

Promoting Ethical Business and Public-Private Partnership for Development

The China-DAC Study Group¹ held a symposium on “Promoting Ethical Business and Public-Private Partnership for Development” in Beijing on 14 November 2014. The symposium attracted over 80 officials, experts, scholars and representatives from business and trade unions from China, Bangladesh, Vietnam and members/observers of the OECD Development Assistance Committee (DAC). Participants discussed and shared experiences on forming strategic alliances between development agencies and the private sector to promote sustainable development in developing countries and on encouraging firms operating abroad to embrace ethical business practices.

I. Context

The year 2015 is the deadline for attaining the Millennium Development Goals (MDGs) in developing countries. The post-2015 development agenda, which will consolidate and extend the MDGs, will be devoted to solving global challenges including eradicating hunger, addressing climate change, improving environmental sustainability and maintaining international financial stability. Achieving this ambitious agenda will require existing resources for development to be used more effectively as well as mobilising additional resources from all stakeholders, including both the public and private sectors.

As the engine of economic growth, the private sector plays an important role in promoting development. But not all private investments are the same and environmental degradation can accompany economic growth. In addition, to have a substantial impact on reducing poverty, growth needs to be inclusive and lead to more and better jobs as well as greater access to financial and social services, for people in both urban and rural areas.

To address the challenges in developing countries, it is important that the public and private sectors in developing as well as developed countries discuss the best policies to pursue to balance economic

growth, social development and environmental sustainability. This will help ensure that the private sector flourishes and contributes to improving the economic and social well-being of people.

China’s development over the past 30 years shows what can be achieved when the government guides the private sector to work as a strong driver of economic growth. A key means of doing this has been public-private partnerships (PPPs) through which private actors not only deliver public services but invest and complement the funding made available by the government (and sometimes external partners). China also uses public-private partnerships in its foreign assistance programme; the new agricultural demonstration centres in nearly 20 African countries are a good example.

For their part, DAC members/observers and the private sector have been collaborating for many years and in different ways. For example:

- Development agencies support activities which aim to improve the environment for doing business in developing countries, through regulatory reforms and developing human and institutional capacity in the public sector.
- Development agencies contract firms to implement development projects or provide consulting services (including evaluations).
- Development agencies provide guarantees that reduce financial risks for firms and enable them to make investments in developing countries that would otherwise not occur.

Increasingly, development agencies and the private sector collaborate in more strategic ways that go beyond individual projects and touch upon the ways firms carry out their core business. These include:

- Public-private partnerships for development whereby each side contributes resources but also shares the risks and rewards.
- Corporate social responsibility (CSR), with development agencies supporting efforts by firms to embrace high labour and environmental standards.

Public-private partnership for development and corporate social responsibility are topical issues in China and were the focus of discussions at the Symposium.

¹ Further information on the China-DAC Study Group and its activities is available on the Internet at: www.iprcc.org or <http://www.oecd.org/dac/dac-global-relations/china-dac-study-group>

II. Public-private partnerships for development

In general, China and OECD-DAC members believe that PPPs should be used to develop public services that improve people's livelihoods, such as telecommunications, education and health. Part of the motivation for PPPs is to make more resources benefit impoverished people in developing countries in a sustainable and effective way.

Traditionally in PPPs, the public sector provides preferential funds while the private sector provides public services directly and carries any associated financial risks. However, PPPs can also use the 'build-operate-transfer' model for projects that involve significant design and (re)construction as well as long-term operations, such as hydropower stations or water and sanitation systems. Some countries use PPPs to expand public services in such areas as telecommunications or transportation.

While most developing countries have a severe lack of infrastructure, China's experience during its reform and opening-up period over the last three decades indicates that private resources can fill the huge gap in financing needed for investment in infrastructure. In the case of China, the government invested a large amount of funds in the construction of infrastructure but also encouraged foreign investors to directly invest and co-operate with domestic firms, both state-owned and private. In addition, the government improved the policy environment for investment. This suggests that an appropriate financing model for PPPs is needed to support the government's development objectives. China's experience also points to the importance of regulatory systems that give legitimacy to PPPs.

When co-operating with the private sector, developing countries should not only establish partnerships with domestic companies, but also with international platforms that expand communication between developing countries and increase the access of firms to funds and resources. When sharing their own experience, developing countries need to encourage economic transformation and up-grading, such as through institutional improvement and technical innovation, to promote development of their domestic private sector. Financial and insurance institutions in some developed countries have already implemented new co-operation models of PPPs, for example by using interest subsidies provided by governments or guarantees provided by insurance firms. These

practices provide good examples for developing countries. However, when promoting international co-operation, it is also important to take account of the specific conditions in each developing countries.

III. Corporate social responsibility

Corporate social responsibility contributes to achieving sustainable development, for example by encouraging enterprises to adopt technologies that save energy and protect the environment.

While the private sector is naturally profit-driven, it also has responsibilities to society. CSR is the responsibility of companies but the public sector can promote the adoption of ethical business practices through dialogue with the private sector.

Many governments consider CSR to be an important complement to their own social policies. In order to promote corporate social responsibility, governments can raise awareness of CSR principles and practices among companies, investors and civil society institutions. In addition, governments can provide financial support to encourage companies to adopt high standards of management.

IV. Conclusions

The new sustainable development goals cannot be achieved without co-operation between the private and public sectors. Clear policies can raise the private sector's awareness of the value of ethical business and encourage firms to contribute to promoting sustainable social, environmental and economic development through corporate social responsibility. Governments can also actively engage in and support public-private partnerships to ensure that they lead to an improvement in the economic and social well-being of people. Dialogue, partnership and commitment are all at the heart of these efforts to build up trust between public and private sector actors for sustainable development.

The China-DAC Study Group has established itself as a platform for sharing experiences between governments, researchers and firms on promoting growth and reducing poverty in developing countries. It will continue to promote dialogue on specific issues related to business ethics and encourage greater collaboration between the public and private sectors in support of sustainable development.