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PROMOTION AND PARTNERSHIP: BILATERAL DONOR APPROACHES TO THE PRIVATE SECTOR

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INTRODUCTION

The private sector has become the new donor darling. Over the past few years, members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (OECD-DAC) – the forum through which donor countries coordinate their aid efforts – have renewed their focus on economic growth and the private sector as driving forces behind development (Estrup 2009; Nelson 2011). At the international level, donors have put their weight behind statements supporting the private sector at the United Nations (UN) Millennium Summit in 2010 (DCED 2010) and more recently at the 2011 Fourth High Level Forum on Aid Effectiveness (HLF4) held in Busan, South Korea (HLF4 2011).

This shift has come in a context where aid – as a proportion of total finance available to developing countries – has decreased significantly compared to non-aid flows like trade, foreign direct investment and remittances, all of which have grown exponentially over the past decades. Though aid also increased over this period, donors are now implementing fiscal austerity programs that are decreasing or freezing the resources allocated to aid budgets. With it, donors are emphasizing 'cost effectiveness' and 'value for money', seeking to leverage shrinking aid budgets through innovative financing mechanisms, harnessing non-aid flows, private sector-inspired solutions, and direct partnerships with private sector actors. Equally important, developing countries are recognized as key markets or investment sites for donor countries' firms and investors, and aid agencies are increasingly working with firms in donor countries to promote development-friendly investments.

This article provides a critical assessment of these trends by mapping and assessing bilateral donor strategies on the private sector. It is based on an examination of publicly available OECD-DAC donor policies[1] reviewed between January and June of 2012, including websites, strategy papers, policy documents related to economic growth, trade and private sector programming, and donor commitments at HLF4 and in other multilateral fora. Taking a framework analysis approach, the objective of the research is to identify emerging themes in donor policies around the private sector by comparing and contrasting different elements of donors' strategies. It critically assesses the visions and assumptions of donors' strategies on the private sector, including how donors see the role of the state and private sector actors in achieving development outcomes. It also critically assesses the assumptions donors make about partnerships with the private sector.

This article draws from a much longer report published by the Canadian Council for International Co-operation and The North-South Institute (Kindornay/Reilly-King 2013). In addition to the issues outlined above, the original report also addressed donor assumptions on economic growth and implementation considerations relating to how donors incorporate good development practices on gender, sustainability, human rights and aid effectiveness into their work on and with the private sector. This chapter focuses largely on the assumptions behind donor strategies as they relate to the private sector.

GENERATING THE THEMATIC FRAMEWORK

As noted already, this research was done using a framework analysis approach. A key component of this approach is the creation of the thematic framework, which is outlined in Table A. The research process included the following steps: familiarization with content; identification of a thematic framework; indexing (where information is identified as corresponding to a particular theme); charting (whereby information is arranged based on charts of themes); and interpretation (Srivastava/Thomson 2009).

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

The framework includes basic components of donor strategies such as budget size, rationale, objectives, and key pillars or areas of focus. As a complement to these components, international declarations and statements on growth and the private sector that might further shape donor policies or give an indication of donor intent were taken into consideration. In addition, a range of additional cross-donor themes and sub-themes were established and defined as a basis for comparison, such as how gender, sustainability, and human rights issues were addressed in strategies. In some cases, donors did not have policies on these issues but did have separate policies on human rights or gender equality. This was taken into account in the analysis, although it is difficult to discern the extent to which such separate policies guide private sector programming.

Given that donors' strategies are aimed at working with the private sector, the framework also looks at whether donors reference international and domestic laws that relate to the private sector, as well as regulations and voluntary initiatives such as the International Labour Organization's conventions on decent work, the UN Global Compact,[2] and the OECD Guidelines for Multinational Enterprises.[3]

Table A shows all of the themes and subthemes analyzed in the original report. Only a portion of these are addressed here.

Table A: Themes and sub-themes

Themes	Sub-themes
Structure of the growth and/or private sector strategy	▪ Type of strategy ▪ Budget for the strategy ▪ Market vision and assumptions behind the strategy ▪ Rationale of the strategy ▪ Pillars of the strategy
Accordance with other agreements	▪ Relevance to the Paris Declaration on Aid Effectiveness, the Accra Agenda for Action, and the Busan Partnership for Effective Development Cooperation ▪ Signatory to the Busan joint statement on Expanding and Enhancing Public and Private Co-operation for Broad-Based, Inclusive and Sustainable Growth and/or member of the Private Sector Building Block
Actors and targets	▪ Role of the state ▪ Role of other development actors (in particular social partners) ▪ Domestic or internationalized private sector ▪ Areas of focus and key targets ▪ Financial and development additionality
Implementation considerations	▪ International standards and principles ▪ Explicit strategies for leveraging aid resources ▪ Transparency and accountability ▪ Corporate social responsibility (CSR) ▪ Monitoring and evaluation
Cross-cutting issues	▪ Sustainability ▪ Gender ▪ Human rights

Source: Kindornay/Reilly-King 2013.

There are a number of notable limitations to this initial scoping study. First, the analysis is based on policies, not actual practice. It is difficult to assess the extent to which policies translate into actual positive or negative development impacts on the ground. Second, the assessment is confined largely to bilateral donors. Multilateral development banks play an important role in terms of leveraging the private sector in development. Nevertheless, they were not included in this study because much has already been written on multilateral development banks, particularly on their private sector lending windows (for example, Kwakkenbos 2012; Bracking/Gahno 2011; Perry 2011; ActionAid International et al. 2010; Ellmers et al. 2010; see also the article of Kwakkenbos/Romero in this publication). Finally, providers of South-South development co-operation (SSDC), which also support private sector development and economic growth, were not included in this analysis. This omission was recognized from the outset. Over the past five years, international assistance from middle-income countries such as Brazil, China, India, and South Africa has grown substantially (Tomlinson 2012). Engaging their own private sectors to penetrate markets and build infrastructure in the South has always been an element of these emerging economies' approaches to SSDC through their large development and export-import banks, like the Brazilian National Bank for Economic and Social Development and Export-Import Bank of China. However, information on these initiatives is just emerging, and many of the details on such cooperation are still not public. Clearly future work needs to include SSDC actors to provide a broader and more nuanced picture of how development actors are engaging with the private sector overall.

OVERVIEW AND ANALYSIS OF DONOR APPROACHES AND ASSUMPTIONS

An important 'take-away' from this initial scoping exercise is that while donors may more or less agree that economic growth is integral to development and that the private sector has a key role to play in growth, the similarities end there. Donors emphasize, for example, different types of private sectors (national [donor], foreign [multinational], and domestic [recipient country])[4] and various roles for the private sector in achieving growth, development, and poverty reduction. This understanding in turn has implications for how donors see their own role. Jørgen Estrup's study on aid, the private sector, and the aid effectiveness agenda similarly found that donors take different approaches, which has implications for how they design, implement, and coordinate their work in this area (2009: 14). The lack of coherence among donors, in particular regarding something about which all donors clearly agree such as the insight that the private sector is key to development, was one of the most striking findings of this study.

POLICY FRAMEWORKS FOR WORKING WITH AND THROUGH THE PRIVATE SECTOR

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

Where donors have an explicit private sector strategy, they tend to take one of three approaches.

Donors such as Denmark, Finland and Germany have specific strategies that define modalities for engagement or partnership with the private sector. The Netherlands has made working with the private sector a priority across all of its development programming, in other words greater engagement with the private sector serves as an overall approach to the country's development work.

A second approach is what might be seen as the more traditional form of private sector engagement. Here, private sector development strategies basically target the establishment of, and support for, the private sector in developing countries. An example of this is Canada's 2003 Framework for Private Sector Development (CIDA 2003). Japan currently takes a similar approach (JICA 2012).

A third approach combines these two. Sweden, Austria (ADA 2010)[5] and the United Kingdom (UK) have specific policy documents that outline how they will work with the private sector to deliver development cooperation across different thematic areas and how they will support private sector development in developing countries.

Some donors do not have a private sector strategy in terms of partnering with the private sector. Instead, they weave their private sector programming and engagement into their economic growth or trade and development strategies. Australia[6], Canada and New Zealand are examples – their thematic focus on sustainable economic growth interweaves private sector elements. Other donors include engagement with the private sector as part of their broader development strategy, often coupled by a webpage on the private sector (rather than an actual strategy per se). France (France 2011), and Portugal (IPAD 2006) take this approach. Finally, these approaches are not mutually exclusive: Belgium, for example, includes elements of private sector engagement in thematic priorities, and makes reference to the role of the private sector in their overall development strategy.

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

DONOR ASSUMPTIONS: THE NEXUS BETWEEN GROWTH, THE PRIVATE SECTOR AND DEVELOPMENT

Despite the different nuances, most donors see promoting the private sector as a means to increase incomes (through job creation) and public revenues (to deliver social services). This is evident in the overall rationale for some donor strategies[7] and/or the pillars of and activities in their strategies.[8] Donors make connections between enhancing employment opportunities and livelihoods, which in turn generate higher incomes for individuals and households[9] and help governments to increase their revenues, which can be used to provide more or better social services.[10] However, the extent to which donors explicitly target the areas that they need to in order to achieve those outcomes, such as quality of jobs created, sectors that can most readily create jobs, industrial policy, and enabling governments to effectively collect taxes and deliver on social services, is mixed.

Donors are taking a more nuanced approach to macroeconomic reforms in developing countries, rather than pushing one-size-fits-all neo-liberal policies like they did during the 1980s and 1990s. Yet, neo-liberal approaches still prevail. In terms of economic policy, for some donors the focus is on the state's technical role in promoting an enabling environment for business through the right policy and regulatory mix. This often means that donors rarely promote a proactive interventionist role for the state in development. Such a role would give greater priority in their strategies to heterodox approaches to promote and direct economic development, industrial policy, job creation policies, and productive capabilities (for instance, upgrading skills and industry). This is surprising given the prominence of state intervention in the development of Brazil, China, India, South Africa, and other relatively self-reliant developing countries in the South. Instead of strengthening domestic and regional markets relevant to maximizing growth outcomes for poor and marginalized populations, donors focus on technical aspects of market chain or cluster development, as well as the integration of businesses into global markets.

These donor approaches, alongside the impact of decades of neo-liberal policies, continue to diminish the policy space for developing countries to establish socio-economic models specific to their national (and regional) contexts that take into account the views of citizens. Donors pay little, if any, attention to countries' abilities to balance the 'right' policies (which for donors tend to be whatever ideas are hegemonic at the time) with the political space and necessary capacities for developing countries, including their civil society organizations (CSOs), to determine their own policy mix. Only Germany's strategy explicitly recognizes the ideological debate on the role of the state in economic development (BMZ 2007: 2).

Beyond the broader macro-debates, most donors at least recognize the role of the state in ensuring access to social services; however, they differ in terms of the extent to which they see the private sector playing a role. The M4P initiative supported by Sweden, Switzerland, and the United Kingdom does not explicitly recognize the ideological debate, but does say that it is not the role of donors to tell developing countries what the appropriate role of the state is or should be. Nevertheless, Sweden, for instance, points out that it will not support a strategy or project that will make people reliant on the private sector for what are rights (for example, basic education) that the state has an obligation to secure (SIDA 2011). Conversely, while recognizing that the state has a role to play in delivering social services, the United Kingdom explicitly states that it will support the improvement of the private provision of social services.

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

TWO DIFFERENT APPROACHES TO ENGAGING THE PRIVATE SECTOR

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

The end goal of donors' strategies tends to vary depending on the extent to which their strategies are aimed at promoting private sector development versus partnering with the private sector for development.

In the former case, donors see *promoting* private sector development as the end goal. In this case, the link between growth and poverty in developing countries is a direct one: a thriving private sector contributes to growth, which in turn contributes to poverty reduction.[11] Supporting the private sector is valuable in its own right because it unleashes growth[12] and/or helps integrate domestic private sector actors into the global economy, which in turn benefits the poor.[13] Denmark and Norway's approach focuses predominantly on promoting business and private sector development as the means to advance growth and broader development. Some donors use the idea of making markets more competitive or work better for the poor (both as producers and consumers) as an entry point.[14]

In the latter case, some donors tend to see the end goal as *partnering* with the private sector. Partnership with the private sector will help make effective use of declining aid resources, leverage alternative sources of development financing, and identify innovative private sector-managed solutions to development challenges, including the provision of goods and services to poorer populations (bottom of the pyramid approaches, for example).[15] Alternatively, some donors explicitly see engagement with the private sector as a means to promote their own commercial interests.[16]

A number of donors, including Sweden, the United Kingdom, and the United States, combine the logic of partnership with the private sector with the logic of promotion of the private sector. In this context, donors seek to create business relationships between national and domestic private sector actors through initiatives such as challenge and innovation funds. Here donors are essentially *partnering* with the private sector to *promote* private sector development. Some donors highlight the need to ensure that national businesses are making linkages with partners in developing countries. Many donors see harnessing the expertise of their own businesses as having the potential to make positive development impacts.[17]

Finally, Australia, Austria, Denmark, the Netherlands, and the European Commission place their work with the private sector in the broader context of improving policy coherence for development.[18] The private sector is a piece of a bigger puzzle.

PARTNERING WITH THE PRIVATE SECTOR: THE NEW WIN FOR DEVELOPMENT?

What is new about how donors are engaging the private sector is not supporting private sector development – which donors have been doing for decades – but partnering with the private sector for development. Donor strategies on growth and the private sector are based on the assumption that partnerships among development actors represent wins for everyone – recipient governments, the private sector, donors, and civil society – they are win-win-win-win situations. Each actor has a role to play under this assumption. All partners are to engage with and inform national development strategies. Private-public partnerships allow actors to benefit from private sector finance and expertise, while the private sector benefits from financing and the awarding of contracts. Some CSOs (mainly international non-governmental organizations) benefit from additional finance.

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

In general, donors do not address the political dimensions to growth, the private sector, and development. This reflects technocratic understandings of the state and largely ignores ongoing debates about the role the state plays in development and the political economy in which policies are made. Donor approaches, alongside the impact of decades of neo-liberal policies, continue to diminish the policy space for developing countries to establish socio-economic models specific to their national (and regional) contexts that take into account the views of citizens.

CONCLUSIONS

This article has looked at bilateral donors' strategies for promoting private sector development and partnering with the private sector for development. The analysis is based on a framework that was developed to systematically assess the structure and components of donor strategies in terms of their budget size, assumptions, rationale, objectives, and key pillars or areas of focus. The chapter highlights a number of key findings:

1. The extent to which donors have established, detailed, and publicly articulated their policies on and work with the private sector varies. Despite lack of comparability, donors engage with the private sector in two key ways: by *promoting* private sector development and *partnering* with the private sector. These approaches are not mutually exclusive. A number of donors are *partnering* with private sector actors to *promote* private sector development.

2. In their efforts to promote private sector development, donors do not address the political dimensions to growth, the private sector, and development. Donors tend to promote a neoliberal vision of development, which means they rarely promote a proactive interventionist role for the state. Few donors focus on promoting policies that strengthen government capacity to create decent work, effectively collect taxes and deliver social services, and redistribute the benefits of growth to those who are most marginalized by the economic activities that create growth. At best, donors tend to focus on making very narrowly defined markets equitable within and among countries, focusing on technical aspects of market chains as well as integrating businesses into global markets.

Donor strategies are based on the assumption that partnerships among development actors represent a quadruple win for everyone – recipient governments, the private sector, donors, and CSOs. Each actor has a role to play under this assumption and all can potentially benefit. Yet, this positive framing is unlikely to survive the realpolitik at the country level. While consensus is possible, even among diverse groups such as donor governments, recipient governments, the foreign and the domestic private sector as well as civil society, disagreements are inevitable. This means placing increasing emphasis on the importance of the process for securing country ownership and reaching consensus, and the politics of that process.

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

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

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

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

5 Austria has PSD-guidelines that essentially serve as a strategy, they are for the time being only available in German.

6 Since the time of writing, Australia has released a new Private Sector Development Strategy, available here: http://www.ausaid.gov.au/publications/pages/private-sector-development-strategy.aspx. The new strategy has not been incorporated into the analysis here.

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

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

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

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

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

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

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

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

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

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

17 Austria, Denmark, Finland, Norway, and the European Commission.

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