

Reference Document
The Role of the Private Sector in the Context of Aid Effectiveness
Supporting more effective partnership for development in Busan
(June 2011)¹

This reference document outlines the process to reflect on and further improve partnerships between public and private providers of assistance in support to development.

Building on work launched after HLF-3, and by the Informal Group on the Private Sector on aid effectiveness, this note presents the rationale, objectives and scope for engaging with the private sector in the context of aid effectiveness which will be an additional and critical contribution to the Fourth High-Level Forum on Aid Effectiveness in Busan (29 November – 1 December 2011), illustrating the broader reflection on global development partnerships and the role of aid as a catalyst.

The purpose of this work is to support the implementation of more effective synergies between differentiated partners, building on existing platforms, knowledge and agreements, exploring the possibilities for further unifying approach and actions to be mutually identified as needed, realistic and monitorable to achieve more sustainable development results.

Structure of the Paper:

1. Background – why the “private sector” in the aid effectiveness context?
2. Objectives and Scope
3. Activities and Deliverables to Date
4. Working modalities and partners
5. Timeline and opportunities / events

1. Background – Why the “private sector” in the aid effectiveness context?

- **What is the private sector?**

The “private” sector is a broad term that encompasses a range of diverse actors engaged in development although they do not provide official development assistance. In the OECD statistical glossary, the private sector comprises private corporations, households and non-profit institutions serving households”. The 2006 OECD “Promoting pro-poor growth: private sector development” brochure stresses that “the private sector consists of more than formal businesses. Individuals and households, from rich to poor, also operate as private economic actors when they consume goods and services, sell their labour, farm or produce goods and services”. The 2003 OECD Poverty and Health publication uses a wide definition, referring to a range of actors who are “all service and funding providers working outside governments”, which includes, for-profit private sectors, foundations, non-governmental organisations, voluntary contributions and private academia.”

- **Why looking at private sector in the context of aid effectiveness?**

Development funding from the private sector is becoming more significant². This includes private foundations, which plays an increasing role in funding development but also innovative ways on how to promote it including from for-profit private sector and non-governmental organisations. The former includes through innovative finance (both new resources and new uses of funding) which often brings together both public and private sectors to work together to achieve results, including through public-private partnerships. Assistance from these actors is significant both in terms of volume - with even more rapid increase than aid from

¹ Updated version of the Draft Strategy endorsed in May 2010.

² See Annex 1 for figures.

traditional official sources - and experience. The global economic downturn has contributed to turn the spotlight once again on the role and experience of the private sector.

Within **partner countries**, there is growing recognition of the role that the private sector must play as a vehicle to create income growth and poverty reduction. A significant number of partner countries now highlight private sector development as a key element of poverty reduction or national development strategies. Partner countries are unfolding plans to improve the environment for trade and business growth, strengthening regulatory frameworks to enable improved access to finance, expanding access to basic infrastructure services, developing workforce skills and productivity, and either privatising or commercialising the operations of business entities. Bilateral aid programmes and multilateral development banks (MDB) operations are supporting reform and capacity development as part of an overall strategy aimed at private business development.

References to the “private sector” as such in the Paris Declaration (2005) and the Accra Agenda for Action (2008), besides specific references to civil society and global funds and programmes³ have been limited. In these documents, the private sector is recognised as an actor in the dialogue on development at country level (including through donor support), as a source of financial flows, and as a benefactor from an enabling environment for public and private investments at country level. The “private sector” however, is not defined. (see Annex 2). Within the WP-EFF, contacts with the private sector, including foundations, philanthropy groups and for-profit private sector, have been limited (while there is experience of direct private sector engagement within the MDBs). Nonetheless, contacts reveal the potential to share lessons and identify common challenges and opportunities to promote development effectively at global and country levels. This is particularly opportune in the context of promoting MDG 8 on global partnerships for development, and in particular, experiences on public-private partnerships (PPPs) that can be a useful mechanism to pool resources and experiences and scale-up.

2. Objectives and Scope – focusing on country, region and sectors

The main objective of the workstream is that at HLF4, there will be an **inclusive and substantive discussion on – as well as with – the private sector on enriching the aid effectiveness agenda and contributing to an approach towards development effectiveness**. This will be done through synthesizing key issues and analyzing lessons and experiences on common issues and challenges on what works and what doesn’t work in engaging with the private sector in achieving effective and inclusive development partnerships and outcomes.

To achieve this objective, the workstream’s scope will focus on capturing, analyzing and synthesizing the **role and experiences of engaging with the for-profit corporate private sector particularly at the country and sector levels around aid effectiveness-relevant issues, for example on results, capacity and partnerships**. Lessons and experiences on public-private partnerships (PPPs) as well as experiences / knowledge of the regional development banks will particularly drawn on due to the relevance and availability of information. Given the importance of the role of private foundations, opportunities to reflect on their experience needs to be identified within the group or with other parties. This workstream will keep in contact with the WP-EFF workstream on ownership and accountability, who is leading the work with civil society organisations.

In particular, information and experience should be particularly captured around :

- Countries / regions with significant “for profit” private sector contribution to development outcomes, with a focus on few sectors such as health, agriculture, infrastructure, and finance;
- Common issues and incentives that motivate private sector engagement at country level relevant to aid effectiveness – including on achieving common / shared results, addressing the issue of capacity and partnerships;

³ Reference to the workstream under Cluster A (Civil Society) and Health as a Tracer Sector (TT-HATS, Global Programmes Learning Group).

- For-profit private sector working in developing countries, including the role of bilateral / multilateral / regional banks and global programmes working with and leveraging development assistance / aid for the private sector, including through different instruments and modalities from an aid effectiveness perspective (including public-private partnerships);
- Perspectives from partner countries increasing the business environment.

The topics / questions below provide suggested angles / questions to deepen the analysis of the topic:

Global Level:

- Resource flows from private sector towards development.
- Developing effective Public Private Partnerships across donors
- The corporate-level experiences / policy of global for-profit sector in development, including issue of corporate social responsibility;
- The role of non-profit / philanthropy in development [i.e. advocacy, innovative practices];

Country Level:

- **The experience in effective public private partnerships**
 - What are the opportunities and incentives to create public-private partnerships?
 - How can Public Private Partnerships effectively address the risk factors and bring added value, without subsidizing the private sector or making its intervention too complex)?
 - What are the experiences of donors working in partnership with the private sector? (co-investment, leveraging aid money etc.)
- **The experiences of the private sector supporting development at country level**
 - What are the opportunities and incentives that motivate private sector to work at country level? What results are the private sector aiming for? [for example, perceived comparative advantage / technical expertise, service delivery, investment.]
 - How does / to what degree does the private sector work towards contributing to the partner country's development objectives? What are the perspectives from partner countries?
 - What are the common issues and challenges faced by the private sector in engaging with partner countries? Engaging with other development actors (i.e. donors)? What is the perspective of partner countries, donors and other development actors?
 - What are the conditions / key factors that renders the private sectors' support most effective?
- **The experiences of donors supporting private sector at country level,**
 - What are the experiences of donors supporting the local private sector? What are the experiences of donors attracting private sector to invest in partner countries (including from donor's home country)?
 - What is the donor's role in supporting the creation of enabling environment to attract private domestic and foreign investment? What is the role of development assistance/aid?
 - In all the above experiences, how does / to what degree does donor support to the local private sector contribute to partner country's development objectives?

In terms of risks and challenges pursuing the workstream, it is important to be conscious of creating incentives for the private sector to engage in the discussion, and also be conscious of sensitivities surrounding the issue. It is important to communicate with the private sector that the interest of the WP-EFF is to share lessons and identify common issues and synergies, rather than seeing them as a source of funding or trying to impose upfront an accountability objective. The approach should also take a long-term engagement with the private sector, with the HLF 4 as one of the milestones in the process.

3. Activities and Deliverables to Date

- **Mapping and focused information collection (completed in 2010)**: An informal mapping process that collected information from easily available sources from bi/multilateral agencies, for-profit corporations and foundations related on private sector in a development context (objectives, tools, sector specificities, country coverage).
- **Analytical work to inform the HLF 4 preparation process: (Q3-Q1 2011 – completed)**: Synthesizing key issues and analyzing lessons and experiences on common issues and challenges on what works and what doesn't work in engaging with the private sector in achieving effective and inclusive development partnerships and outcomes. The main deliverable, the "Consultative Document for Reference", has been completed in January 2011, and is available on the WP-EFF website.
- **Outreach and consultation with the private sector actors**: Organising series of informal events (informal events, side events) targeted at relevant audiences (including the DAC and the WP-EFF). Two meetings have been organised in 2010, and contribution has been made to other side events in 2011:
 - Lessons learned from the private sector (for-profit, foundations), June 2010
 - Lessons learned from public-private partnerships, 25 October 2010
 - Parallel Session on Aid and Infrastructure at the NEPAD OECD Africa investment initiative (Dakar, April 2011)
 - Networking, influencing the agenda / attending relevant meetings, including those organised by the private sector and international platforms.
- **Contribution for the Fourth High-Level Forum on Aid Effectiveness (HLF 4)** : as part of the discussion on development effectiveness in Busan, there is expectation that the work on the private sector brings useful evidence and recommendations to improve partnerships and enhance the role of aid in leveraging other forms of development assistance. The main objectives for Busan from this workstream include:
 - Facilitate meaningful participation from the private sector (for-profit, foundations) in the main discussions of HLF 4;
 - Deliver concrete messages and recommendations on making partnerships between the public and the private sector more effective, to be considered as part of the outcome of Busan;
 - Showcase experiences from sectors and countries on engaging with the private sector in the Knowledge and Innovation Space (KIS)

4. Working modalities and potential partners:

The workstream has been kept in an informal and open manner, comprised of interested members of the WP-EFF and beyond. It seeks to assure balance of perspectives and experiences from global / regional and country actors. Given limited existing resources and time, and also with the interest to avoid duplication, the workstream provides a platform function to facilitate sharing and consolidating information on experiences. It has been opportunistic and has capitalised on events and other relevant initiatives. The workstream has been meeting virtually or face-to-face according to need.

5. Timeline and Opportunities / Events (as of 1 June 2011)

Timeline	Action / Event	Purpose	Responsible
2011			
5 July	Event on Private Sector and Aid Effectiveness (back-to-back with WP-EFF plenary)	Showcase experiences from sectors; Discuss contributions including messages for Busan	Informal Group on the Private Sector and Aid Effectiveness
September			
Week of 19-23 Sept.	UN Private Sector Forum		UN Global Compact
TBC	Conference on “inclusive business”, Germany	Opportunity for further advancing the contribution to HLF4 on the private sector	Bilateral Donor Group on MDG and the Private Sector
24-26 Sept.	WB/IMF Annual Meetings	Opportunity for side discussion on private sector?	
October			
5-7 Oct.	WP-EFF Plenary		
29 November – 1 December	HLF-4, Busan		

Annex 1. Figures on private flows

There are no precise figures on private flows give the diversity, lack of common agreed upon definitions and mechanism for capturing data. The OECD DAC collects data – albeit with possible under-reporting – on 1) grants by private voluntary agencies; 2) private flows at market terms; and 3) bilateral ODA through NGOs. According to 2007 data, the scale of development operations of the world’s foundation is roughly USD 5 billion annually, with US-based foundations playing the major role and European / Asian foundations contributing to a much smaller extent, estimation of international grants by European foundation are approximately USD 600 million annually and for Asian foundation, USD 400 million annually. ⁴

Data on private flows in USD millions (Source: OECD Development Cooperation Report 2007-2010).

Grants by Private Voluntary Agencies (Total DAC countries)	2005	2006	2007	2008
	14 712	14 648	17 866	23 655

Private Flows at Market Terms (long-term) (1 to 4) (Total DAC countries)	2005	2006	2007	2008
	179 559	194 761	312 475	121 224
1. Direct investment	100 622	127 925	180 293	178 140
2. Private export credits	5 563	3 137	13 161	6 572
3. Securities of multilateral agencies	40	2 789	-9 737	-9 983
4. Bilateral portfolio investment	73 335	60 910	128 759	-53 504

Bilateral ODA: Grants and Grant-like contributions of which are contributions to NGOs (Total DAC countries)	2005	2006	2007	2008
	1 017	1 779	2 037	2 516

⁴ World Bank: Philanthropic Foundations and their Role in International Development Assistance (2007): [http://siteresources.worldbank.org/INTRAD/Resources/BackgrounderFoundations\).pdf](http://siteresources.worldbank.org/INTRAD/Resources/BackgrounderFoundations).pdf) Also, the Foundation Center (www.foundationcenter.org) provides figures on US based foundations and corporate giving: http://foundationcenter.org/getstarted/faqs/html/charitable_stats.html

Annex 2:

The contribution of the private sector/ aid effectiveness: What did Paris and Accra say about it ?

1 – What did Paris say about it?

The Paris Declaration mentions the private sector in two articles, both about local private sector as part of local development actors:

Art 14: (about Ownership) Partner countries commit to:

- ✓ Take the lead in co-ordinating aid at all levels in conjunction with other development resources in dialogue with donors and encouraging the participation of civil society and the private sector.

Art 25: (about PFM capacity) Partner countries commit to:

- ✓ Intensify efforts to mobilise domestic resources, strengthen fiscal sustainability, and create an enabling environment for public and private investments.

2 – What did Accra say about it?

In the AAA, the private sector is mentioned four times:

- Once about country-level democratic ownership and broader policy dialogue (paragraph 13b), with a specific commitment on capacity development for all stake-holders.
 - ✓ Donors will support efforts to increase the capacity of all development actors—parliaments, central and local governments, CSOs, research institutes, media and the private sector—to take an active role in dialogue on development policy and on the role of aid in contributing to countries’ development objectives
- Three times as its donor role, in the context of the call for more inclusive partnerships (paragraphs 9, 16 and 20), but always in “chapeaux”, and without any specific commitment (the private sector is not mentioned in paragraph 19 within the commitments on working with “all development actors”)

No precise indication is given on the way to involve more systematically the private sector in the monitoring of PD and AAA.

The chair summary of the HLF-3 is also limited about private sector. However, it gives some more directions on both aspects (local private sector environment, and private sector as a non-traditional provider of development assistance), and briefly mentions some other tracks:

1. The issue of broadened ownership to include more country actors (including the private sector), is present in the report from the ministerial debate, which takes note of “the broadening of the understanding of ownership, to include democratic ownership (notably through much greater involvement of parliaments), and the inclusion of groups beyond central governments and official donors, to include civil society, local governments and the private sector”. It is also mentioned by the Roundtables 8 (sectors) and 4 (MfDR). RT 2 (alignment) stresses the usefulness of budget support as a tool of good governance, including participation of all stakeholders (mentioning the private sector).

Within this angle of view, the issue of capacities, object of a commitment in the AAA, is mentioned by the reports from RT 1 (ownership), RT4 (MfDR), and RT8 (sectors), and by the ministerial debate as an “unresolved issue and future action: The issue of capacity development recurred frequently in plenary and in all the Roundtables as a priority, not just within partner governments, but more widely for civil society and private sector, and also donor agencies.”

Roundtable 2 (alignment) reports an intervention from BIAC warning against setting up “sub-standards” of PFM in recipient countries.

2. Private sector as an alternative provider of financial flows is first mentioned through the idea of aid as a catalyst to access private financial markets, private flows then replacing progressively aid flows (chair summary: “the fact that the host country Ghana has for the first time raised funds on the Eurobond markets was seen as a landmark, suggesting scope for progressively greater access to private financial flows by countries that have hitherto relied almost entirely on aid” ; and ministerial debate report: “there was wide acceptance that in the future aid must increasingly be seen in a catalytic role [...]in the area of helping to mobilise both local and private capital”). This catalytic role of aid is also more generally recognized “to leverage processes of wider institutional change within partner countries”.

Private sector as an external source of financial flows, recognized in the AAA, is mainly mentioned by the **Roundtable 9 on aid architecture**, whose conclusions specify the various components of the so-called private sector: “firms, foundations, and voluntary contributions”. RT 9 calls for “transparent reporting on all aid flows at the country level - including those channeled through the private sector and NGOs”. RT9 stresses the importance of non-traditional sources of development assistance and the changing aid architecture, but mentions mainly non-DAC donors and Global Program Funds. **The summary notes that “other aspects of the changing aid architecture, notably private sector contributions in all their many forms”, still deserve more discussion.**

Also on private sector as donors, there was one side event: *The Potential for Private Sector Contributions to Development*, organized by the Government of the USA. [any report ??]

3. Accountability of the private sector is mentioned twice in the report of RT 5 (Mutual accountability), with the example of extractive industries. The role of ILO is also mentioned.

4. Public-private partnership is quickly mentioned in RT 7 (situations of fragility and conflicts) by USAID, but without any detail.