drafting the texts; their votes can determine whether or not the International Labour Conference adopts a newly drafted standard. If a convention is adopted, employers and workers can encourage a government to ratify it.

- *Tripartism:* A unique feature of ILO supervision arises from the tripartite nature of the organisation. Unlike all other international supervisory procedures, the ILO's non-governmental constituents – organisations of employers and of workers – have standing under article 23 of the ILO Constitution to submit their own reports on governments' performance under a ratified Convention, and these comments form an important part of the supervisory process. They may also file complaints under articles 24 and 26 of the Constitution (see under Complaints

Procedures below), and they form an important part of several of the ILO's supervisory procedures. It is important to recognise that this is a full right of participation, and is not limited to providing additional information or informing supervisory bodies, as is the case in purely intergovernmental organisations.

- *Supervisory process:* ILO supervision of obligations under the organisation's constitution, and the standards it adopts are composed of a series of complementary procedures that form a unified supervisory process.

Scope of application

BOX 1: ILO supervisory process

A. Regular supervisory process

When a government ratifies an ILO Convention, the regular supervisory mechanism comes into operation. According to the Constitution, each government is required to submit a report each year on each ratified Convention, covering "the measures which it has taken to give effect to the provisions of Conventions to which it is a party". Today, reports on some more important conventions are required on a three-year basis, and all others are due at five-year intervals. The ILO supervisory bodies can also call for more frequent reports if needed, for instance, when violations are noted or suspected, or when a government consistently fails to provide full information.

The Committee of Experts on the Application of Conventions and Recommendations is the main supervisory body. It is composed of 20 independent experts on labour law and social questions. It meets annually to examine reports received from governments; more than 2,000 reports are examined each year. If the Committee notes problems in the application of ratified Conventions, it may respond in two ways. In most cases it makes "Direct Requests", which are sent directly to governments and to workers' and employers' organisations in the countries concerned, to seek corrective measures or simply to ask for more information. These are not immediately published, and if governments furnish the information or take the measures requested, the matter goes no further. For more serious or persistent problems, the Committee of Experts makes "Observations", which are published as part of the Committee's annual report to the International Labour Conference.

The *Conference Committee on the Application of Conventions and Recommendations* is established each year by the International Labour Conference. It reflects the ILO's tripartite structure of governments and of workers' and employers' representatives. The Conference Committee holds a general discussion on the report of the Committee of Experts. It then selects 25 especially important or persistent cases and requests the governments concerned to appear before it and explain the reasons for the situations commented on by the Committee of Experts. Discussions by the Conference Committee are in turn taken into account by the Committee of Experts, when it next examines the application of the Convention concerned. The Conference Committee's report is published in the *Proceedings of the International Labour Conference* each year, along with the Conference's discussion of the Committee's report.

B. Complaint Procedures

There are also procedures to consider complaints that ILO conventions or basic principles are not being adequately applied, two of which are provided for in the constitution and the other established by agreement with the United Nations.

1. Representations under Article 24 of the ILO Constitution

Under article 24 of the ILO Constitution, a representation may be filed if a country "has failed to secure in any respect the effective observance within its jurisdiction of any Convention to which it is a party". A representation thus may be filed only against a State that has ratified the Convention concerned. A representation may be submitted by "an industrial association of employers or of workers", that is, a trade union or an employers' organisation. They may be local or national organisations, or regional or international confederations.

2. Complaints under Article 26 of the ILO Constitution

As with representations, a complaint must be based on allegations that the country is not "securing the effective observance of any Convention" it has ratified. A complaint may be filed against any Member State of the ILO. In fact, even if a State has withdrawn from the ILO but still has obligations under a Convention it ratified while a Member, a complaint may be filed. The complaint procedure may be instituted by Governments that have ratified the same Convention, by delegates to the International Labour Conference, or by the Governing Body on its own motion.

The Governing Body forwards the complaint to the government for its comments. It then normally establishes a Commission of Inquiry, composed of three prominent and independent personalities. A report of a Commission of Inquiry is communicated to the Governing Body and to each of the governments concerned and published in the ILO's Official Bulletin; it is also published on the ILO's database on standards and supervision, and made available on the Internet. In most cases, the Committee of Experts and the Conference Committee will continue to examine implementation of the Conventions concerned, with reference to the findings of the Commission of Inquiry, as is done in connection with representations.

Under article 29(2) of the ILO Constitution, any government concerned in a complaint may refer the complaint to the International Court of Justice if it does not accept the Commission's recommendations. The decision of the International Court of Justice in such cases is final (Article 31), and the Court "may affirm, vary, or reverse the findings or recommendations of the Commission of Inquiry" (Article 32). Article 33 of the Constitution contains the only provisions allowing the ILO to take action on the application of a Convention other than providing evaluation or assistance:

"In the event of any Member failing to carry out within the time specified the recommendations, if any, contained in the report of the Commission of Inquiry, or in the decision of the International Court of Justice, as the case may be, the Governing Body may recommend to the Conference such action as it may deem wise and expedient to secure compliance therewith".

Article 33 has been used only once in the history of the ILO, concerning Myanmar and forced labour.

3. Special Procedures for Complaints Concerning Freedom of Association

The most widely used ILO petition procedure is the special procedure established for complaints concerning violations of freedom of association. These procedures are not specifically provided for in the ILO Constitution but were established in 1951 by agreement between the ILO and the UN Economic and Social Council. The Committee on Freedom of Association has considered nearly 3,000 cases.

Effectiveness and limitations

Under the ILO supervisory system, states are the primary duty-bearers. States have the responsibility to create a legal framework, but also to enforce it. This implies also to hold corporations accountable. If not, then the state is not fulfilling its responsibility. Therefore, while private sector actors are not direct duty-bearers, failing to hold them to account creates "liability" for the state under the conventions. Moreover, there is an agreed understanding that many principles of the conventions and recommendations can be applied to business enterprise as well (see below). Realising and implementing the Decent Work Agenda (based on ILO Conventions and recommendations) constitutes an essential part of sustainable development strategies, as it ensures that economic growth is more socially inclusive and therefore more sustainable. Social dialogue, especially with the increasing focus on creating inclusive partnerships, is a key criteria for business accountability and therefore for the sustainable development process as a whole.

2. THE ILO DECLARATION OF PRINCIPLES CONCERNING MULTINATIONAL ENTERPRISES AND SOCIAL POLICY

Description

The ILO Declaration of Principles concerning Multinational Enterprises and Social Policy (the ILO MNE Declaration) was adopted by the ILO's Governing Body in 1977 and has been revised on various occasions, the most recent being in 2006.The declaration consists of 59 paragraphs organised into four sections: general policies, employment, conditions of work and life, and industrial relations. The content of the ILO MNE Declaration is based on ILO conventions and recommendations. Revisions of this instrument have consisted of adding references to ILO instruments adopted since the previous revision.

The ILO MNE Declaration does not expect business organisations to define their social responsibilities unilaterally. It envisions consultations between governments and national employers' and workers' organisations. Moreover, it calls for MNEs to take "established policy objectives into account", as well as to be "in harmony with the development policies" of the country concerned.

Scope of application

The ILO MNE Declaration is intended to apply to multinational enterprises but states specifically that it is not intended to introduce or maintain inequalities of treatment between multinational enterprises and national enterprises. The principles are intended to be regarded as good practice for all where relevant for both kinds of enterprises.

Effectiveness and limitations

The most important contribution to the debate over private sector responsibility made by the ILO MNE Declaration is that the instrument reflects an agreed understanding that, although ILO Conventions and recommendations address the responsibilities of governments and are intended to be applied by governments, many of the underlying principles of these conventions and recommendations can be applied by business enterprises as well.

Over the years the MNE Declaration has provided an unambiguous refutation of the argument sometimes made by business that, as ILO Conventions and Recommendations address governments, they should not be applied to business activities.

The interpretation procedure and follow-up survey that accompanied the ILO MNE Declaration have proven ineffective.

Unlike the OECD Guidelines, the ILO MNE Declaration has not been revised to incorporate the important concepts in the UN Framework and Guiding Principles (see below). And, unlike the Framework, it is silent on supply chain/business relationship issues.

3. THE OECD GUIDELINES FOR MULTINATIONAL ENTERPRISES

Description

The OECD Guidelines for Multinational Enterprises (the *Guidelines*) are recommendations, which are not legally binding, made by governments to multinational enterprises (MNEs). They set out principles and standards in areas including human rights, but also employment and industrial relations, information disclosure, environment, consumer affairs and taxation. Under the *Guidelines*, MNEs are expected to comply with internationally recognised standards, as well as to obey national law.

In 2011, the *Guidelines* were updated to include a new human rights chapter (Chapter I), based on Pillar 2 of the United Nations Guiding Principles on Business and Human Rights (UNGPs) – the Corporate Responsibility to Respect Human Rights. Accordingly, MNEs are expected to undertake human rights due diligence to meet their responsibility to avoid *causing*, *contributing* or being *linked to* adverse human rights impacts.

Beyond human rights, under Chapter II of the *Guidelines*, MNEs have a general responsibility to undertake due diligence to avoid being involved in adverse impacts on other policy issues covered by the *Guidelines*.[11]

Governments sign the *Guidelines* – not MNEs. To date, there are 46 adhering governments: 34 OECD member countries and 12 non-members. These governments make a binding commitment to set up National Contact Points (NCPs)[12] to promote the *Guidelines* and handle cases of alleged violations. This government-backed complaints mechanism is a unique characteristic of the *Guidelines*.

11 The general recommendation to conduct due diligence does not apply to the chapters on Competition, Science and Technology or Taxation.
12 A full list of National Contact Points can be accessed here: http://www.tuacoecdmneguidelines.org/contact-points.asp

Scope of application

The *Guidelines* apply to MNEs that are headquartered in the 46 countries that have signed the *Guidelines*. Like the UNGPs, they apply irrespective of ownership – state-owned, public or private – or sector – including pension funds and asset managers in the financial sector. Geographically, they apply wherever in the world these MNEs operate.

Importantly, the *Guidelines* cover the full range of business relationships of MNEs: subsidiaries, suppliers, sub-contractors, franchises, licensees and other business partners. They also apply to all categories of workers: employees as well as agency, temporary and seasonal workers.

BOX 2: OECD Guidelines – Adhering Countries

OECD
Australia, Austria, Belgium, Canada, Chile, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Israel, Italy, Japan, Luxembourg, Mexico, New Zealand, Norway, The Netherlands, Poland, Portugal, Republic of Korea, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States.

NON-OECD MEMBERS
Argentina, Brazil, Costa Rica, Colombia, Egypt, Jordan, Latvia, Lithuania, Morocco, Peru, Romania, Tunisia.

Effectiveness and limitations

A major strength of the *Guidelines* is the complaints mechanism, which is one of the few international mechanisms trade unions and NGOs can use to hold MNEs to account for their business conduct abroad. To date, trade unions have filed 165 cases to the NCPs, while NGOs have filed 195.

Another key strength is the broad application of the *Guidelines*. Trade unions and NGOs can bring cases regardless of the country in which the violations took place, so long as there is a business relationship between the enterprise where the violations took place – ownership, supplier, franchisee, and investor – and an MNE from an adhering country. The *Guidelines* can also be used in shareholder campaigns. Where portfolio companies are involved in human rights violations, trade unions can ask pension funds to meet their obligations under the *Guidelines* and use their leverage to try to change the harmful behaviour of the company.

The key limitations of the *Guidelines* are that as a “soft law” instrument, they cannot be enforced through the courts. Some governments are introducing the *Guidelines* into procedures such as export credits. Implementation weaknesses can also be addressed by ensuring that NCPs function fully – for too many countries this is not yet the case. But it also requires there to be strong consequences for companies that refuse to participate in NCP processes.

4. THE UNITED NATIONS GLOBAL COMPACT

Description

The UN Global Compact was launched as an initiative of the UN Secretary General in 2000. The initiative seeks to get businesses to internalise ten principles in their activities and strategies. It also seeks to get businesses to support "UN goals and issues, with emphasis on collaboration and collective action". Originally the Global Compact was based on nine principles from three categories: human rights, labour standards and the environment.

In 2004, a 10th principle dealing with corruption was added. The principles are based on existing authoritative international instruments.

The Global Compact is open to businesses but also to non-business organisations including civil society, trade unions, academics, cities and public sector organisations. Business participants are "required" to make an annual report on their implementation of the ten principles.

The Global Compact has relationships with various UN organisations, four of which are considered the "guardians" of the principles that fall within their competence: the Office of the High Commissioner for Human Rights, the International Labour Organization, the UN Environment Programme and the UN Office on Drugs and Crime. However, an interagency task force that was one of the Global Compact's governance structures was disbanded in 2013. Since that time some Global Compact activities have resulted in "challenges" for these agencies including the ILO.

The Global Compact recognises trade unions as distinct constituency, and two representatives of international trade union organisations sit on the 31-member Global Compact Board, which is an advisory body.

Scope of application

The UN Global Compact is global and has approximately 100 "local networks" which are organised along geographic (mainly national) lines. Although the Global Compact Principles are based on authoritative international instruments, the Global Compact Principles do not constitute an authoritative international instrument in the same way that the UN Guiding Principles, the ILO MNE Declaration and the OECD Guidelines are considered authoritative international instruments.

Effectiveness and limitations

International trade union organisations agreed to participate in the Global Compact because they were assured at the beginning that the Global Compact would not become a "code" and thus a substitute for the far more comprehensive OECD Guidelines and the ILO MNE Declaration both of which were being revised at the time that the Global Compact was launched. Moreover, trade unions wanted the Global Compact to become a way to engage multinational companies in dialogue on the principles at the global level.

To a certain extent these concerns have materialised. Little global dialogue has resulted. The Global Compact is often treated as a compliance initiative and a "CSR light" code. Concern over the behaviour of companies participating in the Global Compact led to the development of "integrity measures" which were supposed to lead to dialogue over specific complaints.

Instead of dialogue, the focus has been on the promotion of various voluntary business-led CSR initiatives and "products" such as "tools" or "principles". These have not always been especially useful with respect to labour issues. Moreover, much of the Global Compact's activity takes place in local networks that were launched without trade unions, often without representative employer organisations or relevant NGOs that should be involved.

5. THE GUIDING PRINCIPLES ON BUSINESS AND HUMAN RIGHTS

Description

The United Nations Guiding Principles on Business and Human Rights (UNGPs) were unanimously endorsed by the UN Human Rights Council in June 2011. The 31 principles are based on the *UN Framework for Business and Human Rights* developed by Professor John Ruggie in his capacity as the Special Representative of the UN Secretary-General on the issue of human rights and transnational corporations. This framework was set out in a report to the UN Human Rights Council, which was adopted by that body in April 2008. The UN Framework is a "conceptual framework" developed to provide a common basis for how to address the issue of business and human rights.

The framework is intended to inform the public policy debate over this issue. The ideas of the framework can be incorporated into laws, treaties, regulations, "corporate social responsibility-CSR" activities and company policies.

The UN Framework is based on three "pillars": (1) the State duty to protect against human rights abuses by third parties, including business; (2) the business responsibility to respect human rights; and (3) the need for more effective access to remedies by victims of human rights abuse. The *Guiding Principles* follow this framework – principles 1-10 address the state duty, principles 11-24 address the responsibility of business enterprises; and principles 25-31 address remedy.

The UN Framework and the Guiding principles have had an impact on thinking about private sector responsibility and on CSR. Three ideas are especially important in this respect. The first is the distinction made between the respective roles of the state and of business and the fact that these roles are independent of each other. States cannot use the power or importance of business or use CSR as an excuse to not do their duty to protect human rights. Business enterprises cannot use the failure of the state to protect (whether that failure is in the form of inadequate laws and/or weak enforcement) as an excuse to avoid their responsibility to respect human rights. The second idea concerns the nature of responsibility. The UNGPs have dealt a blow to the idea promoted in CSR discourse that responsibility is a "voluntary concept". A third idea of great importance for trade unions is the recognition that business enterprises can have responsibility for their business relationships. The UNGPs set criteria for determining this responsibility. In addition to these ideas, the UNGPs establish "due diligence", a concept that was already recognised in other areas of legal and financial liability as the new expectation for responsible business behaviour.

Scope of application

The UNGPs are intended to apply to "to all states and to all business enterprises, both transnational and others, regardless of their size, sector, location, ownership and structure."

Moreover, the UNGPs apply to the entire spectrum of internationally recognised human rights. This would include economic, social and cultural rights. It would also include those human rights set out in the ILO's Declaration on Fundamental Principles and Rights at Work as well as the elaboration of human rights in the International Bill of Human Rights that are the ILO's labour standards. Many of these human rights are elaborated in the ILO's labour standards.

Although there is no formal agreement over what constitutes the social dimension of sustainable development, the realisation of human rights would in fact constitute almost all of what is subsumed under this dimension. The scope of the UNGPs would include the labour issues of greatest concern for trade unionists.

Effectiveness and limitations

Disappointment over the absence of a specific enforcement mechanism for the UNGPs and the fact that they are not legally binding obligations are the most frequent criticisms. Although the UN Council on Human rights has established a Working Group of Experts to promote the principles, the real implementation mechanisms lie outside the UN. The OECD Guidelines as revised in 2011 incorporate many of the concepts of the UNGPs including due diligence. This means that the UNGPs are part of the most important international state-based non-judicial mechanism for business behaviour. The UNGPs have also influenced procedures adopted by IFIs. The ISO 26000 standard is fully compatible with the UNGPs. The Global Reporting Initiatives G-4 Sustainability Reporting Guidelines, the most important non-financial reporting framework, also reflect important ideas taken from the Guiding Principles. The UNGPs have had an impact on the concept of "CSR". The UNGPs played a big role in the decision of the European Union to revise its definition of CSR.

6. ISO 26000 GUIDANCE ON SOCIAL RESPONSIBILITY

Description

ISO 26000 Guidance on Social Responsibility is a document approximately 100 page-long divided into seven "clauses" or chapters. Half of the document is found in Clause 6, which provides guidance on six "core subjects' which are: Organisational governance, human rights; labour practices; the environment; fair operating practices; consumer issues; and community involvement and development.

Each subject is organised into specific "issues" which are explained and for which suggested actions are given, as well as expectations of responsible organisations. Clause 3 provides an introduction to the subject and Clause 4 sets out seven "principles of social responsibility". Clause 5 is devoted to how an organisation should recognise its social responsibility and engage its "stakeholders". The final clause consists of practical management advice on "integrating social responsibility throughout the organisation".

Scope of application

The standard "provides guidance to all types of organisations, regardless of their size or location".

Effectiveness and limitations

Two frequently made criticisms of ISO 26000 are that it is not certifiable and that it is too long. Some had hoped that ISO 26000 could be certified. However, the majority of the experts, including the trade union experts, rejected this idea in favour of providing only "guidance". Given the breadth of subjects covered, it is reasonably compact. The section on labour practices is probably the most comprehensive yet concise exposition available of what constitutes responsible behaviour toward people who work.

Although ISO 26000 was not produced by an authoritative intergovernmental organisation, a number of such organisations participated and most of the expectations set out are based on authoritative instruments, which are referenced. The process of developing ISO 26000 was elaborate and involved great expense and time.

It was developed by a special "Working Group" of over 400 experts from more than 90 countries and organised in six "stakeholder categories". One of these categories was "labour", and trade unionists had significant influence in the development of this standard. ISO 26000 is considered part of the "core set of internationally recognised principles and guidelines regarding CSR" by the European Union.

The main limitation of ISO 26000 is that it is proprietary and copyrighted. Trade unionists and most others participating in the development of ISO 26000 wanted the standards to be put into the public domain and were disappointed in the refusal of the ISO to meet this request.

ISO 26000 can be useful in identifying subjects that should be included in non-financial reporting by companies. Definitions of "social responsibility" and "stakeholder" and concepts such as the relationship between social responsibility and sustainable development or the concept of how an organisation should determine its social responsibilities are very good from a trade union point of view.

7 . THE TRANSNATIONAL COMPANY AGREEMENTS (TCAS)-GLOBAL AGREEMENTS

Description

Unlike the above accountability mechanisms, TCAs (a term often used at the European level) and global or international framework agreements (terms used at the global level) are formal agreements between multinational enterprises and international trade union organisations. They are not codes of conduct. They are negotiated agreements and their content can vary. They involve the recognition by a company of an international trade union organisation as a social partner.

Scope of application

Early agreements were limited to the enterprise making the agreement. However, some of the more recent agreements have included the enterprise's business relationships/supply chain.

Effectiveness and limitations

TCAs are a form of social dialogue, and the existence of an agreement is an indicator that a company is making an effort to be socially responsible. Unlike codes of conduct, they are not supposed to mean that there are no problems.

These global agreements are, rather, a mature way of recognising that there will always be problems and establishing a means for these problems to be discussed and ultimately resolved.

Defining TCAs

As the result of the internationalisation of industrial relations, European and Global Union Federations found new ground for action in signing transnational agreements with multinational companies.

The EU Commission and ILO database counts about 245 texts that are identified with the name of Transnational Company Agreements. They are usually defined as "agreements entailing reciprocal commitments the scope of which extends to the territory of several States and which have been concluded by one or more representatives of a company or group of companies on the one hand, and one or more workers' organisations on the other hand, and which cover working and employment conditions and/or relations between employers and workers or their representatives".[13]

13 This definition appears in the European Commission Staff Working Document on "The role of transnational company agreements in the context of increasing international integration" SEC(2008)2155 of 2 July 2008. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52008SC2155&from=EN

The phenomenon is not new but it has intensified in the last decade and therefore only recently it was the object of greater attention from institutions and social partners at the EU and international level. It has been estimated that more than 10 million workers worldwide and 6.5 in Europe are covered by a TCA or a global framework agreement.

According to their geographical scope TCAs are usually grouped into three categories: International Framework Agreements (IFA) or Global Framework Agreements,[14] European Company Framework Agreements (EFA), and agreements with a mixed geographical scope (e.g., European wide agreements partially applicable to the worldwide operations of a transnational company).

Agreements promoted and signed by Global Union Federations have in their greater number the aim of encouraging transnational companies to respect fundamental labour and human rights or CSR standards. In the course of time, their contents have become more detailed especially in Europe-wide agreements. The European Commission recognises that EFA are more likely to deal with restructuring, reorganisation and anticipated measures, and they address specific issues such as health and safety at work, equality in employment, training and mobility, planning of employment and skill needs, measures to avoid dismissals, etc.[15] This has encouraged the European Trade Union Federations (ETUFs) to look at the phenomenon with renewed interest, and many of them have developed procedures and rules with the aim of enhancing the transparency and legitimacy of such agreements.[16]

BOX 3 : The Bangladesh Accord[17]

The Accord on Fire and Building Safety in Bangladesh is a legally binding agreement between international trade unions IndustriALL and UNI Global, Bangladesh trade unions, and international brands and retailers (companies).

International NGOs, including the Clean Clothes Campaign and the Workers' Rights Consortium, International Labour Rights Forum and Maquila Solidarity Network are witnesses to the agreement. The International Labour Organization (ILO) acts as the independent chair.

The aim of the Accord is the implementation of a programme for reasonable health and safety measures to ensure a safe and sustainable Bangladeshi Ready Made Garment industry for a period of five years. Over 170 international brands and retailers have signed the Accord.

The Accord was signed on May 15th 2013. The agreement was created in the immediate aftermath of the Rana Plaza building collapse that led to the death of more than 1100 people and injured more than 2000. In June 2013, an implementation plan was agreed leading to the incorporation of the Bangladesh Accord Foundation in the Netherlands in October 2013.

14 Not all agreements that involve companies and trade unions at the global level are TCAs or framework agreements. The International Transport Federation (ITF) negotiated an agreement with a large group of ship-owners/managers (IMEC) that is a collective bargaining agreement covering, among other things, hours and working conditions. At the other end of the spectrum is an important, but more limited, both geographically and in terms of content, agreement between two Global Union Federations and multinational enterprises marketing branded garments.

15 European Commission staff working document "Transnational company agreements: realising the potential of social dialogue" SWD(2012)264 of 10 September 2012. http://ec.europa.eu/social/BlobServlet?docId=8767&langId=en

16 A proposal for an optional legal framework for transnational negotiations with multinational companies has been launched this year by the ETUC: a European act which would recognise such agreements in the EU legal order has been supported by the European Parliament as well. See: http://www.etuc.org/documents/etuc-resolution-proposal-optional-legal-framework-transnational-negotiations-multinational

17 See http://bangladeshaccord.org

The agreement consists of six key components:

- A five-year legally binding agreement between brands and trade unions to ensure a safe working environment in the Bangladeshi RMG industry.
- An independent inspection program supported by brands in which workers and trade unions are involved.
- Public disclosure of all factories, inspection reports and corrective action plans (CAP).
- A commitment by signatory brands to ensure sufficient funds are available for remediation and to maintain sourcing relationships.
- Democratically elected health and safety committees in all factories to identify and act on health and safety risks.

Worker empowerment through an extensive training program, complaints mechanism and right to refuse unsafe work.

Through this agreement brands commit to a set of legally binding inspections in which the labour representatives participate. The binding aspect for the brands implies the following: to financially support the factory owners in the remediation of the factories.

It also include incentives for the factory owners to undertake the changes, such as a clear commitment for the brand owners to stay in Bangladesh for at least five years and with the companies concerned for at least two. The creation of occupational health and safety committees with a continued monitoring role in the factories is also part of the measures. Another aspect is the empowerment of the workers to refuse unsafe work.

Positive achievements of the Accord are the large and growing number of more than 180 brands and retailers that have signed, the + 1,500 factories and + 2 million workers covered as well as the concrete results concerning improved safety and working conditions.

Enforcing Global Standards through TCAs/framework agreements

In a globalised economy, a large number of instruments have been created to offset the dominant power of market dynamics. Many have underlined that the enforcement of social and environmental standards are needed as companies take excessive advantage from the lack of institutional constraints.

As matter of the fact, several international standards act together on the global scene with the aim of keeping all governmental and non-governmental actors compliant with a minimum set of fundamental standards, mitigating the democratic deficit of the global governance.

Such instruments are normative or procedural with the attempt to introduce transparency and accountability in the way private actors behave (e.g., Global Report Initiative, Global compact, OECD Guidelines, etc.). They operate triggering relationships between business, trade unions, stakeholders, local authorities, states, and international organisations. It is a complex set of relationships that, in the view of some, shows the lack of any form of worldwide governance of a globalised market. For others, such relationships as a whole still represent a form of global governance.

It is in this framework that TCAs operate: making reference to international standards they are concluded by private actors as employees' representatives and multinational companies, and they are binding if signatory parties wish so.

Provided that a TCA is binding in itself, it is still uncertain how TCAs qualify under national laws. It means that their legal nature is still uncertain. The consequence is that in case of non-application/ disputes, the national courts may reject the binding natures of the obligations of the parties.

Considering that they are supposed to be enforced in several countries, differences in labour laws and industrial relation systems may bring variations on implementation in different countries.

CONCLUSIONS (PART I)

As described above, there are various mechanisms already in place that are supposed to regulate, guide and assess business behaviour. Still it seems very difficult to make them function in reality, because of a substantial lack of commitment by the business side.

Using hard or soft laws, the international community tries forcing private actors operating in the global market to abide by social and environmental rules. However, in absence of a supranational public power universally recognised – entitled to take democratic decisions and enabled to enforce them appropriately – several governmental and non-governmental actors establish relationships making reference to international standards of different sort to obtain the desired effect.

At the moment, business can be made accountable on the basis of international standards that directly or indirectly (through states) address them. Not surprisingly, the implementation of direct business accountability mechanisms is based on voluntariness, as opposed to the implementation of indirect mechanisms that become direct under national laws. In this context, it should be noted that TCAs have given proof to be able to introduce binding obligations on MNEs through private agreements.[18]

With increasing interest in the private sector as a development actor, existing instruments for responsible business conduct, in particular, the ones described above, should assume additional importance. **Adherence and implementation of internationally recognised guidelines and principles concerning business behaviour and their accountability instruments described above should become a key condition to grant private sector support in development cooperation.**

Compliance should be linked to eligibility and an adequate monitoring system should lead to suspension of financial support in case of violations.

In the specific case of **TCAs, these could be interconnected with granting financial support** to private enterprises in development.

This would be crucial to address economic development in an inclusive and multi-stakeholder way, including social dialogue, and to truly integrate rights-based approaches to development.

18 It should be highlighted that in June 2014 a resolution was adopted in the UN Human Rights Council that will begin the process of elaborating an international legally binding instrument on business and human rights. See: https://www.globalpolicy.org/component/content/article/221-transnational-corporations/52651-treaty-alliance-press-release-on-resolution-on-binding-human-rights-standards.html
While companies must respect all human rights, they currently are not held accountable under international human rights law. It is still uncertain when this will become a reality. The concern is that any treaty would be based on a lowest common denominator of national practice, which would lower the existing international expectations of business behaviour. The real danger is that national governments would use the negotiations to reduce their duty.

PART II:

UNDERSTANDING HOW DONORS USE AID TO ENGAGE WITH THE PRIVATE SECTOR IN DEVELOPMENT

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KEY CONCEPTS

The private sector has probably never been the subject of such an intense debate among development practitioners as it is today. As the Finance for Development (FfD) and the Post-2015 conferences approach, the role of the private sector in development has become one of the top issues in the political agenda. The driving force seems to be the belief that in order to meet both existing and future development goals, the international community will need to harness the power of the private sector.

In the particular case of donors, there are also a number of underlying reasons that can explain their interest in the private sector. Firstly, on average donors have failed to meet their targets or raise aid to a reasonable level. Aid or official development assistance (ODA) stood at 0.30% of donors' gross national income,[19] not even half the way towards the 0.7% target. Secondly, even if donors had raised their aid levels to 0.7%, the total amount of aid would be quite small compared to private finance. Foreign direct investment in developing countries is approximately USD 480 billion, while domestic investment is 7.3 trillion.[20] Finally, there are wider political and economic factors that most certainly also play a role, such as the increased assertion of emerging economies as major global players combined with the loss of prominence of many developed countries, especially in Europe.

This report only looks at support to the private sector that involves the use of aid funds. This is only one part of the broader debate about the role of the private sector that is currently taken place. Aid is a scarce resource and the needs of developing countries are many.

At the same time, there are other sources of finance available, both public and private, to support the private sector. In this context, many wonder whether aid can actually make a difference for private sector actors and whether using aid in this way maximises the development impact of aid flows.

Reports and papers have often oversimplified this debate by summarising or portraying the debate as a choice between whether aid should be going to the private sector or not. The reality is much more subtle than that.

The private sector is not a new actor in the context of aid flows. It has been both the subject and channel of aid activities for a long time. For example, the private sector usually plays a significant role in any infrastructure project funded by aid, where it provides goods, services, or technical advice. Donors have also traditionally implemented projects to create the right legal, policy and economic conditions for the private sector to prosper.

What is new is that donors are increasingly looking at ways in which they could use aid to trigger private sector investments in the right places and increase their development impact. In practice, this would allow multiplying the amount of resources going to development by mobilising (leveraging) private sector resources.

Exploring the difference between this new approach and previous ones is precisely the main objective of this report. In particular, this report looks at how donor policies and practices have evolved over the last few years and in which direction they are moving. Examining the potential, limitations and challenges of these different approaches is also an integral part of this research. Special emphasis will be put on "leveraging" aid modalities.

19 Based on OECD calculations for member of the OECD's Development Assistance Committee (DAC). See: http://www.oecd.org/dac/stats/final2013oda.htm

20 Griffiths, Jesse (2014), "The State of Finance for Developing Countries, 2014. An assessment of the scale of all sources of finance available to developing countries", Eurodad, Brussels. http://www.eurodad.org/finance_for_developing_countries

BOX 1: PPPs – a buzzword that often confuses development practitioners

This report avoids using the word public-private partnerships (PPPs) for a number of reasons. Firstly, PPPs do not add much to the analysis in this report, as they can be part of any of three roles described below (building, leveraging and delivering).

Secondly, PPPs mean different things for different people. There is not a unique definition of a public-private partnership (PPP), and its use has changed substantially in recent years. The generic name PPP is being used in the development discourse to identify very different type of arrangements. Differences can be seen both across economic sectors and geographical regions. The term PPPs is currently being used to refer to anything from informal and short-term collaborations between non-governmental organisations, the private sector and/or government agencies; to more complex and long-term contractual arrangements in which the private sector participates in the supply of assets and services traditionally provided by the government.

Such a diversity of definitions makes any constructive debate about the role of PPPs in development very difficult. Consequently, this report would favour a more restrictive definition in which PPPs is used to describe a contractual arrangement between the state and the private sector that entails a risk sharing between the two. In this contractual agreement "the private sector provides infrastructure assets and services, that traditionally have been provided by government, such as hospitals, schools, prisons, roads, bridges, tunnels, railways, and water and sanitation plants."[21] By doing this, we focus on the structure and the terms of the relationship between the two parties, which makes the analysis easier. The partnership arrangement delineates partners' roles and responsibilities, risk sharing, and distribution of financial and non-financial benefits.

Different roles for the private sector in development assistance

Before moving any further into the report, it is important to start by trying to shed some light into the connection between donors and the private sector. Generally speaking, there are three different ways in which donors can engage with the private sector.[22] The boundaries between these categories are permeable in nature, and there are projects that do not fit neatly into just one of them. Nonetheless, they are quite useful to conceptualise the different ways in which the private sector participates in development projects funded with ODA and illustrate the differences between them.

- **Building:** the private sector in developing countries is the intended beneficiary. The objective is to develop the private sector through direct or indirect interventions. These can take different forms that can be grouped into a number of subcategories. In practice, many projects are a mix of two or more of the sub-categories listed below. For this reason, combined with the lack of very detailed data, the report looks at building as one single category. The following list of categories below is not exhaustive:

21 See the OECD's definition here: http://stats.oecd.org/glossary/detail.asp?ID=7315

22 This classification builds on ActionAid (2014), "Aid to, with and through the private sector: emerging trends and ways forward", ActionAid discussion paper, April 2014. http://www.actionaid.org/publications/aid-and-through-private-sector-emerging-trends-and-ways-forward

- Direct support and assistance to business in order to strengthen them.
- Access to finance: projects aimed at making it easier and cheaper for businesses to access finance.
- Access to market: projects such as infrastructure investments.
- Capacity building, which can be targeted to specific business or broader projects aimed at increasing the skills of the workforce.
- Regulatory framework: changes to legislation and other regulations in order to improve the business environment.

- **Leveraging:** the private sector is a partner in development. The objective is to increase the resources available for development by mobilising additional finance and investments. Leveraging can happen at many levels (multinationals, companies from donor countries or developing countries, etc.).

- **Delivering:** the private sector is an implementing partner in development projects. The private sector gets engaged through the procurement or contracting of good and services (e.g., advisory services, infrastructure building, office equipment, etc.). Essentially all aid projects require a variable amount of procurement in order to operate.

BOX 2 : Some illustrative examples of the role of donors in building and leveraging the private sector

Building: In 2013, Austria provided a USD 180k aid grant to help build a number of cattle breeding stations in Kosovo with the aim of increasing livestock productivity.[23] In the same year, the Inter-American Development Bank (IADB) spent USD 120k to design a pilot funding mechanism to increase the access to finance projects complying with the Program to Promote Sustainable Agricultural Productivity.[24]

Leveraging: Sida, the Swedish development agency, issued a guarantee for Global Commercial Micro-finance Consortium II B.V., an investment fund created and managed by Deutsche Bank in the USA. The fund lends money to microfinance institutions for on-lending to target people in poor countries for a business purpose. The guarantee issued by Sida helps cover any potential losses of the fund. This reduces the risk profile of the investment and helps to attract other private investors and philanthropists.[25]

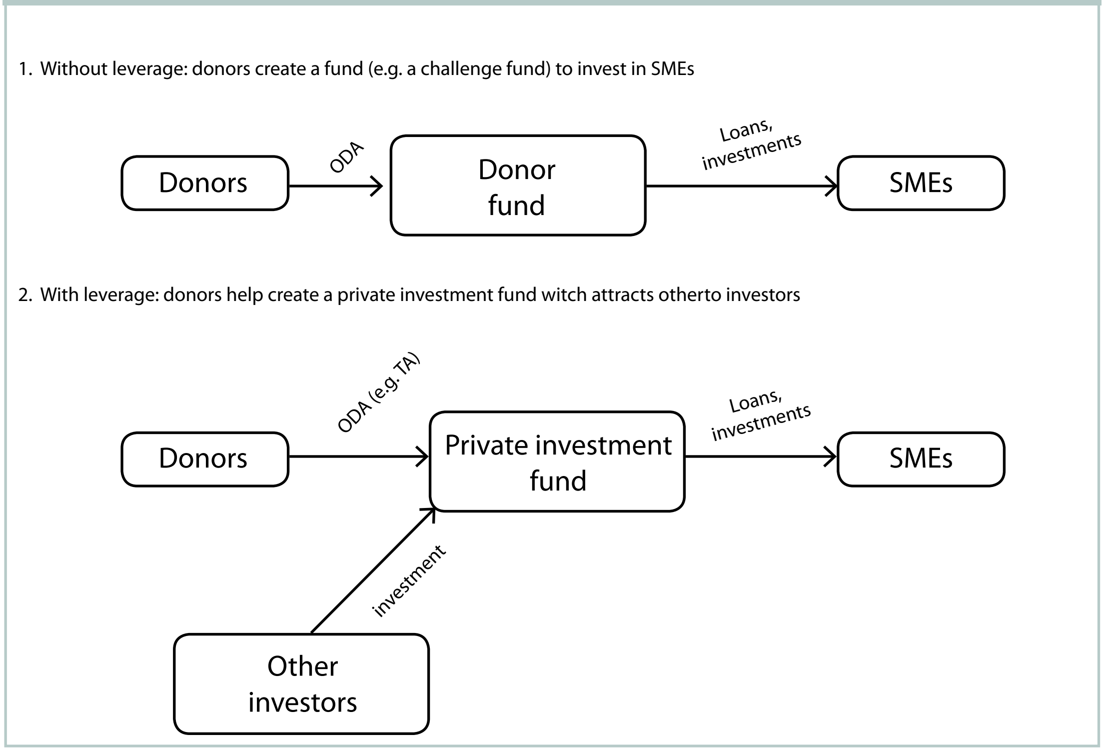
23 See the OECD Creditor Reporting System 2013 dataset: http://www.oecd.org/dac/stats/idsonline.htm
24 Ibid.
25 See: Sida, "Innovative Financing collaboration with the private & public sector": Examples. Innovative Financing Collaboration with the private & public sector: http://www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Innovative-Finance-/
26 Pereira, Javier (forthcoming), "Literature review on the additionality of using ODA to leverage private investments", UK Aid Network.

A working definition of "leveraging"

This report defines "leverage" as the use of public finance and risk mitigation instruments to remove the barriers to private sector investment in developing countries and thereby mobilise significant amounts of private capital for development.[26] This definition includes a potentially large number of public actors and instruments. In this report, we are only looking at one specific source of public finance: official development assistance (ODA).

When conceptualising the idea of leveraging, it is often useful to think about it as a project including an additional step or stage compared to more traditional forms of ODA used to support the private sector. The aim of this additional step is to generate additional funding. This is illustrated in the figure below with a fictional example.

Figure 1: Donors want to invest in SMEs in country X and set up a fund



Source : own elaboration.

26 Pereira, Javier (forthcoming), "Literature review on the additionality of using ODA to leverage private investments", UK Aid Network.

Why this report is needed

Despite the growing interest in the role of the private sector in development, there is not an articulated vision about the role that aid can and should play in the future. Below is a list of some key questions that remain to be answered. This report does not intend to provide a comprehensive answer to all of these questions, but hopes to contribute to make the debate move forward.

1. What exactly are donors doing when it comes to supporting the private sector? This is not only about private sector policies, but also about how they have been using aid funds in the past and how flows might change in the future.

2. How does private sector support approaches, in particular leveraging, compare to other forms of aid? Considering the limited amount of aid, it is essential to understand better the opportunities, challenges and limits of the different ways of working with the private sector.

3. How can we monitor and track progress now and in the future? There is a need for better and more accurate data that would allow stakeholders to track, monitor, evaluate and compare donor support to the private sector in the future.

STRUCTURE OF THE REPORT

Chapter 1 of this report will look at the policy framework that governs the relationship between donors and other relevant actors with the private sector. It starts by describing and identifying all relevant actors. Subsequently, it reviews their policies and how they have evolved in recent years. The end of Part 1 also describes the different ways in which aid can be used in relation to the private sector, with a particular emphasis on those used for leveraging other sources of finance.

Chapter 2 examines how aid flows have changed over the last few years and tries to quantify how much aid donors are channelling to the private sector according to the typology described above (delivery, building and leveraging). This chapter is based on a new methodology to quantify donor support to the private sector and tries to set a baseline that will allow measuring future progress.

Chapter 3 assesses the effectiveness of donor support to the private sector. In particular, it looks at the role development effectiveness principles could play. The second section discusses a number of areas where additional research is needed in order to advance the debate about the use of aid to support the private sector. Chapter 3 focuses primarily on leveraging activities, as there is ample literature about other forms of support to the private sector. Other forms of engaging with the private sector are referred to when relevant.

The final part of this report brings together the main conclusions of each of the three chapters and puts forward a number of recommendations for policy makers and future research efforts.

CHAPTER 1 – DONOR AND INSTITUTIONAL DEVELOPMENT POLICIES AND THE PRIVATE SECTOR

This chapter explores development policies for a number of donors and assesses the role the private sector plays in them. It starts with a short typology of donors and institutions assesses in the report. In addition to summarising and analysing the contents of donors' policies in relation to the private sector, subsequent sections collect examples of programmes and facilities targeted at the private sector and describe the main instruments they use. This chapter also provides some illustrative examples based on existing projects.

1.1. A TYPOLOGY OF THE ORGANISATIONS AND INSTITUTIONS DELIVERING AID

This report uses the word "donor" to refer to all the organisations that manage aid funds. They can be classified into four main categories, which are specifically referred to when necessary. These four categories are listed below. In order to provide additional guidance, the list includes information about the amount of aid that is directly managed by each of these types of donors.[27] The following section below offers additional information about the individual organisations we have looked at in greater detail in this research.

- **Bilateral donors** manage the bulk of ODA flows. In 2013, they managed 67 per cent of global ODA flows. Bilateral donors include aid agencies and other bilateral donor channels such as ministries and local and regional governments.

- **Multilateral donors** managed a little bit over 14 per cent of all ODA flows in 2013. This group includes a number of United Nations' agencies, multilateral initiatives such as the Global Fund, as well as aid provided by the EU institutions.

- **Bilateral development finance institutions** manage approximately 2.5 per cent of ODA flows. Bilateral DFIs generally have a remit to promote private investment in order to foster economic development. Their mandate varies from one institution to another. In some cases, such as the German DEG or the Dutch FMO, they have a clear mandate to work in developing countries, while in other cases they work in development as part of a wider set of activities.

  Many of them have a mandate to promote the economic interests of donor countries. Most bilateral DFIs provide finance to private investors and act essentially like public banks. Although some authors do not consider Export Credit Agencies as DFIs and they only manage a residual amount of aid, we have included them here for the sake of simplicity. Export credit agencies usually provide insurance to private sector actors investing abroad.

- **Multilateral development finance institutions** managed just below 16 per cent of all ODA flows in 2013. Multilateral DFIs comprise organisations with a broader set of mandates than bilateral DFIs. For example, the International Development Associations (IDA) essentially focuses on developing countries' governments, while the European Investment Bank (EIB) has a very broad mandate of which supporting the private sector developing countries is only a very small part. Others such as the International Finance Corporation have a narrow focus on the private sector.

27 Based on data from the OECD Creditor Reporting System database.

When it comes to support to the private sector, DFIs play a more relevant role than the figures above suggest. Bilateral and multilateral DFIs manage significant amounts of aid related to the private sector. Moreover, it is also common for donors to channel their support to the private sector through these organisations. For example, the European Commission's blending facilities bring together the European Commission as an ODA donor with a number of European DFIs. Individual DFIs screen and propose projects to the facility. These projects are jointly assessed by all members of the facility, and the EC approves an ODA disbursement for the successful ones. The implementation and monitoring of the project is usually performed by the DFI. Detailed data about the role of these different actors in supporting the private sector are provided in Chapter 2.

1.2. PRIVATE SECTOR SUPPORT POLICIES

Donor policies provide a useful starting point to examine the role they think the private sector can and should play in the context of aid flows. The table below reviews the development policies of a number of donors and summarises their contents in relation to the private sector. It is based primarily on top-level development strategies to provide a better contextual analysis of the objectives of development cooperation activities. Where specific private sector strategies exist, they have been used to complement the information. Organisations have been selected based on their overall aid portfolio and the amount of aid that targets the private sector so that they provide a representative sample of aid flows (see Chapter 2).

The analysis of donor policies shows an **increasingly strong focus on the private sector as a target of development activities**. In 19 out of the 23 donor development policies examined, the private sector features among the main priorities and objectives. All policies that refer to the private sector tend to put the private sector as the engine of development and economic growth. Many of them also talk about the increasing importance of the private sector as a development actor.

Most donors are planning to increase funding for private sector activities. Eleven out of the 23 donors examined have explicit plans to expand support to the private sector. In other cases, an increase is implicit or can be expected as result of prioritising the work on the private sector. **Donors are also planning to expand the use of innovative instruments and blending mechanisms** combining aid grants with other forms of finance in order to leverage other forms of finance that have been traditionally provided by DFIs.

Strong focus on the promotion of national business interests abroad. Nine out of the 23 donor policies examined contain explicit references to supporting domestic business abroad and facilitating their investments and trade in developing countries. Although the implications of this will be discussed in greater depth in Chapter 3, this suggests that donor countries are pursuing some sort of double dividend with their development policies. This also illustrates the fact that development policies are not designed in a vacuum. They are often one of the instruments of developed countries' foreign policies, which in turn respond to a number of national priorities.

Table 1: Summary of donor development policies in relation to the private sector*

Donor and year	Key elements	Instruments	Channels	Expected changes in weight of PS activities in ODA budget
AfDB, including the AfDF (2013)	Private sector development is one of the five operational priorities. Other priorities are also linked to private sector development (e.g., infrastructures and regional integration). Increased focus on leveraging.	Technical assistance, loans, guarantees, investments.	Direct support, blending of aid funds with non-aid resources.	Increased support to private sector, especially leveraging.
AsDB (2008)	The private sector is one of the five areas of focus and it is also present on a second one: partnerships. Activities include catalysing private finance; building an enabling environment (including infrastructure and financial sector); and regional integration.	Direct financing, credit enhancements, guarantees, TA and innovative financial instruments.	• Direct support • Other DFIs • Partnerships with PS	Increase, objective is that private sector operations represent 50 per cent of activities by 2020.
Australia (2014)	• Strengthening private sector development is one of the two key development outcomes of Australian aid. This means a focus on the private sector across all programmes, specific activities include trade facilitation, investments infrastructure and better regulatory environments. • Emphasis on Australian businesses.	Unclear, emphasis on the need to leverage knowledge and non-ODA resources.	Unclear, at least direct support, DFIs and partnerships.	Increase
Austria (2012)	The private sector is one of the three themes of Austrian cooperation. Activities: improving the framework for the private sector; harnessing the potential of Austrian businesses.	Grants, TA, guarantees, equity.	Direct support, national DFIs, multilateral DFIs, partnerships.	Increase
Belgium (2014)	The private sector is the core focus of Belgian development cooperation. Objectives: improving the business environment; supporting local private sector development; trade facilitation and fair trade.	Grants, loans, TA, equity investment, blending.	• Direct support • BIO (national DFIS) • Multilateral DFIs	Likely to increase as private sector is the now the core focus.

Donor and year	Key elements	Instruments	Channels	Expected changes in weight of PS activities in ODA budget
Canada (?)	The private sector plays a relevant role in one of the five themes of Canadian cooperation: stimulating sustainable economic growth. Activities: building economic foundations; growing businesses; and investing in people.	Unclear	Unclear	Unclear
Denmark (2012)	The private sector is included in one of the three pillars: green growth. Specific activities include promoting an enabling environment; creating opportunities for Danish and international companies; and investments in developing countries.	Grants and innovative finance, guarantees, risk-reducing instruments.	Unclear, at least direct support, partnerships.	Unclear
EU, including the European Investment Bank (2014)	Dedicated strategy. Key elements: supporting private sector; mainstreaming private sector development in EU development cooperation; and catalysing private sector engagement for development.	Various leveraging instruments (blending, guarantees, insurance and others.	DFIs, primarily EIB dedicated facilities, private sector, direct cooperation.	Increase in support to the PS.
Finland (2012)	Private sector is relevant within the second of the fourth pillars: an inclusive green economy.	Grants, loans, risk-reduction instruments, potentially others.	At least direct support and national DFI (Finnfund).	Potential, an increase was planned when the policy was introduced in 2012.
France (2011)	Private sector plays an important role in the first of the four pillars (growth). Activities can be summarised in: building an enabling environment; catalysing investments; and trade facilitation.	Unclear	• Direct support • National DFIs, multilateral DFIs	Unclear, but plans to increase investment in PS in Africa.
Germany (2012)	• Supporting the private sector is central in the second pillar. • In particular: creating an enabling economic and business environment; and expanding financial systems. • Emphasis on national companies.	Loans, equity, grants, TA, partnerships	Aid agency DFIs: national (DEG) and multilateral, private sector	Expansion of funds targeting the private sector

Donor and year	Key elements	Instruments	Channels	Expected changes in weight of PS activities in ODA budget
IDA (2013)	Private sector development is a priority. Activities: creating an enabling environment (joint business plans and focusing on private sector development); leveraging private resources; catalysing transformational investments.	Loans and guarantees.	Direct support by aid agency and blending with other sources.	Potential increase, though support is already quite high (see Chapter 2).
IDB (2010, 2011)	Fostering development through the private sector is one of the two strategic goals. Activities: regional integration; an enabling environment (access to finance, infrastructure and institutional).	TA, loans, guarantees, equity, other risk-reducing instruments.	• Direct support • Other DFIs	Potential increase, an expansion is planned until 2015.
Korea (2010)	Accessible documents recognise the role of the private sector and the need to partner in aid activities, but there is very little detailed information.	N/A	N/A	N/A
Kuwait (?)	No strategy has been found.	Loans, guarantees, grants, TA, equity.	Direct	N/A
Netherlands (2013)	• The private sector is a major development partner. Activities: build an enabling environment (regulatory framework, access to finance and infrastructure). • Emphasis on national companies.	Not detailed, at least TA and other grants, loans and innovative forms of finance and investments.	• Direct cooper-ation National funds and DFI • Multilateral • Private sector	Expanding support to building and leveraging activities.
Norway (2011)	The private sector is one of the main areas of focus. Key elements: support national companies abroad; leverage finance through risk-reducing instruments: special focus on renewable energy.	Grants, loans, guarantees, TA, potentially others.	• Norfund (Norway's DFI) • Multilateral DFIs • Direct support	Increase, government has planned additional funds for PS.
Spain (2013)	• Private sector is one of the priorities, in particular: provide an enabling envi-ronment; access to finance. Inclusive growth. • Emphasis on national private sector.	Unclear	• Dedicated funds, national and multilateral DFIs • Private sector • Direct cooperation	Potential increase in support to PS.

Donor and year	Key elements	Instruments	Channels	Expected changes in weight of PS activities in ODA budget
Sweden (2013)	The private sector is not very relevant in the aid policy. There are general comments about the important role of the private sector and the need to increase access to financial markets, invest in infrastructure and promote regional integration.	N/A	N/A	N/A
Switzerland (?)	Private sector is relevant in two of the five strategic objectives. Areas of work include financial services; trade facilitation; and financing infrastructure.	N/A	N/A	N/A
United Arab Emirates (?)	No strategy has been found. Ministry for International Development and Cooperation was created in 2013.	N/A	N/A	N/A
UK (2014)	• Three of the five pillars are directly related to the private sector: supporting an enabling environment for private sector growth; catalysing capital flows and trade in frontier markets; engaging with businesses to help their investments contribute to development. • Emphasis on national companies.	Loans and equity investments, grants, TA, partnerships.	• DFIs: CDC, the UK's Development Finance Institution. (DFI), Private Infrastructure Development Group (PIDG), MDBs • Private sector • Direct cooperation	Expanding building and leveraging activities. Plans to double spending by 2015-2016.
USA (2011)	Private sector is one of the seven core development objectives. Activities include creating an enabling environment; mobilising private finance; microenterprise programmes focused on the poor; and partnerships with the PS.	Grants, guarantees, partnerships, others, including innovative and non-aid instruments (not detailed).	• DFIs, government departments • Direct support, partnerships with PS	Increase in support to the PS.

** Source : the following documents have been used to compile the table:*

AfDB: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/AfDB_Strategy_for_2013%E2%80%932022_-_At_the_Center_of_Africa%E2%80%99s_Transformation.pdf

AsDB: http://www.adb.org/sites/default/files/institutional-document/32121/strategy2020-print.pdf

Australia: http://aid.dfat.gov.au/Publications/Documents/australian-aid-development-policy.pdf

Austria: http://www.entwicklung.at/uploads/media/ThreeYearProgramme_13-15.pdf

Belgium: http://diplomatie.belgium.be/fr/binaries/loi_cooperation_au_developpement_19_mars_2013_tcm313-221450.pdf and http://diplomatie.belgium.be/fr/binaries/note_secteur_prive_tcm313-246773.pdf

Canada: http://www.international.gc.ca/development-developpement/priorities-priorites/segs-sced.aspx?lang=eng

Denmark: http://um.dk/en/~/media/UM/English-site/Documents/Danida/Goals/Strategy/13287_DANIDA_strategiformidling_UK_web%20NY.jpg

EU Institutions: http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A52014DC0263&qid=1400681732387&from=EN

Finland: http://formin.finland.fi/public/download.aspx?ID=97374&GUID={A708126D-F09D-4608-B420-C00E12E46385}

France: http://www.diplomatie.gouv.fr/fr/IMG/pdf/doc.Cadre_FR_2011-2.pdf

Germany: http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier325_06_2012.pdf, http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier306_05_2011.pdf and http://www.bmz.de/en/publications/type_of_publication/strategies/Strategiepapier304_03_2011.pdf

IDA: http://www.worldbank.org/ida/papers/ABCs/psd-2013.pdf

IDB: http://publications.iadb.org/bitstream/handle/11319/2201/REPORT%20ON%20THE%20NINTH%20GENERAL%20INCREASE%20IN%20THE%20RESOURCES%20OF%20THE%20INTER-AMERICAN%20DEVELOPMENT%20BANK.pdf?sequence=1 and http://publications.iadb.org/bitstream/handle/11319/2064/PRIVATE%20SECTOR%20DEVELOPMENT%20%20STRATEGY%3a%20FOSTERING%20DEVELOPMENT%20%20THROUGH%20THE%20PRIVATE%20SECTOR.pdf?sequence=1

Netherlands: http://www.government.nl/files/documents-and-publications/reports/2013/04/30/a-world-to-gain/a-world-to-gain-en-1.pdf

Norway: https://www.regjeringen.no/globalassets/upload/ud/vedlegg/utvikling/business_development_e899e.pdf, https://www.regjeringen.no/en/aktuelt/private_sector/id2005622/ and http://www.regjeringen.no/nb/dokumenter/Strategy-for-Norwegian-support-of-private-sector-development-in-developing-countries/id420023/#sum

South Korea: http://www.odakorea.go.kr/eng.policy.StrategicPlan.do

Spain, most detailed information comes from the older strategy document: http://www.cooperacionespañola.es/sites/default/files/iv_plan_director_cooperacion_espanola.pdf and http://www.aecid.org.mx/documents/DES_CrecimEmpresaDEFINITIVO.PDF

Sweden: http://www.government.se/content/1/c6/24/28/99/5718b7f6.pdf

Switzerland: https://www.eda.admin.ch/deza/en/home/sdc/strategy/strategic-objectives/sustainable-economic-growth.html

USA: http://www.usaid.gov/sites/default/files/documents/1870/USAID%20Policy%20Framework%202011-2015.PDF

UK: https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/276859/Econ-development-strategic-framework_.pdf

1.2.1 Examples of private sector support programmes

As part of the research, we have explored the existence of dedicated private sector support programmes funded with aid funds. We have predominantly focused on bilateral and multilateral donors. Multilateral DFIs have not been exhaustively assessed, as they do generally channel significant amounts of aid and it would thus be difficult to assess the extent to which facilities use aid funds. Nonetheless, we have included a couple of programmes or facilities that customarily use aid funds. The results are summarised in the table below. In the next section, examples extracted from these facilities are used to illustrate how different instruments work in practice (see Box 2.)

The number and nature of the programmes identified provide additional evidence that **DFIs are the main channel donors use to channel aid to the private sector**, rather than dedicated facilities. This makes sense, as DFIs usually have a strong focus and expertise on the topic. For example, France works with Proparco, which is mandated to support the private sector in development.

This view is supported by the fact that some of the dedicated facilities included in the table below are also managed by government agencies and bodies other than the aid agencies (e.g., the Dutch Good Growth Fund and Finnpartnership). The EU Blending facilities also rely on a number of European DFIs to identify and manage their projects. Their added value is that they bring together a number of different DFIs and increase the number of options for channelling EU aid funds. With the exception of the IFC and EIB facilities, which have been included in the table, the use of dedicated facilities where aid and non-aid funds are combined does not seem to be the norm among DFIs.

At least five out of the eleven programmes have a **strong focus on promoting the investments of national companies**. This is in line with the content of donor policies examined above. In these cases, the predominant focus is on the building of business partnerships.

The facilities comprise a wide range of instruments, but the most common ones are grants and technical assistance. This does not mean that donors do not use other forms of support, something that evidence provided in Chapter 2 contradicts, but rather that more specialised or complex instruments are probably managed and implemented by DFIs. Both the EIB and the IFC facilities listed at the end of the table support this conclusion, as they make the most diverse use of instruments to support the private sector.

Table 2: Private sector support programmes and facilities*

Name	Donor/s	Description	Type of support
Dutch Good Growth Fund: Business for development	Netherlands, Netherlands Enterprise Agency	Investments by Dutch SMEs in emerging markets and developing; finance for local SMEs in developing countries and finance for development-relevant exports from Dutch SMEs to developing countries.	Loans
Partnership for Growth	USA, aid agency	Very broad initiative. The private sector is only part of the work it does.	
Private Infrastructure Development Group (PIDG)	• Bilateral aid agencies: Australia, UK, Switzerland, Ireland, Netherlands, Sweden • DFIs: IFC, KfW	Mobilises private sector investment to assist developing countries in providing infrastructure. Includes eight companies: DevCo, Green Africa Power, GuarantCo, ICF-DP, InfraCo Africa, InfraCo Asia, Technical Assistance Facility and The Emerging Africa Infrastructure Fund.	Technical assistance, guarantees, loans, structured finance, PPPs, grants.
Donor Committee for Enterprise Development	22 donors, including bilateral and multilateral and DFIs	Founded in 1979, research and knowledge exchange about the role of the private sector in development.	N/A
develoPPP.de	Germany, Development Cooperation Ministry	Cooperation between official development cooperation and the private sector.	Partnership grant and technical assistance.
Business for development (B4D)	Sweden, aid agency	Aims to get companies more engaged in the fight against poverty. It has a number of approaches, forms PPPs to procurement, and covers a wide range of activities.	Grants, loans and guarantees, which can be combined with private capital.

Name	Donor/s	Description	Type of support
Finnpartnership	Finland, Finnfund (DFI)	Assists companies in seeking out new business opportunities and partners in developing countries. Also help to export into Finland.	Grants and technical assistance
Cooperation on Framework Conditions for Private Sector Development in the South	Norway, aid agency	Building and strengthening institutions and private sector actors in development countries.	Technical assistance
Application-Based Support for Private Sector Actors	Norway, aid agency	Primarily aimed at businesses / commercial companies seeking funding for feasibility studies, training related to establishment and pilot production, all in connection with private investment projects.	Grants
ACP-EU Microfinance	EU institutions, ACP secretariat	Developing financial inclusion systems adapted to the needs of the poor.	Technical assistance, grants
EU blending facilities	EU institutions	Use aid to leverage other sources of finance for development. Includes: Neighbourhood Investment Facility (NIF), Latin America Investment Facility (LAIF), Asian Investment Facility (AIF), Investment Facility for Central Asia (IFCA), Caribbean Investment Facility (CIF), Investment Facility for the Pacific (IFP), EU-Africa Infrastructure Trust Fund (ITF).	Grants, technical assistance
Al-Invest IV	EU Institutions	Support for small and medium enterprises (SMEs) in Latin America. It promotes exchange of innovation, knowledge and economic relations with their European counterparts.	Grants, technical assistance
Blended Climate Finance facility	IFC	Manages concessionary donor funds (aid) in order to catalyse private sector investments and advisory projects.	Grants, loans, guarantees, equity, structured finance. Aid is used to soften some forms of finance or provide technical assistance.
ACP Investment Facility	EU Institutions, EIB	Supports projects promoting the development of the private sector and commercially run public enterprise. Infrastructure and financial sector are the priorities. It is partially funded with aid resources.	Grants, loans, guarantees, equity, structured finance. Aid is used to soften some forms of finance or provide technical assistance.

**Source: Sida (2010), "Business for Development Programme for Sida's collaboration with business": http://www.sida.se/contentassets/19d8e6978 6e049dbb402ab375c4c0470/business-for-development1_2886.pdf and Heinrich, Melina (2015), "Private sector partnerships to promote economic development", Private Sector Development Synthesis Note, The Donor Committee for Enterprise Development: www.enterprise-development.org/ download.ashx?id=1640. See also the relevant donor websites.*

1.3. INSTRUMENTS USED BY AID DONORS TO SUPPORT THE PRIVATE SECTOR

Aid can be used in a number of different ways in relation to the private sector. The table below summarises the most common uses. It differentiates between "traditional" forms of aid, meaning instruments that have historically represented and continue to represent the bulk of aid projects, and a number of alternative or emerging instruments. The table also identifies some subtypes of instruments or different ways in which an instrument can be used depending on the target or the objective. Box 2 uses projects taken from the facilities listed in the previous section to illustrate how different instruments work.

Table 3: How ODA can be used in relation to other forms of finance*

Mechanism	Description	Primary use
Traditional uses		
Aid grants • Project implementation • Procurement	• Grants for project implementation by a number of different actors. When related to the private sector, they are usually related to building activities. • Aid related public procurement is essentially how the private sector gets involved in aid delivery (see Chapter 2).	Building Delivery, potentially building
Technical Assistance • Institutional reform	Grant is used to provide specialised assistance to aid recipients. It is very common in the areas of governance, and institutional or legislative reform.	Building
Concessional loans	A loan from the donor provided in better conditions than those available in the market. It is generally provided to the public sector in recipient countries.	Building
Alternative or emerging uses		
Interest rate subsidies (blended loans)	Grant is used to cover part of the interest payments. The project promoter thus receives a subsidised loan at below market interest rate.	Leveraging
Technical assistance • Project design	Technical assistance is provided to a company to strengthen its design and increase the chances of accessing finance. It can also be used after finance has been granted to increase the chances of success. It is often combined with other forms of finance.	Leveraging
Loan guarantees	Grant is used to cover the losses of the lender in case of default, so that it agrees to finance the project or to do so in better conditions.	Building, Leveraging
Structured finance – first loss piece	Donors offer finance with a lower repayment priority than the debt issued by other financiers. In case of default, donors would absorb the losses first. Mezzanine loans are a form of structured finance.	Leveraging
Equity investment	A direct capital contribution is made to a company of investment fund, usually in order to send a signal to other investors or cover for first-losses and attract additional capital.	Leveraging

**Source: Elaborated by the author based on European Commission (2009), Working Group on the Additionality of Grants in the Framework of Blending Mechanisms, Final report, December 2009: http://www.dev-practitioners.eu/fileadmin/Redaktion/GroupsFolders/Division_of_Labour/Loans_and_grants/WGBlending_FINAL_complete_report_181209.pdf*

"Traditional" uses of aid are predominantly linked to "building" activities. For many years, donors have tried to support private sector development in developing countries by, for example, helping to create an enabling environment, increasing access to finance, building essential infrastructure or developing skills. In most cases, aid used to support these objectives would be provided in the form of grants for projects implementation, technical assistance or concessional loans.

"Traditional" uses of aid are also linked to "delivery" activities. Procurement related to aid funds is essentially the way in which the private sector is engaged in the delivery of aid funds, rather than an objective itself. Due to the large amount of aid funds which are channelled to the private sector through public procurement (see Chapter 2), it could also be used to stimulate or "build" the private sector in developing countries, for example by targeting companies from developing countries.[28]

"Alternative or emerging uses" of aid in relation to the private sector can generally be linked to "leveraging" activities. As discussed in the previous section, a significant number of the donors examined are planning to expand the use of these types of instruments. They all work in different ways, but they share the main goal of helping to mobilise additional financial resources.

BOX 3: Actual projects explaining some of the common instruments

Equity Investment: The Dutch Good Growth Fund is considering a EUR 15m investment in GroFin Small and Growing Business (SGB), an investment fund domiciled in Mauritius. The Fund will offer long-term financing to relatively small SMEs, thereby improving access to finance in nine African countries: Kenya, Uganda, Tanzania, Rwanda, South Africa, Zambia, Ghana, Nigeria and Egypt. The investment also makes it easier for the Fund to attract other "responsible" investors. The project is being monitored to minimise the risk of tax avoidance.[29] A similar though smaller investment (EUR 7.5m) is planned in the Aavishkaar Frontier Fund (AFF), also domiciled in Mauritius and with a very similar profile to the GroFin.[30]

Blended loans: The IFC used blended two concessional loans from the Clean Technology Fund (USD 26.5m and 15m) with loans of its own (USD 81.8m and 71.5m) in order to finance two large scale solar energy projects implemented by Abengoa (Abengoa Kaxu and Abengoa Khi). The result was two loans with a lower average interest rate.[31]

Technical assistance combined with non-aid resources: In 2013, Access Microfinance Holding AG, a German financial company specialising in micro-finance, was provided with a EUR 3.8m technical assistance grant combined with an EUR 10.2m equity investment and a long-term EUR 2.6m loan form non-aid resources. The ultimate goal of the project is to improve local businesses access to finance in Liberia, Madagascar, Nigeria, Rwanda, Tanzania and Zambia. The EIB support helped provide capital and advice for expanding operations and served to attract resources from other investors.[32]

28 Eurodad (2011) How to spend it: Smart procurement for more effective aid. Eurodad, September 2011.
29 See the following document: http://english.rvo.nl/sites/default/files/2015/01/DGGF%2020141124%20Grofin%20SGB%20Fund%20Eng.pdf
30 See the following document: http://english.rvo.nl/sites/default/files/2015/01/DGGF%2020150113%20AFF%20Eng.pdf
31 See the following document: http://www.ifc.org/wps/wcm/connect/630e9780462e9d1c986eb99916182e35/IFC+BCF+South+Africa_Fact+Sheet.pdf?MOD=AJPERES
32 European Investment Bank (2013), "Annual Report 2013 on EIB activity in Africa, the Caribbean and Pacific, and the overseas territories", European Investment Bank: http://www.eib.org/infocentre/publications/all/investment-facility-annual-report-2013.htm

Structured finance: In 2014, the EU Africa Infrastructure Trust Fund, an EU blending facility, approved a EUR 15m grant to be used as a first loss-piece in the capital of the Global Climate Partnership Fund, a public-private partnership registered in Luxembourg, with the support of a number of DFIs and private companies. The Partnership invests in renewable and energy efficiency projects in Sub-Saharan Africa.[33]

Guarantees: As mentioned in Box 1, Sida issued a guarantee for Global Commercial Micro-finance Consortium II B.V., an investment fund created and managed by Deutsche Bank in the USA. The fund promotes lending by Micro Finance Institutions. The guarantee by Sida helped to attract other investors by covering the potential losses of the fund, thus reducing the risk profile of the investment.[34]

Grants as a leveraging tool: The "Powering Agriculture: An Energy Grand Challenge for Development" is a challenge fund supported by Sweden, the USA, Germany and some private companies that encourages innovative solutions for providing reliable and clean energy to the agricultural sector in developing countries. Challenge funds use prizes (grants) to promote competition among private sector actors developing solutions to a given problem.[35]

1.3.1. Understanding the international debate about "alternative and emerging" forms of aid

The underlying instruments used in leveraging other forms of finance (e.g., loans, structured finance or equity investment) are no different from activities that private sector actors and DFIs carry out with non-aid funds. As discussed in the introduction, the qualitative difference is that aid is used to remove barriers that would limit the implementation of their projects.

For example, aid can be used to improve the conditions in which finance is provided so that it is profitable enough or absorbs part of the risks so that other actors are willing to finance or contribute to the project.

Combining aid with other existing forms of finance is one of the reasons why the idea of using aid to leverage other forms of finance is so controversial. As discussed above, aid has traditionally been used as a form of donation or to provide loans in favourable conditions, but it is now being combined with complex and private sector-specific forms of finance. This creates conflicts at a number of levels.

At the donor level, there is a conflict between the mandate of aid donors and the mandate of development finance institutions. For example, the main mandate of aid agencies usually is to fight against poverty in developing countries, while DFIs can cover a number of different objectives and are usually requested to be financially self-sustainable. Moreover, delivering development assistance is the core business of aid agencies, and therefore they have adapted their systems (e.g., project identification, selection, implementation, reporting and monitoring) to fulfil international requirements and principles, such as the development effectiveness commitments. In comparison, DFIs generally deal with very small amounts of aid

33 See: http://www.eu-africa-infrastructure-tf.net/activities/grants/renewable-energy-performance-platform.htm and http://gcpf.lu/
34 See: Sida, "Innovative Financing Collaboration with the private & public sector": http://sidapublications.citat.se/interface/stream/mabstream.asp?filetype=1&orderlistmainid=3484&printfileid=3484&filex=4987679136596
35 See: http://www.poweringag.org/call-innovations

and have broader mandates which results into less targeted systems.

At the target level, working with the private sector, especially when direct support is involved, may result in a conflict between the principles and expectations of different actors. When the private sector is not delivering services but seeking support to perform or expand its activities, the private sector expectations can enter into conflict with donor standards. For example, in the performance of its business activities and for commercial reasons, the private sector is usually reticent to open itself up to the same level of public scrutiny that public actors implementing aid projects encounter. This can contradict transparency and accountability standards donors apply to aid flows.

It is the conflicts emerging at the two levels that in one way or another fuel the existing debate about the use of aid to leverage others forms of finance. This debate is illustrated by questions such as:

- Which policies, principles and standards should apply? For example, there is a conflict between the transparency usually expected from aid flows and the discretion of other actors, in particular the private sector.

- If we are using an aid grant (essentially a subsidy) to mobilise a much larger amount of finance, how can we ensure that aid is not simply helping to make a project more profitable and influence it in a positive way? At the same time, how can we make sure aid is really catalytic and not replacing other actors and subsidising investors? How can we ensure additionality?[36]

- What results should we expect and how do we attribute them? The amount of aid is often very small in comparison to other forms of finance.

- Given the differences in nature, how do we compare and choose between a more traditional aid project and a "leveraging" one? Given the limited amount of aid funds, it is important to select a project that has the highest the development impact and maximises its value for money.

Chapter 3 explores the practical implications of this conflict between different uses of aid in greater depth.

36 Additionality can be defined as the added value of using ODA compared to other sources of finance, in particular those available in the market. Unless donors can prove ODA funds are necessary to a) make to the project happen and/or b) increase the development impact of the project, then they are simply displacing other actors who could provide finance and subsidising private sector investments, which would result in a competitive advantage vis-à-vis other companies. For more information see Pereira, Javier (forthcoming), "Literature review on the additionality of using ODA to leverage private investments", UK Aid Network.

CHAPITRE 2 – TRENDS IN DONOR SUPPORT TO THE PRIVATE SECTOR

This Chapter reviews the trends in donor support to the private sector according the typology described in the introduction. It discusses all three of them: building, leveraging and delivering. The analysis is based on methodology that has been specifically tailored to this report in order to provide a comprehensive view of donor activities in relation to the private sector. This helps to put different types of support into perspective and reveals some interesting trends, as well as data gaps.

2.1. BUILDING

Building the private sector in developing countries has been among the targets of donor and developing countries for a long time. Aid can help to achieve it through different means: by building crucial infrastructure, creating the right policy and regulatory environment or directly stimulating key companies. The diversity of activities makes it difficult to get an accurate picture of how much aid goes to building the private sector.

Building on the nature of aid projects and the channels used to deliver the projects it is possible to get an approximate measure of how much aid goes to building the private sector and to track its evolution over time. The following methodology was developed by Development Initiatives (see methodology section) and has been adapted to this report. It has two different components:

- **Core support**: aid that directly aims at building the private sector in developing countries. Core support would include projects such as direct support to companies operating in any sector (e.g., technical assistance) or donors' efforts to develop the financial sector.

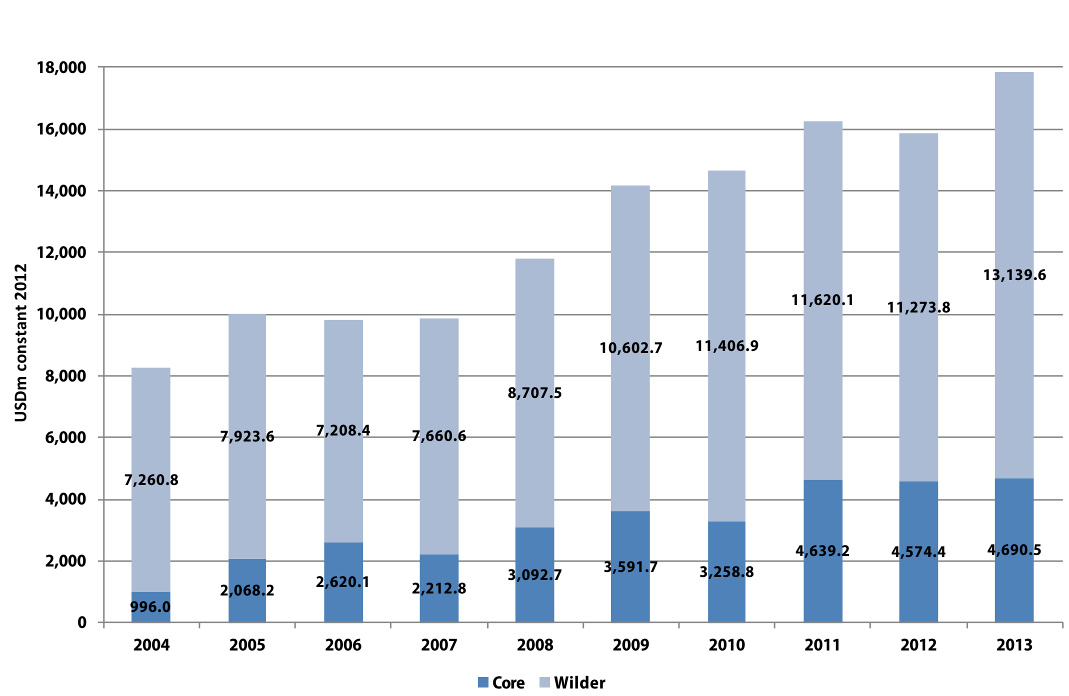
- **Wider support**: aid that aims at strengthening the environment in which the private sector operates by improving the regulatory framework or building infrastructure. Wider support includes projects that might not necessarily target the private sector, but can make an important contribution to develop it. Specific examples would include projects such as building infrastructure to increase access to markets or projects aimed at facilitating international trade.

Core support to the private sector stood at USD 4.8bn in nominal terms in 2013 (4.7bn in USD constant figures 2012). The graph below shows that core support to the private sector has expanded almost fivefold in the periods 2004-2010. As a percentage of total ODA flows, core support to the private sector has increased from around one per cent in 2004 to three per cent in 2013.

Wider support to the private sector was USD 13bn in 2013 (USD 13.1bn in constant figures 2012). The amount of aid going into this indirect form of support to the private sector has almost doubled between 2004 and 2010. As a percentage of ODA, wider support to the private sector has remained approximately constant at 7.5 to 8 per cent in the same period.

Aggregating both figures shows that **donors have doubled the amount of aid going to building the private sector in developing countries in the last ten years**. Aid directed at building the private sector has also increased its overall weight in global aid flows, growing from 8.5 per cent of all aid flows registered by the OECD in 2004 to almost 10.7 per cent in 2013. Based on the analysis of donor policies in Chapter 1, it is reasonable to expect that building activities will continue to increase as a share of aid flows in the coming years.

Graph 1: Building the private sector: core and wrider support donors

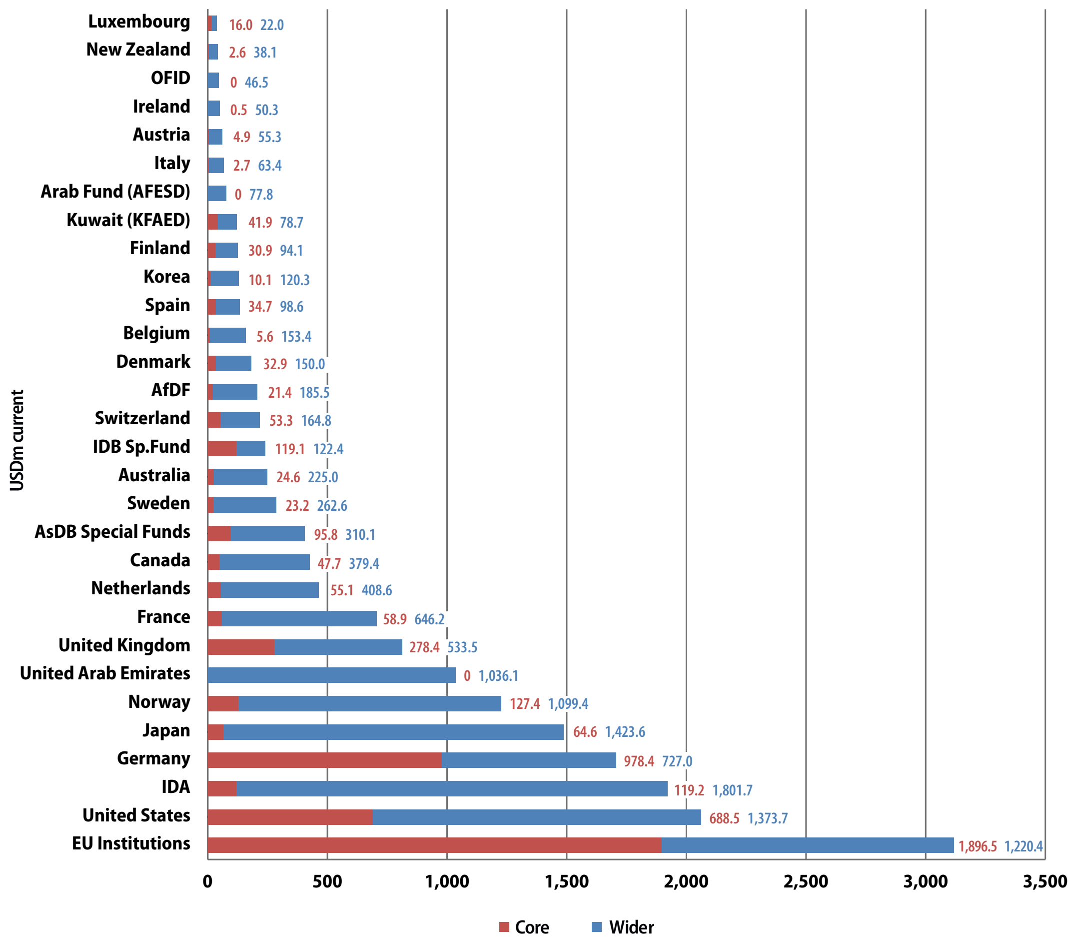


Source: elaborated by the author with data from the OECD online database

Key donors

The analysis of total support for building private sector activities is presented in the graph below. It is based on 2013 aid figures and includes all donors spending over USD 15m in building activities. It shows both core and wider support to the private sector.

Graph2: Building, total 2013

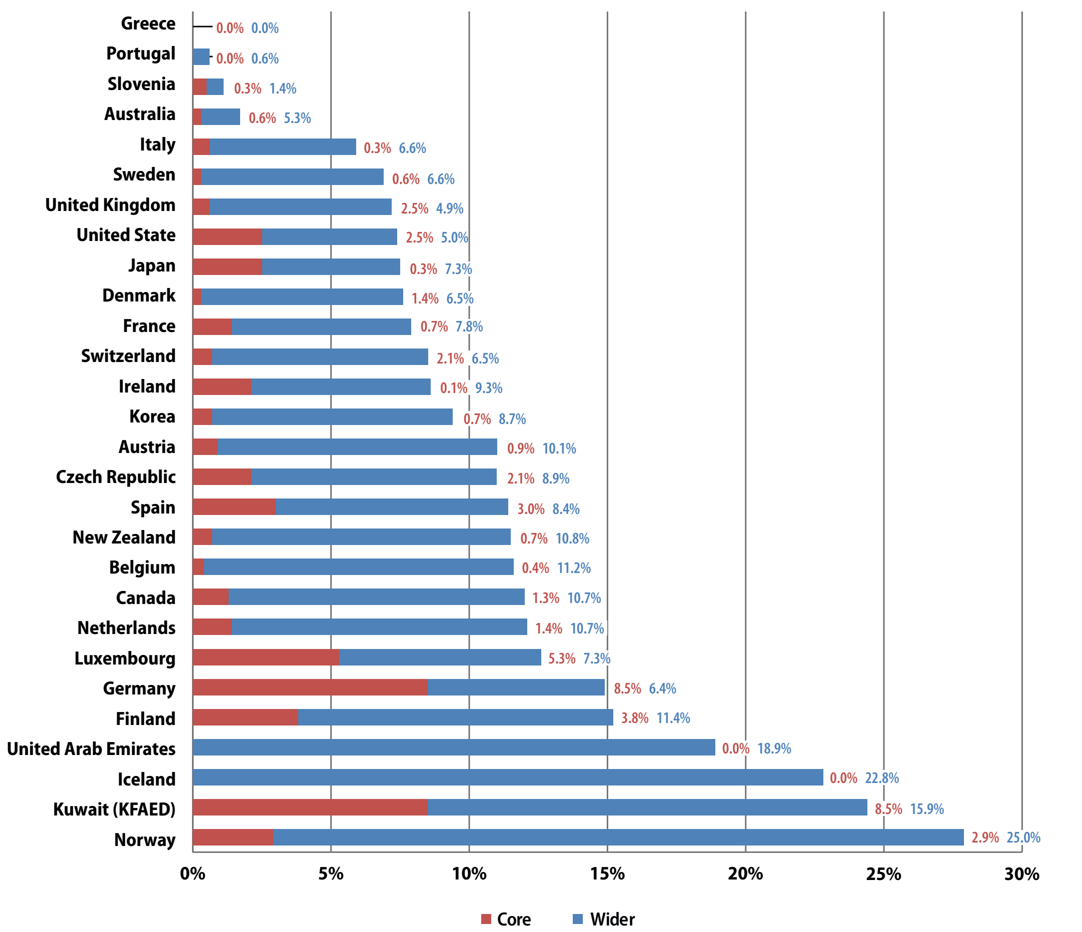


Source: elaborated by the author with data from the OECD online database

These figures underline the importance of the EU institutions as a major player when it comes to supporting the private sector in developing countries. This also confirms the importance of the policy debate around the role of the private sector that is currently taking place at the European level. Other major players include the United States, IDA, Germany, Japan, Norway, the United Kingdom and France. The role of the United Arab Emirates is also worth highlighting.

The analysis of donor spending on building activities as a share of ODA shows a slightly different picture, as it does not take into account the overall size of the aid budget. As a consequence, it is not affected by the significant differences in volume among donors (see graphs below).

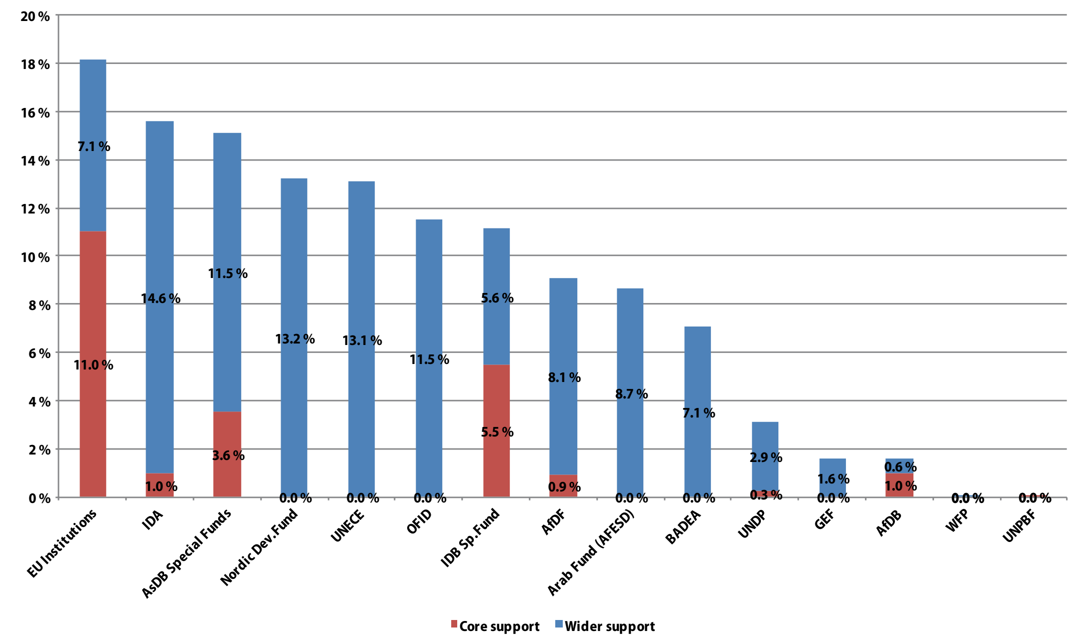
Graph3: Building as % of bilateral donnors' 2013 ODA budget



Source: elaborated by the author with data from the OECD online database

Among **bilateral donors**, it is worth highlighting the significant share of aid going to building activities among some relatively new donors: Kuwait and the United Arab Emirates. Norway spends close to 30 per cent of its ODA on building the private sector. Finland, Germany, Luxembourg, the Netherlands and Canada are also important players. Japan, the United States and the United Kingdom are far from the top positions, but as discussed above, they remain important players as a result of their large aid budgets.

Graph 4: Building as % of multilateral donrs' 2013 ODA



Source: elaborated by the author with data from the OECD online database

The analysis of the relative weight of building projects **among multilateral donors** confirms the EU institutions as the most important multilateral actor when it comes to building the private sector in developing countries. IDA, the AsDB, the Nordic Fund, the UNECE, ODIF and the IDB also devote an important share of their resources to building the private sector.

Given the diversity of aid activities that aim at building the private sector in developing countries, it is difficult to compile a comprehensive list of programmes and initiatives.

"Building" aid funds managed by DFIs

Many of the figures for some of the donors involved in the previous section include aid managed by DFIs. In order to understand how aid supporting the private sector works, it is important to break down these figures.

A **significant share of bilateral and multilateral building activities is managed by DFIs**. Among bilateral donors, national DFIs provide a significant amount of the combined core and wider support to the private sector. In 2013, Italy used national DFIs to deliver 58% of its aid for building activities, followed by Germany (56%), Austria (41%), and UK (29%). This figure is lower in Finland (13%), Norway (13%) and Korea (10%).

In all other bilateral donors, the analysis of the OECD database shows that no aid for building the private sector is managed by national DFIs. However, this is probably the result of reporting practices (the attribution of aid funds), as there is significant evidence about the use of aid funds by national

DFIs. In addition to the policy evidence discussed in Chapter 1, for example, Sweden counts its core contribution to Swedfund as ODA,[37] which means individual Swedfund projects cannot be reported as such to avoid double counting. Data from the Belgian government suggest that core contributions to Bio-Invest, the Belgian DFI, are also reported as ODA.[38]

The same analysis has been performed in the case of the EU Institutions, and it shows 64% of all aid for building the private sector it provides is managed by the EIB. Other multilateral institutions have not been examined because they are DFIs by definition (IDA, AfDB, etc.) or do not provide a significant amount of support to the private sector.

2.2. LEVERAGING

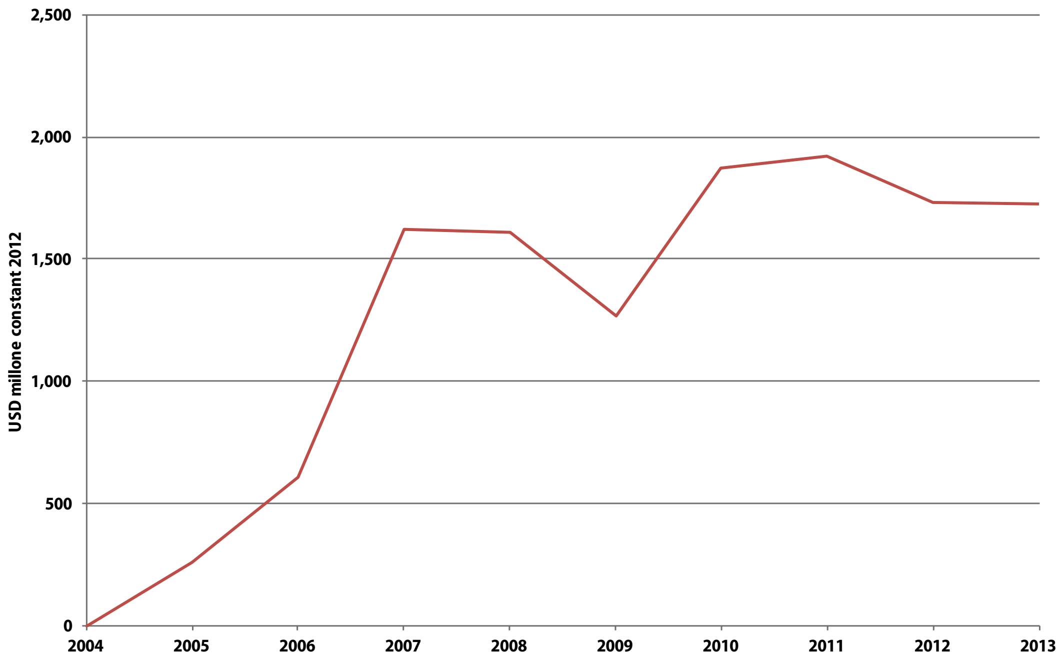
In 2013, developed countries spent USD 1.8bn of aid funds in leveraging private finance. Interestingly, the analysis of this trend over the last ten years shows that the amount of aid spent on leveraging private finance expanded exponentially between 2005 and 2007 and has only grown slightly since then in constant terms (see graph 1). These figures do not capture the use of technical assistance as a form of leveraging additional finance (see Methodology section).

In some cases, technical assistance can represent an important share of aid funds used for leveraging purposes. For example, in the EU's Infrastructure Trust Fund (ITF), technical assistance represents 24% of total aid disbursements.[39]

The trend depicted by the figures contrasts with the recent timing of the policy debate on leveraging and the proliferation of donor policies on the topic. In practice the policy discussion about leveraging only became a mainstream development topic after 2010. This suggests that donors only started to develop policies once the amount of "leverage" aid acquired a critical mass. It is also possible that donors started to plan a further expansion on the onset of the economic crisis, but the data has not yet recorded a significant increase.

37 OECD (2014), "Sweden", in "Development Co-operation Report 2014: Mobilising Resources for Sustainable Development", OECD Publishing, pp. 365-8: http://www.oecd.org/dac/development-co-operation-report-20747721.htm
38 See the following document with a breakdown of Belgian ODA figures in the period 2010-2013: http://diplomatie.belgium.be/fr/binaries/belgian_oda_apd_2010-2013_tcm313-196776.pdf
39 Based on the analysis of the data available at: http://www.eu-africa-infrastructure-tf.net/

Graph 5: ODA spent on leveraging instruments

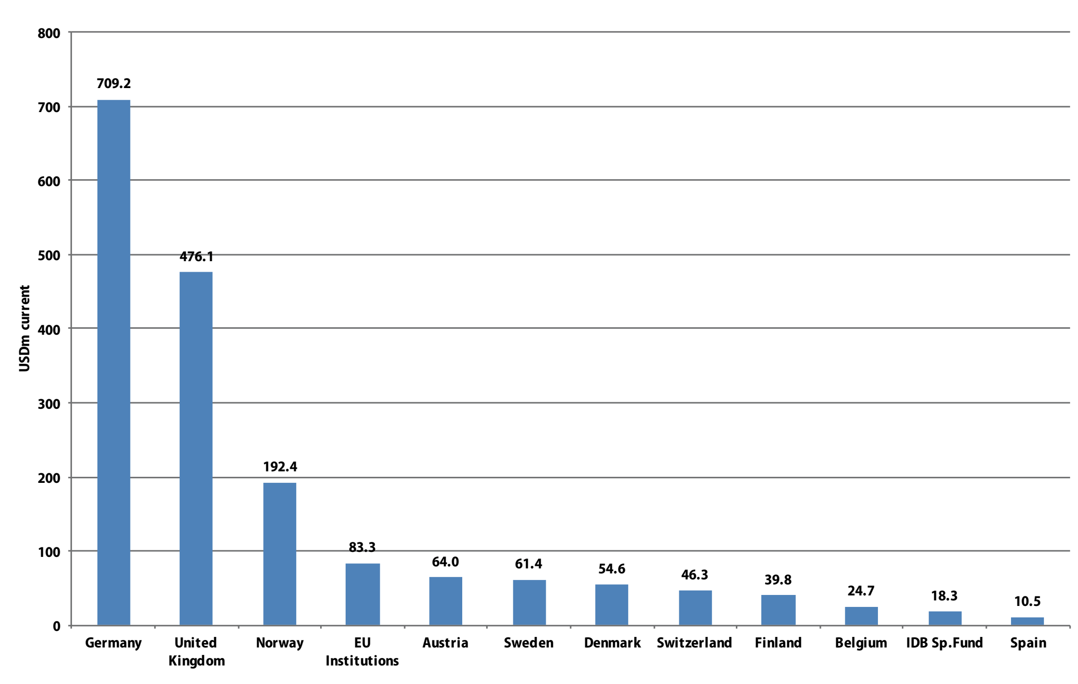


Source: elaborated by the author with data from the OECD online database

Key donors

The breakdown of the 2013 leveraging figure by country shows that the use of leveraging instruments remains essentially a European affair. Germany is by far the largest user, with USD 709m in 2013, followed by United Kingdom (USD 475m), Norway (USD 192m) and the EU Institutions (83m).

Graph 6: ODA spent in leveraging projects in 2013



Source: elaborated by the author with data from the OECD online database

Again, these figures need to be taken as an approximation. In addition to not capturing technical assistance, not all donors comply fully with existing reporting guidelines. For example, the European Commission has created the so-called blending facilities to help mobilise additional finance for public and private projects in developing countries. The reporting of projects supported as part of these facilities to the OECD is inconsistent or aggregated, which means the methodology used in this report has probably failed to capture part of the funds.

"Leveraging" aid funds managed by DFIs

DFIs also seem to play an important role in the delivery of aid used to leverage private finance. In 2013, all aid for leveraging provided by the UK and the EU Institutions was managed by DFIs: national ones in the case of the UK and the EIB in the case of the EU. Germany used national DFIs to manage 70 per cent of its aid for leveraging in 2013. The figure is slightly lower in Finland and Austria: 54 per cent and 33 per cent of their aid respectively.

In all other cases, the amount is nil, but as discussed in the section on Building, this could be due to reporting practices, which are compounded in this case by the fact that our methodology does not capture technical assistance flows and other challenges discussed above.

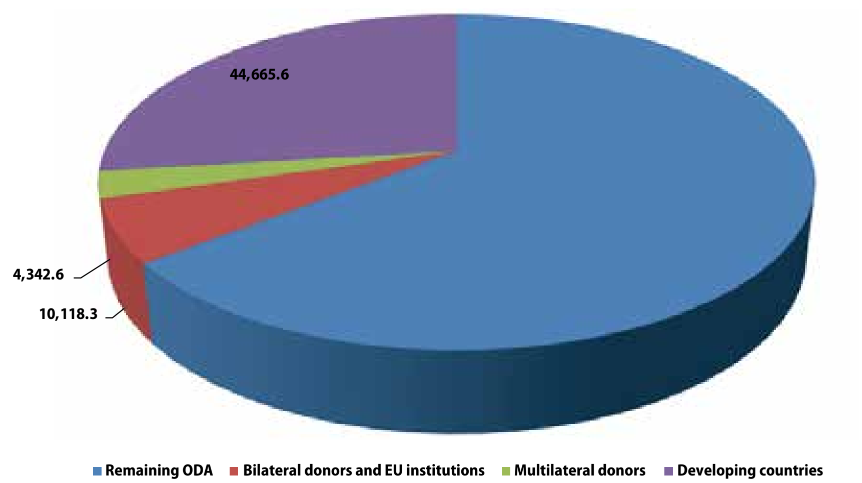
2.3. DELIVERING

Both donors and developing countries rely to a great extent on goods and services provided by the private sector in order to implement development projects. In 2013, over USD 59bn of all aid flows were spent on goods and services provided by the private sector. This figure supports the arguments put forward by previous research about the potential of using procurement systems to increase the developmental impact of aid and help build the domestic private sector.[40] In addition, this would have significant spillover effects as procurement systems in developing countries are not exclusively used for aid.

Based on data on the volume of donor procurement, bilateral donors awarded contracts for a total value of USD 10.1bn in 2013. If we applied the same methodology to all donors, the figure increases to USD 14.5bn with approximately USD 1.5bn coming from the EU institutions.

Procurement by developing countries represents the lion share of aid delivered through the private sector. Based on data collected by the OECD, developing countries spent approximately USD 45bn in procuring goods and services (see Methodology section for further information).

Graph 7: 2013 ODA spent on procurement of goods and services (Figures in USDm current)



Source: elaborated by the author with data from the OECD online database

40 For example, see: UNCDF (2013), "Procurement for Local Development. A Guide to Best Practice in Local Government", UN Capital Development Fund: http://www.uncdf.org/en/node/2288; and Eurodad (2011), "How to spend it: Smart procurement for more effective aid", Eurodad, September 2011: http://eurodad.org/4639/

The amount of procurement may seem quite large, but it is important to take into account that public procurement is used for all kinds of things, from pens and paper to specialised tools, machinery, accommodation, food, transport and technical advice. In one way or another, a significant share of any development project is likely to go the private sector.

Key donors

The Paris Monitoring Survey includes data about the amount of aid donors provide to the government sector in the country participating in the exercise and how much is being channelled through country procurement systems. This data has been consolidated and presented in the graphs below.

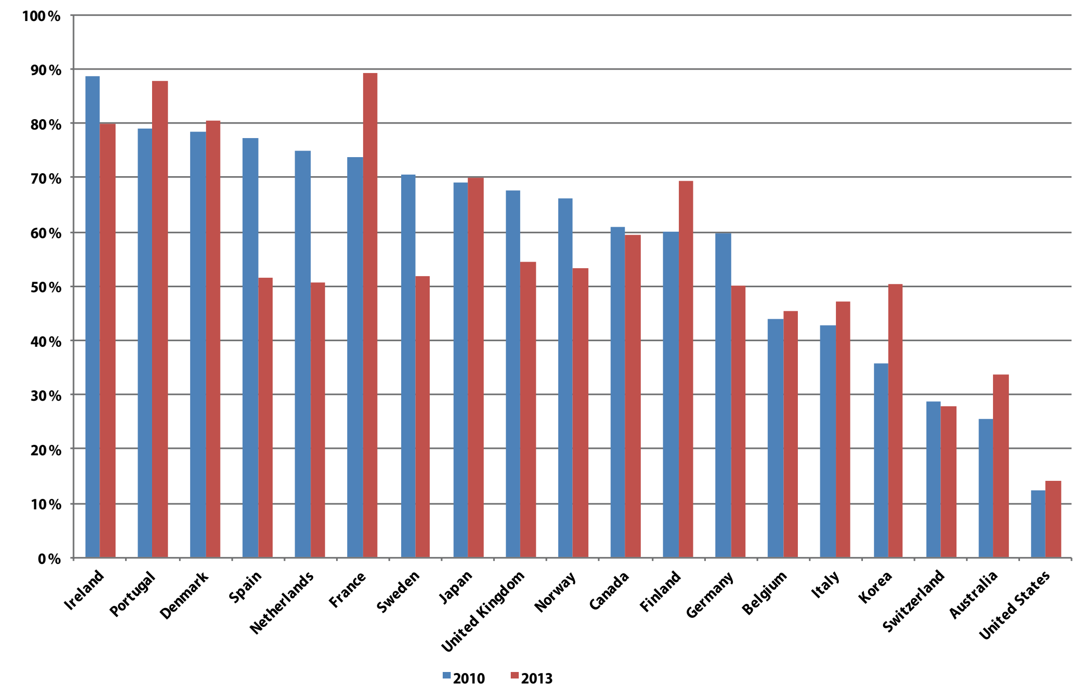
The amount of donor aid that uses country procurement systems is useful to understand donors' efforts to use partners' country systems and thereby strengthen them, increase alignment, prevent fragmentation and reduce transaction costs.

It is important to see this data as an approximation. As explained in greater detail in the Methodology section, donors focusing on a reduced number of developing countries might not have been accurately captured by the data. In addition, the difference in the total number of countries participating in the survey (46 in 2013 and 78 in 2010) would make the older data more accurate, as it captures a largest sample of developing countries and by extension donors' aid. To minimise this problem, only donors with more than USD 100m reported in aid to the government sector have been included in the graphs.

Data for **bilateral donors** show important differences in performance. A significant number of donors are above the 60 per cent level – though the number decreases in 2013 – while countries such as the United States, Switzerland and Australia show a dismal performance. Looking at the combined performance, the data show an important drop in the use of country systems for the donors captured in the graph: from 56 per cent in 2010 to 48 per cent in 2013. Although it is difficult to know the impact on the date of the smaller number of countries surveyed in, the significant difference suggest that donors are no longer taking their development effectiveness commitments very seriously.

The graph also shows that approximately the same number of countries have increased and decreased the amount they channelled through country procurement systems. Differences between 2010 and 2013 are not very significant, except in a number of cases. Unfortunately, in the cases of Spain, Netherlands, Sweden, Finland and Korea and Portugal, it is impossible to know whether this is the result of the selection of countries. More significant and theoretically more reliable is the increase in the use of country procurement systems registered by France and the decrease recorded in the United Kingdom and Germany.

Graph 8: Share of bilateral aid channelled through country procurement systems

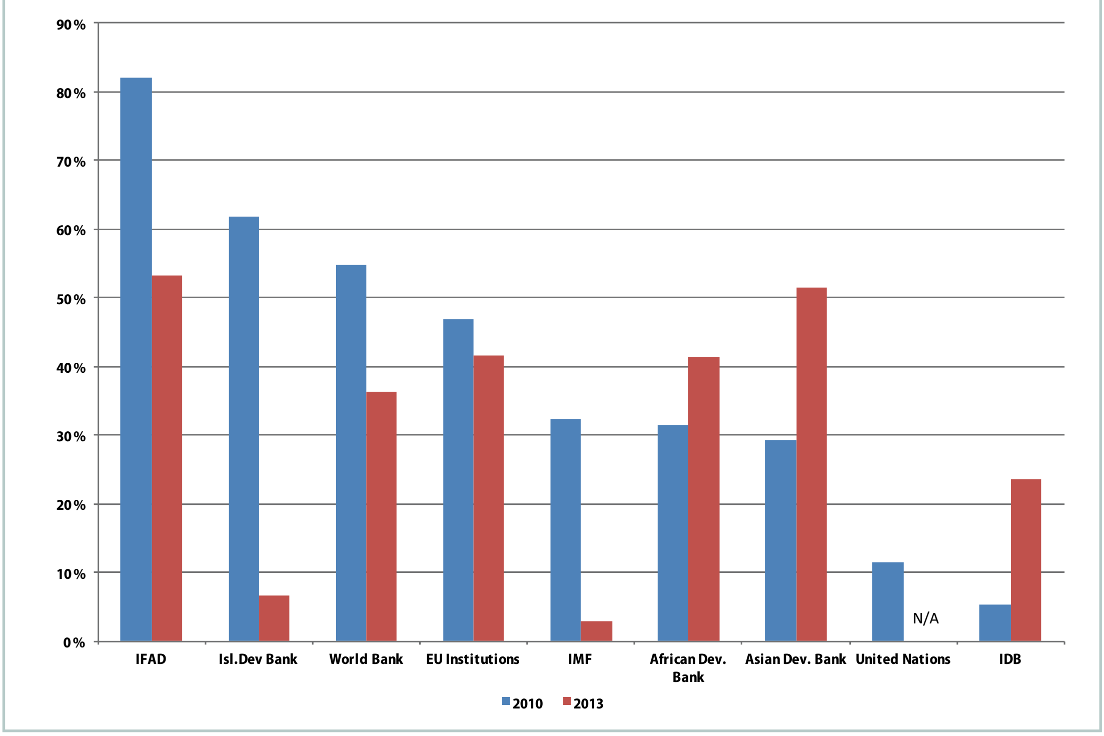


Source: elaborated by the author with data from the OECD online database

Among **multilateral donors**, the data is more difficult to read because it shows important differences between the two surveys. On average, there is little difference in the use of country systems between 2010 (41 per cent) and 2013 (38 per cent). The average performance of multilateral donors captured in the graph is significantly poorer than in the case of bilateral donors (see above).

Given that the World Bank, AfDB and the ADB have all three over a USD 1bn in aid to the government sector recorded in both 2010 and 2013, it would be interesting to explore why there is such as significant difference in the figures. The data available certainly points at significant efforts on the side of the AfDB and the ADB to increase the use of country procurement systems, but it seems reasonable to assess, for example, whether this is the result of a change of policy or modalities.

Graph 9: Share of multilateral aid channelled through country procurement systems



Source: elaborated by the author with data from the OECD online database

2.4 WHAT CAN WE LEARN FROM THESE FIGURES?

Before making any additional analysis, it is important to remember that there is bound to be some overlap in the figures for each of the three aid typologies examined above. As a consequence, the three figures cannot be added together to obtain a global figure.

The **amount of aid going into building activities has increased significantly** over the last ten years. This trend is likely to continue in the future.

The amount of **aid used to leverage other sources of finance is relatively small**. Aid for leveraging expanded exponentially between 2005 and 2007. This figure needs to be taken as an approximation. Differences in reporting practices mean that the figure is actually quite high for a number of countries, while low or non-existent in other cases. The methodology also fails to capture technical assistance as leveraging instrument. The difficulties in capturing an accurate picture of aid flows used for leveraging highlight the **need to improve and consolidate reporting practices** so that they can be better tracked and monitored in the future.

The **largest aid flow to the private sector is related to the delivery of aid projects**. Procurement systems are the mechanism through which aid is redistributed and used to acquire goods and services form the private sector. As a result, there is a significant **potential in using procurement systems to increase the developmental impact of aid and help build the domestic private sector**. Surprisingly, with some limited exceptions, this area of work has received little attention from the development community compared to the other two.

CHAPER 3 – CONSTRAINTS IN ASSESSING THE EFFECTIVENESS OF DONORS' SUPPORT TO THE PRIVATE SECTOR

Chapter 1 concluded with a number of questions about the conflict between traditional and emerging forms of using aid to support the private sector and argued that this is essentially a debate about leveraging versus other uses of aid. Chapter 3 will pick up and expand on these questions as a well as a number of other issues identified through the report. The aim is not to provide an answer to these questions, but to understand the differences between different ways in which aid can be used to support the private sector when it comes to assessing their performance and development impact. In order to achieve this, the first section focuses on the development effectiveness principles. The second section deals with a number of broader questions and issues, which are also relevant to assess the real impact of aid. The contents of this chapter could be summarised with the following question: do we know enough about leveraging activities to guarantee a positive development impact and what are the areas where additional research efforts are needed?

3.1 LEVERAGING AND DEVELOPMENT EFFECTIVENESS PRINCIPLES

Over the last ten years the development community has spent a great deal of time and energy exploring how to maximise the development impact of aid. The result of the process is the development effectiveness principles, which have been agreed by donors, recipient countries and other development countries in Paris (2005), Accra (2008) and Busan (2011). The development effectiveness principles perform two key roles in the context of development assistance.

Firstly, development assistance principles are about ensuring aid projects fulfil a number of conditions that are **essential to maximise the impact of aid** and make it sustainable in the long term. After all, they are based on the lessons learned by development actors over the last few decades.

Secondly, development effectiveness principles represent a framework that helps to **identify the approaches that are more likely to deliver the best development results**. The principles are too broad to apply to individual projects, but they are certainly helpful to identify the best modalities and compare programmes.[41]

However, a number of concerns have been raised about the implementation of these principles to private sector support and leveraging projects in particular. This section addresses these concerns in some of the most relevant areas.

3.1.1 Mutual accountability and transparency

Mutual accountability is defined as "donors and partners are accountable for their development results".[42] The development effectiveness agenda also makes clear that they do not only need to be accountable to each other, but also to their parliaments and citizens. Mutual accountability should help to catalyse public support for development policies and assistance. Transparency about aid flows is an enabling factor for mutual accountability.

41 For an example of how development effectiveness principles can be used as an analysis framework, see: Pereira, Javier and Carlos Villota (2012), "Hitting the Target? Evaluating the Effectiveness of Results-based Approaches to Aid", Eurodad, Brussels: http://eurodad.org/1543793

42 Accra Agenda for Action (2008): See: http://mdtf.undp.org/document/download/1

There are **important limitations in the transparency of leveraging activities that represent a major obstacle for mutual accountability**. The problem is not about overall donor transparency, an area in which performance seems to be randomly distributed among different types of donors,[43] but related to the fact that aid related to leveraging activities tends to involve financial intermediaries.[44]

Information related to the operations of financial intermediaries is generally treated as the property of the intermediary and not disclosed by donors. For example, it is generally not possible for the public to know the clients of a local bank receiving support from a DFI, even though this information can be accessed by the institution.[45]

This information is generally considered as sensitive for business purposes. There is also evidence that suggests that many **DFIs do not have much information about the projects implemented by financial intermediaries and find them difficult to monitor**. An evaluation of the EIB found that internal evaluations are not conducted in all cases and that the quality of some of them could be improved.[46] An external review of four bilateral DFIs also shows that independent evaluations of their performance are only common in two of the institutions they reviewed.[47]

Without information about individual projects and their performance, it is essentially impossible for local communities or other stakeholders to hold development actors to account. Donors and DFIs, for example, have set up redress mechanisms to ensure accountability, but they can only be accessed if affected stakeholders know they are involved in the project.

3.1.2. Ownership, alignment and harmonisation

These three concepts are closely knitted together. Ownership is essentially about the importance of respecting and supporting the right of developing countries to choose their own development path. Once developing countries have made their choice, donors should align their support with it and harmonise their approaches so that they do not overburden national systems. In addition to national plans, there are two mechanisms that need to be in place for these principles to be fulfilled:

- **Effective participation and consultation** with key stakeholders in developing countries (government, parliament, CSOs, local communities, etc.) so that they can ensure donor support is aligned with their priorities.
- **Coordination mechanism** that allows donors to streamline their support.

43 See the Aid Transparency Index: http://ati.publishwhatyoufund.org/
44 For a complementary analysis of the one provided below see: Romero, Maria José (2014), "A Private Affair: Shining a light on the shadowy institutions giving public support to private companies and taking over the development agenda", Eurodad, Brussels: http://www.eurodad.org/aprivateaffair
45 Griffiths, Jesse, Matthew Martin, Javier Pereira and Tim Strawson (2014), "Financing for development post-2015: Improving the contribution of private finance", Policy Department, Directorate-General for External Policies of the Union, European Parliament: http://www.europarl.europa.eu/RegData/etudes/etudes/join/2014/433848/EXPO-DEVE_ET(2014)433848_EN.pdf
46 European Investment Bank (2009), "Evaluation of operations financed by the EIB in Neighbourhood and Partnership Countries between 2000 and 2008", European Investment Bank, Luxembourg: http://www.eib.org/infocentre/publications/all/evaluation-of-operations-financed-by-the-eib-in-neighbourhood-and-partnership-countries-between-2000-and-2008.htm
47 Gössinger, Agnes, Werner Raza, Aljoscha Gütermann, Katharina Hammler and Nikolaus Schaefer (2011), "Bilateral Development Finance institutions in Europe. A Comparative Analysis of DEG, CDC, FMO and Norfund with Recommendations for Development Policy", Austrian Research Foundation for International Development, Vienna: http://www.oefse.at/en/publications/working-papers/detail-working-paper/publication/show/Publication/Bilateral-Development-Finance-Institutions-in-Europe/

Only three out of the list of eleven country programmes supporting the private sector included in Chapter 1 formalised the participation and consultation of recipient countries in their decision-making structure. The most relevant case is the EU's Neighbourhood Investment Facility (NIF). The Microfinance-ACP facility also involved participation of recipient countries, as it is managed by the ACP secretariat. The third one is the US's Partnership for Growth, but this programme involves a much broader approach to development of which the private sector is only a small part. In the other cases, there is no formal participation, or it has not been possible to ascertain from the information available.

With the exception of multi-donor facilities such as the PIDG or the regional blending facilities, where donors have to talk to each other, no evidence has been found about formal systems that allow donors to coordinate their support through individual programmes. As indicated in Chapter 1, dedicated private sector support programmes are relatively uncommon, so can one ensure that effective consultation and coordination exists in the absence of dedicated facilitates?

Looking at broader support for the private sector, **in-country coordination groups focusing on the private sector could fulfil the two functions described above, but they are not very common**. Donors are usually involved in a number of coordination structures and sector working groups at the country level that contribute to make aid more effective by allowing for the participation of recipient countries and ensuring coordination among donors. Creating groups dedicated to the private sector could help increase the ownership and alignment of private sector support activities in developing countries. Although it has not been possible to examine the situation in all developing countries, evidence has been found about the existence of just ten country-level donor coordination groups on private sector development.[48]

3.1.3. Additionality

Although additionality is not a development effectiveness principle, it needs to be seen as a necessary condition when aid is used to leverage other sources of finance. Additionality can be broadly defined as the unique inputs and services that the use of ODA funds provides in addition to those delivered by market or nonmarket institutions.[49] Additionality can be broken down in different components depending on the specific area or aspect of the project that is affected. In the context of development, it is common to break it down into two components:[50]

- Financial additionality: Would the private investment have happened anyway?
- Development additionality: Would the resulting investment achieve better development results?

Aid is essentially a subsidy. When you combine it with other sources of finance to support the private sector, as it is the case in most leveraging facilities, you need to prove the funds you are using are 1) necessary to mobilise the other forms of finance; and 2) shape the project in a way that increases its development impact. If these conditions are not met, especially the first one, then aid is simply subsidising (increasing the returns) of the private sector. In addition, subsidised but unnecessary finance also displaces (crowds out) other

48 For more information, see: http://www.enterprise-development.org/page/country-psd
49 Adapted from: Independent Evaluation Group (2008), "Independent Evaluation of IFC's Development Results 2008. IFC's Additionality in Supporting Private Sector Development", World Bank, Washington DC: https://openknowledge.worldbank.org/handle/10986/6576
50 For more information see: Pereira, Javier (forthcoming), "Literature review on the additionality of using ODA to leverage private investments", UK Aid Network.

sources of finance and disrupts the market by providing a competitive advantage to a certain actor.

A recent review on financial additionality focusing, but not restricted to, the use of aid to leverage other forms of finance, concluded that **there is very little evidence about the actual ability of donors to leverage additional finance, as well as what are the best approaches to do leveraging.**[51]

For example, in the case of the EU blending facilities mentioned in Chapter 1, the EU Court of Auditors found that only 50 per cent of the projects were additional.[52] Moreover, it points out to a number of methodological constraints, such as a lack of common definitions and approaches to estimate it, that cast serious doubts about the actual evidence supporting the leverage agenda.

This also has important implications for the whole concept of leveraging and the estimation of the funds that can be raised in this way. It is common for donors to portray the use of leverage instruments as a silver bullet that allows them to multiply by several times the amount of aid they contribute – up to 31 times in some cases.[53] As discussed above, this whole idea only makes sense if they can prove the aid contribution has been additional: necessary to make the project happen. But even in the cases where additionality can be demonstrated, the measure of the leverage potential remains controversial. For example, it is possible that without aid the same project would have been funded in a revised form. In this case, what can be counted as the real contribution of aid: the whole project or just the difference between what can be achieved with aid compared to what the project would achieve without it?

3.2. THE UNANSWERED QUESTIONS ABOUT THE PRIVATE SECTOR AGENDA

Broadening the lenses to look beyond a number of guiding principles, a number of additional concerns and grey areas emerge. They are related to the underlying motivations and limitations in dealing with the private sector. Donors, recipient countries, civil society and other development actors should engage in a constructive dialogue to provide answers to these problems.

Donors need to articulate better the limitations of the private sector in development and make sure that no areas or countries in need are left behind.

Firstly, there is a contradiction about the emphasis donor policies put on the private sector and the reality of some development countries. For example, there are concerns about the role the private sector can play in low income countries and whether, considering the existing needs, using aid to support it would provide the highest added value.[54] In addition, existing evidence suggests that these countries are especially vulnerable to practices such as tax evasion and avoidance.[55] In this context how can we ensure private investments do not end up circumventing local tax systems and maximise their contribution to the local economy?

Secondly, there are limits to what private finance can achieve. Private finance flows predominantly to higher income countries. At the same time, there are problems only public finance can tackle such as providing and protecting public goods. This is not only about climate change, education, health, etc., but also about building regulatory

51 Ibid.
52 European Court of Auditors (2014), "The effectiveness of blending regional investment facility grants with financial institution loans to support EU external policies", European Court of Auditors, Special report No 16: http://www.eca.europa.eu/Lists/ECADocuments/SR14_16/SR14_16_EN.pdf
53 Jesse Griffiths *et al.* (2014), op. cit.
54 Ibid.
55 Jesse Griffiths (2014), op. cit.

frameworks and institutions that are needed for the private sector to prosper. In this context, does is make sense for donor countries such as Belgium to focus their development cooperation on the private sector exclusively (see Chapter 1)? And if so, how will they ensure there are no major gaps?

Donors need to explain how the emphasis on national businesses fits in the whole development agenda. As discussed in Chapter 1, donors are increasingly looking at their own companies as development actors seeking to combine the promotion of their economic interests with development goals. In other words, they are seeking a double dividend from aid flows. More evidence is needed about whether this is the best approach to maximise their development impact given the scarce amount to aid. Also, what is the role of multilateral donors and DFIs in this context?

In this debate it is important for donors to be honest and avoid being naïve. Development policies have always been a part of donor countries' foreign policies. The global landscape is changing. A number of emerging countries are rising to become superpowers, while traditional donors, especially in Europe, are losing prominence at the global level.

It is crucial to **agree on a framework that can be applied to all uses, including those related to the private sector, and allow practitioners to compare different approaches on an equal footing**. Aid is ultimately about real people, and all development actors should be accountable to them. If we cannot measure the real impact of aid to the private sector and leveraging projects in particular, how can we ensure they represent the best value for money? The development effectiveness principles can provide such a framework, but donors seem to be reticent to apply it to the private sector.

This is a question of crucial importance. Aid is a scarce resource, and donors need to be able to answer questions such as whether using aid to leverage investments in developing countries represents a more efficient and effective use of aid compared to, for example, making procurement systems work for the poor, or investing in health and education.

CONCLUSIONS (PART II)

The private sector is not a new development actor, but its role is likely to grow in importance over the following years. This report has reviewed in Chapter 1 the development policies of a number of donors and shows that most donors include the private sector among their top development priorities and many of them have plans to expand the amount of support they provide it with. In many cases, donors explicitly include the **promotion of domestic private sector interests abroad as a priority**.

At the same time, **donors do not have a coherent narrative about the role of the private sector in development**. In addition to explaining how the emphasis on domestic business fits in the global development agenda, there is a contradiction about the emphasis donor policies put on the private sector and the reality of some development countries. For example, there are concerns about the role the private sector can play in low income countries and whether, considering the existing needs, using aid to support it would provide the highest added value. Secondly, there are limits to what private finance can achieve. Private finance flows predominantly to higher income countries. At the same time, there are problems only public finance can tackle such as providing and protecting public goods. This is not only about climate change, education, health, etc., but also about building regulatory frameworks and institutions that are needed for the private sector to prosper.

Donors are introducing new uses of aid to "leverage" the private sector and relying on DFIs to channel aid intended to support the private sector to a significant extent. This poses a number of challenges. The new forms of supporting the private sector are often difficult to reconcile with the mandate and principles traditionally applied to aid flows. One problem is that the mandate of aid donors is not necessarily the same as the mandate of DFIs for historical and practical reasons.

In addition, DFIs channel limited amounts of aid compared to other forms of finance. Engaging more directly with individual companies can also give rise to problems between the standards donors have traditionally applied and the expectations of the private sector (e.g., lack of transparency about business decisions and strategy).

The challenges are best illustrated when comparing the performance of leveraging instruments with the commitments made in the development effectiveness framework. There are important obstacles that essentially prevent donors from fulfilling key principles such as mutual accountability, transparency, ownership, alignment, harmonisation or additionality, when donors use aid to leverage private sector investments for development.

There is generally a lack of information and consolidated methodologies to measure and monitor the role of the private sector in development. This reports aims to contribute to filling this gap by proposing a typology of different ways in which donors engage with the private sector (building, leveraging and delivering) and a methodology to measure it. However, the methodology can only provide an approximation to the real picture, as there are important limitations in the amount of data currently available.

The methodology used in this report allows us to identify **some important trends in donor support to the private sector as well as some important data gaps**:

- The **amount of aid going into building activities has increased significantly** over the last ten years. This trend is likely to continue in the future.

- The **amount of aid used to leverage other sources of finance is relatively small.** Aid for leveraging expanded exponentially between 2005 and 2007. This figure needs to be taken as an approximation, and differences in reporting practices make it difficult to compare difficult countries. The methodology also fails to capture technical assistance as a leveraging instrument.

- The **largest aid flow to the private sector is related to the delivery of aid projects.** Procurement systems are the mechanism through which aid is redistributed and used to acquire goods and services form the private sector. As a result, **there is a significant potential in using procurement systems to increase the developmental impact of aid and help build the domestic private sector**.

FINAL RECOMMENDATIONS

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The following recommendations are addressed to the whole development community as these are questions which cannot be answered by donors, by the private sector or by individuals countries alone, but require a true multi-stakeholder approach:

On business accountability mechanisms

- There are various mechanisms already in place that are supposed to regulate, guide and assess business behaviour. Still it seems **very difficult to make them function in reality**, because of a substantial lack of commitment by the business side.

- **Business must be made accountable** on the basis of international standards that directly or indirectly (through States) address them.

- With increasing interest in the private sector as a development actor, existing instruments for business accountability should assume additional importance. **Adherence and implementation of internationally recognised guidelines and principles** concerning business behaviour and their accountability instruments (namely the ILO Conventions and standards, including the ILO Declaration on Principles concerning Multinational Enterprises and Social Policy, the OECD Guidelines for Multinational Enterprises, the UN Global Compact and the Guiding Principles on Business and Human Rights) **should become key condition to grant private sector support in development cooperation**.

- Compliance should be linked to eligibility and an adequate monitoring system **should lead to suspension of financial support in case of violations**.

- In the specific case of TCAs, these should be **interconnected with granting financial support** to private enterprises in development.

- Integrating rights-based approaches should be at the heart of any development process, through an inclusive and multi-stakeholder paradigm, including **social dialogue**.

On how donors use aid to engage with the private sector in development

- **Agree on a coherent narrative about the role of the private sector in development in order to make sure that no areas or countries in need are left behind.** The narrative needs to look at the following aspect:

    - The limits of the private sector: Limitations and complementarity of using aid to supporting the private sector in relation to existing development needs in different countries, regions and income groups;

- **Develop and implement the necessary tools to maximise the development impact of aid flows.** Aid is a scarce resource and donors need to be able to answer questions such as whether using aid to leverage investments in developing countries represent a more efficient and effective use of aid compared to, for example, investing in health and education.

In particular:

- Donors should ensure financial additionality by establishing indicators that assess financial needs 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.

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

- Agree on a global framework, modelled on the development effectiveness principles that can also be applied to all forms of support to the private sector. This should particularly include, alignment with the country's development priorities and an inclusive approach to citizen engagement (i.e. CSOs, trade unions (through social dialogue) and local communities, in addition to private sector actors). These principles must be consistent with democratic ownership and the use of country systems including in public procurement.

- Improve the tools used to record and monitor donor support to the private sector, starting with the limitations identified throughout the report. Special attention should be paid to reporting practices related to "leveraging" aid modalities.

Align international efforts and resources to improve donor engagement with the private sector with the areas that are more likely to make a significant contribution to achieve international development goals. Given the importance of donor and developing countries' **procurement systems** in the context of aid delivery and that its impact extends well beyond its realm, it would be reasonable that the development community pays more attention to this area of work:

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

- Donors should commit to fully untying aid to ensure that aid resources can be used most effectively and efficiently and can target strategic partners in the private sector.

ANNEX: METHODOLOGY (PART II)

All data comes from the OECD CRD dataset for the period 2004-2013. All the figures are based on aid disbursed. OECD deflators have been used to transform current into constant figures.

Delivery

The use of the private sector in the delivery of aid has been estimated based on public procurement figures. The estimate has two different components related to aid expenditure:

- **Procurement by bilateral donors**. Based on the figures made available by the OECD DAC's Aid Untying report[56] and the online database, donors tendered 8.7% of all aid provided in the period 2007-2010.

- **Procurement by developing countries**. Data collected in the 2011 and 2008 Paris monitoring Surveys as well as the 2014 Global Partnership Monitoring Report include the amount of aid for the government sector in developing countries that was channelled through developing countries' procurement systems in 2010 and 2013.[57]

  The percentage of aid for the government sector channelled through country procurement systems has been estimated and averaged for all countries. Developing countries participating in the survey reported that approximately 41.5 per cent and 39 per cent of all aid they receive for the government sector was channelled through public procurement services in 2010 and 2013 respectively. Given the difference in the number of countries that participated in the survey, we have used the average of these two figures in the calculations (40.2 per cent).

  In order to estimate the amount of aid that all developing countries channel through country procurement systems, we have applied this figure to the amount of Country Programmable Aid (CPA) recorded in the OECD CRS database. This is the closest measure to "aid for the government sector" that the OECD provides.

Data on donors' use of country system has been obtained by aggregating for each donor, the data provided for each of the developing countries participating in the survey in 2014 Global Monitoring Report, and the 2010 Paris Monitoring Survey. Only donors with more than USD 100 million reported in aid to the government sector have been used in the graphs in order to maximise the accuracy of the date and minimise the inaccuracies introduced by the selection of countries.

For example, donors focusing on a small number of countries might not see a significant amount of its ODA captured in the data. This is compounded by the difference in the total number of countries in the participating in the survey (46 in 2013 and 78 in 2010), which would make data for 2010 more accurate as it captures a largest sample of donors' aid.

56 OECD (2012), "Aid Untying: 2012 Report", OECD DAC (2012)39/REV1: http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=DCD/DAC(2012)39&docLanguage=En

57 See the OECD CRS online database or OECD (2008), "Survey on Monitoring the Paris Declaration: Making Aid More Effective by 2010", OECD: http://www.oecd.org/dac/effectiveness/2008surveyonmonitoringtheparisdeclaration.htm; and OECD (2012), "Aid Effectiveness 2011. Progress in Implementing the Paris Declaration", OECD: http://www.oecd.org/dac/effectiveness/2011surveyonmonitoringtheparisdeclaration.htm. See also OECD & UNDP (2014), "Making Development Co-operation More Effective. 2014 Progress Report", Global Partnership for Effective Development Co-operation: http://www.oecd-ilibrary.org/development/making-development-co-operation-more-effective_9789264209305-en

Building

This report reproduces the methodology developed by Development Initiatives. The following text below has been taken from their report.[58] Private sector relevant ODA is split into two categories, defined and based on data from the OECD DAC. Core private sector ODA refers to ODA that aims to directly stimulate the development of the private sector; wider private sector ODA refers to ODA that aims to strengthen the environment in which the private sector operates, for example, by improving the business climate or developing infrastructure. The purpose and channel codes included in each measure are:

- **Core private sector ODA**: formal financial sector intermediaries (all channels); informal/semi-formal financial sector intermediaries (all channels); monetary institutions (private sector channel of delivery only); agriculture (private sector channels only); forestry (private sector channels only); fishing (private sector channels only); industry (private sector channels only); mineral resources and mining (private sector channels only); construction (private sector channels only); trade policies and regulation (private sector channels only); tourism (private sector channels only).

- **Wider private sector ODA**: energy (private sector channels only); financial policy and admin management (all channels); education/training in banking/financial services (all channels); monetary institutions (all other channels, except private sector channels which are included in core private sector ODA); agriculture (all other channels); forestry (all other channels); fishing (all other channels); industry (all other channels); mineral resources and mining (all other channels); construction (all other channels); trade policies and regulation (all other channels); tourism (all other channels).

Leveraging

The methodology is based on the type of finance reported by donors to the OECD (see methodology) and needs to be considered as estimates. They comprise interest subsidies to private sector loans, direct subsidies to private sector actors, equity investments (generally participations in investment funds or less frequently companies that can help attract other investors) and other subsidies related to export credits, though the amount of the later is residual. These figures do not capture technical assistance as a form of blending. The challenge is that technical assistance is provided for many purposes, not only leveraging, as it is often combined with other types of grants. The level of detail in the OECD database simply does not allow distinguishing among different objectives.

We have used the code related to "Type of Finance" in the OECD CRS database. In particular we have looked at the following codes. For the reasons explained in Box 1, PPPs have not been included, as they cannot always be considered as a "leveraging" tool.

All ODA flows related to the following codes. In order to fine-tune the methodology, all projects in the 2013 dataset were examined to see which channels should be considered (see "Comments" in the table below).

58 Development Initiatives (2015), "Improving ODA allocations for a post-2015 world. Targeting aid to benefit the poorest 20% of people", Development Initiatives and UKAid: http://www.un.org/en/ecosoc/newfunct/pdf15/un_improving_oda_allocation_for_post-2015_world.pdf

Table 4: OECD "Type of finance" codes*

Code	Definition	Category	Conditions	Comments
111	Subsidies to national private investors	Grants	All channels	
210	Interest subsidy grant in AF	Interest subsidy	All channels	Either used private sector as a channel or targeted the private sector through an intermediary (DFI)
211	Interest subsidy to national private exporters	Interest subsidy	All channels	
451	Non-banks guaranteed export credits	Export credits	All channels	No examples found, but if flow comply with ODA definition, then is conditional and implies a subsidy
452	Non-banks non-guaranteed portions of guaranteed export credits	Export credits	All channels	Idem
453	Bank export credits	Export credits	All channels	Idem
510	Acquisition of equity as part of a joint venture with the recipient	Equity	All channels	Either used private sector as a channel or targeted the private sector through an intermediary (DFI)
511	Acquisition of equity not part of joint venture in developing countries	Equity	All channels	Idem
512	Other acquisition of equity	Equity	All channels	Idem

** Source: OECD "Type of Finance" codes, CRS reporting guidelines*

TUDCN-RSCD

Business accountability FOR development
– EN – D/2017/11.962/5
Mapping business liability mechanisms and donor engagement with the private sector in development

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