The Future Role of the Private Sector in Development Cooperation: an overview of key policy processes

CONCORD

Swedish and European CSOs for global development

Sweden

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In the past couple of years, the role and importance of the private sector as an actor for sustainable development has been thoroughly discussed. CONCORD Sweden has identified the importance of an oversight of the role of the private sector in development cooperation. This mapping therefore outlines the role of the private sector for sustainable development in a number of processes and policies at the international and the European level, that are relevant to the work of CONCORD Sweden and its member organizations. The aim is to provide a better understanding of the current narrative on the role of private sector and allow for continued discussions and joint work on this matter. The mapping specifically looks into the following processes; the global aid and development effectiveness processes, the OECD-DAC process to 'modernise' the concept of ODA, the post-2015 sustainable development agenda and financing for development, as well as the private sector in EU development policy debates.

June 2014

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This report has been published with the financial support of the Swedish Agency for International Development Assistance (Sida). Sida has not, however, contributed to its development nor takes a position on the content of the report.

Sammanfattning

Den privata sektorn, vare sig det handlar om små-och medelstora inhemska företag eller multinationella koncerner, kan bidra till fattigdomsbekämpning och hållbar utveckling. Under senare år har privata sektorn fått en allt större roll i flera olika internationella processer. utvecklingen har gått hand i hand med en renässans för tron på den ekonomiska tillväxtens förmåga att skapa utveckling och att allt fler företag börjat stärka sitt samhällsansvar, CSR (corporate social responsibility). I dag utgör näringslivets investeringar i utvecklingsländer lika stor del som ländernas egna offentliga finanser.

Teorin är att en aktiv privat sektor kan bidra till att skapa arbetstillfällen i fattiga länder vilket i sin tur väntas bidra till fattigdomsbekämpning. Förutsättningen är att det finns ett gynnsamt klimat och goda förutsättningar för företagen att verka och investera i dessa länder, ett så kallat ”enabling environment”.

Ytterligare en förklaring till den privata sektorns ökade betydelse är enligt flera bedömare den finanskris som inleddes 2007. Krisen fick som konsekvens att flera länder minskade sina biståndsbudgetar och vände sig till näringslivet för att ”täppa till hålen”. Samtidigt har biståndet till den privata sektorn ökat kraftigt under senare år, inte minst i Sverige. År 2012 kanaliserades 38 miljoner euro av det svenska biståndet till privata sektorn, en ökning från 5,5 miljoner 2006.

Vad som avses med den ”privata sektorn” i olika sammanhang är dock inte alltid glasklart. I flera sammanhang åsyftas de multinationella företagen, men den privata sektorn utgörs också av små- och medelstora företag, den informella sektorn och stora statligt ägda företag i utvecklingsländerna.
I kartläggningen utreds hur den privata sektorn behandlas inom fyra aktuella internationella och europeiska processer:

- Åtagandena om utvecklingseffektivitet i Busan och Mexiko
- Översynen av biståndsdefinitionen inom OECD-DAC
- EU:s gemensamma position om privatsektorutveckling
- Den nya agendan för hållbar utveckling post-2015 och Finansiering av hållbar utveckling

Det är i grunden rimligt och viktigt att den privata sektorns perspektiv tas med i planer för att skapa ekonomisk utveckling, minska fattigdomen och bidra till miljömässig hållbarhet. Men även om det finns målsynergier mellan den privata sektorns och samhällets mål om fattigdomsbekämpning och hållbar utveckling, så finns även målkonflikter. Och medan de flesta är överens om att den privata sektorn kan bidra till fattigdomsbekämpning och att skapa hållbar utveckling, finns flera oklarheter kring hur detta säkerställs. I rapporten identifieras sju utmaningar kopplat till privata sektors roll för hållbar utveckling. En gäller sambandet mellan ekonomisk tillväxt och hållbar utveckling: eftersom ekonomisk tillväxt inte per automatik gynnar de allra fattigaste och mest marginaliserade krävs att staten och privata sektorn samspelar för att säkerställa en tillväxt som de facto bidrar till hållbarhet i dess tre dimensioner och till fattigdomsbekämpning.

Frågetecken har även rests kring begreppet ”enabling business environment” kontra företagens ansvar. Att skapa gynnsamma förutsättningar för privata sektorn presenteras ofta som en teknisk fråga, men handlar i praktiken ofta om ändrar politik, till exempel avregleringar eller ökad privatisering av statliga företag. Att företag ska lockas investera i utvecklingsländer med låga skatter som incitament är ännu en fråga bör diskuteras med tanke på att multinationella företags skatteflykt i dag är ett stort problem för många utvecklingsländer. Det är vidare oklart hur stor andel av de medel som öronmärks till privatsektorutveckling som investeras i och kan tillgodogöras av inhemska företag i utvecklingsländer.

En ökande form av samarbete med privata sektorn är offentliga-privata samarbeten (så kallad blending) där bistånd används för att medfinansiera privata investeringar, genom att bistånd blandas med lån till privata företag. Utvärderingar visar att denna typ av partnerskap ofta är komplexa, innebär stora gömda kostnader och dyr samhällsservice varför en utvärdering av dess utvecklingseffekter behövs. En annan diskussion som förs är vikten av att ställa krav på privata sektorns transparens och resultat för utveckling. Vilka regler och ageranden som väntas för givarländer och företag är ännu oklart. Det är även en utmaning att säkerställa att bistånd som kanaliseras till privata sektorn bidrar till fattigdomsbekämpning och hållbar utveckling utöver det som offentlig finansiering redan bidrar till. Slutligen berörs företags ökande inflytande i utvecklingsprocesser och fora.

Summary

The private sector, whether domestic small- and medium enterprises or multinational corporations, can contribute to poverty reduction and sustainable development. Recently, the role of the private sector has increased in several different international processes. This tendency goes hand-in-hand with a revival of the belief in the ability of economic growth to create development and that more and more companies have started to improve their social responsibility, CSR (Corporate Social Responsibility). At present, private sector investments in developing countries constitute an equal share as the public finances of these countries. According to the theory, an active private sector can contribute to the creation of job opportunities in poor countries, which in turn is expected to contribute to poverty reduction. The precondition for this is an enabling environment for companies to operate and invest in these countries.

Another explanation to the increased importance of the private sector is, according to several analysts, the financial crisis which started in 2007. As a consequence of the crisis, several countries reduced their aid budgets and turned to the private sector to fill the gaps. At the same time has aid to the private sector increased considerably during the last years, not least in Sweden. In 2012, 38 million euro of the Swedish development aid was channeled to the private sector, this is an increase from 5,5 million euro in 2006.

However, the meaning of the “private sector” in different contexts is not always clear. In several contexts, the meaning of the private sector is multinational corporations, but the private sector also involves small- and medium enterprises, the informal sector and the large state-owned companies in developing countries.

This report investigates how the private sector is dealt with within four current international and European processes:

- Commitments on aid effectiveness in Busan and Mexico
- The revision of the ODA definition within OECD-DAC
- EU:s common position on private sector development
- The new agenda for sustainable development post-2015 and Finance for sustainable development

It is reasonable and important that the perspective of the private sector is taken into account in plans for creating economic development, reduce poverty and contribute to environmental sustainability. Even if there are synergies between the goals of the private sector and the goals of the society regarding poverty reduction and sustainable development, there are also conflicts of aims.

While most agree on that the private sector can contribute to poverty reduction and create sustainable development there are several concerns on how to ensure this. The report identifies seven challenges related to the role of the private sector in sustainable development. One challenge is the relation between economic growth and sustainable development: since economic growth does not automatically benefit the poorest and most marginalized, interaction between the state and the private sector is required in order to ensure a growth which de facto contributes to the three dimensions of sustainability and to poverty reduction.

Questions have also been raised about the concept “enabling business environment” versus the responsibility of companies. Creating an enabling environment for the private sector is often presented as a technical issue, but in practice it is often about changing politics, for example, deregulation or increased privatization of state-owned companies. That companies should be attracted to invest in developing countries with low taxes as an incentive is another issue which should be discussed considering that illicit capital flight by multinational corporations is a major problem for many developing countries. Further, it is unclear how much of the funding earmarked to the private sector which is invested in and can benefit domestic companies in developing countries.

A growing form of cooperation with the private sector is public-private-partnership (so called “blending”) where aid co-finance private investment through blending aid with loans to private companies. Evaluations show that this type of partnership is often complex, with vast hidden hosts and expensive public services, and thus an evaluation of its development impacts is needed. Another discussion is the importance of demanding transparency and development results of the private sector. What rules and actions which are expected for donor countries and companies are yet unclear. It is also a challenge to ensure that aid which is channeled to the private sector contributes to poverty reduction and sustainable development in addition to the contributions of public finance. Finally, the report also concerns the increased influence of companies in development processes and forums.

Introduction

In the last 5-6 years, the role of the private sector in sustainable development has become one of the most prominent themes in a host of international development policy processes. This coincides with a renewed focus on economic growth and trade as driving forces behind development. These trends are reflected in the debates and outcomes of meetings such as the UN Millennium Summit in 2010, the High Level Forum on Aid Effectiveness in 2011, the Rio+20 Conference on Sustainable Development in 2012, successive G20 summits since 2010, and the recent first meeting of the new Global Partnership on Effective Development Co-operation (GPEDC) that was held in April 2014. The role of the private sector as a partner to ensure sustainable development is being thoroughly discussed in United Nations discussions on a new global framework for sustainable development post-2015 and the associated Financing for Development process, as well as in various policy processes within the European Union.

These debates are both influenced by, and have an impact on, developments at the national level. In particular, national donor agencies in many OECD countries are adopting or upgrading their strategies and launching new instruments not only for targeting the private sector in developing countries, but also for collaborating more closely with business partners in the design and delivery of development cooperation programmes and strategies.

A thriving private sector that provides decent jobs and generates revenue has long been considered an essential component of a successful development strategy, and for donors to work in support of private sector development in partner countries is nothing new. The Donor Committee for Enterprise Development, which works to promote greater access to employment, higher incomes and better services for the poor through private business, was established already in 1979. It now has 23 members among bilateral donors (including Sida and the EU Commission), UN agencies and foundations.[1]

The volume of private capital – domestic and international – that is invested in developing counties is on par with that of domestic and international public finance combined. In 2010 public domestic finance – mainly from tax revenues – amounted to amounted to € 3,317 billion. Domestic private investment amounted to € 2,678 billion, and international investments € 624 billion (of which 181 billion was foreign direct investment. FDI). On the other hand, illicit financial outflows due to corruption, crime and tax evasion & avoidance were estimated at € 649 billion. By comparison, ODA and other official development finance added € 158 billion worth of financial resources.[2]

The private sector plays a central role in advancing innovation, mobilising domestic resources, and creating wealth. Further, the private sector can play a key part by respecting human rights and existing international guidelines for business and human rights, create full and decent emploement, work actively to end corruption in all its forms, and make the changes needed for sustainable production patterns, effective use of resources and integrating sustainability to business models and operations. In turn, private sector can contribute to poverty reduction, combatting climate change and ensuring sustainable development. In order to achieve sustainable development and poverty eradication, there is an increasing need for all actors to work together. In current discussions on defining and creating a new global partnership, the role of the private sector is one of the most prominent themes.

Many see a connection between the global economic and financial crisis that started in 2007, and the simultaneous surge in interest in engaging with the private sector. In response to this crisis, significant cuts were made in the development assistance (ODA) budgets of many donor countries. Donors may now be looking to ‘unlock’ private capital as the formula to bridge the large development financing gap, particularly for infrastructure and also for other public goods and services.[3] In the international debates, this ambition is reflected in frequent references to “new opportunities for aid to leverage private resource flows”, and is seen as a solution for boosting development finance in times of budget austerity.[4] Such mobilisation of private resources is also frequently referred to as “innovative financing mechanisms” or “innovative sources of finance” [5] – although this interpretation constitutes a departure from the original innovative financing for development discussion, which aimed to find new and innovative ways to increase public sources of finance.[6] In these discussions, civil society often highlights the importance of understanding the different roles of different actors and that partnerships with private sector cannot replace the role of the public sector. Aid statistics also show that ODA flows to the private sector have been growing rapidly in recent years. Sweden is a striking case in point, where aid channelled to the private sector increased by seven times – from € 5.5 million to € 38 million – from 2006 to 2012. Sweden is also leading the discussion on the use of aid to leverage private sector investments in many international forums such as the OECD.[7]

Which private sector – and how?

In the context of the development debates, the private sector is generally understood to mean the commercial business sector. In some other contexts labours unions are considered to be part of the private sector, but this is usually not the case here. For instance, the business community has its own "private sector stakeholders" representative in the governing body of the GPEDC, while the labour unions and civil society have one seat each.[8] By comparison, workers & unions have been represented as a separate "major group" – as have non-governmental organisations and business & industry – in all United Nations discussions on sustainable development.[9]

Many of the new donor initiatives that are being devised target OECD-based corporations as development partners. But in addition to these trans- and multinational corporations, the private sector actors that are relevant for development cooperation obviously include the broad range of companies and businesses in the developing countries: from large private and state-owned companies to SMEs, small-scale farmer groups and cooperatives, and even the informal business sector.[10] It is noteworthy that the private sector chair in the GPEDC is held by the Business and Industry Advisory Committee (BIAC),[11] the association that represents the business community within the OECD.

Much of the debate about the private sector in development is centred on improving the climate for private investors – promoting an "enabling business environment".[12] This implies reforms in a wide range of policies, legislation, regulations and governance structures, to ensure that the private sector can thrive. The assumption is that this will contribute to growth, which in turn contributes to poverty reduction. While governments and private sector often raises the need for an enabling environment and increased focus on public private partnerships, civil society and other actors often raise the need for binding rules, regulations and proper oversight, to ensure that private sector, at the very least, does no harm.

Aid donors also engage and build partnerships directly with the private sector. The engagement of the private sector comes in many forms: for instance as the direct recipients of subsidies, loans, guarantees and equity investments, as partners in public-private partnerships, as suppliers of goods and services for the implementation of aid programmes, and through the blending of commercial loans with aid grants. In addition, private philanthropic foundations and corporate donations provide development resources of their own – this particular role is not discussed any further in this paper.

* * *

The following four sections of this paper describe how the role of the private sector for development and, when applicable, in development cooperation is addressed in the following four policy processes:

1. **The global aid and development effectiveness processes**
2. **The OECD-DAC process to modernise the concept of ODA**
3. **The Post 2015 sustainable development agenda and Financing for sustainable development**
4. **The Private sector in EU development policy debates**

This account is mainly based on the official documents that these processes have produced. The final section provides a summary of a number of challenges related to these policy processes that have emerged out of the contributions from – and discussion amongst – governments and institutions, civil society organisations, the business community and other stakeholder groups.

1. The global aid and development effectiveness processes

In 2005, the international development community came together in Paris for the Second High Level Forum (HLF-2) on aid effectiveness. The Paris Declaration on Aid Effectiveness, which was adopted at the meeting, formulated aid effectiveness principles within five areas – Ownership, Alignment, Harmonisation, Managing for results, Mutual accountability – with targets to be reached by 2010, and indicators for the follow-up.[13] The body that was set up to provide advice on and monitor the implementation of the declaration included the member states of the OECD Development Assistance Committee (DAC), but also a substantial number of developing country government representatives.

In the process that led up to the next HLF, in Accra in 2008, a separate dialogue was organised on the role of civil society organisations (CSOs) in promoting aid effectiveness. The Accra HLF saw, for the first time, a broad representation of CSOs as full participants in the meeting, and the declaration that was adopted recognised CSOs as development actors in their own right.[14] The meeting also welcomed the efforts and initiatives taken by the global CSO community to promote its own development effectiveness.

Already in the Paris Declaration, developing countries made a commitment to encourage the participation of the private sector in the dialogue on development policy, and at the Accra HLF the donor community promised to support efforts by the private sector to take an active role in such dialogues. The Accra Agenda for Action also makes commitments towards building "more inclusive" partnerships that involve the private sector. But while the CSOs were "invited to reflect on" how they can apply the aid effectiveness principles, no such expectations were directed towards the business community.

The fourth HLF – held in Busan, South Korea, in late 2011 – evaluated the implementation of the Paris Declaration and launched a new and broader initiative: the Global Partnership on Effective Development Co-operation (GPEDC).[15] It has been said that Busan was for the private sector what Accra had been for civil society. For the first time, representatives of private sector organisations were signatories to the agreement.[16] In addition, more than 40 representatives from both the public and the private sectors (overwhelmingly from the global North, and including Sweden) endorsed a joint statement on public-private cooperation "for broad-based, inclusive and sustainable growth".[17] After Busan the private sector was given a seat of its own on the Steering Committee of the GPEDC.

The Busan declaration states that the private sector has a central role in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction. The partnership makes a number of specific commitments towards the business sector, such as to "improve the legal, regulatory and administrative environment for the development of private investment; and also to ensure a sound policy and regulatory environment for private sector development, increased foreign direct investment, public-private partnerships, the strengthening of value chains", and to "enable the participation of the private sector in the design and implementation of development policies and strategies". The partnership also promises to advance innovative financing mechanisms, to promote aid for trade, and to "make development and business outcomes mutually supportive". [18]

The declaration states that the partnership is underpinned by a common set of principles that form the foundation for effective development cooperation – ownership of priorities by developing countries, focus on development results, transparency and accountability to citizens and the intended beneficiaries. As signatories to the agreement, the private sector has also committed to follow these principles. But little has yet been done to define what this implies in practice, in terms of responsibilities of the business communities or individual business entities in return for the extensive promises of public financial support and business influence over public policy.

The only indicator for the follow-up that relates to the private sector focuses on the commitment to enable the participation of the private sector in the design and implementation of development policies and strategies – not on any parameter that tries to assess the contribution by the private sector towards poverty reduction and development.[19] The 2014 Progress report on the implementation of the Busan commitments noted that the tools for assessing progress on this indicator were still being tested. Preliminary findings suggested that public-private dialogue (PPD) can contribute to promoting reform and improving investment climates, but nowhere in the pages that are devoted to the subject is the influence on public policy that PPDs offer to the business sector discussed in relation to the public interest or the participation and influence of citizens and civil society groups.[20]

The first meeting of the GPEDC was held in Mexico City in April 2014. The role of the private sector was one of the main themes at the meeting. The final communiqué states – for the first time – that the private sector is an important actor in development *cooperation* (and not only in development).[21] Business is given recognition for their important contribution "to poverty eradication and sustainability through strong and inclusive economic growth, wealth and decent jobs creation … and expanded access to goods and services for all", but without any reference to experiences that point in other directions. The communiqué does, however, emphasise the critical role that small and medium-size enterprises play in achieving many of these outcomes, and the need to support these enterprises in enhancing their development impact.

The "critical importance of promoting an enabling business environment conducive to inclusive and sustainable development" is also emphasised, but the corresponding responsibilities of the business sector are missing. Where an earlier draft of the communiqué had added "… with corporate social and environmental responsibility, transparency and accountability, and respect for human rights at its core",[22] this was reduced to a recognition of the importance of private sector accountability in the final document. With the exception of a mention of human rights in the introductory paragraphs,[23] the document now only refers to human rights in connection with civil society, and transparency only comes across as a responsibility of the public ODA providers. Corporate social and environmental responsibility is presented as a desired outcome of structured multi-stakeholder dialogue, not as something for the private sector itself to uphold.

Donor commitments to untie aid

One issue that has been on the aid effectiveness agenda ever since Paris and is related to the private sector – but not directly to private sector development – is that of tied aid. The Paris Declaration notes that untying aid generally increases aid effectiveness by reducing transaction costs for partner countries – tied aid raises the cost of goods, services and works by 15% to 30% on average[24] – and improving country ownership and alignment. Still, the only commitment made by the DAC donors was to "continue to make progress" on untying ODA to the Least Developed Countries.[25] Three years later in Accra donors agreed to extend this ambition to eight non-LDC countries, and to elaborate individual plans to further untie their aid "to the maximum extent".[26]

The 2011 Evaluation of the Paris Declaration found limited progress in aid untying, with significant loopholes and uncertainties in the reporting.[27] Still, at the Busan meeting at the end of the year donors only committed to accelerate their efforts to untie aid and to improve the quality of their reporting. The target for the indicator is, as before, continued progress over time.[28]

According to the first progress report of the Busan partnership, the percentage of untied aid increased from 72% in 2008 to 79% in 2012. This was mainly due to a steep rise following the Accra HLF, after which the development has slowed down.[29] The declaration from the Mexico meeting in April 2014 contains yet another promise to "invigorate efforts "to "continue untying aid".[30]

"Recommitting to past pledges without adding to them is now standard practice, for donors in particular," says former CONCORD President Justin Kilcullen in summing up the meeting. "There were few if any new commitments in Mexico, just a resolution to try harder." [31]

2. The OECD-DAC process to 'modernise' the concept of ODA

In December 2012, the High Level Meeting (HLM) of the OECD Development Assistance Committee (DAC) [32] adopted a mandate to elaborate a proposal for a new measure of total official support for development, and to investigate the need to "modernise" the ODA concept "with a view to ensuring that ODA is directed to where it is most needed and where it can catalyse other flows and promote accountability".[33]

The DAC defines the criteria for expenditures that OECD donor countries may report as ODA. The current definition is:

> "flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:
>
> i. provided by official agencies, including state and local governments, or by their executive agencies; and
>
> ii. each transaction of which:
>
> a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and
>
> b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent)." [34]

Official subsidies to private firms are not considered to meet the tests of ODA, since they support activities with a primarily commercial objective.[35] Official interest subsidies may, however, be reported as grants – and classified as ODA – if the subsidy has been screened by the aid authorities to ascertain its potential development effectiveness.[36]

The DAC also keeps statistics on transactions by the official sector that do not meet the conditions for eligibility as ODA, either because they are not primarily aimed at development, or because they are not sufficiently concessional. Such transactions may be reported in a category called *other official flows* (OOF). OOF includes:

- Subsidies (grants) to the private sector to soften its credits to developing countries
- Funds in support of private investment (loans and grants by the official sector to a private company in the donor country to help finance a specified investment in a developing country). [37]

The April 2013 Senior Level Meeting (SLM) of the DAC adopted a "road map"[38] for the process to improve the DAC's measurement and monitoring of external development finance, and in March 2014 the DAC Secretariat presented a set of proposals to the following SLM.[39] [40] Discussions on these proposals continue, with the aim to present final proposals for decision at the DAC Ministerial on 15-16 December 2014. Due to some significant differences between member states on several central issues, this timetable may prove to be overly optimistic. The rationale for the proposals that were presented in March is summarised as "restoring the credibility of ODA measurement, mobilising more resources for the post-2015 agenda and increasing their impact through better leveraging of private resources". The proposal builds on several tracks:

Defining a new measure for Total Official Support for Development (TOSD). This measure should include non-ODA finance of peace, security, climate, and other global challenges, on a basis to be further developed by the DAC. The measure of TOSD should clearly distinguish between official flows and those private flows mobilised by official action. Methodologies to assess the latter will be further investigated, taking account of the emerging post-2015 sustainable development agenda.

Sharpening and modernizing the ODA measure. Proposed changes include only counting the grant equivalent (the subsidized part) of loans and other non-grant instruments instead of their full value, as is the case today. This implies making the definition of ODA stricter. However, several DAC members have also suggested reassessing the ODA eligibility of "certain items considered as essential development enablers under the emerging sustainable development agenda … such as peace and security". Such changes may open up discussions on other measures that would widen the definition.

Revising the definition of concessionality. The current ODA definition calculates (as mentioned above) the grant element of loans on the basis of a 10% discount rate, which is disconnected from real market conditions and allows donors to inflate aid figures and to make a profit out of concessional lending.[41] The ambition is to come to agreement on a method that can provide a more accurate estimate.

There is also a proposal to lower the income threshold for ODA eligible countries or, alternatively, to set voluntary targets for donors to direct a greater share of ODA to countries that are most in need of aid resources.

CONCORD argues that while the OECD DAC has a history of working on ODA, it is not the right forum to determine the developmental character of other financial flows. With regard to the ODA measure, CONCORD's submission to the DAC discussion emphasises that guarantees and other risk sharing mechanisms should be excluded from the future ODA measure unless they can clearly demonstrate additionality in poverty eradication and achievement of development goals.[42]

Development agencies are increasingly trying to leverage private finance with development assistance, also called blending or publicly leveraged private finance. The practice requires development assistance, in collaboration with private finance, to make investments that can provide a profit – otherwise the private partners are not inclined to participate. There's an increased interest in being able to reportthe full investment, both public and private finance, within the ODA criteria.

3. The post-2015 sustainable development agenda and financing for sustainable development

After the Millennium Summit in the year 2000, the UN adopted the Millennium Development Goals (MDGs) to give a targeted push to international development work in several central areas such as poverty, hunger, education and health. The goals were set to be reached by 2015. Two years later the member states came together for the UN Conference on Financing for Development. The Monterrey Consensus on Financing for Development that emerged identified private international capital flows as a vital complement to national and international development efforts.[43]

With the MDGs, the main purpose of aid appears to have shifted from economic development towards more direct support for the poorest to get access to people to health, education and other social services. Now, as 2015 approaches, support for economic development is coming strongly back as a development priority and as a purpose of aid.[44] At the UN Millennium Development Goals Summit in 2010, Sida and ten other donors issued the Bilateral Donors' Statement in Support of Private Sector Partnerships for Development. The statement recognized the private sector as *the* engine of economic growth (*emphasis added*), and as equal partners around key development issues.[45] However, terms such as inclusive, equitable and sustainable are frequently added before the word growth.

The MDG Summit requested the UN Secretary-General to initiate the process of creating a post-MDG agenda. When the international community gathered two years later for the United Nations Conference on Sustainable Development – Rio+20 – it was also decided to establish a process for developing global sustainable development goals to be agreed by the General Assembly. These two initiatives have subsequently been merged into one post-2015 process, and to some extent also integrated with the continued follow-up process on Financing for Development.

Four of the major documents – among many other – that have provided some sort of official input into the post-2015 discussions are:

- The resolution from the Rio+20 Summit (The Future We Want)[46]
- The report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda[47] (which was commissioned by the UN Secretary-General in 2012), and
- The Working Document(s) of the Open Working Group on Sustainable Development Goals (OWG).[48] The (OWG) has been tasked with presenting a report by August 2014, proposing sustainable development goals (SDGs).
- *An Action Agenda for Sustainable Development, a* report presented to the UN Secretary-General by the Sustainable Development Solutions Network (SDSN).[49]

According to "The Future We Want", the "interplay of development assistance with private investment, trade and new development actors provides new opportunities for aid to leverage private resource flows." But in stating that a "dynamic, inclusive, well-functioning and socially and environmentally responsible" private sector can offer a crucial contribution to economic growth, reducing poverty and promoting sustainable development, the document provides a rather qualified recognition of the private sector.

The resolution calls upon the private sector to engage in responsible business practices, but also makes a commitment to foster private sector development by pursuing appropriate national policy and regulatory frameworks to facilitate entrepreneurship and innovation among women, the poor and the vulnerable, and to work to improve income growth and distribution by empowering women, protecting labour rights and taxation. Partnerships with the private sector are encouraged, with the addition "taking into account the interests of local and indigenous communities when appropriate" and the caveat that governments should support initiatives and promote the contribution of the private sector “in the context of sustainable development and poverty eradication”.

The report of the High-Level Panel comes across as more unconditional in its assessment of the potential of private business to drive sustainable and inclusive growth. The Panel “noted the huge potential to use public money to catalyse and scale up private financing for sustainable development”, and emphasises the need to find “new ways of using aid and other public funds to mobilise private capital”.

The “perhaps most important” shift that the Panel calls for is to bring a new sense of global partnership into national and international politics, based on “our common humanity” and the principles such as universality, equity, sustainability, solidarity, human rights, the right to development and responsibilities shared in accordance with capabilities. “One simple idea lies behind the principle of global partnership”, the Panel explains: “People and countries understand that their fates are linked together. What happens in one part of the world can affect us all.”

Possible conflicts of interest are all but absent from the narrative. Recognising that SMEs will create most of the jobs that will be needed to help the poor escape poverty, the panel assumes that big business will build the infrastructure that will allow all people to connect to the modern economy and also link microenterprises and small entrepreneurs with larger markets:

“When (large corporations) find a business model that works for sustainable development, they can scale it up fast, using their geographic spread to reach hundreds of millions of people.” Large mineral projects are highlighted for their great potential for raising domestic revenues in many low-income countries, but with no mention of the social conflict and negative environmental impacts that are frequently associated with such projects.

The Panel presented a set of possible goals and targets to be incorporated in a post-2015 development agenda. Two of them relate directly to the role of the private sector:

- Under the goal *Create jobs, sustainable livelihoods and equitable growth*, target 8d: Increase new start-ups by X and value added from new products by Y through creating an enabling business environment and boosting entrepreneurship.
- Under the goal *Create a global enabling environment and catalyse long-term finance*, target 12b: Implement reforms to ensure stability of the global financial system and encourage stable, long-term private foreign investment.

The sections of the report that presents evidence of impact and explanation of the goals do touch upon issues like the necessity to pursue inclusive growth, responsible corporate business codes, norms and mechanisms for transparency and accountability, and of a global economy that encourages fair and development-friendly trade. But none of these factors are reflected in the goals and targets that the panel proposes. And in the case of the concept of “decent work”, which is promoted by the ILO and the global labour union movement, the panel actually argues that it too ambitious a goal to be implemented in many developing countries.

The Sustainable Development Solutions Network (SDSN) was launched by the UN Secretary-General in August 2012, and is one of the official work streams in the post-2015 process. SDSN mobilizes scientific and technical expertise from academia, civil society, and the private sector in support of sustainable development problem solving at local, national, and global scales. The main SDSN report describes large and small businesses as an integral part of any strategy to address the sustainable development challenges and concludes that business and public-private partnerships (PPP) must play an important role in financing sustainable development, particularly for infrastructure and urban development. However, it also emphasizes the importance of substantial ODA for low-income countries, adequate climate finance and other public financing from rich countries and emerging economies. All companies, especially the major multinational companies, must adopt the sustainable development goals and hold themselves accountable for them vis-à-vis their investors, customers, suppliers, employees, and society at large.[50] SDSN has also proposed a set of ten goals with targets. This document only refers to the private sector in relation to the need for good governance and for sustaining ecosystems and natural resources.[51]

The Open Working Group on Sustainable Development Goals (OWG) has built on the input form the Rio+20 resolution, the report of the High-Level Panel, and extensive consultations with CSOs, the private sector and other stakeholders. The OWG has presented successive versions of a Working Document – the latest version that was available at the time of writing is dated 2 May 2014.

The document identifies goals, targets and means of implementation within 16 focus areas. For focus area 15, which deals with strengthening global partnerships for sustainable development, only the means of implementation have so far been drafted. 22 different means are listed in this area alone, still most of them are remarkably vague. The means with a direct bearing on efforts to boost private sector contributions to development are:

- mobilise additional financial resources from multiple sources, including reducing the cost of remittances
- encourage long-term private foreign investment and inclusive finance
- ensure adequate financial resources for investments in sustainable development
- strengthen domestic resource mobilization, including by improving tax collection and the efficiency of public spending, reducing tax evasion and avoidance, improving stolen asset recovery, and strengthening systems to harness domestic savings for investment

By contrast, focus area 8 includes both a goal – *Promote sustainable, inclusive and sustained economic growth and decent jobs for all* – and ambitious targets such as:

a. sustain income growth of the bottom 40% of the income distribution of each country to reduce income inequalities by 2030
b. achieve full and productive employment and decent work for all who seek employment including for marginalized groups by 2030.

The global civil society campaign Beyond 2015 has presented its overall response to the Working Documents, and also proposed detailed line-by-line edits to the draft and all the proposed focus areas.[52] Their key concerns include the failure of the draft to ensure a genuine human rights based approach, or to make references to pre-existing human rights agreements, and to take note of the contradiction between sustainable development and the current growth paradigm which has led to ever widening inequalities.

Targets are needed which incentivise governments to take concrete measures to prevent business-related human rights and environmental abuses, by mandating independent, rigorous and periodic human rights and environmental impact assessments of all large, influential businesses.[53]

Further official input into the debate will come from the Intergovernmental Committee of Experts on Sustainable Development Financing (ICESDF), a body that was set up after a decision at the Rio+20 conference in 2012. The Committee's mandate includes to assess the effectiveness, consistency and synergies of existing financial instruments and frameworks, to evaluate additional initiatives, and to propose options on an effective sustainable development financing strategy to facilitate the mobilization of resources and their effective use in achieving sustainable development objectives.[54] An open consultation on the role of private sector in sustainable development financing and the opportunities in creating new partnerships was held in April. Messages that came out of the meeting highlighted the important role of national development policies and investment strategies to help channel investments to priority sectors, of stronger national level coordination and oversight, and of effective monitoring and evaluation for accountability.[55] The committee is due to present its final recommendations in a report in August 2014.

With regard to financing, Beyond 2015 insists that adequate financing for development must be ensured, with a special focus on the needs of LDCs and LICs. Furthermore, all means of implementation must be fully consistent with – and ensure full implementation of – existing international commitments and multilateral agreements on human rights and in other areas. In a statement by CSOs participating in a consultation with ICESDF, the importance of understanding the different roles of different actors, and the fact that partnerships or private sector cannot replace the role of public sector were highlighted. The duty of the states to *protect human rights, to provide public goods, to preserve global commons and to ensure that the private sector takes the responsibility to respect human rights and environment* was stressed.

Civil society actors have also expressed concern over the level of corporate influence in the post-2015 process itself, and on the lack of analytical and historical perspectives on the role of business in causing or exacerbating the problems that the process is meant to tackle. As one report notes, "business as usual" has served many well (as can be illustrated by the 65 individuals who own as much wealth as the poorest 3,5 billion people), and powerful economic actors have a strong interest in preventing any kind of structural transformation towards sustainability.[56]

4. The private sector in EU development policy debates

In May 2014, the Commission presented its proposals for a Communication on the role of the private sector in development.[57] The communication is to be followed by council conclusions on a joint EU position later this year.

Already its development policy of 2011, Agenda for Change, the EU highlights the need to develop new ways of engaging with the private sector, "notably with a view to leveraging private sector activity and resources for delivering public goods". [58] The EU "should explore up-front grant funding and risk-sharing mechanisms to catalyse public-private partnerships and private investment, and further develop blending mechanisms to boost financial resources for development".

The policy emphasises the importance of providing support for the development of competitive local private sectors including by building local institutional and business capacity, promoting SMEs and cooperatives, supporting legislative and regulatory framework reforms and their enforcement. Corporate social responsibility at international and national level is described as a way to avoid a 'race to the bottom' on human rights, international social and environmental standards, and to promote responsible business conduct consistent with internationally recognised instruments.

In its 2013 Communication on financing for development, the EU notes that private finance follows private interests, and public policy makers should seek to ensure that private resources that are harnessed are effectively targeted towards the agreed goals. To this end, all the sources should be seen together as a mix of means available for delivering results. Money should be focussed where it is most needed, and used in innovative and effective ways to ensure that it serves several policy goals simultaneously. [59]

Rather than describing various forms of "leveraging" as innovative sources of finance, the communication speaks of blending, guarantees and risk-sharing mechanisms as innovative *modalities of delivering* development finance that can catalyse private and public investments and increase effectiveness. New and innovative *sources* that are mentioned include a tax on financial transactions, receipts from carbon trading, and bunker fuel taxes.

The recent communication proposes a strategic framework for strengthening the role of the private sector in achieving inclusive and sustainable growth. The Commission wants to remain an important partner in supporting developing countries in creating an enabling business environment and the development of local enterprises that are equipped to create decent jobs, generating public revenues, and harnessing the opportunities offered by globally integrated markets. The framework will also include actions and tools to help the private sector achieve positive development results as part of its core business strategies, by acting as as facilitator of companies' own engagement for development, for instance by encouraging responsible investment in developing countries, or sustainable supply chains and production patterns.[60]

The EU states that its support for the private sector will be guided by a set of principles – to *complement* the aid effectiveness principles – the first of which is "focus on the employment creation, inclusiveness and poverty reduction". I list of criteria is also provided for guiding decisions on support to enterprises and financial intermediaries through grants or subsidised business development services. The first criterion on the list is "measurable development impact", followed by additionality as number two.

The future support for the private sector development in the EU's development cooperation will include stepping up support to the informal and microfinance sectors, for strengthening medium and small enterprises, and for empowering women as entrepreneurs and workers.

The European CSO platform CONCORD has welcomed these and other positive points in the communication, but also recommends that multi-stakeholder approaches and mechanisms are established to pre-assess, monitor and evaluate private sector initiatives in a transparent way, and that intended beneficiaries are centrally involved in these processes.[61] Further, European CSOs see it as worrying that the EC promises to "expand the scope of blending into new areas such as agriculture and social sectors," which according to them might be very problematic since it is not clear at all that blending mechanisms are suitable for social sectors in poor countries that should not be driven by profit motives. According to Eurodad, the EU needs to make clear how private sector finance will be aligned to development priorities of national and local governments and how the private sector should be accountable for this, and establish clear mechanisms to pre-assess, monitor and evaluate private sector projects with a clear focus on development objectives.

Challenges

Just about everyone agrees that much more can be done to enhance the contribution of the private sector to equitable and sustainable economic, social and environmental development. Still, the new importance that is being given to engaging with the private sector in development cooperation comes with many new challenges. This section briefly presents some of the main issues that have been identified in the different processes and that are being discussed among governments and institutions, civil society organisations and policy analysts. While several of these challenges are discussed in the official documents that have been covered in precious sections, others still remain to be addressed in the policy processes. In most cases, the specific organisations/documents that are referred to are only illustrative examples from a much the broader debate, but can be useful references for those who want to delve deeper into any specific issues.

Economic growth and sustainable development

Current discussion around how to use aid to create growth emphasises the role of the private sector, but transformative, developmental growth requires a judicious balance between the roles of state and private sector. The recent experience of some of the emerging economies included state intervention in their growth policies, in various ways. The private sector may have fuelled growth, but the state was its engine.[62] In recent years, institutions like the World Bank – with a history of privatisations and a reduced role for the state – have reconsidered their strategies and are increasingly emphasising the importance of proactive public policies and regulations for making growth more inclusive and sustainable.[63]

As growth does not necessarily mean improved living conditions for the poor and vulnerable, all new partnership instruments and innovative finance mechanisms need to have clear sustainable development and poverty eradication objectives. Aid support is uniquely available for tackling poverty and must – as mentioned in the EU Communication – be focused where they are most needed and deliver results towards the agreed development goals.[64] A review of OECD donor practices shows that even if donors recognise that the benefits from economic growth must be shared, most growth and private sector strategies do not yet “engage comprehensively” on issues related to the distributional impacts of growth, or the role of the state in ensuring propoor development outcomes..[65]

Enabling business environments and the responsibility of corporations

Many donor approaches are based on the assumption that partnerships between governments, donors, private sector and CSOs represent wins for everyone. Most would agree that there is a large potential in creating strong, multi-stakeholder partnerships both at the global, regional, national and local level. [66]

Providing “enabling conditions” for the private sector in developing countries is often presented as a technical issue, even though it can be highly political: it often boils down to reforms such as cutting down on private sector regulatory requirements and “downsizing” the role of government through privatisation, ‘corporatisation’ of state-owned companies and administration, and sector-wide de-regulation.[67] Tax incentives are also a common part of the package, in spite of the fact that tax evasion by multinational companies in developing countries is estimated to be well above €100bn/ year – more than the total volume of ODA from DAC member countries.

The post-2015 process aims to formulate an agenda that is applicable to all actors, and globally. A challenge that is still only partially addressed is the need for reforms of donor country, corporate or global regulations and systems.[68] When it comes to human rights, environment, gender and other “corporate social responsibility” issues most donors promote – if anything – voluntary systems rather than regulation and legal frameworks. When donor policies do refer to internationally agreed principles such as the UN Framework and Principles on Business and Human Rights[69] or the OECD Guidelines on Multinational Enterprises,[70] they rarely require that these standards are embedded into the core business activities of companies receiving ODA.

The experience from the GPEDC meeting in Mexico – where commitments to the promotion of corporate social and environmental responsibility, transparency and respect for human rights were deleted in the final version of the Communiqué – illustrates how the global development assistance community is still struggling to properly address the issue of corporate responsibility.

Targeting domestic businesses and SMEs

Development finance institutions can play a crucial role in the fight against poverty by providing much needed financial resources to areas of the world that have access to none. Support to domestic private sector, aligned with country priorities, is most likely to meet the internationally agreed aid effectiveness principles and to be cost effective. Among the policy processes that have been discussed in this paper, the need for more effective targeting of the private sector is addressed most clearly in the EC Communication.

In order to properly follow up on this challenge, first we need to know how much of the aid that is devoted to private sector development actually reaches domestic businesses. OECD statistics does not currently track this, but a recent survey showed that almost half of support provided by the development finance institutions (such as Swedfund) goes to companies based in OECD countries and in tax havens. This casts doubt on whether the institutions are succeeding in channelling their financial support to the most credit-constrained companies in the world's poorest countries.[71] In addition, the reliance on foreign investors is likely to increase the risk of development benefits being undermined through capital flight and tax evasion/avoidance.

Leveraging/blending, public-private partnerships and tied aid

Leveraging comes in many forms: blending (leveraging private sector investment through an aid contribution), Public Private Partnerships (in all sectors from agriculture to industry to education), challenge funds, guarantees, et cetera. Donors are increasing their support in all these areas. For instance, USAID now programmes 40% of its funding through PPPs, up from 8% in 2009, and aid funds channelled through EC blending facilities rose from € 15 million in 2007 to € 490 million in 2012.[72] The Swedish development finance institution Swedfund received SEK 2,5 billion in new capital to between 2007 and 2011,[73] and further increases in later budgets.

Proposals within the DAC review on how concessionality is calculated in the context of the ODA definition would, if they get adopted, reduce the problem of donors reporting inflated figures for the grant elements of loans and other non-grant support to the private sector. But other challenges remain. The nature of the intention to 'leverage' private sector finance focuses on involving large and multinational companies, as these are the ones with the resources and experience that donors are hoping to mobilise. In general donors see a role for their own firms in their strategies for private sector development, sometimes with the hope of capturing markets and partnerships for donor country companies in the emerging economies. There are examples where donors also expect PPPs to generate income for the donor government itself.[74]

OECD statistics show that the majority of aid flows through the private sector come in the form of procurement contracts for goods and services. Every year from 2003 to 2011, between 51 and 71% of these payments went to companies based in OECD and non-DAC countries. In 2011 the total value of aid contracts was almost USD 15 billion dollars, of which only 4% was spent in the poorest developing countries.[75]

With regard to PPPs, much experience from Europe shows that they have many hidden costs, often lead to over-priced public services, and are complex to handle.[76] There are also instances where the public sector has had to absorb financial risks that should have been covered by the private partner, and pay losses from the public purse.[77] There is little reason to assume that PPPs will work differently in developing countries. Donor support to the involvement of the private sector in the provision of basic social services, and the risk of private companies using PPPs to gain undue influence on public policy making, are other issues that would need to be addressed.

Transparency and empirical evidence of development benefits

As several of the official policy documents point out, aid that is used to support the private sector should demonstrably contribute to economic development that benefits poor people. Then it must, be possible to provide evidence that this is the case, but the monitoring and evaluation of its development impacts of donor support for private sector development is insufficient.[78] A survey of OECD donors found that "most donors' policies include neither an approach to robust and comprehensive results in the context of complex development outcomes nor a commitment to publicly accessible monitoring of results for programming on growth and the private sector".[79] Furthermore, much of the aid to the private sector is protected from public scrutiny by corporate and institutional confidentiality. According to one study, nearly half of the bilateral support to private sector and equity investments cannot be traced. [80] But as has already been mentioned, the Mexico meeting of the GPEDC failed to agree on commitments to specifically address the issue of transparency of private corporations that participate in development cooperation.

The available evidence provides weak support for pro-poor development outcomes. For instance, an internal evaluation of the portfolio of the World Bank's private sector arm IFC found that "fewer than half the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries or tracking of impacts." [81]

Crucial for the development effect is also the issue of the net flow of resources that are generated through the investments in developing countries by foreign companies. A report for the European Parliament notes that in 2011 foreign direct investments generated an outflow of capital *from* developing countries that was equivalent of almost 90 percent of new FDI in these countries.[82]

Additionality and opportunity cost

Public resources for private companies are genuinely additional to private finance when they are channelled to those companies that have least access to private capital markets, and to firms and sectors that can deliver development outcomes for the poor that would not have been accomplished without the public involvement.[83] Any use of aid resources for investments that are not additional constitutes a wasted opportunity to finance something that is. Still, most private sector support goes to middle-income countries, and one third of that amount to upper-middle income countries.[84] In many cases private sector actors in these better-off economies would have access to commercial rate project finance.

In general, donors do have some policies in place to ensure additionality, but these are often vague, and information on how donors assess additionality is often not publicly available.[85] A recent paper for the Intergovernmental Committee of Experts on Sustainable Development Financing underscores the importance of drawing lessons from successes and failures of existing partnerships to better identify guiding practices for assessing the development impact, leveraging and additionality of future public-private initiatives to accomplish the post-2015 agenda.[86] The EC communication includes criteria that address the need for measureable development impacts and additionality, but it remains to be seen how they would be implemented and monitored.

Corporate influence in development processes

In addition to the importance that is accorded to private sector interests in the discussions about enabling business environments and the potential for "leveraging" private capital for sustainable development, business representatives also have a considerable presence in many of the key international policy processes and their various forums.

The Business and Industry Advisory Committee, BIAC, represents the business community in the OECD-DAC and also – as has been mentioned – in the new aid effectiveness partnership GPEDC. The CEOs of Unilever and Kenya's Association of Manufacturers were members of the Post-2015 High Level Panel.[87] And according to the SDSN web site, the business community plays a role in most of the 12 Thematic Groups of the network. The two Co-chairs of the thematic group on "Redefining the Role of Business for Sustainable Development" are the president of the World Business Council on Sustainable Development (WBCSD) and the former chair of the Novartis Foundation. In the OWG and the High-Level Political Forum for the Post-2015 process business participates, in accordance with established UN practice, as one of the nine Major Groups.

While the active participation of the business sector in the policy dialogues in desirable, the challenge is to ensure full transparency with regard to the level and forms of corporate influence. This is not yet the case. For instance, the full list of members of the SDSN thematic group on the role of business has not been made public.[88]

The way forward

A private sector that provides decent jobs and generates revenue is an important component to fighting poverty and achieving sustainable development. The private sector can also play a key part by respecting and protecting human rights, and by contributing to the fulfilment of existing international agreements on environment and climate. We hope this mapping clarifies how the role of the private sector is addressed in some important policy- and decision making processes currently taking place at the European and International levels. Our intention is to create a better understanding on how tackling the identified challenges in these processes are of key importance in order to maximise the contributions of the private sector as a partner in achieving sustainable development.

* * *

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