



# The Private Sector and Its Role in Development: A Trade Union Perspective

As the different elements of a Post 2015 Development gradually emerge there is least one element that seems almost pre-ordained. That is, the private sector will have a feature role whether it likes it or not.

A growing choir of voices within multilateral institutions and donor aid agencies is championing the role of the private sector in development at a time, very probably not coincidental, when ODA budgets are declining and the 2015 Millennium Development Goals 'deadline' is quickly approaching. While there is no established method to measure the volume of development focused private sector initiatives it is clear that ODA targeted at the private sector for development is steadily increasing and the private sector is seen as a key partner in the broader development finance arena.

## What is private sector for development?

Private sector for development is about the various forms of engagement through contractual partnerships between a public party on the one hand (a public donor, another type of aid-related public institution, or a public administration) and a private party on the other (a private sector company and/or an investor) for the purpose of achieving specified development objectives. Examples of such partnerships include:

- public loans and subsidies, insurance schemes & guarantees, or through equity investment of the private sector
- traditional public procurement) or they can be a mix of the two approaches as is the case with Public Private Partnerships (PPPs).
- networking and policy advocacy activities as well as facilitating foreign private sector access to domestic markets, to domestic public procurement or to policymakers

Several international and regional forums deal with the private sector for development as a stand-alone policy area, with the Busan Partnership and the G20 Process acting as the strongest champions. Likewise, at this stage in the discussions on a Post 2015 sustainable development agenda, the role of the private sector is being emphasized, perhaps more so than anything else, as an essential component of a future framework. Some of the common attributes across the different fora include:

- the active and uncritical support and promotion of PPPs – as opposed to public procurement and to public services;
- a recognition of business groups as a key if not “an equal” partner in policy advocacy;
- a need to change the “business model” of the World Bank and of regional development banks so that they behave as private sector investment bankers;
- improving the “business climate” as a central priority while at the same time none, or very little acceptance for the effective compliance of other stakeholders’ rights, such as those laid out in the ILO core labour standards.

Accordingly, the emphasis is on pro-business regulatory reforms in the domestic arena (trade facilitation, development of local credit and capital markets) and often on the “downsizing” of the State (privatisation, ‘corporatisation’ of state-owned companies and administration, sector-wide de-regulation).

On the other hand, little is said about the rights of stakeholders: workers, local communities, the environment, the tax collector, etc. The World Bank “Doing Business” country ranking methodology is perhaps the most well-known tool worldwide for this approach. And while the primary focus is said to be development of the domestic private for profit sector, it often seems that the underlying motivation is attracting foreign direct investment and responding to the commercial interests of multinational enterprises.

## What are the drivers for the private sector in the development agenda?

Perhaps the most powerful ‘push’ factor explaining the increased interest in the role of the private sector in development circles is the opportunity for creating tied aid. Some donors are in fact very explicit about the link between efforts around the private sector and aid tying, despite the latter running directly contrary to the principles and commitments agreed to under the Aid and Development Effectiveness agenda.

Another important driver is the perception that the public purse has run dry or more specifically, ODA flows are declining. In other words, as public budgets are squeezed, there is a need to look to alternative forms of development financing or in this case, private sector finance. Key to this line of thinking are the notions of “value for money” and of “leveraging” private finance through public support. Yet these concepts are poorly defined and problematic. Importantly, tied aid appears to be a strong underlying motive for development initiatives targeting the private sector.

Finally, it may be grounded in the economic underpinnings of some governments and policy makers, which upholds the common belief that the market and hence the private sector simply “does it better”.

On the business side, the agenda creates opportunities for OECD-based multinational enterprises to enhance access to markets, but also to access policymakers. The rise of an “inclusive business” agenda, which is actively supported by the World Bank is testimony to that trend. In essence, inclusive business is about unlocking the business opportunities of the poor living at the “bottom of the pyramid” to transform these people into a “financially profitable business model”. The poor themselves are depicted as consumers and sometimes as entrepreneurs or as “producers”, but rarely as workers or as employees—never as citizens.

## A trade union perspective

The private sector clearly is an important engine of economic growth and wealth creation. But to be effective and benefit the people, it needs to be framed within a normative approach to development – one that guarantees rights – and a vision of governments that maintain its developmental leadership role. One major concern trade unions have with this gravitation towards the private sector is that it undercuts the developmental role of the state and its institutions for delivering public services, for example.

A developmental role of government would help ensure country ownership, a core pillar of aid effectiveness, and re-direct private sector role toward the much needed mobilisation of domestic resource. Rights based approach to development cooperation and the role of private sector should ensure compliance with ILO standards, uphold the role of social partners since there is no automatic cause-effect relationship between private sector development and decent work creation. Holding multinational businesses to account for their impact would require alignment of corporate behaviour and reporting with aid effectiveness principles and measuring impacts. Any private sector for development initiative should first aim at supporting local SMEs among others to help tackle informality.

The very motivation that underpins private sector activity, namely its profit seeking nature, is not necessarily aligned with development objectives. Trade unions should not accept that the private sector becomes a suitable replacement to the state in delivering essential services, and as a result public finance should continue to be used to strengthen state institutions.

Two broad policy priorities are suggested for a trade union perspective in private sector for development:

- Setting clear boundaries for public financing of development initiatives for the private sector, ensuring social protection and public service development objectives and recipient country ownership;
- Setting strict conditionalities – labour rights, social dialogue, corporate accountabilities – for the use of public money for private sector activities in development.

Seven central policy priorities are suggested for a trade union perspective in the private sector for development:

- Effectively implementing ILO standards and the Decent work agenda as parts of a rights-based approach;
- Mainstreaming social dialogue mechanisms as a basis for private sector effectiveness and accountability;
- Ensuring developing country ownership of programmes and initiatives and protecting their rights to develop public services;
- Holding large and powerful multinational business to account through effective mechanisms for corporate accountability and transparency; and
- Ensuring policy coherence with other global policy agendas.
- Incubating small and medium enterprises (SMEs) through policy space and state support
- Ensuring that that the private sector pays its fair share of taxes

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### About the ITUC

The International Trade Union Confederation (ITUC) is the main international trade union organisation, representing the interests of working people worldwide. Our primary mission is the promotion and defence of workers' rights and interests, through international cooperation between trade unions, global campaigning and advocacy within the major global institutions. The ITUC represents 176 million workers in 161 countries.

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