The Role of the Private Sector in the Context of Aid Effectiveness

Consultative Findings Document
Final report, 2 February 2011

Penny Davies, Consultant

TABLE OF CONTENTS

LIST OF ACRONYMS

ANNEXES

LIST OF ACRONYMS

AAA	Accra Agenda for Action
BCtA	Business Call to Action
BOP	Base of the Pyramid
CEO	Chief Executive Officer
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DAC	Development Assistance Committee of the OECD
DCED	Donor Committee for Enterprise Development
GFATM	Global Fund to Fight AIDS Tuberculosis and Malaria
GRI	Global Reporting Initiative
HLF 4	Fourth High Level Forum on Aid Effectiveness
IFC	International Finance Corporation of the World Bank
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MNC	Multinational Corporation
NEPAD	New Partnership for Africa's Development
NGO	Non Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnership
SME	Small and Medium Enterprise
UNDP	United Nations Development Program
WBCSD	World Business Council for Sustainable Development
WP-EFF	Working Party on Aid Effectiveness

1. INTRODUCTION

1.1 The role of the private sector in the context of aid effectiveness

The Working Party on Aid Effectiveness hosted by the OECD Development Assistance Committee (DAC), has initiated a **work stream to look at "The role of the private sector in the context of Aid Effectiveness" ahead of the 4th High Level Forum on Aid Effectiveness (HLF 4)** to take place in Busan, Korea, 29 November-1 December, 2011.

Contributions from the private sector to the development process in developing countries are becoming more significant: Private sector stakeholders – private foundations and for-profit private sector - are contributing with development funding and sharing of experiences, including in aid projects.[1] Donors have increased their engagement with the for-profit private sector to catalyse contributions to development objectives. Likewise, partner countries are recognising the private sector in national poverty reduction and development plans. New collaborations are forged, most notably so called public-private partnerships (PPPs), to combine the strengths of different stakeholders.

Whilst there are plenty of initiatives focussing on the role of the private sector in development, there has been less focus on the private sector in the context of aid effectiveness. There are limited references to the "private sector" in the *Paris Declaration on Aid Effectiveness* (2005) and the subsequent *Accra Agenda for Action* (2008), the two international agreements on aid effectiveness which over one hundred countries and institutions have adhered to (Annex 4). The Working Party on Aid Effectiveness (WP-EFF) has as of yet had limited contacts with the private sector but is increasingly eager to discuss and monitor aid effectiveness in a broader context which includes non-government actors and non-official providers of funding for development. This change is encouraged by the OECD DAC and its growing interest in non-Official Development Assistance (ODA) flows and synergies between ODA and other sources of development funding.

The work stream on "The role of the private sector in the context of Aid Effectiveness" responds to an identified need by the WP-EFF to explore the interface between the role of the private sector and aid effectiveness, with the objective to enrich and provide added value to the aid effectiveness agenda ahead of HLF 4.

1.2 Purpose and methodology

The purpose of this report is to identify and summarise lessons learned, opportunities and challenges in relation to the role of the private sector in the context of aid effectiveness. The report will serve as an input to the discussions and decisions ahead of and at HLF 4, as well as to general discussions on the evolving global aid architecture. The report was commissioned by the Aid Effectiveness Division of the Development Co-operation Directorate of the OECD-DAC Secretariat and was put together by an external consultant. The main target group of the report is the Working Party on Aid Effectiveness.

The document is based on 47 qualitative interviews with different stakeholders: donors, private sector representatives (for-profit and private foundations), partner countries, civil society organisations and independent experts (Annex 2). **Viewpoints frequently differed between and within categories of stakeholders.** The document seeks to reflect the different perspectives. Individual responses are quoted in the report to illustrate some of the issues raised but interviewees remain anonymous. The questions which provided guidance to the interviews are listed in Annex 1

[1] See figures on resource flows in Annex 6.

and the names and affiliations of respondents are listed in Annex 2.[2] Interviewees were given the possibility to comment on a draft version of the report in order to clarify any eventual misunderstandings or add any points not sufficiently reflected.

The "private sector" is a broad term which encompasses a range of diverse actors and the definitions vary. In this work stream, the idea was to explore both the for-profit private sector and private foundations where relevant. However, most respondents focussed on the role of the for-profit private sector and stressed the need to distinguish between the role of private foundations and the for profit-private sector, as the former operate on a non-profit basis often in ways similar to donors or civil society organisations. It is recognised that the for-profit private sector is very heterogeneous. To the extent possible, the different types of for-profit private sector, as referred to by respondents, are highlighted in the document.

1.3 Structure of the report

The report is based on the logic of the questionnaire and what interviewees chose to focus on. It is divided into seven main sections: 1.The introduction, which is followed by three sections which focus on the role of different stakeholders: 2.The role of the private sector in development, and in aid processes in particular 3. Partner country priorities and challenges in ensuring a positive contribution of the private sector to national development plans and 4. The role donors play in supporting positive private sector contributions. Section 5 focuses on public-private partnerships (PPPs), which bring the different stakeholders together, and explores what makes them work effectively. Section 6 addresses the issues of how to measure results of both private sector impact on development and aid objectives, as well as results of aid targeting the private sector. The final section maps out suggestions for ways forward directed at different stakeholders.

The report contains boxes with cases which serve the purpose of illustrating different roles of the private sector in the context of aid effectiveness. The cases have been submitted by different interviewees based on what they consider to be best practice.

2. THE ROLE OF THE PRIVATE SECTOR IN AID AND DEVELOPMENT

2.1 Private sector impact on development - opportunities and challenges

- *The private sector is not homogenous and there is a need to differentiate between actors and types of impact on development*

In the context of aid effectiveness a key question is how aid can be used to strengthen the positive contributions of the private sector to development, while at the same time addressing the identified challenges. As pointed out by respondents across categories, opportunities and challenges of for-profit private sector contributions to and impact on the development processes in developing countries cover a wide range of areas. **The contributions and impacts will differ depending on sectors, type of actor and size** ranging from large Multinational Corporations (MNCs), to Small and Medium Enterprises (SMEs) and to micro-enterprises. Some respondents in particular underlined **the need to differentiate between the role of domestic and non-domestic companies** as their contributions to development differ and can also be incompatible: e.g. the market entry of larger MNCs can contribute with vital technology, but might at the same time crowd out domestic businesses that provide employment.

Albeit respondents stressed the need to be context specific, s**ome general opportunities and challenges as well as risks in relation to private sector contributions to and impact on development**

[2] The initial list of interviewees was put together by the Aid Effectiveness Division at the OECD-DAC Secretariat, and more were added during the course of the work as a result of suggestions received and volunteers who stepped forward. For various reasons it was difficult to get sufficient contributions from partner countries.

were identified. (See tables in Annex 5). However, private sector contributions to and impact on development at large are beyond the scope of this study.[3]

2.2 What are the incentives for private sector engagement in development processes at country level and how is engagement manifested?

For the aid effectiveness agenda it is important to understand how and based on what incentives private stakeholders engage in poverty eradication related activities in developing countries. Interviewees pointed at two overarching trends: **1. Why engage - from addressing risk to exploring business opportunities 2. Ways of engaging - from philanthropy to innovative core business models.** These two trends can be applied on different sectors and geographical contexts.

2.2.1 From addressing risk towards exploring business opportunities

The question of <u>incentives for the non-domestic private sector</u> to engage in development processes at country level is broad and generates different answers depending on types of companies, sectors and even individual commitment of CEOs. **The same company may have different reasons for engaging, all directly or indirectly related to the objective of making profit. Incentives for for-profit companies to engage in development processes range from addressing risk to exploring business opportunities.** Addressing risk can for example take place in response to consumer or civil society pressure to protect the brand from bad publicity. However, risk mitigation can also take place in the form of contributions to address social factors that affect the workforce of a company, their families and broader communities and by extension the company's client base. Incentives of exploring business opportunities include an increased focus on innovations that respond to new demands and societal needs and which ensure sustainability. Incentives can be both internally and externally driven.

- *Increased focus on business opportunities and innovation to address development challenges*

To address development challenges is increasingly presented as a business opportunity for companies, coinciding with the incentive of making profit. This perspective is for example manifested in a joint statement presented by various business related organisations in connection with the 2010 United Nations High-level Plenary Meeting on the Millennium Development Goals (the "2010 UN MDG Summit")**,** which emphasises that "sustainably addressing the needs of the developing world represents a huge opportunity for business, given the long-term demand for investment, infrastructure, products and services it will trigger." Furthermore, the statement underlines that "the leading companies of the future will be those that do business in a way that addresses the major development challenges."[4]

Interviewees working for the for-profit private sector in particular stressed the importance of innovation and companies as solution providers.[5] Incentives for engaging in developing countries include tapping into emerging markets where the future growth potential has been identified and understanding what services will be relevant to address societal needs in developing countries."To improve or even save lives" was mentioned by two companies as important drivers of innovation, and the expectation on "business to give something back to society" was stressed by a business association. "Staff satisfaction", i.e. for employees to feel that the company they work for

---

[3] There are various resources compiling cases of business contributions to development, see e.g. the UNDP Growing Inclusive Markets initiative, http://cases.growinginclusivemarkets.org the WBCSD case study collection http://www.wbcsd.org and the Business Call to Action http://www.businesscalltoaction.org Commitments to advance progress on the MDGs were put forward by companies, foundations and civil society organisations at the UN Private Sector Forum on the MDGs, 22 September 2010, UN (2010).

[4] "Accelerating progress towards the Millennium Development Goals through Inclusive Business", New York, 21.09.2010.

[5] See for example how Indian companies are providing solutions with sustainability as a driver for innovation and profit in Joshi, Arora, Pamlin and Sinha (2008).

contributes to something good, which they can feel proud of, was also seen as an important incentive for engaging in development processes.

- *Incentives can converge with those of donors and partner countries - when they do not this poses challenges for aid and development effectiveness*

Responses reveal that incentives at times converge with those of donor and partner country strategies. For example companies have an incentive to engage in health as costs of absenteeism due to HIV/AIDS related diseases are high. Similarly in education companies have an interest in a skilled work force and in infrastructure they have an interest to engage as lack of transport directly affects a company's ability to operate.[6] **The joint incentives of business, donors and partner countries facilitate the setting up of partnerships**.[7]

However, as stated by several respondents, it should be recognised that **the profit driven incentives of the private sector often do not converge with development objectives** which poses challenges for the aid effectiveness agenda. For example, in the provision of services the profit incentive might exclude low income households and in infrastructure a company might focus on measures to facilitate the extraction and export of natural resources, rather than engaging in the type of infrastructure needed to address the needs of farmers to access markets. Ways of accommodating business interests of both donors and partner countries, and international treaties on investment and trade can also be incoherent with development objectives. Large tax breaks for corporations, generating "a race to the bottom," (the dismantling of regulatory standards as a means to compete), were in particular mentioned by respondents across categories.

2.2.2 From philanthropy towards core business models

Companies engage in and can contribute to development in different ways. Three overarching ways through which companies can contribute to the MDG are presented in a UNDP and International Business Leader Forum report: 1. Core business operations and value chains, 2. Social investment and philanthropy, 3. Public advocacy, policy dialogue and institution strengthening.[8] A company might engage in all three. Often **philanthropy is contrasted with and put at one end of the spectrum and core business activities at the other end**. Interviewees (for-profit private sector, donors and experts) stated that there is an increased **focus on the latter, i.e. how business can contribute to development through their core business model**.

- *Core business as the most sustainable private sector contribution*

Donor respondents in particular emphasised that for-profit private sector contributions to the development process are more sustainable if they are embedded in the core business strategy of a company. Changes in core business strategies will have a larger impact, positive or negative. Core business is often contrasted with Corporate Social Responsibility (CSR) with more limited resources to tap into, and with various voluntary initiatives of a philanthropic nature.[9] However, the divide

---

[6] The case of addressing global health challenges as key for companies' own interest is also made by the President of the Global Health Council, Mr. Sturchio (2010).

[7] In this context, a point was raised by a CSO, that the financial private sector, as opposed to the productive sector, might have other incentives, e.g. incentives to increase the health of the community might only apply to companies that are physically operating in that particular community, whilst a fund that invests in companies might have lower incentives to improve the health of workers or the community due to more limited ties to the community.

[8] Nelson, Jane and Prescott, Dave (2008), p.8.

[9] In particular civil society organisations have pointed at the drawback of CSR approaches as a means of advancing responsible business standards. Voluntary regulations have not prevented some companies from violating human rights or damaging the environment, in particular those which are less exposed to consumer pressures. Standardised binding international regulations are therefore called for. See for example Christian Aid (2009) pp. 18-19 and UNDP (2004) p.34.

between core business and CSR is not always clear, as stated by a multilateral donor, as CSR principles can also be part of core business practices.

BOX 1: The Cadbury Cocoa Partnership – making a difference through a core business approach
The example illustrates how a company, as part of its core business activities, is investing to develop inclusive and sustainable production of cocoa through a multi-stakeholder partnership built on active community participation.

Description: In 2008, the confectionary company Cadbury launched the Cadbury Cocoa Partnership, "to encourage the development of thriving cocoa communities in Africa, Southeast Asia and the Caribbean. In the partnership, Cadbury has made a £45million commitment over ten years to support sustainable cocoa farming and to improve the lives and incomes of the farmers who supply the company with cocoa beans. This commitment and programme continues under the ownership of Kraft Foods. The partnership was launched in Ghana, with the support of UNDP, with an initial four year plan. Farmer's groups, NGOs, international organisations and government officials have joined and are working together in 100 cocoa farming communities in Ghana.

The partnership aims to address the root causes of decline in cocoa production that has taken place in Ghana "by enhancing farmer productivity and helping to attract the next generation to cocoa farming." To achieve the goals the partnership "is focussed on improving cocoa farmer incomes by increasing yields and cocoa quality; introducing new income streams in rural cocoa-producing areas; and investing in cocoa-growing communities by providing opportunities for education and improving infrastructure." The partnership is also helping farmers to benefit from Fairtrade certification and to produce cocoa in a more environmentally sustainable way. The partnership is governed in a multi-stakeholder fashion. NGOs play a role on the ground to enhance community led engagement and mobilisation and to develop farmer co-operatives.

Business incentives and impact: Securing a consistent, high-quality source of cocoa is a core business priority for Cadbury. The investment is expected to increase the productivity of cocoa and reduce the risk of higher costs and inadequate supply of cocoa in the future. The investment in Fairtrade cocoa is expected to generate increased market shares and revenues for the company. Business benefits also include improved relations with the other stakeholders engaged and good-will for the company through its investment in local communities.

Development impact: The efforts to more than double cocoa production and to improve incomes in the farmer communities is benefitting ten thousand farmers and their families in 100 cocoa-farming communities, as well as 55,000 members of a farmer's co-operative in Ghana. Results include: hiring of community officers who provide training to increase productivity; the provision of a premium to farmers who have been Fairtrade-certified to be invested in community activities; increased awareness in communities on gender equality and child labour which has resulted in an increase in partnership communities being run by women. The partnership is described as a way of "addressing the MDG goal 1 to end poverty and hunger by providing farmers with training and opportunities to improve their incomes and MDG 4 to promote gender equality."

Lessons learned/success factors: The fact that the initiative is part of the core business activities of Kraft Foods (Cadbury became part of Kraft Foods, February 2, 2010) and that there is a "strong business case" for the company to invest in the cocoa communities is seen as success factor. Second, the active participation of cocoa farmers and farmer organisations in the partnership ensures the interventions are based on the identified needs of the communities. Third, the inclusion of many different stakeholders enables success of the activities. Finally, the investment in social development beyond the training and assistance of farmers, e.g. the empowerment of women, enhances the impact of the program.

Sources: Business Call to Action (2010)

- *Definitions of core business vary, with a focus on the core product or service of a company*

There are different understandings of what core business actually means, which can lead to misunderstandings. As described by a multilateral donor, in a restricted definition core business refers to the main product or service of a company and whether this contributes to development. A wider definition might include the engagement of a company in setting up a health project, which is not directly linked to its product or service but which has benefits for the running of the company (e.g. a healthy work force for the company).

A majority of the for-profit private sector respondents described "core business" as the service or product a company provides which is at the heart of the company's strategy. A business platform described it as looking at products and services from a sustainability perspective and a whole life cycle approach.[10] This has meant a shift in perspective taking the development problem to be addressed as a starting point rather than the product currently in use to address it. The example mentioned was that this could result in a shift from promoting a big water pump with adverse affects of wastage and soil depletion to the development of smaller, more cost effective and solar powered pumps which are more effective in responding to the needs as defined by local communities/users.

- *Philanthropic contributions have limitations but can generate resources and play a catalytic role*

The limitations of a "**philanthropic and charitable model" have been described in a UNDP report stating that "because it lies outside the traditional business model, the benefits are measured in intangibles – such as reputation, risk reduction and licence to operate – rather than "the bottom line"**. The financial contributions are seen as short term, unquantifiable and unaccountable.[11] Similar perspectives were put forward by two for-profit private sector interviewees, one who stated that corporate philanthropy is not sustainable, and one who stated that while it has good intentions philanthropy has moved more towards being a marketing strategy for companies. In this context, a civil society respondent gave an example of how a mining company polluted the water in the area where it was operating, and at the same time engaged in a voluntary community project. This illustrates that although voluntary approaches may have key benefits, it is crucial to foremost ensure that the core business activities of a company have a positive impact on development and people living in poverty.

However, **for-profit companies make various kinds of philanthropic contributions** in the form of grants or sharing of expertise which apart from **generating resources also can play a positive strategic role.** The nature of philanthropic contributions varies, and philanthropy can at times also be interlinked with the core business model of a company. For example, one company respondent described how their philanthropic activities have helped them to understand how their core business model could become more socially responsive. The philanthropic contributions of the company were also said to have closed the gap between community expectations and actual delivery in partnership projects with a long time horizon for visible impact.

2.2.3 Towards new types of inclusive business models

- *Increased commitments to "include people living in poverty" as part of core business practices*

Whilst relatively few companies have focused on managing the broader development impact of their core operations, this is starting to change, partly as a result of joint alliances or demands from external stakeholders.[12] Changes can also be driven from within by individual staff. Respondents (for-profit private sector and organisations working with this sector) signal that **there is an increased**

---

[10] Life cycle approach is a concept used by business which refers to the need to assess and reduce the environmental impacts of goods or services throughout their entire life-cycles, see for example WBCSD: http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=MTUxMw

[11] The bottom line refers to "the triple bottom line" which reconciles respect for the environment, social equity and financial profitability. UNDP (2004) pp. 34-35.

[12] Nelson (2010) p.10.

commitment to cater for unmet societal needs as part of core business strategies, as this also provides good business opportunities.

As part of this agenda, **there is a focus on how to develop inclusive business models** which by the UNDP are described as models which **"**include the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points in the value chain." [13] The role of people living in poverty as innovators and entrepreneurs is also important in this context. Inclusive business models as a contribution to the MDGs are highlighted in a statement put forward by various business related organisations in connection with the 2010 UN MDG Summit.[14] The outcome document of the Summit itself calls upon "the private sector to further contribute to poverty eradication, including by adapting its business models to the needs and possibilities of the poor."[15] Similarly, one company interviewee described the core business as a challenge of directing the growth opportunity to the segments of society which normally "would not make a business case", the so called Base of the Pyramid (BOP) which refers to the more than four billion people globally with per capita incomes below $1,500 (purchasing power parity).[16]

An independent expert described how we are witnessing a **transformation towards a new generation of corporations where the challenge will be how to include those who have been excluded and how to develop more sustainable goods and services to address development challenges such as climate change**. The often referred to BOP approach was said to provide the best chance of "incubating tomorrow's sustainable economy" and creating a new kind of entrepreneurship based on the second generation of BOP strategies which stress the need to work in close partnerships with communities.[17] The World Business Council for Sustainable Development (WBCSD) "Vision 2050" initiative is an example of this transformation, in which companies have come together to rethink the roles that business must play over the next few decades to enable society to move towards being sustainable. This has resulted in "a call to action that aims to encourage companies to reinvent themselves, their products and services to get where they and society want to be."[18]

- *Constraints to be addressed*

The inclusive business approach outlined above signals a very positive solution oriented agenda.[19] The question as formulated in a report by UNDP's Growing Inclusive Markets Initiative, is "with the opportunities so great why haven't more businesses taken advantage of them?" The report lists five key constraints: 1. limited market information, meaning that "businesses know too little about the poor" and their priorities as consumers and what they can offer as producers and business owners themselves, 2. ineffective regulatory environment including the lack of a functioning legal system, 3. inadequate physical infrastructure, 4. missing knowledge and skills, and 5. restricted access to financial products and services. [20] **In the context of aid effectiveness, the question is what role aid and partnerships can play to spur and provide incentives for a positive contribution of the private**

[13] UNDP (2008) p.14. The UNDP report "The MDGs: Everyone's Business" contains cases of inclusive business models and how they contribute to the MDGs. UNDP (2010).
[14] "Accelerating progress towards the MDGs through inclusive business", New York, 21.09.2010.
[15] UN General Assembly (2010) p.11.
[16] The BOP concept was first introduced by C.K Prahalad and Stuart Hart. Simanis and Hart (2008) p. 1.
[17] BOP strategies have been criticised, also by the founders, for being "arms length's attempts to quickly tap into a new market" and for having a "consumption-based understanding of local needs". A concept for a second generation of BOP strategies has been put forward which stresses the need to work in close partnerships with communities. Simanis and Hart (2008).
[18] www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=MTYxNg&doOpen=1&ClickMenu=LeftMenu
[19] To look at how representative this shift is of the for-profit private sector as a whole is beyond the scope of this study.
[20] UNDP (2008) pp. 17-18.

sector to development, and to help overcome some of the identified constraints. This is addressed in section four and five respectively.

2.3 What role should the private sector play in aid processes?

- *The private sector contributes best to aid objectives by running responsible businesses but also plays diverse roles and engages directly in aid processes*

Interviewees were asked what roles the private sector plays and should play in aid processes. In response, several interviewees across categories echoed the position put forward by various business organisations in connection with the 2010 UN MDG Summit that the for-profit private sector contributes best to **poverty reduction, which is also the objective of aid, "by doing what we do best: run well-led, competitive and responsible business."** At the same time, for-profit private sector stakeholders contribute to or engage directly in aid processes through initiatives of their own or through partnerships. The roles the private sector (for-profit and foundations) plays in relation to aid processes, as mentioned by interviewees, include the following:[21]

- **Mobilisers of resources,** e.g. through innovative consumer or market based mechanisms of foundations and/or the for profit private sector.
- **Contributors of financial and in-kind resources**: Funding for research, for individual projects or joint global initiatives (foundations and for-profit private sector). In-kind contributions e.g. in the form of training making use of the expertise of a company, for example related to financial, data and project management, or through donations of not-for profit commodities (for-profit and foundations).
- **Providers of goods and services as implementers/contractors** in aid projects, including **recipients of funding** based on e.g. competitive challenge funds or grant applications.
- **Dialogue partners and advocacy**: Dialogues with partner country governments and donors and/or advocacy e.g. on how to enhance inclusive business and market approaches, or on how to address challenges in specific sectors, such as health and agriculture (for-profit and foundations).
- **Partners in public-private partnerships (PPPs)** through cost and risk sharing, including so called co-investment, in various sectors including health, agriculture and infrastructure to support the implementation of national plans.[22]
- **Drivers of innovation**: The private sector is a driver of innovation which in different ways can respond to and address developmental challenges and the needs of people living in poverty (who themselves are also key agents of innovation).

- *Whilst there is no consensus on what roles the for-profit private sector should play in aid, several donors and partner countries stress "partners in PPPs", "implementers of projects" and "equal dialogue partners"*

The question of what role the for-profit private sector should play in relation to aid processes, generated different responses and there is no consensus. **The majority of donor and partner country respondents stated that the most common and important roles for the for-profit private sector to play are as partners in PPPs and as implementers of projects.** A couple of civil society respondents underlined that private sector participation should take place in the context of an open bidding process in which the private sector acts as subcontractors to government.

---

[21] Private sector refers to for-profit unless indicated otherwise. A note of caution is needed, as the for-profit private sector would not necessarily define their contributions as "engaging in aid processes".

[22] Co-investment can take place within public-private partnerships. In the context of the HIV/AIDS response, the term co-investment refers to the harmonised and coordinated joint investment of public and private resources with the common objective to improve equitable access to and provision of HIV/AIDS services. GTZ et al. (2005).

In a bilateral donor's statement in support of private sector partnerships for development issued at the 2010 UN MDG Summit, donors have chosen "to recognize the private sector as equal partners around key development issues..","rather than viewing the private sector merely as resource providers."[23] Similarly, a partner country representative stated that there has been a shift from seeing the for-profit private sector as a contractor to a partner to the government. Several respondents emphasised that dialogues with the for-profit private sector on development are crucial for being able to tap into their skills.

Box 2: The Global Fund to Fight AIDS, Tuberculosis and Malaria and the private sector as a partner in global health

The example illustrates different roles the private sector can play in aid processes and the roles of new actors in the aid landscape.

The Global Fund to Fight AIDS, Tuberculosis and Malaria was created in 2002 to provide the resources needed to support prevention, treatment and care programs against the three diseases. The Global Fund is a public-private partnership between governments, civil society, the private sector and communities affected by the diseases. Whilst the funding comes predominantly from donor governments, private sector financial contributions have increased, together with the leveraging of additional capacities as implementers. **By pooling public and private resources, and disbursing them according to national priorities, the Global Fund ensures that funding for national health programs is spent in a harmonized way according to the principles of aid effectiveness**. The Global Fund recognizes private sector partnerships as means of creating effective value-for- money and encourages business and other private sector partnerships in three different ways:

1. Monetary donations and innovative financing: In 2008, private sector and NGOs contributed a total of US$ 182 million, representing 6.6 percent of all contributions to the Global Fund. A significant portion of these funds came from **the (PRODUCT) RED™** cause-related marketing initiative. Companies whose products take on the (PRODUCT)RED mark contribute up to 50 percent of the gross profits from the sales of (RED) items to support Global Fund financed HIV/AIDS programs in Africa. By the end of 2010, more than $160 million had been raised for the Global Fund through this channel, through partnerships with companies such as Apple, Bugaboo, Converse, Starbucks, and Nike. In 2008, the Global Fund welcomed **Chevron** as its inaugural Corporate Champion. Chevron is the organisation's largest single corporate donor to date with a total commitment of US$ 55 million. Other significant corporate donors include **Takeda Pharmaceuticals** of Japan, and mining giant **Anglo-American**. In 2010, the Global Fund launched its "Gift from Africa" campaign, which invites private sector leaders from the continent to invest in its fight against the three diseases, achieving initial pledges of US$ 5 million.

The Global Fund is actively developing its innovative finance portfolio through projects aimed at engagement with the financial sector. The first initiative, directed at equities markets is the **Dow Jones Indexes Global Fund Index "family"** comprised of blue-chip companies that support the mission of the Global Fund. Dow Jones is sharing (50 per cent each) the licensing fee with the Global Fund. So far, the index has been licensed to Deutsche Bank for Exchange Traded Funds (ETFs) listed on major financial exchanges in Europe and Asia. A Sharia-compliant version of the index will be launched on the Abu Dhabi Securities Exchange (ADX) by the National Bank of Abu Dhabi. While ETFs may not generate substantial revenue for the Global Fund, this initiative provides robust proof of concept that a wide range of opportunities exist to leverage the about 100 trillion US dollars in global assets under management to support health and development.

[23] Bilateral donor's statement in support of private sector partnerships for development", 22 September 2010, United Nations, New York.

2. Partnering in grant implementation: The Global Fund engages the private sector to co-invest as implementers of programs together with governments. Private sector know-how in the implementation adds value through capacity building, scaling up the scope of implementation and enhancing logistical efficiency. For example, the Fund works with many companies in Asia and Africa, utilising corporate health infrastructure to expand workplace health care services beyond workers to the surrounding communities. Private sector entities may be particularly well suited to act as recipients as they in some cases may be the most viable source for delivery of services in remote locations where other options are not available. To date, seven countries across Asia and Africa have signed up the private sector as one of the "Principal Recipients" in implementing their grants.

Private sector actors can also play a catalytic role in developing proposals submitted for funding. One example is **Marathon Oil** in Equatorial Guinea, which alongside providing support for the development of a malaria program around its area of operations, invested US$ 1 million in the development of a national program and Global Fund proposal. This proposal was successful in securing US$ 26 million in support from the Global Fund. In-kind donations of services have also had a significant impact on implementation efforts. In 2008, the Global Fund developed a partnership with **Standard Bank** to provide financial and project management expertise to Global Fund grant recipients in selected countries in Africa on a pro-bono basis. The objective is to help ensure that funds are efficiently managed, spent and distributed as well as to assist with administration and reporting requirements. Standard Bank's support is provided unconditionally on a demand-driven basis and is tailored to meet each recipient's specific needs. In an innovative partnership, the **Affordable Medicines for Malaria Facility (AMFm**, 2008), the Fund is working in 11 countries to overcome market failures to make low-cost and high quality anti-malarial drugs available through private distribution channels with the participation of a number of drug manufacturers.

3. Serving as a public advocate and contributor to good governance: Companies and business coalitions can play an important role in advocating for increased support to the Global Fund and the fight against the three diseases through dialogues with various stakeholders like consumers, suppliers and distributors and policy makers. The Global Fund Board includes a private sector representative, supported by a larger delegation of private sector companies organized by the **Global Business Coalition on HIV/AIDS, Tuberculosis and Malaria**. The private sector is also represented at the recipient country level by local companies and business associations who use their expertise to contribute to grant governance and oversight.

Sources: Global Fund to Fight AIDS, Tuberculosis and Malaria (2011), http://www.theglobalfund.org/en/civilsociety/?lang=en

- *Private sector stakeholders play an important role in advocacy*

The importance of the **advocacy roles of companies and foundations alike** was emphasised by several respondents. Several interviewees (expert, donors and civil society) in particular emphasized the role of private foundations in bringing attention to sectors like agriculture, which were said to have gained insufficient funding by the aid community. A foundation stated that they engage in advocating for access to medicine and see their role as bridging between the pharmaceutical industry and the aid community, and as drivers of innovation over a long term period. Similarly, one foundation interviewee stated that they can play an important role in dialogue and policy processes on aid and that they have a unique niche as foundations are independent from political cycles. However, it was also mentioned that foundations are bound to the interests of founders, which need to be reconciled with the context on the ground to make sure priorities are not distorted, and to avoid imposing priorities when they do not fit the context.

- *The question of what role the private sector should play in aid processes generates different answers related to different views on the relationship between the public and private spheres*

As pointed out by a bilateral donor, the question of what roles the private sector should have in relation to aid processes is **political and directly related to the question of what the relationship between the public and private spheres should be**, to which there are different answers and models.

One independent expert described how in the development community there are those who do not believe business models can be reinvented for development purposes, or at least not with aid contributions. In the other camp there are those who have a strong belief in "the free market" solving the problems and that "governments should get out of the way." There are tensions between these perspectives.

Several respondents (donor, partner country and civil society) pointed at **mixed experiences and lessons to be learned from privatisation in service delivery**, e.g. health, education and water. In some cases privatisation has resulted in extortionate fees for consumers and there are different views on whether the private sector should deliver basic services or not. A partner country pointed at the risk that "when the government has moved from implementer to supervisor there is a temptation to cut corners". The need to address quality insurance was underlined.

2.3.1 Opportunities and challenges for aid effectiveness

- *Resource contributions are welcomed but transparency, alignment and systemic impact need to be ensured*

Several respondents (donors, experts and foundations) welcomed the **financial resource contributions of the private sector (for-profit and foundations)** as a complement to ODA resources. Several respondents (expert, civil society, partner country representatives) pointed at the challenge of **how to ensure that private sector resource contributions are transparent, accountable and aligned to national plans and sustainable over time**. If each and all private sector contributors set up their own projects outside of national development plans, this increases fragmentation and affects aid effectiveness negatively.

As mentioned by a foundation representative, the **philanthropic contributions of foundations are often not reported on or quantified in an aggregate** way which poses challenges for actually knowing how much money they provide collectively.[24] One foundation underlined that as they become bigger actors, it is important to comply with aid transparency and that they therefore have signed on to the International Aid Transparency Initiative (IATI). There is also an example of how a foundation has started to report its activity-level data to the OECD Creditor Reporting System database in 2010, which is an important step towards more transparency and accountability.

Two respondents stated that one way of ensuring alignment to country priorities, and thereby contributing to aid effectiveness, is to **provide trustworthy joint initiatives or funds which contributions can be channelled through**. At the same time, one respondent stated that such joint initiatives must allow for a company to be able to showcase results and make them visible as "their own". A partner country stated that if the private sector is to "align with the Paris Principles" this implies that they have to "give up some authority over their money". There can thus be a **tension between the Paris agenda** to strengthen the ownership of the recipients and not "claim funds", **and the private sector incentive to demonstrate competitive advantage** including through their contributions to development.

- *The private sector can offer effective implementation and reach*

[24] Estimated figures on international giving by U.S private sources, including foundations and corporations, are compiled in the annual *Index of Global Philanthropy and Remittances.* The 2010 index also provides estimates for additional 13 developed countries. Hudson Institute (2010).

Several respondents (partner countries, corporate and donor interviewees) stated that **the for-profit private sector has the capacity to implement certain projects effectively** based on their management skills and operational flexibility. Companies at times have a good reach in **rural areas through their distribution channels which governments and donors can piggy back on.** Two examples were mentioned where the distribution systems of breweries had been used for distributing fertilizers to farmers and condoms and information on HIV/AIDS respectively. The other way round, there are also examples of how the for-profit private sector has been the initiator of projects based on their first hand experience of needs in communities where they work, such as providing bed nets to prevent the spread of malaria, which governments then have incorporated into their programs.

- *Need for realistic expectations on the private sector in the context of aid effectiveness*

Two donors pointed at the **need for realistic expectations** of what the private sector can, and is willing to, do. Whilst the private sector has responsibilities, they "are not the state", which has implications for what expectations one can have on the role of the private sector in relation to the aid effectiveness agenda.

2.3.2 How to engage the private sector in the aid effectiveness agenda?

The question posed on what mechanisms can be devised to get the private sector more engaged in aid/development effectiveness processes at country and global levels **generated mixed responses.** Viewpoints varied depending on how to interpret "engagement"; whether it referred to engaging the private sector in aid effectiveness policy discussions at global level, or in aid processes on an operational level. The former generated more questions than the latter.

Public-private dialogues at country and international levels on common development challenges were seen as crucial by most respondents. Similarly, increased public-private cooperation on an operational level was by a majority of respondents seen as valuable for achieving the objectives of aid.

Related to engagement on a policy level, several donors stated that the for-profit private sector will be reluctant to engage in discussions unless there are concrete outputs of relevance and value to them. There was a lack of clarity on "what's in it for the private sector" to engage in the discussions. Several civil society organisations were not in favour of engaging the for-profit private sector in aid effectiveness policy discussions at global level. One CSO respondent stated this engagement should take place through the planning and programs devised by governments at country level. One foundation stated that engagement is not just about making an invitation on the terms of the other actor, but rather to set conditions jointly. It was stated that there is a need for a new aid architecture, as the involvement of new actors requires a different set up.

In sum, there was **no consensus on how to engage with the private sector in the context of aid effectiveness.** A number of respondents pointed at the need for clarity on key issues regarding for what purposes and who to engage: A Multilateral Development Bank (MDB) respondent stressed that you need to be clear on "what we want when we engage the private sector, what they will get out of this and to manage expectations." Another MDB respondent stated that the for-profit private sector will engage based on the motive of securing benefits for the company, which needs to be understood. One independent expert stated that there will be a conflict of interest "if some are at the table while others are not" and that engagement therefore should take place through business organisations rather than individual companies. A CSO pointed at the need for clear rules for how to engage the private sector, e.g. to ensure small business interests and the informal sector are adequately consulted. **Several respondents stated focus should be on results, which in turn provides guidance on whether partnerships and dialogues are useful or not, and that initiatives should be context specific**.

3. PARTNER COUNTRY PRIORITIES AND CHALLENGES[25]

The question of how to ensure a positive contribution of the private sector to national development objectives is huge and transcends the aid effectiveness agenda. One of the key considerations is that responsibilities differ between the public and the private sectors, and the latter needs to find a way to support without substituting the state. Nevertheless, respondents have identified some priority areas for partner countries as outlined below.

- *Country ownership, accountability and alignment to national plans are key*

Like for all development objectives, strong country ownership of development plans, together with democratic governance and accountability of the government to its people were emphasised by partner country respondents in the context of engaging with the private sector. Several respondents across categories stated that it is crucial to work with the private sector to ensure projects are aligned with national development plans and to ensure long term sustainability and maintenance of facilities, e.g. within the infrastructure, water and energy sectors. A partner country representative in this context stated that a key challenge is "**to enlist support of the private sector without substituting the state"**, as the state has the overall responsibility for ensuring the provision of basic services to the citizens.

- *Strong national regulatory frameworks are needed*

Partner country respondents pointed at the potential for further cooperation with the private sector at country level. This however requires improvements in protecting both the public and private sectors through the rule of law and transparent and fair legal systems to solve disputes. **Weak regulatory frameworks were said to be the main challenge for ensuring sustainable contributions from the private sector to national development objectives**. As stated by a civil society respondent from a partner country, when the regulatory frameworks are weak or absent, this spills over on the quality of private sector development, corruption becomes a risk factor and companies may take advantage of the absence of social and environmental standards, particularly in countries in fragile situations. International regulations and the voluntary initiatives of companies can play a positive role when national frameworks are weak, but cannot substitute these.

- *The importance of putting "the right incentives" in place*

To create an **environment which enables the private sector to prosper and which at the same time strengthens the positive contributions to development** is a key priority for partner countries. This can entail reforms to tackle the constraints the private sector - in particular microenterprises and SMEs – are facing: facilitating access to finance, simplifying and enforcing fair and transparent rules, providing access to land and markets for farmers. One partner country representative stated that "**the enabling environment is a two sided coin", on the one hand incentives are needed for the private sector but on the other hand strong regulatory frameworks need to be in place** within which the private sector is expected to operate. If the latter are not in place, there is potential for abuse.

Several respondents reflected on the need "to put the right incentives in place". An interviewee representing a platform initiative working with business stated that the i**ncentives and requirements for larger private companies to act as development partners are often lacking at country level,** for example requirements and incentives to source locally or employ underserved communities. It was suggested that partner country governments at times could demonstrate stronger assertiveness, including in **ensuring that procurement and tax policies are supportive of development objectives.** Donors should in turn be supportive of such policies. This position was echoed by several

[25] Further input from partner countries is needed to gain a better understanding of the key challenges and priorities in relation to the private sector at country level.

respondents across categories, who for example stated that tax policies are important instruments for mobilising domestic resources for development priorities.

- *Engage the private sector in transparent and inclusive dialogues*

Several respondents (donors, partner countries, private sector and experts) underlined the importance of **engaging with the for-profit private sector (domestic and non-domestic which operate on a national level) when developing national plans and priorities**. The purpose of dialogues would be to get a clear picture of what the private sector can deliver and what the constraints are for positive private sector contributions to development, as well as to present the national priorities and frameworks in which the private sector is expected to operate. Two partner country respondents explained how the government has intensified consultations with the private sector when developing their poverty reduction/national development plans. However, the extent to which such dialogues take place seems to vary.

Several respondents across categories (an MDB, a multi-stakeholder platform and partner countries) emphasised that **dialogues with the private sector as part of national planning processes need to take place in a transparent and inclusive manner** – involving private sector as well as civil society representatives. A business platform stated that consultations should take place within appropriate structures, and with business sector organisations, as opposed to individual companies as "they will push their agenda".

BOX 3: The NEPAD-OECD Africa Investment Initiative - support for mobilizing investment

The example illustrates a partnership to strengthen capacity and policy frameworks in African countries for country led investment for development.

The NEPAD-OECD Africa Investment Initiative is a major regional forum on mobilising investment for Africa's development. Launched in 2006 as a partnership between the OECD Investment Committee and NEPAD, as well as other regional and global organisations, the Initiative aims to:

- strengthen the capacity of African countries to design and implement reforms that improve their business climate
- raise the profile of Africa as an investment destination while facilitating regional cooperation and highlighting the African perspective in international dialogue on investment policies

In particular, the Initiative focuses on how to catalyse top-priority reform in areas that have the greatest impact on Africa's development, such as infrastructure and agriculture. The Initiative has helped African and international partners to promote policies that improve the investment climate in Africa in concrete ways which speak to aid effectiveness:

- the design and use of diagnostic tools, including the "Policy Framework for Investment" which has been developed in partnership by 60 non-OECD and OECD countries to improve investment conditions. The "Policy Framework for Investment" tool is supporting ownership in countries such as Zambia which has been using it for defining its priorities for boosting investment.
- a capacity building program on Public-Private Partnerships (PPPs) in infrastructure to assist African governments interested in developing PPPs, is being developed in partnership with the African Development Bank (AfDB).The program aims to support stronger ownership and alignment and country-led frameworks.
- the NEPAD-OECD Initiative has used the OECD "Principles for Private Sector Participation in Infrastructure" in supporting African governments to strengthen their policy frameworks, including for transparent procurement and for investment in infrastructure.
- on the donor side, an ongoing survey will identify the constraints and changes that have to be managed to improve better country-led investment policies.

Source: The NEPAD-OECD Initiative:
http://www.oecd.org/document/41/0,3343,en_2649_34893_45337193_1_1_1_1,00.html

4. THE ROLE OF DONORS AND AID

Most donors, bilateral and multilateral, have increased their engagement with the private sector. There is however **little in-depth or comparative analysis of the evolving relationship between ODA and the private sector.**[26] An analysis of 10 international development agencies focusing on their relationship with multinational corporations, shows that agencies are at various stages of developing their initiatives and that commitments are difficult to quantify due to lack of, or differences in, reporting.[27] According to the International Finance Corporation (IFC), **there has been a ten-fold growth of multilateral finance to the private sector since** the early 1990s until 2007.[28] Interviewees confirm that individual donors are scaling up their activities in relation to the private sector.

4.1 Objectives and strategies of donors

The motives, strategies and mechanisms for engaging with the for-profit private sector and for supporting private sector development at country level vary between donors. **In their direct engagement with the for-profit private sector most donors focus on the core business models** with the objectives: to promote responsible business practices, to amend business models with a focus on making them more inclusive, and finally to stimulate business solutions that contribute to development. Some of the main strategies mentioned by respondents were the following:[29]

- *Promoting responsible business practices*

Donors engage with the for-profit private sector to promote responsible business practices in areas such as anti-corruption, transparency, human rights, environment and labour standards. The many examples include sector specific initiatives such as *The Extractive Industries Transparency Initiative (EITI)* and the OECD's *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas*, as well as sector wide initiatives such as the *UN Global Compact* and the *UN Secretary General's Special Representative on Business and Human Rights*, the *OECD Guidelines for Multinational Enterprises* and *ILO* processes.

- *Promoting inclusive business models and stimulating innovative business solutions*

Donors leverage and provide financial resources e.g. through challenge funds, PPPs, co-financing for pilot studies, matching grants, loans, equity investments, guarantees, micro-credits with the purpose of sharing risk and catalyzing private sector engagement that contributes to the MDGs. Credit guarantees are also provided to smallholder farmers and SMEs participating in inclusive business models.

Donor and multilateral agencies also play a convenor role and engage MNCs and smaller domestic SMEs in dialogues and multi-stakeholder initiatives. According to one multilateral agency, **a key objective is to strengthen value chains,** i.e. to build the capacity of small-scale producers to move beyond a resource provider function to value added production and to connect them to markets and larger companies. The value chain approach targets individual companies as well as sectors including agriculture, textiles, tourism, energy, and so called new green value chains and commodities.[30]

[26] Nelson (2010) p.11.
[27] Business Civic Leadership Center (BCLC) and Corporate Citizenship (2009) p.10.
[28] The figures show a growth from around $4 billion to 40 billion per year from 1990 to 2007. IFC (2008) p.29.
[29] This does not claim to cover all donor activities, e.g. the role of Development Finance Institutions (DFIs) was not raised in detail by interviewees.
[30] Promoting the integration of local producers with domestic and global value chains is e.g. part of the UNDP Inclusive Market Development approach: http://www.growinginclusivemarkets.org

- *Supporting regulatory reforms and capacity building in partner countries*

Donors work with and give advice to partner country governments to **strengthen regulatory frameworks, the rule of law, transparency and public institutions.** The focus of such initiatives is often expressed in terms of "to improve the business or investment climate". However, as pointed out by respondents (multilateral and expert), improving the business climate does not automatically translate into benefits for poor people. Several respondents (donors) underlined that there is a need to differentiate between "private sector development", which aims to promote the business climate, and working with "private sector entities as actors in development" to promote development objectives, although there are linkages between the two.

BOX 4: Working together for responsible business practices - the Extractive Industries Transparency Initiative

The example illustrates a multi-stakeholder approach involving donors, partner country governments, the private sector and civil society to improve the transparency and accountability in the extractives sector.

The case for improved transparency and accountability in the extractive sector: The exploitation of oil, gas and minerals can generate revenues to foster growth and reduce poverty. However, when governance is weak, it may result in poverty, corruption, and conflict. (Climate change is also an issue as there is a need to reduce the utilization of fossil fuels on global level).

The *Extractive Industries Transparency Initiative (EITI)* "aims to strengthen governance by improving transparency and accountability in the extractives sector." The EITI requires full publication of company payments and government revenues from oil, gas and mining. The EITI has developed a methodology that ensures a global standard is maintained throughout the different implementing countries. Implementation is the responsibility of individual countries and is assured by independent validation. Implementation is underway for 33 countries (25 November 2010).

A multi-stakeholder approach with multiple benefits: The EITI is a multi-stakeholder initiative which consists of a coalition of governments, companies, civil society groups, investors and international organisations including the multinational development banks (MDBs), which participate and play different roles in the process. The MDBs and donor governments provide technical and financial support to implementing countries - directly or through a multi-donor trust fund managed by the World Bank, financial support to the management of the EITI, and finally support to EITI outreach. 50 of the world's largest oil, gas and mining companies support and actively participate in process and CSOs participate in the EITI directly and through the Publish What You Pay campaign, supported by over 300 NGOs worldwide.

The EITI is said to benefit different constituencies:
- Governments benefit from implementing an internationally recognised procedure for transparency and the "commitment to reconcile company payments and government revenues via a multi-stakeholder process signals a commitment to good governance, improves international credibility and affirms that the government is committed to fighting corruption."
- Companies benefit from an improved investment climate, a constructive engagement with citizens and civil society and a level playing field among companies.
\- **Citizens and civil society** benefit from increased transparency which enables to hold governments and companies to account when tax payments are disclosed.

Source: EITI (2010)

4.2 What role should aid play and are donors well equipped?

Questions were posed to interviewees on what role aid should play to support a positive contribution of the private sector at country level, and whether donors are well equipped. The responses illustrate that there are different perspectives on what donors should do and what the challenges are. In some instances there might be an agreement on the goals, but not on the measures needed. Some of the main challenges, concerns or suggestions are summarised below.

BOX 5: Working together for responsible business practices - towards clean minerals from conflict zones
The example illustrates a multi-stakeholder initiative involving donors, partner country governments, the private sector and civil society to promote responsible business practices in mineral extraction in fragile states.

The case for due diligence in mining and trade in minerals: In conflict-affected and high-risk areas, business investment in mining and trade in minerals have the potential to generate income, growth and prosperity, sustain livelihoods and foster development. However, companies can also contribute to human rights violations, crime, corruption and conflict if they acquire and use minerals that are dug by forced labour under dangerous conditions or from mines controlled by corrupt army commanders or rebel groups. Consumers may buy products containing such minerals. To avoid doing harm, companies could choose to divest from conflict-affected zones. However, this would potentially shut such areas from global markets and reduce opportunities to create jobs and growth and enable peace and security.

To address this challenge, the OECD's *Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas* has recently (2010) been developed. Given the different interests involved and the complexity, it has taken two years and a broad multi-stakeholder process, which involved Western and African governments, businesses and civil society, to produce the guidance. It now enjoys wide support, including from the government of the DR Congo, companies, the EU, UN and the eleven member states of the International Conference on the Great Lakes Region.

What will it do?: This Guidance will help companies ensure their supply chains are free of conflict minerals. It sets out how companies can responsibly source minerals from conflict areas by offering a practical, five-step due diligence framework to identify and manage risks. Companies are expected to integrate this framework into their management systems. The guidance also helps differentiate "bad" from "good" mines on the basis of clear criteria. It addresses local exporters, mineral processors, manufacturing and brand-name companies alike.

What role can donors play?: Donors are encouraged to approve the Guidance and work towards its implementation as a means of contributing to development and peace building . Donors are also encouraged to play an active role in the long-term implementation of the guide in four different ways:

1. Promote policy coherence: Ensure different policies and ministries promote development objectives and work together to support the due diligence framework and its implementation on the ground, as well as to raise awareness in OECD countries.
2. Improve governance beyond the mineral sector: Support a working regulatory and judiciary framework, greater state presence, accountable armies and police, better tax collection and improved border management and customs at country level.
3. Build capacity for implementation: Strengthened capacity is required on the ground to monitor the integrity of the supply chain, both in government and civil society (e.g. certification schemes, whistle blowing mechanisms).
4. Contribute lessons learned on financing modalities: Contribute to the debate on the best financing modalities to support clean minerals. "Co-funding along with a partner country government contribution – a sign of political will" – is considered to be good practice.

Source: OECD (2010)

- *Support partner country ownership and policy space*

The majority of respondents stressed the need to find ways of strengthening national broad based ownership in relation to private sector development at country level. One partner country respondent underlined the importance of policy space for governments to develop national private sector strategies, and that **donors can assist with needs assessments etc, "but should not impose strategies".** Several respondents (an MDB, a multi-stakeholder platform and partner countries) stated that **donors can support broad based partnership** fora, which include several stakeholders (private sector, CSOs, donors etc) to address issues related to private sector development at country level.

Concern was expressed by all civil society respondents that the donor "**investment climate approach" - a focus on attracting foreign direct investments - reduces the space for developing countries** to pursue different forms of regulations and policies to address specific national development challenges. The standard setting indicators of the IFC *Doing Business Report* were in particular mentioned and the concerns that they reward labour market flexibility (making it easier to hire and fire work force) which conflicts with job security, and lowering of taxes to attract investments which conflicts with the possibility of generating tax revenues.[31] It was stated that donor influence through conditionality (e.g. on liberalisation and privatisation) and technical assistance have at times prevented developing countries from having policy space to enact some of the regulatory reforms needed to ensure positive development outcomes.

BOX 6: The Business Call to Action – challenging companies to develop inclusive business models
The example illustrates how public and private actors have joined together to stimulate inclusive business models to achieve the MDGs.

The Business Call to Action (BCtA) was launched in 2008 with the objective "to accelerate progress towards the MDGs by challenging companies to develop inclusive business models that offer the potential for both commercial success and development impact." It is a global network of companies, governments, and development organisations working to identify and promote business models that contribute to long-term commercial and development goals. Member companies represent a diversity of sectors. Companies can join by submitting "applications for initiatives that support the implementation of the MDGs while being a profitable and sustainable part of core business strategy."

The BCtA receives financial support from a number of donor government agencies and provides: 1) A global leadership platform and opportunities to share expertise, knowledge, and best practices for market-based approaches to development 2) Advisory support to businesses 3) Linkages with companies, donors, and other key stakeholders.

The BCtA provides examples of how companies have made commitments to improve the livelihoods of people "through commercially-viable business ventures that engage low-income people as consumers, producers, suppliers, and distributors of goods and services."

Source: Business Call to Action (2010) http://www.businesscalltoaction.org/

- *Share experiences and strengthen capacity and regulatory frameworks*

Partner countries in particular stated that donors can support the strengthening of public institutions, regulatory frameworks and monitoring capacity at country level. A platform initiative underlined that donors should support an "enabling environment" in terms of if it optimises the private sector to work with poor people, and support national policies including on tax and procurement which have a positive impact in this regard. A similar input was made by some civil society respondents who emphasised the importance of support to strengthen tax systems to curb capital flight.

Experience sharing through **South-South and triangular cooperation** was mentioned by two partner countries, **as a way of learning from countries with good track records** in terms of private sector contribution to national development objectives.

[31] The following reports were referred to: Christian Aid (2009), Ellmers et al./Eurodad (2010) and Bretton Woods Project et al.(2010).

BOX 7: The IFC Health in Africa initiative – increasing access to quality health services through the private sector
The example illustrates donor support to partner country governments to improve the environment for the private health care sector and to develop public-private partnerships to address health priorities.

Background: The private health sector represents a significant, and growing, share of health services delivery and financing in developing countries. An International Finance Corporation (IFC) study supported by the Bill and Melinda Gates Foundation, *The Business of Health in Africa: Partnering with the Private Sector to Improve People's Lives,* finds that on average, the private sector delivers 50 percent of health care goods and services in Africa, with 60 percent of the financing for health coming from private sources. Often perceived as serving only the rich and elite in Africa, private providers (including for-profit and not-for-profit) in fact serve all income levels and have broad geographic reach.

According to the IFC, an appropriately managed and regulated private sector can increase quality standards and efficiencies and take some of the financial burden from government. It can also help extend access to quality services, including for the underserved. Its potential contribution to achieving increased health outcomes at country level is, however, still largely ignored by most governments in Sub-Saharan Africa.

The IFC-Health in Africa initiative: As part of the World Bank's Health Nutrition and Population strategy, IFC has developed a comprehensive five year strategy, the *IFC-Health in Africa Initiative,* aimed at increasing access to quality health services through the private sector in Sub-Saharan Africa, with a focus on the underserved.

One of its core objectives is to support governments in improving the policy and regulatory environment for the private health care sector and developing public-private partnerships to address key health priorities. The Initiative is country driven and provides support only to those countries willing to engage with their private sector, by: (a) financing in-depth country assessment of the role and challenges of the private health sector, (b) supporting a series of engagement workshops with public and private stakeholders in order to discuss these challenges and agree on an action plan for reforms, (c) supporting the implementation of the plan together with other donors.

The participatory process has been designed to foster strong country ownership of both the assessment findings and the reform action plans. It is being successfully developed in six African countries (Burkina Faso, Ghana, Kenya, Mali, Republic of Congo and Uganda).

Source: The IFC-Health in Africa Initiative (2011): www.ifc.org/healthinafrica

- *Support and work with the domestic private sector and entrepreneurs*

A key message from interviewees across categories (multilaterals, civil society and for-profit private sector and experts) was that it is desirable to as much as possible work with the domestic private sector in the projects donors support. One MDB stressed that if global actors are engaged, this should be on the basis of adding a specific competence which brings added value. On this topic, civil society respondents raised concern about "MDB bias towards larger projects and companies in industrialised countries".[32]

Several respondents stressed that **donors can play an important role in linking smaller domestic companies with larger companies to make value chains more inclusive** and to help build the capacity of local partners. One civil society representative in particular stressed the need to invest in small-holders in the agricultural sector and support them to develop their businesses.

A representative of a business coalition in a developing country stated that **donors should look at how to develop new business models accustomed to the local context, as opposed to transplanting**

[32] Ellmers et al./Eurodad (2010) was referred to, which looks at companies that receive support from IFC.

existing practices of industrialised countries. It was stated that **new models of aid that support and give incentives for entrepreneurs in developing countries** are needed to spur innovative and concrete solutions for how to improve people's lives. Furthermore, it was stated that too much focus is on developing policies targeting governments in donor assisted projects, whilst aid is rarely targeted at businesses to develop new models which can solve the challenges aid wants to address, including reducing poverty.

BOX 8: Challenge Funds – catalyzing new business models to generate profit and developmental impact

The example illustrates how donors use challenge funds for allocating public finance on a competitive basis to private sector stakeholders, in order to catalyze business models that generate profit and development impact.

Challenge Funds a means for allocating and disbursing aid: Challenge funds are mechanisms for allocating and disbursing public funds efficiently and fairly to overcome a particular challenge. (AECF 2010) In donor engagement with the for-profit private sector challenge funds are used on a competitive basis to catalyze innovative business models which generate development impacts and which are commercially viable. Challenge funds work "by reducing the financial risk incurred in launching a new business model…" Grantees are usually expected to make a substantial investment to match the grant. Once up and running, "successful projects should be able to replicate in other markets and with other products, delivering broader systemic change". (FRICH 2010)

The Africa Enterprise Challenge Fund (AECF): The AECF is a jointly financed challenge fund which provides grants and interest free loans on a competitive basis to for-profit private companies. The aim is "to promote new ideas that will lead to growth in the rural economies of Africa, generating employment and creating new opportunities for systemic change in the markets that serve them."

Launched in 2008, the AECF will run a number of competitions each year for 6 years and is expected to stimulate over US$200 million in private sector investments. It provides funding for business in different sectors including agriculture, financial services, renewable energy and technologies for adapting to climate change as well as media and information services where they relate to these sectors. Then Fund is open to companies from around the world provided the business idea is implemented in Africa.

The AECF is described as a means for providing an open and transparent competition for donor funds, and as a way of leveraging private sector and donor money to help fund successful projects and enterprises. It is currently funded by three bilateral donors (the Australian Government Aid Program, the UK Department for International Development (DFID) and Netherlands Ministry of Foreign Affairs (NMFA), the International Fund for Agricultural Development (IFAD) and the Consultative Group to Assist the Poor (CGAP). It is administered by the Alliance for a Green Revolution in Africa (AGRA).

The Food Retail Industry Challenge Fund (FRICH): FRICH is a competitive fund financed by the UK Government's Department for International Development (DFID). It has made £1.9 million available for grants for partnerships that bring UK retailers and African farmers together. The aim is to bring more products from Africa for sale in the UK. FRICH "awards grants to supermarkets and their suppliers, as well as to others in the food retail industry, to encourage investments at different points along their African supply chains…" These projects are intended to "test new supply chain systems and initiatives that deliver development benefits to farmers and farm workers…", and also to inform customers about those farmers. Successful projects are expected to provide business models which are widely applicable across Africa. (FRICH, 2010) The supported projects range from tea from Rwanda, coffee from Malawi and DRC, fish from Zimbabwe and strawberries from Uganda.

Sources: Africa Enterprise Challenge Fund website (2010): http://www.aecfafrica.org, DFID website (updated March (2010): http://www.dfid.gov.uk/Working-with-DFID/Funding-opportunities/Business/FRICF/ and the Food Retail Industry Challenge Fund website (2010): http://www.frich.co.uk

- *Untie aid and make use of country procurement systems*

A couple of donors emphasised that **fully untying aid would facilitate donor collaboration and cross learning, and a civil society respondent stressed that untying would also facilitate access to ODA money for domestic companies in developing countries**. A donor and MDB respondent raised the risk of backtracking on the commitment of untying aid,[33] as there is a tendency to "move from multilateralism to bilateralism in an age of austerity", with increasing pressure in donor countries to prioritise national economic development.

Two civil society representatives raised the need for reform of donor procurement systems that are associated with bureaucratic barriers to the disadvantage of domestic SMEs. It was emphasised that country systems should be used as a first option in procurement to facilitate access for domestic business.

- *Aid as a leverage - how to ensure added value and accountability?*

Several donors stressed that it is crucial to ensure additionality of aid when engaging in various types of leveraging and risk sharing mechanisms. An MDB interviewee stated that "**donors should not provide subsidies to companies to increase their profitability but for the public good",** and that ODA should be used to fill a specific gap to enable development impact on a larger scale. For example, in a PPP the added value needs to be demonstrated compared with traditional procurement, in terms of generating resources, pooling knowledge and stimulating innovation. As an example of additionality, a bilateral donor and a platform initiative mentioned how a challenge fund has enabled an MNC to change its distribution channels so that these to a greater extent involve local small scale business, which in turn has created employment. The challenge fund freed up space for innovation, and once feasibility was proven, this enabled a scale up.

Several civil society respondents were either cautious or not in favour of using aid to try to catalyse changes in business models. One CSO respondent stated that scarce ODA resources should support the public sector which is underfunded in many developing countries. Several CSOs expressed concern at merging **public with private finance on grounds of transparency and accountability**.

For-profit private sector respondents, from a different perspective, stated that whilst they are prepared "to cover their own cost", **cost-sharing and PPPs play a role in stepping in where their core business remits end,** i.e. where they would not engage without such partnerships. For example, it was stated that aid agencies and CSOs can provide training to local communities, an activity which would be outside the remit of the company, but which could help local communities to take advantage of a product or service.

- *The need for donor collaboration and harmonisation for scalable development impact*

Several respondents (donors, experts and a platform initiative) stated that there is weak collaboration and little harmonisation[34] between donors around engaging with the private sector.[35] One multi-stakeholder representative described how donors are working with "their own companies", putting efforts into "individual baskets" and setting up their own roundtable discussions at country level. There is a **need to pool knowledge as well as funding** to strengthen synergies and division of labour to avoid transaction costs for partner countries and the private sector alike.

[33] Donors have in the Paris Declaration and the Accra Agenda for Action committed to untying aid to reduce transaction costs for partner countries and improve country ownership and alignment. (See Annex 4).
[34] Aid harmonisation is one of the five principles of the Paris Declaration, see Annex 4.
[35] This is confirmed by BCLC and Corporate Citizenship p.18. and Nelson (2010).

Two donors raised the scope for improvements in dialogue between donor government ministries on private sector and development related activities.[36] This is important in the context of policy coherence for development which all DAC members have committed to.

5. THE ROLE OF AND POTENTIAL FOR PARTNERSHIPS

5.1 Public-private partnerships (PPPs) to address development challenges

Interviewees were asked to respond to the question of what the conditions are for effective partnerships between public and private stakeholders, and more explicitly what the crucial factors are for PPPs to deliver successfully. Most respondents focused their responses on PPPs explicitly. However as stated by one donor, there is a tendency to "put all partnerships under the PPP label", whilst there are many different kinds of partnerships beyond what strictly speaking is a PPP.

PPPs have gained traction as a way of engaging with the private sector in the context of aid. PPPs are not a new phenomenon, but are proliferating particularly in the context of budget constraints in both donor and partner countries. PPPs exist outside the sphere of aid in donor and partner countries alike in sectors such as infrastructure, health, water and sanitation, and education.[37]

PPPs can be described as a formalised cooperation between government and business (at times also involving other stakeholders including CSOs, foundations etc), in which the partners are expected to share risks, opportunities and responsibilities, and which combines the competencies of the partners involved to address development challenges and objectives.[38] There are a variety of PPPs in terms of how collaborations are set up (e.g. some have a dedicated secretariat), size and number of partners involved, the ratio of funding, time frames, geographical scope and focus areas.[39]

Various studies have documented advantages and disadvantages of PPPs. Arguments in favour of PPPs include: attracting new financial resources; improved efficiency; maintenance of public sector control over the projects (compared with privatisation); value for money if the PPP mobilises competition to drive down costs.[40] At the same time there are an equal number of risks: distortion of development priorities as governments may favour projects that are financially viable over those that are appropriate from the perspective of what is needed; PPP borrowing and equity may be more expensive than public borrowing; some loss of control of an otherwise public sector operation; efficiency negated by lack of competition etc.[41] According to a study on infrastructure in OECD countries, **the outcomes will depend on several factors ranging from "correct identification of the most efficient bidder, to appropriate risk sharing and the contractual relationships established between the public and private partners**."[42]

[36] The weakness in policy coherence and providing support in a coordinated way is also raised in an evaluation of Norwegian business-related assistance. Norad (2010).
[37] See e.g. Araújo and Sutherland (2010) on PPPs in infrastructure in OECD countries and Gantsho (2010) on PPPs in infrastructure in African countries.
[38] For criteria of PPPs see e.g. McKinsey (2009) USAID (2010) and Ministry of Foreign Affairs of the Netherlands (2010).
[39] DCED (8-9 June 2009 meeting) and McKinsey and Company (2009).
[40] Gantsho (2010) p.12.
[41] Gantsho (2010) also referring to CEE Bankwatch Network (2008)
[42] Araújo and Sutherland (2010) p.5.

5.2 What are the conditions for effective contributions of PPPs to development objectives?[43]
Based on lessons learned interviewees identified a number of conditions to be in place, and challenges to be addressed, to help ensure PPPs contribute to development objectives at country level. These are mentioned below:

- *Build trust between partners*

A majority of respondents across categories named mistrust between the public and private spheres, as the greatest challenge for building sustainable partnerships in general, and for PPPs specifically. A private sector representative stated that although there is an intellectual understanding of the need for joint efforts to tackle development challenges, in practice cooperation has not taken off due to barriers in the form of suspicion and differences in work cultures. To **make use of international organisations to build trust** was suggested by one global platform respondent. One private sector representative also raised the necessity of **building trust at the community level** through commitment over time.

- *Agree on joint clear and monitorable objectives*

A majority of respondents across categories stressed the need to establish clearly defined and shared objectives, which are monitorable, at the outset of a PPP. However, some flexibility is needed to allow for innovation along the way. Two donors stated that **although the motivations of stakeholders might differ, it is still possible to establish common objectives for partnerships when interests overlap.** There is however a need to reconcile motivations and different time horizons of partners: the lengthier processes of development agencies vs. businesses' shorter time frame.

- *Clarify roles, contributions and how to divide risks*

A majority of respondents across all categories stated that roles and responsibilities, including cost sharing and division of risks and responsibilities, need to be clarified in the PPP contract. One donor raised the need to "**balance sharing of first mover risk with first mover advantage**" and that a system should be put in place to ensure that the advantages do not crowd out other potential companies that could replicate the initiative. Information needs to be in the public domain so others can copy it, as PPPs should have a demonstration effect and allow for scale-up.

- *Ensure a transparent process*

Several respondents across categories emphasized the importance of **ensuring transparency in decision making and in the management of resources in PPPs**. Accountability of the stakeholders involved, and independent supervision and evaluation of PPPs were underlined. According to one independent expert, PPPs are set to fail in contributing to development when governments or companies "do not open the books".

- *Ensure a competitive environment*

To ensure PPPs are based on competitive bidding was stressed by some respondents (donor and partner country representatives). One donor representative stated that **tied PPPs limit space and opportunities for innovation and that untying of aid should also apply to PPPs**. A partner country stated that unless a competitive environment is ensured there is risk of public bids being monopolized by a few companies, which inhibits the effectiveness of PPPs and could result in increased costs, wiping out the value for money incentive. Respondents however mentioned that competition <u>within</u> a PPP contract between partners can pose challenges. One donor mentioned an example where the private sector partners in a joint PPP saw themselves as competitors. A similar

[43] This section also draws on the conclusions from an informal meeting: "How do public-private partnerships (PPPs) contribute to core principles on aid effectiveness?" held in Paris, 25 October 2010, part of the activities of the informal working group on "The role of the private sector in the context of Aid Effectiveness".

example mentioned by a donor was how one brand in a PPP became more visible than the brand of the initiative itself, competing with the open source idea.

- *Address asymmetries in information and negotiating power*

Several respondents (donors, multilateral organisations and for-profit private sector) underlined the need to be conscious of and address the asymmetries in information and power that often exist, in particular when larger for-profit stakeholders are working with partners with less resources. Large companies with negotiating capacities can end up "cutting too good a deal" in a PPP at the expense of smaller local actors or development objectives. Several respondents emphasised the need for **capacity building at country level** to negotiate with the private sector.

- *Choose partners carefully*

Several donor and partner country representatives raised the need from their side to be careful in **choosing partners that are legitimate and responsible and to provide clarity on who they are prepared to work with**. Donor procedures for how to go about this vary. One donor underlined the importance of a rigorous process for checking the financial viability and sustainability of companies, whilst at the same time not discriminating against small, local private sector actors. Another donor referred to "generally accepted international standards" and the importance of monitoring, making sure public money is well spent. One civil society respondent called for stronger criteria and clarity on what companies are eligible for PPPs.

- *Ensure integration into national development plans, local ownership and participation*

A majority of respondents stated that **strong partner country ownership is a prerequisite for ensuring PPPs contribute to national development objectives**. One MDB interviewee stated that whilst PPPs themselves are mutually owned, the host government should lead the PPP, define roles of partners and provide overall policy direction. In this way PPPs can support aid effectiveness principles of ownership and alignment. However, one bilateral donor was of the view that the host government should abstain from taking the lead due to constraints (capacity, politics etc).

Several respondents also underlined that partnerships in general, **PPPs included, should involve and respond to the demands of local actors. Two private sector respondents stated that when local communities and organisations are in charge** of programs, this strengthens efficiency and the likelihood of long-term sustainability. One CSO in particular emphasised the need to include marginalised groups, which are often excluded from decision making processes. A business association pointed at the **need for new types of partnerships, which to a greater extent work with communities** and where solutions are driven by them. The concept of **"Public-Private-People-Partnership**" was referred to, to signal this shift.

- *Facilitate scale up and cross sector and agency cooperation*

Several respondents across categories (donors, private sector, experts and partner country representatives) raised the importance of ensuring PPPs can be scaled up to enable sustainable impact. A for-profit private sector representative stated that whilst PPPs are effective as pilots, to enable scale-up commercial sustainability is needed and initiatives have to be part of national development plans. Several donor respondents underlined that **for PPPs to be sustainable they should tap into the core business model of for-profit private sector partners**.

Several respondents raised the need for further **cross agency and sector learning from PPP experiences**. PPPs can be used as an instrument for exploring synergies between different sectors, to achieve the MDGs. One expert also suggested that PPPs can provide a pragmatic way for strengthening cooperation with so called "non-DAC providers of development assistance".

BOX 9: Public-Private Partnerships to achieve the MDGs
The example illustrates how a PPP can leverage the resources of different partners and how impact of scale can be achieved by tapping into the core business of a company.

PPPs as a means for leveraging skills and resources: Public-private partnerships (PPPs) are playing an increasing role in Dutch development cooperation, like for many other donors. The Ministry of Foreign Affairs (MFA) is currently involved in 75 PPPs of varying size and set-up, some of which are multi-stakeholder projects while others are partnerships with individual businesses.

The MFA is investing 750 million in the 75 PPPs between 2003 and 2012 while the business community and other partners are contributing of €1.48 billion. In this way aid works as leverage mobilising additional funding from the private sector. However, the MFA role is increasingly that of a broker who brings parties together, rather than just acting as a source of funding. The idea is that each partner in the PPP contributes with their different strengths, e.g. the MFA can support cooperation with local authorities and local NGOs and help to replicate and scale up effective partnerships, and the business community can e.g. contribute with innovation and access to international and local value chains and markets. The MFA is involved in PPPs mainly focusing on agriculture, market chain development, market access, energy, health, water and sanitation.

"Working together on green light for Africa": One example is the "Working together on green light for Africa" initiative to leapfrog technological solution for addressing the lack of electricity in rural areas. In the partnership, the MFA and Philips Lighting are together investing in solar-powered lamps as a sustainable and affordable alternative to kerosene lamps, which are widely available but are hazardous to health and expensive to use. The costs are equally shared: Philips is investing €3 million "to develop affordable and reliable products" and the MFA is contributing with the same sum "by supporting market development through activities run by NGOs such as information campaigns, training and microcredit schemes." In 2008, a pilot project was launched in northern Ghana and after initial challenges in finding the most appropriate product new lamps are currently being introduced in Kenya, Tanzania and Mali.

The partnership is described as unusual by the MFA as it involves direct collaboration with the private sector without the producer receiving a grant. Whilst costs are shared in the partnership, Phillips "must meet its profit margin on products and compete with others" and "the sales outlets supported by the project remain open to other producers." Based on World Bank figures of money spent on kerosene lighting each year, the partnership is foreseen to give Philips access to a potentially huge market. In this way, the partnership is described as making it possible for a commercial company to reduce market risks without its products being subsidised. The partnership is seen as promising, as it combines "NGOs' knowledge of local markets and the large-scale input and innovation of a multinational."

Source: Ministry of Foreign Affairs of the Netherlands (2010)

6. MEASURING RESULTS

Responses to the questions on results - how the private sector defines and measures success of their engagement in development as well as how donor and partner countries measure results in relation to private sector engagement – demonstrate that this is an area where there are ongoing initiatives.[44]

6.1 Does the private sector measure development impacts?

- *Pilot initiatives towards increased development impact measurements*

Measuring results is at the heart of companies' activities. Several respondents (working for or with the for-profit private sector) stated that **companies are increasingly asked to also demonstrate what impact their business activities have on development beyond purely financial results and beyond**

[44] There are various initiatives looking at how to measure private sector impact on development e.g.: The Business Call to Action Results Reporting Framework, Base of the Pyramid Impact Assessment Framework, the MDG Scan, the WBCSD Measuring Impact Framework and the Global Reporting Initiative (GRI) and the Oxfam Poverty Footprint.

"do-no harm". For some companies this has become a priority in their business development. One representative of a company stated how they together with academia are looking at the impact of their sector using the MDGs as an overarching framework. Another company referred to ongoing work to develop a monitoring tool for their work in communities as part of their core business practices.

However, several respondents (for-profit private sector and a platform initiative) stated **it can be challenging for companies to balance the expectations of development impact reporting with the realities of business processes**. The for-profit private sector has obligations towards shareholders, who often have a focus on results as in maximising profit. Two companies committed to measuring development impacts, also pointed at practical challenges in the form of defining appropriate indicators and establishing a baseline due to lack of data.

To measure development outcomes is pioneering work in the sense that it is led by a few companies, not yet part of business mainstream. The initiatives taken to measure development impacts could inspire as well as put pressure on companies who have not demonstrated the same ambitions. **MDB respondents stated they can play a role in assisting with capacity building for impact measurements** and that they can have an added value in ensuring safeguard policies are followed.

- *The need for joint and transparent standards for impact measurement*

The idea of **establishing an "MDG impact index", to systematically measure the contributions of companies to development objectives**, was raised by a donor respondent. The results should be anchored in government development programs and companies should relate to these in their reporting. Furthermore, one independent expert stated that such an "MDG impact index" should also be applied to broader investment and trade initiatives.

A couple of civil society interviewees underlined **the need for transparent reporting**. CSOs have in particular called for country by country reporting standards for MNCs on the profits they make and the tax they pay in the countries where they operate. Such reporting is seen as a means to curb tax evasion and avoidance by corporations.[45]

Some respondents also mentioned the need for further thinking on how to **measure the impact of philanthropic contributions** of the private sector (foundations and for-profit profit companies) which take place outside current frameworks for addressing aid effectiveness.

6.2. How do donor and partner countries measure results of private sector engagement?

- *The need for further progress on results measurement*

Several donors stated that there is a need for a common results measurement standard and further progress in finding indicators, including for innovative business projects at country level. The "Donor Committee for Enterprise Development (DCED)" was mentioned by a few donors as a platform where work is being done to develop standards. The DCED has developed a "Standard for Measuring Results in Private Sector Development", which provides a practical framework whereby programs can measure and attribute impact according to good practice.[46] However, as stated by a couple of bilateral donors, "private sector development" is not the same thing as working with the private sector to reach development goals, although the approaches can overlap. One donor in this context suggested that a working group could be tasked with developing a standard for measuring results

[45] Legislation has been passed in the USA (July 2010) requiring energy and mining companies registered with the US Securities Exchange Commission to disclose how much they pay to foreign countries and the US government for oil, gas, and minerals. For info see http://www.whitehouse.gov/the-press-office/statement-press-secretary-transparency-energy-sector Country by country reporting is also discussed in various EU processes and the OECD within the OECD Task Force on Tax and Development.

[46] For further information see http://www.enterprise-development.org/page/measuring-and-reporting-results

appropriate for working with the private sector as actors in development. Donor respondents in particular raised **the need to demonstrate value for money, additionality of aid resources and to measure the change leveraged and the impact** it has had on poor people, as well as to look beyond direct impact at counterfactuals.

Several respondents (donors and partner country) stated that **there has been a tendency in PPPs to focus on inputs and outputs** (leveraging of capital, number of people reached etc) **rather than broader societal benefits and development impacts**. Greater focus on evaluating outcomes to facilitate learning was called for, together with greater collaboration between stakeholders to develop appropriate indicators.

A couple of civil society respondents were of the view that there is a lack of debate on which private sector activities could have the most positive impact on the poor and sustainable development. **Greater use of poverty and social impact assessments was called for together with increased transparency in measurement** indicators at project level. The use of financial intermediaries by MDBs (e.g. private equity funds) was by three respondents mentioned as an area for particular concern in relation to the possibility of tracking and ensuring development outcomes.

- *The need for further data and capacity at country level*

From a partner country perspective, to measure results of private sector development strategies and to get access to data can be a challenge. Two partner countries raised the importance of **strengthening government institutions and capacity to improve statistical data,** to be able to assess private sector development and contributions at country level. One partner country interviewee described how they had made progress in creating a national platform to which the private sector and civil society have been invited by the government to discuss results measurement based on the national development plans.

7. SUGGESTIONS FOR WAYS FORWARD

The purpose of this report is to identify lessons learned, opportunities and challenges in relation to the role of the private sector in the context of aid effectiveness. The approach taken was broad, reaching out to stakeholders with very different views and experiences. Three overarching observations can be made based on the interviews:

First, two different discourses meet when discussing the role of the private sector in relation to aid effectiveness: one discourse on businesses as contributors to development and one discourse on how to enhance the effectiveness of aid. Both discourses have their own different platforms, practices, principles and ongoing processes which stakeholders refer to. For example, companies are not necessarily familiar with the Paris Declaration and the aid effectiveness agenda, and aid practitioners are at times not familiar with business approaches to address development challenges. Whilst these two discourses overlap, there are challenges to overcome to ensure there is understanding among stakeholders of each other's perspectives.

Second, the topic of "the private sector in the context of aid effectiveness" is closely interlinked with broader questions such as the relationship between the private and public spheres and the respective responsibilities of the state and the private sector vis-à-vis development. There are different answers and models to these overarching questions.

Third, viewpoints vary between and within different categories of stakeholders on what role the private sector could play in aid processes, and on how to strengthen synergies between the aid effectiveness agenda and the private sector to enable development outcomes. At the same time, respondents across categories point at the need and potential for further collaboration between public and private stakeholders to contribute to the objectives of aid and development at country level.

Based on the results of the interviews, a number of suggestions for ways forward can be made. However, the suggestions do not necessarily reflect a consensus among the stakeholders who contributed to the report.

Possible ways forward for all stakeholders in aid processes:

- *Clarify the different roles of the private sector in relation to aid effectiveness*

The preparatory process of the 4th High Level Forum on Aid Effectiveness (HLF 4) provides an opportunity to develop a common understanding. There is a need:

- **to clarify what roles the private sector could and should play in the context of aid effectiveness,** including in relation to the policy discussion on the aid effectiveness agenda and in specific initiatives at country level, where there are many examples to learn from. There are different views among and within categories of stakeholders which should be considered. Further clarity is needed on: for what purposes, in what contexts, how and which parts of the private sector can be engaged in different areas to enhance aid effectiveness.
- **to differentiate between different kinds of for-profit private sector stakeholders:** between domestic and non-domestic and large and smaller companies, between different sectors and ways of providing solutions, e.g. through products, services or supply chains. The for-profit private sector is in no way homogenous.[47] Some companies engage directly in aid processes whilst others contribute to the objectives of aid indirectly through their core business strategies.
- **to clarify what "core business" means in specific contexts** in terms of impact on poor people and the objectives of aid. Whilst there is a general understanding that the for-profit private sector contributes best to the objectives of aid through developing their core business models, there are different understandings of what "core business" actually means.

- *Clarify the relevance of aid effectiveness principles in relation to the private sector and build on shared understanding*

The for-profit private sector has not endorsed the Paris Declaration and has not been involved in the policy discussion on aid effectiveness. However, responses demonstrate that some private sector stakeholders refer to similar principles, including the importance of broad based ownership and alignment to national development plans to ensure sustainable development outcomes and to measure development outcomes. **The shared understanding on principles can provide a basis for joint initiatives to further contribute to aid effectiveness.**

Some respondents raised questions on how some aid effectiveness principles, e.g. harmonisation, fit with the logic of how the for-profit private sector operates and the laws they have to abide by. **There is a need to explore and clarify the relevance of aid effectiveness principles in relation to the private sector. Potential synergies and tensions should be identified to see how they can be addressed.** Changes might be needed internally in companies to further contribute to aid effectiveness when they engage in aid processes, as well as in the aid effectiveness agenda to better address the role of the private sector. The idea is not to "force aid effectiveness principles onto the private sector". **A process to address this could be set up ahead of the HLF 4, to which private sector stakeholders that have shown interest in participating in discussion on aid effectiveness could be invited, together with partner countries, donors, civil society and experts**.

[47] The role of foundations in the context of aid effectiveness should be explored further.

- *Make progress in measuring development outcomes and sharing results transparently*

Responses demonstrate that there is a common interest in and need for further improvements in measuring the outcomes of private sector related activities:

- **Donors and partner countries** should improve results measurement standards which demonstrate outcomes (beyond input and output) and impact on poor people and sustainable development of publicly backed private sector related activities. Further progress is needed on measuring results at the outcome and impact levels in PPPs. Results measurements related to sector-wide development objectives should be encouraged.
- **The private sector should,** together with partner countries and donors and civil society organisations and experts, develop tools and indicators to measure how businesses impact on and contribute to development objectives and poverty reduction at country level. There is a need to move beyond showcasing individual positive examples and report on the overall impact of core business activities.
- **All stakeholde*rs*** should conduct ex-ante poverty and social impact assessments of relevant activities. Third-party verification of outcomes and participation of those whom the activities are intended to benefit should be ensured**. Transparency of results is needed to encourage and allow sharing of best practice.**

- *Link private sector strategies and partnerships to the achievement of the MDGs and sustainable development*

The strategies pursued by donors and partner countries in partnerships with the private sector should be clearly linked to the achievement of the MDGs and sustainable and equitable development. The HLF 4 process and discussions could further articulate how in particular MDG 8 "to develop a global partnership for development"[48], could be better utilized for achieving the MDG 2015 goals, and what partnerships between the public and private spheres are needed to contribute to the MDGs and to ensure equitable and sustainable development.

- *Collaborate to develop inclusive and responsible business models*

Public and private stakeholders should work together to develop business models which include people living in poverty as clients and customers as well as employees, producers and business owners. Capacity building of small-scale producers is needed to move beyond a resource provider function to added value production. The increased commitment among a number of for-profit private sector stakeholders to develop such business models provides opportunities for further initiatives building on best practice. Lessons from ongoing initiatives could be shared widely.

Public and private stakeholders should support and abide by the standards of multi-stakeholder mechanisms to promote responsible business practices. Lessons can be learned from sector specific and sector wide initiatives. Efforts should be made to reach out to companies and sectors which have not engaged in such mechanisms, including in emerging economies.

- *Support partnerships based on local participation to stimulate innovative solutions*

Public-private partnerships (PPPs) and aid processes should support and work with local communities in the development of business solutions needed to combat poverty and to enhance development outcomes. Participation and ownership of local communities help to ensure interventions respond effectively to the needs of people living in poverty.

- *Facilitate cross sector learning and sharing of experiences to ensure systemic impact*

All relevant stakeholders should engage in cross agency and cross sector learning to enhance systemic impact of collaboration between the public and private spheres. There are various lessons

[48] For further information about MDG 8, see http://www.un.org/millenniumgoals/global.shtml

learned from PPPs which all stakeholders should build on. Further analysis could be conducted on how PPPs can leverage additional resources and skills for development outcomes.

Collaboration should be strengthened between so called non-DAC providers of assistance and DAC donors to contribute to aid effectiveness and the MDGs. Triangular and South-South Cooperation are important instruments for experience sharing.

Possible ways forward for partner countries:

- *Ensure strong regulatory frameworks which enhance development outcomes*

Partner countries should ensure there are strong regulatory frameworks, incentives and requirements in place which enable the private sector to contribute to development objectives. When such frameworks are in place, ensuring resources for successful implementation is key.

- *Ensure strong, broad based country ownership and accountability*

Partner country governments should exercise strong country ownership, allow for broad based participation of different stakeholders in the development process and ensure accountability to enable positive outcomes and alignment of private sector contributions to development objectives.

- *Engage with the private sector in transparent and inclusive dialogues*

Partner countries could engage with the for-profit private sector in the development of national plans to clarify what the private sector can contribute with, what the constraints are for a positive private sector contribution and to present priorities and frameworks within which the private sector is expected to operate. Consultations need to be managed carefully to avoid conflict of interests and undue influence of individual companies. Dialogues should take place in a transparent and inclusive manner involving private sector and civil society representatives and development partners who can share different perspectives and experiences.

Possible ways forward for donors:

- *Support regulatory reforms and broad based ownership in partner countries*

Donors can support partner countries to strengthen public institutions, regulatory frameworks and capacity. Focus should be on reforms needed to ensure positive private sector contributions to development objectives. Donors should be careful not to impose strategies and facilitate broad based ownership of policies related to private sector development at country level.

- *Support the domestic private sector and untie aid*

Donors should support and, as much as possible, work with the domestic private sector and local entrepreneurs in developing countries. Donors should fulfil commitments in regards to untying aid, including in PPPs, and ensure procurements systems facilitate access for domestic companies.[49]

- *Improve collaboration and pooling of resources*

Donors should pool resources and improve collaboration in their activities targeting and working with the private sector, to strengthen synergies and reduce transaction costs for partner countries and private sector stakeholders.

- *Ensure added value, development results and accountability*

Donors need to ensure that aid is used effectively to fill a specific gap to enable a development impact on a larger scale when engaging with the for-profit private sector, i.e. financial as well as developmental additionality. Accountability of publicly financed interventions needs to be ensured.

---

[49] Although several donors stressed the importance of untying aid also in PPPs, there is no consensus on the untying of aid in PPPs, as pointed out by one bilateral donor in the review process of the report.

Donors should choose private-sector partners whose activities contribute to development objectives and that abide by national and internationally agreed upon environmental and social standards.

Possible ways forward for private sector stakeholders:

- *Develop inclusive and responsible core business practices*

The for-profit private sector should work with relevant stakeholders - partner countries, donors, civil society and in particular representatives of people living in poverty - to develop inclusive and responsible core business models to contribute to aid and development objectives. Pioneering companies should encourage others to make further progress through the sharing of practices in multi-stakeholder platforms.

- *Contribute with resources and skills through joint initiatives*

Private sector stakeholders should channel resources and expertise and work with partner countries, donors and civil society to contribute to aid and development effectiveness objectives, building on their expertise, strengths and resources. Resource contributions to aid projects could be pooled as a means to contribute to aid effectiveness and avoid a dispersal of initiatives.

- *Report transparently on resource contributions*

Private sector stakeholders should report on their philanthropic (for-profit and foundations) and core business contributions to aid and development objectives in a transparent manner.

8. REFERENCES

"Accelerating progress towards the Millennium Development Goals through Inclusive Business", Joint statement, 21.09.2010, New York. Presented in connection with the 2010 United Nations High-level Plenary Meeting on the Millennium Development Goals.

Accra Agenda for Action (2008): http://www.oecd.org/dataoecd/30/63/43911948.pdf

Africa Enterprise Challenge Fund: http://www.aecfafrica.org

Araújo, Sónia and Sutherland, Douglas (2010) *Public-Private Partnerships and Investment in Infrastructure,* Economics Department Working Papers No.803, OECD, 23 September.

Base of the Pyramid Assessment Framework, developed by Ted London, University of Michigan.

"Bilateral donor's statement in support of private sector partnerships for development", 22 September 2010, United Nations, New York. Presented in connection with the 2010 United Nations High-level Plenary Meeting on the Millennium Development Goals.

Bretton Woods Project (2010). With Action Aid, Campagna per la riforma della Banca Mondiale, Eurodad, Third World Network. *Bottom lines, better lives? Rethinking multilateral financing to the private sector in developing countries,* March.

Business Call to Action: http://www.businesscalltoaction.org

Business Call to Action, *Measuring Value of Business Call to Action Initiatives: A Results Reporting Framework:* http://www.businesscalltoaction.org/wp-content/uploads/2010/07/BCtA-Reporting-Results-FINAL.pdf

Business Civic Leadership Center (BCLC) and Corporate Citizenship (2009) *Partnering for Global Development, The evolving links between business and international development agencies.*

CEE Bankwatch Network (2008) *Never mind the balance sheet: The dangers posed by public-private partnerships in central and eastern Europe,* Summary version*,* November.

Christian Aid/Malian, Sarah (2009) *Getting back on the rails: the private sector and development*, October.

DCED (2009) "Conclusions - Network Meeting on Knowledge Transfer in Donor Organization Programs with the Private Sector, Public-Private Partnerships: A meeting with Established and New Donors, Vienna 8-9 June.

DCED, *The DCED Standard for Measuring Achievements in Private Sector Development*: http://www.enterprise-development.org/page/measuring-and-reporting-results

Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH and Global Business Coalition on HIV/AID (2005) *Making Co-Investment a Reality, Strategies and Experiences*, With contributions from Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), the Global Business Coalition on AIDS, the Global Fund to Fight AIDS, Tuberculosis and Malaria, the Global Health Initiative, the International Labour Organization, and the World Bank, December.

DFID webpage on the Food Retail Industry Challenge Fund (FRICH): http://www.dfid.gov.uk/Working-with-DFID/Funding-opportunities/Business/FRICF/

Ellmers, Bodo, Molina, Nuria and Tuominen, Visa/Eurodad (2010) *Development diverted: How the International Finance Corporation fails to reach the poor.*

Extractive Industries Transparency Initiative, EITI (2010) "Fact sheet", 25 November.

Food Retail Industry Challenge Fund: http://www.frich.co.uk

Gantsho, Mandla S.V (2010) "The Role and Pitfalls of Private Sector Involvement in Infrastructure", abridged paper presented at the Sixth Annual Collaborative Africa Budget Report Initiative (CABRI) Seminar: Open Budgets and Good Governance, Mauritius, 18 May.

Global Financial Integrity (2008) Illicit *Financial Flows from Developing Countries 2002—2006*.

Global Financial Integrity (2010) *Illicit Financial Flows from Africa: Hidden Resource for Development.*

Global Financial Integrity (2010) *The Implied Tax Revenue Loss from Trade Mispricing*.

Global Fund to Fight AIDS, Tuberculosis and Malaria: http://www.theglobalfund.org/en/civilsociety/?lang=en

Global Fund to Fight AIDS, Tuberculosis and Malaria (2010) *Partnering for global health: The Global Fund and the Private Sector.*

Global Reporting Initiative (GRI) *Reporting Framework:* http://www.globalreporting.org/ReportingFramework/ReportingFrameworkOverview

"How do public-private partnerships (PPPs) contribute to core principles on aid effectiveness?" meeting held in Paris, 25 October 2010, part of the activities of the informal working group on "The role of the private sector in the context of Aid Effectiveness".

Hudson Institute, Center for Global Prosperity (2010) *The Index of Global Philanthropy and Remittances 2010.*

International Finance Corporation, IFC (2008) 2008 *Annual Report – Creating Opportunity.*

Joshi, Sachin with Arora, Seema, Pamlin, Dennis and Sinha, Shirish (2008) *Indian Companies with Solutions that the World Needs, Sustainability as a driver for innovation and profit,* WWF India and CII-ITC Centre of Excellence for Sustainable Development.

McKinsey & Company (2009) *Public-Private Partnerships, Harnessing the private Sector's unique ability to enhance social impact,* Working Document, Social Sector Office, December.

Millennium Development Goals web portal: http://www.un.org/millenniumgoals/bkgd.shtml

Ministry of Foreign Affairs of the Netherlands (2010) *Public-private partnerships, Ten ways to achieve the Millennium Development Goals,* July.

National Committee for International Cooperation and Sustainable Development (NCDO), Netherlands (2005) *Measuring the contribution of civil society and the private sector to achieving the Millennium Development Goals,* the so called "MDG Scan", November.

Nelson, Jane and Prescott, Dave (2008)*Business and the Millennium Development Goals: A Framework for Action,*2nd Edition, published by UNDP and International Business Leaders Forum.

Nelson, Jane (2010) Draft "The Private Sector and Aid Effectiveness: Toward new models of engagement" from forthcoming report Nelson, Jane *Expanding Opportunity and Access: Approaches that harness markets and the private sector to create business value and development impact,* Harvard Kennedy School, Cambridge, 2010.

NEPAD-OECD Africa Investment Initiative: http://www.oecd.org/document/41/0,3343,en_2649_34893_45337193_1_1_1_1,00.html

Norad (2010) *Evaluation of Norwegian Business-related Assistance, Main Report*, Report 3/2010 – Evaluation. Devfin Advisers AB, 10 May.

OECD (2010) "OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas" and *www.oecd.org/daf/investment/mining*

OECD statistics

Oxfam, *Oxfam poverty footprint: Understanding business contribution to development:* http://www.oxfam.org/en/policy/poverty-footprint

Paris Declaration on Aid Effectiveness (2005): http://www.oecd.org/dataoecd/30/63/43911948.pdf

Simanis, Erik and Hart, Stuart (2008) With: Justin DeKoszmovszky, Patrick Donohue, Duncan Duke, Gordon Enk, Michael Gordon, and Tatiana Thieme, *The Base of the Pyramid Protocol: Toward Next Generation BoP Strategy,* Second Edition, Cornell University.

Sturchio, Jeffrey L. (2010) "Health is everybody's business", *The G8 & G20 Canadian Summits,* June.

UN (2010) *Meeting Report United Nations Private Sector Forum on the Millennium Development Goals,* 22 September 2010, New York.

UNDP (2004) *Unleashing entrepreneurship, Making business work for the poor,* Commission on the Private Sector and Development, Report to the Secretary- General of the United Nations, 1 March.

UNDP (2008) *Creating value for all: strategies for doing business with the poor,* Executive Summary, UNDP Growing Inclusive Markets, July.

UNDP (2010) *The MDGs: Everyone's Business, How inclusive business models contribute to development and who supports them.*

UNDP Growing Inclusive Markets initiative: http://cases.growinginclusivemarkets.org

UN General Assembly (2010) "Keeping the promise: united to achieve the Millennium Development Goals", Draft resolution referred to the High-level Plenary Meeting of the General Assembly by the General Assembly at its sixty-fourth session, 17 September.

UN High-level Plenary Meeting on the Millennium Development Goals (MDG Summit), 20-22 September 2010, New York.

USAID (2010) *(Re) Valuing Public-Private Alliances: An Outcomes-based Solution,* USAID Private Sector Alliances Division, Mission Measurement, LLC.

WBCSD, *Measuring Impact Framework - Understanding the business contribution to society:* http://www.wbcsd.org/templates/TemplateWBCSD5/layout.asp?type=p&MenuId=MTU3Mw

World Business Council for Sustainable Development (WBCSD): http://www.wbcsd.org

ANNEX 1: GUIDING QUESTIONS FOR INTERVIEWS

A. General opportunities, challenges and cases: (ALL)

1. What can the private sector contribute with in the development process in developing countries and what are the main challenges/risks associated with the private sector contributions? Specifically, what are the opportunities and challenges with the for-profit sector engagement in the development agenda?
2. What role do you think the private sector (domestic and global level) <u>should</u> play in relation to <u>aid processes</u>? (E.g. implementers of projects, providers of sources of funding, recipients of sources of funding, partners in PPP, partners in dialogue processes on aid and development effectiveness etc.)
3. Please name examples/cases of good practices of how the private sector can be harnessed for poverty reduction, as well as less successful cases and lessons learned, using the health, agricultural and infrastructure sectors as examples. Examples can include approaches by developing countries, the private sector itself and donors.

B. Incentives for private sector (PS) engagement in the development process: (PS in particular)

1. What are the incentives of the (non-domestic private sector) alone or through partnerships, to engage in partner countries? (E.g. when are incentives related to core business opportunities, philanthropy or engaging in policy dialogues?)
2. What are the main reasons to work at country level and do incentives change over time and vary across sectors?
3. What are the enabling conditions for (the non-domestic) private sector to engage in developing countries? (E.g. what role does leveraging from ODA, Public Private Partnerships and support by Multilateral Development Banks play?)

C. Results of and private sector contributions to developing countries' development objectives: (PS and partner countries (PC) in particular)

1. How does the private sector (domestic and outside the country) support developing countries' development objectives? (E.g. support to the strengthening of systems, capacity etc). What are the lessons learned in creating and supporting enabling conditions for an effective contribution of the private sector to national development strategies? (E.g. support to management, regulations etc.)
2. What are the experiences of the private sector in using countries' systems and institutions? (E.g. procurement).
3. How does the private sector define results/success of their engagement in developing countries and how are results measured? (E.g. value added employment, "contribution to MDG/poverty reduction indicators"?) Are there explicit links with aid effectiveness results, and what potential is there for joint monitoring of shared overall country results?

D. Partner country priorities and the role of donors in relation to private sector contributions: (PC and donors in particular)

1. What are the main priorities and challenges for partner countries in ensuring sustainable contributions of the private sector to national development objectives?
2. What main roles, if any, <u>should aid play</u> to support private sector development at country level? What are donors best suited to do to maximize the positive impacts of private sector engagement for development? (E.g. funding specific sectors and projects or supporting an enabling environment?)
3. What main institutional arrangements do donors use for promoting private sector development? Are donors well equipped to support private sector development/what challenges do they face when doing so?

E. The role of and potential for partnerships: (ALL)

1. What are the conditions for an effective partnership between the stakeholders engaged in the aid process (donors, partner countries, CSOs etc) and <u>the private sector</u> to deliver on sustainable results and country-led development? When do partnerships bring added value? (E.g. Bilateral, multilateral and multi-stakeholder).
2. Based on experiences of public-private partnerships (PPPs), what are crucial factors for them to deliver successfully? What are the reasons for failure and how can they be addressed?
3. What mechanisms can be devised to get the private sector more engaged in the aid/development effectiveness processes at country and global levels? (E.g. policy dialogues).

ANNEX 2: LIST OF CONDUCTED INTERVIEWS (IN CHRONOLOGICAL ORDER)

1. 3 September: Gary Bond, Director and Yannis Arvanitis, Economic Analyst Office of the Chief Economist, **European Bank for Reconstruction and Development (EBRD)**
2. 6 September: Christiaan Rebergen, Ambassador for MDGs and Public Private Partnerships, Deputy Director Sustainable Economic Development, **Ministry of Foreign Affairs of the Netherlands**
3. 6 September: Talaat Abdel-Malek, Economic Adviser to the Minister of **International Co-operation, Egypt** and **Co-Chair, OECD/DAC Working Party on Aid Effectiveness**
4. 21 September: Armand Rioust de Largentaye, Chargé de mission, Strategy Department, and Francis Frey, Senior Programme Officer/Innovative Financial Solutions Dept of Strategic Planning, Groupe **Agence Française de Développement**
5. 23 September: Dr. Michel Lavollay, Co-founder **PPP Europe**
6. 27 September: John Tomaro, Director, Health Programme, **Aga Khan Foundation**
7. 27 September: Sang Rock Bae, Institutional Capacity and Finance Sector, **Inter-American Development Bank (IDB)**
8. 27 September: Dr. Christoph Benn, Director External Relations and Partnerships Cluster, **The Global Fund to Fight AIDS, Tuberculosis and Malaria**
9. 29 September: Ms. Imoni AKPOFURE, Special Representative, Europe, **International Finance Corporation (IFC), World Bank Group**
10. 30 September: Jan ten Bloemendal, Head of Unit AIDCO.E2 - Business, trade and regional integration Directorate E: Quality of operations, EuropeAid Co-operation Office**, European Commission**
11. 1 October: Johan Åkerblom, Senior Adviser, Collaboration with business, Team Partnerships**, Swedish International Development Cooperation Agency (SIDA)**
12. 1 October: Matthew Freeman, Program Analyst, **United States Agency for International Development (USAID)**
13. 1 October: written response to questionnaire, Naoko Nishi, **Ministry of Foreign Affairs, Japan**
14. 4 October: David Pitts, Director, International Development Group, Client Coverage, **Standard Bank**
15. 4 October: Vitalice Meja, Coordinator **Reality of Aid Africa Network**
16. 6 October: Modibo Makalou, , **Unit Development Cooperation Initiative, President Office, Mali**
17. 7 October: Bodo Ellmers, Policy and Advocacy Officer, **European Network on Debt and Development (EURODAD)**
18. 8 October: Shahid N. Zahid, Lead Professional (Aid Effectiveness), **Asian Development Bank (ADB)**
19. 13 October: Susanne Dorasil, Head of Division, Economic policy, Financial sector, **Federal Ministry for Economic Cooperation and Development, Germany**
20. 14 October: Bernard SALOMÉ, Managing Director, **Millennium Foundation**
21. 18 October: Seema Arora, Principal Counsellor & Head, **Confederation of Indian Industries -ITC Centre of Excellence for Sustainable Development**
22. 19 October: Jane Nelson, Senior Fellow, Director Corporate Social Responsibility Initiative, **Harvard Kennedy School**
23. 19 October: written response to questionnaire Hyung-Kyoo, Kim, Attache (for DAC-related affairs), **The Permanent Delegation of the Republic of Korea to the OECD**
24. 20 October: Corinna Küsel, Economic Development and Employment, Head of Section Economic Policy and Private Sector Development, **Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)**

25. 22 October: Brad Mears, CEO South **African Business Coalition on HIV/AIDS (SABCOHA)**
26. 27 October: Peter Bosshard, Policy Director, **International Rivers**
27. 28 October: Elaine Weidman-Grunewald, Vice President, Sustainability & Corporate Responsibility, **Ericsson AB**
28. 28 October: Jim Tanburn, Coordinator, **Donor Committee for Enterprise Development (DCED)**
29. Guy Stallworthy, Senior Program Officer, Global Health Delivery, **Bill and Melinda Gates Foundation**
30. 29 October: Natalie Africa, Program Manager, **Business Call to Action (BCtA) Secretariat**
31. 4 November Tony Tujan, Director **IBON International**, Chairperson **Reality of Aid Network** and Chair of the Coordinating Group of the **Better Aid Civil Society Platform**
32. 9 November: Sandra Alzate Cifuentes, International Cooperation Director, **Presidential Agency for Social Action and International Cooperation, Colombia**
33. 10 November: Stuart Hart, Samuel C. Johnson Chair of **Sustainable Global Enterprise** and Professor of Management at **Cornell University's Johnson School of Management**
34. 17 November: Carolyn Brehm, Vice President, Global Government Relations, **Procter & Gamble**
35. 17 November Robert Sebbag, Vice President **Sanofi Aventis**
36. 18 November: Daniel Hincapie, Office of Outreach and Partnerships, **Inter-American Development Bank (IDB)**
37. 24 November: Alison Ward, Global Head of Corporate Responsibility, **Cadbury**
38. 24 November: Eddie Rich, Deputy Head and Regional Director (Southern and Eastern Africa and the Middle East) **Extractive Industries Transparency Initiative (EITI) International Secretariat**
39. 24 November: Mavis Owusu-Gyamfi, Head of Profession, Private Sector Development, **UK Department for International Development (DFID)**
40. 29 November: Carole Brookins, **Private Consultant**
41. 30 November: Laura Sullivan, European Policy and Campaigns Manager, **Action Aid International**
42. 30 November: Roberto Bissio, Executive Director, **Third World Institute**
43. 1 December: Gerry Salole, Chief Executive, **European Foundation Centre**
44. 3 December: Casper Sonesson, Deputy Director, Private Sector Division, Partnership Bureau, **United Nations Development Programme (UNDP)**
45. 3 December: Jesse Griffiths, Coordinator **Bretton Woods Project**
46. 20 December: Maria Hermínia Cabral, **Gulbenkian Foundation**
47. 20 December: Smita Singh, Director Global Development Program, **Hewlett Foundation**

ANNEX 3: LIST OF BOXES (IN ORDER OF APPEARANCE IN THE REPORT)

ANNEX 4: THE PARIS DECLARATION AND ACCRA AGENDA FOR ACTION PRINCIPLES

The Paris Declaration on Aid Effectiveness, endorsed on 2 March 2005, is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organisations to continue to increase efforts in harmonisation, alignment and managing aid for results with a set of monitorable actions and indicators.

The Paris Declaration contains five overarching principles to promote joint progress toward enhanced aid effectiveness:

- **Ownership** - *Developing countries set their own strategies for poverty reduction, improve their institutions and tackle corruption.*
- **Alignment** - *Donor countries align behind these objectives and use local systems.*
- **Harmonisation** - *Donor countries coordinate, simplify procedures and share information to avoid duplication.*
- **Results** - *Developing countries and donors shift focus to development results and results get measured.*
- **Mutual Accountability** - *Donors and partners are accountable for development results.*

The Accra Agenda for Action (AAA) was drawn up in 2008 as a result of the Third High Level Forum on Aid Effectiveness, held in Accra Ghana, and builds on the commitments agreed in the Paris Declaration:

- **Predictability** – *donors will provide 3-5 year forward information on their planned aid to partner countries.*
- **Country systems** – *partner country systems will be used to deliver aid as the first option, rather than donor systems.*
- **Conditionality** – *donors will switch from reliance on prescriptive conditions about how and when aid money is spent to conditions based on the developing country's own development objectives.*
- **Untying** – *donors will relax restrictions that prevent developing countries from buying the goods and services they need from whomever and wherever they can get the best quality at the lowest price.*

Source: OECD webpage:
http://www.oecd.org/document/18/0,3746,en_2649_3236398_35401554_1_1_1_1,00.html

Further information:
The Paris Declaration and the Accra Agenda for Action are available in their entirety at:
http://www.oecd.org/dataoecd/30/63/43911948.pdf
The full list of countries, territories and organisations adhering to the Paris Declaration and the Accra Agenda for Action is available at:
http://www.oecd.org/document/22/0,3746,en_2649_3236398_36074966_1_1_1_1,00.html

ANNEX 5: PRIVATE SECTOR IMPACT ON DEVELOPMENT – OPPORTUNITIES AND CHALLENGES

TABLE 1: Private sector – opportunities

- ***Engine of economic growth:*** The for-profit private sector is a key engine for economic growth which is seen as a prerequisite for poverty reduction. However, respondents stress the need **for inclusive growth** which benefits and addresses the needs of people living in poverty (access to markets, land, resources etc) and **inclusive business models** which include poor people on the supply and demand sides. Growth also needs to be sustainable from a social and environmental perspective. Growth is a part of development, but it is the content of and type of growth that matters.

- ***Providing and generating employment and income:*** The private sector provides and creates employment and income, thereby contributing to wealth and improved standards of living and means for people to lift themselves out of poverty. It is crucial to ensure **value added and quality employment**, including decent work conditions and wages, as well as investment in work force development. This in turn can contribute to enhancing the empowerment and economic freedom of people living in poverty.

- ***Providing goods and services***: The private sector is a provider of goods and services to poor communities and people, reducing costs, increasing choices and tailoring products and services to their specific needs.

- ***Contributing to domestic resource mobilisation***: Through paying tax, the private sector contributes to government revenues and domestic resource mobilisation for development in developing countries, which can contribute to less aid dependency.

- ***Providing financial resources:*** The private sector (for-profit as well as foundations) is alone or through partnerships a provider of financial and other resources often where funds are lacking, e.g. in the construction of various types of infrastructure. The private sector can also **mobilise innovative finance** to reach the Millennium Development Goals.

- ***Driving innovations and transferring knowledge and technology***: The private sector is a key driver of innovation and research and can facilitate the transfer of technology and knowledge between the private sector in developed and developing countries. The private sector provides technology which in turn can reduce costs and facilitate the provision of e.g. financial services for poor people.

- ***Spreading of best practice standards and safeguards:*** The private sector can contribute to the spreading of environmental and social safeguards and standards, which have been agreed upon internationally to ensure a positive contribution of for-profit companies to development.

- ***Leadership role for development:*** Private sector stakeholders can take on a leadership role advocating for solutions needed to address global challenges such as climate change and poverty, and can in this way act as "push and pull agents" in different sectors and for different issues.

TABLE 2: Private sector - challenges

- ***Exacerbating inequalities:*** Promotion of growth in certain sectors and regions can perpetuate and strengthen existing inequalities, i.e. non-inclusive growth.

- ***Profit focus clashing with development objectives and needs of people living in poverty:*** The private sector's focus on profit-seeking means that their activities are not necessarily focussed on addressing the needs of the poor or contributing to sustainable development. The provision of basic services to the poor has a cost and the private sector approach can clash with a rights perspective.

- ***Non-abidance by international and national human rights, social and environmental standards*** of companies is an impediment to the positive contribution of the private sector to fair and sustainable development. This results in human rights abuses, displacements, violations of labour laws and negative environmental impacts on a local and global level.

- ***Lack of long-term vision:*** The private sector has shorter time horizons for returns, depending on their shareholders, and might lack the long-term vision needed for return in social sectors that are key for development, e.g. health and education.

- ***Tax evasion and avoidance*** among companies is a serious obstacle to development and inhibits domestic resource mobilisation. Tax incentives to attract capital, through tax holidays, export processing zones etc., may also lead to "a race to the bottom".

- ***Exclusive monopoly and corruption*** within the domestic and international private sector can undermine "a level playing field for companies", and perpetuate inequalities in society.

- ***Large MNCs crowding out small, local business:*** The role of different private sector stakeholders is an issue to take into account, e.g. market entry or the domination of larger MNCs can crowd-out and put small local enterprises out of business.

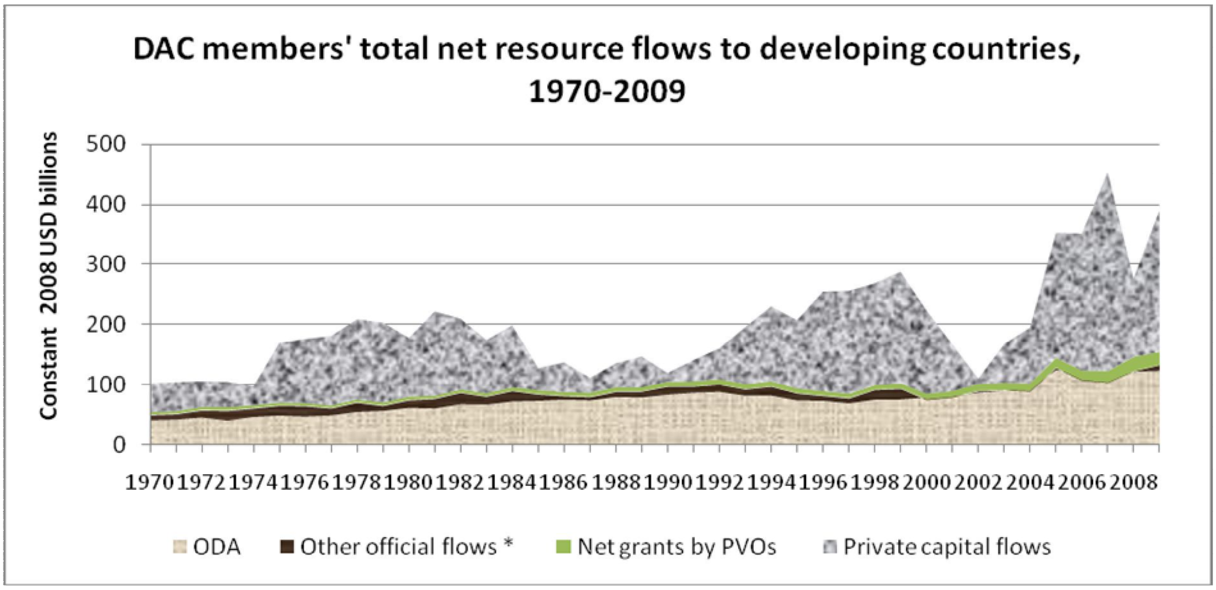
- ***Bypassing national development plans***: Private sector initiatives in development can side-step government development strategies, which contributes to fragmentation.

- ***Advocating for vested interests:*** Opposite to the positive advocating role mentioned above, private sector stakeholders can also engage in non-transparent lobbying to favour their own economic short term interests on a global and country level.

ANNEX 6: DAC MEMBERS' TOTAL NET RESOURCE FLOWS TO DEVELOPING COUNTRIES

The graph illustrates ODA flows to developing countries compared to other non-ODA flows, as currently tracked by the OECD. It is however difficult to find comprehensive figures that capture all private flows to developing countries. The OECD DAC tracks all DAC flows, including ODA and non-ODA which are regularly reported to its STAT department by its membership. The non-ODA flows include private capital flows (which constitute the bulk of non-ODA), plus other official flows and net grants by VPOs/Foundations.

The trends in private flows over the last 30 years, as captured by the OECD DAC, show a high-level of volatility: In 2007, private capital flows accounted for 450 billion USD (about 4 times ODA). In 2009 they were around 380 billion USD. However, in 2002 private capital flows went down to about 120 billion USD, barely more than ODA.



PVOs= Private Voluntary Organisations
* Net OOF flows were negative in 2000-01, 2004 and 2006-07.

Note: Private capital flows consist of flows at market terms financed out of private sector resources (i.e. changes in holdings of private long-term assets held by residents of the reporting country) and private grants (i.e. grants by non-governmental organizations and other private bodies, net of subsidies received from the official sector).

Source: DAC statistics

Note: Net outflows from developing countries should also be considered in the context of analyzing private capital resource flows to developing countries. Illicit flows constitute a large part of the outflows. According to Global Financial Integrity (GFI), illicit financial flows out of developing countries are some $850 billion to $1 trillion a year. The proceeds of commercial tax evasion, mainly through trade mispricing, are the largest component, at some 60 to 65 percent of the global total. The estimated range for tax revenue loss due to trade mispricing in developing countries, per year, is between $98 billion and $106 billion. This estimated revenue loss is approximately 4.4 percent of the developing world's total government revenue.

Sources: Global Financial Integrity reports: Illicit *Financial Flows from Developing Countries 2002—2006* (2008), *Illicit Financial Flows from Africa: Hidden Resource for Development* (2010), *The Implied Tax Revenue Loss from Trade Mispricing* (2010).