CSOPartnership for Development Effectiveness

RSCD-TUDCN

The development effectiveness of supporting the private sector with ODA funds

• Trade Union Development Cooperation Network (TUDCN) • Réseau syndical de coopération au développement (RSCD) • Red Sindical de Cooperación al Desarrollo (RSCD)

Boulevard du Roi Albert II, 5, Bte 1 - 1210 Brussels - Belgium • www.ituc-csi.org/development-cooperation • dce@ituc-csi.org

This publication has been produced with to the contribution of the Trade Union Development Cooperation Network (ITUC-TUDCN) and the support of the CSOs Partnership for Development Effectiveness (CPDE). It was drafted by Javier Pereira (A&J Communication) and coordinated and edited by Paola Simonetti, Coordinator for Development Policy ITUC/TUDCN.

The case studies referenced in the publication have been realised by Grayson Koyi, Omar Gueye and Alex Nkosi (African labour institute – ALREI) Laura Maffei (consultant TUCA/CSA), Pushpa Koijam, Mamta Lukram, Jiten Yumnam (Centre for Research and Advocacy, Manipur).

This publication is freely available for download at: www.ituc-csi.org/DFI-study

INDEX

Acronyms

BIO – Belgian Investment Company for Developing Countries

COFIDES – Spanish Development Finance Corporation

DEG – German Investment and Development Corporation

DFI – Development finance institution

EDFI – European Development Finance Institutions

EIB – European Investment Bank

FMO – Entrepreneurial development bank of the Netherlands

GPEDC – Global Partnership for Effective Development Cooperation

IDB – Inter-American Development Bank

IFC – International Finance Corporation (a member of the World Bank Group)

ITF – the European Union's Infrastructure Trust Fund

KfW – German development bank

LDC – Least developed country

LIC – Low-income country

MSMEs – micro, small and medium enterprises

NorFund – Norwegian Investment Fund for Developing Countries

ODA – Official development assistance

OECD – Organisation for Economic Cooperation and Development

OFCs – Offshore financial centres

OPIC – Overseas Private Investment Corporation (US)

PPP – Public-private partnership

SwedFund – State-owned risk capital company (Sweden)

UN – United Nations

Executive summary

This report explores the extent to which development effectiveness criteria have been transposed and integrated by development finance institutions (DFIs) using aid to leverage additional finance for development. It builds on a report on *Business Accountability for Development* released by CPDE in cooperation with ITUC-TUDCN and EURODAD in early 2015. This report focuses on DFIs, as donor countries usually rely on them to blend aid with other forms of finance to achieve the desired leverage. If DFIs are to, in the future, start channelling increasing amounts of aid, it is important to assess whether their policies and management systems are well equipped to ensure the effectiveness of aid funds. This report uses development effectiveness principles as a framework for a comparative analysis of the performance of DFIs in the research sample. It also benefits from evidence collected through a number of case studies in Africa and Latin America.

This report concludes that the DFIs in the sample are ill-equipped to manage aid flows in line with existing best practices. In view of this, it seems sensible for donors to avoid channelling aid through DFIs until they put systems in place to address the shortcomings identified in this report and implement the development effectiveness commitments. The average performance is summarised in the table below and the key findings are explained underneath.

DFI	Ownership		Development results		Mutual accountability	
	Mandate & eligibility	Participation government & social partners	Standard on worker's rights and OFC	Monitoring	Transparency	Complaint mechanism
Bio (Belgium)						
CDC Group (UK)						
Cofides (Spain)						
DEG (Germany)						
FMO (Netherlands)						
Norfund (Norway)						
Proparco (France)						
OPIC (US)						
Swedfund (Sweden)						

Red=poor performance, orange=average performance or some good features, green=good performance

Findings

DFIs do not have adequate systems in place to guarantee the ownership of development projects by developing countries' governments and stakeholders. Our assessment shows a general bias towards donors' economic interests and businesses, which is an outcome of one or a combination of a number of the following factors: an explicit mandate to support national enterprises, a biased overarching policy framework (namely the tendency to operate in less risky countries) and, in some cases, the co-ownership of the DFI by private-sector actors. Moreover, DFIs are under no obligation to consult with developing countries' governments or actors (such as social partners) in order to align projects with national development strategies and priorities.

Average performance is best in the area of development results, but significant obstacles remain. Two specific areas have been evaluated. In general, DFIs in the sample have adopted labour standards, although some doubts remain about their implementation. There is a lack of workers' representatives on the boards of DFIs, which are mainly constituted of government and private sector representatives. This is also a concern from the point of view of the DFIs' commitment to and accountability for promoting decent working conditions. Most of the DFIs in the sample have adopted very flexible and weak policies on the use of offshore financial centres (OFCs) or tax havens. Given the detrimental impact of tax havens in developing countries, the justification and use of tax havens by DFIs enters in clear contradiction with their development mandate. Finally, monitoring systems mostly rely on self-reporting, and only a handful of DFIs include stricter requirements for higher-risk or sensitive projects. This makes it very difficult for DFIs to ensure their standards are properly implemented and their projects delivered as expected and much less so to prevent or address any negative impacts.

Current practices and systems used by the DFIs in the sample cannot generally guarantee a minimum level of accountability when using aid funds or other public resources. To start with, project information disclosed by DFIs is very scarce, there is no access to old project files after one or two years and only two DFIs make project evaluations accessible, albeit in their summary form – one of them only upon written request. More information might be accessible through information requests, but only three DFIs explain this procedure and in two of these cases, fees may apply.

Not all findings regarding the transparency of examined DFIs are negative. Two of the institutions in the sample have started disclosing country-by-country information on their investments. Although with some limitations due to the aggregation of data, this should help obtain a more accurate picture of their development impact. Finally, only four of the DFIs in the sample have some form of complaint mechanisms for stakeholders in development projects, but in one of these cases, this mechanism is not independent. Without adequate complaint mechanisms, DFIs are failing to implement the right of stakeholders to be heard.

Recommendations

As far as aid is concerned, donors should avoid channelling aid funds through DFIs until they have addressed all the recommendations below.

1. Increase the ownership of development projects by reviewing the mandate of DFIs and their overall development policy and making it compatible with the principle of ownership. This requires:

- removing eligibility criteria identified in chapter 2 that give a direct or indirect preference to donor companies or large multinational companies;
- conducting consultations with developing country governments and other stakeholders during the project design and implementation, in particular with social partners through social dialogue mechanisms;
- demonstrating how projects align with and support national development strategies. In order to ensure the coherence of the projects with their development mandate, DFIs should avoid supporting projects in countries where the ILO has concluded that core labour standards are severely and repeatedly violated, and where there is a lack of political willingness from the government to ensure the enforcement of these rights; similarly, DFIs should only grant support to companies that respect labour standards.

2. Focus on delivering and demonstrating development results by implementing the following actions:

- performing on-site monitoring of a relevant sample of the portfolio in addition to all higher-risk projects. The results should be validated through external evaluations. DFIs should also perform an external validation of the environmental and social impact of management systems implemented by their financial intermediaries in order to ensure sub-projects comply with the required standards and are accountable;
- reforming the management and board structure to formalise the participation of different stakeholders, including workers' representatives to balance the different interests and ensure a more comprehensive view of DFIs in development;
- addressing the contradiction between the DFIs' development mandate and the use of OFCs by eliminating exemptions to the acceptability of tax havens in projects targeting jurisdictions which are different from the location where the project takes place, and excluding projects that involve artificial financial structures.

3. Adopt upward and especially downward accountability systems that guarantee the right of all project stakeholders to be heard by**:**

- extending the disclosure of project information to include at least: ex-ante project evaluations, environmental and social impact assessments and management plans, ex-post evaluations. A historical database of projects should be available at least during the projected lifetime of the underlying investment, instead of the financial exposure (i.e., if a power plant is expected to run for 30 years, information should be available throughout its lifetime);
- adopting country-by-country reporting mechanisms, including as a minimum the following information: taxes paid, employees, assets, name of each investee, type and amount of investment made in each investee, name of other investors, number and nature of complaints received;
- creating an independent complaint mechanism which is free and easily accessible to all pertinent stakeholders. This includes, but should not be restricted to, explaining criteria used to evaluate complaints, providing online and offline complaint forms, making available a local address for information and complaint purposes, accepting complaints made in local languages, ensuring some form of support for pertinent representatives and independent organisations who want to make a complaint.

Introduction

"Private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation […]

We also recognize the potential of new investment vehicles, such as development-oriented venture capital funds, potentially with public partners, blended finance, risk mitigation instruments and innovative debt funding structures with appropriate risk management and regulatory frameworks."

Addis Ababa Action Agenda[1]

"Now is the time to mobilize the global business community as never before. The case is clear. Realizing the Sustainable Development Goals will improve the environment for doing business and building markets. Trillions of dollars in public and private funds are to be redirected towards the SDGs, creating huge opportunities for responsible companies to deliver solutions."

Ban Ki-moon, UN SDG Summit, 26th of September 2015[2]

In 2015, a number of important events have reaffirmed the rise of the private sector to the top of the international development agenda, including the Financing for Development Conference in Addis Ababa and the Sustainable Development Goals Summit in New York. Increasing amounts of aid have been channelled in to support the private sector in recent years,[3] and this trend is likely to be reinforced by current developments.

The private sector is not a new development actor, but the ways in which donors engage with the private sector have become more diverse in recent years.[4] Traditionally, aid donors have focused on building or supporting the private sector in developing countries by, for example, promoting reforms to create an enabling business environment or supporting key investments. The private sector has also been involved in the delivery of projects supported by aid flows through the provision of goods and services.

1 See: http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf
2 See: http://www.un.org/apps/news/story.asp?NewsID=51981#.VmFtFL9Qrm4
3 See Pereira, J (2014) Understanding donor engagement with the private sector in development; in Business Accountability FOR Development: Mapping business liability mechanisms and donor engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD.
4 For more information on the following lines, see note 3 above.

In recent years, donors have increasingly promoted a new form of engagement: the use of aid to "leverage" the private sector investments for development. The overarching concept is that small amounts of aid can be used to reduce the risk of or remove financial barriers to private sector investments in developing countries, thus mobilising additional funding. Some examples of leveraging include the use of aid grants to reduce the interest rates of a loan provided by a third actor (effectively reducing the cost of debt) or as a guarantee to absorb the losses in a collective investment vehicle investing capital in developing countries (e.g., an investment fund). In this case, the guarantee reduces the risks for other investors and makes the investment more attractive. Because leveraging combines aid grants with other forms of finance, it is also known as "blending".

Rationale for this report

This report explores to what extent development effectiveness criteria have been transposed and integrated by development finance institutions (DFIs) which use aid to leverage additional finance for development. It builds on a report on Business Accountability for Development released by CPDE in cooperation with ITUC-TUDCN and EURODAD in early 2015.[5] This report will focus on DFIs, as donor countries usually rely on them to blend aid with other forms of finance and achieve the desired leverage. If DFIs are to start channelling increasing amounts of aid in the future, it is important to assess whether their policies and management systems are adequately equipped to ensure aid funds are effective.

So far little is known about the development impact of leveraging projects. On the other hand, some efforts have been made to monitor the role of the private sector in development. For example, the Global Partnership for Effective Development Cooperation (GPEDC) is developing an indicator on the "engagement and contribution of the private sector to development", based on the existence and quality of the dialogue between the private sector and the government in developing countries.[6] However, this indicator is too broad in the sense that it captures the whole of the private sector and provides little information about how aid is used to support it. As a consequence, it is of little use to perform a detailed assessment of leveraging activities.

This report adopts a different approach. Donors, developing countries and other development actors have committed to implement a number of principles to ensure aid is effective which have been developed by the international community based on lessons learned over decades.

5 Ibid.
6 GPEDC (2014) Strengthening the Global Partnership Monitoring Framework. Document 3, Global Partnership Steering Committee, The Hague, 19-20 January 2015.

This report uses the development effectiveness principles as an analytical framework to provide a comparative analysis of the performance of DFIs in the research sample. The tables and indicators included in this report do not aim to provide an absolute measure of the DFIs' performance, but a simple comparative analysis in order to highlight significant hurdles and best practices. The research relies on evidence obtained from existing policies and processes of the DFIs. This approach should provide a more objective view compared to project performance because they are the framework that regulates all DFIs projects, including those involving aid funds. Moreover, it would be impossible to assess statistically relevant samples of individual projects implemented due to time and resource constrains and lack of detailed project data (see section on transparency). Nonetheless, a number of case studies have been conducted as part of this project in Latin America and Africa. The information collected helps to illustrate the analysis and provides real examples of some of the challenges identified in the report.

The approach used in this report does not only help to assess to what extent aid channelled through DFIs in support to the private sector is aligned with development effectiveness principles, but also highlights a number of problems and limitations with the current approach to blending instruments. At the same time, this report indirectly illustrates the importance of development effectiveness principles beyond the delivery of aid and makes a case for their implementation in the context of non-aid development flows.

Development effectiveness principles

The development effectiveness principles were elaborated in the context of aid flows, and some of them cannot be directly applied to blending instruments.[7] For example, principles such as *harmonisation* were developed in order to improve the coordination of donors at the country level and reduce the burden on developing countries, but it is not as relevant when it comes to occasional support to private actors operating in a given developing country. Moreover, elements of harmonisation related to decision-making processes (e.g., the role of developing countries) are better captured in a comprehensive analysis of ownership. Similarly, the *use of country systems* by donor countries and *predictability* of donors' disbursements are not very relevant in this context, as DFIs usually work with a reduced number of private sector actors.

[7] See the Rome Declaration for Harmonisation, the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action and the Busan Partnership for Effective Development Co-operation. The Paris Declaration includes a total of five main principles: ownership, alignment, harmonisation, managing for results and mutual accountability. The Busan Partnership regrouped the different elements into four principles: ownership, focus on results, inclusive development partnerships, transparency and accountability.

This report focuses on the analysis of the following principles:

- Ownership
- Development results
- Accountability

Structure of this report

The first chapter provides background information on blending instruments and the trends in the volume of aid which is being used to support them. It discusses the main players and explains why this report focuses primarily on DFIs. It also introduces the sample DFIs which will be examined in the report.

The second chapter assesses whether the institutional framework of the sample DFIs complies with the principle of ownership. It does so by examining a number of different indicators. The first section examines the mandate, ownership structure and eligibility criteria of DFIs in the sample to see if there are any conflicts with the principle of ownership. The second section complements the analysis by looking at the formal inclusion of government and other stakeholders, including social partners, in consultative and decision-making structures.

The third chapter examines the DFIs' ability to deliver on the development effectiveness commitment to demonstrate and achieve positive development results. This includes systems and measures to prevent harm in a broadly defined way. A multi-faceted approach is used in this chapter, examining the quality of performance standards, and combines it with an assessment of monitoring systems that are used to identify and correct any breaches.

The fourth chapter assesses compliance with the principle of accountability. It examines two important enabling factors. Firstly, it looks into the level of transparency and access to information about the projects supported through blending instruments. Secondly, it assesses the existence of complaint and redress mechanisms.

The fifth and final chapter summarises the main conclusions of this report and puts forward a number of recommendations to policy makers.

Chapter 1. Blending: key concepts, actors and instruments

For the purpose of this report, blending is defined as aid – official development assistance or ODA – which is used in combination with other forms of finance to catalyse private flows for development.[8] In general, catalysing or leveraging private flows for development often involves public finance in addition to aid. For example, an aid grant can be blended with a loan extended by a DFI to finance a private-sector project.

There are many different ways in which an aid grant can be used by an institution to achieve the desired leveraging effect. Table 1 provides a summary of the different mechanisms or instruments that DFIs tend to use to achieve this objective. The typology is based on the nature of the instrument that aid is blended with.

Table 1. How aid can be used to leverage private finance

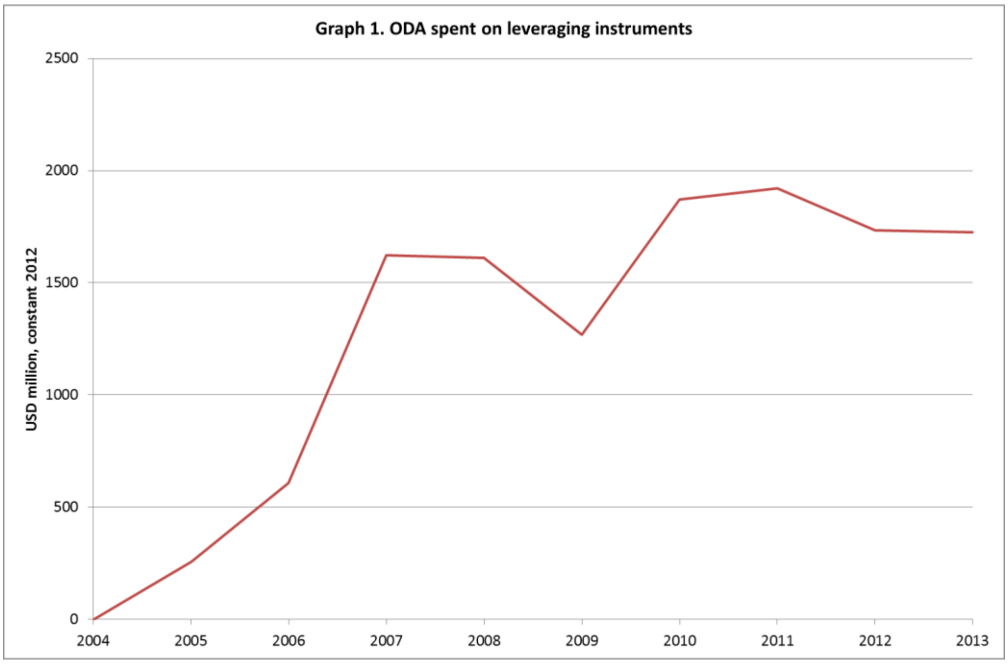
Mechanism/Instrument	Description – use of aid
Interest rate subsidies (blended loans/concessional loans)	A grant is used to cover part of the interest payments. The project promoter thus receives a subsidised loan at below market interest rate.
Technical assistance for project design	A technical assistance grant 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 in order to increase the chances of success. It is often combined with other forms of finance.
Loan guarantees	A 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 on better conditions.
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.
Equity investment	A grant is used as a direct capital contribution to a company or investment fund, usually in order to send a signal to other investors or cover for first-losses and attract additional capital.

Source: adapted from Pereira, J (2015)[9]

[8] Adapted from Martin, M. (2015) Private and blended development cooperation: Assessing their Effectiveness and Impact for Achieving the SDGs. 2016 Development Cooperation Forum Policy Briefs, July 2015, No. 7.

[9] Pereira, J (2014) Understanding donor engagement with the private sector in development; in Business Accountability FOR Development: Mapping business liability mechanisms and donor engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD.

In 2013, donors reporting to the OECD spent USD 1.8bn aid funds leveraging private finance. 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 are probably an underestimate, as they do not capture the use of technical assistance as a form of leveraging additional finance and some concessional loans. In some cases, technical assistance can represent an important share of aid funds used for leveraging purposes. For example, within the EU's Infrastructure Trust Fund (ITF) technical assistance represents 24% of total aid disbursements.[10] In 2013, donors reportedly spent EUR 5.2bn in technical assistance.[11] Examples such as the ITF prove that a share of these funds is arguably being blended with other forms of finance in order to leverage additional finance. Unfortunately, the information made available by donors does not allow a more precise calculation.



Source: Pereira, J (2015)[12]

10 Based on the analysis of the data available at: http://www.eu-africa-infrastructure-tf.net/activities/index.htm

11 Based on the analysis of the OECD CRS online database.

12 Pereira, J (2015) Understanding donor engagement with the private sector in development; in Business Accountability FOR Development: Mapping business liability mechanisms and donor. engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD

DFIs as key blending actors

Unlike other forms of aid flows traditionally managed by aid agencies, leveraging or blending instruments generally involve more specialised financial institutions. The natural choice of donors has been to rely on development finance institutions (DFIs) to manage aid funds and blend them with other public and private finance.

There is evidence which indicates that at least a significant share of aid flows channelled through DFIs is being used for blending purposes. 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.[13] Germany used national DFIs to manage 70% of its aid for leveraging in 2013. The figure is slightly lower in Finland and Austria: 54% and 33% of their aid respectively. As mentioned above, these figures are probably very conservative, as the methodology used to estimate them does not capture some forms of leveraging such as technical assistance. In 2014, DFIs members of the group of the European Development Finance Institutions (EDFI) reported a total of 292 technical assistance projects for a total value of EUR 21.6m.[14]

It is very difficult to get an accurate picture for all DFIs, as not all donor countries report aid used for blending in the same way (see the following section). Different reporting practices make it very difficult to estimate the exact amount of aid being channelled through DFIs for blending purposes. In addition to the figures above, donor countries' development policies also suggest that collaboration between DFIs and aid agencies is expected to increase in the future.[15]

Sample of DFIs used in this report

The table below presents the DFIs that have been examined in this report. The sample tries to balance a number of factors, including the size of their portfolio, geographical distribution and data availability (see next section on key indicators). The latter factor meant that a number of institutions had to be left out of this report, as there was no accessible information on their key policies or it was not available in English.

13 The figures in this paragraph come from Pereira, J (2015), see footnote 12.
14 EDFI (2015) EDFI Annual Report 2014. EDFI asbl.
15 See footnote 3.

Table 2. Sample of DFIs examined in this report

DFI	Total portfolio (€m)	Portfolio structure				ODA funds targeting the private sector (€m 2013 disbursements)	Ownership	Other
		Equity, quasi-equity	Loans	Guarantees	# of projects			
Bio (Belgium)	587	30%	70%	-	183	21.9 (including capital contribution)	Public (100%)	Technical assistance grants
CDC Group (UK)	5,286	92.3%	5%	2.7%	192	384.0	Public (100%)	Technical assistance grants
Cofides (Spain)	855	34%	66%	-	219	-	Public (53%), private 47%	Technical assistance grants
DEG (Germany)	7,109	46%	54%	-	760	375.7	Public 100% (80% central government and 20% states)	Technical assistance grants
FMO (Netherlands)	8,013	41%	55%	4%	916	82.2	Public (51%), private (49%)	Technical assistance grants
Norfund (Norway)	1,424	84.2%	15.4%	0.3%	126	174.4	Public (100%)	Technical assistance grants
Proparco (France)	5,052	17%	82%	-	464	-	Public (57%), private (30%), other (13%)	Technical assistance grants
OPIC (US)	13,550	-	-	-	-	-	Public (100%)	Only provides loans, guarantees and political risk insurance
Swedfund (Sweden)	383	57%	42%	1%	93	2.9	Public (100%)	Technical assistance grants

Sources[16]

16 DFIs' annual reports; EDFI (2015) EDFI Annual Report 2014. EDFI asbl; OECD (2015) Current reporting on private-sector instruments in DAC statistics. DAC Informal meeting on ODA modernisation of private-sector instruments. DCD/DAC(2015)27; Leo, B. & Moss, T. (2015) Bringing US Development Finance into the 21st Century. Part of the White House and the World 2016 Briefing Book. Center for Global Development; and Norad (2015) Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund). Norad, Oslo

The amount of ODA managed by DFIs was not used in the selection of the sample mainly due to the differences in reporting practices. Moreover, during the preliminary research, examples of DFI projects involving aid funds which were not reported as channelled through any DFIs were found. France, for example, treats Proparco, the national DFI, as a subsidiary of the French Development Agency (AFD).[17] Aid managed by Proparco is therefore reported as managed by the AFD and the amounts being used by Proparco cannot be told apart. The OECD also confirms that the Netherlands, Norway and Sweden report projects funded by the government but managed by their DFIs (FMO, Norfund and Swedfund) as ODA.[18] According to the OCDE, these interventions amounted to USD 152 million (€ 114m) in 2013, of which USD 146 million (EUR 110m) was implemented by the Netherlands.[19] To make things more complicated, some countries report the DFIs' capital increases as aid. This is the case of the Swedish government with Swedfund.[20] Similarly, the Belgian government reports contributions to the capital of Bio as ODA, but it does not report on individual projects. The activities of Cofides, the Spanish DFI, are not separately identifiable in the OECD database for different reasons altogether.[21] OPIC does not seem to report any of its activities as ODA, and includes all of its projects in the category of "other official flows" (OOF).

Given the focus of this report, most of the evidence discussed in the upcoming sections will come from the DFIs' own regulations, policies and guidelines. Looking at the requirements underlying the whole project cycle is the best way of providing an objective assessment of the DFIs' commitments to implement certain actions. This policy and regulatory framework applies to a whole range of financial flows managed by DFIs, not only to aid. Interestingly, this should help to highlight any tensions between the traditional role of DFIs and their emerging role as aid "blenders". Whenever possible and relevant, other informal or ad-hoc practices will be considered.

17 OECD (2013) OECD Development Co-operation Peer Review. France. OECD, Paris.
18 OECD (2015) Current reporting on private-sector instruments in DAC statistics. DAC Informal meeting on ODA modernisation of private-sector instruments. DCD/DAC(2015)27.
19 Ibid.
20 Ibid.
21 Ibid.

Chapter 2. Ownership

"Developing country governments will take stronger leadership of their own development policies, and will engage with their parliaments and citizens in shaping those policies. Donors will support them by respecting countries' priorities."

Accra Agenda for Action

"Partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs.

"We recognise the central role of the private sector […]. To this end, we will: a) Engage with representative ***business associations, trade unions and others*** *to improve the legal, regulatory and administrative environment for the development of private investment; and also to ensure a sound policy and regulatory environment […]."*

Busan Partnership for Effective Development Co-operation

This chapter uses a number of proxies to assess whether DFI policies support developing countries' ownership of their projects. The analysis shows that all of the DFIs analysed present serious problems in this regard. In general, there is a strong preference for using DFIs to support private sector companies in donor countries, which could conflict with the interests of developing countries. When it comes to eligibility criteria, the profitability of the projects is a key requirement across the board. There are only a few DFIs that include mechanisms ensuring investments are pro-poor, such as directing investments to MSMEs, focusing on generating employment or targeting investments to challenging countries or circumstances. In general, the participation of the government and other actors from developing countries is not required during the identification phase or other stages of the project cycle.

DFI	Mandate and eligibility criteria	Participation of the government and social partners in partner countries
Bio	No significant restrictions or preferences, public ownership. Focus on MSMEs.	No
CDC Group	Policy framework gives preference to national companies, public ownership. Prioritises investments in difficult geographical contexts, employment as main objective.	No
Cofides	Direct preference for national companies, private sector is a shareholder. Benefit of national businesses is a key selection criteria.	No
DEG	Policy framework gives preference to national companies, public ownership.	No
FMO	Policy framework gives preference to national companies, private sector is a shareholder. Non-binding objective to invest 70% of resources in low and lower middle income countries. Emphasis on supporting the financial sector.	No
Norfund	Policy framework gives preference to national companies, public ownership. Focus on low- and lower-middle-income countries and companies with capital and technical constrains.	No
Proparco	No significant restrictions or preferences, the private sector is a shareholder.	No
OPIC	Direct preference for national companies, public ownership. Benefit of national businesses is a key selection criteria.	No
Swedfund	No significant restrictions or preferences, but concerns about the change of ownership to Ministry of Enterprise and Innovation. Only invests in proven technologies and companies with proven track record.	No
Red=poor performance, orange=average performance or some good features, green=good performance		

In the context of the development effectiveness agenda, donors have committed to put developing countries in the driver's seat when it comes to making decisions about their own development. As illustrated by the quotes above, this task not only involves the governments from developing countries, but also other stakeholders such as the parliaments and citizens. The role of donors is therefore to align their support to national policies developed through participatory processes. The idea behind the concept of ownership is that development projects work best when they support and reinforce national priorities.

When DFIs do not allow developing countries to make the choice that is best aligned with their development interests, they contradict the principle of ownership. According to this principle, the choice of companies supported with aid funds should respond to developing countries' best interests. Developing countries tend to prioritise national companies whenever possible because they usually have a greater development impact through trickle-down and secondary effects. Companies from developing countries tend to reinvest a highest share of the profits at home because they do not repatriate profits to a parent company and have a higher business base and partnerships at home.[22] A case study looking at the construction of social housing in Senegal helps to illustrate this point, although it shows that targeting the right actors is no guarantee of success (see box 1 below).

When the private sector is directly involved, social partners – i.e., employers' and workers' representative organisations – should be consulted on an equal footing. Equitable industrial relations are a pre-requisite to contribute to decent work and to maximise the development impact of these initiatives. Therefore, the involvement of social partners is relevant both in developing and donor countries. A proper consultation process may have helped to increase the impact of the Senegalese project described in the box below and tailor the design to people who truly struggle to access decent housing.

In order to assess the degree of ownership, this chapter looks at four different aspects. The first three sections explore whether there are any limitations or preferences regarding the choice of eligible companies that contradict the principle of ownership. In order to do so, the report discusses the mandate and overarching policy framework of DFIs, as well as the ownership structure of these institutions. In addition, the analysis is complemented by an examination of the eligibility criteria. The chapter further examines the participation of developing countries' governments in the project cycle and whether projects are aligned with national policies. Finally, it looks at the participation of social partners in DFI projects.

[22] Amsden, A. H. (2009). 'Nationality of Firm Ownership in Developing Countries: Who Should "Crowd Out" Whom in Imperfect Markets?'. In M. Cimoli, G. Dosi and J. Stiglitz (eds), Industrial Policy and Development. Cambridge, UK: Cambridge University Press.

Box 1. Social housing in Senegal: targeting the right actors, but missing the poor.[23]

A public-private partnership between the French Development Agency (AFD) and a Senegalise bank, the Banque de l'Habitat du Sénégal (BHS), to expand access to affordable housing in Dakar provides a useful case study of a project which, while it has been conceived of as addressing a pressing issue, failed to achieve its objectives.

A total of CFA 8,500m (EUR 13m) in concessional loans have been provided by the AFD to BHS in the form of credit lines since 2008 to address a pressing housing problem in Dakar which, as the most populous city and region in Senegal, faces a yearly deficit of 150,000 housing units. The choice of a local partner and a socially sensitive sector is a positive development: partnering with a Senegalese bank allowed the project to benefit from local knowledge and trickle-down effects in the local context from both the financial and capacity building point of view. However, the manner in which the project was put into practice has led to its limited impact on the social groups which it was targeting: low- and middle-income workers, many of whom work in the informal economy.

Under the provisions of the project, access to the constructed housing is limited to workers earning over CFA 350,000 a month (EUR 530), almost eight times the minimum wage of CFA 45,000 (EUR 66). The project also failed to take into account the fact that most workers are employed within the informal sector, making it difficult for them to prove their income and limiting their access to loans.

Moreover, there is very little transparency with regards to the conditions on which the housing units are allocated, which creates an environment favouring nepotism and political clientelism. This raises further questions about the sustainability of the project and its contribution to solving the housing deficit.

A greater level of local ownership and, consequently, better outcomes for the people truly in need of affordable housing in Dakar could have been achieved by organising multi-stakeholder consultations during the design phase of the project as well as ensuring greater transparency throughout its implementation, with clear and adequate benchmarks set for the allocation of the social housing constructed.

[23] Gueye, O. (2015) The Use of Official Development AID (ODA) in the development of Public Private Partnership (PPPs) Projects: Case study of Senegal.

Mandate

Five out of the nine DFIs examined in this report express a preference for donor companies in contradiction with the principle of ownership. As table 4 shows, two DFIs – Cofides and OPIC – make this clear in their mandate. However, mandates are often very general and do not provide a very accurate picture of the actual policy preferences. It is therefore important to look at the broader policy framework. As the table below illustrates, **in five cases donor development policies express a preference for supporting and advancing the interests of national (donor) companies**: Germany, the Netherlands, Norway, Spain and the UK. With the exception of OPIC, all other DFIs in the sample are mandated to support and implement the national development policy. Therefore, DFIs in these countries are bound to prioritise their own national companies, at least in certain areas or sectors. A couple of case studies looking at aid from Spain and Canada in Latin America help to illustrate how aid can be put at the service of national business interests (see box 2).

It is also worth highlighting that the ownership of Swedfund was transferred from the Foreign Ministry to the Ministry of Enterprise and Innovation in January 2015. Although the Foreign Ministry remains responsible for development policies and state-supported export credits, this could be a move to increase the alignment between Swedfund and national businesses.

Table 3. DFIs' mandate and the overarching policy framework

DFI	Mandate	Private sector in overarching development policy
Bio	Support a strong private sector in developing and/or emerging countries, to enable them to gain access to growth and sustainable development within the framework of the Sustainable Development Goals.	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.
CDC Group	Support the building of businesses throughout Africa and South Asia to create jobs and make a lasting difference to people's lives in some of the world's poorest places. We aim to invest where our job creation focus can have the greatest impact.	Three of the five pillars are directly related to the private sector: supporting the 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.
Cofides	Provide cost-effective medium and long-term financial support for viable private direct investment projects in foreign countries, where there is a Spanish interest. The ultimate aim is to drive forward a profitable business that contributes both to host country development and the internationalisation of the Spanish enterprise and the Spanish economy.	Private sector is one of the priorities, in particular: providing an enabling environment; access to finance; Inclusive growth **Emphasis on the national private sector.**

DEG	Promote business initiative in developing and emerging market countries as a contribution to sustainable growth and improved living conditions of the local population.	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.**
FMO	Contribute to the advancement of productive enterprises in developing countries, to the benefit of economic and social advancement of those countries, in accordance with the aims pursued by their governments and the policy of the Dutch Government on development cooperation.	Private sector is a major development partner. Activities: building an enabling environment (regulatory framework, access to finance and infrastructure). **Emphasis on national companies.**
Norfund	Invest in profitable and sustainable enterprises in poor countries to promote business development and contribute to economic growth and poverty alleviation.	Private sector is one of the main areas of focus. Key elements: supporting national companies abroad; leveraging finance through risk-reducing instruments: special focus on renewable energy.
Proparco	Promote growth that is low-carbon, respects its environment, creates employment and essential goods and services, and benefits as many people as possible. Proparco's action is in line with AFD's strategic orientations and the priorities of France's development policy.	Private sector plays an important role on the first of the fourth pillars (growth). Activities can be summarised as: building an enabling environment; catalysing investments; and trade facilitation.
OPIC	Mobilise private capital to help solve critical development challenges and in doing so, advance US foreign policy. Because OPIC works with the US private sector, it helps US businesses gain footholds in emerging markets, catalszing revenues, jobs and growth opportunities both at home and abroad.	OPIC responds to US foreign policy and not to the US development policy.
Swedfund	Reducing poverty through sustainable business. Our activities shall contribute towards achieving the goals for Sweden's Policy for Global Development (PGD). In collaboration with strategic partners, we shall participate in economically, socially and environmentally sustainable investments that create better conditions for people living in poverty and under repression.	The private sector is not very relevant in 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.

Sources[24]

24 DFIs' websites and annual reports;
Pereira, J. (2014) Understanding donor engagement with the private sector in development; in Business Accountability FOR Development: Mapping business liability mechanisms and donor engagement with private sector in development. CPDE in cooperation with ITUC-TUDCN and EURODAD; and
Garmendia, C. & Olszewski, A. (2014) Impact Investment in Development Finance. Impact Investing Policy Collaborative and Initiative for Responsible Investment.

Box 2. Use of ODA to support national companies[25]

Since 1994, the Spanish development aid agency, AECID, invested over EUR 10m in water supply and waste water collection of the city of Cartagena in Colombia. The project was extremely pertinent to the local context, with the poverty level within the city at 27% and the number of households with access to running water at 75% at the time. Acuacar, the contractor chosen to implement the project, is a local water company jointly owned by the municipality and by Spanish-based Aguas de Barcelona. Despite the poor development results and even detrimental effects of the project, aid has continued to flow to Acuacar and helped boost its profits. While the number of households with access to water has increased from 75% to 90% between 2007 and 2013, so have the prices for consumption, with monthly rates reaching up to 20% of the minimal salary. Each month, 19,000 inhabitants of Cartegena, many of whom are employed in the informal economy and cannot afford the elevated prices, lose access to water due to the non-payment of their bills. Meanwhile, Acuacar has been achieving rates of return up to 54%, when usual profit margins on this type of project are expected to be at most 10%. Despite several complaints and a lack of demonstrable development results, Acuacar's contract has been extended for a further 13 years in 2014.

In line with its stated development strategy of supporting national businesses, Canada has applied a similar approach to promoting Canadian mining companies in Peru. In this country, Canadian aid is being used to effectively subsidise the corporate social responsibility policies of some of Canada's largest mining companies through a project entitled Prodivcom. While the project ostensibly aims to develop the agricultural and forestry sectors within mining communities, its greatest focus is on improving the image of the extractive industry in communities with significant instances of social and industrial conflicts resulting from mining operations. Research into this project demonstrates that its greatest beneficiaries are not the local communities but the companies themselves, who benefit from the favourable legislative and business climate and the social consensus to their operations – neither of which are indicators of development effectiveness.

The DFI ownership structure

The ownership of some of the DFIs by the private sector is another source of concern from the point of view of development effectiveness. In the cases of Cofides, FMO and Proparco, national companies are shareholders of the DFIs and have seats on the board and other decision-making bodies of these institutions (see table 2). In all three cases, shareholders essentially comprise major national financial institutions. It is to be expected that these actors will seek to pursue an active management strategy that defends or at least advances their own interests. However, these interests are not necessarily aligned with the priorities of developing countries. In case of a conflict of interest, private sector shareholders are more likely to come out on top as they are in a privileged position with regards to decision-making.

[25] Based on Maffei, L. (2016) El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados.

The best way to deal with this problem is by involving other stakeholders in the decision-making process (see section on participation below).

Eligibility criteria

At times, the mandate and donor policies can be very general and the language open for interpretation. Eligibility criteria can shed some light in these cases, as they essentially operationalise any policy limitations and preferences. The analysis of eligibility criteria has been divided into two groups. On the one hand, it looks at the criteria and limitations regarding the selection of companies. On the other it looks at the geographical scope of eligible countries where private sector operations can be supported.

Criteria regarding the selection of companies sometimes include an explicit preference for donor companies. Both Cofides and OPIC require the involvement of national companies or at least a substantial contribution to their internationalisation. This requirement is in clear contradiction with the principle of ownership, as it heavily restricts the choices available to developing countries on whether and when they can make themselves heard (see sections on participation below). Moreover, two other DFIs in the sample, FMO and Swedfund, have a dedicated funding facility for national companies.

Further criteria can restrict the number of choices and provide an advantage to large multinationals and foreign companies. For example, with the exception of Bio there is no explicit focus on micro, small and medium enterprises (MSMEs). Combined with strong general requirements on profitability, return on investments, and sometimes a proven track record, these criteria seem to favour large multinational companies which enjoy significant economies of scale and have more experience than national companies, especially MSMEs in developing countries. Nonetheless, Norfund and CDC include eligibility criteria that can compensate for some of these effects, as they give a higher rating to projects focusing on areas where there is a shortage of knowledge or, in the case of CDC, that have a higher potential to create employment. It is in general difficult to make a more precise assessment of the impact of these criteria without dedicated case studies.

The **geographical scope of the sample of DFIs is generally quite broad, which combined with some of the profitability criteria and the risk averseness of DFIs in the sample, could result in a comparative advantage for higher-income developing countries**, where there are more business opportunities and significantly fewer risks. Only three DFIs include criteria to ensure that a certain share of funds goes to the poorest countries. CDC prioritises investments in difficult locations, Norfund focuses on low- and lower-middle-income countries, and FMO has a non-binding objective to direct 35% of its investments to low-income countries and 35% to lower-middle-income economies.

Table 4. Eligibility criteria related to the nature of the companies and the geographical scope

DFI	Companies	Geographical scope
Bio	-MSMEs -Companies contributing to the development of MSMEs -Companies in the energy sector and relevant in the context of climate change -Social economy business -Companies providing public services	All developing countries (limited to 52), developed countries when the objective is reducing inequality with focus on rural areas.
CDC Group	Priority to investments in sectors with a higher potential to generate employment. High: construction, food processing, manufacturing, microfinance, public services, renewables, textiles and trade. Medium: agricultural crops, forestry/fisheries, meat/livestock, trade, transport, utilities & power. Low: business services, communication, financial services and mineral extraction. Trade appears in all areas.	Priority to investments in difficult geographical locations, based on: market size, income level, ability to access finance, and the ease of doing business.
Cofides	Projects have to contribute to the internationalisation of Spanish enterprise or the Spanish economy. Non-Spanish companies are eligible if they make a significant contribution to the internationalisation of the Spanish economy.	Developing and emerging countries.
DEG	Evaluates projects based on: -The long-term profitability of the project; -Development effects and sustainability; -DEG's contribution and additionality; -Return on equity.	Developing and emerging countries.
FMO	Activities qualifying for finance are commercial enterprises in agriculture and fisheries, mining, agribusiness, manufacturing industry, the service sector (including utilities) and banking and insurance in the widest sense. The emphasis is on development of the financial sector. Projects are ranked according to: financial performance, environmental, social and governance performance and FMO's catalytic role. Includes a fund dedicated to Dutch companies investing abroad.	Developing countries, developed countries in some circumstances. Non-binding objective is that low-income and lower-middle-income economies each account for 35%.
Norfund	Focus on renewable energy, finance and agriculture and agri-industry. Priority to investments where there is a shortage of capital and expertise and that mobilise	Low and lower middle income countries. Others if decided by parliament.

	private capital and expertise that would not otherwise have been available in poor countries.	
Proparco	Foreign and national companies. Evaluates: demonstration effect, companies' track record, profitability of the project, development impacts and the lack of market distortions.	Developing countries.
OPIC	Meaningful involvement of the US private sector, meaning: US involvement in the project company to an amount that is equivalent to at least 25% of the equity/share capital of the project company.	160 countries, including developing and developed ones (some EU member states are in the list).
Swedfund	All sectors, only invest in proven technologies and companies with a strong track record. Dedicated facility for Swedish SMEs willing to invest abroad.	Developing countries eligible to receive aid funds.

Sources[26]

[26] DFI websites; Bio's Management Contract 2014-2018[27] IFC (2012) Performance Standards on Environmental and Social Sustainability. International Finance Corporation, World Bank Group.

Participation of government, social partners and other stakeholders

Participation of government, social partners and other stakeholders is an important commitment donors have made in the development effectiveness agenda with a view to ensure the ownership of development projects and, by extension, increase their development impact. Participation also enables greater accountability of development projects. As a result, this section also has important implications for the discussion in chapter 4.

This section assesses the participation of developing countries' governments in the decision making process of DFIs. In order to establish this, policy documents from the sample DFIs have been examined in order to assess whether they include any requirements to consult with governments from developing countries or to take into account national development policies and priorities. In addition, this section assesses the participation of social partners, in particular, whether there are any guidelines that compel donors to consult with social partners.

In the course of the research, **no policy documents were found that included any requirements to consult with the government, social partners or other stakeholders** during the design phase beyond the companies involved in the project. Table 6 summarises the results of the research. In two cases, references were found to consultations with embassies or country offices. This finding does not imply that no consultations take place in any circumstances, but simply that there is no obligation for DFIs to do so on a systematic basis. This is an important gap in the implementation of the ownership principle.

References were nonetheless found to the obligation of project partners (companies) to consult with stakeholders, mainly affected communities. However, these references were made in the context of the implementation of the IFC's Performance Standards on Environmental and Social Sustainability,[27] which refer to the obligation of project partners to perform due diligence. These consultations are performed as part of the due diligence process and do not contribute to increase the ownership of development projects. Box 3 demonstrates how the failure to consult with local communities has led to violations of their land rights as well as their social and cultural rights.

[27] IFC (2012) Performance Standards on Environmental and Social Sustainability. International Finance Corporation, World Bank Group.

Table 5. Government and social partners' participation in decision making processes

DFI	Government	Social partners
Bio	No. Regulations only include consultations with the embassies in the country where the project takes place.	No
CDC Group	No. Only foresees consultations with DFID's country offices.	No
Cofides	No	No
DEG	No	No
FMO	No	No
Norfund	No	No
Proparco	No	No
OPIC	No	No
Swedfund	No	No

Sources[28]

[28] DFI websites and policies; Bio's management contract 2014-2018, available at: ; CDC Group plc: Investment Policy for the period from 1 January 2012 to 31 December 2016; and Swedfund's Policy for Sustainable Development.

Box 3. Violations of indigenous peoples' rights in India[29]

The Integrated Water Supply Project (IWSP), whose core components are financed by the Japan International Cooperation Agency (JICA), focuses on upgrading existing and creating new infrastructure to ensure water supply for the town of Imphal in Manipur. The project requires the construction of a dam, the drilling of tunnels for the transportation of sewage and the creation of a sewage disposal reservoir.

Despite protests of the local communities and an ongoing case in front of the Supreme Court of India, the private contractors on the project, and the state government of Manipur have continued its implementation.

The implementation of this project involves clear violations of international norms on free prior and informed consent outlined in the UN Declaration on the Rights of Indigenous Peoples. It further violates the provisions of the Indian Constitution. Neither the state government of Manipur nor the private companies involved in the construction works have sought consultations or pursued due process to obtain explicit consent from the local affected communities. As a result, the works have altered the natural environment on which indigenous people depend for their livelihoods, endangering not only their culture and traditions but their very survival.

[29] Based on the following case study: Pushpa Koijam, Mamta Lukram, Jiten Yumnam (2016), Assessment of ODA projects and their implications on indigenous peoples of Manippur.

Chapter 3. Development results

"Our investments and efforts must have a lasting impact on eradicating poverty and reducing inequality, on sustainable development, and on enhancing developing countries' capacities."

Busan Partnership for Effective Development Co-operation

This chapter examines the performance standards and monitoring systems of DFIs to assess whether they allow for a measurement of the real impact of the development projects they fund on the ground. The chapter has a special focus on workers' rights. In general, all DFIs have adopted strong labour standards based on the IFC model. However, there is only one DFI with a designated workers' representative in the management structure. With a few of exceptions, policies on the use of OFCs (tax havens) are quite poor across the research sample. Monitoring systems mostly rely on self-reporting, and there is a strong focus on the project output side, while there is less emphasis on macro- or wider socio-economic effects. Finally, monitoring is particularly challenging when financial intermediaries such as banks or funds are used to channel the DFIs' investments.

DFI	Performance standards	Monitoring
Bio	Good labour standards, no workers' representative on the board, average OFC policy	Self-reporting, on-site monitoring of higher-risk projects
CDC Group	Good labour standards, no workers' representative on the board, poor OFC policy	Self-reporting, no on-site evaluations when using funds
Cofides	Good labour standards, no workers' representative on the board, poor OFC policy	No information
DEG	Good labour standards, no workers' representative on the board, poor OFC policy	No information
FMO	Good labour standards, no workers' representative on the board, poor OFC policy	No information
Norfund	Good labour standards, no workers' representative on the board, relatively restrictive OFC policy	Self-reporting, assesses one project per year
Proparco	Good labour standards, no workers' representative on the board, ambitious OFC policy	Self-reporting, on-site monitoring of higher-risk projects
OPIC	Good labour standards, a workers' representative on the board, very poor OFC policy	Self-reporting, on-site monitoring of random sample and projects with impact on workers, the environment or the population.
Swedfund	Good labour standards, no workers' representative on the board, relatively restrictive OFC policy	No information
Red=poor performance, orange=average performance or some good features, green=good performance		

The impact of a project depends on a number of things, from project identification and design to project implementation, but the most important question is how to ensure everything happens as it should. In practice, ensuring the quality and consistency of any number of projects requires the adoption of standards and safeguards that promote good and limit harm, as well as ensuring their implementation through adequate monitoring and evaluation mechanisms. Monitoring and evaluation frameworks also perform other important functions such as enabling accountability or collecting data that should allow for the correction of any deficiencies and for the improvement of future projects.

This chapter begins by examining the quality of the performance standards, also known as safeguards, used by DFIs in the research sample. The analysis should provide an idea of the expected quality and impact of the projects implemented by the different institutions, but offers little information about their actual impact on the ground. The second section tries to provide some answers to this question by focusing on the monitoring framework. It tries to identify any weaknesses that might prevent DFIs from implementing their standards or identifying any breaches.

Performance standards

Performance standards are also referred to as environmental and social standards or environmental, social and governance standards. They generally comprise a broad set of legal obligations, international commitments and guidelines designed to prevent or minimise negative impacts both foreseen and unforeseen.

The performance standards implemented by any given DFI are in reality a multi-layered framework which often involves many cross-referenced issues. Table 7 illustrates the different commitments and guidelines which are usually referred to by the members of EDFI, which account for eight out of nine DFIs in the sample. The difference between commitments and guidelines is that commitments have been directly signed by the institutions in question, while guidelines are documents they regard as a framework in the performance of their activities but are not directly binding to them. The table summarises the most common commitments and guidelines, but does not imply all EDFI members have endorsed the totality of the processes contained within it. Nonetheless, EDFI standards do apply to all EDFI members.

The EDFI's commitments and guidelines do not apply to OPIC because it is not a member of the grouping. OPIC's environmental and social policy is essentially based on the International Finance

Corporation's Performance Standards on Social and Environmental Sustainability, and Industry Sector Guidelines,[30] in addition to U.S. law.

Assessing the entire performance standards framework in the sample of DFIs is beyond the capacity of this report. Instead, this section focuses on two specific areas: workers' rights and policies regarding the use of offshore financial centres or tax havens. The first area has been selected because of its relevance to recipient countries and local communities. The ability of DFIs to promote decent work is key to measure the success of their approach to development, including blending instruments.

The second area has been selected because the role of tax havens in the global economy and their negative impact on developing countries has recently become the focus of significant attention from the development community. As a consequence, the DFIs' policies on the use of tax havens in their operations can be seen as an indicator of the coherence between their operations and stated development objectives. Also, given that the use of tax havens has only become a major international concern in recent years, the DFI policies in this area can be seen as an indicator of their willingness to adapt and update their policies in response to external pressure.

30 OPIC (2010) OPIC – Environmental and Social Policy Statement.

Table 6. Commitments and guidelines usually endorsed by EDFI members

Commitments	Guidelines
• **EDFI Principles on Responsible Financing** • **EDFI Exclusion List** • **EDFI Harmonised Environmental and Social Standards** • **The World Bank Group's Corporate Governance Development Framework** • **UN Principles for Responsible Investment** • **UN Global Compact** • **Equator Principles**	• IFC Performance Standards on Environmental and Social Sustainability • IFC Environmental, Health and Safety Guidelines • EDFI Guidelines for OFCs • OECD Guidelines for Multinational Enterprises • OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions • OECD Guidelines on Corporate Governance of State-owned Enterprises • UN Universal Declaration of Human Rights • UN Framework for Corporate Responsibility and Human Rights • ILO's Declaration of Fundamental Principles and Rights at Work • The Rio Declaration on Environment and Development • Joint International Finance Institutions Communique: Contributing to Creating More and Better Jobs • Agenda 21

Source[31]

Labour rights

In one way or another, all DFIs in the project sample refer to the IFC's Performance Standard 2 (IFC PS2) on labour and working conditions as the main policy framework. Members of EDFI commit to implement the IFC standards as part of the EDFI Principles on for Responsible Finance, and many of them also include an explicit reference to the IFC standards in their policies. OPIC, the only non-EDFI member, mentions the IFC standards as its main reference framework.

31 Based on Swedfund (2014) Growing power: How Swedfund Helps Fight Poverty Through Sustainable Business. Swedfund; and relevant policies, annual reports and websites of other DFIs in the sample.

The IFC PS2 requires DFIs to implement a comprehensive set of measures in a number of areas.[32] Within the limits of national law, the standard requires companies to inform workers about their rights and benefits, implement collective bargaining agreements, provide equal conditions for migrant workers, ensure decent accommodation, prevent discrimination, respect the right of workers to unionise and, in countries where this right is not recognised, to allow for alternative arrangements, study alternatives for retrenchment, create grievance mechanisms, and ensure a healthy and safe working environment in line with national and international standards. The standard requires the same principles to be applied to workers contracted by third parties. Companies are also required to monitor their supply chains in relation to child and forced labour and significant health and safety risks and adopt mitigation measures when necessary.

On paper, the IFC PS2 provides a good level of protection for workers, but it is not always correctly implemented. A case study conducted in Malawi shows that even the World Bank finds it difficult to ensure compliance with its own standards (see box below). Moreover, examples such as Avianca in Colombia show that during the project cycle, DFIs can fail to identify and correct violations of the standard in time.[33] At the same time, there is documented evidence that breaches have been used by trade unions in developing countries to help enforce and advance workers' rights in projects supported by the IFC.[34] These cases rely on the ability of the workers to get organised, and elevate a complaint to the relevant body, something which requires a minimum level of awareness and organisation necessary to set in motion the redress process.

[32] IFC (2012) IFC Performance Standards on Environmental and Social Sustainability: Effective January 1, 2012. International Finance Corporation, World Bank Group.

[33] CAO (2015) CAO Investigation of IFC Investment in Avianca S.A., Colombia. Case of: Complaint from Global Unions on behalf of unions representing employees of Avianca. Office of the Compliance Advisor Ombudsman.

[34] Global Union (2010?) A Brief Guide to Using the IFC Performance Standard. Available at: http://www.industriall-union.org/sites/default/files/migration/imf/RelatedFiles/09082609135966/Guide_to_IFC_Standards.pdf

Box 4. Poor results and lack of implementation of labour standards in Malawi and Haiti[35]

The Shire Liwonde Barrage upgrade is part of a project funded through a blend of grants from the Global Environmental Facility (GEF), the Least Developed Countries Fund (LDCF) and a concessional loan from the World Bank. The project is supervised by the Norwegian company Norplan and implemented by Conduril Engenharia (Portugal) and CMC Di Ravenna (Italy).

Research based on interviews with workers on the project site and government officials demonstrated weak implementation of work standards and limited development outcomes of the upgrade. Although the IFC PS2 standard requires workers to be informed about their rights and benefits, none of the workers interviewed were aware of basic labour regulations, and only 23% knew about the existence of a trade union. No on-site monitoring visits were made either by the project funders or the national authorities despite this being foreseen by Malawi labour legislation. These shortcomings represent a clear lack of enforcement of World Bank standards by private sector partners, who should have ensured follow-up on these issues given the national context.

Furthermore, a better designed project could have contributed to employment levels at the construction stage in addition to its contribution to enhancing the country's infrastructure. However, the project appeared to be using mainly unskilled workers with virtually no training, while skilled jobs have been awarded to foreign experts. As a result, the transfer of skills to local actors has been almost non-existent.

In Haiti, the Inter-American Development Bank and USAID supported the construction of a special economic zone, the Parque Industrial Caracol, providing infrastructure for S&H Global, a major textile company. S&H was to generate thousands of new jobs and reinvigorate the zone where it would be based; in return, the cost of building the infrastructure would be covered by grants, as would the company’s losses until profit is generated by the site; it would further benefit from a rent exemption on its infrastructure and facilities for a number of years.

While on paper the project has delivered on its objectives, there are serious doubts about its contribution to the sustainable development of Haiti. Out of the 6,500 jobs created, an overwhelming majority is under appalling conditions. Approximately 87% of the workers fail to reach the daily minimum wage, as they are paid based on production; there have been reports of irregularities with regards to social security contributions and medical leave as well as cases of sexual harassment, threats and failure to pay severances. Toilets were installed in the facilities only two years after the start of operations.

The working conditions in Parque Industrial Caracol as well as the lack of implementation of international standards at the Shire Liwonde Barrage site cast serious doubts on the capacity of institutions such as the World Bank or the IDB to monitor and enforce the application of labour standards by their privately-owned partners.

---

35 Based on the following case studies: Nkosi, A. (2015) The Usage of Official Development Assistance (ODA) in Public Private Partnerships Investments in Africa: The impact of labour right. A Malawi Case Study. The Africa Labour Research and Education Institute (ALREI); and Maffei, L. (2016) El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados.

Perhaps the most important limitation in the application of the standards relates to the way they are used by DFIs. A paper looking at decent work and development finance funded by the UK Department for International Development (DFID) concludes that DFI projects tend to apply labour standards in order to mitigate the risks related to a project, rather than to proactively promote better working conditions. In practice, most of the finance provided by DFIs usually responds to the client's requests, meaning that clients usually design a project and subsequently seek financial support. This approach makes it difficult to incorporate decent work factors in the initial stages of the project design. There are some programmes that provide closer support and follow-up in the identification and design of projects, but they tend to fall within the competency of aid agencies, instead of DFIs. Some examples include Sweden's Business for Development (B4D) or the DFIS's Business Innovation Facility.

Performing a detailed analysis of how each DFI in the sample implements the IFC PS2 standard is beyond the remit of this report. However, the analysis of the monitoring and evaluation mechanisms (see next section) should provide an indication of the ability of each institution to prevent and at the very least, identify and correct violations of the standard.

Labour representation in DFI management structures

Labour representation is addressed in this chapter because it can be argued to be an indicator of the importance given by DFIs in the research sample to labour standards. The composition of the DFIs' boards can provide some useful insights as to the degree to which labour issues are internalised and prioritised within the institutions. Nonetheless, this discussion is also relevant from the point of view of accountability because stronger labour representation can contribute to a better implementation of international labour standards, which are pillars of decent work. The boards of DFIs in the research sample are usually appointed by the supervisory entity, a ministry in most cases and the US president in the case of OPIC. In DFIs with a partially private ownership structure, board members are usually appointed by the general assembly of shareholders.

None of the DFIs in the sample is required by law or statute to have a workers' representative (i.e., trade union) on the board (see table 8). Boards are generally dominated by a mix of government and private sector representatives. Even if board members are appointed in their individual and independent capacity, a mixed board composition, including representatives from different stakeholder groups, seems like the most sensible option in order to balance different interests and points of view. The mandate of DFIs and the nature of their operations is very complex and cross-cutting. The presence of a board member who understands workers' rights and labour law could help promote reforms to tackle some of the weaknesses identified above. Based on the documents consulted, such a mixed composition is not required by any of the DFIs in the sample.

Despite the lack of statutory requirement to do so, there is a trade union representative currently appointed to the board of OPIC and a former trade union representative on the board of FMO. Civil society representatives can be found in the boards of Bio and DEG. Academics are sometimes also present on some of the boards. In certain cases, guidelines are provided as to the required background of board candidates. FMO for example does require at least one board member to have a strong background on human resources and international law, although this description is quite broad.[36]

Table 7. Labour standards and workers' representation in management structures

DFI	Main labour standards	Donor workers' representation
Bio	UN Declaration on Human Rights ILO core conventions IFC's performance standard 2 on labor and working conditions Local laws	No. Although not required by law, current board includes two civil society representatives.
CDC Group		No.
Cofides		No, board is made up of representatives of the shareholders.
DEG		No, supervisory board includes one civil society representative.
FMO		Not required by law, but supervisory board includes a former trade union representative and current member of the Employment Committee at the European Parliament.
Norfund		No.
Proparco		No, board is made up of representatives of the shareholders.
Swedfund		No.
OPIC	US Law IFC Performance Standards Local laws	Not required, but there is a representative from the Department of Labour and a representative of trade unions on the board.

Source[37]

36 FMO (2005) Profile of the Supervisory Board of: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.

37 DFIs' websites; FMO (2005) Profile of The Supervisory Board of: Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V.;
UN Forum on Business and Human Rights (2014) Development Finance Institutions and the Operationalization of the Guiding Principles. Summary of panel discussion, December 2014;
Usher, A. & Andrieu, JB (2010) Decent work and development finance. Background paper for Decent Work and Labour Standards Forum March 2010. Ergon Associates ltd.

Offshore financial centres

It is widely recognised that offshore financial centres or tax havens have a negative impact on developing countries because of their role in tax avoidance and evasion structures and as conduits of proceeds of corruption. In spite of this, DFIs rely to a great extent on these jurisdictions to channel or make their investments. At the end of 2013, 118 out of 157 fund investments made by CDC went through jurisdictions that feature in the top 20 of Tax Justice Network's Financial Secrecy Index (FSI).[38] The same applies to 30 out of the 42 investment funds supported by Bio as of June 2014, 46 out of a total of 165 investments in Norfund's portfolio at the end of 2013 and 46 investment projects involving the DEG as of December 2012.[39]

All of the DFIs in the sample, with the exception of OPIC, have adopted policies on the use of offshore financial centres. However, as the figures above show, this has not curtailed the use of OFCs by many DFIs. The reality is that most DFIs see the use of OFCs as essential to their activities. EDFI's policy on the use of OFCs argues that "OFCs make it possible for EDFIs to play a catalysing role in attracting institutional capital into developing countries and to ensure that their capital and the institutional capital invested alongside it is invested in accordance with sound environmental, social and governance policies.'[40] This is because of their legal infrastructure or the possibility to pool capital in a tax-neutral way. Many of these policies also refer to external processes such as the Global Forum. Due to the limitations of this research, the nature of these initiatives is not discussed in these pages, but it is worth noting that some actors have raised some concerns about them.

With the exception of Proparco and Norfund, all OFC policies in the sample contain provisions that make it possible to use OFCs that fail to meet the minimum criteria when it is justified by the development impact of the project. The policy of Bio does contain some provisions, but they seem to be stricter than the EDFI guidelines in relation to the conditions to be met by the project. The EDFI policy ultimately relies on individual DFIs' criteria and due diligence to channel investments through non-acceptable OFCs.

The most concerning aspect of these policies is that the justification of "development impact" is very poorly defined due to the lack of clear criteria, indicators and benchmark to assess individual projects. In practice, DFIs would be able to use any jurisdiction they want and justify their use and, based on the available information, any stakeholder would find the decision impossible to challenge.

---

[38] Vervynckt, M. (2014) Going Offshore. How development finance institutions support companies using the world's most secretive financial centres. Eurodad, Brussels.

[39] Ibid.

[40] Briefing Note on EDFI Guidelines for Offshore Financial Centres ("Guidelines").

OPIC does not have a policy on the use of OFCs, and some authors argue that the use of offshore financial centres is essentially a statutory requirement.[41] "When lending into countries with underdeveloped corporate law, [OPIC] often requires the borrower to form an offshore vehicle to facilitate the loan financing."[42] This means that in many cases, OPIC cannot operate without the use of OFCs.

There is an obvious contradiction between the mandate of DFIs and their practices in relation to OFCs. It seems that a significant development impact can justify the use of jurisdictions which can be detrimental to the development objectives. As long as donors and development actors continue to use OFCs, they will be justifying their existence despite their negative impacts on developing countries.

As mentioned above, Proparco is an exception when it comes to using OFCs. Its existing regulations (see table 9) prohibit it from the use of OFCs (as non-cooperative jurisdictions) when the actual project does not take place in the jurisdiction itself or involves artificial financial structures. Proparco also has very low thresholds for identifying the real owners (beneficial owners) of any companies it works with and it cannot work with companies whose real owners cannot be identified. The case of Norfund is slightly less clear, as no official policy has been found. The annual report mentions that only OECD countries or countries with which Norway has signed a tax or information exchange agreement can be used to channel investments (see table 9 below). However, as discussed above, Norfund still makes an extensive use of the world's most secretive jurisdictions.

[41] Kallianiotis. J. N. (2013) International Financial Transactions and Exchange Rates: Trade, Investment, and Parities. Palgrave Macmillan.
[42] Ibid.

Table 8. DFI policies on offshore financial centres

DFI	Policy on offshore financial centres
Bio	No investments through jurisdictions that: • refuse to negotiate automatic information exchange agreements with Belgium after 2015; • have not successfully passed Phase 1 and Phase 2 peer reviews and are labeled as 'non-cooperative for more than one year'; and • are listed by Art. 307, § 1 of Belgian Income Tax Code 1992. This includes jurisdictions which levy corporation tax at a nominal rate of less than 10%. Other OFCs: • Justification: added value of using an offshore vehicle, existence or not of an adequate onshore alternative, confirmation that the targeted companies will be subject to taxation in their country of registration, and the status of the country in the peer review process of the Global Forum. • Verification: all flows between parent companies and subsidiaries take place at market value and are not used to disguise a transfer of profits to lower-tax jurisdictions for the purpose of tax evasion.
CDC Group	CDC only uses offshore financial centres to meet our priority to mobilise capital into developing countries. Certain investments may include structures that reduce the tax burden on investors. CDC will only acquiesce to such structures in order to facilitate a developmental impact, increasing investment and consequent job creation and economic growth. CDC prefers to use offshore financial centres that are successfully participating in the OECD's. Global Forum on Transparency and Exchange of Information for Tax Purposes**.** This means that CDC will avoid, except when justified by development impact, making investments through jurisdictions that either: • have not undergone any peer review as part of the Global Forum; • following a Phase 1 review, have not yet been found by the Global Forum able to proceed to its Phase 2 review; or • following a Phase 2 review, are determined to be "Non-Compliant" or "Partially Compliant".
Cofides	**No information, but should apply EDFI's approach (see FMO below)**
DEG	**No information, but should apply EDFI's approach (see FMO below)**
FMO	**EDFI's Guidelines for Offshore Financial Centres** OFCs are considered acceptable if they fulfill the following criteria: • Committed Jurisdiction: the OFC should have (i) substantially implemented the Global Forum's Standards of Transparency and Exchange of information for Tax Purposes; and (ii) complied with or demonstrated clear progress towards satisfying OECD, Global Forum and FATF values in respect of the matters below; • Transparency: the OFC should be transparent in relation to the formation and beneficial ownership of the investment vehicle. Each EDFI will check transparency as part of its own investment due diligence; • Exchange of information: the OFC must have entered into bilateral tax information exchange agreements consistent with the standards set by the OECD model (TIEA) or double tax conventions including a provision consistent with Article 26 of the OECD Model Tax Convention on Income and Capital. If this is not the case, EDFIs will undertake enhanced due diligence on the OFC before determining its appropriateness for an EDFI investment; • Financial sector integrity: the OFCs' implementation and enforcement of regulations to prevent fiscal and financial abuses should be checked as part of each EDFI's own investment due diligence; and • Capital flight: if an OFC is found to be involved in illicit capital flight from developing countries (notwithstanding its presence on any published list), EDFIs

	will undertake enhanced due diligence as to the appropriateness of continuing to recognise such OFC as an acceptable OFC for EDFI investment purposes.
Norfund	When it is necessary to use the jurisdiction of a third country, Norfund calls only on OECD countries or countries with which Norway has made tax or disclosure agreements.
Proparco	The two institutions are authorised to finance projects to be carried out in NCJs, but are prohibited from: • using counterparts or financing vehicles registered in NCJs for AFD cash management; • financing investment vehicles registered in NCJs and that engage in no real business activity there (e.g., investment funds, special purpose acquisition companies); • financing artificially structured projects, particularly those involving counterparts whose shareholders are controlled by entities registered in NCJs, unless that registration in those jurisdictions is warranted by sound business reasons. Proparco considers as NCJs all countries which are on the French list of NCJs as stated in the French General Tax Code and countries that failed to pass Phase 1 of the OECD Global Forum peer review process. Proparco has a banking licence and is subject to the French Banking Law, which include Anti-Money Laundering and Combating Terrorism Financing (AML/CFT) requirements. This includes: • An identification threshold for shareholders of a company located in NCJs set at 5%, which also applies to other type of counterparts deemed as highly risky under the Proparco AML/CFT internal procedure; • Projects registered in NCJs will be stopped in cases where Proparco cannot identify beneficial owners, where the counterpart cannot sufficiently justify companies registered in NCJs, or where there are signs that the company is being artificially structured or used for unlawful purposes.
Swedfund	Avoids taking part in investments through intermediary jurisdictions which have been assessed within the framework of the OECD Global Forum Peer Review Process and that have thereby not been approved in Phase 1 or been deemed Partially Compliant or Non-Compliant in Phase 2.
OPIC	No policy on offshore financial centres.

Sources[43]

Monitoring

Monitoring can be defined as the tracking of progress on a number of indicators during the implementation of a project. Strong monitoring frameworks are extremely important, as they allow DFIs to either identify problems early during the implementation phase and adopt corrective measures or to detect breaches in the compliance with performance standards.

[43] Norfund (2013) Norfund 2013 Annual Report. Norfund, Oslo; Bio's website: http://www.bio-invest.be/; Swedfund's owner instructions; CDC's Policy on the Payment of Taxes and the Use of Offshore Financial Centres; EDFI Guidelines for Offshore Financial Centres; and Vervynckt, M. (2014) Going Offshore. How development finance institutions support companies using the world's most secretive financial centres. Eurodad, Brussels.

The first and most surprising finding in relation to monitoring mechanisms is that there is **very little information about how and when DFIs monitor projects and what indicators they use to do so**. In order to draft this section, it has been necessary to rely to a great extent on indirect evidence and secondary sources. In spite of these efforts, relevant data has been collected for just five out of the nine DFIs in the sample. Where direct evidence has been found, it has usually been in the form of brief descriptions available on the website, rather than policy documents detailing the monitoring process and standards indicators. It has not been possible to locate such policy documents for most of the DFIs in the sample.

The DFIs in the sample seem to have a strong reliance on self-reporting as the default option for project monitoring. This approach is currently used by Bio, CDC Group,[44] Norfund, Proparco and OPIC.[45] As mentioned above, no detailed information has been found about the other DFIs, though they most likely use the same approach. On-site monitoring by external experts or the DFI's own staff is used by Bio and Proparco with higher-risk projects.[46] No clear definition of higher-risk projects has been found during the research. OPIC is more transparent in its approach and conducts on-site monitoring of a random sample of projects, as well as of all projects considered to be sensitive with respect to their economic or environmental impact and worker rights provisions.[47] Norfund does an in-depth assessment of one project every year,[48] but given that the DFI has a total portfolio of 126 projects, this hardly seems like a very relevant effort. The CDC Group does not perform on-site evaluations when investing through funds, and independent experts or CDC staff are only involved in the ex-post evaluations.[49] The main problem with the self-reporting approach is that, in the absence of external validation, it can be easily abused by irresponsible companies and is very vulnerable to bias. As a consequence, it can be difficult for DFIs to identify problems and adopt corrective measures.

There are limitations with regard to the indicators DFIs use for monitoring projects. As mentioned above, not much information is publicly available, but existing information suggests that there is a strong focus on the project output side and the impacts at the micro-level, while there is less

---

44 This statement applies to the use of investment funds, which represent the biggest part of CDC's portfolio.

45 Bracking, S. & Gan, A.S. (2011) Investing in private sector development: what are the returns? A review of development impact evaluation systems used by development finance institutions in Europe. Norwegian Church Aid; OPIC's Self-Monitoring Questionnaire for Finance, Insurance, Reinsurance, and Investment Funds Projects; Bio's website: http://www.bio-invest.be/; CDC's Toolkit on ESG for fund managers. Adding value through effective environmental, social and governance (ESG) management; and Proparco's website: http://www.proparco.fr/site/proparco/Accueil_PROPARCO

46 Ibid.

47 Ibid.

48 Ibid.

49 Ibid.

emphasis on macro or wider socio-economic effects. For example, all DFIs in this sample have adopted, along with many other institutions, a set of harmonised development results indicators.[50] These indicators are specific for each economic sector where the project takes place and measure things such as energy product or, in the case of agriculture, total number of farmers reached, total sales and export sales. Individual DFIs can adopt additional indicators, but they usually opt for the simple addition of a number of similar measures. For example, Norfund does monitor each project for the total number of people employed within it and in some sectors adds additional indicators such as the number of people supplied with a given service.[51] OPIC's self-monitoring questionnaire places a lot of emphasis on workers' rights, but it is very limited when it comes to collecting quantitative and qualitative data about the actual performance of the projects.[52]

---

[50] Memorandum regarding IFIs harmonized development results indicators for private sector investment operations. Available at: http://www.ifc.org/wps/wcm/connect/d7d1128041773cdb9af3bb9e78015671/Harmonization+MOU.pdf?MOD=AJPERES

[51] For example, see Norfund's indicators in Norad (2015) Evaluation of the Norwegian Investment Fund for Developing Countries (Norfund). Norad, Oslo; and here: http://www.norfund.no/getfile.php/Pictures/Figures%20and%20tables/Norfunds%20indicators.jpg

[52] OPIC's Self-Monitoring Questionnaire for Finance, Insurance, Reinsurance, and Investment Funds Projects

Monitoring is particularly challenging when financial intermediaries such as banks or funds are used to channel DFI investments. Financial intermediaries are generally requested to implement the same standards as DFIs in their operations, but as we have seen, most DFIs rely on self-reporting to monitor their investments. When financial intermediaries are involved, they add an additional step to the monitoring chain and as a result, compound the monitoring challenges highlighted above. Existing literature shows that it is not uncommon for DFIs to receive very little information about the final investments.[53] DFIs argue that using financial intermediaries allows them to reach smaller clients that they cannot target directly due to the lack of infrastructure in developing countries and the costs that it would involve. For similar reasons, they delegate the monitoring of individual projects to financial intermediaries. However, the actions implemented by the IFC after an audit report highlighted the monitoring problems resulting from the use of financial intermediaries, demonstrating that DFIs can still make significant improvements to the way they monitor these investments.[54] Some of the measures include elementary steps such as ensuring financial intermediaries implement existing standards in sub-projects, validation of intermediaries' monitoring systems and stricter project appraisals and disclosure requirements.

[53] For example, see: CAO (2012) CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries. Office of the Compliance Advisor-Ombudsman, World Bank Group;
OXFAM (2015) The Suffering of Others: The human cost of the International Finance Corporation's lending through financial intermediaries. Oxfam issue briefing; and
Dalberg (2011) Report on Support to SMEs in Developing Countries Through Financial Intermediaries. Dalberg, November 2011.

[54] CAO (2014) Monitoring of IFC's Response to: CAO Audit of a Sample of IFC Investments in Third-Party Financial Intermediaries. Office of the Compliance Advisor-Ombudsman, World Bank Group.

Chapter 4. Mutual accountability

"Mutual accountability and accountability to the intended beneficiaries of our co-operation, as well as to our respective citizens, organisations, constituents and shareholders, is critical to delivering results. Transparent practices form the basis for enhanced accountability."

Busan Partnership for Effective Development Co-operation

Mutual accountability is assessed through a number of indicators related to the transparency of the DFIs project data and the existence and nature of complaint mechanisms. Project information is generally poor and far from the levels achieved in the case of aid flows. This problem is compounded by the lack of historical project data as existing databases do not contain information for projects over one or two years old. On the positive front, there are two DFIs which have started to implement a form of country-by-country reporting mechanism. In relation to complaints mechanisms, only three DFIs have created independent mechanisms to deal with project complaints.

DFI	Transparency	Complaint mechanism
Bio	Poor information, current information only, no information on project evaluations, no country-by-country reporting	No complaint mechanism
CDC Group	Poor information, current information only, no information on project evaluations, country-by-country reporting	Non-independent complaint mechanism
Cofides	Very poor information, current information only, no information on project evaluations, no country-by-country reporting	No complaint mechanism
DEG	Poor information, two-year-old information, summary of project evaluations, no country-by-country reporting	Independent complaint mechanism
FMO	Poor information, one-year-old information, no information on project evaluations, no country-by-country reporting	Independent complaint mechanism
Norfund	Poor information, current information only, no information on project evaluations, no country-by-country reporting	No complaint mechanism
Proparco	Poor information, one-year-old information, summary project evaluations upon request, no country-by-country reporting	No complaint mechanism
OPIC	Poor information, current information only, no information on project evaluations, no country-by-country reporting	Independent complaint mechanism
Swedfund	Poor information, current information only, no information on project evaluations, partial country-by-country reporting	No complaint mechanism
Red=poor performance, orange=average performance or some good features, green=good performance		

All development actors should be held accountable for their actions. Accountability is often seen as a management process, but it can also be an important tool to foster democratic, participatory and human rights-based approaches for development. With regards to development projects, accountability can run in different directions. The strongest type of accountability has traditionally been and still remains upwards accountability, which is closely related to the perception of accountability as a management process. A clear example is the donor who wants to ensure the project achieves the intended results. Upwards accountability works because the control of funds by donors acts as a powerful incentive for the actors implementing the projects. Downwards accountability, to the beneficiaries, has received less attention, but thanks to the development effectiveness agenda, there is now a global consensus about its importance in order to achieve better development results and, as mentioned above, promote a rights-based approach to development.

Besides the involvement and meaningful participation of relevant stakeholders from the very first stage of project planning (as described in the previous chapters), the exercise of the principle of accountability requires two fundamental preconditions. Firstly, the availability of information that enables stakeholders to learn essential facts such as what the objectives are and who is supporting a project. In the long term, access to evaluation reports can be used by external actors to build a better understanding of DFIs and the impact of their actions over time. Secondly, the existence of complaint mechanisms which can be used to channel any complains to the institutions involved in the process. Establishing effective and accessible complaint mechanisms is a proactive measure that DFIs can take to enable a higher degree of accountability.

Transparency

In order to assess the level of transparency, this report refers to existing policies and practices in order to provide an objective analysis. The level of transparency can be difficult to measure accurately. In order to provide a better picture of such a complex issue, four different aspects have been examined: the nature of the information proactively disclosed by DFIs, the online life of the data, the disclosure of ex-post project evaluations and the adoption of country-by-country reporting standards (see table 10 below).

The information currently disclosed by DFIs in the research sample does not provide a good overview of their projects and is far from the reporting standards applicable to ODA flows. There are some differences among the DFIs, with Cofides, Norfund and Swedfund barely providing any information. However, even the most comprehensive reporting practices of the DFIs in the sample fail to provide more than a page of text. This is clearly insufficient compared to the IFC's current practices, which in addition to providing more detailed information and descriptions of projects, also make available environmental and social impact assessments. It further provides information on stakeholder engagement and a local (national) address where the project documentation can be consulted. Even if the IFC can be regarded as an example for DFIs in the sample, its level of transparency is still far from the levels of transparency achieved by some donors such as DFID that disclose essentially all project documents including monitoring reviews and evaluations. As the case studies conducted in El Salvador and Zambia show, the lack of data on the DFIs' projects can prevent project beneficiaries and other stakeholders from holding donors and intermediaries to account (see Box 5 below).

It is possible that more information can be obtained through information disclosure requests, but the process is complex and sometimes costly. Only three of the DFIs in the sample suggest this option or provide clear information about the exact requirements, mailing address and guidelines that regulate the process. In two of these cases, OPIC and CDC, fees can also be applied for processing the request and delivering the information. Even if stakeholders can request a waiver in the case of OPIC and that in the case of CDC fees are caped at GBP 450 (€620), the possibility of being charged can be an important deterrent for actors in developing countries.

Box 5. Lack of data preventing accountability in El Salvador and Zambia[55]

A case study on the collaboration between USAID and Walmart in El Salvador has turned out inconclusive due to the lack of data or information on the project from either of the project partners or targeted groups within the country. USAID committed aid funds to a project of the Walmart Foundation entitled Una Mano para Crecer, aimed at identifying and supporting SMEs who would become Walmart suppliers, with an assumption that this would bring benefits to the local economy. Given the number of complaints relating to labour conditions within Walmart's chain of suppliers, the partnership between the corporation and USAID is all the more concerning.

Research into the project found no information available to assess its impact on the beneficiaries – there is no detailed information on the specific amounts committed by any of the partners, the specific companies supported, project activities or results. As a consequence, it has not been possible to evaluate the impact of the partnership between Walmart and USAID or the appropriateness of the use of aid funds. More importantly, this example shows the severe limitations in the accountability of partnerships between an aid agency and the private sector.

The objective of another case study was to assess the development impact of a USD 3.5 million loan from Norfund to BancABC in Zambia in 2011 for a project aiming to scale up lending to SMEs and individuals. Unfortunately, it proved impossible for the researcher to obtain information allowing for a thorough assessment of how the funds were being used. What was evident was that the terms of the Norfund loan meant that the bank was forced to minimise risks by extending funds mainly to medium-sized enterprises with the capacity to repay based on the criteria of commercial interest. However, beyond the requirement to increase the number of loans, no information was made available on the indicators used to track and monitor the impact of the project.

Without any information on the final beneficiaries or the performance of the project, project stakeholders, including the national government, cannot hold project partners or intermediaries to account. These two studies are therefore clear examples of cases in which accountability only runs upwards.

---

55 Based on the following case study: Koyi, G. (2015) The Use of Official Development Assistance (ODA) in the Development of Public-Private Partnership Investments in Africa. A Case Study of Zambia. Institute of Economic and Social Research, University of Zambia; and Maffei, L. (2016) El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados.

There is a general lack of information about closed projects, which makes it very difficult to track and assess past investments. Three out of the DFIs in the sample provide information about the availability of project data. Both Proparco and FMO archive the project information one year after the project has been closed. In the case of DEG, the information remains online for two years. In the other cases, no clear guidelines have been found, but the project database is restricted to open or recently closed projects. The lack of historical records is a significant hurdle in the accountability process given that the impact of some of these projects can last for many years; there are also lessons to be learnt for past projects. This research has suffered from the lack of historical information. When researchers tried to access information about a project in Senegal that closed in April 2014, the project no longer featured in the database in November 2015.

Ex-post evaluations are rarely proactively disclosed by the DFIs in the research sample, which prevents stakeholders from having an objective view about the impact of their projects. This is also a problem for academics, who complain about a substantial publication bias resulting from DFIs restricting the publication of information to that describing successful projects.[56] Out of the nine DFIs in the sample, only two institutions make available information about the ex-post evaluations, both of them in a limited way (see table 10). DEG does make available the summary of the evaluations it conducts, while Proparco only discloses it by means of written request.

Only two DFIs implement some form of country-by-country reporting standard. Out of the two models, the one used by the CDC group is more comprehensive than the one adopted by Swedfund. Country-by-country is a concept that originated as part of the discussion about corporate tax avoidance and evasion in developing countries. The idea is that by releasing basic pieces of information such as taxes paid, number of employees, revenues, etc., it is possible to detect unethical tax practices within multinational groups without compromising commercial information. Country-by-country information has been understood by DFIs as the publication of detailed aggregated country data about their investments. Although not as useful as information on an investment basis, aggregated data can still provide an idea of the overall social and economic impact of a DFI's operation in a given country. Aggregated data is also not subjected to the restrictions on the publication of potentially commercially sensitive information and investee companies' consent that DFIs usually apply.

56 Campos, F.; Coville, A.; Fernandes, A. M.; Goldstein, M. and McKenzie, D. (2012) Learning from the experiments that never happened: lessons from trying to conduct randomized evaluations of matching grant programs in Africa, Volume 1. Policy Research Working Paper, World Bank, Washington DC.

Table 9. DFIs' transparency practices

DFI	Project information	Availability	Disclosure ex-post evaluations	Country by country reporting
Bio	Name of customer Target country or region Economic sector Year of signature Volume of BIO's financing in EUR/USD Short description of the investment: Who is our customer? What will the financing be used for? Why are we financing the project?	Current information mainly	N/A*	No
CDC Group	Name of customer Location or legal domicile Information about serious incidents at the investee's businesses reported to us by our fund managers Value of CDC's investment Whether other development finance institutions have invested Focus of each fund Vintage of each fund Name, sector and location of investee companies Additional information might be available through upon written request (fees may apply).	Current information mainly	N/A*	Yes, for each country: value of investment; number of investees; sectors; numbers of employees; aggregated taxes paid by investees
Cofides	Country Sector Name of customer Sponsor	Current information mainly	N/A*	No
DEG	Name of customer Target country or region Economic sector Month of signing of the contract with DEG Volume of DEG's financing in EUR/USD Environmental and social category (A, B+, B, C) Customer website (if available) Short description of the investment: who is our customer? what will the financing be used for? why are we financing the project?	Two years	Summary only	No
FMO	Client name Client's website (if available) Origin (region and country) Sector Signing date Total FMO Financing Total project costs FMO's financial input Environmental & Social Category Short description of the investment: who is our customer? what will the financing be used for? why are we financing the project?	Archived after one year, available on the website until the end of FMO's financial exposure	No. The Annual Portfolio Evaluation Review contains aggregated information.	No
Norfund	Sector Country Date of investment Committed amount Type of instrument Brief description Client's website	Current information mainly	N/A*	No
Proparco	The **operation presentation document (OPD)**: information on the operation AFD has decided to process the following: context, objectives, activity, social and environmental classification and expected outcomes.	Information is available on the website throughout the life span	Written request required to access the summary.	No

	The **operation presentation note (OPN)** discloses information relating to the operation after the operation has been approved and with the client's consent. Contains a summary of the operation and its implementation. It also includes an indicative list of future bid invitations. The publicly-available **operation monitoring note (OMN)**. Published on an annual basis and updates the OPN. Information on the implementation of the operation in terms of what was initially planned. By **written request**: the summary of the feasibility study on the operation; the environmental and social study of the operation when applicable; the summary of final appraisals on operations, a summary of ex-post evaluations when applicable.	of the project and is archived for one year.		
OPIC	Name of customer Target country or region Volume of OPIC's financing Total project costs US sponsor Project summary Summary of development effects Additional information might be available through a written request (fees may apply).	Current information mainly	N/A*	No
Swedfund	Name of customer Sector Country Date of investment Type of instrument Brief description	Current information mainly	N/A*	Yes, aggregated taxes paid by direct investees in each country

Sources[57]

*N/A means that no information has been found in the DFI's policies or website

Complaint mechanisms

The main rationale for implementing a complaint mechanism is that it fulfils the right of affected stakeholders to be heard. This is a basic right that underpins many of the principles in the aid effectiveness agenda. Complaint mechanisms also bring about practical benefits. The existence of a complaint mechanism is important to ensure projects supported by DFIs are accountable to the intended beneficiaries and the DFIs themselves. These mechanisms can thus be very useful to both DFIs and the project stakeholders. As discussed above, the monitoring systems used by DFIs are far from perfect, but even when they perform as they should, projects can sometimes have unexpected consequences or impacts. Complaint mechanisms provide an easy way for affected communities and other stakeholders to ring the alarm bell when something goes wrong so that remedies can be put in place as soon as possible.

[57] DEG's disclosure policy; FMO's disclosure policy; Proparco's transparency policy; OPIC's Freedom of Information Act; CDC's disclosure policy; DFIs' websites and online portfolios.

Only four out of the nine DFIs examined in this report have a complaint mechanism in place and in only three cases is the mechanism independent. DEG, FMO, OPIC and the CDC Group have complaint mechanisms in place, but in the case of the latter, the mechanism is internal to the organisation.[58] Independent mechanisms are usually desirable because they are exempt from potential conflicts of interest. The fact that several DFIs in the sample lack a formal complaint mechanism is a major concern from the point of view of accountability.

Due to the limitations of this research, it has not been possible to assess how existing mechanisms work in practice. However, it is worth mentioning that some concerns have been raised about the quality of these mechanisms, such as that of the FMO.[59] In any case, what is most relevant from the point of view of this report are not the internal differences between existing mechanisms, but whether they exist or not, as this provides an indication of individual DFIs' commitment to the principle of accountability.

58 DEG Complaint Mechanism Policy, see: https://www.deginvest.de/International-financing/DEG/Die-DEG/Verantwortung/Beschwerdemanagement/;
FMO Independent Complaint Mechanism, see: https://www.fmo.nl/project-related-complaints

OPIC's Office of Accountability, see: https://www.opic.gov/who-we-are/office-of-accountability
CDC Group Code of Responsible Investment, see: http://www.cdcgroup.com/How-we-do-it/Responsible-Investing/

59 See the following NGO Briefing on Independent Complaints Mechanism of FMO and DEG, February 2014. Available at: http://grievancemechanisms.org/attachments/FMOcompliancemechanismbriefing.pdf

Conclusions and recommendations

DFIs are channelling increasing amounts of aid through “blending” instruments. Given that DFIs were not built to manage and deliver aid flows, there are important concerns about their ability to deliver results and achieve positive development outcomes. In order to shed some light on this question, this report has assessed the performance of a sample of nine DFIs vis-a-vis the development effectiveness principles, which donor countries have committed to implement when delivering aid. The DFIs’ performance has been assessed in relation to three principles: ownership, development results and mutual accountability. The main findings and conclusions are summarised below.

This report concludes that the DFIs in the sample are ill-equipped to manage aid flows in line with existing best practices. In view of this, it seems sensible for donors to avoid channelling aid through DFIs until they put systems in place to address the shortcomings identified in this report and implement the development effectiveness commitments. The average performance is summarised in the table below. It shows that DFIs rarely show a good level of performance in any of the areas.

Table 11. Summary of DFIs’ performance on selected development effectiveness principles

DFI	Ownership		Development results		Mutual accountability	
	Mandate & eligibility	Participation government & social partners	Standard on workers’ rights and OFC	Monitoring	Transparency	Complaint mechanism
Bio						
CDC Group						
Cofides						
DEG						
FMO						
Norfund						
Proparco						
OPIC						
Swedfund						
Red=poor performance, orange=average performance or some good features, green=good performance						

DFIs do not have adequate systems in place to guarantee the ownership of development projects by developing countries' governments and stakeholders. Our assessment shows a general bias towards donors' economic interests and businesses which is an outcome of one or a combination of a few of the following factors: an explicit mandate to support national enterprises, a biased overarching policy framework (namely the tendency to operate in less risky countries) and, in some cases, the co-ownership of the DFI by private sector actors. Moreover, there are no requirements to consult with developing countries' governments or actors (such as social partners) in order to align projects to national development strategies and priorities.

The average performance is best in the area of development results, but significant obstacles remain. Two specific areas have been evaluated. In general, DFIs in the sample have adopted labour standards, although some doubts remain about their actual implementation. There is also a lack of workers' representatives on the boards of DFIs, which are mainly constituted of government and private sector representatives. This is also a concern from the point of view of the DFIs' commitment to and accountability for promoting decent working conditions. Most of the DFIs in the sample have adopted very flexible and weak policies on the use of offshore financial centres (OFCs) or tax havens. Given the detrimental impact of tax havens on developing countries, the justification and use of tax havens by DFIs enter in clear contradiction with their development mandate. Finally, monitoring systems mostly rely on self-reporting, and only a handful of DFIs include stricter requirements for higher-risk or sensitive projects. This makes it very difficult for DFIs to ensure their standards are properly implemented and their projects delivered as expected, much less prevent or address any negative impacts.

Current practices and systems used by the DFIs in the sample cannot generally guarantee a minimum level of accountability when using aid funds or other public resources. To start with, project information disclosed by DFIs is very scarce, there is no access to old projects after one or two years and only two DFIs make project evaluations accessible, albeit in their summary form – one of them only upon written request. More information might be accessible through information requests, but only three DFIs explain this procedure and in two of these cases, fees may apply.

Not all findings with regards to the transparency of the examined DFIs are negative. Two of the institutions in the sample have started disclosing country-by-country information on their investments. Although with some limitations due to the aggregation of data, this should help obtain a more accurate picture of their development impact. Finally, only four of the DFIs in the sample have some form of complaint mechanisms for stakeholders in development projects, but in one of these cases, this mechanism is not independent. Without adequate complaint mechanisms, DFIs are failing to implement the right of stakeholders to be heard.

Beyond the findings on donor performance, this research project, with all its limitations, yields some important lessons in other areas. It shows that the development effectiveness principles can be a useful framework to assess institutional performance in the management of aid flows, but more importantly, it can also be applied to other forms of development finance. For example, the use of this analysis framework has helped to highlight important conflicts between the mandate of DFIs and their actual systems and governance structure (e.g., accountability and ownership structure). This report, with all of its limitations, suggests a number of areas where additional research is needed.

Recommendations

As far as aid is concerned, donors should avoid channelling aid funds through DFIs until they have addressed all of the recommendations below. However, these recommendations are not necessarily restricted to projects involving the use of aid funds. True to the spirit of development effectiveness, implementing these reforms would help to make the work of DFIs much more effective from a development perspective.

1. Increase the ownership of development projects by reviewing the mandate of DFIs and the overall development policy and making it compatible with the principle of ownership. This requires:

- removing eligibility criteria identified in chapter 2 that give a direct or indirect preference to donor companies or large multinational companies;
- conducting consultations with developing country governments and other stakeholders during the project design and implementation, in particular with social partners through social dialogue mechanisms;

- demonstrating how projects align with and support national development strategies. In order to ensure the coherence of the projects with their development mandate, DFIs should avoid supporting projects in countries where the ILO has concluded that core labour standards are severely and repeatedly violated, and where there is a lack of political willingness from the government to ensure the enforcement of these rights. Similarly, DFIs should only grant support to companies that respect labour standards.

2. Focus on delivering and demonstrating development results by implementing the following actions:

- performing on-site monitoring of a relevant sample of the portfolio in addition to all higher risk projects. The results should be validated through external evaluations. DFIs should also perform an external validation of the environmental and social impact management systems implemented by their financial intermediaries in order to ensure sub-projects comply with the required standards and are accountable;
- reforming the management and board structure to formalise the participation of different stakeholders, including workers' representatives to balance the different interests and ensure a more comprehensive view of the DFIs in development;
- addressing the contradiction between the DFI's development mandate and the use of OFCs by eliminating exemptions to the acceptability of tax havens in projects targeting jurisdictions which are different from the location where the project takes place, and excluding projects that involve artificial financial structures.

3. Adopt upward and especially downward accountability systems that guarantee the right of all project stakeholders to be heard by:

- extending the disclosure of project information to include at least: ex-ante project evaluations, environmental and social impact assessments and management plans, ex-post evaluations. A historical database of projects should be available at least during the projected lifetime of the underlying investment, instead of the financial exposure (i.e., if a power plant is expected to run for 30 years, information should be available throughout its lifetime);
- adopting country-by-country reporting mechanisms, including as a minimum the following information: taxes paid, employees, assets, name of each investee, type and amount of investment made in each investee, name of other investors, number and nature of complaints received;

- creating an independent complaint mechanism which is free and easily accessible for all pertinent stakeholders. This includes, but should not be restricted to, explaining criteria used to evaluate complaints, providing online and offline complaint forms, making available a local address for information and complaint purposes, accepting complaints made in local languages and ensuring some form of support for pertinent representatives and independent organisations who want to make a complaint.

Annex

Thematic summaries of case studies

1. Lack of data prevents accountability in El Salvador and Zambia

A case study on the collaboration between USAID and Walmart in El Salvador has turned out inconclusive due to the lack of data or information on the project from either of the project partners or targeted groups within the country. USAID committed aid funds to a Walmart Foundation project entitled Una Mano para Crecer. Its aim was to identify and support SMEs who would then become Walmart suppliers, the underlying assumption being that this would have benefits for the local economy. Given the number of complaints relating to labour conditions within Walmart's chain of suppliers, the partnership between the corporation and USAID is all the more concerning.

Research into the project found no information available to assess its impact on the beneficiaries – there is no detailed information on the specific amounts committed by any of the partners, the specific companies supported, project activities or results. As a consequence, it has not been possible to evaluate the impact of the partnership between Walmart and USAID or the appropriateness of the use of aid funds. More importantly, this example shows the severe limitations in the accountability of partnerships between an aid agency and the private sector.

The objective of another case study was to assess the development impact of a 2011 loan of USD 3.5 million from Norfund to BancABC in Zambia for a project aiming to scale up lending to SMEs and individuals. Unfortunately, it proved impossible for the researcher to obtain information allowing for a thorough assessment of how the funds were being used. What was evident was that the terms of the Norfund loan meant that the bank was forced to minimise risks by extending funds mainly to medium sized enterprises with the capacity to repay based on the criteria of commercial interest. However, beyond the requirement to increase the number of loans, no information on the indicators used to track and monitor the impact of the project was made available.

Without any information on the final beneficiaries or the performance of the project, project stakeholders, including the national government, cannot hold project partners or intermediaries to account. These two studies are therefore clear examples of cases in which accountability only runs upwards.

Based on Koyi, G. (2015) *The Use of Official Development Assistance (ODA) in the Development of Public-Private Partnership Investments in Africa. A Case Study of Zambia.* Institute of Economic and Social Research, University of Zambia; and Maffei, L. (2016) *El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados.*

2. Use of ODA to support national companies

Case studies from Latin America provide a useful illustration of how donors use development aid to further the interests of their national companies rather than to target the needs of the poor. This can be seen in both the case of Spanish investments in Colombia and of Canadian support to corporate social responsibility schemes in Peru.

Since 1994, the Spanish development aid agency, AECID, invested over €10 million in the water supply and waste water collection systems of the city of Cartagena in Colombia. The project was extremely pertinent to the local context, with the poverty level within the city at 27% and the number of households with access to running water at 75% at the time. Acuacar, the contractor chosen to implement the project, is a local water company jointly owned by the municipality and by Spanish-based Aguas de Barcelona. Despite the poor development results and even certain detrimental effects of the project, aid continued to flow to Acuacar and helped boost its profits. While the number of households with access to water has increased, from 75% to 90% between 2007 and 2013, so too did the price of water, with monthly rates reaching up to 20% of the minimum wage. Each month, 19.000 inhabitants of Cartegena, many of whom are employed in the informal economy and cannot afford the elevated prices, lose access to water due to the non-payment of their bills. Meanwhile, Acuacar has been achieving returns of up to 54%, when usual profit margins on this type of project are expected to be at most 10%. Despite several complaints and a lack of demonstrable development results, Acuacar's contract was extended for a further 13 years in 2014.

In line with its stated development strategy of supporting its national businesses, Canada has applied a similar approach to promoting Canadian mining companies in Peru. In this country, Canadian aid is being used to effectively subsidise the corporate social responsibility policies of some of Canada's largest mining companies through a project entitled Prodivcom. While the project ostensibly aims to develop the agricultural and forestry sectors within mining communities, its greatest focus is on improving the image of the extractive industry in communities affected by social and industrial conflicts resulting from mining operations. Research into this project has demonstrated that its greatest beneficiaries are not the local communities but the companies themselves, who benefit from the favourable legislative and business climate as well as the social consensus towards their operations – neither of which are indicators of development effectiveness.

In order to avoid similarly poor outcomes, governments involved in jointly financed projects with national companies need to ensure that the focus is maintained on the beneficiaries rather than on the benefits to their own national businesses. For a genuine development approach, aims and assessments of a project must be based on tangible benefits to the people whom it claims to be targeting.

Based on Maffei, L. (2016) *El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados*

3. Poor results and lack of implementation of labour standards in Malawi and Haiti

Development projects implemented through the private sector can fail to monitor and enforce the labour standards which are set for them. This is exemplified by the cases of a World Bank funded project in Malawi and an Inter-American Development Bank (IDB) project in Haiti.

The Shire Liwonde Barrage upgrade is part of a project funded through a blend of grants from the Global Environmental Facility (GEF), the Least Developed Countries Fund (LDCF) and a concessional loan from the World Bank. The project is supervised by the Norwegian company Norplan and implemented by Conduril Engenharia (Portugal) and CMC Di Ravenna (Italy).

Research based on interviews with workers on the project site and government officials demonstrated weak implementation of work standards and limited development outcomes of the upgrade. Although the IFC PS2 standard requires workers to be informed of their rights and benefits, not one of the workers interviewed were aware of basic labour regulations and only 23% of them were aware of the existence of a relevant trade union. No on-site monitoring visits were made, either by the project funders, or by the national authorities despite this being foreseen by Malawi labour legislation. These shortcomings represent a clear lack of enforcement of World Bank standards by private sector partners, whose responsibility it was ensure follow-up on these issues given the national context.

Furthermore, in addition to its contribution to enhancing the infrastructure, a better designed project could have used the opportunity to boost local construction expertise. However, the project appeared to be using mainly unskilled workers with virtually no training, while skilled jobs seem to have been awarded to foreign experts. As a result, the transfer of skills to local actors has been almost non-existent.

In Haiti, the Inter-American Development Bank and USAID supported the construction of a special economic zone, the Parque Industrial Caracol, providing infrastructure for S&H Global, a major textile company. S&H was to generate thousands of new jobs and reinvigorate the zone where it would be based. In return, the cost of building the infrastructure would be covered by grants, as would the company's losses until profit was generated by the site. It would further benefit from a rent exemption on its infrastructure and facilities for a number of years.

While on paper the project has delivered on its objectives, there are serious doubts about its contribution to the sustainable development of Haiti. Out of the 6,500 jobs created, an overwhelming majority is under appalling conditions. Approximately 87% of the workers fail to reach the daily minimum wage as they are paid based on production; there have been reports of irregularities with regards to social security contributions and medical leave as well as cases of sexual harassment, threats and failure to pay severances. Toilets were facility was equipped with toilets only two years after the start of operations.

The working conditions in Parque Industrial Caracol as well as the lack of implementation of international standards at the Shire Liwonde Barrage site cast serious doubt over the capacity of institutions such as the World Bank or the IDB to monitor and enforce the application of labour standards by their privately-owned partners.

Based on Nkosi, A. (2015) *The Usage of Official Development Assistance (ODA) in Public Private Partnerships Investments in Africa: The impact of labour right. A Malawi Case Study.* The Africa Labour Research and Education Institute (ALREI) and Maffei, L. (2016) *El papel del sector privado en las políticas de cooperación al desarrollo en América Latina y el Caribe. Estudio de casos seleccionados.*

4. Social housing in Senegal: targeting the right actors, but missing the poor.

The aim of the public-private partnership between the French Development Agency (AFD) and a Senegalese bank, the Banque de l'Habitat du Sénégal (BHS) was to expand access to affordable housing in Dakar. It provides a useful case study of a project which, while addressing a pressing issue, failed to achieve its objectives. This is due to a number of design flaws, most notably, that of failing to involve local actors in the planning phase of the project; all the while asserting the aim of increasing local ownership.

A total of CFA 8,500 million (€13m) in concessional loans have been provided by the AFD to BHS in the form of credit lines since 2008 to address a pressing housing problem in Dakar which, as the most populous city and region in Senegal, faces a yearly deficit of 150 000 housing units. The choice of a local partner and a socially sensitive sector is a positive development: partnering with a Senegalese bank allowed the project to benefit from local knowledge and trickle down effects in the local context from both the financial and capacity building point of view. However, the manner in which the project was put into practice has led to its limited impact on the social group which it was targeting: low- and middle-income workers, many of whom work in the informal economy.

Under the provisions of the project, access to the constructed housing is limited to workers earning over CFA 350,000 a month (€530), almost eight times the minimum wage of CFA 45,000 (€66). The project also failed to take into account the fact that most workers are employed within the informal sector, making it difficult for them to prove their income and limiting their access to loans.

Moreover, there is very little transparency with regards to the conditions on which the housing units are allocated, which creates an environment favouring nepotism and political clientelism. This raises further questions about the sustainability of the project and its contribution to solving the housing deficit.

The actors responsible for the project should have sought a greater level of local ownership and, consequently, better outcomes for the people truly in need of affordable housing in Dakar. This could have been achieved through, among others, the following measures:

- the organisation of multi-stakeholder consultations during the design phase of the project;

- the assurance of greater transparency throughout the project’s implementation phase, with clear and adequate benchmarks set for the allocation of the social housing constructed.

Based on Gueye, O. (2015) *The Use of Official Development Aid (ODA) in the Development of Public Private Partnership (PPPs) Projects: Case study of Senegal.*

5. Violations of indigenous peoples' rights in India

The Integrated Water Supply Project (IWSP), whose core components are financed by the Japan International Cooperation Agency (JICA), focuses on upgrading existing and creating new infrastructure to ensure water supply for the town of Imphal in Manipur. The project requires the construction of a dam, the drilling of tunnels for the transportation of sewage and the creation of a sewage disposal reservoir.

Despite protests of the local communities and an ongoing case in front of the Supreme Court of India, the private contractors on the project, and the state government of Manipur have continued its implementation.

The implementation of this project involves clear violations of international norms on free prior and informed consent outlined in the UN Declaration on the Rights of Indigenous Peoples. It further violates the provisions of the Indian Constitution. Neither the state government of Manipur nor the private companies involved in the construction works have sought consultations or pursued due process to obtain explicit consent from the local affected communities. As a result, the works have altered the natural environment on which indigenous people depend for their livelihoods, endangering not only their culture and traditions but their very survival.

Based on Pushpa Koijam, Mamta Lukram, Jiten Yumnam (2016): *Assessment of ODA projects and their implications on indigenous peoples of Manippur.*

The Trade Union Development Cooperation Network (TUDCN) is an initiative of the International Trade Union Confederation (ITUC), bringing together affiliated trade union organisations, solidarity support organisations, regional ITUC organisations, the Global Union Federations (GUFs), the European Trade Union Confederation (ETUC) and the Trade Union Advisory Committee to the OECD (TUAC). TUDCN's objective is to bring the trade union perspective into the international development policy debates and improve the coordination and effectiveness of trade union development cooperation activities.

Le Réseau syndical de coopération au développement (RSCD) est une initiative de la Confédération syndicale internationale (CSI) réunissant des organisations syndicales affiliées, des organisations de solidarité, les organisations régionales de la CSI, ainsi que les Fédérations syndicales internationales (les fédérations sectorielles - FSI), la Confédération européenne des syndicats (CES) et la Commission syndicale consultative auprès de l'OCDE (TUAC). Le RSCD a pour but de traduire la perspective syndicale dans les débats sur la politique en matière de développement international et d'améliorer la coordination et l'efficacité des activités syndicales dans le domaine de la coopération au développement.

La Red Sindical de Cooperación al Desarrollo (RSCD) es una iniciativa de la Confederación Sindical Internacional (CSI), que agrupa a diversas organizaciones sindicales afiliadas, organizaciones solidarias (OS), organizaciones regionales de la CSI, las Federaciones Sindicales Internacionales (FSI), la Confederación Europea de Sindicatos (CES) y la Comisión Sindical Consultiva ante la OCDE (TUAC). El objetivo de la red es aportar la perspectiva sindical a los debates políticos y mejorar la coordinación y la eficacia de las actividades sindicales relacionadas con la cooperación al desarrollo.

This publication has been co-funded by the CSO Partnership for Development Effectiveness. The contents of this document are the sole responsibility of the ITUC.