European Centre for Development Policy Management
ecdpm

Discussion Paper

No. 161
April 2014

De-coding Public-Private Partnerships for Development

San Bilal, Bruce Byiers, Sebastian Große-Puppendahl, Florian Krätke, Gabila Nubong and Anna Rosengren

www.ecdpm.org/dp161

De-coding public-private partnerships for development

San Bilal, Bruce Byiers, Sebastian Große-Puppendahl, Florian Krätke, Gabila Nubong, and Anna Rosengren

April 2014

Key messages

Objectives, interpretations, practices and incentives of public and private partners are often diverse, leading to the question of who leads whom, and how?	Closer convergence of incentives, actions and understanding of possible multi-stakeholder partnerships is necessary to achieve sustainable development.	The future of partnerships within the post-2015 development agenda must build on a greater recognition of developing countries own strategies to drive and finance their own structural transformation.	Private investments and finance are likely to be the key engine for growth but there needs to be greater focus on sustainable and inclusive outcomes harnessed to the developing countries' own development agenda.

Table of Contents

List of Boxes

List of Figures

List of Tables

Acknowledgements

This paper was produced to feed into the UN Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) Outreach Event on Co-creating New Partnerships for Financing Sustainable Development, in Helsinki, Finland, on 3-4 April 2014. The objective of the background study is to provide material to stimulate discussion on partnerships between public and private actors for achieving and financing sustainable post-2015 development. The study might further facilitate dialogue based on a common understanding of current public-private partnerships and policies as well as of the main challenges and opportunities in taking this agenda forward, and by that support concrete outcome-oriented discussions.

ECDPM gratefully acknowledge the financial contribution of the Ministry of Foreign Affairs of Finland, which has made this study possible.

The authors would like to thank Ambassador Pertti Majanen, Sari Alander and Timo Oikonen of the Finnish Ministry of Foreign Affairs, Pertti Haaparanta, Professor of International Economics at the Aalto University's Department of Economics, and Dr James Mackie of ECDPM for their useful support and comments. The views expressed in this paper are those of the authors only and should not be attributed to any other person or institution. For comment, please contact Dr. San Bilal (sb@ecdpm.org), ECDPM.

Acronyms

AECF	Africa Enterprise Challenge Fund
AFD	French Agence francaise de développement
AFMI	Africa Financial Markets Initiatives
AGOA	Africa Growth and Opportunity Act
AIDA	Action plan for Accelerated Industrial Development in Africa.
APEI	Accelerated Programme for Economic Integration
AU	African Union
BCtA	Business Call to Action
BER	Business Environmental Risk
BNDES	Brazil Development Bank
BoP	Base of the Pyramid
CAADP	Comprehensive Africa Agricultural Development Programme
CIDA	Foreign Affairs, Trade and Development Canada
CMD	Capital Market Development
CSO	Civil Society Organisations
CSR	Corporate Social Responsibility
DANIDA	Ministry of Foreign Affairs Denmark
DFI	Development Finance Institutions
DfID	UK Department for International Development
EC	European Commission
ECA	Export Credit Agency
ECDPM	European Centre for Development Policy Management
ECF	Enterprise Challenge Fund
EDF	European Development Fund

EITI	Extractives Industries Transparency Initiative
EU	European Union
FDI	Foreign Direct Investment
FI	Financial Intermediary
FLEGT	Forest Law Enforcement, Governance and Trade
FRICH	Food Retail Industry Challenge Fund
GAIN	Global Alliance for Improved Nutrition
GAVI	Global Alliance for Vaccines and Immunisation
GPG	Global Public Good
IAP	Innovation Against Poverty
ICESDF	UN Intergovernmental Committee of Experts on Sustainable Development Financing
IDH	Sustainable Trade Initiative
IFAD	International Fund for Agricultural Development
IFFIM	International Finance Facility for Immunisation
IFI	International Finance Institution
IPR	Intellectual Property Right
KfW	German Development Bank
LDC	Least Developed Countries
LIC	Low Income County
MDG	Millennium Development Goal
MFW4A	Making Finance Work for Africa
MIGA	World Bank Multilateral Investment Guarantee Fund
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organisation
NORAD	Norwegian Agency for Development Cooperation
OBA	Output-Based Aid
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OOF	Other Official Flows
OPIC	US Overseas Private Investment Corporation
OSPF	Official Support for Private Flows
PIDA	Programme on Infrastructure Development in Africa
PPP	Private-Public Partnerships
PRI	Political Risk Insurance
PSD	Private Sector Development
PSI	Private Sector Investment
PS4D	Private Sector for Development
UN	United Nations
UNCED	United Nations Conference on Environment and Development
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SIDA	Swedish International Development Cooperation Agency
SRI	Socially Responsible Investments
TTV	Ten Thousand Villages
VSC	Voluntary Solidarity Contribution
WCF	World Cocoa Foundation
WTO	World Trade Organization

Executive Summary

This background study aims to stimulate discussion on partnerships between public and private actors for achieving and financing sustainable development post-2015. It was prepared to feed into the UN Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF) Outreach Event on Co-creating New Partnerships for Financing Sustainable Development, in Helsinki, Finland, on 3-4 April 2014.

While Official Development Assistance (ODA) remains relevant and important - for least developed countries (LDCs) and countries in special situations in particular - **ODA and other official flows (OOF) represent a declining share of financial flows to developing countries**.

Allied with a growing recognition of the **potential benefits of working with the private sector to achieve development objectives, aid is increasingly seen as a means to promote partnerships** to promote employment, technological advances and other sustainable development outcomes.

Experience from a range of different partnership mechanisms highlights numerous challenges and opportunities for development actors that can inform the post-2015 agenda. This paper seeks to identify these key issues to stimulate discussions on the challenges and opportunities for public and private partnerships to finance and achieve sustainable development post-2015.

For the purposes of the brief analysis presented here, partnerships are divided into two broad categories.[1] The two categories overlap well with the dual objectives of the UN Committee of Experts:

1. ***private sector investment for development***, where international development partners engage with (international) private sector activities for development purposes, and
2. ***private sector finance for development***, where the focus is on using ODA to leverage private sector finance.

Table A gives an overview of the different types of models and instruments used within the two partnership categories, as well as over some of the associated challenges.

For the last decade, donors have focused most of their efforts on partnering for and supporting private sector *investment* (Column 1), although recently increasing efforts have been dedicated to also leveraging private *financing* for development (Column 2), notably through blending loans and grants. In contrast, development finance institutions have established a long track record in leveraging private sector finance and are increasingly called upon to work directly with businesses.

One of the challenges for international development partners is to better build on this dual experience and find modalities to bridge the institutional and knowledge gaps that still too often divide donors and their financing institutions in engaging with private sector finance and investment activities.

[1] Byiers, B., and A. Rosengren (2012), Common or conflicting interests? Reflections on the Private Sector (for) Development Agenda, ECDPM Discussion Paper 131. www.ecdpm.org/dp131

Table A: Overview of current partnerships

	1. Partnerships for private investment	***2. Partnerships to leverage private finance***
Partnership models:	donor-led models, coalition models, business-led models, business-CSO models, CSO-led models	private-public partnerships (PPPs), catalytic mechanisms, private to private
Partnership instruments/ financing mechanisms:	donor-led (challenge funds, innovation funds, match-making facilities), multi-stakeholder partnerships (Global Alliance for Improved Nutrition (GAIN), Sustainable Trade Initiative (IDH), Grow Africa)	blending, output-based aid (OBA), official support for private flows, front-loading of ODA, development impact bonds, currency swaps, financial guarantees function, investment loans, syndicated loans, financial intermediary loans, concessional loans, direct equities, private equity funds
Challenges:	additionality, donor attribution, project-level attribution, result and impact measurement, agent selection, countries in special situations, success and survival of a private enterprise, local markets and regulatory challenges, market distances	risk sharing, financial incentives outweigh development principles, additionality, finance concentration to certain sectors and countries, information asymmetries, crowding-out private finance, debt-risk for developing countries, results-measurement, monitoring & evaluation

Understanding how to build on, adapt and measure the impact of these then suggests the need to look at partnerships from three perspectives that relate to who is driving the partnership process:

- the **first** is **the donor's perspective**, where the aim is to use public funds to bring in and promote new private sector finance and investment for developing countries and development-related areas (e.g. vaccines);
- the **second** is that of **the private sector** where partnerships may be more about maximising the development impact of existing private sector activity, by promoting greater and better quality employment, local linkages and local value added for example;
- the **third** is **a policy and operational perspective**: this relates to enhancing the incentives and structures for ensuring private sector activity and finance contribute to sustainable development objectives, including mechanisms to enhance transparency, definition of private codes of conduct and minimum standards, reduction of abusive transfer mispricing etc.

A key question then is "**who leads whom, and how**" and what the different motivations imply for feasible partnership mechanisms and potential development impacts. The following challenges are likely to vary according to the focus of the partnership (finance or investment) and depending on the driver and motivations behind the partnership.

In all cases where public money is involved, there is a need to not only demonstrate positive development outcomes generated by the public-private partnership, but also the developmental outcomes that would not have been accomplished without the public involvement. While the **additionality principle** is well recognised by all development partners, it is in practice often difficult to precisely assess it.

Drawing lessons from the many successful examples (and failures) of partnerships will be important to **better identify guiding practices to assess the development impact, leveraging and additionality of future public-private initiatives** to accomplish the post-2015 agenda. How this is done will vary according to the various categories identified above.

Looking at **modalities for public-private partnerships**, new partnership instruments and innovative finance mechanisms need to have a clear vision and development objectives. They also need alignment with nationally devised development strategies, including greater use of direct budget and/or sector wide support by innovative initiatives. In addition, partners need to be aware of their role as facilitators (as opposed to drivers) of existing policy processes, while at the same time leveraging the full benefits to be brought to the process by their individual experiences and expertise. Other important principles identified include complementarity, additionality, burden-sharing, standard-setting, transparency and measurability.

Beyond maximising the quantity of available financial resources and improving their use it is important to understand the political economy of putting in place supportive institutional and policy environment at the national and international levels. Due consideration must be given to the specificities of each country, in terms of political and economy dynamics and motivation, institutional settings, conditions and external factors that will affect the policy mix and combination of financial flows.

Despite a convergence of language across actors[2], there is still a need to find greater convergence of incentives, actions and understanding of what is and can be achieved on the ground by multi-stakeholder partnerships. Thus, in designing new development approaches, including on financing, international development partners should **pay great attention to the incentives and objectives of all actors** in sectors they engage with to achieve sustainable development objectives.

This poses significant challenges to the development of a comprehensive global framework for development finance, in which public and private parties have clearly defined roles.

The future of financing a post-2015 development agenda must build on a greater recognition of developing countries own endeavours and strategies to drive and finance their own structural transformation towards sustainable development. International development partners could more systematically feed into and target these domestic, regional and wider initiatives when engaging in new partnerships with private sector for developmental investment and finance. Examples include AIDA, the action plan for Accelerated Industrial Development in Africa.

The post-2015 framework should thus also provide greater opportunities for **multi-faceted public and private sector engagement**, focusing on strengthening and further developing national and regional mechanisms in developing countries, notably in mobilising domestic resources for development, including by **enhancing their financial sector and markets**.

Private investment and finance is likely to be the key engine for growth, with international development partners contributing through a range of incentives, instruments and initiatives to leverage or accompany private engagement, with a greater focus to sustainable and inclusive outcomes harnessed to the development agenda of developing countries and regions.

---

2 Byiers, B. (2014), The European Commission, Civil Society Organisations and the private sector – when talking the same language isn't quite enough, ECDPM Talking Points, 24 February. www.ecdpm-talkingpoints.org/the-european-commission-civil-society-organisations-and-the-private-sector-when-talking-the-same-language-isnt-quite-enough/

1. Introduction

The countdown towards 2015 and the definition of a new framework to guide global development policy are now well underway. Eradicating poverty, achieving inclusive economic growth and promoting sustainable development are to lie at the very heart of the post-2015 development agenda.

In this context, increasing attention is being given to the question of how to finance a future framework, and what the needs for this are. The UN Committee of Experts on Sustainable Development Financing is charged with proposing strategic options to facilitate i) the mobilisation of resources and ii) their effective use in achieving sustainable development objectives. Growing recognition of the important role of the private sector in achieving development outcomes underlines the need to consider how these two goals might be met through more effective multi-stakeholder partnerships, and to learn from existing partnership experiences.

Since the Monterrey Consensus in 2002,[3] there has been broad emphasis on the need for an inclusive multi-stakeholder approach to achieve development goals and objectives, through the effective use of financial resources as well as a new partnership between developed and developing countries. The 2008 Doha declaration[4] reaffirmed the Monterrey Consensus in its entirety, stressing the need to "*address the challenges of financing for development in the spirit of global partnership and solidarity*". The Paris, Accra and Busan Declarations in 2005, 2008 and 2011 also adopted partnerships among their four principles[5], with growing reference through time not only to partnerships of countries, but also with the private sector. The Busan partnership particularly proposes to "*build stronger relationships between development co-operation and the private sector, by supporting the creation of a favourable environment for the different partners and fostering public-private partnerships"*.[6]

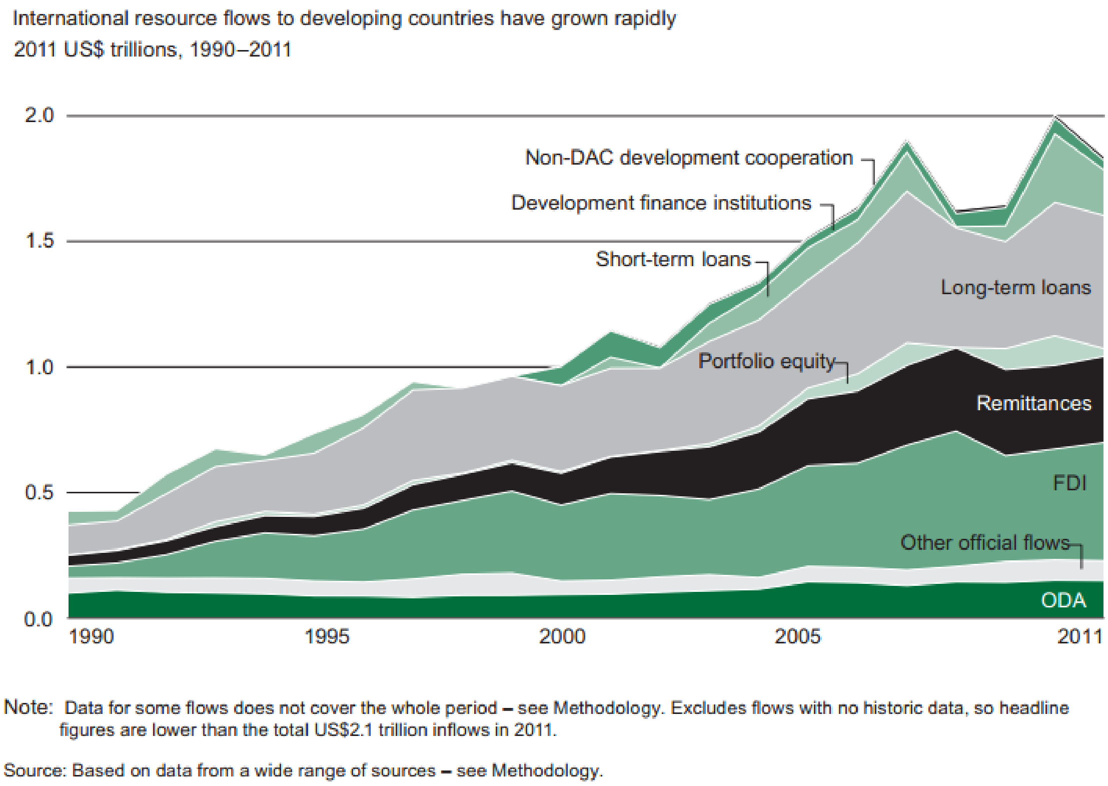
While many can agree on the relevance and continued importance of official development assistance (ODA) - for least developed countries (LDCs) and countries in special situations in particular - ODA and other official flows (OOF) account for a declining share of financial flows to, and finance in developing countries (see Figure 1). While in 1990 ODA and long-term loans have been roughly on similar levels as the main sources of international capital flows to developing countries, the picture has drastically changed by 2011. FDI and remittances have increased tremendously, compared to ODA and other official flows. Despite huge efforts to increase ODA levels since the 2002 Monterrey Conference, FDI, remittances and long-term loans seem to be far more relevant for developing countries in terms of their amount. ODA and OOF continue to play a critical role, in particular in poorer countries. But it is increasingly viewed as a catalytic means to promote development objectives, including for economic and trade related purposes, as in the case of Aid for Trade.[7] This further underlines the need to build on existing private sector activity towards developmental ends, and use ODA, OOF and other means to encourage further private sector finance and activity to promote employment, technological advances and to achieve sustainable development outcomes more directly.

3 Monterrey Consensus (2002) www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf
4 UN (2008) *Doha Declaration on Financing for Development* www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf
5 OECD (2005/2008) www.oecd.org/development/effectiveness/34428351.pdf
6 Ibid.
7 By 2013, Aid for Trade had increased by 57% from the 2002-2005 baseline period, accounting for about a third of sectoral allocated ODA. See OECD-WTO (2013), Aid for Trade at a Glance: Connecting value chains. www.wto.org/english/res_e/booksp_e/aid4trade13_e.pdf See also the discussion in ECDPM (2013), Aid for Trade, *GREAT Insights*, vol.2 issue 5, July-August, www.ecdpm.org/great_2_5

The underlying assumption of many international development partners is that they can incentivise and leverage private sector finance and activity for development objectives. From a private sector perspective, however, partnership with public sector and in particular international development partners may not be a key determinant in their activities and their impact on development. Partnering with donors may play a role, but interpretations, objectives, practices and incentives of public and private partners will only fully be in line in exceptional cases.

An important consideration therefore relates to who is actually leading whom, and how. Despite a convergence of language across actors,[8] there may still be a need to find greater convergence of incentives, actions and understanding of the reality of what is and can be achieved on the ground by multi-stakeholder partnerships. Thus, in designing new development approaches, including on financing, international development partners should pay great attention to the incentives and objectives of private sectors they engage with to achieve sustainable development objectives.

Figure 1: International resource flows to developing countries, 1990-2011 in US$ trillions



Source: UK House of Commons International Development Committee (2014) *The Future of UK Development Cooperation: Phase 1: Development Finance*.

Growing experience from a range of different partnership mechanisms designed to build on or leverage private sector finance and activity highlight numerous challenges and opportunities for development actors that can inform the post-2015 agenda. This paper seeks to identify these key issues to stimulate discussions on the challenges and opportunities for public and private partnerships to finance and achieve sustainable development post-2015.

8 Byiers, B. (2014), The European Commission, Civil Society Organisations and the private sector – when talking the same language isn't quite enough, ECDPM Talking Points, 24 February. www.ecdpm-talkingpoints.org/the-european-commission-civil-society-organisations-and-the-private-sector-when-talking-the-same-language-isnt-quite-enough/

For the purposes of the brief analysis presented here, partnerships are divided into two broad categories[9]:

1. *private sector investment for development*, where international development partners engage with (international) private sector activities for development purposes, and
2. *private sector finance for development*, where the focus is on using ODA to leverage private sector finance.

While partnerships and their instruments do not necessarily target one or the other category, the challenges of raising finance and directing finance and activities are different, and overlap well with the dual objectives of the UN Committee of Experts.

The policy environment also matters. Current and future financial resources need to be supplemented by a supportive national policy framework, which aims at building domestic capacity and combating poverty to expand possible financing options. While essentially a political issue, the development ambitions of many developing countries requires better mobilisation, management and use of domestic resources. In a context of decreasing aid levels[10], international development partners will have to devote even greater attention to the ways they can best support such developing countries endeavours, leveraging or in synergy with private sector activities and financing. Considerations on the international environment and how to address some global public goods, such as curbing illicit capital flows, will also be needed. A third area of the analysis therefore focuses on the broader *policy environment in which partnerships take place* and how this may affect their development impact.

By looking at experiences with public-private partnerships from these three perspectives, we identify common challenges across different partnerships and instruments used, and draw out lessons on opportunities to enhance such partnerships in order to overcome on-going development challenges.

Beyond maximising the quantity of available financial resources, key challenges relate to the quality and use of the different types of financial mechanisms, as well as to the understanding of the political economy of putting in place supportive institutional and policy environment at the national and international levels. In doing so, due consideration must be given to the specificities of each country, in terms of dynamics, institutional setting, conditions and circumstances, that will affect the policy mix and combination of financial flows. This poses significant challenges to the development of a comprehensive global framework for development finance in which public and private parties have clearly defined roles.

Going forward it may be useful to look at partnerships from the following three broad perspectives:

- The **first** is the donor's perspective, wherein the aim is to promote new private sector investment in developing countries and development-related areas (e.g. vaccines), from large and small, foreign and local firms by raising finance and catalysing and investment;
- the **second** is that of the private sector where public finance operates at the margin to maximise the development impact of existing private sector activity by promoting greater and better quality employment, local linkages and local value added; relatedly,
- the **third** is a policy and operational perspective. This relates to enhancing the incentives and structures for ensuring private sector activity and finance contribute to sustainable development objectives. This might for instance include mechanisms to enhance transparency, define private

[9] Byiers, B., and A. Rosengren (2012), Common or conflicting interests? Reflections on the Private Sector (for) Development Agenda, ECDPM Discussion Paper 131. www.ecdpm.org/dp131

[10] World Bank (2013a) *Financing for Development,* October 2013, Washington: The World Bank Group. www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf

codes of conduct and minimum standards, and reduce abusive transfer mispricing through international agreements on tax, for example.

The remainder of the paper is organised as follows: Section 2 looks at i) the challenges relating to partnerships to engage with private sector activity, ii) using public money to leverage private finance and iii) a discussion of the interplay between public policy and partnerships, particularly looking at the enabling environment to unlock private sector finance, transparency issues and the problem of illicit financial flows. Section 3 outlines potential avenues to seek new opportunities for public-private partnerships. The concluding section brings together current partnership models and their challenges with new forms of partnerships to stimulate discussions of this UN outreach activity.

2. Learning from current partnerships

The concept of "the private sector" is a simplification of a complex reality including a large and heterogeneous range of actors. Hence, in order to properly discuss mechanisms to fund and/or leverage private sector activities and finance, there is a need to first bring some structure to the diversity of engagements. We suggest a categorisation of private sector development into three different agendas: i) local private sector development (PSD); ii) financing partnerships for private investments, and; iii) partnerships to leverage private finance. The first agenda refers to public and private initiatives directly targeted on the improvement and development of the local private sector, addressing issues such as access to finance, the regulatory environment, consumer markets, base of the pyramid (BoP) business models, etc.

While local private sector development may be a target of the latter two agendas, we primarily focus on the two latter agendas as these more directly address the issue of financing and the engagement of international private sector in partnerships for development. It should be noted that although some instruments can be comfortably categorised under either heading, the distinction between the two is deemed useful to address the distinct challenges associated with their different policy foundations, processes and potential impacts.

2.1. Financing partnerships for private investment

2.1.1. Funding private sector investments for development

To distinguish from the traditional private sector development agenda, we define private sector for development (PS4D) as donor engagement with international or domestic firms' promotion of productive *investment and activities* in developing countries. Donors and private firms aspire to combine the objectives of commercial viability and developmental benefits by linking public finance to pro-poor foreign direct investments (FDI), programmes to enhance linkages between local and international business, and other types of support for inclusive business models.

In this context, a key issue relates to the definition of development and development additionality. How does one distinguish between developmental and non-developmental investments, and by which indicators? How does one identify the tipping point where public funding provides an additional investment or activity with a positive (developmental) outcome that could or would not have been realised without additional resources? Where can we draw the lines between additional finance, subsidy and tied aid? There are no clear answers to these questions and research is on-going in this area.

Nevertheless, we can identify some specific roles for each sectoral actor in public private partnerships. Table B provides an indicative list of some of the roles, responsibilities and opportunities that each partner can bring forward in a partnership. But as the various aspects underline, the degree to which that role can be fulfilled, and how each actor can complement the other will depend to some degree on the objective of the partnership in the first place. Further, as discussed below, little space is often given to the role of developing country governments in designing these partnerships.

Table B: Public-private partnership contributions by sector

Public Sector Contribution	Private Sector Contribution	Civil Society Contribution
Fund programmes, projects and implementing partners	Fund programmes, projects and implementing partners	Fund programmes, projects and implementing partners
Knowledge sharing, in particular in development expertise	Knowledge sharing, in particular in commercial expertise	Knowledge sharing, in particular in development expertise
Facilitate the establishment of partnerships and wider networking	Facilitate network opportunities for local partners and local market development	Act as watchdogs, human rights defenders and advocacy groups
Participate in standard setting mechanism and other governance forums.	Advocate and promote industry standards	Facilitate the involvement of local communities
	Participate in standard setting mechanism and other governance forums.	Participate in standard setting mechanism and other governance forums.

Source: Kindornay, Higgins and Olender, 2013

2.1.2. Objectives and motivations

From a **private sector perspective** there is a wide range of potential benefits and motivations for engaging in partnerships with the public sector. Public finance can provide the initial resources needed to engage in investments where current market knowledge is limited, there is a lack of a solid business case or expected returns are uncertain (and as such the risk of investment is too high). Collaborations with public actors can also bring enhanced legitimacy, international and local goodwill, and reduced financial and reputational risks. Furthermore, donor agencies can provide development expertise in specific sectors, as well as network and institutional relations (with e.g. government) that might increase the efficiency and effectiveness of the operations.

These factors may become increasingly important for sectors where companies face challenges in securing a sustainable global supply-chain. By assisting firms to adopt more sustainable practices, ensuring both local goodwill towards the firm activities and greater consumer satisfaction in Western markets, the firms can create a degree of insurance against future supply shortage through partnership models. Although profit remains the core objective for private firms, there is also an increasing recognition among firms of the long-term value and benefits of paying due consideration to social, environmental and developmental objectives beyond short-term economic gains. This relates notably to the need of building legitimacy for the firm activities, which has been referred in some contexts to the company's *social licence to operate*, within the firm (e.g. labour conditions, safety standards, etc.) and outside (e.g. social acceptance and contribution, ecological footprint, ethical behaviour, community acceptance, development impact, etc.).[11] The business landscape is undergoing rapid changes and companies that are not capable of adapting to these new circumstances might in the foreseeable future be facing severe challenges in relation to both their supply chain and market demand.

From a **public sector perspective** a key factor is the opportunity to harness and leverage private funding/investment for development objectives and thus reduce pressure on ODA levels, in particular in times of increased scrutiny on national ODA budget allocations. Given the financial and fiscal crisis, many donor agencies have seen their budgets diminish parallel to increasing pressure to show 'value for money' and greater development impact. Beyond the financial value of engaging with the private sector, factors such as access to commercial and technological expertise, new networks, efficiency gains, and potentially increased reach and scope provide important motivations. Businesses tend to operate under long-term investment perspectives, which offer opportunities for sustainable activities after the completion of donor support. Finally, some donor agencies are explicitly supporting their own national firms and can thus combine development support with national export and outward investment promotion.

The **public sector of developing countries** may welcome or engage in such partnerships for similar reasons as donor agencies. They may furthermore be seen as a beneficial channel through which to attract foreign investment (notably in the case where donor agencies bear part of the risk) or stimulate domestic investors.

From a **civil society perspective** collaborations in partnerships with both public and private sector can provide greater arenas to operate in to increase visibility and impact, while also expanding their financial base. Cooperating directly with the private sector can also prove efficient by offering channels for direct advocacy and influence on the day-to-day activities of private sector actors.

The key potential of multi-stakeholder partnerships would appear to lie where these different interests can be aligned, and more importantly perhaps, where they also align with developing country policies and above all with the needs and desires of the ultimate producers or consumers who are intended to benefit.

2.1.3. Different partnership models

Underlying the different motivations above is the question of 'who leads whom' in such partnerships. Kindornay, Higgins and Olender (2013) propose a classification system that emphasises the initiating actor leading the process. Their definition separates partnerships models into 5 different categories, further outlined below. (See also Annexes for a structured outline of the different models and associated instruments.)

Donor-led models: These models cover projects that are the result of bilateral donor initiatives to establish public-private partnerships. Projects are either fully funded by the donor, or more commonly a co-funding arrangement where the private sector contributes with part of the funding as well. The public support is not necessarily grant based (though most common) but can also be through loans or technical support. The funding mechanisms covered under this heading differ in terms of requirements, timeframe, and expected development outcomes. An important factor is also the risk-sharing element, where the public sector takes on some of the private risk. Examples of instruments in this category include *challenge funds*, *innovative funds*, *match-making initiatives* and *direct grant funding* to private companies.

[11] See for instance SKM (2011), Unpacking the Social Licence to Operate, *Achieve Magazine*, Issue 4, December, Sinclair Knight Mert. www.globalskm.com/Insights/Achieve-Magazine/Issue4-2011/article1.aspx

Coalition models: This model refers to multi-stakeholder initiatives engaging donors, private firms, national governments, NGOs, research institutions etc. Often operating through a global platform, such as the Global Alliance for Improved Nutrition (GAIN)[12], the Alliance for a Green Revolution in Africa (AGRA)[13], the Extractives Industries Transparency Initiative (EITI)[14] or Grow Africa[15], they tend to be devoted to targeted interventions such as improvement along a specific value chain or at a particular level (producers, logistics, retailers etc.), often on the basis of certain certificates, standards or principles as key indicator of change. Coalition models are commonly governed by a steering committee that provides programme directives and work towards the creation and improvement of standards and regulation. Ultimately, the vision is for these partnerships to become financially independent of donor support.

Business-led models: These refer to projects initiated and led by private businesses or foundations, but where donors and others support various components of the project. They might be present early on in the development phase of the project, but could also be latecomers who align their activities to the framework of the programme.

Business-CSO models: Refer to projects where civil society organisations (CSOs) and private business have a common vision or interest and therefore join forces to increase scope, reach, impact or improve their working methodologies, technical expertise or context specific knowledge. Donors can have a supporting function (usually to the CSO or to the partnership mechanism itself), but the main driver is not the additional public money but rather the benefits that can be achieved by working within a CSO-business partnership.

CSO-led models: This model refers to CSO-led initiatives aiming towards the creation of viable social enterprises. The CSO often acts as a knowledge broker or advocator for certain people and planet friendly investment projects or frameworks.

2.1.4. Partnership Instruments[16]

As more attention is given to private sector led initiatives in Section 3 of this paper, the focus here is mainly on donor-led instruments and multi-stakeholder initiatives.

Donor-led instruments:

As stated above, a main objective of donor-led instruments is to match or subsidise high-risk private investments with potential developmental benefits. The most common type of donor support is through grant funding of a company's investment, where the grant share generally ranges between 30% to 90%. While grant support usually ranges between US$45,000 to US$1.5m, support provided via loans, guarantees and equities tend to be at much higher levels, commonly between US$1.5m to US$1000m.[17]

This can be done via Challenge funds[18], which are public grants awarded through a competitive selection process to a private project with the potential to overcome a specific challenge. Although most commonly

[12] See more: www.gainhealth.org/partnerships
[13] See more: www.agra.org/
[14] See more: http://eiti.org/
[15] See more: http://growafrica.com/
[16] A more detailed overview can be found in Annex 1
[17] Heinrich, 2010 (updated 2012)
[18] Challenge funds can be established by a single donor, for example the DfID's *Girls Education Challenge* and AusAid's *Enterprise Challenge Fund*, or through multi-donor funding, such as the *African Enterprise Challenge*

the case, challenge funds do not have to be strictly grant based, they can also be provided through concessional loans, technical assistance or knowledge transfer. Challenge funds can address a wide range of developmental objectives such as health, education, infrastructure and environmental issues. Funds that specifically target the development of the private sector are commonly called Enterprise Challenge Funds.

Innovation Funds are a specific type of challenge fund that emphasises businesses capacity to find innovative solutions to development challenges. Examples include DfID *Business Innovation Facility*[19] and SIDA's *Innovation against Poverty.*[20]

Donors can also establish **Match-making facilities** that bring together international and local companies in order to increase commercial cooperation and promote business partnerships. One example is the DANIDA Business Partnership Programme, which focuses on transfer of knowledge and technology from Danish businesses to their local partners. The objective of the programme is to promote job creation, corporate social responsibility and strengthen competitiveness.[21] DANIDA provides up to 75% grant support in the partner identification and preparation phases, and 50% in the implementation phase. Several other countries, such as Norway, Finland and Austria have also launched match-making facilities. It is interesting to note that out of these only the Austrian Business Partnership Programme accepts applications for companies outside of Austria. The political controversies around exclusively promoting national business appears to be less sensitive in matchmaking activities compared to projects where more direct investment support is provided.

Multi-stakeholder partnerships

In order to bridge the ambitions and objectives of the public and private actors engaged in PSD, policy dialogues covering a wide array of topics are arranged by governments, organisations, private sector, academia and civil society. These multi-stakeholder dialogues aim to find a common agenda supported by all involved parties. Examples of this include the many dialogues held around the Post-2015 agenda, but also smaller scale dialogues held at national or local levels. Dialogues can also be arranged in order to improve corporate practices, for example the UN Global Compact and the Business Call to Action (BCtA).[22] While the UN Global Compact sets out 10 voluntary principles to be followed by companies in relation to issues around Human Rights, labour, environment and anti-corruption[23], the BCtA challenges companies to develop inclusive business models that can accelerate the progress towards achieving the Millennium Development Goals (MDGs).[24]

Some multi-stakeholder partnerships target more specific areas and sectors, and bring together partners with the aim to improve business practices and/or leverage finance for a certain sub-sector of the economy. This is particularly common within the agricultural sector, such as:

- **The Global Alliance for Improved Nutrition (GAIN)** is an alliance of governments, international organisations, the private sector and civil society that supports public-private partnerships working

Fund, funded by DfID, SIDA, AusAid, DANIDA, The Dutch MFA, IFAD and AGRA. Challenge fund can also be targeted in a specific partner country, such as the DfID's *Construction Ideas Fund* in Nigeria and the *Harakat Challenge Fund* in Afghanistan, the World Bank's *Ethiopian Competitiveness Facility* and the multi-donor funded *Ghana Business Sector Advocacy Challenge Fund.*

19 https://www.gov.uk/business-innovation-facility-bif
20 www.sida.se/English/Partners/Private-sector/Collaboration-opportunities/Challenge-Funds/Innovations-against-poverty/First-page-IAP/
21 DANIDA, 2013
22 Di Bella, Grant, Kindornay and Tissot, 2013
23 See more: www.unglobalcompact.org
24 See more:www.businesscalltoaction.org

toward the distribution of necessary but often non-available nutrients. The alliance was created in 2002 at the UN General Assembly on Children and receives support from a wide range of donors including Bill and Melina Gates Foundation, USAID, DfID, CIDA, Irish Aid and the Netherlands. GAIN aims to provide nutritious food with sustainable nutritional impact to 1 billion people by 2015.[25]

- **The Sustainable Trade Initiative (IDH)** supports impact-oriented coalitions between national government, commercial banks, private sector, and NGOs. Development targets are MDG1 (reduced poverty), MDG7 (safeguarding the environment) and MDG8 (fair and transparent trade). IDH work along 15 value chains, primarily in the agricultural sector.[26]

- **Grow Africa** is a partnership platform that seeks to accelerate agricultural development and growth via increased investment in line with national priorities and the Comprehensive Africa Agricultural Development Programme (CAADP) framework. Grow Africa aims towards i) increased private sector investment; ii) multi-stakeholder partnerships, and; iii) increased knowledge sharing and awareness rising of best practise and existing projects. Private companies have so far pledged to invest approximately $3.5 billion in the 8 countries supported by Grow Africa. Grow Africa is convened by World Economic Forum, African Union Commission and the New Partnership for Africa's Development (NEPAD).[27]

2.1.5. Challenges

As the above discussion already shows, there is a range of challenges in implementing multi-stakeholder partnerships. Whereas these challenges affect most partnerships and instruments or projects managed as part of them, they are challenges primarily from the perspective of donors.

Additionality: One of the main challenges for donors in supporting private investment lies in identifying the additional value of the grant component. A common prerequisite for public funding to private sector related projects is that the grantee would not have undertaken the project (or it would have been much more limited in scale, reach, impact etc.) without the additional grant funding. Additionality is usually assessed *ex ante*, but this tends to be arbitrary given the difficulty of establishing whether the grantee really would not have been able to access commercial funding or provide more of their own resources. A grantee applying for additional funding would have self-serving reasons to argue for the necessity of additional grant funds.[28]

Donor attribution: An additional challenge relates to attributing the impact generated by the grant component. The challenge arrives from the difficulty of attributing outcomes and/or impact directly to the grant component as distinct from the private contribution. This is particularly problematic in relation to the frequent demand on donors to exhibit clear 'results' of their ODA expenditure.

Project-level attribution: The issue of project attribution is closely linked to both additionality and donor attribution. It relates to the question of whether the observed benefits would have occurred without the investment or the project. Measured positive impact could be due to the new investment, but could also be the consequence of other external, unrelated developments such as overall economic growth, rising prices or an increase in demand.[29]

[25] See more:www.gainhealth.org/
[26] See more:www.idhsustainabletrade.com/
[27] See more: http://growafrica.com/
[28] Kessler, 2013.
[29] Ibid.

Result and impact measurement: Result and impact measurement are notoriously difficult to establish and particularly so within the area of donor support to private sector development. The private sector tend to provide quite stringent reporting, but it is commonly based on outputs or outcomes rather than impact, and tends to focus more on successes rather than deriving learning from bottlenecks and challenges. It has been noted that donors' impact measurements tend to be anecdotal and based on anticipated rather than achieved qualitative results, and commonly lack clear indication of the measurement process and instruments.[30] Moreover, these tend to lack clear indications of how they have been measured and how the impact can be attributed to donor support. Many partnerships are furthermore guided by a 'light touch' management and measurement system, which despite its short term cost effectiveness can increase costs in the long run as it reduces the possibilities of learning from previous experiences.

Agent selection: The issue of agent selection is often a highly complex and thorny question. Even though the level of fairness in the selection process can be ensured, at least partially, via transparent and competitive selection processes, there is always a risk of anticompetitive effects where other firms in the sector are disadvantaged. One potential way to get around this is by tying the financial awards to already achieved results, rather than to pre-project applications. However, this brings forth new challenges such as how to pre-determine what the optimal results should be and the budget allowed. Another option is to support multiple competing actors within the same sector. If none of these options are feasible, then the best remaining solution is to ensure absolute transparency in the process and to have very clear guidelines with regard to responsibilities and costs.[31]

Countries in special situations: Private sector investments in fragile and/or conflict prone regions need additional levels of local knowledge and insights. There is otherwise a risk that the investment can spur further conflict if certain segments of the population are the only or main beneficiaries of the invested resources. Beyond the objectives of financial returns and development outcomes, the investor must also ensure that no negative impacts are inflicted on the reconciliation process or on social cohesion.

There is a further set of challenges that relates more directly to the private actors involved in partnerships. The success and survival of a private enterprise are in many instances directly linked to their ability to be flexible, fast and adaptive to new circumstances. This demands rapid and agile decision-making and implementation processes, which often stand in contrast to the frequently slow, bureaucratic mechanisms in place within donor agencies. As the private sector firms are accountable to their shareholders and results primarily measured by revenues and profit levels, management can afford to be light. Donors on the other hand have a much more extensive accountability and reporting requirements, setting the scene for time consuming and at times heavy processes. A challenge for both parties is to bridge these managerial differences, while ensuring both adequate flexibility and thorough administrative systems.

Local markets and regulatory challenges: Initial donor funding can motivate the entry of private investments in local markets governed by weak institutions and regulatory frameworks. While the entry costs and certain market failures might be overcome by the initial funding at an early stage, this may not be enough to guarantee long-term sustainability of the project. Regulations in relation to Intellectual Property Rights (IPRs) is a case in point, as innovative companies run the risk of long-term losses should their investments not be protected. Yet, given that many products (in particular related to the pharmaceutical

[30] Heinrich, 2013.
[31] Callan and Davis, 2013.

industry) can have very important health benefits, heavy IPRs protection might counteract developmental goals.[32]

Market distances: The distances and poor connections between markets may also prove a long-term challenge, steering a viable investment into financial difficulties once public funding has been terminated. These challenges go far beyond the partnership level as it relates to issues such as business environment, trade facilitation, infrastructure etc. Being aware of future market challenges and the sustainability of an investment is therefore core for the investing private partner.

2.2. Partnerships to leverage private finance

2.2.1. Leveraging of private finance

Private sector *finance* for development shifts the focus from investment activities, and the use of finance, to the input level and the process of leveraging private finance for projects with a developmental potential. In contrast to the concept above, the role of the private actor is not to undertake the investment or activity itself but to provide finance to either a public or private investment. This investment can be related to local private sector development, and can also be linked to specific sectors such as health, education, infrastructure or agriculture.

2.2.2. Objectives

Again there is a range of different objectives that guide mechanisms to leverage private finance. Understanding these can provide insights into some of the potential challenges of these partnerships and opportunities for the future.

Harnessing additional resources and improved cost effectiveness: A key donor objective of harnessing private finance for the development is to address the financing gap (both in terms of lack of ODA to achieve desired development outcomes and in terms of lack of investment capital to finance or reduce the risk for private sector investments) identified for investments to promote development. This is particularly relevant for funding of large projects, such as infrastructure. Moreover the alignment of commercial incentives with public development incentives can increase project harmonisation and thus reduce administrative and transaction costs.

Efficiency gains: Financial collaboration with the private sector can further provide commercial expertise and technical know-how that can help ensure increased efficiency levels in project design, which can then feed through to improved service delivery. Aligned incentives can further enhance efficiency by combining the dual (or multiple) bureaucratic and administrative procedures into a single process.

Effectiveness gains: Improved coordination amongst different public and private stakeholders can enhance coherence as well as promote innovative approaches and sharing of lessons learnt.[33] Additional resources can also facilitate the scaling-up of projects, and thus increase both viability and development reach and impact.

[32] Some examples of how this has been dealt with can be found in Annexes 1 and 3 (e.g. PATH and IFFIM).
[33] Bilal & Krätke, 2013.

2.2.3. Mechanisms

The distinction between different types of finance models is less clear compared to investments. In parallel to the suggested structure of investment models in part 2.1.3, Table C outlines finance partnerships based on the question **"who leverages whom'?** Important to notice is that all but "private finance to private investments' contain a component of ODA, channelled as grants, concessional loans or through international or development finance institutions (IFIs / DFIs). The categorisation is adapted from a study by the World Bank in 2009. We will however omit "public to public transfers" as these fall outside of the scope of this paper.

Table C: Categorisation of mechanisms for leveraging private sector funding

		Uses	
		Public	Private
Sources	Leverage private	Private finance to public investment *Public-private partnerships*	Private finance to private investment *Pure private*
	Mobilise public	Public to public transfer *Solidarity*	Public finance to private investments *Catalytic mechanism*

Source: Adapted from World Bank, 2009

Public-private partnerships: Private-public partnerships (PPPs) use public funds to leverage and mobilise private funding to support public functions such as infrastructure provision and other forms of service delivery. PPPs are based on a contractual agreement where the outcome will provide a public good, but where the private sector receive some or all of the operational revenues once the project is completed. There is no generally agreed definition of PPPs, and the common descriptions and usages in development discourse ranges from the stricter definition above to broader descriptions of partnership in general. Funding for PPPs include instruments such as *front loading of ODA*, *Output-Based Aid (e.g. Cash on Delivery aid schemes)* and *Official Support for Private Flows*.

Catalytic Mechanisms: Catalytic mechanism use public funds to reduce the risks of private entry and can by that i) promote local market development and ii) mobilise and leverage additional finance into the local private sector. The market for public providers of commercial and political risk management strategies has grown with the increasing recognition of factors such as currency, sovereign and project risks. Catalytic mechanism can support the private sector through *offering guarantees*, *callable capital* and *foregone revenues*, thereby increasing access to finance.

Private to private: Development banks and other financial institutions are commonly mandated by their national donor agency to implement development friendly, sustainable investments for the benefits of the private sector in developing countries. Through the provision of funding via instruments such as *equity*, *concessional loans*, *mezzanine*, *capital market transactions* and *guarantees* the banks can attract further private investments while also supporting local business development. It should however be noted that development banks rarely are required to raise additional funding beyond their own contributions.[34]

An illustrative list of so-called innovative mechanisms is provided in Box 1 (see Annex 2 for details).

2.2.4. Risk management:

Many of the key challenges around engaging with private finance, discussed in the following section, relate to how risk is managed. The occurrence of risk is a natural phenomenon when dealing with private finance, and hence also in partnerships between the public and private sector. Risk management, and possibly mitigation or alleviation, is therefore an important element of the partnership. It relates not only to alleviation of, for instance, credit or liquidity risk faced by many private companies active in developing countries as well as developing country DFIs[35], but also to investment guarantees, such as political risk insurance (PRI), protecting international investors.

Assessing the 'riskiness' of a project as well as the best way to mitigate private sector risk from the international development partner side is often a political and controversial task. Loan guarantees and debt/equity instruments employed by donors and DFIs alike can have both the function of reducing risk or raising the return of that risk, and could also be construed as 'subsidising' the private sector. As outlined by Barder (2013)[36], increasing the returns might be a better option than reducing the risk given that the market failure of private returns is nearly always less than social returns. In case of misperception of the true commercial risk of an investment from the private sector side though, he argues donors are better of reducing the risk rather than increasing the returns. Nonetheless, in practice it remains difficult to distinguish between raising return and lowering risk.

Where public budgets are too small to finance large projects, such as in the infrastructure sector, catalytic public action can incentivise private enterprises to engage. That is particularly relevant for pioneer investments, where the inability of financial investors to assess the risk due to a lack of information makes it difficult for them to become active. Knowledge of the local context is highly important in that respect but often not given. Pioneers however can generate positive externalities for subsequent entrants and therefore the public sector can either subsidise or create an enabling policy environment to mitigate that financial risk.[37]

Here the predominant risk is often political risk, which can be mitigated by coordinated public action, such as commitment to technologies, re-bundling of risk or re-bundling of individual, e.g. infrastructure projects, as Collier (2013) argues.[38]

Political risk insurance (PRI) can be considered as "a tool for businesses to mitigate and manage risk arising from the adverse actions/inactions of governments".**[39]** It can help to create a more attractive

[34] World Bank, 2009, and Vanheukelom *et al.*, 2012.
[35] Calice, Pietro (2013), African Development Finance Institutions: Unlocking the Potential,
[35] Working Paper Series N° 174 African Development Bank, Tunis, Tunisia. www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20Paper%20174%20-%20African%20Development%20Finance%20Institutions-%20Unlocking%20the%20Potential.pdf
[36] Barder, O. (2013) *When should donors mitigate private sector risk?*, October 2013: CGD. http://international.cgdev.org/blog/when-should-donors-mitigate-private-sector-risk
[37] Collier, P. (2013) Aid as catalyst for pioneer investment, UNU-WIDER Working paper No. 2013/004. http://wider.unu.edu/publications/working-papers/2013/en_GB/wp2013-004/
[38] Collier, P. (2013) Unlocking private finance for African infrastructure, Columns in *Social Europe Journal* www.social-europe.eu/2013/11/unlocking-private-finance-african-infrastructure/

business environment for investments into developing countries and can at the same time enable a better access to financial resources. A secondary effect is improved market confidence from the potential

Box 1: Innovative financing mechanism

Blending: A complementary mix of loans and grants, which allows sub-investment grade projects to become bankable.

Output-Based Aid (OBA): Contractual arrangement where the private sector receive funding or subsidies for providing a social service to a specific beneficiary.

Official Support for Private Flows: Development funds used to raise new revenues and leverage private investments in order to develop or scale up activities in developing countries.

Front-loading of ODA: Used to raise funds on international capital markets by issuing public bonds backed by long-term legally binding ODA commitments.

Development Impact Bonds: These are public and/or private funding provided upfront to private project with a potential to overcome a specific pre-defined development challenge. If the projects achieves is goal, the private actor is remunerated by the public funder but in cases of failure the investor bears the principal risk.

Currency Swaps: Exchange of two currencies under agreed interest rates, amount and maturity rate.

Financial guarantees functions: Bonds backed by a public insurer that guarantees that the principal and interest payment will paid in the case of a default.

Investment Loans: used when a development bank/agency lends money to a company for a specific operation or project deemed pro-developmental by the bank.

Syndicated loans: Used when a development bank/agency acts as the major contributor and coordinator of a multi-investor project.

Financial intermediary loans: Used when a development bank/agency lends capital to a financial intermediary, usually a private bank, which then in turn lend it to a client.

Concessional loans: Loans with an interest rate below market prices.

Direct equities: The development bank/agency invest directly in the company by purchasing shares and thus becoming a shareholder in the company.

Private equity funds: Development banks/agency investing in a mutual fund that invests in stocks and is managed by a private fund manager.

[39] World Investment and Political Risk (2013) Washington, DC: MIGA, World Bank Group. www.miga.org/documents/WIPR13.pdf

investors, so that they are able to concentrate on commercial aspects of their investments knowing that private or public PRI providers, such as export credit agencies (ECAs) or multilaterals, account for eventual losses and reimburse if needed. Potential providers of such services are the *US Overseas Private Investment Corporation* (*OPIC*) or the *World Bank Multilateral Investment Guarantee Fund (MIGA*) among others. It needs to be stressed though that PRI can only be considered as a second best policy option compared to fundamental host country investment policy reform, similar to *Business Environmental Risk* (*BER*), and the creation of a sound policy environment.[40] This in turn enables governments to establish a transparent and predictable investment climate open for policy change and dispute management mechanisms, which itself decreases political risk for businesses and improves the conditions for effective partnerships.

2.2.5. Challenges

Many of the challenges outlined for private investment partnerships in Section 2.1.4 are also relevant for private finance partnership. But some further challenges are worth highlighting here.

As highlighted above, the issue of risk sharing is central for the discussion on private finance for development. These risks relate in particular to long-payback loans, with long periods of negative cash flow during project start-up for large projects; dollar-denominated inputs that can translate into currency-risk; and lumpy assets that are fixed in place with limited residual sale value. Risk mitigation instruments might not be directly available in all countries. Debt and equity insurance and other guarantee instruments are dependent on a country's capacity to borrow externally on competitive concessional terms. Moreover, as the cost of mitigating foreign exchange volatility through currency hedging or devaluation of liquidity schemes tends to be quite high there is a risk that low-income countries (LICs) will not be able to use these instruments.[41]

A key challenge in leveraging private finance for development is that financial incentives outweigh development principles. The real extent of developmental impact from financial investments remains unclear. Private incentives may not be aligned with public motivations, and investors may prioritise investments with high or guaranteed returns over investments with high development potential. There is thus a need for the different partners to coordinate their efforts and to ensure that the grant component is matched by an adequate level of development efficiency.

Further challenges relate to the concentration of financing towards certain sectors and countries. This is particularly relevant in times of economic crisis where investors and financiers are more likely to opt for the safer sectors such as extractives and finance. Currently, most private finance flows to middle-income countries, raising the question of whether international development partners can ensure that sufficient funding also reached low-income countries, lower middle income countries and countries in special situations.[42]

An additional challenge stems from high levels of information asymmetries. National governments with limited access to information, lower negotiation capacity and measures to hold partners accountable might carry a greater risk burden compared to commercial entities with extensive resources and capacities to carefully follow and influence the processes. With regards to PPPs, information asymmetries might reduce developing country government capacity to assess project proposals and negotiate favourable

[40] Gordon, K. (2008) *Investment Guarantees and Political Risk Insurance: Institutions, Incentives and Development*, OECD. www1.oecd.org/pensions/insurance/44230805.pdf
[41] Byiers & Rosengren, forthcoming.
[42] Bilal & Krätke, 2013.

terms, thus leaving them at greater risk. Tax incentives are a case in point, but it can also relate to performance indicators, time frames and other forms of contractual agreements.

There may also be a danger of crowding-out private finance. In cases where commercial loans would have been viable, there is a risk that the grant component crowd out other private investment. Moreover, the grant component can further enhance the perceptions of markets as financially unviable, and thus reduce the attractiveness of the market for new investments.

Increased debt risk for developing countries. By leveraging private finance, e.g. in the form of loans, there is a risk that the targeted lenders increase their public debts. To the extent that leveraging private development finance is targeted to developing countries where debt rates are already high, the promotion of further loans might not serve the national economy in the long run. Beyond reducing the national fiscal space, this might also make it more difficult for affected country government to access other types of funding, such as IMF loans.[43]

Measuring results and monitoring and evaluation: The capacity of public-private partnerships to leverage funding and promote developmental outcomes need to be assessed through clearly defined and efficient monitoring and evaluation mechanism. Assessing the leveraging ratio of the public component can be relatively straightforward, while the measurement of developmental impact, additionality, and local ownership has proven very challenging. There is therefore currently little knowledge about the achieved results of PPPs and in particular their developmental impact. Heinrich (2013) finds that models that target consumer markets tend to have a greater impact compared to those targeting producers. Producer impacts appear most visible from PPPs in the agricultural sector, for example in outgrower schemes.

2.3. Public policy & partnerships

Against the backdrop of the recent financial crisis, tight public budgets as well as a broadened and increased need for financial resources have led to a growing demand for cooperation with the private sector from governments and development banks.[44] Large public sector funding gaps however do not relieve governments of their responsibility and duty to provide adequate public policies, as a regulating framework, in which public/private partnerships can operate efficiently. In order to promote the maximum impact of these partnerships, the right policies must be in place to successfully incentivise private investments, e.g. through debt or equity finance. As such, the policy and business environment challenges that hinder greater investment in the first place, also apply to multi-stakeholder partnerships.

The 'International Cooperation for an Enabling Environment'[45] report by the UN Commission on Sustainable Development states that *"a dynamic and enabling international economic environment supportive of international cooperation, particularly in the fields of finance (...) is needed in the pursuit of sustainable development"*. Success, according to the Commission, *"depends on good governance within each country and at the international level as well as on transparency in the financial, monetary and trading systems"*. The role of the state is therefore critical in providing a conducive macroeconomic and business environment so that private investments and private enterprise collaborations with the public sector can actually flourish. Explicit reference is made in this respect to ODA and improving its catalytic role to leverage private finance. These premises have been endorsed by the Rio+20 outcome document, *The*

---

43 Ibid.

44 Turley, L. & A. Semple (2013) *Financing Sustainable Public-Private Partnerships,* February 2013: iisd www.iisd.org/pdf/2013/ppp_financing.pdf

45 9th session of the UN Commission on Sustainable Development E/CN.17/2001/19 - International cooperation for an enabling environment http://sustainabledevelopment.un.org/index.php?menu=1257

Future We Want,[46] although primarily mentioned and agreed upon at the United Nations Conference on Environment and Development (UNCED), held in Brazil in 1992, and its *Agenda 21*.[47]

Business environment reforms (BERs) can have direct effects on the investment climate and the overall public/private collaboration, yet are the outcome of the political economy of a country: its political and economic system as well as its institutions and how these interact to affect behaviour. Consequently, BERs' success is much higher if its design is *"based on knowledge and understanding of local political economy factors, and conversely reforms failing to take into account of these may fail"*, as Peter Davis outlines in the political economy of BER.[48] Equally, the World Bank stresses that a thorough understanding of contexts is key to development effectiveness.[49] In line with this, the overall political economy determines the business environment, its private sector activities, public/private partnerships and the impact thereof on the country's development.
Recent reports suggest that where industrial policy operated successfully, the quality of the investment climate was guaranteed and governments respected fundamental principles[50], such as transparency, credibility, reciprocity and trust. This suggests that beyond a sound business or enabling environment, the public sector and respectively governments need to stem activities undermining those principles in order to promote more successful multi-stakeholder partnerships. This may include curbing transfer mispricing and trade misinvoicing as well as corruption and bribery of politically exposed persons.

Many developing countries and regions have actively engaged in reform processes to improve their business environment. The World Bank notes that "The regions where regulatory processes are longer and costlier and regulatory institutions are weaker are also those where the biggest improvements have occurred"[51], as illustrated in Figure 2. Successful regulatory reforms are often conducted in close relation with the private sector, highlighting the importance of an effective public-private partnership. Donors have also often usefully supported such reform processes.

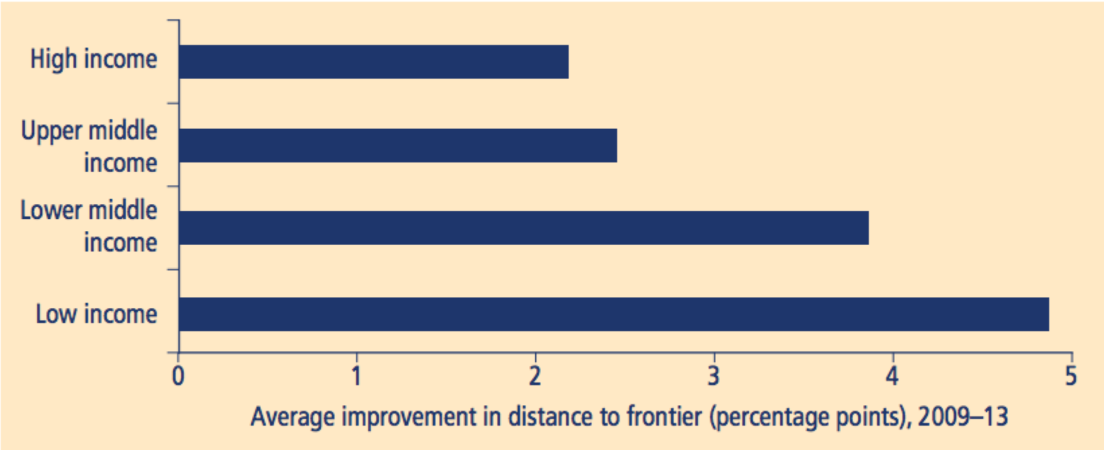
Regulatory reforms and institutional development are also key to the better functioning of financial markets. As developing countries increasingly rely on capital markets to contribute to their development objectives,[52] policy and regulatory reforms, designed in cooperation with the private sector, are becoming a key component of their economic transformation. This is illustrated for instance by a recent IMF study which notes that the growing corporate bonds markets in Africa "look set to become ever more important as a source of finance in the future", and show that "both corporate and government securities market development benefits from improved macroeconomic policies and institutions".[53]

More generally, effective domestic resource mobilisation has become an increasing priority for most developing countries. This includes better tax management and dedicated policies to better integrate the informal sector into the formal sector of the economy, a key challenge in many African countries in

46 www.uncsd2012.org/thefuturewewant.html
47 http://sustainabledevelopment.un.org/index.php?page=view&nr=23&type=400&menu=35
48 Davis, P. (2011) *Political Economy of BER - An introduction for practitioners.* DCED www.enterprise-development.org/page/download?id=1715
49 World Bank (2011) Political Economy Assessments at Sector and Project Levels. How-to notes, GAC in projects. www.gsdrc.org/docs/open/PE1.pdf
50 Ibid.
51 World Bank (2013b), Doing Business 2014: Understanding Regulations for Small and Medium-Sise Enterprises, Washington D.C.: International Bank for Reconstruction and Development / The World Bank. p.11. www.doingbusiness.org/reports/global-reports/doing-business-2014
52 See for instance Masetti O. and A. Mihr (2013), Capital Markets in Sub-Saharan Africa, DB Research Briefing - Emerging Markets, 7 October, Deutsche Bank. www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000321468/Capital+markets+in+Sub-Saharan+Africa.pdf
53 Mu, Y., P. Phelps and J. G. Stotsky (2013), Bond Markets in Africa, IMF Working Paper WP/13/12, January, International Monetary Fund. www.imf.org/external/pubs/ft/wp/2013/wp1312.pdf

particular. Sectoral policies are thus part of this endeavour. In resource-rich countries, the focus has increasingly been on how to better harness rents and revenues from natural resources, in particular from the extractive sector, to the economic transformation agenda. This includes enhanced macroeconomic management, fiscal reforms and greater transparency, notably of contracts and payment mechanisms from industries. There have also been increased efforts to stimulate linkages between natural resources to the rest of the economy.[54] In this regard, while remaining challenging, the partnership between public and private entities holds the potential for significant structural reforms to unleash the economic and development potential of these activities. International development partners can play a useful role in accompanying such transformation and facilitating relevant private-public initiatives.

Figure 2: Low-income countries have narrowed the gap with the regulatory frontier the most since 2009



Note: The distance to frontier measure shows how far on average an economy is at a point in time from the best performance achieved by any economy on each *Doing Business* indicator since 2003 or the first year in which data for the indicator were collected. The measure is normalized to range between 0 and 100, with 100 representing the frontier. The data refer to the 183 economies included in *Doing Business 2010* (2009) and to the income group classifications for 2013. Six economies were added in subsequent years.

Source: World Bank (2013b).[55]

Public finance in general and ODA in particular though will remain relevant and needed to achieve sustainable development.[56] This is particularly the case for the poorest economies and countries in special situations with only limited or hardly any access to capital markets. Especially in countries where tax administration and governance structures are rather weak, domestic resources mobilisation might have its difficulties to tap its potential and FDI inflows might not allow for inclusive effects on development due to low private sector capacity and other political economy factors. Hence, public aid, so mainly ODA, will continue to play an important role to achieve development goals. But private finance needs to be scaled up also in those countries to create jobs and thereby to increase overall productivity levels. Almost 90 per cent of all jobs worldwide are provided by the private sector showing its huge significance for the labour market, its potential to eradicate poverty and its role for a country's overall development.[57]

---

[54] For a recent overview of this literature and extensive discussion, see for instance Ramdoo, I. and S. Bilal (2014), Extractive Resources for Development: Trade, fiscal and industrial considerations, ECDPM Discussion Paper No.156, January, Maastricht: European Centre for Development Policy Management. www.ecdpm.org/dp156

[55] Doing Business 2014: Understanding Regulations for Small and Medium-Sise Enterprises. Washington, DC: World Bank Group. https://openknowledge.worldbank.org/bitstream/handle/10986/16204/19984.pdf?sequence=1

[56] World Bank, 2013.

[57] World Bank, 2012.

Besides the need for more resources and increased interaction of private and public sector actors, illicit financial flows heavily burden developing countries due to the tremendous loss of financial resources available for development they imply. Loss of tax revenues and capital substantially reduce the scale and scope of government expenditure, holds a strong multiplier effect on domestic economic activities in developing countries and contributes to political instability. As such, according to the Centre for Global Development Europe, they "*undermine governance and so to distort the allocation of spending and provision of services, entrench elites in positions of power, and sustain criminal activities worldwide*".[58] Illicit flows therefore weaken a government's ability to create an adequate enabling environment, which is needed to provide investors and private enterprises with an attractive business climate. Additionally, they further diminish market confidence and transparency among other potential market players.

A number of intergovernmental efforts by such intergovernmental groupings as the G8, G20, OECD, EU, UN and FATF aim to address issues of transparency in the international financial and tax architecture, thereby potentially improving local business environments and the scope for successful public-private partnerships.[59] In addition, several international partnership initiatives aim to address such issues. The Extractive Industries Transparency Initiative (EITI) and the recently launched Fair Tax Mark are examples of initiatives that promote transparency as a tool for supplying information, which facilitates partners' ability to manage available resources more effectively.

In addition to such intergovernmental efforts there are a number of 'African-grown' initiatives, which aim to stimulate economic development, regional or continental integration and cross-country cooperation. The Accelerated Programme for Economic Integration (APEI) brings together Malawi, Mauritius, Mozambique, Seychelles and Zambia around a set of common interests to remove impediments to trade and investment and improving the overall regulatory environment. The 2008 Action Plan for Accelerated Industrial Development of Africa (AIDA)[60], endorsed by the African Union, targets (i) economic diversification through industrial value-added activities, (ii) an appropriate enabling environment and institutional framework for private sector-sensitive industrial development, regional economic co-operation and international competitiveness, and (iii) the improvement of demand- and supply-side capacity for industrial production and trade. In line with that there is also PIDA, the Programme on Infrastructure Development in Africa, launched at the AU Summit in February 2009 to develop regional and continental infrastructure policies as well as to master regional integration in Africa's energy infrastructure.[61] These initiatives show that economic development as well as private sector development can be fostered through African-led programmes for improving the business environment and meeting infrastructure needs to further industrialise and diversify African economies. This enables to raise further domestic finance and thus resources to finance development goals.

In order to make efficient use of financial resources, people can be enabled by means of microfinance, through e.g. small loans, to start a business and create jobs, which are fundamental for further development: they have the potential to raise living standards, increase the levels of productivity and ultimately improve a country's social cohesion. This can enable societies to transform and job creation can proof its positive development impact. This impact is maximised, if private sector finance can create jobs

[58] Centre for Global Development (CGD) on illicit financial flows http://international.cgdev.org/page/center-global-development-europe

[59] Knoll, A., Krätke, F., Keijzer, N., Oppewal, J. 2013. Putting Policy Coherence for Development into perspective: Supporting Switzerland's promotion of PCD in commodities, migration and tax policy. Bern: Swiss Agency for Development and Cooperation SDC. www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/E69E8C2651C2ECC1C1257BCD002E3770?OpendocumentOpenDocument

[60] AU/NEPAD African Action Plan 2010-2015 www.uneca.org/sites/default/files/uploads/sectors.pdf

[61] Ibid.

which "raise incomes, connect the economy to global markets, protect the environment, and/or give people a stake in their societies".[62] Governments however need to provide appropriate conditions allowing for a strong private-sector-led growth by also removing or mitigating constraints to job creation. The World Development Report 2013 accordingly suggests that these conditions need to address (i) fundamentals, such as macroeconomic stability, an enabling business environment, human capital, and the rule of law and respect for rights, (ii) labour policies, which should avoid leading to distortionary interventions, and (iii) priorities, which should be set according to the greatest development impact and by offsetting market imperfections and institutional failures.[63]

While some investment models and approaches, such as the Base of the Pyramid, have an explicit aim to promote local development, other models might have rather vague and implicit development aspirations and yet others might completely omit the development aspects of their investments. However, given the lack of clear indicators and analytical measurement tools, the degree to which investment models are genuinely development-oriented, beyond stated aims and strategies, are integrally difficult to measure. Nonetheless, all investments, including those without explicit development objectives, will exhort a degree of impact at the local and national level through factors such as job creation and tax revenues. The core question then becomes how to ensure that investments, irrespective of where they are on the development-orientation scale, support the transformational elements prioritised at the national level. There is thus a need to further incentivise and regulate investments in order to elevate their transformational capacity, both in the narrower economic sector but also in wider terms including at the social and environmental levels.

The role of the national government is paramount in these processes as they are able to direct investments towards developmental and transformational outcomes by setting appropriate conditions and effectively and efficiently channelling financial flows. The relationship between social and private value is particular relevant in that respect since social returns highly depend on incentive setting for private investments. Blended value investing - or private investing for social goods - can be a promising instrument, which also global public goods (GPGs) could substantially benefit from in terms of financial resources and overall implementation capacity. Blended value investing, similarly to impact investing[64] or business for social good, represents the inclusion of social and/or environmental issues into the process of taking an investment decision on the private sector side.[65] This decision is more likely to be positive, if private financial returns are promising enough - detached from any development-oriented ambition. Governments therefore need to set the right incentives besides ensuring that private investments are actually able to generate social values. Blended value investing therefore has high potential to generate social value, since pursuing financial returns in addition to social returns widens the pool of investment capital available.[66]

62 World Bank, 2012.
63 Ibid.
64 Impact Investing 2.0 www.pacificcommunityventures.org/impinv2/conclusion/conclusion-overview/
65 World Economic Forum (2005) *Private Investment for Social Goals: Building the Blended Value Capital Market.*
66 Ibid.

3. Opportunities for sustainable development financing and partnerships

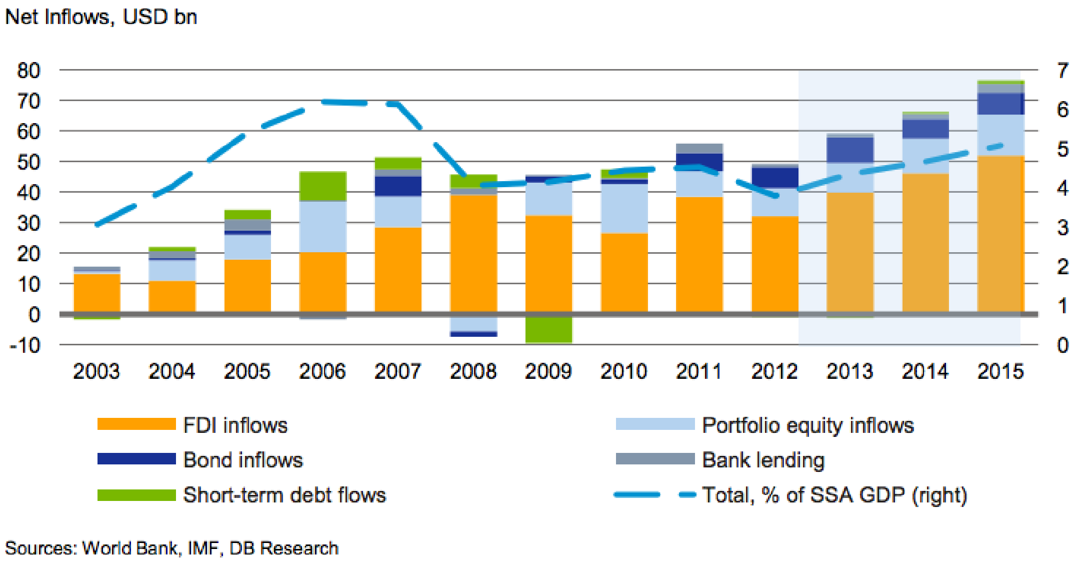
Recent partnerships and innovative finance mechanisms represent a shift in the way donor governments and development partners do business and think about development. The partnerships discussed above illustrate the many different types of partnership that exist, their different motivations, and the different levels at which they operate.

This section seeks to draw lessons from the experience of different partnerships and instruments, and to explore opportunities for new or enhanced public-private partnerships, in the context of financing the post-2015 development framework.

A key underlying factor for future opportunities is the current inflows of direct and financial investment into emerging markets. As Figure 3 illustrates for Sub-Saharan Africa, over the long-term, private capital inflows have been on an upward trend (see also Figure 1 above). This would appear to offer significant opportunities for partnership to address the Post-2015 development agenda.

But although private capital flows have been on an upward trend for Sub-Saharan Africa, it needs to be recognised that FDI inflows as well as outflows vary widely across countries. As Figure 4 shows, African countries benefit from inflows to very different extents due to various drivers and country-specific characteristics. Countries in special situations, such as Mali or the Central African Republic, differ enormously from the resource-rich states Nigeria or South Africa for instance. So its uneven distribution still calls for appropriate policies and a more conducive business environment to either attract more FDI or to make low FDI amounts available in a country more effective. It also justifies the continued need for ODA and other official flows, which for many countries remain highly relevant.

Figure 3: Private Capital Inflows to Sub-Saharan Africa



Source: Masetti O. and A. Mihr (2013), Capital Markets in Sub-Saharan Africa, DB Research Briefing - Emerging Markets, 7 October, Deutsche Bank.

Figure 4: Distribution of FDI flows among economies, by range,* 2012

Range	Inflows	Outflows
Above $3.0 billion	Nigeria, Mozambique, South Africa, Democratic Republic of the Congo and Ghana	South Africa
$2.0 to $2.9 billion	Morocco, Egypt, Congo, Sudan and Equatorial Guinea	Angola and Libya
$1.0 to $1.9 billion	Tunisia, Uganda, United Republic of Tanzania, Algeria, Liberia, Mauritania and Zambia	Nigeria and Liberia
$0.5 to $0.9 billion	Ethiopia, Madagascar, Niger, Guinea, Sierra Leone, Gabon and Cameroon	..
$0.1 to $0.4 billion	Côte d'Ivoire, Zimbabwe, Mauritius, Namibia, Senegal, Chad, Mali, Botswana, Kenya, Lesotho, Togo, Rwanda, Benin, Malawi, Seychelles, Somalia and Djibouti	Democratic Republic of the Congo, Morocco, Egypt, Cameroon, Zambia and Togo
Below $0.1 billion	Swaziland, Gambia, Eritrea, Central African Republic, Cape Verde, São Tomé and Principe, Burkina Faso, Comoros, Guinea-Bissau, Burundi and Angola	Mauritius, Gabon, Sudan, Malawi, Senegal, Zimbabwe, Côte d'Ivoire, Kenya, Tunisia, Niger, Swaziland, Mali, Mauritania, Seychelles, Guinea, Ghana, Guinea-Bissau, Burkina Faso, São Tomé and Principe, Cape Verde, Namibia, Mozambique, Botswana, Lesotho, Algeria and Benin

* Economies are listed according to the magnitude of their FDI flows.
Source: UNCTAD, WIR 2013

3.1. Building on Investment Partnerships

As such, and given the above discussions, it is useful to make a number of distinctions that may help in identifying opportunities for new partnerships.

Firstly, as above, it is worth distinguishing between actions towards enhancing new and existing sources of finance for development, which relate to how funds are *raised* (e.g. through coordinated action to advance international financial transparency) and innovations in the ways resources are *used* or delivered (e.g. through counter-cyclical loans or partnerships with business investments). Although in certain cases the two are linked, this distinction presents two possible avenues through which intervention can be foreseen and planned beyond 2015.

Further, in identifying future opportunities it seems important to distinguish between donor-driven instruments to harness private sector investment or finance, private sector-led initiatives that donors can potentially further boost through additional support, and partnerships more broadly understood to improve the way companies behave in a wider, more global sense. The original motivation for the partnership seems likely to impact on incentives, adaptability and the economic sustainability of partnership projects. It is also noted that there are at present few examples of African-led or -owned initiatives in this regard.

Finally, it is clear that partnerships operate at different levels, serving different interests and potentially aiming at different impacts. One way of looking at these levels is in terms of i) the global level (e.g. GAIN, Grow Africa); ii) a sectoral level (e.g. the Dutch Government-financed Sustainable Trade Initiative, or access to finance initiatives); iii) a regional level with multi-stakeholder partnerships around geographically concentrated initiatives like the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) that combines government policy with a major investment blueprint to encourage coordinated investment to boost agricultural production, raise access to inputs and to markets and to work with agricultural smallholders; and finally iv) company and project level initiatives.

3.1.1. Public finance harnessing the private sector

From the above discussion and more broadly, the focus of dialogue around financing partnerships for development has been on public sector focused approaches that attempt to use public funds to harness private sector activity. A 2012 Deloitte report on designing public funds to mobilise private investments outlines the design features of such an efficient intervention as possessing the following attributes:[67]

- Established with a clear vision and public policy objective;
- Seek alignment with national policies to reduce risk;
- Get the balance right;
- Identify barriers and market failures;
- Act as a facilitator;
- Create linkages with international markets;
- Build a strong commercially oriented team.

These elements, gathered from a systematic survey of existing facilities and interviews with practitioners and experts, constitute an important aspect of the lessons learned in the use of public resources to leverage private finance and activities in accomplishing public policy objectives.

With respect to setting up and running of actual facilities, additional practices may enhance development outcomes from implementation (despite measurement challenges) and increase the chances of success and functional efficiency of these facilities. Sagasti et al. (2004) suggest that donor governments engaging in partnerships therefore need to ensure that the facility takes account of the following:[68]

- Adequacy (amounts and forms of financing and a match between financial instruments and country needs);
- Predictability (stability of funding levels and conditions for access to financial resources);
- Responsiveness (balance between developing countries needs and performance);
- Diversity and choice (increased variety of financial instruments, institutions and programs);
- Capacity to absorb shock (response and smoothing capacity to reduce adverse effects of undesirable events);
- Complementarity of external financing with domestic resource mobilisation (external flows should facilitate and help to catalyse domestic financial resource mobilisation and should aim to avoid aid dependency);
- Voice representation and accountability (capacity to respond to the interests and views of all stakeholders); and
- Flexibility, efficiency and learning (ability to change adapt, reasonable costs in relation to benefits, continuous evaluation and feedback)

---

67 Deloitte, 2012. Financing the Future, Designing Public Funds to Mobilise Private Investment in Sustainable Development. http://www.deloitte.com/assets/Dcom--Australia/Local%20Assets/Documents/Industries/Energy%20and%20resources/Deloitte_Financing_Future_Public_Private_Investment_Sustainable_Development.pdf

68 Sagasti et al. 2004, The Future of Development Financing: Challenges, Scenarios and Strategic Choices, Institute of Development Studies (IDS), United Kingdom. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.115.5662&rep=rep1&type=pdf'

Opportunities for this public sector focused approach lie most clearly in areas where development concerns do not receive sufficient private sector interest, and where private sector know-how, technology and expertise would be valuable. This is the case for example with specifically outcome targeted challenge funds, whether at an international or developing country level, and the growing discussion of development impact bonds and advanced market mechanisms for medicines or agricultural technology.

3.1.2. Private sector initiatives

While the above principles and mechanisms are likely to be important, regardless of whether partnerships are private or public sector led, it is also important to underline changes in the private sector that may offer the clearest opportunities for future development-friendly partnerships.

While Corporate Social Responsibility (CSR) remains a hot topic within the development debate, it is frequently criticised as a way for firms to superficially address local problems while ignoring the potential negative impacts that the core business of the company might have on the ground. There is thus a move towards encouraging businesses to incorporate development objectives into the core of the business operations rather than addressing it via a CSR office or an associated foundation, while at the other end of the scale, there are growing demands to have binding requirements on firms operating in developing countries to ensure social, economic and environmental sustainability. Finding a balance between voluntary measures to ensure private sector partnerships are indeed developmental will serve both the interests of donors wishing to finance such partnerships, while also potentially offering greater development benefits.

In this regard, Visser (2011) identifies four stages through which firm behaviour has come in relation to CSR that may be harnessed for development.[69] These stages are: defensive, charitable, promotional and strategic. Although different companies continue to operate at each of the different stages, there is a growing recognition of the responsibility of companies beyond simply protecting investments (defensive), showing goodwill to the local community, for example through building schools etc. (charitable), and using CSR as part of marketing where it is something of a label to try and satisfy first world customers (promotional). Strategic CSR is then defined as the broader set of management systems that attempt to ensure company practices adhere to codes of conduct and minimum social and environmental standards.

But more recently, many companies are going beyond these stages to what Visser (2011) describes as systemic or transformational CSR where new business models are being developed around core activities where consumers and producers alike, developing countries included, benefit from the economic activity. This is in line also with Porter and Kramer's (2011) concept of Shared Value - creating economic value in a way that also creates value for society by addressing its needs and challenges.[70]

Recognising these changes in business outlook then suggests that partnership models that manage to capture these dynamics while aligning with developing country policy objectives and global and/or local consumer tastes are those where most development impact is likely to be found.

A range of market based approaches to nutrition are currently emerging that highlight this dynamic, with companies seeking Base of the Pyramid markets for producers and consumers that create value whilst

[69] Visser, W., 2011, "The Ages and Stages of CSR - Towards the Future with CSR 2.0", CSR International Paper Series No.3: https://www.academia.edu/3133293/The_Ages_and_Stages_of_CSR_Towards_the_Future_with_CSR_2.0

[70] Kramer, M., Porter, M., 2011, "Creating Shared Value", Harvard Business Review Jan-Feb 2011. http://hbr.org/2011/01/the-big-idea-creating-shared-value/ar/1

helping to promote health and broader well-being.[71] Other pilot initiatives driven by private sector interests include the SAGCOT Corridor mentioned above, where the international private sector in collaboration with the national government that has driven preparation of an investment blueprint to encourage public and private investment around agriculture to the potential benefit of all.

While private sector driven, this is not to say that these initiatives are easily implementable or always successful. As Byiers and Rampa (2013) underline, projects such as the SAGCOT corridor have great potential on paper but nonetheless rely on a long-term process of coordination and collaboration and have yet to fully demonstrate success.[72] Similarly, many market-based models for nutrition struggle to reach scale or to ensure the necessary regulatory environment is in place and applied to allow the business models to work.

These difficulties bring the focus back again to issues discussed above of the business environment. Partnership approaches rely to some extent on state capacity and the strength of developing country government institutions, pointing not only to the need to better understand the political economy of specific countries where partnerships are taking place, but also the broader international framework that underpins how companies and financial flows behave and therefore can be better harnessed for development.

3.1.3. A conducive environment for partnerships

As discussed, finance in itself is a necessary but not sufficient condition within the investment mix. The discussion on development finance highlights the importance of the complementarity between external and domestic resources (savings and investments) but it has also become clear that financial resources on their own are of little help in the absence of strong institutions, good governance, sensible policies and the capacity to generate and utilise knowledge.[73] Consequently in providing public support for new investments, there should be as much emphasis in the external support environment as well as in the actual instrument design to ensure that the intended objective of support to development is actually attained.

The third type of broad partnership that can be considered therefore relates to frameworks to minimise harm and maximise development benefits through broader frameworks for transparency, building on consumer demand for goods produced in a socially and environmentally sustainable way, and limiting the abuse by companies of practices such as transfer (mis)pricing that lead to capital flight from developing countries, leading to major distortions in tax design and implementation.

One apparent example in this regard is the Forest Law Enforcement, Governance and Trade (FLEGT) initiative that marries private sector activities and incentives, consumer practices, trade regulations and developing government policies to promote sustainable logging.[74] Although something of an international process, FLEGT is praised for the degree of stakeholder consultation and adaptation at a local level, helping therefore to link international finance and investment activities, with trade rules and local development - something that seems fundamental for other sectoral partnerships going forward.

---

[71] See for example Byiers, B., Seravesi, S., 2013, “The enriching business of nutrition - Market-based partnerships and regional approaches to nutrition: what role for CAADP?” ECDPM Discussion Paper 149. www.ecdpm.org/dp149

[72] Byiers, B., and Rampa, F. 2013. Corridors of power or plenty? Lessons from Tanzania and Mozambique and implications for CAADP. (ECDPM Discussion Paper 138). www.ecdpm.org/dp138

[73] Sagasti et al. 2004, The Future of Development Financing: Challenges, Scenarios and Strategic Choices, Institute of Development Studies (IDS), United Kingdom

[73] http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.115.5662&rep=rep1&type=pdf’

[74] See more: http://www.euflegt.efi.int/home/

3.2. Opportunities with Private Financing

Similarly to above, the question regarding private sector finance relates to whether donors are i) attempting to attract private financing through public funds, or ii) using public funds to maximise the development impact of existing flows.

The recent financial crisis in developed markets along with reports of the growing returns from investing in African firms have reportedly led financial investors to take African investment opportunities more seriously than in the past. This is related to political stability, infrastructure growth and rising consumerism, reflected to some extent in the surge in African government bond emissions by countries such as Mozambique, Zambia, Rwanda and others, often over-subscribed.[75] In addition to this private finance direct to governments, private finance is also increasingly flowing to the private sector through equity funds.

According to Deloitte's 2013 East Africa Private Equity Confidence Survey, private equity funds invested US$475m in eastern Africa in 2012, a large increase from 2011 pushed up by three large deals in Tanzania and Ethiopia.[76] Around the continent, infrastructure funds, which also encompass housing, transport and renewable energy, are taking a leading role, although as Figure 5 shows, this is by no means the limit of equity investments. Nonetheless, portfolio investment is most concentrated in countries with relatively liquid markets such as South Africa, Nigeria, Kenya and Mauritius, potentially limiting the impact of these flows across countries and underlining the need and potential opportunity from further developing financial markets.

These financial flows theoretically offer opportunities for donors to form partnership mechanisms that channel some of this financial investment to key developmental sectors and/or maximum their developmental impact. This might be in coordination with instruments to promote local private sector development in developing countries and existing mechanisms to promote the use of PPPs to run public infrastructures, for example.

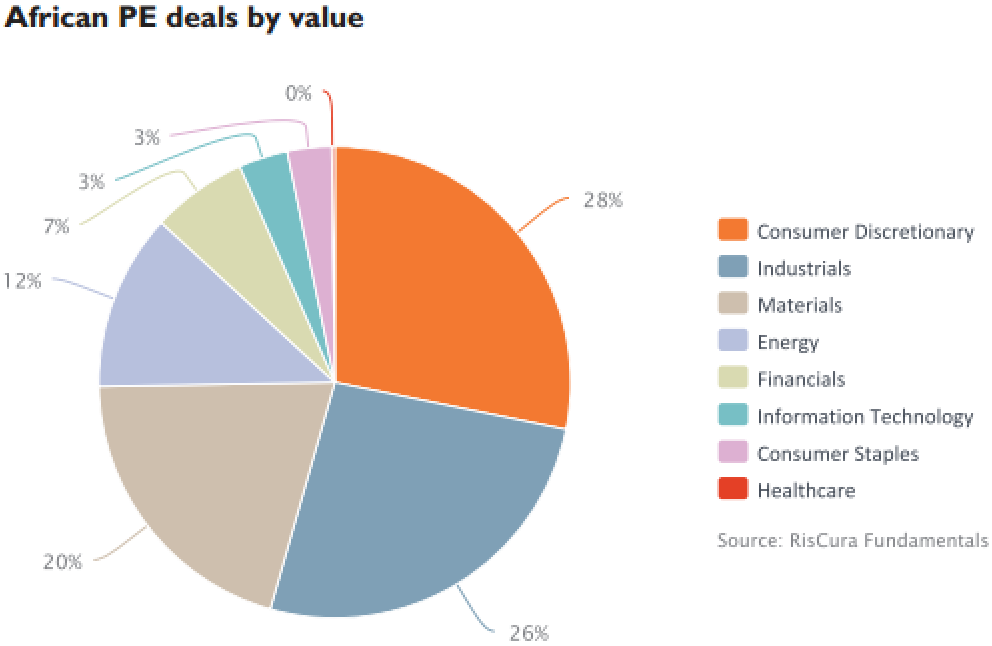
However, to date, most development finance discourse, even around relatively new mechanisms such as blending, has focused on how development finance is used rather than how it is raised. The European Union has recently put greater emphasis on the opportunities offered by blending, by which they mean combining EU grant aid (channelled through a development finance institution) with non-grant resources. Since 2007, the EU has established eight loan and grant blending facilities with a view to leveraging additional finance. According to the European Commission, the €1.5 billion grants from the EU budget, the European Development Fund (EDF) and Member States have leveraged more than €20 billion of loans by development finance institutions, "unlocking project financing of at least €45 billion, in line with EU policy objectives".[77] Such facilities are expected to increase efficiency, coordination, ownership and impact of the EU development finance.

[75] Masetti O. and A. Mihr (2013), Capital Markets in Sub-Saharan Africa, DB Research Briefing - Emerging Markets, 7 October, Deutsche Bank. www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000321468/Capital+markets+in+Sub-Saharan+Africa.pdf

[76] Deloitte, 2012.

[77] See for example Bilal, S., Kratke, F., 2013, "Blending Loans and Grants for Development: An Effective Mix for the EU?" ECDPM Briefing Note 55: www.ecdpm.org/bn55

Figure 5: African Private Equity Deals by Sector



Source: *Madongo, I., 2013, "Private equity in Africa: warming up for 2014", Beyond BRICs, The Financial Times.*

Although private sector financial participation in raising funds has to date been relatively low, an additional aim of blending mechanisms is nonetheless to crowd-in private investment, enabling Public-Private Partnerships (PPPs) in particular sectors. The EC intends to "leverage more private resources and capacities through blending mechanisms that can crowd-in additional private and public financing: i) create a private sector window within the regional blending mechanisms, ii) make greater use of risk-sharing mechanisms such as guarantees that can unlock investments and iii) promote investments through instruments that entail improved risk management and equity participation in structured funds."[78]

While donors are attempting to attract private finance to co-finance blending mechanisms, a clear question and potential opportunity relates to how donors engage in such processes while minimising the potential risks of distorting markets and prioritising commercial over development objectives. These are already challenges in working with blended loans and grants and highlight therefore the need for donors to better link with their associated development finance institutions to design harmonised approaches to both raising finance from the private sector and linking this to direct investment opportunities.

In this context, it is worth mentioning the increasing attention given to international/development finance institutions, notably in regard to the significant scale in supporting and partnering with private sector and the experienced acquired.[79] Many of the challenges of partnerships noted above apply directly to the activities of IFIs and DFIs in developing countries.

78 European Commission, 2012, Communication on Improving EU support to developing countries in mobilising Financing for Development.

79 See for instance IFC (2011), International Finance Institutions and Development Through the Private Sector, A joint report of 31 mutlilateral and bilateral development finance institutions, Washington D.C.: International Finance Corporation. www.miga.org/documents/IFI_report_09-13-11.pdf ; and for a more critical view Kwakkenbos, J. and M. J. Romero (2013), Engaging the private sector for development: The role of Development Finance Institutions?. In: ÖFSE (Hg.) Österreichische Entwicklungspolitik, Analysen, Berichte, Informationen mit dem Schwerpunktthema "Private Sector Development – Ein neuer Businessplan für Entwicklung?", Wien, 25-30. www.oefse.at/Downloads/publikationen/oeepol/Artikel2013/2_Kwakkenbos_Romero.pdf

Similarly, development banks are playing an increasingly important role. This is the case notably for regional development banks, such as the Asian Development, the Inter-American Development Bank and the African Development Bank (AfDB). Take the latter for instance, which has launched a number of initiatives over the last few years to stimulate private finance for development. These include initiatives such as

- the *Africa50 Infrastructure Fund*, to mobilise private funds for infrastructure financing;[80] launched in 2013 and expected to be operational in early 2014, it aims to attract initial equity investment of US$10bn and a further US$100bn of local and global capital;
- the *Africa Financial Markets Initiatives (AFMI)* to advance the development of African capital markets, in particular local currency bond markets;[81]
- *Making Finance Work for Africa (MFW4A)* to support the development of African financial markets, coordinating governments the private sector and development partners;[82] its Secretariat, housed in the AfDB, launched a Capital Market Development (CMD) Donor Working Group with support of the AFMI.

These endeavours are undertaken in close cooperation with international development partners and private sector actors. This type of initiatives has strong potential, as they involve international development partners and private sector to the deepening of domestic financial mechanisms.

In a recent report, the International Development Committee of the UK House of Commons also stressed the growing importance of private finance mechanisms for development objectives, and recommended the establishment of a UK development bank to provide a range of financial products such as concessional loans. International examples among the G20 members include the German Development Bank (KfW), the French Agence française de développement (AFD) and among the emerging economies, the China Development Bank, the EXIM Bank of China and the Brazil Development Bank (BNDES). The UK development bank would complement the activities of the UK Department for International Development (DFID) and CDC, the UK DFI.

Encouraging better synergy and complementarity among international development partners own institutions should also be one of the priorities to further unleash the potential benefits of public-private partnership for development.

4. Conclusion

This paper set out to identify key issues that would stimulate discussions on opportunities for public and private partnerships to finance and achieve sustainable development post 2015. This is done against the background of the Monterrey Consensus of 2002, that placed a broad emphasis on the need for an inclusive multi stakeholder approach to achieve the goals of poverty eradication, sustained economic growth and the promotion of sustainable development, and of the growing recognition of the need to build on private sector activities for development.

To create a suitable framework for analysis, the paper makes the distinction between i) partnerships for private investments and ii) partnerships to leverage private finance with a development potential. While

[80] www.afdb.org/en/topics-and-sectors/initiatives-partnerships/africa50-infrastructure-fund/
[81] www.afdb.org/en/topics-and-sectors/initiatives-partnerships/african-financial-markets-initiative-afmi/
[82] www.mfw4a.org/

approaches will sometimes include both aspects, discussions are made easier by separating the challenges and opportunities of raising finance and applying finance to investments.

Traditional donors have tended to pay greater attention to partnering with private sector investment with development objectives, although recently increasing efforts have been dedicated to also leveraging private financing for development, notably through blending loans and grants. In contrast, development finance institutions have established a long track record in leveraging private sector finance. One of the challenges for international development partners is therefore to better build on this dual experience and find modalities to bridge the institutional and knowledge gaps that still too often divide donors and their financing institutions in engaging with private sector finance and investment activities.

The paper also introduces another useful categorisation of perspectives when considering public-private partnerships: i) the donor's perspective, wherein the aim is to harness private sector investment and finance to donors initiatives; ii) the private sector perspective, where public finance and involvement operates at the margin to maximise the development impact of existing private sector initiatives; and iii) a policy and operational perspective, which relates to enhancing the incentives and structures for ensuring private sector activity and finance contribute to (and at a minimum do not undermine) sustainable development objectives. This relates to the question of who is leading and leveraging whom?

Traditionally, donor discourse has focused on leveraging the private sector to undertake development activities and objectives as identified by donors. Increasingly, however, donors are becoming better at acknowledging private sector driven initiatives, whose development potential could be enhanced with public involvement. Incentives, knowledge and technical expertise sharing, risk management and impact measurements are some of the dynamics that increasingly shape public-private partnerships. In this regard, the policy environment and institutional settings are key factors affecting development outcomes, which may warrant a stronger synergy between private and public actors.

In addressing the question of the nature of public private engagements in support for sustainable development post 2015, a key element the paper has highlighted is the impact of public finance on private activities and its translation to development outcomes and development additionality. This imposes the need to not only demonstrate positive development outcomes generated by the public-private partnership, but also the requirement to identify the additional developmental outcomes that would not have been accomplished without the public involvement. While the additionality principle is well recognised by all development partners, it is in practice often difficult to assess it precisely. Drawing lessons from the many successful examples (and failures) of partnerships will be important to better identify guiding practices to assess the development impact, leveraging and additionality of future public-private initiatives to accomplish the post 2015 agenda.

The post 2015 framework should also **build on a greater recognition of the developing countries own endeavours to drive and finance their own structural transformation towards sustainable development**, along the principles of the Paris, Accra and Busan principles of aid effectiveness. International development partners could therefore more systematically build on these domestic, regional and wider initiatives when engaging in new partnership with private sector for developmental investment and finance and seek to align with initiatives such as AIDA, the action plan for Accelerated Industrial Development in Africa, for example.

A priority is the effective mobilisation of domestic resources to finance the economic transformation of developing countries towards more sustainable and inclusive growth. Particular attention should be given to **supporting the development of domestic financial sectors and markets in developing countries**, and their capacity to link to international markets. It is arguably one of the areas where public-private partnerships have the greatest potential to unleash the significant developmental investment and finance necessary for a post-2015 agenda. As regulatory and institutional frameworks are among the determinant factors for the financial sector growth and its contribution to the domestic economy, public-private partnerships can be instrumental in driving approaches and initiatives that are conducive to more effective and inclusive development.

International development partners can also effectively partner with private sector in engaging with **national and regional development banks and finance institutions**, as well as by accompanying the development of new instruments and mechanisms, such as sovereign wealth funds, infrastructure funds (e.g. project bonds) and dedicated facilities. Activities can range from knowledge sharing and technical assistance to joint financing and investment initiatives.

International development partners also have an important role to play in addressing global issues related to the international financial architecture, transparency and accountability principles. In this respect, particular attention should be given to the questions of **illicit financial flows**, as well as transfer pricing and tax avoidance, notably, which deprive developing countries from much needed resources.[83] These are issues that are often best tackled at the international level, in G8, G20 and UN fora, and where international development partners can make a significant contribution in combatting them.[84]

Looking more narrowly at modalities for public-private partnerships, a number of principles emerge that must be taken into consideration in the design of new partnership instruments and innovative finance mechanisms. This includes of course the need for a clear vision and development objectives, often targeted at barriers and market failures. It also entails alignment with nationally devised development strategies, including greater use of direct budget and/or sector wide support by innovative initiatives. In addition, partners need to be aware of their role as facilitators (as opposed to drivers) of existing policy processes, while at the same time leveraging the full benefits to be brought to the process by their individual experiences and expertise. Other important principles identified include complementarity, additionality, burden-sharing, standard-setting, transparency and measurability. The lessons gathered from existing facilities suggest that paying attention to these elements may help enhance the development impact of the designed mechanism though in practice it may not always be easy to accomplish.

As the public and private sectors are motivated by different drivers and face different challenges, partnerships have an important potential to increase the scale, scope and impact of projects but they will also inherently demand a degree of adaptive learning and changing mind-sets. This requires open and well-structured communication, but also enhanced efforts in learning from experiences and identifying best practises. Current partnerships are often weak in establishing strong monitoring and evaluation systems, as well as stringent result and impact measurements, which reduces the opportunities to learn from past experience. These issues will have to be addressed in order to ensure that the development of new instruments, as well as the refinement of instruments already in operation, function at maximal effectiveness with real development outcomes.

[83] Knoll, A., Krätke, F., Keijzer, N., Oppewal, J. 2013. Putting Policy Coherence for Development into perspective: Supporting Switzerland's promotion of PCD in commodities, migration and tax policy. Bern: Swiss Agency for Development and Cooperation SDC.

[84] OECD (2013), Measuring OECD Responses to Illicit Financial Flows from Developing Countries, Paris: Organisation for Economic Co-operation and Development. www.oecd.org/dac/governance-development/IFFweb.pdf

The enormity of the development challenge and the need to focus on the sustainable development component imposes an imperative for continuous improvements in the way partners engage with each other and with beneficiary countries. In doing so, particular attention must be given to not only the mix of financial means and instruments, but also the conditions and environment under which these are taking place. The future of financing a post-2015 agenda should provide greater opportunities for multi-faceted public and private sector engagement, focusing on strengthening and further developing national and regional mechanisms in developing countries, notably in mobilising domestic resources for development, including by enhancing their financial sector and markets. Private investment and finance is likely to be the key engine for growth, with international development partners contributing through a range of incentives, instruments and initiatives to leverage or accompany private engagement, with a greater focus sustainable and inclusive outcomes harnessed to the development agenda of developing countries and regions.

Bibliography

Barder, O. (2013) When should donors mitigate private sector risk?, Centre for Global Development, United Kingdom

http://international.cgdev.org/blog/when-should-donors-mitigate-private-sector-risk

Bilal, S. and Krätke, F. (2013), Blending loans and grants for Development: An effective mix for the EU? ECDPM Briefing Note No. 55, October 2013, Maastricht. www.ecdpm.org/bn55

Byiers, B., and Rosengren, A. (2012), Common or conflicting interests? Reflections on the Private Sector (for) Development Agenda, ECDPM Discussion Paper 131. www.ecdpm.org/dp131

Byiers, B. (2014), The European Commission, Civil Society Organisations and the private sector – when talking the same language isn't quite enough, ECDPM Talking Points, 24 February. http://www.ecdpm-talkingpoints.org/the-european-commission-civil-society-organisations-and-the-private-sector-when-talking-the-same-language-isnt-quite-enough

Byiers, B. and Rosengren, A. (forthcoming) The Role of the Private Sector in the Development Cooperation System, Economic Commission for Latin America and the Caribbean (ECLAC) and the European Centre for Development Policy Management (ECDPM).

Calice, Pietro (2013), African Development Finance Institutions: Unlocking the Potential,

Working Paper Series N° 174 African Development Bank, Tunis, Tunisia. http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20Paper%20174%20-%20African%20Development%20Finance%20Institutions-%20Unlocking%20the%20Potential.pdf

Callan and Davis, (2013), When business meets aid: analysing public-private partnerships for international development, Development Policy Centre, Crawford School of Public Policy ANU College of Asia & the Pacific http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2252309

Cobham, Jansky, Prats, 2014, Estimating Illicit Flows of Capital via Trade Mispricing: A Forensic Analysis of Data on Switzerland, Centre for Global Development (CGD) Working paper 350 http://international.cgdev.org/page/center-global-development-europe

Collier, P. (2013) Aid as catalyst for pioneer investment, UNU-WIDER Working paper No. 2013/004. http://wider.unu.edu/publications/working-papers/2013/en_GB/wp2013-004/

http://wider.unu.edu/publications/working-papers/2013/en_GB/wp2013-004/

Collier, P. (2013) Unlocking private finance for African infrastructure, Columns in Social Europe Journal http://www.social-europe.eu/2013/11/unlocking-private-finance-african-infrastructure/

DANIDA, 2013, *Guidelines and Conditions for Support Danida Business Partnership,* Ministry of Foreign Affairs of Denmark, http://um.dk/en/~/media/UM/Englishsite/Documents/Danida/Activities/Business/DB%20Partnerships/Toolbox/DBP%20%20Guidelines%20and%20Conditions%20for%20Support%20May%202013.pdf

Davis, P. (2011) Political Economy of BER - An introduction for practitioners. Donor Committee for Enterprise Development, http://www.enterprise-development.org/page/download?id=1715

Deloitte (2012) *Financing the Future, Designing Public Funds to Mobilise Private Investment in Sustainable Development*

www.deloitte.com/assets/Dcom-Australia/Local%20Assets/Documents/Industries/Energy%20and%20

Di Bella, Grant, Kindornay, Tissot (2013) *Mapping Private Sector Engagements in Development Cooperation,* Research Report, The North-South Institute http://www.nsi-ins.ca/wp-content/uploads/2013/09/Mapping-PS-Engagment-in-Development-Cooperation-Final.pdf

ECDPM (2013), Aid for Trade, *GREAT Insights*, vol.2 issue 5, July-August, www.ecdpm.org/great_2_5

Eurodad, 2011, Development funds for the private interest? 10 Frequently asked Questions, Eurodad briefing March 2011, http://eurodad.org/uploadedfiles/whats_new/news/development%20funds%20for%20the%20private%20interest%2010%20faq.pdf

European Commission, (2013) Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Beyond 2015: towards a comprehensive and integrated approach to financing poverty

eradication and sustainable development, Brussels, COM(2013) 531 final {SWD(2013) 273 final}

http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/financing_for_dev_2013_communication_en.pdf

European Parliament resolution of 13 June 2013 on the Millennium Development Goals – defining the post-2015 framework, (2014) Towards an EU position on the post-2015 development framework, Financing the post-2015 MDGs

http://www.europarl.europa.eu/sides/getDoc.do?type=TA&language=EN&reference=P7-TA-2013-283

Gordon, K. (2008) Investment Guarantees and Political Risk Insurance: Institutions, Incentives and Development, OECD. http://www1.oecd.org/pensions/insurance/44230805.pdf

Griffiths, J. 2012, Leveraging Private Finance: Does it work and what are the risks? Bretton Woods Project, United Kingdom, http://www.brettonwoodsproject.org/wp-content/uploads/2013/10/leveraging.pdf

Heinrich, (2010, updated 2012), *Partnerships and Inclusive Business - An Overview of Current Work of DCED Member Agencies,* The Donor Committee for Enterprise Development (DCED), United Kingdom, http://www.enterprise-development.org/page/download?id=1640

Heinrich, (2013), Donor Partnerships with Business for Private Sector Development: What can we Learn from Experience? Working Paper, The Donor Committee for Enterprise Development (DCED), United Kingdom http://www.enterprise-development.org/page/download?id=2147

Kessler, (2013), Measuring Results in Challenge Funds, Practical Guidelines for Implementing the DCED Standard, The Donor Committee for Enterprise Development, United Kingdom

http://www.enterprise-development.org/page/download?id=2272

Kindornay, Higgins and Olender, (2013), Models for Trade-Related Private Sector Partnerships for Development, The North-South Institute, TFO Canada www.nsi-ins.ca/wp-content/uploads/2012/11/2012-Models-for-Trade-Related-Private-Sector-Partnerships-for-Development1.pdf

http://international.cgdev.org/page/center-global-development-europe

Knoll, A., Krätke, F., Keijzer, N., Oppewal, J. 2013. Putting Policy Coherence for Development into perspective: Supporting Switzerland's promotion of PCD in commodities, migration and tax policy. Bern: Swiss Agency for Development and Cooperation SDC. http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/E69E8C2651C2ECC1C1257BCD002E3770?Opendocument?OpenDocument#sthash.EQoyVgd5.dpuf

Kwakkenbos, J. (2012) *Private profit for public good? Can investing in private companies deliver for the poor?* Eurodad http://www.eurodad.org/files/pdf/520a35cb666a7.pdf

Madongo, I., 2013, “Private equity in Africa: warming up for 2014”, Beyond BRICs, The Financial Times

http://blogs.ft.com/beyond-brics/2013/12/31/private-equity-in-africa-warming-up-for-2014/#axzz2uFBEIdGF

Masetti O. and A. Mihr (2013), Capital Markets in Sub-Saharan Africa, DB Research Briefing - Emerging Markets, 7 October, Deutsche Bank. www.dbresearch.com/PROD/DBR_INTERNET_EN-PROD/PROD0000000000321468/Capital+markets+in+Sub-Saharan+Africa.pdf

Mu, Y., P. Phelps and J. G. Stotsky (2013), Bond Markets in Africa, IMF Working Paper WP/13/12, January, International Monetary Fund. www.imf.org/external/pubs/ft/wp/2013/wp1312.pdf

OECD, (2005/2008), The Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), Organisations for Economic Cooperation and Development,

http://www.oecd.org/development/effectiveness/34428351.pdf

OECD (2014). Aid statistics table 2: Total Net flows from DAC countries by type of flow. http://www.oecd.org/development/stats/statisticsonresourceflowstodevelopingcountries.htm

OECD (2013), Measuring OECD Responses to Illicit Financial Flows from Developing Countries, Paris: Organisation for Economic Co-operation and Development. www.oecd.org/dac/governance-development/IFFweb.pdf

OECD-WTO (2013), Aid for Trade at a Glance: Connecting value chains. www.wto.org/english/res_e/booksp_e/aid4trade13_e.pdf

Ramdoo, I. and S. Bilal (2014), Extractive Resources for Development: Trade, fiscal and industrial considerations, ECDPM Discussion Paper No.156, January, Maastricht: European Centre for Development Policy Management. www.ecdpm.org/dp156

Sagasti et al. 2004, *The Future of Development Financing: Challenges, Scenarios and Strategic Choices*, Institute of Development Studies (IDS), United Kingdom

http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.115.5662&rep=rep1&type=pdf'

SKM (2011), Unpacking the Social Licence to Operate, *Achieve Magazine*, Issue 4, December, Sinclair Knight Merz. www.globalskm.com/Insights/Achieve-Magazine/Issue4-2011/article1.aspx

Turley, L. & A. Semple (2013) Financing Sustainable Public-Private Partnerships, February, International Institute for Sustainable Development. www.iisd.org/pdf/2013/ppp_financing.pdf

UK House of Commons International Development Committee (2014) *The Future of UK Development Cooperation: Phase 1: Development Finance*, 8th Report Volume 1 HC 334, February 2014, London: UK Parliament http://www.publications.parliament.uk/pa/cm201314/cmselect/cmintdev/334/334.pdf

UNCTAD (2013) World Investment Report 2013 - Global Value Chains: Investment and Trade for Development, New York and Geneva: United Nations. http://unctad.org/en/publicationslibrary/wir2013_en.pdf

UNDP, 2012, Innovative Financing for Development: A New Model for Development Finance? UNDP Discussion Paper, United Nations Development Programme, http://www.undp.org/content/dam/undp/library/Poverty%20Reduction/Development%20Cooperation%20and%20Finance/InnovativeFinancing_Web%20ver.pdf

United Nations, (2003) Monterrey Consensus of the International Conference on Financing for Development, The final text of agreements and commitments adopted at the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002

http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf

http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf

United Nations, (2008) Doha Declaration on Financing for Development http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdfhttp://www.oecd.org/development/effectiveness/34428351.pdf

Vanheukelom, J., Migliorisi, S., Herrero, A., Keijzer, N., Spierings, E., (2012) Reporting on Development: ODA and Financing for Development. Study commissioned by The Netherlands Ministry of Foreign

Affairs and the German Federal Ministry for Economic Cooperation and Development. Maastricht: ECDPM, http://eudevdays.eu/sites/default/files/Reporting_on_Development_2012_0107452_final.pdf

World Bank (2009). Girishankar, N. Innovating Development Finance - From Financing Sources to Financial Solutions, CFP Working Paper Series N.1, World Bank.

http://siteresources.worldbank.org/CFPEXT/Resources/CFP_Working_Paper_No1.pdf

http://www.ecdpm-talkingpoints.org/the-european-commission-civil-society-organisations-and-the-private-sector-when-talking-the-same-language-isnt-quite-enough/ - sthash.8WABNnly.dpuf

World Bank (2011) Political Economy Assessments at Sector and Project Levels. How-to notes, GAC in projects. Washinton, United States http://www.gsdrc.org/docs/open/PE1.pdf

World Bank (2012) *World Development Report 2013: Jobs*. Washington, DC: World Bank. http://siteresources.worldbank.org/EXTNWDR2013/Resources/8258024-1320950747192/8260293-1322665883147/WDR_2013_Report.pdf

World Bank (2013a) Financing for Development, October 2013, Washington D.C.: The World Bank Group. http://www.worldbank.org/content/dam/Worldbank/document/Poverty%20documents/WB-PREM%20financing-for-development-pub-10-11-13web.pdf

World Bank (2013b), Doing Business 2014: Understanding Regulations for Small and Medium-Sise Enterprises, Washington D.C.: International Bank for Reconstruction and Development / The World Bank. p.11. www.doingbusiness.org/reports/global-reports/doing-business-2014

World Economic Forum (2005) *Private Investment for Social Goals: Building the Blended Value Capital Market,* Executive Summary. http://www.weforum.org/pdf/Initiatives/BVI_ExecutiveSummary.pdf

World Investment and Political Risk (2013) Washington, DC: MIGA, World Bank Group. http://www.miga.org/documents/WIPR13.pdf

9th session of the UN Commission on Sustainable Development E/CN.17/2001/19 - International cooperation for an enabling environment

http://sustainabledevelopment.un.org/index.php?menu=1257

http://www.enterprise-development.org/page/download?id=1715

Internet resources

Alliance for Green Revolution in Africa: http://www.agra.org/

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

EU Flegt Facility: http://www.euflegt.efi.int/home/

Extractive Industry Transparency Initiative: http://eiti.org/

GAVI Alliance: http://www.gavialliance.org/

Global Alliance for Improved Nutrition (GAIN): www.gainhealth.org/partnerships

Grow Africa: http://growafrica.com/

Making Finance Work for Africa: www.mfw4a.org/

The Sustainable Trade Initiative: http://www.idhsustainabletrade.com/http://www.mfw4a.org/

UN Global Compact: http://www.unglobalcompact.org

http://www.businesscalltoaction.org/about/about-us/

http://www.idhsustainabletrade.com/
http://growafrica.com/
http://eiti.org/

http://www.agra.org/

Annex 1: Instruments for funding private sector investments for development

Please note that these tables are indicative and several of the instruments could fit under more than one mechanism.

Mechanism	Examples
Donor led models: These models cover projects that are the result of bilateral donor initiatives to establish public-private partnerships. Projects are either fully funded by the donor, or more commonly a co-funding arrangement where the private sector contributes with part of the funding as well. The public support is not necessarily grant based (though most common) but can also be through loans or technical support. The funding mechanisms covered under this heading differ in terms of requirements, timeframe, and expected development outcomes. An important factor is also the risk-sharing element, where the public sector takes on some of the private risk. Examples of instruments in this category include *challenge funds*, *innovative funds*, *match-making initiatives* and *direct grant funding* to private companies.	**Challenge Funds:** Public grant awarded through a competitive selection process to private project that have the potential to overcome a specific challenge. Challenge funds are not be definition grant based, they can also provide support through loans or technical expertise. **Food Retail Industry Challenge Fund (DfID)** FRICH target the European Food and Agriculture sector and provides challenge funds to companies that increases the access of African foods in the European market by connecting African farmers to international business and retailers. FRICH is currently supporting 25 partnerships. **Africa Enterprise Challenge Fund** The AECF is US$ 207m challenge fund awarded by the AECF donors (Australia, Denmark, Netherlands, Sweden, United Kingdom and the International Fund for Agricultural Development [IFAD]). The fund aims to stimulate innovative investment that addresses market access and functions for the poor. Target sectors are agriculture, agribusiness, renewable energy, adaptation to climate change and access to finance and information. Target group is the rural poor. **Enterprise Challenge Fund (AusAid)** Challenge fund established by AusAid targeting neighbouring countries in the Pacific and South-East Asia. The challenge fund is currently on its third and last bidding round, and the ECF has provided a total of AU$14.5 m since its start in 2007. Each grant offers between AU$100,000 to AU$1.5 m, with companies demanded to provide at least 50% of the funding. All projects must be financially self-sustaining within three years of their establishment.
	Innovation funds: A type of Challenge fund, but with greater emphasis on innovative aspects. **Innovation against Poverty (SIDA)** IAP supports both small companies with innovative ideas but difficulties to enter new markets, as well as larger companies with 'inclusive business models' that engages the poor as consumers, distributers, employers and producers. Throughout the three programme cycles undertaken IAP has supported 615 projects in 68 countries.

	Business Innovation Facility (DFID) Supports companies that are developing inclusive business models within their core operations, which can further promote employment, integrate local farmers and entrepreneurs in international supply chains, and provide quality and affordable services to low-income consumers. The facility provides advisory support and facilitation to companies engaged in inclusive businesses projects in Bangladesh, India, Malawi, Nigeria and Zambia.
	Business 2 Business: Matchmaking between businesses from developing and developed (domestic or international) origin. **Business Partnership Programme (DANIDA)** Provides funding for the preparation and implementation of commercially viable partnerships between Danish and partner country companies. Currently funding is available for partnerships with countries in Bangladesh, Bolivia, Burkina Faso, Egypt, Ethiopia, Indonesia, Ghana, Kenya, Mozambique, Nepal, Pakistan, Tanzania, Uganda and Vietnam. Focus lies on technology transfers while to objective is to promote CSR, strengthen competitiveness and create jobs. **Finnpartnership:** Provide match-making services to firms and organisations in Finland and in developing countries. Any company registered under OECD-DAC listed countries can apply, but since 2011 the key focus countries are Tanzania, Vietnam, Kazakhstan and Peru.
	Direct grant funding to business: Financial support provided to internal or domestic private enterprises engaged in project with expected developmental outcomes. **DeveloPPP.de (BMZ):** Provides funding and technical support for companies investing in developing and emerging economies. BMZ covers 50% o the budget, with a maximum of €200,000. Since the start of the project in 1999, the programme has supported 1.500 partnerships with European and German companies. **Private Sector Investment (PSI) Programme (The Netherlands)** PSI is a grant programme established by the Dutch MFA in support of Dutch and non-Dutch companies in the pursuit of an innovative investment in partnership with a local partner. PSI contributes with 50%-60% of the total budget, with payments based on achieved results during the project period and a maximum project size of €1,500,000. The final PSI tender is out until march 2014, after which the programme will expire. This final tender has a total budget of €37 million. **Application-Based Support for Private Sector Actors (NORAD):** Companies from developed countries can apply for funding to undertake feasibility studies, preliminary studies, pilot/test production and training for local employees. NORAD's grant proportion covers 50% of the funding for feasibility studies and training, and 80% for the other support functions.

Coalition models: This model refers to multi-stakeholder initiatives engaging donors, private firms, national governments, NGOs, research institutions etc. Often operating through a global platform, such as the *Global Alliance for Improved Nutrition* (*GAIN*) or *Grow Africa, they tend to be devoted to targeted interventions such as improvement along a specific value chain or at a particular level (producers, logistics, retailers etc.), often on the basis of certain certificates, standards or principles as key indicator of change. Coalition models are commonly governed by a steering committee who provides programme directives and work towards to creation and improvement of standards and regulation. Ultimately, the vision is for these partnership to become financially independent of donor support.*	**The Sustainable Trade Initiative (IDH):** IDH supports impact oriented coalitions between national government, commercial banks, private sector, NGOs. Development targets are MDG 1 (reduced poverty), MDG 7 (safeguarding the environment) and MDG 8 (fair and transparent trade). IDH work along 15 value chains, primarily in the agricultural sector. **World Cocoa Foundation (WCF)** work towards a more sustainable cocoa economy by supporting economic and social development within cocoa communities. They provide services such as i) facilitation partnerships between cocoa producers, national government and environmental organisations; ii) assisting donor in supporting effective programmes; iii) support demand-led research toward improvements in crop yield and quality; iv) supporting training and education for the benefit of local cocoa farmers and their families. **Global Alliance for Improved Nutrition (GAIN):** GAIN is an alliance of governments, international organisations, the private sector and civil society that supports public-private partnerships working toward the distribution of necessary but often non-available nutrients. The alliance was created in 2002 at the UN General Assembly on Children and receives support from a wide range of donors including Bill and Melina Gates Foundation, USAID, DfID, CIDA, Irish Aid and the Netherlands. GAIN aims to provide nutritious food with sustainable nutritional impact to 1 billion people by 2015. **Grow Africa** is a partnership platform that seeks to accelerate agricultural development and growth via increased investment in line with national priorities and the Comprehensive Africa Agricultural Development Programme (CAADP) framework. Grow Africa aims towards i) increased private sector investment; ii) multi-stakeholder partnerships, and; iii) increased knowledge sharing and awareness rising of best practice and existing projects. Private companies have so far pledged to invest approximately $3.5 billion in the 8 countries supported by Grow Africa. Grow Africa is convened by World Economic Forum, African Union Commission and the New Partnership for Africa's Development (NEPAD).
Business-led models: These refer to projects initiated and led by private businesses or foundations, but where donors and others support various components of the project. They might be present early on in the development phase of the project, but could also be latecomers who align their activities to the framework of the programme.	**BrandAID project;** BrandAid is a Canadian integrated market company with the goal to link artisan microenterprises in developing countries with major retail distributors in North America and Europe. The project works on a four-stage development cycle, where the first step is to identify near-market ready artisans, then connect these with advertising and design agencies. The artisan (or artisan community) further develops and refines the products in partnership with designers and advertisers. Finally, BrandAid creates sales and retail programmes that generate consumer interest and media coverage. BrandAid receives support from the Ministry of Foreign Affairs, Trade and Development in Canada, as well as the civil society organisation TFO Canada. **Cocoa Partnership** The Cocoa Partnership is a partnership between Cadbury and Kraft (byers). UNDP (financial support) and the Fair-Trade foundation (implementing partner). Cadbury and Kraft established the project in 2009 with the aim to i) promote sustainable livelihoods for one million cocoa farmers, in particular women and youth; ii) Sustainably increase crop yields for farmer by 20% in 2012 (reached) and 100% by 2018; iii) provide business

	training and development, micro-businesses and alternative crops to 100 cocoa-farming communities to increase and create new income; iv) address key issues affecting the cocoa sector, such as nutrition, health, gender equality, environmental sustainability and child labour. **Heart of Haiti:** Created in 2010 in the wake of the Haiti earthquake, Heart of Haiti is an initiative launched by the US retailer Macy's that provides support to Haitian artisans and handicrafts producers. Projects include a rebuilding of 10 workshops and a 20,000 piece collection of Haitian artisanal goods sold by Macy's, and aim towards providing Haitians with greater market access, employment opportunities and prospects to earn sustainable incomes. Heart of Haiti is a collaboration between Macy's (initiator and buyer), the Clinton Bush Haiti Fund (funder), Fair Winds Trading (Macy's registered vendor) and Brand Aid (private sector implementing partner, see above). The total budget is unknown but the Clinton Bush Haiti Fund contributed US›174,823 programme related investment, while BrandAid contributed with a US$48,000 grant fund. **Rwanda Path to peace project** Although initiated by the executive director of UNIFEM (now UNIWOMEN), Ms Noeleen Heyzer, and the American businesswoman Willa Shalit in 2002, the project is currently run by the American retailer Macy's. Macy's collaborates with 3000 basket weavers (2009 figures) in Rwanda and sell their products in store and online. The weavers are organised in small rural associations that bring together Hutu and Tutsi women, while their husbands assist by caring for the children, harvesting raw materials and transporting finished baskets. The projects also offer initial training and on-going consultations to enhance weaving techniques. The Africa Growth and Opportunity Act (AGOA) allows the basket to enter the Africa market duty free.
Business-CSO models: Refer to projects where civil society organisations (CSOs) and private business have a common vision or interest and therefore join forces to increase scope, reach, impact or improve their working methodologies, technical expertise or context specific knowledge. Donors can have a supporting function (usually to the CSO or to the partnership mechanism itself), but the main driver is not the additional public money but rather the benefits that can be achieved by working within a CSO-business partnership.	**Project Nurture:** in 2010, Coca-Cola launched Project Nurture in partnership with TechnoServe and the Bill & Melinda Gates foundation with the goal to double the income of 50,000 fruit farmers in Uganda and Kenya as well as provide sustainable local sourcing for Coca-Cola. The project support fruit farmers by offering training programmes, facilitate access to credit, and by helping farmers access inputs and markets. The project further facilitates relationship building and networking between farmers and exporters, high-end market consolidators, open-air market traders and processors. Coca-Col has contributed with US$1.5m in in-kind contributions, Coca-Cola's East Africa Business Unit contributed with US$4m, while Bill & Melinda Gates Foundation provided US$7.5m. TechnoServe act as the implementing partner and leads the mobilisation of farmers and the local engagement. The project was terminated in 2013. **Women's empowerment on the Road to Export Markets:** Based in Bangladesh, the project bring together KikTextilien (international buyer, funder), Systain Consulting ltd (Kik's local compliance agency) CARE Bangladesh (NGO) and the local private firm Classical Handmade Products Ltd. The objectives are to i) integrate artisans into the décor, textiles and craft value chain; ii) connect local SMEs and more than 1000 women with export markets in Europe; iii) create and develop sustainable models for decentralised inclusive export-market supply chains and rural sourcing. Ultimately the project aims to create income and employment opportunities for women active in artisan or textile sector in Bangladesh. Since 2008, Kik has investment almost US$500,000 and keeps on procuring goods at periodic intervals, Systain provides quality support, while CARE facilitates training, mobilises poor women, co-invest in training programmes, and monitor the progress.
CSO-led models:	**Ten Thousand Villages:** Ten Thousands Villages is a Fair-Trade organisation and founding member of the World Fair Trade Organisation. TVV is North American (US and Canada in partnership) organisation, which purchases

This model refers to CSO-led initiatives aiming towards the creation of viable social enterprises. The CSO often acts as a knowledge broker or advocator for certain people and planet friendly investment projects or frameworks.	artisan products at a price mutually agreed with producers. Half of the sum is paid up-front enabling the producers to source materials without going into debt, while the second half is paid once the product leave the country of origin. TTV thus carries the main risk, and producers receive payment before the product has been sold at the consumer market. TTV Canada sell the products via their online sales centre, 45 permanent stores and 100 festival sales. Beyond providing market linkages and fair prices, TTV also offers technical training and design input to assist artisans meet the requirement of the Canadian marketplace. **PATH** is an international non-profit organisation that works with a range of public and private stakeholders in order to transform the distribution and access of vaccines. PATH focuses on innovative health solution in the areas of vaccines, devices, diagnostics, drugs, and system and service innovations. In their collaboration they are trying to safeguard partners' critical intellectual property rights, while still ensuring that global health goals are met. In order to achieve their ultimate goal to ensure that intellectual property is effectively and efficiently applied to solve global health problems, PATH has engaged in three types of IPR strategies: i) They have invested in the intellectual property rights of their partner without seeking to own or license it. They erect agreement around pricing and supply, where the IPR are triggered only in cases where the partnership do not follow agreed and planned procedures. ii) PATH has also engaged in partner agreements where the partner license IP for select geographic market or regions. Then the IPR can be sublicensed to an emerging-country manufacturer that can produce the vaccine at a lower cost. iii) PATH has moreover also developed their own intellectual property, either independently or in collaboration with a partner. This license can then be structured so to strategically support their global health mission. The IPR can also be placed in the public domain where it is free for everyone to use. Lastly, PATH aspires to ensure that the knowledge developed within their partnerships is made available to the broader scientific community. In each partnership they are developing a set of standards that outlines what results should be publicly available and when, in order to both protect IPRs and share research finding that benefits the global health. See more at: http://www.path.org/publications/files/OTP_maximising_p-pp.pdf

Source: Kindornay, Higgins and Olender, 2013

Annex 2: Instruments for leveraging private sector finance for development

Please note that these tables are non-exhaustive, indicative and that several of the instruments could fit under more than one mechanism.

Mechanism (funder)	Instrument	Characteristics
Public-private partnerships: Private-public partnerships (PPPs) use public funds to leverage and mobilise private funding to support public functions such as infrastructure provision and other forms of service delivery. PPPs are based on a contractual agreement where the outcome will provide a public good, but where the private sector receive some or all of the operational revenues once the project is completed. There is no generally agreed definition of PPPs, and the common descriptions and usages in development discourse ranges from the stricter definition above to broader descriptions of partnership in general.	**Blending facilities**	**Blending facilities** use a complementary mix of loans and grants, which allows sub-investment grade projects to become bankable. They can then attract new financiers to projects that otherwise would not have been realised. Blending facilities thus provide companies with significant potential for leveraging investments and further financing. To raise the necessary funds, development bank and agencies can issue government bonds, local currency bonds, debts offerings and sustainable investment bonds. Research shows that while blending mechanisms have significant potential to leverage and catalyse public and private investments, the degree of development innovation and impact of blending is less clear. It furthermore involves several risk factors such as i) the risk of concentrating financing towards certain sectors and countries; ii) the risk of crowding-out private financing and distorting markets; iii) the risk of providing insufficient attention to transparency and accountability; iv) the risk of unclear or ill-defined monitoring and evaluation methods; v) the debt risk for developing countries of increased lending; and vi) risk of inefficiency in incentivizing private investments[85].
	Frontloading of ODA	**Frontloading of ODA** is a mechanism where funds backed by long-term legally binding ODA commitments are used to raise finance on international capital markets. This mechanism is commonly used to resolve urgent priorities with a pressing need for additional funding. One of the most well known examples is the International Finance Facility for Immunisation (IFFIm), which was launched to raise private capital for the Global Alliance

85 Bilal and Krätke, 2013

		for Vaccines and Immunisation (GAVI). GAVI is a public-private partnership that set up the IFFIm as an innovative way to fund a wide range of their immunisation projects[86]. See more Annex 3.
	Output-Based Aid (OBA)	**Output-Based Aid (OBA)** involves contractual arrangements where the private sector receive funding or subsidies for providing a social service to a specified beneficiary. The aim of OBA is to cover the gaps between the costs of the service provision and the ability of the beneficiary to pay for this service. The public funding or subsidy is tied to the achievement of the pre-defined results, often related to water, energy and health provisions[87].
	Official Support for Private Flows (OSPF)	**Official Support for Private Flows (OSPF)** are used to leverage private investments and raise new revenues in order to develop or scale up activities in developing countries. By increasing the share of private investment into e.g. infrastructure project or other service deliveries, the OSPF can help reducing public debt pressure in developing countries (Vanheukelom et al., 2012).
Catalytic Mechanisms: Catalytic mechanism use public funds to reduce the risks of private entry and can by that i) promote local market development and ii) mobilise and leverage additional finance into the local private sector. The market for public providers of commercial and political risk management strategies has grown with the increasing recognition of factors such as currency, sovereign and project risks. Catalytic mechanism can support the private sector through *offering guarantees*, *callable capital* and *foregone*	**Currency swaps**	**Currency swaps** can improve the access to local currency financing and thus leverage foreign investments by reducing the risk of currency mismatches. Currency swaps allows exchanges of two currencies with contractual agreements of interest rate, amount and maturity rate. At the moment, currency swaps are only available for a few currencies and thus several development partners have initiated projects directed towards the development of new markets for long-term finance in local currencies. One example is the TCX, a fund created by donors, development banks and international banks, which provides investors in emerging markets with exchange rate and currency risk-management instrument and strategies. TCX focuses on maturities and currencies not covered by the regular market institutes, in areas such as basic currency and interest rate derivatives[88].

86 See more: http://www.gavialliance.org/
87 World Bank, 2009
88 Ibid.

revenues, thereby increasing access to finance.	**Financial guarantees functions**	**Financial guarantees** are non-cancellable bonds backed by a public insurer. Since the insurer guarantees that the principal and interest payments will be paid in the case of default, this instrument is frequently used to attract new investors. It can also be a cost efficient option for the issuer since the guarantee usually grants the security a higher credit rating and thus a lower interest rate.
Private to private: Development banks and other financial institutions are commonly mandated by their national donor agency to implement development friendly, sustainable investments for the benefits of the private sector in developing countries. Through the provision of funding via instruments such as *equity*, *concessional loans*, *mezzanine*, *capital market transactions* and *guarantees* the banks can attract further private investments while also supporting local business development. It should however be noted that development banks rarely are required to raise additional funding beyond their own contributions	**Investment loans**	**Investment loans** are used when a development bank provides funding to a private firm in order to support a specific pre-defined project. The financial support provided by the development bank or agency is usually met by an equal or larger investment from the private firm, who can either make its own resources available or borrow the remaining sum from another financial institute[89].
	Syndicated loans	**A syndicated loan** is undertaken when a group of actors, including e.g. development banks, companies and development agencies, provides funding to a single borrower. Through this structure the risks are distributed across the lenders, which thus reduces the risk for each lender in case of a default. Syndicated loans tend to be larger compared to standard bank loans and they thus carry a substantially higher risk should the borrower fail to fulfill his or hers commitment. Syndicated loans are often governed by one actor that has invested a proportionately lager sum compared to the other members of the syndicate and who is responsible for administrative duties and the distribution of revenues.
	Financial Intermediary (FI) loans	**Financial Intermediary (FI) loans** are loans provided by a development bank to a financial intermediary, such as a private bank, which then in turn offer the loan to a third client. Beyond the capital provided via the loan, the development bank can also be responsible for linking companies with other investors such as capital markets, institutional investors, investment funds and private banks. The benefit for the intermediary bank is that they often can share the development bank's preferred creditor status and risk insurance system. However, there is a risk of reduced transparency levels when introducing a financial intermediary as a middleman[90].

89 Byiers & Rosengren, forthcoming
90 Kwakkenbos, 2012

	Equities	**Direct equity investments** are another modality for development banks to contribute and leverage private investment via purchasing shares and thus ownership of parts of a company. Investment over 10% of the company's share (or the equivalence in voting power) is commonly perceived as a long-term investment that grants the investor a certain degree of influence over the management of the firm[91]. Investing in venture firms or projects with a potential pro-developmental impact can increase the firm's attractiveness to other investors, it is however ambiguous whether these types of investment can be said to really leverage private finance.
	Private equity funds (PE)	**Private equity funds** are mutual funds managed by a private actor. While the additional security provided by the development bank's contribution might have a positive effect, ambiguity remain on whether these funds actually leverage further private investments as the development bank is not in charge of the fund and thus not in a position to actively promote further private investments. It is also hard to estimate the developmental effect of the private fund's investment strategies; in particular as private equity funds rarely publish financial reports and results in the public domain.
	Risk management products and/or securitised finance	**Development banks can also offer risk management products and securitised finance** to private companies. Through **partial credit guarantees** a borrower of private finance can sell parts of the risk to a development bank, and in the case of default the bank steps in and takes on some of the loss. A **political risk insurances** provides the enterprises with an insurance that covers a range of political risks, such as currency inconvertibility and transfer restriction; expropriation of assets by the government; war, terrorism or civil disturbance; breach of contract, and; non-honouring of sovereign financial contributions[92]. **Catastrophe or whether insurances** commonly targeted medium and large agricultural projects, and insures against unexpected weather-related losses. Finally, most development banks also provide hedging products against exchange rate volatility[93].

[91] Vanheukelom et al., 2012
[92] This example covers the political insurances provided by the International Financial Corporation (IFC). See Griffiths, 2012
[93] Byiers & Rosengren, forthcoming

Annex 3: List of recently developed partnership instruments

Instrument	Description
International Finance Facility for Immunisation (IFFIm)	IFFIm was created 4 years ago upon the initiative of the British Government, which uses the long term borrowing capacity of States (UK, France, Norway, Italy, Sweden, South Africa and Spain) to collect funds on the markets and finance immunisation programmes in 70 countries amongst the poorest of the world within the framework of the GAVI Alliance. Over one billion dollars have already been collected. The goal is to reach 4 billion dollars in twenty years time. This financing mechanism is a hybrid approach combining both public and private sources in a creative financial model. Irrevocable sovereign financial commitments to IFFIm are structured as rising cash flows over twenty years, enabling it to carry an AAA rating. In effect, the twenty-year government pledges are, via placing bonds in the capital markets, converted into cash today. This financing initiative brings together the political will to innovate, to bring a new flexibility to public finances and to accelerate capital availability. It is also a targeted intervention that provides measurable inputs and outputs and true traceability. It is effective both in its financial and medical terms of reference, providing an AAA rated bond with credit backing to their capital, a market based interest rate and the socially responsible return, bringing a benefit to both capital market investors and children.
UNITAID	UNITAID is an innovative financing mechanism in the global response to securing financing for development and fight against poverty. Its strategic focus is to increase access to qualitative medicines, diagnostics and related commodities in HIV, Malaria and TB. It raises funds mostly through a tax on airline tickets and uses its pointed market interventions to scale up access to crucial medicines, diagnostics and related commodities by provoking price reductions, stimulating the production of qualitative and more user-friendly treatments and speeding up their availability and delivery.
The Voluntary Solidarity Contribution (VSC)	The VSC project is an initiative to collect contributions from air line ticket purchases worldwide by the Millennium Foundation, and redistributed through a grant allocation mechanism and distribution program to promote health for people in developing countries. The unique feature of the VSC is that, whereas previous fund-raising initiatives using micro contributions on air travel have been narrow in scope, the VSC project brings together the three main GDS (Global Distribution Systems) companies that together represent two thirds of the indirect airline ticket market globally.
Debt2Health initiative	Debt2Health initiative is a partnership between creditors and grant recipient countries under which creditors forgo repayment of a portion of their claims on the condition that the beneficiary country invests an agreed-upon counterpart amount in health through Global Fund approved programmes. In its pilot phase, $125 to $250 million should be available through this mechanism. This initiative was conceived to help relieve the strain on resources by converting portions of old debt claims into new domestic

	resources for health. Under individually negotiated agreements, creditors relinquish a part of their rights to repayment of loans on the condition that the beneficiary country invests the freed-up resources into approved Global Fund programs. It represents an opportunity for partnership between creditors and debtors in the joint pursuit of better health and improved quality of life for the people hardest hit by the diseases.
(PRODUCT)RED	(PRODUCT)RED is a brand licensed to partner companies to raise money for the Global Fund to fight AIDS, Tuberculosis and Malaria. Each partner company creates a product with the Product Red logo and in return gives a percentage of the profit on the sale of these products to the Global Fund. Since its creation, the initiative provided the Global Fund with over $130 million. RED represents a genuine and sustainable success story in deploying private sector marketing expertise to bring new resources to bear on global health issues. RED's partnership with the Global Fund serves as a successful model of both an innovative financing model and effective public-private partnership. While united by a common goal, these partners are able to bring in their unique expertise for the success of the overall project. RED and its partners contribute marketing and communications competencies while the global fund provides a grant- making and management capability with transparency and accountability mechanisms required to build a firm foundation for RED's public advocacy
Socially responsible investments (SRI)	SRI is a strategy that seeks to maximise both financial return and social good. Socially responsible investors favor investments that promote community development and make sure companies and individuals can invest in the future.
Carbon Revenues	Revenues from Carbon markets is an initiative that seeks to generate revenue from the sale of CO^2 emission allowances (also called Cap and Trade), which is an approach used by countries to cap the emissions that contribute to global warming. The overall goal of emissions trading programmes is to reduce global emissions while allowing countries that have reduced their emissions to generate additional income through the improvement of other standards in the country such as for environment protection or health care. Knowing the strong correlation between poverty and climate warming, such financial mechanism should also contribute to the achievement of the MDGs.
Development Impact Bonds	Finally, the Centre for Global Development (CGD) suggests the use of **Development Impact Bonds**, similar to Social Impact Bonds. Social Impact Bonds are outcome-based contracts in which the private sector funds a social project upfront and are remunerated provided that the project achieves its prior set goals. CDG suggest that the same funding structure could be applied in development project, in which the private sector then funds public development programme and then are payed back depending on the outcome of the project. This could increase the efficiency and effectiveness gains, while also tilting some of the risk from the public to the private sector (CDG, 2012).

About ECDPM

ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

Thematic priorities

ECDPM organises its work around four themes:

- Reconciling values and interests in the external action of the EU and other international players
- Promoting economic governance and trade for inclusive and sustainable growth
- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

Approach

ECDPM is a "think and do tank". It links policies and practice using a mix of roles and methods. ECDPM organises and facilitates policy dialogues, provides tailor-made analysis and advice, participates in South-North networks and does policy-oriented research with partners from the South.

ECDPM also assists with the implementation of policies and has a strong track record in evaluating policy impact. ECDPM's activities are largely designed to support institutions in the developing world to define their own agendas. ECDPM brings a frank and independent perspective to its activities, entering partnerships with an open mind and a clear focus on results.

For more information please visit www.ecdpm.org

ECDPM Discussion Papers

ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

This publication benefits from the generous support of ECDPM's core, institutional and programme funders: The Netherlands, Belgium, Finland, Ireland, Luxemburg, Portugal, Sweden, Switzerland and Austria.

ISSN 1571-7577

European Centre for Development Policy Management

ecdpm

HEAD OFFICE
SIÈGE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands *Pays Bas*
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE
BUREAU DE BRUXELLES
Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

info@ecdpm.org
www.ecdpm.org
KvK 41077447

MIX
Paper from responsible sources
FSC
www.fsc.org
FSC® C017488

Printed on FSC certified paper.