



INVESTING IN THE BUSINESS OF DEVELOPMENT

BILATERAL DONOR APPROACHES TO ENGAGING THE PRIVATE SECTOR

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Acronyms and Abbreviations

BPd	Busan Partnership for Effective Development Cooperation
BB	Private Sector Building Block
CEO	chief executive officer
CIDA	Canadian International Development Agency
CRS	Creditor Reporting System
CSOs	civil society organizations
CSR	corporate social responsibility
DAC	Development Assistance Committee
DANIDA	Danish International Development Agency
DCED	Donor Committee for Enterprise Development
Eurodad	European Network on Debt and Development
G-20	Group of Twenty
GDA	Global Development Alliance (US)
HLF3	Third High Level Forum on Aid Effectiveness
HLF4	Fourth High Level Forum on Aid Effectiveness
IAP	Innovations Against Poverty
IATI	International Aid Transparency Initiative
IFC	International Finance Corporation
ILO	International Labour Organization
M4P	Making Markets Work for the Poor
MCC	Millennium Challenge Corporation
MDGs	Millennium Development Goals
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PPPs	public-private partnerships
PSOM	Programme for Cooperation with Emerging Markets (the Netherlands)
SAPs	Structural Adjustment Programs
SMEs	small and medium-sized enterprises
SIDA	Swedish International Development Cooperation Agency
SSDC	South-South development cooperation
UN	United Nations
USAID	United States Agency for International Development

Executive Summary

Donors from Organisation for Economic Co-operation and Development (OECD) countries are increasingly looking to the private sector as a key partner for achieving sustainable development results. Private firms and foundations are seen as a source of innovation, expertise and finance to be harnessed in addressing development challenges. At the same time, private sector actors are playing an increasing role in their own right both as funders of development interventions and as important business partners. The private sector is also playing a greater role in international discussions on aid effectiveness and in the establishment of the post-2015 framework that will follow the Millennium Development Goals (MDGs). Donors have put their weight behind statements supporting the private sector at the United Nations (UN) Millennium Summit in 2010 and more recently at the 2011 Fourth High Level Forum on Aid Effectiveness (HLF4) held in Busan, South Korea. These trends signal an important shift where by the private sector is not only being afforded greater space to contribute to international and national policy discussions on development cooperation, but is also expected to serve as an important development partner. While donors have *promoted* private sector development for a number of years, the more recent focus on *partnerships* with the private sector, and its implications for development policy and practice, is an emerging trend.

Over the past few years, members of the OECD's Development Assistance Committee (OECD-DAC)—the forum through which donor countries coordinate their aid efforts—have renewed their focus on economic growth and the private sector as driving forces behind development. Despite these trends, donor policies for promoting economic growth and the private sector have received very little comparative analysis. This paper seeks to address that gap with an initial mapping and exploratory assessment of bilateral donor strategies on the private sector and economic growth. The paper is based on an examination of publicly available OECD-DAC donor policies reviewed between January and June of 2012, including websites, strategy papers, policy documents, and donor commitments at HLF4 and in other multilateral fora. Taking a framework analysis approach, the objective of the paper is to identify emerging themes in donor policies around growth and the private sector by comparing and contrasting different elements of donors' strategies. These elements include the visions and assumptions of donors' strategies, the pillars of their approaches, areas of focus, and budget sizes. The research also examines how, in the context of growth and private sector strategies, donors see the role of the state, private sector actors, and other development actors. Finally, the paper looks at the extent to which donor strategies take into consideration development and financial additionality, international aid and development commitments, cross-cutting issues such as sustainability, gender, and human rights, and principles relating to aid effectiveness. While there has been much work looking at the role of the private sector in development, there has been less of a focus on the private sector in the context of aid effectiveness.

Key findings from the study include:

Scope and logic of donor strategies on growth and the private sector

- The extent to which donors have established, detailed, and publicly articulated their policies on and work with the private sector varies. Donor strategies and policy frameworks have been developed at different levels, with some having broad strategies that serve more as guidelines and provide direction for projects and programs, while others having detailed programming, monitoring, and evaluation guidelines.
- Donors agree that growth is integral to development and that the private sector has a key role to play in this regard. However, donors emphasize different patterns of growth and see various roles for the state and the private sector in achieving growth, development, and poverty reduction. Nevertheless, the entry points for programming and partnership are not very different. In short, while theoretical approaches distinguish various donors, these differences should not be overstated since, in practice, donor responses are not that distinct.
- Although donors recognize that benefits from growth must be shared, most growth and private sector strategies do not engage comprehensively on issues related to the distributional or pro-poor impacts of growth, or the role of the state in ensuring pro-poor development outcomes. Few donors focus on promoting policies that strengthen government capacity to create decent work, effectively collect taxes and deliver social services, and redistribute the benefits of growth to those who are most marginalized by the economic activities that create growth. At best, donors tend to focus on making very narrowly defined markets equitable within and among countries, rather than supporting policies to directly target growing inequalities.
- A goal of donor strategies is improving self-reliance in developing countries through the promotion of economic growth. However, the extent to which donors target domestic resource mobilization and taxation—important areas that, if improved, would decrease developing countries' reliance on aid—is limited.
- In general, donors do not address the political dimensions to growth, the private sector, and development. This reflects technocratic understandings of the state and largely ignores ongoing debates about the role the state plays in development and the political economy in which policies are made. Donor approaches, alongside the impact of decades of neo-liberal policies, continue to diminish the policy space for developing countries to establish socio-economic models specific to their national (and regional) contexts that take into account the views of citizens.
- Donor strategies are based on the assumption that partnerships among development actors represent wins for everyone, recipient governments, the private sector, donors, and civil society organizations (CSOs)—they are win-win-win-win situations. Each actor has a role to play under this assumption. All partners are to engage with and inform national development

strategies. Public-private partnerships (PPPs) allow actors to benefit from private sector finance and expertise, while the private sector benefits from financing and the awarding of contracts. Some CSOs (mainly international non-governmental organizations) benefit from additional finance. Yet, this positive framing of win-win-win-win situations is unlikely to survive the *realpolitik* at the country level. Donors' assumptions about broad-based ownership and inclusion are seemingly based on the notion that the interests of all parties are not so different as to hinder agreement. But when policy-making involves a large number of actors—ones with potentially disparate goals, agendas, interests, constituencies, and capacities to engage, as is the case with donors, developing country governments, the private sector, and civil society—disagreements will occur. This does not mean that consensus is impossible; however, it does place increasing emphasis on the importance of the process for securing country ownership and reaching consensus, and the politics of that process.

- It is difficult to assess the scale of donor interventions with and on the private sector. This is largely because many forms of private sector engagement exist, and donors categorize and track their private sector interventions and partnerships differently. In short, without more consistent and accessible data, it is impossible to make any accurate, meaningful, and comparable assessment of the scale and scope of donor financial support either in the area of growth or the private sector.

Engaging the private sector

- Donors engage with the private sector in two key ways: by *promoting* private sector development and *partnering* with the private sector to achieve broader development outcomes. In the case of *promoting* the private sector, the link between growth and poverty in developing countries is seen as a direct one: a thriving private sector contributes to growth, which in turn contributes to poverty reduction. *Partnership* with the private sector will help make effective use of declining aid resources, leverage alternative sources of development financing, and identify innovative private sector-managed solutions to development challenges, including the provision of goods and services to poorer populations (bottom of the pyramid approaches, for example). These approaches are not mutually exclusive. A number of donors are *partnering* with private sector actors to *promote* private sector development. While private sector development remains an important part of donor strategies, joint international statements by donor countries and new funding arrangements being developed at the donor level indicate that there is an increasing emphasis on partnership.
- Donors are focusing their efforts at a number of levels. Macro-level donor policies focus on creating a “*business enabling environment*” — building economic, legal, and regulatory foundations (property rights, financial regulations, governance, and sound public financial management) to ensure that the right conditions exist for the private sector to thrive. Meso-level interventions are those that “*make markets work*” in ways that address market failures and imperfections, enhance competitiveness, and better integrate all actors into markets. These interventions include aid for trade, building value chains, provision of finance, and

transfer of technological innovations. Finally, micro-level interventions that “*invest in businesses and people*,” entail building support services to enhance longer-term private sector development and growth. Examples include investments in businesses (technical and financial support to the private sector) and people (infrastructure development; health; education; vocational skills training, in particular for women, focused on fostering a thriving workforce; and environmental sustainability).

- At the macro level, donors are promoting international corporate social responsibility (CSR) standards, and to some extent pursuing national dialogue opportunities with the private sector. A key challenge to involving the private sector in national dialogues and planning processes is ensuring that such dialogues take place in a transparent and inclusive manner, and involve the private sector as well as CSOs. Selecting the “right” private sector actors to engage is also a crucial issue. Participants must represent the interests of the broader private sector, rather than their own commercial agenda, and the selection process must be deliberate and inclusive if the end goal is to orient business toward pro-poor policies.
- At the meso level, the new donor modalities highlighted in the paper reflect the emphasis that donors are placing in their international statements on partnering with the private sector. A number of donors are promoting PPPs and making use of challenge and innovation funds as important mechanisms to harness private sector finance and expertise to address development challenges. Donors are providing financing for firms from donor countries to catalyze their investment in developing countries and promoting match-making initiatives that partner national (donor) and domestic (developing country) firms through joint ventures and new trade relationships. Such initiatives also work to promote SMEs through partnerships and better integrate domestic firms into global value chains.
- At the micro level, donors place a lot of emphasis on the individual and integrating each individual into markets as an employee, producer and consumer. In practice, this means building individuals’ skills through vocational training programs, giving people access to a range of financial tools, and integrating them into value chains, all of which should ultimately lead to income gains, and in turn, access to basic necessities and new goods and services. Donors’ focus on private sector development tends to be more at the macro and meso levels, specifically on creating an enabling environment for business and connecting private sector actors to global markets. However, in a context where many countries, particularly those in Africa, are experiencing periods of sustained growth and investment that are distinguished by stubbornly high unemployment rates, this approach may need to be rethought, or at the very least rebalanced. Focusing more on the micro may have a much larger redistributive impact for poor and marginalized populations.

Implementation considerations

- In general, donors see a role for their own national and foreign firms in their strategies. While many donors are supporting their own private sector, nearly all also include provisions for promoting the private sector in developing countries in their work, often using capacity building and financial services for SMEs as their entry points.
- Donors have some policies in place to ensure financial and developmental additionality in their private sector partnership mechanisms, but it is unclear how donors are ensuring additionality across their programming.
- Financial additionality refers to the extent to which aid funds target sectors and firms that otherwise would not have funds available to them. In practice, the level of financial additionality across donor grant-making programs varies. Of the 12 funding mechanisms examined in this research, half require that applicants demonstrate that either the project could not have happened or would not have happened at the same scale without their support. Half of the initiatives provide match funding to a maximum of 50 per cent. However, none of the grant-making programs include potential criteria to ensure financial additionality, namely to assess financial need, to promote investment in risk-averse markets, to gauge leverage potential, to encourage financial eligibility that favours the domestic private sector, and to assess the opportunity costs of resources used.
- Development additionality refers to the extent to which aid resources directed to, or in support of, the private sector work toward eradicating poverty and achieving other development goals, such as the MDGs or human rights standards. Yet, for grant-making programs, there are variations in terms of the extent to which donors clarify and specify the development impacts that they expect to see from such partnerships. By and large donors have described their development additionality requirements in vague terms (e.g., partnerships must contribute to the goals of the development agency).
- The extent to which donors employ internationally agreed standards and principles, including those on human rights, as guiding frameworks for their work with and on the private sector differs. Twelve donors reference the UN Global Compact, nine reference the OECD Guidelines on Multinational Enterprises, and six refer to the Extractive Industries Transparency Initiative. Eleven donors specifically refer to International Labour Organization (ILO) conventions while ten point to UN conventions and declarations on human rights, such as the Universal Declaration on Human Rights, the Covenant on Economic, Social and Cultural Rights, and the Convention on the Rights of the Child. An additional six donors refer to rights in the general sense in their strategies (i.e., they do not specifically reference UN conventions and standards, but rather point to the respect for human rights as important in their strategies).
- It is difficult to assess the full extent to which donors take into consideration cross-cutting issues—namely gender and sustainability—in the implementation of their growth and private

sector strategies. On the one hand, private sector partners may be required to demonstrate expected development impacts across gender, sustainability, and human rights outcomes in order to qualify for donor programs and challenge funds. On the other hand, at the level of donor strategies and policies which provide operational guidance to programming, there is less emphasis placed on cross-cutting issues. It is difficult to tell how much standalone policies on cross-cutting issues influence growth and private sector programming.

- Regarding gender, donors' take an instrumental approach to women's economic empowerment, as the focus is on better integration of women into markets rather than addressing the social and political elements of gender equality and empowerment. Sustainability, including sustained growth and green growth, is referred to in donor policies on growth and the private sector. However, it is unclear whether references to sustainability have translated into in-depth policies or corresponding programs. Despite public commitments to aid effectiveness, donors do not make strong references to their commitments on country ownership, alignment, harmonization, mutual accountability, and results and their further elaboration following High Level Fora on Aid effectiveness. It is unclear how aid effectiveness principles have been incorporated into donor policies on growth and the private sector.
- Most donors' policies include neither an approach to robust and comprehensive results in the context of complex development outcomes nor a commitment to publicly accessible monitoring of results for programming on growth and the private sector. This finding is consistent with other studies looking at donor approaches to private sector development and working with the private sector.
- Transparency and accountability are terms used throughout donors' policies on the private sector. However, these terms are largely understood as the transparency and accountability of developing country governments. Donors may not be fully transparent when it comes to their funding for private sector development, particularly with regard to the private sector contributions to their efforts. Partnerships with private sector actors can also be opaque in terms of the criteria for partner selection and the development results achieved. In addition, it is unclear how accountability functions in new partnerships with the private sector. How are development partners accountable to each other and to supposed beneficiaries for results? From an aid effectiveness perspective, the gap in donor programming on transparency and accountability mechanisms is glaring and concerning, more so given that donors are likely to increase their work in this area in the future.

A number of recommendations arise from this provisional analysis:

- **Enhance tracking, disclosure, and comparability of private sector funding.** Donors need to agree on a common set of sector codes to measure donor contributions to economic growth and private sector development, and make effective use of coding where partnerships with the private sector are a principal objective.

- **Deepen and strengthen implementation of the Paris Declaration, Accra Agenda for Action, and the common principles of the Busan Partnership for Effective Development Co-operation.** Proposals should be assessed against aid and development effectiveness criteria. Donors will need to make a more concerted effort to ensure that their partnerships with the private sector also translate into mechanisms that measure development impacts and outcomes, and generate greater accountability to beneficiaries and citizens, not just developing country governments and/or donors.
- **Support democratic ownership of the growth and private sector agenda.** Donor policies do not promote space for developing countries to establish strong national ownership over the growth and private sector agenda. Donors sometimes favour their own commercial interests to the detriment of developing countries' domestic policies for development. While many donor policies touch upon the need to build self-reliance in partners, country ownership necessitates support for country-led initiatives to build progressive taxation systems with provisions to address capital flight, strengthen social and environmental policies, ensure citizen engagement, and establish safeguards and safety nets for the poor and marginalized. Donors can play a role in encouraging developing countries to initiate truly multi-stakeholder processes that can shape domestic development plans which engage CSOs, business associations, trade unions, and other actors, in addition to private sector stakeholders.
- **Develop common criteria for assessing the private sector with which donors engage.** Donors can play a positive role in building the capacities of domestic firms, even in partnership with national and foreign firms. They can also improve access to finance. In direct support to national and foreign firms or PPPs, donors need to establish a set of funding eligibility criteria for private sector partners that go beyond technical requirements (minimum years incorporated, audited financial statements) to address the track records of these partners in delivering positive development outcomes (in this case, positive social, development, economic, and environmental impacts, particularly for poor and marginalized populations).
- **Establish indicators to ensure financial additionality in private sector development and partnerships.** To achieve this, donors should establish a set of indicators that assess financial need, promote investment in risk-averse markets, gauge the leverage potential of such an investment, encourage financial eligibility that favours the domestic private sector, and assess the opportunity costs of resources used against other development priorities.
- **Regarding development additionality, donors need to ensure that aid resources to, and for, the private sector work toward reducing poverty and achieving other development goals, such as improved livelihoods, the creation of quality employment opportunities, realization of labour rights, and improved social and environmental outcomes.** Donors need to clearly articulate intended development and poverty reduction outcomes for their investments by establishing a monitoring framework with publicly available qualitative and quantitative indicators for measuring gender equality (including

measures for the economic, social, and political inclusion and empowerment of women), governance (including the effectiveness and capacities of institutions), and environmental sustainability (particularly climate change).

This paper has provided a broad overview of some of the emerging themes and characteristics of various bilateral donors' strategies and policies, but **questions remain on four key areas:**

- The scope of bilateral donor engagement with the private sector, an accurate measurement of the scale of engagement, historical trends of such private sector support (especially relative to the rest of donors' aid budgets), and an assessment of the range of national-level actors beyond traditional bilateral donors (for example, development finance institutions, export credit agencies, and investment banks) that are substantively engaging in development.
- An assessment of how bilateral donors' policies are being implemented in practice, in particular from a financial and development additionality perspective.
- The impact of these interventions on the ground.
- The growing role and importance of emerging countries in South-South Development Cooperation (SSDC) and triangular cooperation (SSDC supported by donors) on private sector development and economic growth. Where do these countries fit within the findings identified in this research, what can donors and Southern providers of Official Development Assistance (ODA) and other types of assistance learn from these experiences, and what should they avoid? The answers to these questions will provide a broader and more nuanced picture of how development actors are engaging with the private sector overall.

1. Introduction

The private sector has become the new donor darling. Over the past few years, members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC)—the forum through which donor countries coordinate their aid efforts—have renewed their focus on economic growth and the private sector as driving forces behind development.^{1, i} At the international level, donors have put their weight behind statements supporting the private sector at the United Nations (UN) Millennium Summit in 2002² and more recently at the 2011 Fourth High Level Forum on Aid Effectiveness (HLF4) held in Busan, South Korea.³ This shift has come in the context of fiscal austerity programs that are decreasing or freezing the resources allocated to aid budgets. With it, donors are emphasizing “cost effectiveness” and “value for money,” seeking to leverage shrinking aid budgets through innovative financing mechanisms, private sector–inspired solutions, and direct partnerships with private sector actors. Equally important, developing countries are recognized as key markets or investment sites for donor countries' firms and investors. Aid agencies are increasingly working with firms in donor countries to promote development-friendly investments.

Despite these trends, donor policies for promoting economic growth and the private sector have received very little comparative analysis.^{4, ii} This paper seeks to address that gap with an initial mapping and exploratory assessment of bilateral donor strategies on the private sector and economic growth. The paper is based on an examination of publicly available OECD-DAC donor policiesⁱⁱⁱ reviewed between January and June of 2012, including websites, strategy papers, policy documents, and donor commitments at HLF4 and in other multilateral fora. The objective of the paper is to identify emerging themes in donor policies around growth and the private sector by comparing and contrasting different elements of donors' strategies. These elements include the visions and assumptions of donors' strategies, the pillars of their approaches, areas of focus, and budget sizes. The research also examines how, in the context of growth and private sector strategies, donors see the role of the state, private sector actors, and other development actors. Finally, the paper looks at the extent to which donor strategies take into consideration development and financial additionality, international aid and development commitments, cross-cutting issues such as sustainability, gender, and human rights, and principles relating to aid effectiveness.

Given that the scoping study assesses a broad array of issues across a set of 23 donors, this paper is quite extensive. It provides a solid basis from which to do further research in this area. It also makes a novel contribution by bringing together a range of issues—size and nature of strategies as well as cross-cutting issues—which others have addressed individually but not in a single overview.

i. For a historical overview of donors' engagement on and with the private sector, see Estrup (2009).

ii. Some limited studies do exist, however. See BCLC and Corporate Citizenship (2009), Heinrich (2012), Kurokawa, Tembo, and te Velde (2008), and Nelson (2011).

iii. These include Australia, Austria, Belgium, Canada, Denmark, the European Union, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Norway, Portugal, South Korea, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

Following this introduction, an overview of this paper's methodology is provided. The third section establishes the context for renewed donor interest in the private sector. The fourth section offers a short overview of donor strategies, and the fifth unpacks donor policies and strategies, providing key analytical highlights. The sixth section presents provisional analysis of some of the challenges with the various approaches considered. The final section concludes with the policy implications of this analysis, and identifies future areas of research.

2. Methodology

The research is based on a framework analysis approach. Framework analysis is often used in policy research, and when the sample is pre-designed and/or issues have been identified a priori.⁵ Clear from the beginning, the objectives of this research were to:

- survey the key components of bilateral donor strategies on the private sector;
- examine the extent to which commonalities and differences exist across various strategies;
- assess how donors incorporate good development practices, such as gender, sustainability, and aid effectiveness considerations, into their strategies; and
- identify examples of good practice based on the findings.

The research process included the following steps: familiarization with content; identification of a thematic framework; indexing (where information is identified as corresponding to a particular theme); charting (whereby information is arranged based on charts of themes); and interpretation.^{iv}

2.1 Sources of data

A literature review was conducted between January and July of 2012. It looked at bilateral donor strategies on economic growth and/or the private sector. The review was confined to OECD-DAC donors.

The analysis is based on an examination of publicly available donor policies, including websites, strategy papers, policy documents, and donor commitments at HLF4 and in other multilateral fora. The research was originally based on the assumption that only private sector and economic growth strategies would be included. However, the initial scoping exercise revealed that donors have taken several different approaches, which are not necessarily mutually exclusive, to working with the private sector and on economic growth more broadly. This required giving some consideration to, for example, trade and development strategies. Through this initial scoping exercise, the thematic framework was identified and refined.

An examination of cross-cutting issues was an important component of the research objectives. Over the course of the research, it became clear that most strategies only included passing

iv. See Srivastava and Thomson (2009) for a full review of this research approach.

references to issues such as gender, transparency, sustainability, and decent work. Such references provided an insufficient basis for assessing the extent to which donor strategies actually account for these issues. In order to better examine cross-cutting issues, donor policies on cross-cutting issues were considered, when appropriate.

Finally, on an operational level, donors have also articulated their private sector approaches into different policy and programming tools. Some have policy implementation guidelines, tool boxes, and monitoring frameworks, while others have developed broad strategies that provide general direction for project and program orientation. Despite these differences, some degree of comparison between donors could still be made.

See Annex I for a full list of resources consulted, organized by donor.

2.2 Generating the thematic framework

A key component of the framework analysis approach is the creation of the thematic framework, which is outlined in Table 1. The framework's initial shape was influenced by the research objectives.

The establishment of the framework required an approach informed by a historically grounded perspective that takes seriously the global, national, and local determinants of poverty and recognizes the importance of structural constraints. The often-unexamined assumption of the link between growth, trade, and poverty reduction was given special attention. As such, the framework includes the logic and composition of donor strategies and, importantly, seeks to identify underlying assumptions.

The framework is also influenced by important lessons learned about the role of growth, the private sector, and the state in development. In 2008, the independent Commission on Growth and Development released *The Growth Report: Strategies for Sustained Growth and Inclusive Development*. Chaired by Nobel-laureate economist Michael Spence, the Commission was launched in 2006 and brought together 22 leading economists to examine the policies and strategies of countries that had achieved rapid and sustained economic growth and poverty reduction over the past 25 years. It found that a number of key factors are at the heart of success: political leadership; industrial policies; managed exchange rates and capital controls; effective institutions and governance structures; a talented public service; strong domestic savings and public investment in infrastructure, education, and health; job creation; and social protection. Each country context is different, of course, but in all cases the state was the primary engine of growth, an analogy that sees the private sector as fuel. The private sector's investment and entrepreneurship cause growth, but active, effective, and stable governments have crucial roles to play. The Commission's findings informed the analysis and assessment of donor policies and strategies. As a result, the framework includes how donors view the role of the state and the private sector, including with regard to engagement with the interests of the public, in the development process generally, and in implementing strategies.

In addition to the issues identified above, a range of additional cross-donor themes and sub-

themes were established and defined as a basis for comparison. The framework includes basic components of donor strategies such as budget size, rationale, objectives, and key pillars or areas of focus. As a complement to these components, declarations and statements on growth and the private sector that might further shape donor policies or give an indication of donor intent were taken into consideration. These included Group of Twenty (G-20) statements and joint donor statements on growth and the private sector. In terms of cross-cutting themes, the extent to which donors reference aid effectiveness principles in their strategies—principles to which all OECD-DAC donors have committed themselves—was assessed.

How gender, sustainability, and human rights issues were addressed in strategies was also examined. Women suffer disproportionately from poverty, hence donors have made improving gender outcomes a priority in their work. The extent to which donor strategies on the private sector include provisions on human rights is important given ongoing debates regarding the role of businesses in the realization of human rights.^v Finally, since the international development community is looking to establish sustainable development goals, the extent to which donors address the issue of sustainability in their strategies was gauged. In some cases, donors did not have policies on this issue (a finding consistent with Gibb, Foster, and Weston 2008) but did have separate policies on human rights or gender equality.⁶ This was taken into account in the analysis, although it is difficult to discern the extent to which such separate policies guide economic growth and private sector programming.

Given that donors' strategies are aimed at working with the private sector, the framework also looks at whether donors reference international and domestic laws that relate to the private sector as well as regulations and voluntary initiatives such as the International Labour Organization's conventions on decent work, the UN Global Compact,^{vi} and the OECD Guidelines for Multinational Enterprises.^{vii}

The framework was tested against a sample of three donors' policies (Sweden, the United Kingdom, and the United States) to establish whether it resonated with them. Based on the initial scoping, areas where information was limited were identified and the framework was further refined. Although information was limited in some areas, such as budget size, some themes were retained since the mixed availability of information across all donors was in itself germane to the analysis. Other sub-themes were discarded because making a direct or meaningful connection to the rest of the findings proved too difficult (for example, "relevance to the G-20 growth strategy" and "organizational structure"). The discarded sub-themes are indicated with an asterisk in Table 1 below. "Type of strategy" was added to the matrix because it became clear over the course of the research that donors articulate their engagement with the private sector at different policy levels, such as in their overall development strategies, through

v. See, for example, Ruggie (2008; 2010).

vi. The UN Global Compact is a voluntary corporate responsibility initiative that was launched in 2000. It brings together over 8,700 corporate participants who agree to follow 10 principles in the areas of human rights, labour, environment, and anti-corruption. See www.unglobalcompact.org.

vii. The guidelines are recommendations for responsible business that have been endorsed by 43 governments, which represent all regions in the world and account for 85 per cent of foreign direct investment. These governments, which include all OECD members, have agreed to encourage their firms to observe the guidelines wherever they operate.

specific private sector strategies or thematic policy frameworks on, for instance, trade. See Annex II for a full list of the framework components and descriptions.

Beyond bilateral donors, the Making Markets Work for the Poor (M4P)^{viii} initiative supported by Sweden, Switzerland, the United Kingdom, and the Donor Committee for Enterprise Development (DCED) were considered,^{ix} albeit less in terms of where they fit within the framework than in terms of shaping the subsequent analysis of donor approaches. The analysis was also informed by a report commissioned by the OECD on aid effectiveness and the private sector.⁷ The report noted that while much work has looked at the role of the private sector in development, there has been less of a focus on the private sector in the context of aid effectiveness. It highlighted the heterogeneous nature of the private sector, recognizing that the sizes and nationalities of private sector actors have implications for development partnerships, risks, and outcomes.⁸

Based on this scoping exercise, it is essentially too early to call the themes discussed in this paper “trends.” Rather, the discussion below is framed in terms of thematic issues on which donors take various approaches.

viii. M4P is an approach to reducing poverty guided by four principles: (1) systemic action; (2) sustainable change; (3) large-scale impact; and (4) a facilitative role for donors (based on determining how to stimulate market development rather than displace markets or market players). See MP4 (2012).

ix. The DCED is a forum through which member donors, foundations, and UN agencies share experiences about working with the private sector and identify good practices.

TABLE 1: THEMES AND SUB-THEMES

THEMES	SUB-THEMES
STRUCTURE OF THE GROWTH AND/OR PRIVATE SECTOR STRATEGY	<ul style="list-style-type: none"> • Type of strategy • Budget for the strategy • Market vision and assumptions behind the strategy • Rationale of the strategy • Pillars of the strategy
ACCORDANCE WITH OTHER AGREEMENTS	<ul style="list-style-type: none"> • Relevance to the G-20 growth strategy* • Relevance to the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation (BPd) • Signatory to the Busan joint statement on Expanding and Enhancing Public and Private Co-operation for Broad-Based, Inclusive and Sustainable Growth and/or member of the Private Sector Building Block (BB)
ACTORS AND TARGETS	<ul style="list-style-type: none"> • Role of the state • Role of other development actors (in particular social partners) • Domestic or internationalized private sector • Areas of focus and key targets • Financial and development additionality
IMPLEMENTATION CONSIDERATIONS	<ul style="list-style-type: none"> • International standards and principles • Explicit strategies for leveraging aid resources • Transparency and accountability • Corporate social responsibility (CSR) • Monitoring and evaluation
CROSS-CUTTING ISSUES	<ul style="list-style-type: none"> • Sustainability • Gender • Human rights • Empowerment*
DONOR-SPECIFIC	<ul style="list-style-type: none"> • Organizational structure*

The analysis that follows draws from the thematic framework and presents findings grouped around two main areas. The first (section 4) looks at the structure and components of donors' strategies, including the type of strategy, assumptions and logic, budget sizes, main pillars, actors and targets, and modalities of engagement. The second (section 5) focuses broadly on implementation considerations and looks at the following sub-themes: domestic or internationalized private sector; financial and development additionality; international standards and principles (and human rights); gender; sustainability; and aid effectiveness principles, which capture sub-themes transparency and accountability, and monitoring and evaluation.

2.3 Limitations of the methodology

There are a number of notable limitations to this initial scoping study. First, the analysis is based on policies, not actual practice. It is difficult to assess the extent to which policies translate into actual positive or negative development impacts on the ground. Nevertheless, the scope and depth of some donors' policies and the existence of a suite of policies indicate that some donors have more developed thinking around their engagement with the private sector than others.

Second, the assessment is confined largely to bilateral donors. Multilateral development banks play an important role in terms of leveraging the private sector in development. They also represent an important component of many bilateral donors' private sector strategies in terms of the resources that bilateral donors allocate to them for private sector and economic growth programming. Nevertheless, they were not included in this study because much has already been written on multilateral development banks, particularly on their private sector lending windows.^x No comparative study has been done on OECD-DAC donors' approaches to the private sector.^{xi}

Third, beyond looking at broad allocations by donors to growth and/or the private sector, an extensive statistical analysis was not conducted on donor allocations for the private sector or growth by country, economic sector, size, and type and nationality of firm targeted, so an analysis on how allocations relate to an individual donor's normative frameworks could not be done. A statistical analysis would have added another dimension to the implementation considerations assessed in this paper, but initial mapping suggested that information detailed enough to make comparison useful would have been difficult to obtain for all donors.

Finally, providers of South-South development co-operation (SSDC), which also support private sector development and economic growth, were not included in this analysis. This omission was recognized from the outset. Over the past five years, international assistance from middle-income countries such as Brazil, China, India, and South Africa has grown substantially.^{xii} Brazil, India, and South Africa have established development cooperation agencies. Engaging their own private sectors to penetrate markets and build infrastructure in the South has always been an element of these emerging economies' approaches to SSDC through their large development and export-import banks, like the Brazilian National Bank for Economic and Social

x. See, for example, Bracking and Gahno (2011), ActionAid International et al. (2010), Ellmers, Molina, and Tuominen (2010), Perry (2011), and Kwakkenbos (2012).

xi. Some comparisons looking at specific components of donors' engagement with the private sector exist but they cover a limited number of donors. Kwakkenbos (2012) and Spratt and Collins (2012) look at development finance institutions. Nelson (2011) examines the increasing links between different types of donors (multilateral, bilateral, development finance institutions) and the private sector. An Overseas Development Institute study looking at Japan's engagement with the private sector includes a brief examination of seven donor approaches to working with the private sector (Kurokawa, Tembo, and te Velde 2008). In 2009, the Business Civic Leadership Center, an affiliate of the US Chamber of Commerce, commissioned a report looking at 10 bilateral donors' engagement with the private sector (BCLC and Corporate Citizenship 2009). The DCED also provides an overview of its members' (including 14 DAC donors) engagement with the private sector (Heinrich 2012). The Busan Building Block on Public-Private Cooperation is currently conducting a comparative survey among donors of public-private initiatives, which had not yet been completed at the time of writing.

xii. For details on the respective aid allocations made by Brazil, China, India, and South Africa, see Tomlinson (2012, especially 141–43).

Development and Export-Import Bank of China.^{xiii} However, information on these initiatives is just emerging, and many of the details on such cooperation are still not public. Given this reality, the research focused on establishing a provisional baseline for traditional donors' engagement around growth and the private sector aimed at filling a research gap that had not been addressed. Clearly though, future work needs to include SSDC actors to provide a broader and more nuanced picture of how development actors are engaging with the private sector overall.

3. Overview: Aid, Development, Growth, and the Private Sector

3.1 Aid's new silver bullet for development

Emphasis on economic growth and the private sector will sound familiar to those acquainted with the cyclical nature of the "latest" development theories and trends that have characterized and shaped international aid efforts over the past five decades. In the 1980s and 1990s, neo-liberal Structural Adjustment Programs (SAPs) sought to promote economic growth through deregulation, privatization of national services, trade liberalization, and financial opening. Following the failures of most of these approaches,^{xiv} a broader approach to development was enshrined in the Millennium Declaration in 2000, which led to the creation of the Millennium Development Goals (MDGs). While these goals were still pursued alongside neo-liberal approaches to growth, they brought greater attention to poverty reduction, health, education, gender equality, food security, and environmental sustainability, among other things.⁹ Despite the focus on social service provision, and a concern among aid donors on "good governance" in the 2000s, these approaches have tended to favour the market, since trade and financial liberalization are seen as pathways to development. They relegate the state to the role of sound macroeconomic manager, rather than encouraging it to play a more proactive or interventionist role in promoting economic growth.¹⁰

Since the eruption of the global financial crisis in 2008, donors and multilateral institutions have increasingly recognized a role for the state to selectively intervene in the functioning of markets and correct market failures implicated in poverty and social exclusion. Since the crisis ended, some governments have focused their attention on job skills development, selective use of capital controls, domestic resource mobilization and tax administration,¹¹ agricultural productivity and concern for food price volatility,¹² and the creation of a minimum floor of social protection,¹³ with developing country governments and donors playing a more active role on all those fronts.

These shifts are taking place in the context of fiscal austerity programs that are decreasing or freezing the resources allocated to official development assistance (ODA) budgets. After a 63 per cent increase between 2000 and 2010, the OECD-DAC signaled that "ODA in 2011 fell by 2.7% in real terms, breaking 14 years of real growth in aid since 1997 (discounting years of unusually

xiii. For interesting recent assessments of the Brazilian and Indian cases, see Vera Masagão, Bianca Suyama, and Luara Lopes, "Emerging Brazilian Cooperation: Reflections on its Parameters and Public-Private Boundaries," in *Aid and the Private Sector: Catalysing Poverty Reduction and Development?*, ed. Brian Tomlinson (Reality of Aid 2012 Report, Quezon City: IBON Books, 2012); Sagarika Chowdhary, Balendushekhar Mangalmurty, and Anil K Singh, "Aid and the Private Sector: A Study in the Context of India," in *Aid and the Private Sector: Catalysing Poverty Reduction and Development?*, ed. Brian Tomlinson (Reality of Aid 2012 Report, Quezon City: IBON Books, 2012).

xiv. See, for example Cornia, Jolly, and Stewart (1987), Duffield (2002), and Rojas (2004).

high debt relief).¹⁴ DAC projections for 2013–14 look no less hopeful, anticipating a further decline in core aid resources, particularly for Africa.¹⁵

In practice, this has meant that donors are placing increased emphasis on approaches that can demonstrate to taxpayers the “cost effectiveness” and “value for money” of their limited resources and focusing on short-term results rather than longer-term development impacts.¹⁶ These approaches are accompanied by efforts to leverage flat lined aid budgets through innovative financing mechanisms, using aid as the “capital base” to catalyze additional resources from the private sector and private foundations, or to engage private sector actors in identifying innovative solutions to development challenges. The focus on economic growth and the private sector is also motivated by a critique that the MDGs, with their strong emphasis on social outcomes, failed to give sufficient attention to the economic foundations for achieving progress. Consequently, a renewed focus on economics will drive stronger growth and job creation, with the assumption that greater emphasis on the benefits of growth and tax revenues generated will help reduce poverty.

This emphasis on economic growth can be seen in the consensus among the G-20 countries in November 2010 on “a path to strong, sustainable and balanced growth beyond the crisis,” articulated at the G-20 Seoul summit as the Seoul Development Consensus for Shared Growth.¹⁷ The consensus committed G-20 members to support sustainable and balanced growth as well as promote private sector involvement to address development challenges.^{18, xv}

Beyond the G-20, the Africa Progress Panel has also placed substantial emphasis on equitable growth. It identified growth as less of a challenge for Africa than *equitable* growth, which is needed to ensure that the benefits of growth are shared.¹⁹ Developing countries, for which the question of growth has been a longstanding issue, also made “beyond aid”^{xvi} issues a priority for HLF4, urging donors to consider trade, investment, and other policies that impact their development efforts.²⁰ African countries agreed to “scale up policies that look ‘*beyond Aid*’ through effective and innovative use of domestic resources and development of appropriate implementing capacities, with the private sector playing a key role.”²¹

xv. The Seoul Consensus also committed G-20 members to: create a global development partnership that engages lower-income countries as equal partners and respects their national ownership over development policies; address systemic issues at the regional and global level that inhibit shared growth and development; complement existing development efforts; and focus on tangible outcomes (G-20 2012, 2). The Action Plan that accompanied the consensus included specific actionable commitments on infrastructure, human resource development, trade, private investment and job creation, food security, resilience, financial inclusion, domestic resource mobilization and knowledge sharing. Some critics have suggested that this broader focus has not actually changed the paradigm, but is rather a “throwback to the Washington Consensus” (Alexander 2010).

xvi. This term is generally used to refer to non-aid sources of development financing such as trade and investment, illicit capital flows, and tax revenue.

3.2 The private sector as *the* new development actor

Over the past few years, members of the OECD-DAC have renewed their focus on the private sector as the driving force behind growth and development.

At the UN Millennium Summit in 2000, 11 bilateral donors^{xvii} issued the Bilateral Donors' Statement in Support of Private Sector Partnerships for Development at the UN Private Sector Forum.²² The statement recognized the private sector as the engine of economic growth. "[R]ather than viewing the private sector merely as resource providers, [endorses chose] to recognize the private sector as *equal partners around key development issues*" (emphasis original).²³ The statement also affirmed the importance of existing initiatives such as the UN Global Compact and the Business Call to Action.^{xviii}

Support for the private sector was further affirmed at the global level in November 2011, when the Busan Partnership for Effective Development Cooperation (BPd), the key outcome of HLF4, gave substantial prominence to the private sector as an equal partner in development. In the lead up to HLF4, the OECD launched an informal group to examine the role of the private sector in aid effectiveness.²⁴ The group sought to contribute to HLF4 by ensuring meaningful participation of the private sector in HLF4 discussions, delivering concrete messages and recommendations on private sector engagement to be considered as a part of the outcomes of Busan, and showcasing stories and lessons learned on engaging the private sector.²⁵ As one European commentator observed: "Busan is to do for the private sector what Accra did for civil society."^{26, xix}

According to the BPd, the private sector has a central role to play "in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction."²⁷ In this context, bilateral donors envisage a number of potential roles for the private sector to play: as a funder and innovative source of finance for shared development goals and challenges; as an implementing partner; as a source of public and private income generation and job creation; and as a key constituency to engage in the creation of national development strategies that support an enabling environment for the private sector and, in turn, growth. Not surprisingly, after Busan the private sector also found a seat on the Steering Committee of the Global Partnership for Effective Development Co-operation. In contrast, labour unions—an obvious counter-balance—share a seat with the rest of civil society. To evaluate progress on the BPd, the final monitoring framework has also focused one (of 10) of its indicators on evaluating the "degree of inclusion of private sector stakeholders in country level dialogue around policy strategies and reforms of the enabling environment for private sector investment and development."²⁸

xvii. Austria, Denmark, Finland, Germany, Japan, Netherlands, Norway, Sweden, Switzerland, the United Kingdom, and the United States.

xviii. Launched in 2008, the Business Call to Action is a leadership platform aimed at challenging companies "to develop inclusive business models that offer the potential for both commercial success and development impact" in a bid to accelerate progress toward the MDGs. See BCtA (2012).

xix. The Third High Level Forum on Aid Effectiveness (HLF3) in Accra, Ghana, recognized civil society organizations as "independent development actors in their own right," an important reference since it recognized their independence and the distinct roles they played in relation to governments.

In addition to the outcome document, a number of development actors (predominantly bilateral donors) also endorsed the joint statement on Expanding and Enhancing Public and Private Cooperation for Broad-Based, Inclusive and Sustainable Growth, a product of the work of the informal group on the private sector in aid effectiveness.²⁹

Private sector partners will likely play a much greater role in the establishment of the post-2015 development framework that will supplant the MDGs than they did when the MDGs were established,³⁰ building on the UN's experience with the Global Compact. Paul Polman, chief executive officer (CEO) of Unilever and vice-chairman of the World Business Council for Sustainable Development,^{xx} was appointed a member of the UN secretary-general's High-Level Panel of Eminent Persons on the Post-2015 Development Agenda.

4. Overview and Analysis of Donor Strategies, Spending, Policies, and Approaches

An important “take-away” from this initial scoping exercise is that while donors may more or less agree that economic growth is integral to development and that the private sector has a key role to play in growth, the similarities end there. Donors emphasize, for example, different types of private sectors (national [donor], foreign [multinational], and domestic [recipient country])^{xxi} and various roles for the private sector in achieving growth, development, and poverty reduction. This understanding in turn has implications for how donors see their own role. Jørgen Estrup's study on aid, the private sector, and the aid effectiveness agenda similarly found that donors take different approaches, which has implications for how they design, implement, and coordinate their work in this area.³¹ The lack of coherence among donors, in particular regarding something about which all donors clearly agree such as the insight that the private sector is key to development, was one of the most striking findings of this study and is unpacked throughout section 4.

The sub-section that follows first provides an overview of the different approaches that donors take to engage the private sector in terms of their substance and size. This section covers the themes “structure of the growth or private sector strategy” and “actors and targets” as outlined in Table 1. The subsequent sub-sections are then organized around a number of the sub-themes from Table 1, grouped around findings in five key areas: type of strategy or policy framework for working with and through the private sector; the logic and assumptions of the various donor strategies in terms of their approach to growth and to the private sector; the role donors envisage for the state, particularly in the context of promoting greater self-reliance; the scope and scale of donor budgets for this work; and donors' modalities of engagement with the private sector (in theory and practice).

xx. The World Business Council for Sustainable Development is a CEO-led organization that brings together the global business community to address important challenges to creating a sustainable future for business, society, and the environment. See WBCSD (2012).

xxi. This paper henceforth distinguishes between the three different types of private sector using the terms national, foreign, and domestic.

4.1 An overview of donor approaches to the private sector

4.1.1 Policy frameworks for working with and through the private sector

Donors take different approaches to the private sector. Their strategies and policy frameworks have been developed at different levels, with some having broad strategies that serve more as guidelines and provide direction for projects and programs, while others having detailed programming, monitoring, and evaluation guidelines. The extent to which donors have established, detailed, and publicly articulated their work with the private sector at various policy levels is one interesting finding of this research.

When a donor has a formal private sector strategy, it can take a number of forms. Some strategies focus on defining the parameters for how donors plan to engage with the private sector in key areas as well as more broadly across thematic priorities. For example, Finland and Denmark have specific policy documents that describe their approach to engaging in private-public partnerships. The Netherlands has made working with the private sector a priority across all of its development programming, in other words greater engagement with the private sector serves as an overall approach to the country's development work.

A second approach is what might be seen as the more traditional form of private sector engagement. Here private sector development strategies basically target the establishment of, and support for, the private sector in developing countries. An example of this is Canada's 2003 Framework for Private Sector Development.³² Japan currently takes a similar approach.³³

A third approach serves as a combination of the two. Sweden and the United Kingdom have specific policy documents that outline how they will work with the private sector to deliver development cooperation across different areas of focus and how they will support private sector development.

Some donors do not have a private sector strategy, but include private sector programming as part of their broader development strategy, often coupled with a dedicated web page on the private sector (rather than an actual strategy per se). Austria,³⁴ France,³⁵ and Portugal³⁶ take this approach. France, for instance, sees the private sector as a small part of an overall development strategy. Its role is not necessarily more important than any other development actor, but the private sector's active participation is clearly integral to development, growth, and poverty reduction.

Other donors, such as Australia, Canada, and New Zealand have followed a similar tact, and have looked for synergies between their growth or private sector strategy and other themes or sectors (rather than articulating their work with the private sector within the context of a broader development strategy). For example, Australia focuses on specific sectors under its sustainable economic growth programming, namely food security, financial services, and trade and development, with entry points for the private sector across these areas of work. Canada is increasingly integrating elements of its growth strategy and private sector engagement into its work on agriculture and food security. With a view to complement its approach to economic development, New Zealand is considering how health programs can "lower risk of unemployment and increased assets and savings," while education and training is a prerequisite to "achieving economic growth, attaining and maintaining international competitiveness."³⁷

There are several important take-aways from these findings. First, many bilateral donors have not articulated a clear strategy for specifically engaging the private sector. This makes it difficult to assess how these donors are engaging with the private sector and supporting private sector development, and on what terms. Second, the extent to which donors have developed their strategies varies greatly—from including private sector engagement at the level of their overall development framework, to establishing provisions for engaging the private sector under other strategies, to creating a full-fledged private sector strategy. Third, the extent to which strategies and policies can be “operationalized” varies. Some policies focus more on the overall direction for programming, rather than spelling out exactly how private sector engagement and development will occur. Other donors have produced a suite of policies for planning, monitoring, and evaluating their work in the area. This means that across donors, there were varying degrees of specificity across strategies.

4.2 Unpacking the strategies

4.2.1 Divergent logic and assumptions: where discourse and declarations on equitable and sustainable growth, development, and fighting poverty meet

Donors recognize that patterns of growth matter, which has implications for their engagement with the private sector. However, their emphasis on patterns of growth and how to achieve sustainable and equitable growth varies. This finding is also consistent with Estrup’s study of donor engagement with the private sector. He found that while donors agree that poverty reduction and pro-poor growth matter, there is little consensus on what pro-poor growth actually means and how it can be achieved.³⁸

In terms of making more explicit links between growth and benefits for the poor, many governments identify the challenge of the negative impact that growth has on inequality; however, they do not necessarily carry through this logic to discern what is needed for addressing inequality.³⁹ Some simply acknowledge the issue. Others go deeper and recognize that both patterns of growth and the distributional impacts of growth matter—that is, how the revenue and other benefits such as new jobs from a thriving private sector will be shared with, and/or explicitly target, those living in poverty. The European Commission is concerned with who benefits from growth, recognizing issues of equitable redistribution of the benefits, inclusiveness, income generation, productive and decent employment, gender equality, social protection, quality education and training, responsive higher education, and building strong health-care systems.⁴⁰ Switzerland is more focused on country priorities and pro-poor policies, and specifically on pro-poor growth defined, relatively, as the income of the poorest growing faster than the income of the richest, and absolutely as the income of the poorest increasing.⁴¹ It notably takes redistributive policies aimed at employment and income generation as its starting point.⁴² Denmark also prioritizes income distribution and human rights in its budget support: “As an element in the contract on budget support, [Denmark] will pursue constructive and critical dialogue concerning both public revenue and expenditure, including the mobilisation of tax revenue and the priority given to social sectors. Issues such as income distribution policy and fulfilment of human rights will be central in this dialogue.”⁴³

Other governments focus on sustainable dimensions of growth. South Korea focuses on pro-poor growth and green growth.⁴⁴ Finland’s development policy promotes an inclusive green economy.

In keeping with the UN Environmental Programme definition, these countries seek to foster economies that strengthen human well-being and social equality, grounded in the “sustainable use of natural resources [that] takes into account the carrying capacity of nature, as well as secures the provision of ecosystem services.”⁴⁵ Germany’s and Japan’s work in this area is based on economic, social, and ecological market economy principles^{xxii} and pro-poor growth.⁴⁶ For instance, in Germany “[s]ustainable development demands that ecological, socio-cultural and political aspects receive the same attention as economic ones.”⁴⁷ For its part, Japan has a strong focus on environmental conservation relative to other donors (Australia and Canada), which focus more on resource management, not coincidentally areas where their resource companies are strongly engaged. The US Agency for International Development (USAID) highlights that the quality of economic growth matters as much as how it is generated. In order for it to be sustainable, growth must be shared, inclusive of all groups, compatible with reducing climate change impacts, and responsible in the use of natural resources.⁴⁸

Taking a solidarity approach to growth, France and Belgium are outliers in comparison to their OECD-DAC counterparts. For France, the solidarity approach recognizes that “globalization means rethinking new pathways to growth” that are cognizant of mutual global interdependence and a shared common destiny, and that seek to find pragmatic solutions to problems that transcend borders, like inequality and global public goods.⁴⁹ It contrasts this perspective with the current unsustainable technology and energy growth of the industrialized world.⁵⁰ France argues that countries need to pay attention to “the quality of growth, its ability to create employment, its impact on welfare and the environment and its contribution to strengthening States”, and to “[m]echanisms that reduce inequalities and protect the most vulnerable . . . (pro-poor policies, risk reduction, redistributive fiscal policies).”⁵¹

Belgium’s “social and solidarity economy” approach is based on recognition that “an economy that is not concerned with social issues is a vehicle for inequalities and growing injustices.”⁵² It points out that “the current context requires us to question a development model that is based on unchecked market-driven growth and blind competition.”⁵³ This means that while the Belgian Development Agency sees the importance of the private sector in generating economic growth, it does not overstate the role of the private sector—it is an important, but not the only, pillar in the quest for sustainable development and the fight against poverty.⁵⁴ In practice, Belgium sees an ethical component in private sector activities that is undergirded by principles of service delivery to communities or their members. These activities combine economic viability and social utility, actively involve local communities or social networks in the production of goods and services, form consultative and cooperative networks of associations and communities, and contribute to the creation of new economic and social arrangements.

While many donors recognize that patterns of growth and redistribution matter, few seem to translate this recognition into a focus on promoting policies that strengthen government capacity to create decent work, effectively collect taxes and deliver social services, and redistribute the

xxii. The guiding principles include: supporting rule of law; striving for broad-based growth; strengthening the private sector; improving conditions for the market economy; supporting economic transformation; creating social partnership; shaping the economy based on ecological concerns; and ensuring equal opportunities (BMZ 2007).

benefits of growth to those who are most marginalized by the economic activities that create growth. At best, donors tend to focus on making very narrowly defined markets equitable within and among countries, rather than supporting policies to directly target growing inequalities. The latter suggests a more proactive role for the state (and other development actors) in addressing inequality, whereas the former emphasizes making markets work for the poor.

4.2.2 Divergent logic and assumptions: bringing in the private sector

While donors agree that the private sector is key to development, there is a lack of coherence in the approaches that donors take on this issue in their programming. Nevertheless, some areas of agreement exist. All donors see the private sector as the key driver or engine of growth and development (analogies vary, but the main point is that the private sector is seen as playing the central role). The private sector fulfills this role by nurturing new investments, contributing to self-regulating markets, producing market efficiencies, creating new and better jobs (leading to rising incomes for individuals), and generating new sources of domestic tax revenue (from which governments can dedicate more resources to social programs and subsequently reduce poverty). Beyond this, donors' strategies for connecting the dots between the private sector, development, and poverty reduction fall within a very broad spectrum.

The end goal of donors' strategies tends to vary depending on the extent to which their strategies are aimed at engaging the private sector as a partner in development and/or supporting private sector development.

In the former case, some donors tend to see the end goal as *partnering* with the private sector. Indeed, one commentator suggests that "partnership" with the private sector has become the new buzzword in international development circles.^{xxv} Partnership with the private sector will help make effective use of declining aid resources, leverage alternative sources of development financing, and identify innovative private sector–managed solutions to development challenges, including the provision of goods and services to poorer populations (bottom of the pyramid approaches, for example).^{xxiii} Alternatively, some donors explicitly see engagement with the private sector as a means to promote their own commercial interests.^{xxiv}

In the latter case, other donors see *promoting* or *supporting* the private sector to foster development as the end goal. In this case, the link between growth and poverty in developing countries is a direct one: a thriving private sector contributes to growth, which in turn contributes to poverty reduction.^{xxv} Supporting the private sector is valuable in its own right because it unleashes growth^{xxvi} and/or helps integrate domestic private sector actors into the global economy, which in turn benefits the poor.^{xxvii} For example, Austria claims that "the private sector and development are two sides of the same coin."⁵⁶ Denmark and Norway's approach focuses

xxiii. This approach is particularly present in the private sector engagement policies of donors such as Finland, Germany, Japan, the Netherlands, Sweden, and the United Kingdom.

xxiv. Canada, Finland (Finnfund, a Finnish development finance company), Germany, the Netherlands, Norway, and the United Kingdom.

xxv. Austria, Denmark, Germany, the Netherlands, Norway, Sweden, and the United Kingdom.

xxvi. Austria, Denmark, the Netherlands, and the United Kingdom.

xxvii. Japan, New Zealand, Switzerland, and the United Kingdom.

predominantly on promoting business and private sector development as the means to advance growth and broader development. Some donors use the idea of making markets more competitive or work better for the poor (both as producers and consumers)^{xxviii} as an entry point.^{xxix} This idea exposes tensions within this approach in terms of the type of private sector supported—national, foreign, or domestic.

A number of donors, including Sweden, the United Kingdom, and the United States, combine the logic of partnership with the private sector with the logic of promotion of the private sector. In this context, donors seek to create business relationships between national and domestic private sector actors through initiatives such as challenge and innovation funds. Here donors are essentially *partnering* with the private sector to *promote* private sector development. Some donors highlight the need to ensure that national businesses are making linkages with partners in developing countries; many donors see harnessing the expertise of their own businesses as having the potential to make positive development impacts.^{xxx}

Finally, Australia,⁵⁷ Austria,⁵⁸ Denmark, the Netherlands, and the European Commission place their work with the private sector in the broader context of improving policy coherence for development.^{xxxi} The private sector is a piece of a bigger puzzle.

Despite the different nuances, most donors see promoting the private sector as a means to increase incomes (through job creation) and public revenues (to deliver social services). This is evident in the overall rationale for some donor strategies^{xxxii} and/or the pillars of and activities in their strategies.^{xxxiii} These donors make connections between enhancing employment opportunities and livelihoods, which in turn generate higher incomes for individuals and households^{xxxiv} and help governments to increase their revenues, which can be used to provide more or better social services.^{xxxv} However, the extent to which donors explicitly target the areas that they need to in order to achieve those outcomes, such as quality of jobs created, sectors that can most readily create jobs, industrial policy, and enabling governments to effectively collect taxes and deliver on social services, is mixed.

4.3 Aid exit and the self-reliant state

Within this mix, an important goal of some donor strategies is aid exit and enabling developing countries, as the Netherlands notes, “to solve their own problems and become less dependent on aid.”⁵⁹ For the European Commission, greater emphasis is placed on the role that growth

xxviii. The M4P initiative discussed below is a key example of this approach.

xxix. Germany, Sweden, Switzerland, the United Kingdom, and the United States.

xxx. Austria, Denmark, Finland, Norway, and the European Commission (Federal Ministry for European and International Affairs [Austria] 2010, 18, 25).

xxxi. Policy coherence for development refers to improving the coherence of donors’ aid and non-aid policies to improve development outcomes. For example, a donor might offer trade-related technical support through its development agency and, through its trade ministry, lower tariff barriers to imports from developing countries.

xxxii. Australia, Austria, Canada, France, Japan, Spain, Switzerland, the United States, and the European Commission.

xxxiii. This includes Canada, Denmark, Switzerland, and the United Kingdom.

xxxiv. Australia, Austria, Canada, France, Japan, Spain, Switzerland, and the United Kingdom.

xxxv. Australia, Austria, Canada, Germany, Japan, France, Sweden, and the United States.

and domestic resource mobilization (and thus the state) have to play in poverty reduction, as opposed to “incremental increases in ODA.”⁶⁰ For USAID, “[e]conomic growth . . . is the surest way for countries to generate the resources they need to address . . . development challenges on their own, and thus to emerge from dependence on foreign aid.”⁶¹ USAID’s policy framework for development cooperation claims that the “ultimate goal of development cooperation must be to enable developing countries to devise their own solutions to key development challenges and to develop resilience against [economic] shocks and other setbacks.”⁶² The goal is to shift from aid dependence to self-sufficiency through growth. Germany sees vibrant economies as key to enabling developing countries to “take responsibility for building a better future for themselves on the basis of self-reliance.”⁶³ The Netherlands is pursuing the same goal, but envisages the path to self-sufficiency through improving the capacity of developing countries to “shoulder their own responsibility”⁶⁴ by targeting obstacles to sustainable growth and promoting self-sufficiency “with a move from aid to investment.”⁶⁵ Japan goes one step further, viewing its private sector work as a way to “empower developing countries . . . to create a society that can reap the rewards of economic development through their own efforts.”⁶⁶

This interest in self-reliance suggests greater policy space for developing countries to shape their own economic and social policies. However, the opportunity for becoming fully self-reliant is undermined by donors’ current views on the role of the state in achieving this outcome.

Donors are taking a more nuanced approach to macroeconomic reforms in developing countries, rather than pushing one-size-fits-all neo-liberal policies like they did during the 1980s and 1990s. Yet, neo-liberal approaches still prevail. In general, donors take an apolitical approach to growth, the private sector, and development. This reflects technocratic understandings of the state and largely ignores ongoing debates about the role the state plays in development and the political economy in which policies are made.

In terms of economic policy, for some donors the focus is on the state’s technical role in promoting an enabling environment for business through the right policy and regulatory mix. This often means that donors rarely promote a proactive interventionist role for the state in development. Such a role would give greater priority in their strategies to heterodox approaches to promote and direct economic development, industrial policy, job creation policies, and productive capabilities (for instance, upgrading skills and industry). This is surprising given the prominence of state intervention in the development of Brazil, China, India, South Africa, and other relatively self-reliant developing countries in the South. Instead of strengthening domestic and regional markets relevant to maximizing growth outcomes for poor and marginalized populations, donors focus on technical aspects of market chain or cluster development, as well as the integration of businesses into global markets.

These donor approaches, alongside the impact of decades of neo-liberal policies, continue to diminish the policy space for developing countries to establish socio-economic models specific to their national (and regional) contexts that take into account the views of citizens. A 2011 consultative study by Penny Davies on the private sector and aid effectiveness, which is based on approximately 50 interviews with donors, developing-country governments, civil society

partners, and business leaders, found that the majority of respondents stressed the importance of supporting country ownership in relation to private sector development at country level.⁶⁷ Some respondents also stressed the importance of policy space for governments to develop their own strategies.⁶⁸ Yet, donors pay little, if any, attention to countries' abilities to balance the "right" policies (which for donors tend to be whatever ideas are hegemonic at the time) with the political space and necessary capacities for developing countries, including their civil society organizations (CSOs), to determine their own policy mix. Only Germany's strategy explicitly recognizes the ideological debate on the role of the state in economic development.⁶⁹

Beyond the broader macro-debates, most donors at least recognize the role of the state in ensuring access to social services; however, they differ in terms of the extent to which they see the private sector playing a role. The M4P initiative supported by Sweden, Switzerland, and the United Kingdom does not explicitly recognize the ideological debate, but does say that it is not the role of donors to tell developing countries what the appropriate role of the state is or should be. Nevertheless, Sweden, for instance, points out that it will not support a strategy or project that will make people reliant on the private sector for what are rights (for example, basic education) that the state has an obligation to secure.⁷⁰ Conversely, while recognizing that the state has a role to play in delivering social services, the United Kingdom explicitly states that it will support the improvement of the private provision of social services.

Given the emphasis many donors place on promoting self-reliance, it is remarkable that while some donors talk about the importance of domestic resource mobilization and taxation—critically important ways to build self-sufficiency and maximize the impacts of growth—only three (Denmark, Norway, and the European Commission) actually include strengthening tax systems within their areas of focus or policies.^{xxxvi} For Denmark, strengthening tax systems so countries can finance their own development is one of five pillars within its business strategy.⁷¹ Denmark also addresses illicit capital flight.^{xxxvii} Norway's Taxation for Development program includes capacity building for tax authorities.⁷² The European Commission focuses on building stronger tax systems and fighting tax evasion.⁷³

In drawing some conclusions, it is important to note that regardless of how differently various donors approach the issue of growth, the private sector, and development, the entry points for programming and partnership are not very different. In short, while theoretical approaches distinguish various donors, how much they matter should not be overstated since, in practice, donor responses are not that distinct. For example, Germany, Sweden, Switzerland, the United Kingdom, and the United States all have as their entry point making markets more competitive or work better for the poor (both as producers and consumers),^{xxxviii} even though they place very

xxxvi. Although it is important to note that while some donors do not make taxation a focus of their work, countries such as Germany, Ireland, the Netherlands, and Sweden are supporting the African Tax Administration Forum, the mission of which is to improve tax administration capacity in African countries. See ATAF (2012) for more information. The International Tax Compact, launched by Germany, has also revealed that a number of other donors are working in the area of taxation; however it also found that this was mostly through specific initiatives at the country level and that it is difficult to assess donors' contributions in this area via a desk study (Köhnen et al. 2010).

xxxvii. Finland's most recent overall development policy includes addressing these tax issues as well, although it does not explicitly support strengthening tax systems in developing countries.

xxxviii. The M4P initiative discussed below is a key example of this approach.

different emphases on issues such as employment and decent work, ecological and social considerations, and human rights. The following sections draw out some of the implications of this observation.

4.4 Supporting the private sector: how much and where?

It is very difficult to quantify how much support donors are actually providing for growth and private sector strategies. There is a lack of consistent public reporting on specific initiatives and larger strategies. A handful of donors provide public information on their allocations to growth and/or private sector strategies. In 2011, Norway devoted roughly 14.5 per cent of its aid budget to economic development and trade.⁷⁴ Over the past decade, between 12 per cent and 17 per cent of the Norwegian budget went to economic development and trade, hovering most years around 14 per cent. In 2010–11, the Canadian International Development Agency (CIDA) disbursed C\$824 million, or 22.9 per cent of its aid budget, on its growth strategy, encompassing a whole range of sectors and sub-sectors.⁷⁵ Sweden and Spain are the most forthcoming in terms of spending in this area. Sweden provides figures for sub-sector spending as well as regional allocations.⁷⁶ According to the Swedish International Development Cooperation Agency (SIDA), support for economic development represents nearly half of Sweden's ODA when cross-cutting issues are considered.⁷⁷ Spain provides a complete breakdown of its economic growth spending based on the DAC Creditor Reporting System (CRS) sector coding, reporting just over €97.4 million for 2010.^{78, xxxix}

The scale of these reported allocations, however, can be misleading. One of the key challenges for measuring donors' spending on the private sector and/or growth is that these figures depend on how donors' define these areas of work. Many of the sectors around which donors frame their work on growth and the private sector are comprised of a range of sub-sectors, and over 100 different OECD-DAC CRS sector codes, with each donor including different codes in their reporting. For example, Canada includes forestry and fishing as part of its growth strategy, whereas Norway includes agriculture and fishing. Norway also includes a number of questionable elements under multi-sector aid, including all disbursements for budget support, debt relief, and emergency food aid. Table 2 below compares Canada, Norway, and Spain in terms of their use of different OECD-DAC CRS codes for reporting on growth and the private sector. It highlights the substantial differences even between just three donors. This problematic lack of available and comparable data—in particular for private flows of aid for development—is also something donors themselves have noted.⁷⁹

xxxix. Spain includes within its economic growth strategy institutional and legal support to promote economic growth, economic and social public policy development and reform, jobs and skills development, economic and social infrastructure and services to help countries better integrate into the global economy, and governance (AECID n.d., 4–6). Specific CRS codes were selected from across the main categories of spending, including Social Infrastructure and Services, Economic Infrastructure and Services, and Productive Sectors.

TABLE 2: DONOR REPORTING ON GROWTH AND THE PRIVATE SECTOR THROUGH THE OECD'S CREDITOR REPORTING SYSTEM

CANADA	NORWAY*	SPAIN
<p>Sub-sectors</p> <p>Education (11330, 11430)</p> <p>Water supply and sanitation (14010, 14015, 14040, 14050)</p> <p>Government and civil society (15110, 15111, 15112, 15113)</p> <p>Infrastructure and services</p> <ul style="list-style-type: none"> • Social infrastructure and services (16020, 16062) • Transport and storage (21010, 21020, 21030, 21040, 21050, 21061, 21081) • Communications (22010, 22020, 22040) • Energy generation and supply (23010, 23020, 23030, 23040, 23050, 23061, 23062, 23063, 23064, 23065, 23066, 23067, 23068, 23069, 23070, 23081, 23082) • Banking and financial services (24010, 24020, 24030, 24040, 24081, 25010, 25020) • Forestry and fishing (31210, 31220, 31261, 31281, 31282, 31291, 31310, 31320, 31381, 31382, 31391) <p>Industry (32110, 32120, 32130, 32140, 32161, 32162, 32163, 32164, 32165, 32166, 32167, 32168, 32169, 32170, 32171, 32172, 32182, 32210, 32220, 32261, 32262, 32263, 32264, 32265, 32266, 32267, 32268, 32310)</p> <p>Trade (33110, 33120, 33130, 33140, 33150, 33181, 33210)</p> <p>Environmental protection (41010, 41020, 41030, 41040, 41050, 41081, 41082)</p> <p>Multi-sector aid (43030, 43040, 43050, 43082, 53030, 53040)</p>	<p>Sub-sectors</p> <p>Infrastructure and services</p> <ul style="list-style-type: none"> • Transport and storage (21010, 21020, 21030, 21040, 21050, 21061) • Communications (22010, 22020, 22040) • Banking and financial services (24010, 24030, 24040, 24081, 25010) • Agriculture and fishing (31110, 31120, 31161, 31181, 31182, 31191, 31310, 31320, 31381, 31382, 31391) <p>Industry (32110, 32120, 32130, 32140, 32163, 32164, 32165, 32166, 32167, 32168, 32169, 32170, 32171, 32172, 32182, 32210, 32220, 32261, 32262, 32263, 32265, 32268, 32310)</p> <p>Trade (33130, 33140, 33150, 33210)</p> <p>Multi-sector aid (43030, 51010, 52010, 60010, 60020, 60030)</p> <p>Humanitarian assistance (72040)</p>	<p>Sub-sectors</p> <p>Government and civil society (15110, 15111, 15120, 15130, 15150)</p> <p>Infrastructure and services</p> <ul style="list-style-type: none"> • Social infrastructure and services (16010, 16020) • Transport and storage (21010, 21020, 21030, 21040, 21050, 21061) • Communications (22010, 22020, 22040) • Energy generation and supply (23010) • Banking and financial services (24010, 24030, 24040, 24081, 25010) <p>Industry (32110, 32120, 32130, 32140, 32163, 32164, 32165, 32166, 32167, 32168, 32169, 32170, 32171, 32172, 32182, 32210, 32310)</p> <p>Trade (33130, 33140, 33150, 33210)</p> <p>Multi-sector aid (43030)</p>

* Norway publishes amounts spent in these subsectors, but does not actually indicate which CRS codes it uses. Based on the descriptions provided (for example, they specify agriculture and fishing, but not forestry; under "Industry," they specify mineral resources, mining, and construction), and using the CRS codes common to Spain and Canada where Norway is active, researchers estimated which CRS codes Norway might be using.

Some figures exist on direct partnerships with the private sector, although it is impossible to paint a comprehensive picture of these partnerships. Donor reporting on this area is mixed and thus insufficient, a finding that is consistent with the Business Civic Leadership Council's 2009 study that looked at 10 bilateral donors^{xi} engagement with the private sector.⁸⁰ The study found that many donors have neither communicated nor made accessible information on their engagement with the private sector, nor clearly indicated the amount of capital available for public-private partnerships (PPPs).⁸¹ It also found that donors report their financial commitments in different ways,⁸² a finding substantiated by this paper. For example, the United Kingdom does not provide figures for its various funding windows that directly target the private sector. While figures on the size of the total funding window are available, figures on the amount leveraged from private sector actors and the size of individual projects are not. Germany, on the other hand, reports on all its partnerships with the private sector. For example, its PPP Facility, a special fund for development partnerships with the private sector, spent €190 million in the 10 years between 1999 and 2009 on PPPs, leveraging^{xii} an additional €301 million in private sector resources.⁸³ Germany does not, however, report on the size of all of its PPPs, including those beyond this special fund. The Netherlands invested €750 million in 75 private-public partnerships between 2003 and 2012, leveraging an additional €1.48 billion over this period.⁸⁴ It includes information regarding public and private contributions to its PPPs.

Brian Tomlinson outlines OECD figures on donor support of PPPs, although he also notes that the figures he presents are incomplete.

In 2010, DAC members channeled US\$903 million in this aid modality [PPPs] (unfortunately there is no corresponding estimate of the private sector contributions). This amount has grown dramatically since 2007 when PPPs accounted for only US\$234 million of DAC ODA, which could be in part the result of under-reporting in 2007. The sector allocation of ODA for PPPs in 2010 emphasized projects in the health sector, including population and reproductive health (40.9%), in economic infrastructure (31.8%), agriculture (15.2%), and environmental protection (6.0%).⁸⁵

While ODA support for the private sector has been increasing in recent years, these figures understate the amount of public finance going to the private sector, since ODA represents a relatively small contribution compared to other sources of support for private sector partnerships, in particular state-backed agents known as development finance institutions. These mechanisms have seen a rapid rise in support over the past five years. In 2010, the European Network on Debt and Development (Eurodad) estimates that around €7.27 billion of public finance was invested in private companies operating in the world's poorest countries by the IFC, the European Investment Bank, and six European bilaterals.⁸⁶

xi. France, Denmark, Germany, Japan, the Netherlands, Switzerland, Sweden, the United Kingdom, and the United States (USAID and the Millennium Challenge Corporation).

xii. In a study of the World Bank's International Finance Corporation (IFC), the European Investment Bank, and six bilateral donors (not including Germany), Eurodad found that there is a growing trend among donors to identify projects through which they are able to leverage the most resources while giving only secondary consideration to the development impacts (Kwakkenbos 2012).

Finally, as a funder, the private sector has become an important source of development financing. The Center for Global Prosperity's 2012 Index of Global Philanthropy and Remittances estimates that the private sector gave an estimated US\$55.9 billion in 2010.^{xlii}

In short, without more consistent and accessible data, it is impossible to make any accurate, meaningful, and comparable assessment of the scale and scope of donor financial support either in the area of growth or the private sector.

4.5 Modalities of engaging the private sector

As implementing partners, donors are seeking to increase the value for money of each aid dollar spent by harnessing the skills, expertise, innovation, and finances of the private sector through, *inter alia*, domestic private sector development, traditional private-public partnerships, research, innovation, or challenge funds (push mechanisms), advanced market commitments (pull mechanisms), research, concessional financing windows, innovative financing tools, and support for CSR activities.^{xliii}

Donors are also focusing their efforts at a number of levels. In their study of donor strategies on private sector development and rights-based approaches, Heather Gibb, John Foster, and Ann Weston found that donors intervene at the macro, meso, and micro levels. Kiyoto Kurokawa, Fletcher Tembo, and Dirk Willem te Velde identified similar levels of engagement in their examination of donor support for the private sector in sub-Saharan Africa.⁸⁷ While both studies looked at only a proportion of donors, the broader overview of all OECD-DAC donors conducted in this paper proved to be consistent with their findings.

Macro level donor policies focus on creating a *business-enabling environment*—building economic, legal, and regulatory foundations (property rights, financial regulations, governance, and sound public financial management) to ensure that the right conditions exist for the private sector to thrive.^{xliv} Meso level interventions are those that *make markets work* in ways that address market failures and imperfections, enhance competitiveness, and better integrate all actors into markets. These interventions include aid for trade, building value chains, provision of finance, and transfer of technological innovations. Finally, micro level interventions that *invest in businesses and people*, entail building support services to enhance longer-term private sector development and growth. Examples include investments in businesses (technical and financial support to the private sector) and people (infrastructure development; health; education; vocational skills training, in particular for women, focused on fostering a thriving workforce; and environmental sustainability).

xlii. Includes foundations, corporations, private and voluntary organizations, volunteerism, universities and colleges, and religious organizations.

xliii. Push mechanisms are the provisions of direct funding by donors to increase the supply of an innovation (e.g., support for scientific or technological research). Pull mechanisms are stimulations of demand by donors for a specific product for which there is a need (e.g., cheap vaccines) but where the private sector may not see a profitable market. Funding may be pledged, though is only actually committed if the product is created.

xliv. See Estrup (2009, 15–19) for a discussion of nuances between donors' historical approaches to supporting an enabling environment.

4.5.1 Modalities for private sector engagement: joint donor commitments on the private sector

Table 3 compares commitments made in various joint donor statements on the private sector. It shows commitments made by donors at the three different levels noted above, and around the two key roles donors envisage for the private sector set out in section 4.2.2, *partnering* with the private sector and *promoting* or *supporting* the private sector to develop. It also provides an interesting benchmark against which to compare donor strategies and policies, and in particular their approaches for engaging the private sector.

To some extent, Table 3 oversimplifies the way in which donors are approaching the private sector. There has been a strong shift among donors in recent years to thinking creatively about how to engage the private sector more proactively as a partner in “the development challenge.” The UN Global Compact, established in 1999, can be seen as an early leading initiative aimed at partnering with the private sector, followed by the Business Call to Action launched in 2008. Many donors have integrated the partnership approach into their development policies and programs. Nevertheless, the newness of the donor statements means that Table 3 probably exaggerates the extent to which donors have committed resources to partnering with the private sector and promoting private sector development. Based on the number of commitments, the new “private sector as partners” approach would seem to be getting the lion’s share of funding. While these types of initiatives are certainly growing in number, the private sector development stream is still a key part of donor programming.

It is important to also note that promoting private sector development and partnering with the private sector are not mutually exclusive approaches. Indeed, donors *partner* with the private sector to *promote* private sector development, as demonstrated by Table 4 below. Nevertheless, Table 3 shows that a distinction between the two approaches exists, and that as separate approaches, they have different policy and programming implications for donors.

TABLE 3: COMPARISON OF KEY JOINT DONOR STATEMENTS ON THE PRIVATE SECTOR

The following symbols in the table indicate from which statement the text is drawn; parentheses indicate the specific article in the statement—e.g., Article 2 is (2)

▲ Bilateral Donors' Statement in Support of Private Sector Partnerships for Development

⌘ Busan Partnership for Effective Development Cooperation, Article 32

◆ Joint statement on Expanding and Enhancing Public and Private Co-operation for Broad-Based, Inclusive and Sustainable Growth

MACRO: Business-enabling environment

Promoting private sector development

Promote sound policy and regulatory environment for private sector development, ▲(7b) increased investment, PPPs, and strengthening value chains (taking account of national and regional dimensions and scaling up support for development goals). ⌘(a)

Enable the private sector to participate in the design and implementation of development policies and strategies to foster growth and poverty reduction, ⌘(b) as well as business associations, trade unions, and others. ⌘(a)

Partnering with the private sector

Ensure principles of aid effectiveness in these partnerships:

Explore how these principles intersect with the work of these partnerships. ▲(11)

Promote mechanisms for collaboration and policy dialogue:

Engage the private sector in public-private policy dialogue and advocacy around issues of global and national importance, including achieving the MDGs, addressing climate change, improving the investment climate, and enhancing aid effectiveness, ▲(4d) and dialogue and advocacy that encourages an enabling environment for peace and stability, the rule of law, respect of human rights, good governance, the absence of corruption, economic and social infrastructure, stable economic policy, an educated workforce, property rights and enforceable contracts, enhancements of the competitiveness of the local private sector, and promotion of equitable growth. ◆(1)

Contribute to national development plans: To promote country ownership, facilitate stronger relationships between private sector actors and other national stakeholders, including governments, ◆(2) civil society, and local small and medium-sized enterprises (SMEs). ▲(7c)

Respect and promote global CSR standards: Public and private activities should comply with relevant national laws and respect applicable international business norms, ◆(3) promoting responsible business practices in areas such as human rights, labour, environment, and anti-corruption. ▲(4b)

Greater transparency: In particular, transparency and accountability of PPPs, procurement systems, and specific sector initiatives.

MESO: Making markets work

Promoting private sector development

Address market failure: “Aid for trade” to build productive capacities, help address market failures, and strengthen access to capital markets. ¶(d)

Manage risk: Promote approaches that mitigate risk faced by the private sector, ¶(d) and spur investment through matching grants, loans, equity, and guarantees ▲(7a) in least developed countries and countries struggling in conflict and/or with fragility, as well as middle-income countries with thriving private sectors. ▲(10)

Partnering with the private sector

Leverage finance: Develop innovative mechanisms to mobilize private finance for shared development goals. ¶(c)

Address development challenges through PPPs: Encourage public and private actors to explore how to advance development and business outcomes that are mutually reinforcing. ¶(e)

Nurture development innovations: Invest in research, scientific, and technological solutions to development challenges. ▲(8)

Responsible business practices for development: CSR programs can serve both development and business interests, improve the quality of life in developing countries, the competitive environment for companies, and their license to operate. ▲(4c)

Inclusive business models: Encourage sustainable, market-based private sector solutions that are commercially viable, can deliver measurable, impactful, and scalable development results for those at the base of the pyramid, and achieve the MDGs. ▲(4a, 7f)

MICRO: Investing in businesses and people

Promoting private sector development

Partnering with the private sector

Equal opportunities: Promote partnerships that improve the lives of both men and women in order to secure equal opportunities. ▲(7d)

Promote responsible local business through external support: Build the capacity of local private sector partners to develop socially responsible business initiatives by providing targeted technical assistance. ▲(7e)

Table 3 indicates that donors see the solutions to development lying in markets—one market to promote solutions to growth (promoting private sector development) and another market to promote solutions to development (partnering with the private sector). The private sector is not just a development actor, but *the* development actor for growth strategies and potentially development strategies. With the exception of a few references to other development actors, the private sector is portrayed as the key interlocutor with governments. Taken to an extreme, development solutions could be envisaged as being market-driven and private sector-led. While the statements considered cannot speak to the actual implementation of these approaches, the suggestion here is that issues traditionally outside the realm of growth and the private sector—like more inclusive partnerships, ownership, environment, human rights, labour, gender equality, and transparency—appear to be development add-ons, rather than being integral to the growth and private sector development agenda. Voluntary international norms and CSR initiatives have replaced strong national legislation to protect the rights of individuals and the environment. The preoccupation of national legislation has become the provision of the right policy and regulatory mix that creates an enabling environment for business and investment.

The “managing for results” agenda of the Paris Declaration is also, by and large, absent from joint statements. Only the Busan joint statement on Expanding and Enhancing Public and Private Co-operation for Broad-Based, Inclusive and Sustainable Growth references the need for “monitoring, reporting and evaluation of development results, measuring the sustainable impact of public-private cooperation for development, including Public-Private Partnerships, and to sharing the lessons learned from our partnership.”⁸⁸ In the absence of such an agenda, it is unclear which results donors are expecting for development beyond engaging or supporting the private sector.

But beyond statements, what does this look like in practice from donors’ perspectives?

4.5.2 Modalities of private sector engagement: individual donor policies

Table 4 goes beyond commitments made by donors in joint statements to categorize the modalities of private sector engagement found at the macro, meso, and micro levels in individual donor strategies. Donors’ policies run the gamut of these interventions, with most doing at least one, and many doing all three.

Table 4 only includes interventions that specifically focus on private sector actors, although other forms of intervention by the state or other development actors exist under each category. For instance, it does not include donor interventions at the government level regarding regulatory reform that would fall under business-enabling environment activities. Donors such as Austria, Canada, and the United Kingdom also emphasize their support for multilaterals that work with or on the private sector as part of their private sector strategy. Sweden and Germany have committed themselves to supporting the reform of global institutions and regulations in ways that benefit the growth prospects of developing countries. Donors are also working with the private sector through PPPs that, in some instances, include CSOs across various areas of their work. The United Kingdom has made research on best

practices for engaging the private sector an important part of its strategy. Finally, some donors, including Australia and Sweden, refer to their work with private contractors on implementing development programming as part of their engagement with the private sector.

TABLE 4: EXAMPLES OF DONOR MODALITIES FOR ENGAGING THE PRIVATE SECTOR AT VARIOUS INTERVENTION LEVELS

MACRO:
Business-enabling
environment

- Engagement with the private sector (specifically on its needs) as well as CSOs, business associations, and trade unions as dialogue partners in national development planning (e.g., Germany, Sweden, United Kingdom)
- Support for promoting and implementing national and international CSR standards like the UN Global Compact or the Extractive Industries Transparency Initiative (e.g., Canada, Denmark, Germany, Sweden)

MESO:
Making markets
work

- Competition or challenge funds^{xiv} to develop products and services that benefit the poor (e.g., Australia, Austria, Canada, Germany, Sweden, United Kingdom)
- Advance market commitments (e.g., Canada, France, Italy, United Kingdom)
- Research on scientific and technological innovations in agricultural production
- Matching initiatives^{xvi} that couple firms in donor countries with businesses in developing countries (and sometime CSOs), often with a significant focus on development impacts (e.g., Denmark, Finland, Germany, Norway, the Netherlands, Sweden, United Kingdom, United States)
- PPPs between donors, firms, CSOs, and/or developing country governments
- Support for micro enterprises and SMEs, including farmers, with the goal of integrating them into global value chains (e.g., Austria, Canada, Italy, New Zealand)
- Financing for donor countries' firms to catalyze their investment in developing countries (e.g., Denmark, Finland, Germany)

MICRO:
Investing in
businesses and
people

- Technical assistance to private sector enterprises in developing countries (e.g., Denmark, New Zealand, United Kingdom)
- Support for feasibility studies for pro-poor product or service development (e.g., Austria, Germany, Sweden)
- Skills training for youth and women (e.g., Canada, Germany, Japan, Switzerland, United Kingdom)
- Women's economic empowerment initiatives that provide access to finance and opportunities to gain entrepreneurial skills (e.g., Australia, Austria, Canada, Norway, Sweden, Switzerland, United Kingdom, United States)

While promoting private sector development and growth has been the traditional remit of donors (and remains a strong focus of many of their growth and private sector strategies, as noted above), Table 4 indicates that donors are increasingly giving shape to their commitments (outlined in Table 3) at various levels to engage the private sector as a development actor.

At the macro level, the principle focus of donor strategies is at the government level, as discussed. However, with regard to engaging the private sector, there seems to be a focus on promoting international CSR standards, and to some extent pursuing national dialogue opportunities with the private sector. The key difference between Tables 3 and 4 is that donor engagement—especially by Germany, Sweden, and the United Kingdom—is largely focused on

xiv. These funds are meant to harness private sector expertise and innovation to develop solutions to development challenges. Examples include Australia's Enterprise Challenge Fund, Sweden's Innovations Against Poverty (IAP) program, and the Caribbean Catastrophic Risk Insurance Facility, established by a number of different donors.

xvi. Donors seek to match their domestic firms with firms in developing countries. The extent to which these include explicit development additionality criteria varies. Danish International Development Agency (DANIDA) Business Partnerships are one example.

what the private sector needs to ensure so that the right economic foundations are in place for a business-enabling environment. In general, donors see their work in this area as part of a broader systemic approach to creating the foundations for businesses to thrive, which means primarily engaging with other governments.

Although donors made attempts to create a set of aid effectiveness principles for the private sector through the Busan joint statement, the findings in this paper (see section 5.5) suggest that donor engagement on the the growth and private sector agenda is undermining these principles. Collaboration and policy dialogue between donors and the private sector is certainly increasing, but the evidence to date suggests that engagement with the domestic private sector relative to that with the national and foreign private sectors is mixed (see section 5.1), not to mention that other development actors are largely excluded. Going forward, a key challenge to involving the private sector in national dialogues and planning processes is ensuring that such dialogues take place in a transparent and inclusive manner, and involve the private sector as well as CSOs.⁸⁹ Selecting the “right” private sector actors to engage is also a crucial issue. Participants must represent the interests of the broader private sector, rather than their own commercial agenda, and the selection process must be deliberate and inclusive if the end goal is to orient business toward pro-poor policies. Engaging business associations in policy dialogues, rather than representatives from individual companies, may be one way to temper the promotion of competitive commercial interests.⁹⁰ Nevertheless, any strategy will also need to cast a wider net to capture the very different interests of cooperatives, micro firms, SMEs, trade unions, and the informal sector. The inclusion of CSOs and/or arms-length government agencies would also help guarantee that the broader public interest is not captured by commercial interests.

At the meso level, the new donor modalities highlighted in Table 4 seem to reflect the priority that donors are placing on partnering with the private sector in their statements. A number of donors are promoting PPPs and making use of challenge and innovation funds as important mechanisms to harness private sector finance and expertise and address development challenges. Donors are providing financing for firms from donor countries to catalyze their investment in developing countries and promoting match-making initiatives that partner national (donor) and domestic (developing country) firms through joint ventures and new trade relationships.^{xlvii} Such initiatives also work to promote SMEs through partnerships and better integrate domestic firms into global value chains.

Regarding the micro level, Table 4 highlights that donors place a lot of emphasis on the individual and integrating each individual into markets as an “employee, producer and consumer.”⁹¹ In practice, this means building individuals’ skills through vocational training programs, giving people access to a range of financial tools, and integrating them into value chains, all of which should ultimately lead to income gains, “putting purchasing power in [poor people’s] hands”⁹² to, in turn, access basic necessities and new goods and services. For example, the United Kingdom claims that “rising incomes and wealth are driving poverty reduction, and investment in growing businesses is the primary driver of rising incomes and

xlvii. See Kindornay and Higgins with Olender (2012) for examples of trade-related match-making initiatives.

wealth.”⁹³ Consequently, the United Kingdom promotes wealth and job creation by encouraging businesses to develop more-inclusive business models, addressing market failures, providing financial services for people and SMEs, and supporting the provision of social services (particularly health and education) as part of its private sector programming.^{xlviii} Switzerland, on the other hand, takes a twofold approach that focuses on building the capacities of the poor and creating markets that offer access to sustainable and equitable employment and income-earning opportunities for the poor, as well as access to more and better goods and services.⁹⁴ Its strategy attempts to increase the number of opportunities through private sector development, increase access to financial services by supporting financial sector development, and improve skills through vocational skills development.⁹⁵ Canada has a similar approach, adding to this mix a focus on entrepreneurial, marketing, and management skills, in particular for women entrepreneurs, and better integrating entrepreneurs into value chains.⁹⁶ The details aside, both approaches notably centre on the individual.

The “individual” approach does not receive a lot of emphasis in Table 4, with the focus being more on private sector development at the macro and meso levels, specifically on creating an enabling environment for business and connecting private sector actors to global markets. However, in a context where many countries, particularly those in Africa, are experiencing periods of sustained growth and investment that are distinguished by stubbornly high unemployment rates, this approach may need to be rethought, or at the very least rebalanced. Focusing more on the micro may have a much larger redistributive impact for poor and marginalized populations. The World Bank’s *World Development Report 2013* focuses on the issue of jobs. While it acknowledges that the private sector is the driver of growth and the main engine of job creation, the Bank also notes that growth does not always lead to job creation. “In resource-rich countries, massive investments in extractive industries support accelerated rates of growth and connections with international markets but generate little direct (or even indirect) employment and often little poverty reduction.”⁹⁷ It continues: “In reality, micro- and small enterprises account for the bulk of employment [in developing countries], even in middle income countries.”⁹⁸

5. Implementation Considerations

The following sections address a number of sub-themes in the thematic framework. They look at two sub-themes under the theme of “actors and targets” in the framework—donor provisions for working with domestic and internationalized private sector actors, and financial and development additionality. They then examine implementation considerations, namely whether strategies refer to international standards and principles, cross-cutting issues including, gender and sustainability, and accordance with aid effectiveness principles. Donor provisions on the sub-themes monitoring and evaluation, and transparency and accountability are discussed

xlviii. While Sweden generally falls within this category, it has policies which contrast quite strongly with those of the United Kingdom in that it will not support private sector delivery of social services, like basic education, which it feels are essentially a human right (SIDA 2011, 9). The United Kingdom, on the other hand, plans to “explore how to make the extensive non-state provision of basic services work better for poor people,” in addition to scaling up non-state provision where it “offers the best option for reaching more poor people with good services” as key means to improve people’s access (DFID 2011, 15).

under the section on aid effectiveness, since they speak to the main principles of the international aid effectiveness agenda.

5.1 Which private sector?

Donors have the potential to make valuable contributions to supporting private sector actors in developing countries not only through the promotion of private sector development, but also in the partnerships that they establish with private sector actors.^{99, xlix} However, donors are not always clear on which private sector—national (donor), foreign (multinational), or domestic (recipient country) (size, from micro to large enterprises, and whether the sector is formal or informal also matter)—is best placed to contribute to growth and poverty reduction, and what this choice implies for other development actors. For example, challenge funds and programs aimed at harnessing the private sector differ in terms of their openness to foreign and domestic firms. Germany's develoPPP.de, the US Global Development Alliance Program (GDA), and Sweden's IAP program, all of which seek to leverage private sector funding and innovation, are open to firms from any country. The Netherlands' Programme for Cooperation with Emerging Markets (PSOM) followed a similar model. The Private Sector Investment programme, which replaced PSOM in 2009, includes a list of tied countries for which only Dutch firms can apply. Denmark's DANIDA Business Partnerships program and the United Kingdom's Food Industry Retail Challenge Fund are only open to national firms. What these initiatives share in common is that they link foreign and national firms with domestic firms in developing countries, an approach that seeks to establish mutually beneficial, long-term relationships between the partners involved, which can make value chains more inclusive and help build the capacities of domestic firms.¹⁰⁰

In general, donors see a role for their own national and foreign firms in their strategies. Some donors include the promotion of their own commercial interests as an explicit part of their strategies.¹ Donors such as Austria, Finland, and Norway see their own firms as having the potential to make positive development impacts through linkages with developing countries. While many donors are supporting their own private sector, nearly all also include provisions for promoting the private sector in developing countries in their work, often using capacity building and financial services for SMEs as their entry points. Japan, for example, focuses much of its private sector strategy on supporting domestic firms in developing countries. It also promotes the use of domestic resources in the tourism industry. Germany also emphasizes domestic value-added in its policies.¹⁰¹ CIDA's 2003 Framework for Private Sector Development focused almost solely on supporting domestic private sector actors. Cognizant of the thin line that donors are starting to tread, the OECD-DAC in its most recent peer review encouraged Canada to "ensure that development objectives and partner country ownership are paramount in the activities and programs that Canada supports."¹⁰²

There is much to be said for going beyond untying aid and investing in locally produced goods

xlix. See Kindornay and Higgins with Olender (2012) for examples of how donor-funded trade and development partnerships between domestic and foreign private sector actors are encouraging private sector development in developing countries.

1. Austria, Finland, Germany, the Netherlands, Norway, and the United Kingdom.

and services to supporting development projects, creating what Bodo Ellmers calls a “double dividend.”¹⁰³ Such support builds productive capacities, and creates jobs and income opportunities that the local population can use to lift themselves out of poverty. It also allows people to profit from the outputs of development projects, such as a new road. Based on six country case studies, Ellmers’ research, indicates that procurement of local goods and services is still strongly biased against domestic economies, with two-thirds of contracts awarded by bilateral donors still going to firms from donor countries. He concludes that the key to making aid a more effective tool for driving sustainable economic development is to spend aid locally, with donors supporting developing countries in building procurement systems which are up to this task, and using these systems as the default option.¹⁰⁴

The question of corporate track records is another important issue linked to partnerships with the private sector. In general, private sector actors are viewed as equal partners that have a role to play in the design and implementation of development strategies. As Table 3 demonstrates, they are development actors interested in addressing key development challenges, but they are also interested in promoting their own interests. Davies’ study on the private sector and aid effectiveness highlighted the need to ensure joint incentives among firms, donors, and developing countries, recognizing that the profit-driven incentives of the private sector often do not converge with development objectives.¹⁰⁵ The nuance donors take away in this regard varies. For example, some donors, like Sweden and Germany, explicitly recognize that not all private sector actors are benevolent. They have committed themselves to only work with like-minded actors. In general, however, donors tend to paint a picture of the private sector as a key stakeholder with shared interests, rather than recognizing that, in many cases, private sector actors have complicated development challenges. While donors set criteria through their funding windows for who they will engage with, the focus is more on eligibility guidelines (years incorporated, audited financial statements) than corporate track records (in this case, positive social, development, economic, and environmental impacts, like those that CSOs might be expected to demonstrate). Sweden is an exception and clearly states that it will not engage with firms that have poor corporate track records. In order to be eligible for funding, private sector partners must meet certain “ethical considerations.” SIDA cannot work with firms that are “in violation of fundamental human rights or international labour standards, including forced, bonded or child labour . . . [or] are involved in manufacturing, distribution or sales of arms, tobacco or gambling products and services.”¹⁰⁶

Going forward, how donors assess proposals and programs that engage the private sector against development criteria—coherence with donor policies and developing countries’ national plans for reducing poverty, human rights standards, results and impacts, and development effectiveness, among others—will be critical, especially if donors are interested in promoting sustainable solutions for poor and marginalized people, not just better business models. Donors face the challenge of engaging the private sector (using aid, in particular) not just in an instrumental way (to leverage additional resources or make markets more efficient) but in a way that the private sector also contributes to development.

5.2 Financial and developmental additionality

5.2.1 Parameters for thinking about financial additionality

Financial additionality^{li} refers to the extent to which aid funds target sectors and firms that otherwise would not have funds available to them, or in other words, “the causality between international financial support for an activity and the extent to which the activity would have happened in the absence of such support.”¹⁰⁷ While the concept makes sense on an intuitive level—it suggests that donors should ensure their financial contributions fill a necessary financing gap to accelerate development progress—challenges exist. For example, the counterfactual nature of the concept often makes it impossible to prove additionality.¹⁰⁸ In order to test it, counterfactual reference scenarios are established against which reality can be gauged. The IFC, the private sector lending arm of the World Bank, sees one of its main objectives as funding companies that do not have access to credit. Yet, as Bodo Ellmers, Nuria Molina, and Visa Tuominen point out, the concept of financial additionality is problematic: financial additionality relies on the judgement calls of investment officers who must ask if IFC money is really needed and which risks IFC would be taking that others would not.¹⁰⁹ In this scenario, financial additionality goes beyond the issue of access to financial resources to include the risk-sharing elements any investment would provide, regardless of the amount of financial resources.

Another dimension of financial additionality is the ability of initial financing to leverage further investment. In a Eurodad study of 15 development finance institutions, Jeroen Kwakkenbos explains that assessing this dimension is difficult because headline figures (how much money is leveraged) are not reliable.¹¹⁰ This is partly because of the assumption that when the public sector serves as a co-investor, any leveraged resources would automatically be additional, particularly in new “frontier” areas where private sector flows are not occurring. Kwakkenbos’ research shows just the opposite in practice: a number of sectors favoured by public finance institutions, such as finance, infrastructure, and extractives, already have a significant amount of (foreign) private investment.¹¹¹ They seldom need help with initial financing.

Financial additionality requirements must therefore also be understood in terms of the firms that are eligible for financing. Five of the donors reviewed in Table 5 below open their grant-making schemes to firms domiciled in any country. For the remaining donors, applications must include a national private sector partner.^{lii} Yet, as Kwakkenbos points out, firms domiciled in developing countries are often the most credit constrained.¹¹² Furthermore, as noted earlier, some consideration also needs to be given to the size of the firms, particularly in terms of a firm’s impact on poverty. Toni Sandell and Gustavo Hernández argue that donor funding modalities for private firms, whether national or domestic, still often preclude SMEs from accessing capital.¹¹³ The approach is the provision of support services, not direct support to the enterprises themselves.

li. This concept has received considerable attention in the context of climate finance. See Streck (2010) for a useful review.

lii. In the case of the Netherlands, 24 of the 58 countries eligible for funding are tied.

Moreover, public financing aimed at leveraging private sector engagement must also be understood in terms of its opportunity costs. On the one hand, each dollar used for promoting PPPs means one aid dollar is diverted from other modalities addressing pressing development challenges, such as climate mitigation and adaptation, health care, education, and so on. On the other hand, if used successfully—and in underfunded sectors—public funds can be used to both contribute to positive development outcomes and harness significant resources in neglected sectors. This places even greater pressure on donors to clearly demonstrate that positive development outcomes have occurred, particularly in the context of shrinking aid resources.

In practice, the level of financial additionality across donor grant-making programs varies. Of the 12 funding mechanisms examined in Table 5 below (the United Kingdom has four, while all other donors included have one), half require that applicants demonstrate that either the project could not have happened or would not have happened at the same scale without their support. Half of the initiatives provide match funding to a maximum of 50 per cent. However, none of the grant-making programs include the potential criteria highlighted above, namely to assess financial need, to promote investment in risk-averse markets, to gauge leverage potential, to encourage financial eligibility that favours the domestic private sector, and to assess the opportunity costs of resources used.

5.2.2 Parameters for thinking about development additionality

Development additionality refers to the extent to which aid resources directed to, or in support of, the private sector work toward eradicating poverty and achieving other development goals, such as the MDGs or human rights standards. When working with the private sector, this means that projects must contribute to, for instance, improved livelihoods, creation of quality employment opportunities, realization of labour rights, and improved social and environmental outcomes.


It is difficult to assess the extent to which donors' policies ensure development additionality across all areas of donors' work and in their engagement with the private sector. For example, when donors support SMEs, the terms under which this support is provided are not clearly spelled out. Loan-making bilateral development finance institutions tend to include development impact criteria in the projects they support. However some observers suggest that these projects do not always make use of transparent monitoring and evaluation mechanisms to assess their results,¹¹⁴ nor do they meet their development targets or demonstrate significant financial additionality.¹¹⁵ Some donors have at least one grant-making initiative in their portfolio that includes financial and/or development additionality as criteria for private sector partnerships. A clear articulation of intended development and poverty reduction outcomes, for example, is required for most grant-based matching schemes that pair national or foreign firms with domestic firms in developing countries and with innovation funds that attempt to generate solutions to development challenges. Nine donors have established grant-making programs along these lines, aimed at leveraging the private sector. Table 5 provides an overview of these initiatives.

Variations also exist with regard to the extent to which donors clarify and specify the development impacts that they expect to see from such partnerships. Denmark's and Finland's grant-making programs articulate clear sets of development outcomes that should occur as a result of partnerships. The United Kingdom's Responsible and Accountable Garment Sector Challenge Fund also provides some details in this regard. By and large, however, donors have described their development additionality requirements in vague terms (e.g., partnerships must contribute to the goals of the development agency). Linking the use of public funds to nebulous goals is not helpful, especially in the context of declining aid resources and the issue of opportunity costs. Such connections would not be tolerated in the context of partnerships between donors and development actors that have to report against comprehensive results-based frameworks. Nor would these be tolerated by the general public, which so many donors maintain is concerned with accountability and results for taxpayer funds.

In the absence of more rigorous expectations for results and evaluations that focus on development outcomes, it is difficult to assess the extent to which donors are ensuring financial and development additionality in their work with the private sector. This is in part owing to the lack of information and reporting on the results of partnerships^{liii} (see section 5.5.3 below) and because donors have not set out financial and development additionality requirements across their various interventions with and on the private sector. The review of grant-making mechanisms suggests that donors could be doing more to clearly articulate development additionality and to ensure that the projects they support have a clear financing need.

liii. One study of trade-related private sector partnerships found that reporting on commercial and development results was difficult to acquire and where such results did exist, they focused largely on qualitative outcomes (Kindornay and Higgins with Olender 2012).

TABLE 5: FINANCIAL AND DEVELOPMENT ADDITIONALITY ACROSS DONOR GRANT-MAKING MECHANISMS FOR LEVERAGING THE PRIVATE SECTOR

MECHANISM	FOR FIRMS SEEKING TO:	FINANCING AND FINANCIAL ADDITIONALITY	DEVELOPMENT ADDITIONALITY
AUSTRALIA ¹¹⁶			
 Enterprise Challenge Fund for the Pacific and South-East Asia	<ul style="list-style-type: none"> • Participate in commercially viable business projects with pro-poor outcomes • No stipulations on firm nationality 	<ul style="list-style-type: none"> • Maximum 50% of direct project costs • Grants between A\$100,000 and A\$1.5 million • Must demonstrate project cannot obtain financing from commercial sources 	<ul style="list-style-type: none"> • Must contribute to improving livelihoods and opportunities for the poor • Must avoid social damage, be environmentally responsible, and not involve tobacco, alcohol, or gaming
AUSTRIA ¹¹⁷			
 Business partnerships	<ul style="list-style-type: none"> • Establish a subsidiary or participate in a joint venture in a developing or emerging country • Source essential commodities or merchandise from countries in the South or East • No stipulations on firm nationality 	<ul style="list-style-type: none"> • Maximum €20,000 for feasibility study • Maximum 50% of direct project costs, up to €200,000 • Project must total at least €100,000 	<ul style="list-style-type: none"> • Must make long-term investment in or import goods from developing country • Must base project on business model that is expected to generate turnover and profits • Must include flanking measures to contribute to improving local social, ecological, or economic environment and overall success of firm
DENMARK ¹¹⁸			
 DANIDA Business Partnerships	<ul style="list-style-type: none"> • Create value for firms and simultaneously add social value • Work with local partners • Must include a Danish firm 	<ul style="list-style-type: none"> • Must not have occurred without DANIDA's assistance and support • Maximum of 75% of project costs up to DKK 750,000 in initial project start-up phase • Maximum of 50% of project costs, up to DKK 5 million, in implementation phase, with possible extension to DKK 10 million for regional or exceptionally large partnerships 	<ul style="list-style-type: none"> • Must lead to creation of new and decent jobs (must comply with national labour and environmental regulations and International Labour Organization [ILO] Declaration on Fundamental Principles and Rights at Work) • Must have positive effect on local communities in terms of human rights, labour rights, working environment, anti-corruption, and health • Must address one to three of six criteria: strengthen local partners' competitiveness; increase use of green technology and reduce energy consumption; add value through value chain and/or cluster approaches; increase food security through improved availability and accessibility; improve gender equality and women's empowerment; enhance regional integration



FINLAND¹¹⁹

Finnpartnership	<ul style="list-style-type: none"> • Plan or improve business activities in developing countries, open to all sectors • Work with local partners through long-term joint activities • Must include a Finnish company or organization, or firm registered elsewhere with substantial Finnish interest 	<ul style="list-style-type: none"> • Advisory services offered free of charge throughout planning and implementation phases • Maximum of €200,000 over a three-year fiscal period, taking into consideration funding given by other public authorities • Maximum of 50% project funding for large companies working in low-income developing countries or 30% project funding in other developing countries • Maximum of 70% project funding for SMEs and other small organizations in low-income countries or 50% project funding in other developing countries 	<ul style="list-style-type: none"> • Must contribute to development effects such as: national income (wages, interest, rents, profits); employment effects; market and structure effects (diversification of production structures); contribution to government revenues (tax, royalties, customs duties); technology and knowledge transfer; training effects; social effects/social benefits (compliance with ILO regulations, worker safety, wage level, etc.); environmental sustainability (positive environment effects, such as renewable energy, etc.); gender effects; improvements in the physical and social infrastructure benefiting the population in the vicinity of the project; and net currency effects • Project is also assessed by its social and environmental impacts in accordance with international and local laws and regulations and based on IFC Performance Standards
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GERMANY¹²⁰

develoPPP.de	<ul style="list-style-type: none"> • Make use of opportunities for cooperation in line with development policy in their operations abroad 	<ul style="list-style-type: none"> • Maximum of 50% funding for overall project, up to €193,000 • Public funding may only be provided if private sector otherwise would not have carried out the project and competitive neutrality is maintained • Public and private contributions must be complementary in a way that enables both partners to achieve their objectives more cost-effectively, more efficiently, and faster 	<ul style="list-style-type: none"> • Must be in accordance with the principles of German development policy, have obvious relevance to development policy, and have acceptable environmental and social terms
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THE NETHERLANDS¹²¹

Private Sector Investment	<ul style="list-style-type: none"> • Establish innovative investment projects in emerging countries • 24 of the 58 target countries must include a Dutch company • Local partners can be a 100% subsidiary of foreign partner 	<ul style="list-style-type: none"> • Maximum contribution of 50–60% grant funding, with a maximum project size of €1,500,000, leading to additional investments and increased turnover following project finalization • Firms must demonstrate that they do not have means to implement the project and they are unable to obtain funds from a bank for implementation 	<ul style="list-style-type: none"> • Must have a positive effect on the local economy in terms of employment creation, introduction of new technologies and knowledge, improved livelihoods, strengthened SMEs, and/or improved environmental conditions • Preference is given to projects executed by SMEs
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SWEDEN ¹²²

Innovations Against Poverty	<ul style="list-style-type: none"> • Establish a sustainable business venture that has a strong potential to reduce poverty • Companies must be based or operate in a developing country 	<ul style="list-style-type: none"> • Maximum contribution of 50% for small and large grants, up to a maximum of €20,000 and €200,000, respectively • Private sector contribution cannot come from another from another public financing institution • Must demonstrate that the project would not take place on the same scale or with the same development impact without IAP funding • Guarantees available for scaling up successful projects, up to a maximum of 50% of the loan • Advisory support offered free of charge 	<ul style="list-style-type: none"> • Must benefit the poor in terms of income, products, environment, opportunities, and/or gender equality, and avoid negative effects (for example, on the environment or through market distortion)• Project is also assessed by its social and environmental impacts in accordance with international and local laws and regulations and based on IFC Performance Standards
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UNITED KINGDOM ¹²³

Girls' Education Challenge	<ul style="list-style-type: none"> • Collaborate with others on transforming opportunities for girls in Africa and Asia ^{lvi} 	<ul style="list-style-type: none"> • £15 million in match funding available to support strategic partnerships 	<ul style="list-style-type: none"> • Must demonstrate new and better ways to get marginalized girls in schools and ensure they receive a high-quality education
Construction Ideas Fund	<ul style="list-style-type: none"> • Establish an innovative project within the construction and real estate sector in Nigeria, through one of the fund's five funding windows 	<ul style="list-style-type: none"> • Maximum contribution of 75% for funding windows 1 and 4 and 50% for windows 2 and 3 ^{lvii} • Must involve an innovative product, service, system, or procedure that would unlikely be addressed by the private sector without public support 	<ul style="list-style-type: none"> • Must contribute to improved employment and income opportunities for low-income groups in the construction sector • Projects must contribute to the specific goals of each funding window: (1) women's economic empowerment; (2) training and skills acquisition; (3) sustainable recruitment channels; (4) improving services offered by Business Member Organisations and Trade Associations; and (5) improving quality of input supplies and construction materials
Food Retail Industry Challenge Fund	<ul style="list-style-type: none"> • Establish innovative, sustainable business models that increase African developing country exports to the United Kingdom and Europe 	<ul style="list-style-type: none"> • Maximum contribution of 50% project funding, up to a maximum of £250,000 	<ul style="list-style-type: none"> • Connect farmers with global retailers by removing blockages to market access
Responsible and Accountable Garment Sector Challenge Fund	<ul style="list-style-type: none"> • Improve conditions of vulnerable workers in the ready-made garment sector in Asia and sub-Saharan Africa that supply the UK market^{lviii} 	<ul style="list-style-type: none"> • Grants available up to a maximum of £250,000 and must be matched through applicants' own financing or in-kind contributions 	<ul style="list-style-type: none"> • Must contribute to: (1) building skills in garment production management; (2) adopting better people management skills; (3) harmonizing codes and audit requirements; (4) bringing awareness of workers' rights and the capacity to enforce them; (5) strengthening local audit capacity; (6) capacity building and reach on fair trade principles; (7) and/or developing training tools to assist replication and expansion of effective approaches



UNITED STATES¹²⁴

Global Development Alliance

- Participate in partnerships that address jointly defined business and development objectives^{lix}
- Maximum contribution of 50% project funding with no maximum or minimum contribution level
- Must coincide with USAID's development priorities as articulated in its Annual Program Statement for the GDA; 2012 priorities include food security, climate change, and health¹²⁵
- May also coincided with USAID's broader priorities, namely water, education, science and technology, and innovation
- Must commit to achieve significant development impact directly and attributable through the partnership in areas such as job creation, better access to products, services, technology for the poor, etc.

liv. Other funding limitations apply depending on sector as per the European Union's Commission Regulation No. 1998/2006 to *de minimis* aid.
 lv. Large companies have over 250 employees and an annual turnover of more than €50 million or an annual balance sheet of more than €43 million.
 lvi. Open to non-profits as well.
 lvii. There is no eligibility information available online regarding window 5.
 lviii. Open to non-profits as well.
 lix. Open to non-profits as well.

5.3 International and national norms and standards

OECD-DAC donors are mixed with regard to the extent to which they make reference to international norms and standards in their growth and private sector strategies. Table 6 below highlights the most commonly referenced norms and standards.

Twelve donors reference the UN Global Compact, nine reference the OECD Guidelines on Multinational Enterprises, and six refer to the Extractive Industries Transparency Initiative. Overall, donors make reference to rights or human rights in their growth and private sector strategies—explicitly and in general. Eleven donors specifically refer to ILO conventions. Ten point to UN conventions and declarations on human rights, such as the Universal Declaration on Human Rights, the Covenant on Economic, Social and Cultural Rights, and the Convention on the Rights of the Child. An additional six donors refer to rights in the general sense in their strategies (i.e., they do not specifically reference UN laws and standards, but rather point to the respect for human rights as important in their strategies). Denmark, Finland, the Netherlands, Norway, and the European Commission stand out as making the most references to international voluntary standards and legal frameworks in their growth and private sector strategies.

A number of donors do not reference international norms and standards at all, namely, Canada, Ireland, Italy, Japan, Luxembourg, and New Zealand. It is important to note that none of these donors have a strategy that specifically targets the private sector. Japan has a web page devoted to its work with the private sector, while New Zealand includes elements of its private sector programming in its overall strategy for development. Ireland and Luxembourg do not seem to have a strong focus on growth or the private sector (although Ireland has a theme on trade and development focused on fair/ethical trade). Italy's policy on poverty reduction and growth available on its website is from 1999, making it difficult to assess its current relevance.

Table 6 suggests that donors could do more in terms of employing international standards, including human rights law, as guiding frameworks for their growth and private sector strategies. In particular, there is very little mention of UN environmental conventions despite their high relevance to ensuring green/sustainable growth.

TABLE 6: EXPLICIT MENTION OF KEY INTERNATIONAL STANDARDS AND PRINCIPLES AS PART OF STRATEGIES

DONORS^{ix}	UN Global Compact^{ixi}	OECD Guidelines on Multinational Enterprises	Extractive Industries Transparency Initiative	International Labour Organization conventions	UN human rights conventions/ declarations	Guiding Principles on Business and Human Rights	General references to rights	UN environmental conventions^{ixii}
Australia ¹²⁶			X				X	
Austria ¹²⁷	X	X		X	X			
Belgium								
Canada ^{128, ixiii}								
Denmark ¹²⁹	X			X	X	X		X
European Commission ¹³⁰	X	X^{ixiv}	X	X			X	X
Finland ¹³¹	X	X	X	X	X	X		X
France ¹³²	X			X	X			X
Germany ¹³³	X	X	X		X			
Ireland								
Italy								
Japan								
Luxembourg								
The Netherlands ¹³⁴	X	X		X	X	X		
New Zealand								
Norway ¹³⁵	X	X	X	X	X	X		X
Portugal					X			
Spain ¹³⁶				X	X			
South Korea								
Sweden ¹³⁷	X			X	X			
Switzerland ¹³⁸	X	X		X			X	
United Kingdom ¹³⁹	X	X	X				X	
United States ¹⁴⁰							X	
TOTAL	11	8	6	10	10	4	5	5

Ix. Greece has been excluded as the next iteration of their five year plan is currently underway and there is insufficient information available online to assess their private sector policies and programming.

Ixi. The Global Compact encourages business to align their operations and strategies around a set of ten principles related to human rights, labour, environment and anti-corruption with a view to helping to ensure that the activities of companies contribute to the well-being of economies and societies and to the realization of the Millennium Development Goals.

Ixii. For example, the Rio Conventions on Biodiversity, Climate Change and Desertification.

Ixiii. Canada's 2003 Framework for Private Sector Development made reference to the UN Global Compact, OECD Guidelines on Multinational Enterprises, ILO conventions, human rights in the general sense, and UN environmental conventions. The 2010 Sustainable Economic Growth Strategy, which supersedes it, does not make reference to any.

Ixiv. Refers to the OECD Guidelines broadly.

5.4 Gender equality and women's economic empowerment

It is difficult to assess the full extent to which donors take into consideration cross-cutting issues—namely gender and sustainability—in the implementation of their growth and private sector strategies. On the one hand, private sector partners may be required to demonstrate expected development impacts across gender, sustainability, and human rights, outcomes in order to qualify for donor programs and challenge funds. On the other hand, at the level of donor strategies and policies which provide operational guidance to programming, there is less emphasis placed on cross-cutting issues. It is also difficult to tell how much standalone policies on cross-cutting issues influence growth and private sector programming.

Some donors have a specific focus on gender dimensions that might contribute to growth—for example, Norway on energy and gender, and France on gender and health—and many donors refer to gender dimensions in their growth or private sector strategies.^{lxv} Almost all donors also have either a separate gender program or policy focusing on gender equality and women's rights as a cross-cutting theme. For the most part, however, where donors have addressed gender directly in their strategies, they have done so at the meso and micro levels. Efforts largely aim to integrate women as individuals into markets through four means: (1) addressing structural barriers to women's inclusion in markets, such as equitable business, employment, and inheritance laws and gender and growth assessments;¹⁴¹ (2) building workforce skills through education, vocational training, and skills and workplace development; (3) providing better access to finance that will enable women to establish micro enterprises or SMEs; and (4) providing inputs that will enhance women's productivity.

Many donors also recognize the importance of women's economic empowerment.^{lxvi} While the United Kingdom and United States both acknowledge the value of promoting gender equality, women's rights, and empowerment in the context of their approaches to growth and the private sector, their respective focuses on women's economic empowerment tends to be instrumental in nature. For the United Kingdom, the main assumption is that “gender equality can drive growth rates and improve welfare of communities.”¹⁴² For the United States, women's economic empowerment is a “catalyst” and “crucial ingredient” for growth, whereby “reducing gender gaps in productivity and earnings [will] unlock women's contributions to growth”.¹⁴³

The women's economic empowerment agenda^{lxvii} has recently grown in popularity among donors. This is perhaps best illustrated in the Busan Joint Action Plan for Gender Equality and Development, which was launched at HLF4 by the United States and South Korea.¹⁴⁴ In Busan, a number of women's organizations raised concerns that the Action Plan “instrumentalized” women's untapped potential as an avenue to economic growth, rather than putting forth a strategy for realizing women's fundamental human rights. In response to the Action Plan,

lxv. The following countries include gender as part of their economic growth and private sector strategies: Australia, Austria, Canada, France, New Zealand, Norway, South Korea, Switzerland, the United Kingdom, and the United States (USAID).

lxvi. Specifically, Canada, Denmark, Japan, the Netherlands, Norway, Spain, Sweden, the United Kingdom, and the United States.

lxvii. Much of what follows in the remainder of this section is drawn from Tomlinson and Reilly-King (2011).

women's groups noted that "Women's rights will not be fully enjoyed by women in all our diversity simply by facilitating entrepreneurship of women."^{145, lxviii} They argued that the Action Plan should be grounded in rights, and more specifically in the Beijing Platform for Action and the Convention on the Elimination of All Forms of Discrimination against Women.¹⁴⁶

Nevertheless, women's economic empowerment is essential for development.^{lxix} Rosalind Eyben points out that strategies to economically empower the poor and marginalized, including women, must be accompanied by social and political strategies to empower people to move out of poverty and truly benefit from economic growth processes.¹⁴⁷ She notes that poor people can and have been incorporated into the formal economy without gaining from growth. To address these challenges, donor policies might include gender budgeting, collection of disaggregated data on gender, measures to tackle legal and cultural discrimination against women which restricts women's participation in the formal economy, measures to strengthen women's organizations, measures to create the enabling regulatory framework that protects women's rights, and training and skills acquisition programs that take into account women's domestic responsibilities.^{lxx}

5.5 Sustainability dimensions of growth and the private sector

Whether donors referred to sustainability in their strategy was also examined (and if so, how it was defined), as was whether donors have separate policies on sustainability. As noted in section 4.2.1, numerous donors refer to sustainability within their growth and private sector strategies though a range of different visions of sustainability exist. Many donors refer to sustained or sustainable economic growth,^{lxxi} environmental sustainability,^{lxxii} social sustainability,^{lxxiii} and sustainable development.^{lxxiv} A number of donors do not mention the concept of sustainability in their core policies on the private sector but do have separate policies on sustainability.^{lxxv} When donors do refer to sustainability in their core policies on the private sector, it is most often not defined.

In practical terms, it is unclear what the issue of sustainability means for donors' growth and private sector strategies since few donors identify the tools that they have developed to address

lxviii. Evidence from many women's organizations suggests that this approach can instead sometimes exacerbate inequalities and rights violations.

lxix. Women represent nearly half the world's workforce, make up more than half of those people working in the informal sector, and are deeply involved in the often-unpaid care economy. Women's economic empowerment is an essential condition for economic growth to contribute to poverty reduction, and will also enhance women's empowerment and decision-making potential in the household. However, men and women are connected to a country's economy in different ways. Women face many barriers and levels of discrimination in areas such as legal rights to assets, access to productive credits, and basic rights to participate in the economy with equal access to opportunities and benefits. Most women, for instance, must balance the demands of poorly paid, often-informal work with unpaid care and domestic work.

lxx. See more on Eyben's approach in section 5.2.1 and section 6 in Tomlinson and Reilly-King (2011).

lxxi. Canada, France, Germany, Sweden, the United Kingdom, the United States (USAID).

lxxii. Canada, Denmark, France, Germany, Japan, Norway, New Zealand, Sweden, the United Kingdom, and the United States (Millennium Challenge Corporation).

lxxiii. France, Germany, and Sweden.

lxxiv. Belgium, France, and Germany.

lxxv. Australia, Austria, Belgium, Finland, Ireland, the Netherlands, South Korea, and the European Commission.

the environmentally sustainable dimensions of growth. Germany's business strategy includes an extensive section about environmental standards,¹⁴⁸ calls for "precautionary environmental policy," and maintains that national and international standards and economic development "must conserve natural resources."¹⁴⁹ Germany also published a document profiling a series of case studies on how its Federal Ministry for Economic Cooperation and Development (BMZ) is promoting a green economy. BMZ does this through upholding environmental standards, legislation, technological innovations that reduce carbon emissions and pollution, green technologies (solar, geothermal, and low-carbon technologies and technologies that use resources efficiently), and better management of natural resources.¹⁵⁰ Japan also has a policy on "natural environment conservation" that focuses on the sustainable use of natural resources, conservation biodiversity, and sustainable forest management.¹⁵¹

For the most part, this issue seems to be very underdeveloped by most donors in their engagement with the private sector. As Table 6 demonstrates, only six donors explicitly refer to UN environmental conventions as guides for their work with the private sector.

5.6 Letting a thousand flowers bloom: what happened to Paris?

The extent to which donors' strategies and policies take into consideration key aid effectiveness principles set out at HLF3 and HLF4—country ownership, alignment, harmonization, mutual accountability, and results—varies.^{lxxvi} The majority of donors have separate policies on aid effectiveness, and only two, France¹⁵² and Spain,¹⁵³ make specific reference to the Paris Declaration on Aid Effectiveness or Accra Agenda for Action in their work on growth or with the private sector.^{lxxvii} According to Estrup, there has been a "myopia" with regard to implementation of Paris Declaration in relation to donors' work with the private sector.¹⁵⁴ He explains that while the OECD-DAC's 2006 guidelines for promoting private investment advised donors to implement priorities in line with aid effectiveness principles, the OECD-DAC's 2007 guidelines on promoting pro-poor growth made no reference to the Paris Declaration in the section on private sector development.^{155, lxxviii} Nevertheless, many donor strategies make implicit references to aid effectiveness principles, for example, by committing themselves to working with other donors and demand-driven assistance. The section that follows provides an analysis of donors' growth and private sector strategies from the perspective of the aid effectiveness agenda established in Paris and Accra. It is worth noting that donors' failure to meet commitments related to the Paris Declaration and private sector development is not limited to their work on growth and the private sector—evaluations of progress on the implementation of the Paris Declaration show that, in general, donors have failed to meet their commitments to aid effectiveness principles.¹⁵⁶

lxxvi. The analysis does not include the new principles from Busan because they are relatively new and the strategies that were examined predate the Busan outcomes.

lxxvii. Finland, New Zealand, and Portugal refer to aid effectiveness in their overall strategy documents, which also reference their work on economic growth and with the private sector. Sweden's Business for Development policy refers to aid effectiveness principles in the context of donor coordination and harmonization, but does not explicitly refer to either the Paris Declaration on Aid Effectiveness or Accra Agenda for Action.

lxxviii. It does, however, refer to the importance of aid effectiveness principles in other sections, like agriculture, and in the main policy messages.

5.6.1 Ownership and alignment

Donors' commitment to country ownership and alignment are well established. These commitments were established in 2005 in the Paris Declaration on Aid Effectiveness based on the recognition that in order for aid to be effective, developing countries need to exercise leadership over development policies, strategies, and implementation processes, and coordinate development action. At HLF3 in 2008, the concept of ownership—largely understood in 2005 as executive government ownership—was broadened to include the role of parliamentarians, local governments, and CSOs. At HLF4 in 2011, members of the international community reiterated this commitment, recognizing that “partnerships for development can only succeed if they are led by developing countries, implementing approaches that are tailored to country-specific situations and needs.”¹⁵⁷ Furthermore, this commitment was to guide donors' actions to help “[d]eepen, extend and operationalise the democratic ownership of development policies and processes.”¹⁵⁸ In order to support developing countries, donors agreed to align their efforts behind developing country priorities and plans, as well as deliver assistance through country systems (as the default option). “Country heavy, global light” was the mantra in Busan.

In their approaches to growth and the private sector, donors focus their efforts at a number of levels. They intervene at the level of individual, domestic SMEs (in partnership with domestic, national, and foreign firms), at the government level to encourage an enabling business environment, and within international institutions responsible for global economic governance. In general, there is very little discourse on ensuring that developing countries have the necessary policy space to own their development strategies and reform processes (as discussed in section 4). This relative absence of discourse also contradicts the OECD-DAC's guidelines on promoting pro-poor growth, which state that donors should support in-country processes to develop nationally owned poverty reduction strategies that are suited to local context.¹⁵⁹

On the whole, donor approaches to growth and the private sector create substantial space for donor intervention in multiple areas. As discussed earlier, these approaches seem to crowd out nationally owned and led strategies for growth and private sector development, and the research shows only some evidence on how donors ensure country ownership and alignment in their work with the private sector. Switzerland is committed to focusing on country priorities, pro-poor policies, and pro-poor growth, while Germany explicitly recognizes that its own institutions and market system is not a blueprint for all developing countries.¹⁶⁰ Sweden's Business for Development policy explicitly states that partnerships should strive to align with partner country priorities.¹⁶¹ But these are the exceptions, not the rule, given the increasing number of “commercial interests” that are emerging in donor development policies, and a policy coherence agenda that could subsume development interests in trade and investment priorities.

The concept of country ownership in the aid effectiveness agenda also encompasses the role of parliamentarians and CSOs in contributing to broad-based, inclusive development. From a CSO perspective, this means a paradigm shift from “country ownership” to “democratic ownership.” Donors do make reference to the important role of social partners in development, such as CSOs,

business associations, and trade unions.^{lxxix} These social partners are seen as key stakeholders in multi-stakeholder approaches to development planning and implementation. But while donors encourage their involvement in dialogues at the national level, it is unclear how dialogues play out in practice. Recent evidence suggests that the record to date has not been great.

In a 2011 report, the Reality of Aid Network drew on 32 countries' experiences with the issue of ownership.¹⁶² At the country level, the case studies identified four key trends: (1) very mixed experiences with respect to the establishment of inclusive consultations and the existence of very few inclusive multi-stakeholder bodies for development planning and monitoring; (2) a shrinking space for civil society as development actors in many countries; (3) limitations on practical access to information, even where legislation exists, and very limited formal opportunities for democratic accountability, making it very difficult for CSOs to hold donors and governments to account for their use of resources; and (4) limited evidence to suggest that country-level implementation of aid reform policies has led to positive changes over time in the conditions for poor people and vulnerable populations.

It seems unlikely that the democratic ownership deficit will be reversed through increased engagement with the private sector. Donor strategies on growth and the private sector are based on the assumption that partnerships among development actors represent wins for everyone, recipient governments, the private sector, donors, and civil society—they are win-win-win-win situations. Each actor has a role to play under this assumption. All partners are to engage with and inform national development strategies. PPPs allow actors to benefit from private sector finance and expertise, while the private sector benefits from financing and the awarding of contracts. Some CSOs (mainly international non-governmental organizations) benefit from additional finance.

Yet, this positive framing of win-win-win-win situations is unlikely to survive the *realpolitik* at country level. This is, at least in part, because donor strategies do not address real issues relating to power in decision making. Donors' assumptions about broad-based ownership and inclusion are seemingly based on the notion that the interests of all parties are not so different as to hinder agreement. But when policy-making involves a large number of actors—ones with potentially disparate goals, agendas, interests, constituencies, and capacities to engage, as is the case with donors, developing country governments, the private sector, and civil society—disagreements will occur. This does not mean that consensus is impossible; however, it does place increasing emphasis on the importance of the process for securing country ownership and reaching consensus, and the politics of that process.

5.6.2 Harmonization

In addition to commitments made on ownership, donors have agreed to harmonize their development cooperation efforts in an attempt to reduce transaction costs for developing countries and improve effectiveness and efficiency through a better division of labour.

lxxix. For example, Denmark, Finland, Germany, Japan, the Netherlands, Norway, Sweden, Switzerland, the United Kingdom, the United States, and the European Commission.

As discussed above, donor strategies cover a number of sectors and activities, including, *inter alia*, trade and investment, infrastructure, development of SMEs, policy regulation, public financial management, governance, PPPs, health, education, skills development, CSR, job creation, financing, market development, improving market access, tourism, energy, social protection, and innovation. Across donors, the choice of priority areas seems to be driven by a similar rationale aimed at improving public and private incomes. Where donors vary is on how this can be achieved through targeted programming.

The variety of donor approaches to growth and the private sector has the potential for duplicating efforts and pursuing contradictory goals. As highlighted by Estrup, duplication and incoherence could jeopardize harmonization objectives.¹⁶³ There is also potential for greater fragmentation of private sector programming, which is contrary to the principles outlined in the Paris Declaration. According to Davies, international policy-makers recognize that there is weak collaboration and little harmonization among donors on growth and the private sector.¹⁶⁴

At the same time, the variety of donor approaches may not be a bad thing. A diversity of approaches allows for donors to target different programming areas. However, these opportunities depend on the extent to which donors are aware of one another's efforts and the division of labour that exists between donors. Opportunities also depend on the extent to which the array of programming options meets developing country needs. In terms of programming areas, funding priorities, and division of labour, it is difficult to tell the extent to which donors are meeting developing country needs and ensuring division of labour at country level since this research has not focused on program implementation. To a certain extent, the donors examined should be expected to have different areas of focus which, in theory, should complement harmonization and division of labour efforts. Yet, the extent to which donors are communicating with one another is unclear, even when donor participation in multi-stakeholder organizations and initiatives such as the OECD and BB are taken into consideration.^{lxxx} Some donors say that they will work with all partners in their strategies, however this has not been spelled out clearly in practice. Canada's 2003 Framework for Private Sector Development (which predates the 2005 Paris Declaration but coincides with the 2003 Rome Declaration on Harmonization) serves as a positive example of how donors can harmonize their efforts. It clearly outlines the areas that CIDA will not work on and the processes by which it plans to consult with other donor and partner countries. The strategy seeks to respect country ownership while exploiting CIDA's comparative advantages. Sweden's Business for Development strategy also includes a reference to harmonization.

As donors move forward on private sector programming, further research on harmonization and division of labour will be important to ensure that donors do not duplicate efforts.

5.6.3 Results

Most donors' policies include neither an approach to robust and comprehensive results in the context of complex development outcomes nor a commitment to publicly accessible monitoring

lxxx. At the time of writing, the BB is mapping donor experiences with PPPs, but it is unclear to what extent this is to share lessons learned, or if it is an attempt to harmonize donor practices. Either way, the exercise clearly only captures a very small component of the growth and private sector agenda.

of results for programming on growth and the private sector. This weakness has already been noted in sections 4.5 and 5.2. This finding is consistent with other studies looking at donor approaches to private sector development and working with the private sector. Two studies found that most agencies provide figures on the number of partnerships they have and offer success stories which include simple indicators.¹⁶⁵ But comprehensive evaluations at the project and program level are not publicly available and many donors recognize that there is room for improvement in this area.^{166, lxxxi}

A number of initiatives exist at the global level to address this evaluation gap, including the Business Call to Action Results Reporting Framework, the Oxfam Poverty Footprint, the MDG Scan, and the World Business Council for Sustainable Development's Measuring Impact Framework.¹⁶⁷ In a bid to help establish common results measurement frameworks for donors, the DCED has developed a Standard for Measuring Achievements in Private Sector Development. Yet, as Davies points out and as this paper has illustrated, private sector development is not the same thing as partnering with the private sector. The latter requires different results metrics.¹⁶⁸

5.6.4 Transparency and accountability

Transparency and accountability are terms used throughout donors' policies on the private sector. However, these terms are largely understood as the transparency and accountability of developing country governments. They are not understood in the context of aid effectiveness, which refers to the transparency of aid flows from donors to developing country governments and the use of these flows, while accountability refers to the mutual accountability between donors and recipients, and their respective citizens, for development results. Nevertheless, for the majority of donors that have signed onto the International Aid Transparency Initiative (IATI), all programs and projects related to private sector development and partnerships will be published to the IATI Standard and accessible on the IATI Registry.^{lxxxi}

Donors may not be fully transparent when it comes to their funding for private sector development, particularly with regard to the private sector contributions to their efforts. Partnerships with private sector actors can also be opaque in terms of the criteria for partner selection and the development results achieved. In addition, it is unclear how accountability functions in new partnerships with the private sector. How are development partners accountable to each other and to supposed beneficiaries for results? From an aid effectiveness perspective, the gap in donor programming on transparency and accountability mechanisms is glaring and concerning, more so when the fact is considered that donors are likely to increase their work in this area in the future. Donors will need to make a more concerted effort to ensure that their partnerships with the private sector also translate into mechanisms that measure development impacts and outcomes, and generate greater accountability to beneficiaries and citizens, not just developing country governments and/or donors.

lxxxi. This reality has led the United Kingdom to identify research on private sector development and partnerships as one of the four pillars of its strategy.

lxxxii. The IATI Registry can be found at www.iatiregistry.org.

6. Conclusions, Recommendations, and Areas for Additional Research

6.1 Summary of findings and their implications

This scoping study has sought to unpack donors' strategies and policies on growth and the private sector. The analysis is based on a framework that was developed to systematically assess the structure and components of donor strategies in terms of their budget size, rationale, objectives, and key pillars or areas of focus. The framework includes how donors incorporate different actors and targets in their strategies, including private sector actors and targets related to the role of the state. The framework also includes important themes related to which private sector actors (domestic or internationalized) are being pursued by donors for partnership, as well as the extent to which donors are ensuring financial and development additionality. Finally, it looked at cross-cutting issues and implementation considerations, namely the extent to which donors address sustainability, gender, human rights, and international standards and principles in their strategies. Key findings from the scoping study include:

- 1) Donors agree that growth is integral to development and that the private sector has a key role to play in this regard. However, donors emphasize different patterns of growth and see various roles for the state and the private sector in achieving growth, development, and poverty reduction.
- 2) Although donors recognize that benefits from growth must be shared, **most growth and private sector strategies do not engage comprehensively on issues relating to the distributional or pro-poor impacts of growth**, or the role of the state in ensuring pro-poor development outcomes.
- 3) **The extent to which donors have established, detailed, and publicly articulated their policies on and work with the private sector varies.** Donors have articulated their strategies for working with the private sector at different levels, with some having broad strategies that serve more as guidelines and provide direction for projects and programs and others having detailed programming, monitoring, and evaluation guidelines.
- 4) **It is difficult to assess the scale of donor interventions with and on the private sector.** This is largely because many forms of private sector engagement exist, and donors categorize and track their private sector interventions and partnerships differently.
- 5) Despite lack of comparability, **donors engage with the private sector in two key ways: by *promoting* private sector development and *partnering* with the private sector.** These approaches are not mutually exclusive. A number of donors are *partnering* with private sector actors to *promote* private sector development. While private sector development remains an important part of donor strategies, joint international statements by donor countries and new funding arrangements being developed at the donor level indicate that there is an increasing emphasis on partnership.

- 6) A goal of donor strategies is improving self-reliance in developing countries through the promotion of economic growth. However, the extent to which donors target domestic resource mobilization and taxation—important areas that, if improved, would decrease developing countries' reliance on aid—is limited.
- 7) **Donors promote their own private sector**, with mixed provisions for supporting private sector actors in developing countries as key partners to engage with.
- 8) Donors have some policies in place to **ensure financial and developmental additionality** in their private sector partnership mechanisms, but it is unclear how donors are ensuring additionality across their programming.
- 9) The extent to which donors employ internationally agreed standards and principles, including those on human rights, as guiding frameworks for their work with and on the private sector varies.
- 10) Donors reference gender, sustainability, and human rights in their policies to varying degrees. Notably, the **focus on women's economic empowerment tends to be instrumental**, as the focus is on better integration of women into markets rather than addressing the social and political elements of gender equality and empowerment. Sustainability, including sustained growth and green growth, is referred to in donor policies on growth and the private sector. However, **it is unclear whether references to sustainability have translated into in-depth policies or corresponding programs**. Despite public commitments to aid effectiveness, donors do not make strong references to their commitments on country ownership, alignment, harmonization, mutual accountability, and results and their further elaboration following HLF3 and HLF4. **It is unclear how aid effectiveness principles have been incorporated into donor policies on growth and the private sector.**

A number of implications arise from these provisional findings:

- 1) **Among donors, there is potential for inconsistent policy advice and technical assistance, as well as fragmentation in their private sector programming**, particularly in terms of reducing poverty and inequality, because donors emphasize different priorities, entry points, and roles for state and non-state actors in their strategies.
- 2) **Donors have not made across-the-board commitments to financial and developmental additionality**, which creates a risk of diverting aid funding from development to the promotion of commercial interests.
- 3) The extent to which partnership with the private sector serves as a donor strategy for addressing development challenges, rather than investing in effective institutions in developing countries, runs the risk of applying short-term solutions to long-term development challenges.

- 4) Many donors have not sufficiently incorporated their commitments to human rights, aid effectiveness principles, and other international standards into their growth and private sector strategies.

6.2 Recommendations

A number of recommendations for donors arise from this study, which are particularly salient as donors continue to increase their engagement with the private sector:

- 1) **Enhance tracking, disclosure, and comparability of private sector funding.** Donors need to agree on a common set of sector codes to measure donor contributions to economic growth and private sector development, and make effective use of coding where partnerships with the private sector are a principal objective.
- 2) **Deepen and strengthen implementation of the Paris Declaration, Accra Agenda for Action, and the common principles of the Global Partnership for Effective Development Co-operation.** There are a number of steps that donors can take to improve their implementation of aid and development effectiveness principles in policies and programs that engage the private sector. Proposals should be assessed against aid and development effectiveness criteria. For example, results measurement frameworks could be explicitly built into policies. The principle of harmonization suggests that policies and programs should indicate how donors will coordinate, when appropriate, their engagement with others in this area. The BB could be a global multi-stakeholder forum for establishing strong linkages between donors' growth and private sector strategies and aid and development effectiveness principles. This forum has to date been largely led by donors and national/foreign private sectors, in other words essentially closed to a broad set of development actors.
- 3) **Support democratic ownership of the growth and private sector agenda.** Donor policies do not promote space for developing countries to establish strong national ownership over the growth and private sector agenda. Donors sometimes favour their own commercial interests to the detriment of developing countries' domestic policies for development. While many donor policies touch upon the need to build self-reliance in partners, country ownership necessitates support for country-led initiatives to build progressive taxation systems with provisions to address capital flight, strengthen social and environmental policies, and ensure citizen engagement and safeguards and safety nets for the poor and marginalized. Donors can play a role in encouraging developing countries to initiate truly multi-stakeholder processes that can shape domestic development plans which engage CSOs, business associations, trade unions, and other actors, in addition to private sector stakeholders.
- 4) **Develop common criteria for assessing the private sector with which donors engage.** Donors can play a positive role in building the capacities of domestic firms, even in partnership with national and foreign firms. They can also improve access to finance. In direct support to national and foreign firms or PPPs, donors need to establish

a set of funding eligibility criteria for private sector partners that go beyond technical requirements (minimum years incorporated, audited financial statements) to address the track records of these partners in delivering positive development outcomes (in this case, positive social, development, economic, and environmental impacts, particularly for poor and marginalized populations).

- 5) Although this paper has only given cursory attention to PPPs, given the growing attention they are paying to such initiatives, donors will need to outline how they engage with this modality of support. Going forward, the OECD's new Principles for the Public Governance of Public-Private Partnerships¹⁶⁹ could be a potential model for engagement.
- 6) **Establish indicators to ensure financial additionality in private sector development and partnerships and a monitoring framework to ensure development impact.** Financial additionality needs to clearly establish "the causality between international financial support for an activity and the extent to which the activity would have happened in the absence of such support."¹⁷⁰ To achieve this, donors should establish a set of indicators that assess financial need, promote investment in risk-averse markets, gauge the leverage potential of such an investment, encourage financial eligibility that favours the domestic private sector, and assess the opportunity costs of resources used against other development priorities.
- 7) **Regarding development additionality, donors need to ensure that aid resources to, and for, the private sector work toward reducing poverty and achieving other development goals, such as improved livelihoods, the creation of quality employment opportunities, realization of labour rights, and improved social and environmental outcomes.** Donors need to clearly articulate intended development and poverty reduction outcomes for their investments by establishing publicly available qualitative and quantitative indicators for measuring gender equality (including measures for the economic, social, and political inclusion and empowerment of women), governance (including the effectiveness and capacities of institutions), and environmental sustainability (particularly climate change). Such indicators need to be accompanied by a monitoring framework to ensure that these investments have positive development impacts which build on best practices among donors. This framework should also assess the extent to which investments have actually leveraged additional finance.

6.3 Areas for further research

This paper has provided a broad overview of some of the emerging themes and characteristics of various bilateral donors' strategies and policies, but more research is needed on four key areas:

- 1) The scope of bilateral donor engagement with the private sector, an accurate measurement of the scale of engagement, historical trends of such private sector support (especially relative to the rest of donors' aid budgets), and an assessment of the range of national-level actors beyond traditional bilateral donors (for example,

development finance institutions, export credit agencies, and investment banks) that are substantively engaging in development.

- 2) An assessment of how bilateral donors' policies are being implemented in practice, in particular from a financial and development additionality perspective.
- 3) The impact of these interventions on the ground.
- 4) The growing role and importance of emerging countries in SSDC and triangular cooperation (SSDC supported by donors) on private sector development and economic growth. Where do these countries fit within the findings identified in this research, what can donors and Southern providers of ODA and other types of assistance learn from these experiences and what should they avoid? The answers to these questions will provide a broader and more nuanced picture of how development actors are engaging with the private sector overall.

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Annex I: List of Donors Reviewed and Their Policies

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Annex II: List of Indicators and Their Definitions

INDICATOR	DEFINITION
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Structure of the growth or private sector strategy

Type of strategy	Refers to whether the donor has a strategy devoted to the private sector, articulates policies on the private sector through related thematic programming (such as trade and development or food security strategies), and/or includes provisions on the private sector in its overall policy or framework for development priorities and programming.
Budget for the strategy	Proportion of total donor ODA dedicated to growth or private sector strategy.
Market vision and assumptions behind the strategy	Qualitative explanations for the strategy and the way the market will lead to growth. Includes quotes that act as the mantra for the strategy.
Rationale of the strategy	The logic and rationalization of the process by which the strategy contributes to achieving development (i.e., $x + y + z$ = poverty reduction, or private sector income leads to larger tax base and greater public funds for social services, leading to poverty reduction).
Pillars of the strategy	Specific principles and goals of the strategy. Outline areas of focus within the strategy. Usually visible as the significant sections of a, say, policy document.

Accordance with other agreements

Relevance to the G-20 growth strategy	The extent to which the donor strategy coincides with the G-20's Seoul Development Consensus for Shared Growth, specifically regarding infrastructure, private investment and job creation, human resource development, trade, financial inclusion, growth with resilience, food security, domestic resource mobilization, and knowledge sharing.
Relevance to the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation	The extent to which the donor strategy aligns with the principles established at HLF2, HLF3 and HLF4. This includes specific mentions of the following: quality of aid and aid impact; monitoring and evaluation; country ownership; donor alignment; harmonization; results; mutual accountability; and inclusive partnerships. This also includes the private sector elements of the BPd, namely the focus on innovation to sustain dialogue between governments and the private sector, use of aid funding to catalyze investments in line with country-level objectives, and development of a framework for using private sector solutions to transform development practice.
Signatory to the joint statement on Expanding Public and Private Co-operation for Broad-Based, Inclusive and Sustainable Growth and/or member of the Private Sector Building Block	Whether the bilateral donor has signed on to the joint statement, and is a member of the Private Sector Building Block.

Accordance with other agreements

Role of the state	The role of the recipient state in the private sector or growth strategy with regard to country ownership, country priorities, and mutual accountability. Extent to which the state has a role to play in management of the economy, industrialization policy, etc.
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Role of other development actors	Other actors that are given attention in the strategy, such as social partners (civil society organizations, unions) and multi-stakeholder partnerships.
Domestic or internationalized private sector	Explanation of the role of the donor state and whether or not its private sector's interests are explicitly promoted through the strategy. Explanation of the role of the recipient state and whether there is promotion of its national private sector. The extent to which the strategy includes transnational/multinational corporations.
Areas of focus and key targets	Specific sectors that are targeted by the strategy. This includes a wide range of areas such as women, infrastructure, natural resources, SMEs, etc.
Financial and development additionality	Whether the strategy seems to promote financial and development additionality (i.e., would the project be able to proceed without ODA-type resources and are there measures to ensure a clear and positive development impact?).

Implementation considerations

International standards and principles	The way in which the strategy aims to uphold specific international principles and voluntary frameworks and standards (e.g., ILO standards, human rights, environmental protection, anti-corruption, global CSR initiatives or guidelines).
Explicit strategies for leveraging aid resources	The main strategies used to leverage aid, such as public-private partnerships, challenge funds, and others.
Transparency and accountability	The way in which transparency and accountability are mentioned and who the responsible actors are. The structures of aid and financial innovations that are significant to the strategy.
Corporate social responsibility	How, if at all, CSR is included in the strategy. Whether or not aid finance toward CSR has added value in specific examples.
Monitoring and evaluation	The ways in which the strategy is evaluated by indicators. Whether the strategy takes into account the evidence base. Whether the strategy aims to contribute to research on aid effectiveness and the private sector. Extent to which the monitoring and evaluation framework is meant to enhance learning.

Cross-cutting issues

Sustainability	Whether strategy references sustainability and provides a definition. If no definition is provided, whether there is a donor strategy on sustainability and how it is or is not mentioned in the strategy.
Gender	How strategy specifically references gender dynamics. If gender is not referenced, whether there is a donor strategy on gender and how it is or is not mentioned in the strategy.
Empowerment	Specific reference to empowerment in strategy. If none, whether there is a donor strategy on empowerment and how it is or is not mentioned in the strategy.
Human rights	Reference(s) to human rights within the strategy. If none, whether there is a donor strategy on human rights and how it is or is not mentioned in the strategy.

Donor-specific

Organizational structure	The way in which the organization (bilateral donor) is being restructured to accommodate the strategy. Whether the private sector growth strategy is being carried out by another department, such as the department responsible for foreign affairs.
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