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# Aid and the Private Sector: A Comparison of Traditional and Latin American Donor Approaches

The international development community has become increasingly concerned with the role of the private sector in development. Historically, the traditional providers of official development assistance (ODA), industrialized or developed countries, have sought to promote private sector development in developing countries. More recently however, there has been an increasing focus on partnership with the private sector to address development challenges, coinciding with a renewed focus on economic growth, trade and the private sector as driving forces behind development. New donors, such as Latin American countries, have however followed a different path, emphasizing in their horizontal cooperation the creation of enabling conditions for the private sector but refraining from partnering with it or supporting their own companies, as the traditional donors are starting to do.

This policy brief is based on a longer paper "South-South Development Cooperation in Latin America: What Role for the Private Sector?" *Integration & Trade Journal* 36 (17), 2013. It examines the role of the private sector in grant-based elements of South-South Development Cooperation (SSDC) in Latin America. It finds that providers of SSDC in Latin America have yet to embrace the private sector as a key partner in development.

A considerable body of information regarding traditional donors' approach to the private sector exists but much less is known about the private sector's role in South-South Development Cooperation (SSDC). This is especially true of SSDC efforts aimed at partnering with the private sector. SSDC has emphasized elements of cooperation that are in fact much harder to quantify given levels of domestic fiscal opacity that are present in most new or emerging donors. These elements include vehicles for inter-state cooperation such as knowledge exchange, reform of trade and investment provisions, debt relief, and human resources development for the public sector. While exact contributions through SSDC are not known, international assistance from providers of SSDC, notably the BRICS (Brazil, China, India, and South Africa), has grown substantially over the past five years. BRICS countries have engaged their own private sectors to penetrate markets and build infrastructure in other developing countries through their development and export-import banks. However, information on these initiatives is just emerging, and many of the details on such cooperation are still not public. The role of private sector in grant-based elements of SSDC is unclear.

This brief seeks to address the gap in our understanding by examining the theoretical and defacto roles given to the private sector in SSDC, specifically in Latin America. It provides a comparison of donors in the region and traditional donors – members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC). The region provides a useful case for comparison because of its density of development cooperation initiatives, relatively high degree of institutionalization in areas relating to political and economic cooperation, and diversity in terms of size and levels of development across countries. The analysis is based on discussion of statements and programming provided by different Latin American actors, including regional development banks.

## A New Role for the Private Sector

While they have historically promoted private sector development, in recent years members of the OECD-DAC have focused their efforts on partnership with the private sector for development. Now the private sector is more than the key to growth, it also an important partner to engage with while addressing global development challenges. In this context, traditional 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; implementing partner; source of public and private income generation and job creation; and key constituency to engage in the creation of national development strategies that support an enabling environment for the private sector and, in turn, growth (Kindornay and Reilly-King [2013]; Kindornay, Higgins with Olender [2013]).

In contrast, in the Latin American context, the private sector has not constituted until very recently an important part of the discourse when promoting cross-border cooperation. This is mainly because emerging Latin American donors avoid engaging in behavior and using language that could be perceived as colonial or advancing Intra-Latin American domination through a country's domestic companies. Discourses and practices of SSDC in Latin America remain therefore quite distinct from the path generated by traditional donors and their renewed interest in partnering with the private sector for development.

## Private Sector as a Development Partner: Traditional Donor Approaches and Engagement

OECD-DAC donors take different approaches to the private sector, ranging from promoting private sector development to partnering with the private sector for development.

In promoting the private sector in developing countries, traditional donors focus on three levels:

- **Macro** – Creating a business enabling environment by building the legal and regulatory foundations that allow the private sector to thrive.
- **Meso** – Interventions to make markets work in ways that solve market failures, enhance competitiveness and build value chains. These include aid for trade initiatives, financing, and technology transfer.
- **Micro** – Direct investments in businesses and people to support longer term private sector development. Examples include technical support for business and vocational training (Kindornay and Reilly-King 2013).

In the case of partnership, some donors tend to see the end goal of their strategies as partnering with the private sector, often companies from the same country as the aid agency and who operate in the recipient country as direct investors, trading partners, or both. 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*, traditional private-public partnerships, the provision of goods and services to poorer populations (bottom of the pyramid approaches, for example); research, advanced market commitments, concessional financing windows, innovative financing tools, support for CSR activities, and innovation or challenge funds. Innovation and challenge funds and programs have become an important modality in this respect. These funds and programs are generally based on a competitive call for proposals and provide co-financing for successful projects on a grant basis. Sweden's Innovations Against Poverty program is one example. The program supports businesses based or operating in poor countries to develop services, products, and processes that benefit people living in poverty. The program will match a maximum of 50% of project costs for successful applicants.

A number of donors combine partnering with the private sector and promoting the private sector. In this context, donors create business relationships between their domestic and the partner country's firms through initiatives such as challenge or innovation funds. Here donors are essentially *partnering* with the private sector to *promote* private sector development in recipient countries by partially supporting or subsidizing their own companies.

## South-South Development Cooperation in Latin America and the Private Sector

The peer nature of SSDC has strong implications for any possible role given to the private sector. Home countries are wary of push back if they try to forward the interest of their companies using SSDC. Multinational Latin American firms ("Translatinas") are already controversial in smaller Latin American countries. Translatinas have expanded most prominently into countries immediately adjacent to their homeland and SSDC flows most prominently to the immediate neighbors of the emerging powers, Paraguay and Bolivia from Brazil and Argentina, and Guatemala and El Salvador from Mexico. There is therefore concern in donor countries that SSDC could be perceived as hierarchical and colonial. To escape that perception the donors avoid funding their own firms' activities in other countries.

Nevertheless, SSDC providers in Latin America support activities that contribute to private sector development at the macro, meso, and micro levels, as has historically been the case with traditional donors. However, they do not explicitly target private sector development as a thematic priority. Rather, as shown in Secretaría General Iberoamericana's (SEGIB) 2012 report on cooperation in the region, they frame their work around support for different sectors such as agriculture or productive activities.

SEGIB's report on SSDC in Latin America and this study's examination of multilateral SSDC mechanisms in the region showed support for meso and micro level interventions (Xalma 2012). SEGIB's report revealed that 28% of projects involved productive activities in the agriculture, industrial, tourism, and natural resource sectors. Another 12% focused on building infrastructure and supporting basic economic services, including increasing access to energy and communications technologies, strengthening SMEs, and enabling countries to apply scientific and technological innovations.

The agricultural sector received the lion's share of resources directed to the productive sector, accounting for 57% of projects and 15% of cooperation in 2011. The activities supported tended to be micro-level interventions that target businesses and people, including technical cooperation to improve the quality and quantity of yields as well as support and training for small farmers. There were also a number of meso level interventions aimed at value chain building, technology transfer, and addressing market failure in the agriculture, energy, and communication fields.

While it is common practice for SSDC providers in the region to share best practices and lessons learned with one another to improve growth outcomes, which can be seen as macro-level cooperation, this study did not find specific evidence that such cooperation included the participation of specific firms or even business associations.

A review of Latin American bilateral cooperation agencies' publicly available policies and programs reveals very few mentions of the private sector as a development partner. Colombia and Chile make references to the private sector and Chile mentions private-public partnerships, though no information is available regarding what support might exist for private sector actors, including the terms of partnerships. Unlike traditional donors, Latin American countries are not using technical cooperation as a means to support their commercial interests in extensive ways.

SSDC providers in Latin America have yet to embrace the private sector as a partner in development, either to promote private sector development or address broader development challenges. This study found no evidence of Latin American countries establishing matchmaking initiatives aimed at partnering companies from countries providing SSDC with those in countries receiving it, nor did it identify the existence of challenge or innovation funds specifically geared at involving private sector partners to address development challenges.

## Comparing SSDC Providers and Traditional Donors

The main insight that comes from this review of traditional donors' and Latin American SSDC providers' overarching perspectives is that they diverge significantly. While traditional donors are developing an extensive series of programs to support and partner with the private sector, SSDC providers emphasize initiatives done by their public sectors, often touching areas that will support the private sector in specific industries or economic sectors, particularly in agriculture. SSDC providers in Latin America and traditional donors are engaging in similar activities, namely around micro- and meso-level interventions relating to private sector development. However, there is stark contrast between these groups in terms of their partnerships, or lack thereof, with the private sector to address development challenges.

There are a number of palpable reasons for the differences in approaches and methods between traditional donors and Latin American SSDC providers. The private sector is seen as an important partner by traditional donors while it is seen by SSDC providers as a potential political liability in their relationships with neighbors. In addition, while donors have become increasingly concerned with leveraging aid and ensuring "value for money" through partnerships with the private sector, such concerns have been less present among SSDC providers. Despite these differences, going forward, triangular cooperation may offer an opportunity for some convergence between traditional donors and SSDC providers in the areas of micro- and meso-level interventions as traditional donors are looking to reduce costs while SSDC providers are looking to scale-up their activities.

## References


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