Aid and the Private Sector: Catalysing Poverty Reduction and Development?

Reality of Aid 2012 Report

The Reality of Aid

Aid and the Private Sector: Catalysing Poverty Reduction and Development?

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The Reality of Aid Network

The Reality of Aid Network exists to promote national and international policies that contribute to new and effective strategies for poverty eradication built on solidarity and equity. Established in 1993, the Reality of Aid is a collaborative, non-profit initiative, involving non-governmental organisations from North and South. It is in special consultative status with the United Nations Economic and Social Council.

The Reality of Aid publishes regular, reliable reports on international development cooperation and the extent to which governments, North and South, address the extreme inequalities of income and the structural, social and political injustices that entrench people in poverty.

The network has been publishing reports and Reality Checks on aid and development cooperation since 1993.

These reports provide a critical analysis of how governments address the issues of poverty and whether aid and development cooperation policies are put into practice.

The Reality of Aid International Coordinating Committee is made up of regional representatives of all participating agencies.

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Preface

Among the main objectives of the Fourth High Level Forum (HLF4) on Aid Effectiveness held in Busan, South Korea was to "enlarge the tent", embracing the private sector as a partner on equal terms with other development actors – similar to what happened with civil society organizations at the HLF3 in Accra in 2008.

This is another, and a very significant one, manifestation of the growing importance that the official discourse is giving to the private sector as "actor and development partner" in a context of global financial crisis and declining budgets for Official Development Assistance (ODA) in order to improve the "value for money" of available aid resources to generate and catalyse additional development possibilities. Increasingly, the focus is being put on innovative mechanisms, using aid resources as "capital base" that will help leverage additional resources from the private sector or to engage them in identifying solutions to development challenges. To complement these investments, donors are also implementing new funding facilities and new modalities for combining ODA with private funds. Donors are also searching for new partnerships between the private sector, governments and civil society to deliver goods and services. A positive aspect is that they are also looking to support women entrepreneurs and provide microfinance for, or generate appropriate financial services to, small and medium enterprises (SMEs).

For CSOs involved in the Reality of Aid Network (RoA), aid delivery can only be considered effective in its development impacts in terms of eradicating poverty and reducing inequality. This means supporting people to claim their rights, promoting women's rights, contributing to livelihoods and decent work, building a sustainable environment, and supporting the democratic determination of development priorities. Previous RoA Reports discussed the realities of ODA and donor practices through the lens of solidarity and equity placing at the center the obligations of governments and donors to international standards of human rights.

In this perspective, the new emphasis of official discourse on the private sector as a "development actor and partner" and its relationship with the ODA international system posed to the Network members a series of questions about their potential risks. For this reason, RoA proposed to conduct a more systematic mapping of the risks and opportunities that the private sector, domestic and international, pose to its vision of development.

This RoA 2012 Report focuses on the relationship between aid and the private sector, and it does address a number of issues such as: Which private actors are receiving domestic or international support from ODA? What is the profile of those actors? To what purposes are they being engaged? What principles are being applied to engage them, by whom and how? And above all, what are the anticipated development results and outcomes expected of them and how will they be measured? Civil society needs a much more comprehensive picture of the relationship between ODA and the private sector to inform the positions we take – and the demands we make – around their engagement. The RoA Network, with its broad coverage in both donor and developing countries, is in a unique position to investigate the issue.

Finally, and given more and more significance of the new donors (or non-traditional providers of development finance), the RoA 2012 Report introduces a major innovation with respect to previous years: for the first time it includes country chapters on the BRICS in addition to the OECD DAC donors. This also offers the opportunity to explore how and to what extent these South-South partnerships differ from those between DAC donors and developing countries, in the chosen focal theme of the RoA 2012 Report.

Jorge Balbis Pérez
Chairperson
The Reality of Aid Network

Part 1

Reports

Aid and the Private Sector: A Catalyst for Poverty Reduction

The Reality of Aid International Coordinating Committee

The private sector and development effectiveness

In the words of a review of donor policies in this *Report*, the "private sector" has emerged as the new "donor darling". According to this policy discourse, donor efforts to improve conditions and support expanding private enterprise activity will enable and rehabilitate a focus on economic growth. Long discredited in the 1980s as the strategic vector for development, economic growth, albeit now "sustainable" and "inclusive", has been reaffirmed as the primary path for progress and ending global poverty.

"We recognize the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction". This affirmation in the 2011 *Busan Partnership for Effective Development Cooperation* (BPd) – the key outcome of the Fourth High Level Forum (HLF4), held in Busan, South Korea in late November 2011 – comes with an explicit commitment to "enable the participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction" [32 & §32(b)]. The private sector is considered a development partner crucial to overcoming the challenges for "effective development", which is *"driven* by strong, sustainable and inclusive growth [emphasis added]". [§28(a)]

Busan was not unique in its renewed emphasis on the private sector. It merely crystallized an increasing focus on the private sector among officials from DAC donor and middle-income aid providing countries at events like the 2010 UN Millennium Summit, recent G20 meetings, and in various bilateral donor statements and policies.

Why engage with the private sector in development?

Growth in economic activity is essential for creating conditions for people to overcome multiple dimensions of poverty throughout the world. The private sector, often broadly defined, has been seen as the engine for economic growth. Yet the private sector includes a wide variety of actors, from large private enterprises whose primary purpose is to maximize profits for shareholders, to millions of individuals who conduct private economic activities to support themselves and their families. Not enough attention has been given by development actors to the nature of different private economic actors and activity, and related policies for improving and sustaining livelihoods for people living in poverty.

The potential contribution to economic activity by smallholder producers, farmers and workers in the agricultural sector for food security, for example, continues to be neglected by DAC donors. Despite recent attention to food

security at the G8 meetings in L'Aquila (Italy, 2009) and Camp David (US, 2012), these donors, alongside the Gates Foundation, aim to modernize agriculture through private sector partnerships and research, but more often with major agribusiness firms. With notable exception of the cooperative movement and specialized micro-finance, civil society organizations (CSOs) have also largely ignored economic conditions for poverty reduction. CSOs directed only 10% of their aid resources from DAC donors to "productive sectors" in 2010, while more than half has been allocated to "social infrastructure and services" (human development priorities in education, health, reproductive services, etc.).[1]

The private sector is no doubt a major actor for creating economic opportunities for people living in poverty. It does so through investment, fair and decent employment, expanding markets, creating innovation and generating sources of revenue for government programs. But not all such investment or innovation has an impact on poverty and growing socio-economic inequalities in many countries experiencing strong economic growth.

From the point of view of development impacts, the purposes of engaging the private sector through aid resources must be clear. Too often, according to authors in this *Report*, the emphasis has been on donor economic interests that are merging donor investment and trade policy with development policy and with augmenting declining aid through expanding export credits or development finance institutions. But these approaches fail to ask how such approaches are empowering people to move out of poverty and truly benefit from being incorporated into growth and formal economies. According to the OECD Development Assistance Committee, best practice in private sector development (PSD) for reducing poverty suggests "greater efforts to address the needs and maximize the contributions of the many informal enterprises, family run farms and self-employed men and women that conduct business in developing countries".[2]

In renewing attention to the private sector, donors have, for the most part, failed to analyze how various forms of economic activities can genuinely contribute to poverty reduction, given the wide array of formal and informal private economic actors. These range from large global transnational corporations and financial intermediaries, domestic companies in developing countries, to micro, small, and medium–sized enterprises (MSMEs), and a variety of social enterprises.

While welcoming renewed attention to the private sector, *Reality of Aid* contributors stress that such engagement must be coherent within the overall goals of development effectiveness and the creation of inclusive national development plans – focusing on reducing both poverty and socio-economic inequalities. The implementation of donor private sector-support strategies would more likely take into account these development goals if they were guided by multi-stakeholder dialogue that includes the views and initiatives of communities of poor, marginalized populations and other social actors such as trade unions at the country level.

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1 For details see the aid trends chapter in this *Report*.

2 OECD Development Assistance Committee, *Promoting Pro-Poor Growth and Private Sector Development*, 2006, page 10 accessible at http://www.oecd.org/dataoecd/43/63/36427804.pdf

Private sector actors can have many legitimate economic motives and incentives to invest. But if they are to be true partners in development, they must be prepared to collaborate in ways that improve the social and economic rights of poor and marginalized populations. Such initiatives would emphasize the deliberate creation of economic opportunities for these excluded populations, focus on the economic empowerment of women, create conditions for decent work, and support measures and funds that promote socio-economic inclusion and social protection. UN Special Human Rights Rapporteurs on extreme poverty and on food security recently proposed a US$20 billion global fund to augment government resources to support a minimum social protection floor in all countries, addressing unemployment, illness, disability or crop failures.[3]

To enable progress in these important areas for development, donor aid resources could be directed to those sections of the private sector and to other development actors, with capacities and initiatives, inter alia,

- to strengthen and develop smallholder agriculture,
- to support the development and improvement of conditions for those employed in the informal sector,
- to remove legal and institutional barriers for women in economic activity,
- to reform and monitor regulatory conditions for decent work,
- to direct investment to small and medium-scale enterprise, cooperatives and other forms of social enterprise.

Donors would for the most part avoid partnerships and initiatives with large for-profit corporations, which often are based in the donor country, and which at best, have only indirect spin-offs for people in poverty.

Unfortunately the evidence in this *Reality of Aid Report,* as noted above, suggests that for most donors the motivation and directions of engagement with the private sector lies elsewhere. Declining ODA is clearly driving renewed attention to the private sector. ODA in 2011 fell by 2.7% in real terms, breaking 14 years of real growth since 1997 (excluding debt cancellation). Moreover, the *Report* draws attention to the growing gap between donors' aid promises and reality – in 2011 ODA was more than US$40 billion below what would have been expected if donors had lived up to their 2005 Gleneagles commitments.[4] In a context of failed commitments and further declines in ODA in the coming years, several OECD country chapters highlight that aid is increasingly seen as a catalyst to generate additional financial resources for development through partnerships with the private sector. For some donors, public investment in Development Finance Institutions (DFIs), for example, is an attractive option, sometimes "cost-free" to the public purse, in the face of political pressures to continue to reduce overall aid spending.[5]

A policy focus on private sector-driven economic growth as the engine for development can also be an attractive political option for some

[3] See M. Tran, "UN Calls for $20bn to Fund Social Safety Nets in World's Poorest Countries", Guardian, October 9, 2012.

[4] For more details see the global aid trends chapter in this *Report*.

[5] In Belgium for example allocation of ODA resources to Development Finance Institutions is considered an "investment" and is therefore "off-budget" in the annual budget of the government. See "What's in it for development? Assessing the Belgian Investment Company for Developing Countries' (BIO) Development Outcomes" in this Report. See also "Private Profit for Public Good?" in this Report.

governments. For several donors in the past decade (Canada, New Zealand, the U.K. and Australia) this focus brings aid policy in line with a domestic political orientation that values a reduced role for government and a public-private orientation in the provision of public goods. From this perspective, increasing economic growth will generate employment and government tax revenues by expanding self-regulating markets and eliminating government policies that limit "market efficiencies". Development as economic growth also provides a rationale for allocating aid resources in ways that strengthen donor international economic policies, particularly trade priorities or support for donor-country corporate investment interests in developing countries.[6]

While almost all donor policies now place renewed attention on the private sector, contributions to the *Report* highlight the various and different ways in which OECD donors and other aid providers are relating to the private sector. In this regard, the private sector may be a direct **recipient** of aid for their investments and activities (subsidies and loans); the private sector can be a **contractor** in implementing aid projects; the private sector can be **partners** in public-private partnerships or through blending commercial loans with aid grants; and private sector-based organizations can be **providers** of aid-equivalent development resources (private philanthropic foundations and corporate donations).[7]

Modalities for engaging the private sector in development

1) Development Finance Institutions

A primary and expanding modality for bilateral donor engagement with the private sector has been through Development Finance Institutions (DFIs), such as the World Bank's International Finance Corporation (IFC), or bilateral development finance agencies such as the Belgium Investment Company for Developing Countries (BIO), Swedfund in Sweden, Finnfund in Finland or SIFEM in Switzerland.[8] The scale of operations for DFIs has been increasing dramatically with estimates of US$40 billion in DFI investments in 2010 increasing to US$100 billion by 2015. DFIs organize their investment facilities and capital as "blended mechanisms", often bringing together donor aid grants, loans and investment guarantees with private resources from the corporate and financial sector.

A contribution from ALOP and APRODEV in this *Report* describes the Latin American Investment Facility, created by the European Commission (EC), with grants from the EC and loans from other European DFIs and regional Latin American banks. The EC's intention is to create more DFIs in other geographic regions of the world. For EC officials, these are attractive facilities to leverage EU aid (with loans from

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6 See for example, "Australia's Mining for Development Initiative" in this *Report*

7 The *Report's* authors concentrate on relationships with the private sector as recipients, contractors and partners. The aid trends chapter identifies US$12.2 billion contributed through foundations and corporations, with the Gates Foundation alone exceeding the annual disbursements of 11 DAC donor countries. While influence of private corporate-oriented foundations is becoming an increasingly important factor in bilateral development cooperation in many developing countries, the emphasis in this *Report* is on the policies and programs of official bilateral donors.

8 See "What's in it for development?" and the OECD donor chapters for Sweden, Finland and Switzerland in this *Report*. EURODAD provides a comprehensive overview of Development Finance Institutions in this volume and in a stand-alone report, *Private profit for public good? Can investing in private companies deliver for the poor?*

other actors up to 40 times the value of EU aid grants). They provide European visibility in a region (Latin America) where European bilateral donors, and also the EU, are downsizing traditional aid programs. They create conditions for continued policy dialogue on development priorities between European governments, regional governments and the private sector.

In Sweden, the government is increasing its funding through Swedfund, a state venture capital firm, adding €130 million in the next three years. The aim is "to encourage the growth of robust small and medium size enterprises in countries where it is not possible to mobilize private capital for these ends".[9] In Belgium, donor investment in private sector development (PSD) grew from €44.6 million in 2008 to €123.6 million in 2011, almost exclusively through BIO-Invest, the Belgian DFI. BIO-Invest has a strong focus on the finance sector (54% of its portfolio) and on infrastructure projects.

While the mandates for many DFIs refer to public policy goals for development, as investment banks they must also be attractive to private capital investors. They therefore look to balance risk in supporting development initiatives, where capital is not normally available, with the need to demonstrate returns for their private investors. A review of BIO-Invest highlights this dilemma with the ideal "business case" for an investment said to be "a profitable export-oriented company that has been growing for at least five years and is looking for Euro or US dollar financing, able to absorb €1 million to €3 million."[10] These are hardly opportunities for small local enterprises or for formal/informal economic activities, in need of small strategic capital infusions, in which the poor and marginalized may be engaged and benefit.

Reality of Aid authors offer several important critiques of DFIs from the point of view of "development effectiveness" of aid resources. Are DFI investments, based on blending ODA with capital and initiatives in the private sector, creating development outcomes that reduce poverty and strengthen the capacity of poor and vulnerable populations to claim their rights?

1) **Achieving public policy goals for development**

   The evidence suggests that it has been inherently difficult to reconcile corporate private sector interests for quick financial returns with achieving development goals for poverty reduction, which is the intended mandate for most DFIs, but which are often achieved over the longer-term. According to an evaluation of the World Bank's IFC investment portfolio, "fewer than half of the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of beneficiaries, or tracking of impacts".[11] The Finnish OECD chapter points out that Finnfund must support "Finnish interest", which in practice has meant creating commercial benefits for Finnish business.

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9 See "Sweden: Improving transparency, challenges in collaboration with the private sector", in this volume.

10 See "What's in it for development?" *op. cit.*

11 Quoted in EURODAD, *op. cit.*, and in the EURODAD chapter in this *Report*.

The Latin American thematic chapter questions whether the DFI modality is the most suitable one to tackle the problem of inequality in the region, where about 180 million people still live in poverty. The focus of the Latin American facility is on energy, environment and transportation, areas where the EU has high geo-political and economic interests. Only one of the projects examined supported small and medium enterprises directly, while others supported procurement for mega-infrastructure projects.

2) **Leveraging additional resources for development**

Analysis of DFI portfolios does not sustain the rationale that ODA is actually leveraging additional private sector resources *that would not otherwise have been invested*. It cannot just be assumed that public investment of aid resources has *caused* additional private investment. While some donors give priority to low-income countries through their DFI (e.g. Sweden), the vast majority of investment still goes to middle-income countries that have well-developed finance sectors. Over half of the World Bank's IFC investments, for example, are in the finance, infrastructure and extractive sectors.[12] The thematic chapter on BIO-Invest (the Belgian DFI) points to evidence from Nicaragua, Peru and Bosnia that DFIs are often in competition with other private sector investors to seek out low risk investment opportunities.

3) **Transparency, ownership and inclusion of beneficiaries**

The lack of transparency regarding intended investments, including their goals, implementation strategies and beneficiaries, is a common and serious issue for DFIs. It is difficult or impossible for analysts in most donor and recipient countries to track and monitor the impact of DFI investments, particularly where these investments use financial intermediaries in the private sector. While most donors now are implementing improved transparency for their aid allocations, DFIs and financial intermediaries have no obligations to meet minimum transparency requirements. Despite €500 million in ODA invested in BIO-Invest since 2001, BIO-Invest lies outside the law governing Belgian development cooperation. Commercial sensitivity is cited as a common rationale for very limited transparency for DFI investment portfolios.

It is little wonder then that the Latin American thematic chapter concludes their analysis of the EC-supported regional DFI with the observation that "the role of beneficiaries in setting strategic priorities is not clear and there is also little formal information available as to how specific choices are made as to which project to support".[13] The authors, among others in this *Report*, call for maximum transparency, monitoring and evaluation requirements that clearly address the overarching goal of poverty reduction in blending finance facilities.

2. Partnering and supporting private sector development

The *Report's* authors describe a diverse range of direct and indirect donor programs supporting private sector development (PSD) and private sector partnerships (public-private partnerships or PPPs). As noted earlier, most donors view the

[12] For a detailed discussion of the issue of "additionality" see Jesse Griffiths, "Leveraging private sector finance: How does it work?", Bretton Woods Project, April 2012, accessed at www.brettonwoodsproject.org/art-570165.

[13] See APRODEV and ALOP, "Aid for the Latin American Investment Facility" in this *Report*

private sector, however defined, as an important "development actor". But they continue to have different approaches and emphases in integrating PSD into their aid programs. A thematic chapter reviewing donor PSD policies, contributed by The North South Institute and the Canadian Council for International Co-operation (CCIC), creates a useful typology for understanding these different donor interventions:

- Macro level interventions, focusing on the business enabling environment (property rights, financial and business regulations, sound administrative and political governance);
- Meso level interventions, addressing market issues to better integrate actors into the market (aid-for-trade, creating and supporting value-chains, transfer of technical innovation);
- Micro level interventions, building support for targeted businesses and people (financial support to small and medium enterprises, vocational training, women's rights in the workplace, strengthening health and education systems for working populations); and
- Setting standards, through support for national and international corporate social responsibility standards (Extractive Industry Initiative, Publish What You Pay) and best practice research.

What are some examples? In Finland, an Industrial Cooperation Instrument is being used to strengthen commercial linkages for the mining and forestry sectors as a contribution to "aid-for-trade" donor goals. In October 2011, Australia launched its Australian Mining and Development Initiative (AMDI) to promote "sustainable mining" in developing countries. The Australian thematic chapter presents two case studies for PNG liquefied natural gas and an African Partnership Initiative to demonstrate the close relationship between this sustainable mining agenda and Australian mining interests. Rather than regulating Australian mining companies' operations abroad, these authors conclude, "The boundaries [in these programs] are unclear between improving mining operations, entrenching a flawed development model and spreading the 'resource curse'".[14]

Other donors such as Canada do not have a PSD program per se, but rather create a variety of initiatives related to "sustainable economic growth" that include direct investment initiatives in support of micro, small and medium enterprise, smallholder farmers and women entrepreneurs. They are contributing and leading several "Challenge Funds" with the private sector, such as the Advanced Market Initiative for the provision of vaccines.

The sector definition of what is included in PSD varies greatly among donors. Australia says that 27% of its ODA expenditures in 2012/13 will be in its "sustainable economic development" priority area, which includes all investments for food security and agriculture. Norway includes all budget support, all actions relating to debt cancellation and all multi-sector DAC sector codes when reporting its contributions to economic growth. For Canada, CIDA calculates that 22.3% of CIDA's disbursements in 2009/10 were for "sustainable economic growth" in a wide variety of sectors. A large proportion (33%) of these Canadian investments were directed to support for reforms in public sector financial management and in legal and regulatory regimes. CIDA has also had a history of working with like-minded donors to seek reforms of government

[14] "Australia's Mining for Development Initiative: Blurring the boundaries between private profit and public development", in this *Report*.

environmental and regulatory regimes in developing countries to create more "business-friendly" conditions for foreign investments by the extractive industries.[15] There are, however, no easy calculations of the amount of PPP and PSD disbursements within these priority areas.

The Netherlands chapter similarly stresses the importance for Dutch aid in creating the proper "enabling environment" for the private sector: through a wide range of thematic areas including good governance, macro-economic stability, appropriate physical and technological infrastructure, legal security, an effective tax system, labour law, access to social security, trade unions and employers' associations, and a strong civil society.

For the past decade, USAID has been promoting a Global Development Alliance, which is a market-based business model for US aid-supported partnerships between the public and private sector to work towards shared development goals. According to Rajiv Shah, USAID Administrator, "…[W]e have to do a far better job of working with private firms – be they domestic or foreign, established or entrepreneurial … We must partner with the private sector much more deeply from the start, instead of treating companies as just another funding source for our development work. … In short, we must embrace a new wave of creative, enlightened capitalism". (Rajiv Shah, October 20, 2011)

Since 2001, USAID has engaged in over 1,000 private sector partnerships with over 3,000 partners, most recently in the New Alliance for Food Security and Nutrition to leverage private sector investment. While this New Alliance emphasizes the importance of investing in smallholder farmers, according to American and African CSOs, it is not clear to what extent the latter will be consulted or benefit from corporate partnerships.

Middle-income aid providers for South-South Cooperation (SSC) have been increasing south-south resource and technical transfers in recent years.[16] For Brazil, international cooperation has grown from US$25 million in 2005 to more than US$360 million in 2009. But if financial and commercial cooperation between Brazil and other developing countries is included, the value of loans for export, for example, amounted to US$1.8 billion in these years.[17] Brazilian companies received these loans in support of the internationalization of their businesses either directly or through tied aid provisions.[18]

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[15] See Blackwood, E., and Stewart, V., "CIDA and Mining Sector: Extractive Industries as an Overseas Development Strategy", in Brown, S. (editor), *Struggling for Effectiveness: CIDA and Canadian Foreign Aid,* Montreal: McGill-Queen's University Press, 2012.

[16] *Reality of Aid* estimates South-South Cooperation as an ODA-consistent resource at US$15 billion, but also represents a much larger transfer of resources (perhaps up to US$50 billion) when non-ODA-like financing (investment and export credits etc.) are included.

[17] See "Emerging Brazilian Cooperation" in this *Report* and World Bank & IPEA, "Bridging the Atlantic: Brazil and Sub-Saharan Africa, South-South Partnering for Growth", 2011, accessible at http://siteresources.worldbank.org/AFRICAEXT/Resources/africa-brazil-bridging-final.pdf.

[18] The Brazilian chapter, "Emerging Brazilian Cooperation", gives an example for a Brazilian program, More Food Africa, which has three lines of action: "First a technical cooperation project is signed with authorities in each country [Ministries of Agriculture], with the objective of facilitating the exchange of technical assistance and extension activities for rural areas. The Brazilian Government offers credit through concessional lending to the country to import Brazilian agricultural machinery and equipment, considered by the partner country as necessary to implement its national strategy for the development of family farming. Finally, an agreement with the Brazilian industrial sector is made, in which African country partners formulate a list of machinery needed, which the [Brazilian] Ministry of Agrarian Development negotiates prices with the relevant trade unions in Brazil with predetermined conditions."

The authors of this *Reality of Aid* chapter note CSO concerns that large Brazilian companies operating in Africa may create unfair competition and take advantage of often weak monitoring in Africa of social and environmental impacts of projects. They suggest the need for greater transparency and due diligence in government aid funding in support of the internationalization of Brazilian private companies. How closely do Brazilian authorities assess these initiatives in relation to the official discourse on South-South Cooperation? To strengthen accountability, the authors also call for support to CSOs in Brazilian South-South Cooperation "to participate in the design, implementation and execution of projects, and to encourage mobilization of civil society in the partner countries and their integration into global citizenship movements".[19]

Issues in Private Sector Development

The Canada chapter underscores the notion that donor initiatives for PSD should not be about creating conditions for the private sector to develop, but rather addressing the conditions for how the private sector can contribute to development, and in particular to a shared commitment to reduce poverty and inequality. Yet, as many of the *Reality of Aid* authors point out, donor or developing country governments have undertaken little due diligence in assessing the distributional impacts of different avenues to encourage economic growth on inequality, or the potential effects of various forms of private sector development on the livelihoods, assets and capacities of poor populations.

Not all donor-supported PSD is directed to or aligns with large-scale corporate interests in developing countries. Several donors give significant priority to micro-credit, to small and medium-sized businesses, women's economic empowerment and to smallholder agriculture. But unfortunately the sector coding published by the DAC does not allow analysts to distinguish the degree to which these investments make up a significant proportion of aid for PSD.[20] As noted earlier, donors somewhat arbitrarily assign very broad DAC sector codes in identifying their "economic growth" or PSD portfolio.

Beyond issues of basic transparency, *Reality of Aid* country contributors draw attention to several core issues that need to be addressed if PSD is to be effective in achieving development outcomes.

1. **Clarity about which private sector is being supported and why.**

   Channeling aid for PSD sometimes appears to be a goal in and of itself. As noted above, the "private sector" is highly diverse, which can be local, national or global in scope. PSD is often a "catch-all" for ad hoc interactions with numerous actors that may or may not be the most effective modality to address particular development issues for poor people, irrespective of their "innovative approaches" (US chapter). [21]

[19] See "Emerging Brazilian Cooperation" in this volume.

[20] The DAC sector coding does permit such disaggregation but this level of coding is not available on the DAC's Creditor Reporting System web site.

[21] With twenty years of significant private sector-driven growth, Ghana has recently moved to "low middle income" status. Nevertheless, the numbers of people living in poverty on less than $1.25 a day decreased only slightly from just over 7 million, to just under 7 million, despite rising per capita income.

Private sector development strategies should target the areas and sectors where poor people live and are economically active, taking account their interests and needs. Women in particular face many barriers and levels of discrimination in such areas as legal rights to assets, access to productive credits, employment discrimination, and basic rights to participate in the economy with equal access to opportunities and benefits.

Rosalind Eyben, working with PovNet at the DAC, has elaborated a useful matrix of economic, social and political strategies to empower people to move out of poverty and truly benefit from economic growth processes.[22] According to good practice and development experience, these strategies should address the following:

Promote economic empowerment: 1) Strengthening the poor's access to and control of productive assets; 2) Promoting decent paid and unpaid work; and 3) Making product and capital markets work better for poor people.

Take account of political empowerment: 1) Strengthening the capacities for direct political representation of poor people; 2) Supporting collective action (civil society, cooperatives, unions) for economic, social and political change, recognizing that political empowerment of people living in poverty is both complex and long-term.

Enable social empowerment: 1) Promoting social inclusion and non-discrimination; 2) Strengthening capacities for critical awareness among social actors of conditions affecting the lives of poor and discriminated populations; and 3) Stressing the importance of human capacities for the poor through equitable, responsive and accountable service delivery (in education and health).

1. **Few references to corporate responsibility standards in determining private sector partnerships.**

The Republic of Korean chapter draws attention to the strong role that the Korean private sector is assuming in Korean development projects, particularly large infrastructure projects. But the author also notes that there are few discussions in Korea to put in place guidelines and standards relating to corporate responsibilities towards the environment and the human rights of affected populations in developing countries. This is a situation not unique to Korea, which is a donor that only recently joined the OECD DAC. What measures have donors put in place to assess the implications of large-scale infrastructure projects for the rights of small farmers, of indigenous peoples, or other marginalized affected populations?

The North South Institute / CCIC chapter documents donor references to common international norms and standards for corporate responsibility in their economic growth and/or PSD strategies.[23] Seven of the 22 donors reviewed had no reference, while half (11) made explicit reference to two or more of the common voluntary standards or guidelines. However, there is insufficient information to assess the degree to which these standards are actually being taken into account in the determination and implementation of PSD programs.

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22 Rosalind Eyben, "Empowerment and Pro-Poor Growth: Policy Guidance Note" A Draft Policy Note produced for the OECD DAC POVNET, December 2010, mimeo.

23 They looked at the UN Global Compact, the OECD Guidelines on Multinational Enterprises, the ILO core labour covenants, and the UN Human Rights Guiding Principles on Business and Human Rights.

Few donors actually have explicit accreditation procedures for considering which private sector partners to engage, unlike the various criteria that guide donor partnerships with CSOs. In Switzerland, for example, rather than enforce the standards mentioned in the policy, with companies whose subsidiaries may have been accused of human rights violations or environmental damage, the Swiss Agency for Development and Cooperation, SDC, will "invite [these] multinational corporations to participate actively in development dialogues to develop sensitivity to social and environmental issues". The Dutch government, by contrast, has made adherence to the OECD *Guidelines for Multinational Enterprises* mandatory for every company receiving ODA funding.

2. **Application of aid and development effectiveness frameworks.**

Some donors such as Sweden have published *Policy Guidelines for Sida's Support to Private Sector Development* to accompany significant increases in aid to PSD. Yet monitoring and assessment of opportunities against common aid and development effectiveness frameworks remains weak. An independent assessment by Swedish CSOs concluded that some PSD projects lacked clear development objectives or the ability to demonstrate development results. While Sweden has formally untied all of its aid, research suggests that aid allocated to cooperation with the private sector is primarily directed to Swedish companies. The chapter on Japan's aid notes the continued very close connection between allocations for Public-Private Partnerships and Japanese foreign and commercial interests.

Only a couple of donors (Spain and New Zealand) make reference to aid effectiveness principles in their PSD policies. In the Netherlands, CSOs advocate for the use of more robust aid effectiveness criteria for ensuring positive impacts of Dutch private sector investments in developing countries on poverty reduction, climate change mitigation and adaptation and sustainability. A recent overview of private actors as donors for development pointed to several unaddressed aid effectiveness issues: the fragmentation of projects as private donors avoid large-scale projects; increased volatility of aid as these donors seek short-term results; and increased visibility of private donors at the expense of ownership by national developing country actors.[24]

According to evidence in the Bangladesh chapter donor-supported private sector projects seldom follow the development principles of the Paris Declaration and the Accra Agenda for Action. They have generally been the result of direct agreement between the donor and the private sector actors, outside of the national development strategy and ownership of the national government. Governments at all levels are challenged even to monitor these projects. The Swiss chapter confirms this observation. Roughly half of all new Public-Private Development Partnerships are developed by the heads of the Swiss coordination offices in priority countries in direct contact with Swiss enterprises that are present locally. Project monitoring is undertaken by the enterprises, with weak oversight by the donor.

2. **Centrality of policy coherence in directing economic growth and PSD towards development goals.**

In Canada the former International Cooperation minister has been quoted as saying that she saw no difference between Canada's trade and foreign policy interests and Canadian development goals. A recent

[24] Development Policy Forum, "The Private Sector and Development Cooperation", Policy Paper, November 2011, page 16.

DAC peer review for Canada commented, "There should be no confusion between development objectives and the promotion of commercial interests." Indeed the issue of policy coherence between the stated purposes of donor programs that engage the private sector for development and other important policy areas is a critical condition for realizing more sustainable and equitable development outcomes from PSD.

To highlight the scale and reach of issues of policy coherence, a recent study by the Tax Justice Network (UK) [25] points out that rich individuals have hidden in tax havens abroad as much as US$21 trillion, and possibly US$32 trillion, from their home countries – an amount more than the American and Japanese Gross Domestic Product put together. Governments, mainly in the North, but also some in the South such as Nigeria, could derive between US$250 and US$300 billion in annual tax revenue from this "missing wealth". Some of this hidden wealth is no doubt the product of corruption in developing countries; but much of it is tax avoidance by a rich global elite that faces no scrutiny or repercussions. The NGO, Global Financial Integrity, has calculated that approximately 60-65% of the illicit capital flight from developing countries results from commercial transactions within multinationals, 30-35% from criminal activities such as trading of weapons, drugs and humans, and only 3% from corruption.[26] If an enabling environment for PSD in developing countries requires due process and the rule of law, perhaps wealthy countries could seriously tackle financial tax havens and exchange tax information to enforce tax laws and prevent the laundering of stolen assets.

To its credit, Sweden has issued a general ban to prevent Swedfund from making new investments in funds based in tax havens. Finland has also made the connection between PSD policies and the importance of government attention to illicit financial flows and tax havens, which will be included in the 2013 Guidance Note to Finnfund. Yet this same country opposed measures at the EU for wide-ranging country and project level transparency of tax payments by EU extractive industries active in developing countries.[27]

As the WTO Doha Round of trade talks remain dormant and rich countries pursue bilateral trade deals, wealthy countries, particularly the EU and the United States, persist in avoiding issues of agricultural subsidies in their jurisdictions. These subsidies continue to have significant impact on agricultural development opportunities for developing country smallholder producers. The 2010 UNCTAD Report on Least Developed Countries points out that, for the poorest countries to benefit from trade and investment liberalization, these policies must be tailored to strengthen domestic industrial growth.[28] Reduction of agricultural subsidies in developed countries was not part of the commitments in the G8 2008 L'Aquila Initiative or the 2012 New Alliance to Increase Food and Nutrition Security.

Many developed countries also take advantage of their economic weight to

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25 See Tax Justice Network, "The Price of Offshore Revisited" and "Inequality: You don't know the half of it", July 2012, http://www.taxjustice.net/cms/front_content.php?idcat=148.

26 Quoted from Kristina Fröberg & Attiya Waris, "Bringing the billions back: How Africa and Europe can end illicit capital flight", Forum Syd, Global Studies, #37, 2011, page 47, accessible at http://www.forumsyd.org/upload/Bringing%20the%20billions%20back.pdf

27 See the Finnish chapter in this *Report.*

28 UNCTAD, *The Least Developed Countries Report 2010*, Geneva, November 2010, pages 7, 30 and 35, accessible at http://www.unctad.org/Templates/Page.asp?intItemID=1397&lang=1.

pursue open investment regimes to the benefit of their domestic corporations through bilateral trade and investment deals, while resisting measures for transparency and "publish what you pay" payments in developing countries by their extractive industries.

Recommendations and Key Messages

The private sector has a crucial role to play in tackling the economic and social underpinnings that sustain poverty and inequality across the developing world. But the issue is less "value for money", or "leveraging" private finance, or "private sector development" per se, but rather how to employ aid as a catalytic resource in ways that create genuinely inclusive and equitable economic growth. The deployment of aid for these purposes must at its heart be about strengthening the economic rights for people living in poverty. Too often the focus of donors and southern aid providers has been on large-scale investments or infrastructure development to increase economic growth. And too often, these interventions target the formal economy instead of also addressing the realities of very significant informal economies.

The informal economy is often a "survival economy" where millions of people and their families live in poverty. ODA partnering with various private sector actors or contributing to private sector development in the South is not just a question of finance or increasing economic activity. It must also be a question of social justice – changing the underlying socio-economic conditions that keep people trapped in poverty-induced livelihoods in this informal sector, and often in a lifetime of unsustainable personal (micro) debt. Public and private sector options that reduce poverty, address inequality, and promote social justice, require appropriate country-level processes that are inclusive of the poor and that start from their situation and needs.

The global civil society *Reality of Aid 2012 Report* adopts a framework of human rights, social and economic justice. Based on the contributions to this *Report,* the Reality of Aid Network calls upon all aid providers, including official DAC donors, Development Finance Institutions (DFIs), multilateral organizations, and partners in South-South Cooperation, to implement the following recommendations:[29]

1. **Restore donor commitments to increase ODA resources dedicated to poverty eradication and reducing inequality.** Investments of aid in blended public/private funds and in public-private partnerships should clearly demonstrate the basis for considering private sector resources additional and aligned with human development goals.

2. **Ensure that aid-supported private sector investments, private sector development and an enabling environment for the private sector give priority to the local/national private sector and social economy.** These investments should be consistent with aid effectiveness principles and commitments of the *Busan Partnership for Effective Development Cooperation*. In particular all stakeholders, including the private sector, acknowledged in Busan that "cooperation for effective development" requires respect for the principles of country ownership, inclusive development partnerships, results

[29] These recommendations also draw upon BetterAid's "Civil Society Statement in Response to the "Joint Declaration on Expanding Public and Private Cooperation for Broad-Based, Inclusive and Sustainable Growth", November 28, 2011, accessible at http://www.betteraid.org/en/betteraid-policy/betteraid-publications/statements.html.

that have an impact on eradicating poverty and reducing inequality, and transparency and accountability. All stakeholders at Busan agreed to implement democratic ownership, create conditions that empower women, and give priority to the use of country systems.

3. **Develop and apply pro-poor analytical tools, indicators and monitoring frameworks, based on international human rights standards, the OECD Guidelines for Multinational Enterprises, core labour rights and standards monitored by the ILO supervisory system, and best practices identified by the OECD DAC PovNet**. These tools should be applied to all proposed private sector investments involving aid resources. The determination of priorities for private sector development should be based on an analysis of the specific areas and sectors where poor and marginalized people live and are economically active, and the impacts of these initiatives on their livelihood, assets and capacities. Analytical tools should be capable of gender-disaggregated analysis, taking account the empowerment of women as economic and social actors.

4. **Support a policy and regulatory environment for the private sector at the country level that enables them to contribute to development, consistent with the state's human rights obligations to its people, and through processes that are genuinely inclusive of all development and social actors**, not just limited to private sector and government actors. Several donors stress the importance of good governance, respect for human rights and the rule of law as critical dimensions of this enabling environment. Governance processes should therefore strengthen the capacities of the poor and marginalized to be informed about development options and provide input on these options, not just consulted on already established projects.

5. **Implement whole-of-government approach to policy coherence,** within which all DFI and aid investments for PSD or PPPs are 1) aligned with developing countries' investment priorities; 2) make development outcomes the overriding criteria for project selection and evaluation; 3) comply with high responsible investment standards; 4) target domestic companies as a preferred option; and 5) prevent tax avoidance and set high standards for transparency, including improving transparency of financial intermediaries.[30]

6. **Put transparency and accountability at the heart of all private sector engagement and development.** Full public access to all project documentation, project implementation plans and evaluations is essential if citizens, and particularly affected populations, are to have a meaningful voice and hold private sector actors accountable to development results or adverse consequences.

7. **End formal and informal tying of aid and aid-supported investments**, ensuring that public procurement takes account of public policy goals to strengthen national businesses and local capacities in developing countries and to eradicate poverty.

8. **Implement mandatory guidelines for public-private partnerships, building on the recently adopted OECD Principles for Public Governance of Public-Private**

[30] See also Eurodad's "Responsible Finance Charter" for a comprehensive guide to engaging in responsible finance at http://eurodad.org/4562/.

[31] The OECD Principles stress "active consultation and engagement with stakeholders as well as involving end-users in defining the project and subsequently in monitoring service quality", including trade unions and CSOs. They also stress the importance of risk being born by those parties "for whom it costs the least to prevent the risk from realising or for whom realised risk cost the least" See http://www.oecd.org/governance/oecdprinciplesforpublicgovernanceofpublic-privatepartnerships.htm.

Partnerships.[31] Guidelines should include pro-poor and human rights indicators to measure impacts, a priority to work with the domestic private sector and entrepreneurs in developing countries, the obligation to consult with local stakeholders including CSOs, and access to mechanisms for accountability and effective remedies for those whose rights have been violated. Public-private partnerships should be based on a thorough analysis of the capacities of private sector partners based on real needs, community risks, accessibility, quality and affordability of goods and services produced and long-term sustainability. Major investments in infrastructure should carry out mandatory and transparent environmental and social impact assessments.

9. **Implement the ILO Decent Work Agenda and apply ILO core labour standards** in the implementation of aid-supported private sector investments and private sector development initiatives. Private sector initiatives must create access to productive employment and income opportunities, respect the right to work, promote systems of social protection, and strengthen voices of workers and all stakeholders through social dialogue. Advancing labour rights is essential to tackling the precariousness, poor quality and poverty-level remuneration of work for many people in the formal economy.

10. **South-South Development Cooperation aid providers should continue to develop partnerships in ways that adhere firmly to the principles of mutual benefit and equality**, distinct from the conditionality practices of DAC/World Bank donors. SSC aid providers continue to face tremendous domestic development challenges, and based on this experience, tend to be strategic and focused in their choice of partners. Nevertheless, the effectiveness of South-South Cooperation for development should respect the principles of development effectiveness, human rights and democratic ownership so that the acclaimed advantages of Southern aid providers in terms of their avowed respect for sovereignty and policies of non-interference are not abused.

Chapter 1
Public Development Finance and the Private Sector

Investing in the "business" of development - Donor approaches to engaging the private sector

Shannon Kindornay, The North-South Institute
and Fraser Reilly-King, Canadian Council for International Co-operation

Private profit for public good? Can investing in private companies deliver for the poor?

Jeroen Kwakkenbos, EURODAD

Aid for the Latin America Investment Facility: Clarity on private sector and focus towards SMEs needed

Toni Sandell, APRODEV and Gustavo Hernández, ALOP

Investing in the "business" of development-Donor approaches to engaging the private sector

Shannon Kindornay
The North-South Institute and Fraser Reilly-King, Canadian Council for International Co-operation

Introduction

The private sector has become the new donor darling. Over the past few years, members of the OECD-Development Assistance Committee (DAC) – the forum through which rich countries coordinate their aid efforts – have renewed their focus on economic growth and the private sector as driving forces behind development. At the international level, donors put their weight behind statements in support of the private sector at the United Nations Millennium Summit in 2010[1] and more recently at the 2011 Fourth High Level Forum on Aid Effectiveness (HLF4) held in Busan, Korea.[2] This shift has come in the context of fiscal austerity programs that are decreasing or freezing the resources allocated to aid budgets. With it, donors are emphasizing "cost effectiveness" and "value-for-money," seeking to leverage shrinking aid budgets through innovative financing mechanisms, private sector-inspired solutions and direct partnerships with private sector actors.

Despite these trends, donor policies for promoting economic growth and private sector strategies have received very little comparative assessment. This chapter seeks to address this gap with an initial mapping and exploratory assessment of bilateral donor strategies on the private sector and economic growth. It is based on an examination of publicly available OECD-DAC donor[3] policies reviewed between January and June of 2012, including websites, strategy papers, policy documents, and donor commitments at HLF4 and in other multilateral fora.

The research sought to identify emerging themes in donor policies around growth and the private sector by comparing and contrasting different elements of their approach. These elements include the structure of strategies in terms of their market vision and assumptions, rationale for poverty reduction, pillars, areas of focus, and budget size. The research also looked at how donors see the role of the state, private sector actors and other development actors in their strategies. Finally, it examined the extent to which donor strategies take into consideration development and financial additionality, international aid and development commitments as well as crosscutting issues such as sustainability, gender, human rights and corporate social responsibility. This chapter presents some of the findings of that research and its policy implications, and identifies future areas of research.

Donor strategies on the private sector: an overview

While donors may unanimously agree that growth is integral to development, and that the private sector has a key role to play in this, their approaches vary greatly in terms of what they target and how they approach implementation. Nevertheless, the private sector is commonly projected as a "*development actor*" and as a key enabler of development.

Policy frameworks for working with and through the private sector

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. Japan's private sector development work represents a second approach, one which targets the establishment of and support for the private sector in developing countries, by focusing on, for example, supporting local business. A third approach combines these two. Sweden 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. Instead, they weave their private sector programming and engagement into their economic growth or trade and development strategies. Australia, 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). Austria and France take this approach. Finally, these approaches are not mutually exclusive: Belgium, for example, includes elements of private sector engagement in thematic priorities, on a dedicated webpage, and makes reference to the role of the private sector in their overall development strategy.

Supporting the private sector - how much and where?

It is very difficult to quantify how much support donors are actually providing for the private sector and economic growth strategies. There is a lack of public reporting on specific initiatives or on the larger strategies. Out of the donors examined, a handful publicly indicated how much funding they are devoting to the private sector and/or economic growth strategies. In 2011, Norway devoted roughly 14.5% of its aid budget to economic development and trade.[4] In 2010/11, CIDA disbursed Cdn$824 million or 22.9% of its aid budget on its growth strategy, again encompassing a whole range of sectors and sub-sectors.[5] Spain provides a complete breakdown of its economic growth spending based on the DAC Creditor Reporting System (CRS) sector coding, reporting just over €97.4 million for 2010.[6]

One of the key challenges for measuring donors' spending on the private sector and/or economic growth is that these figures depend on how donors define these areas of work. For example, Norway, Canada and Spain use different CRS codes in their reporting. While perhaps relevant to "economic development," Norway's inclusion of all activities coded multi-sector, budget support, and action relating to debt can similarly be questioned in terms of their focus on economic growth and the private sector.

Some figures exist on direct partnerships with the private sector although it is impossible to paint a comprehensive picture. Germany reports on all its partnerships with the private sector. For example, its PPP Facility, a special fund for development partnerships with the private sector, spent €190 million in the ten years between 1999 and 2009 for PPPs, leveraging[7] an additional €301 million in private sector resources.[8]

In short, it is difficult to make any accurate, meaningful and comparable assessment of the scale and scope of donor financial support either in the area of growth or the private sector.

Unpacking the strategies

3.1 Divergent logic and assumptions: where the private sector, growth and development meet

One of the striking features of our comparative analysis is the lack of coherence among the donors assessed, in particular on something on which they all clearly agree – that the private sector is key to development. Important areas of convergence and divergence become apparent as the various approaches among donors to growth and private sector are unpacked.

All donors see the private sector as the key driver or engine of growth and development. The private sector serves as the nexus between growth and development by nurturing new investments, contributing to self-regulating markets and 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 reduce poverty). However, beyond this, donors' strategies for connecting the dots between growth, the private sector, development and poverty reduction fall within a very broad spectrum.

Some donors tend to see the end goal as partnering with the private sector. This will help harness declining aid resources and leverage alternative sources of development financing, as well as 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).[9]

Others see the end goal as growth, in which the private sector are a key conduit. In this case, the link between growth and poverty in developing countries is a direct one: a vibrant private sector contributes to growth, which in turn automatically contributes to poverty reduction.[10] Generally, however, most donors go a bit further. These donors see the private sector as a means to increase incomes (through job creation) and public revenues (through taxation) to deliver on social services. This is evident in both the overall rationale for some donor strategies[11] and/or in the pillars and activities in their strategies.[12] However, the extent to which donors explicitly target the quality of jobs created and enable governments to effectively collect taxes and deliver on social services varies considerably.

Similarly, there is also a difference among donors in terms of the extent to which they consider the distributional impacts of growth – that is, how the revenue from a thriving private sector will be shared with, and/or explicitly target, those living in poverty. Some donors recognize that patterns of growth matter. Germany, Finland and Japan highlight environmental considerations, *inter alia*, in their focus on patterns of growth while the European Union, Switzerland and USAID are concerned with who benefits from growth.

France and Belgium are outliers in comparison to their OECD-DAC counterparts and take a solidarity approach to growth. For France, the solidarity approach recognizes that "globalization means rethinking new pathways to growth" that are cognizant of mutual global interdependence and shared common destiny and seek to find pragmatic solutions to problems that transcend borders like inequality and global public goods.[13] For France this is defined by paying attention to "the quality of growth, its ability to create employment, its impact on welfare and the environment and its contribution to strengthening States", and to "[m]echanisms that reduce inequalities and protect the most vulnerable […] (pro-poor policies, risk reduction, redistributive fiscal

policies)."[14] Belgium's social solidarity economy approach promotes autonomous, democratic and participatory management of social and economic associations and prioritizes people and work over capital when redistributing revenue.

While most donors recognize that patterns of growth matter, few seem to identify the corresponding challenge of strengthening government capacity to actively redistribute the benefits to those who are most marginalized by many economic activities that contribute to growth. Donors tend to focus on making markets equitable within countries, and growth shared among countries, rather than trying to directly reduce often growing inequalities in society. The former emphasizes making markets work for the poor, whereas the latter suggests a more proactive role for the state in addressing inequality. There are some exceptions. Denmark prioritizes income distribution and human rights in dialogues with governments receiving budget support, while France identifies the tripartite relationship between growth, poverty reduction and inequality – including a suite of policy tools for addressing these complexities.

Regardless of the different donor rationales to the growth, private sector and development nexus, the entry points for programming and partnership are often similar. For example, Germany, Sweden, Switzerland, the UK and the US all have as their entry point making markets more competitive, or making markets work better for the poor (both as producers and consumers), despite placing very different emphasis on critical issues, such as employment and decent work, ecological and social impacts, and human rights.

Tensions in roles of the state and the private sector in delivering development

In general, donor policies and strategies take an apolitical approach to growth, the private sector and development, which reflects a technocratic understanding of the state and which largely ignores ongoing debates with regard to the proactive role the state must play in development.

For some, contributing to a "stronger state" focuses only on the state's role in promoting an enabling environment for business through the right policy and regulatory mix. Other donors take a more nuanced perspective adding to this a role for the state in delivering social services. While most donors recognize the role of the state in ensuring access to social services, they differ in terms of the extent to which they see the private sector playing a role in this regard. Sweden, for example, states that it will not support a policy or program whereby people become reliant on the private sector for a right (for example, basic education) that the state has an obligation to fulfill.[15] On the other hand, while acknowledging that the state has a role to play in delivering social services, the UK explicitly supports improving the private provision of social services.

On the whole, donors rarely promote a more pro-active role for the state in development. This includes donor policies that fail to allow the policy space for countries to develop socio-economic approaches specific to their national context and that take into account the views of citizens. There is seldom space to consider heterodox models for development that have been successful in emerging economies. There is little if any sensitivity to balancing the 'right' policies (which tend to be whatever ideas are the hegemonic ones for the day) and the political space and necessary capacities for developing countries, including civil society, to determine their own policy mix.

A mix of intervention levels and modalities for engagement

Donors support the private sector at the macro, meso and micro levels. Macro level donor policies focus on creating a *business enabling environment*

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

Table 1 categorizes modalities of private sector engagement found at the macro, meso and micro levels. It only includes interventions that specifically focus on private sector actors, although other forms of intervention with the state or other development actors exist under each category (for example, interventions at the government level regarding regulatory reform would fall under "business enabling environment").

Donors' policies run the gamut of these interventions, with most doing at least one, and many doing all three.

Table 1 Examples of donor modalities for engaging the private sector at various intervention levels

Level	Modalities
Macro: Business Enabling Environment	• engagement with private sector as dialogue partner on national development planning (ex. Germany, Sweden, UK)
Meso: Making Markets Work	• competition or challenge funds to develop products and services that benefit the poor (ex. Australia, Austria, Germany, UK, Canada) • advance market commitments (ex. Canada, France, Italy, UK) • matching initiatives that couple firms in donor countries with businesses in developing countries (and sometime CSOs), often with a significant focus on development impact (ex. Denmark, Norway, The Netherlands, and Finland) • support for micro, small and medium size enterprises, including farmers, with a view to integrating them into global value chains (ex. Austria, Canada, Italy, New Zealand) • financing for firms in donor countries to invest in developing countries (ex. Denmark, Germany, Finland)
Micro: Investing in Businesses and People	• technical assistance to private sector enterprises in developing countries (New Zealand, Denmark, UK) • support for feasibility studies for pro-poor product or service development (ex. Austria, Germany)
Other	• support for national and international corporate social responsibility standards like the Global Compact or the Extractive Industries Transparency Initiative (ex. Denmark, Germany, Sweden, Canada) • support for multilaterals that work with or on the private sector (ex. Austria, UK) • Research on best practices for engaging the private sector (ex. UK) • Private contractors (ex. Australia, Sweden) • Public-Private Partnerships, including with CSOs (ex. Australia, Denmark, Germany, Sweden, UK and Canada)

Implementation considerations

It is essential to examine the extent to which donors are committed to financial and development additionality, support firms in developing countries versus their own companies, and make explicit reference to international norms, standards and principles, including aid effectiveness, in their policies and strategies.

Financial additionality refers to the extent to which aid funds target sectors and businesses that otherwise would not have funds available. Development additionality refers to the extent to which aid resources to and for the private sector work towards eradicating poverty and achieving other development goals, such as the Millennium Development Goals. Analysis of donor policies suggests that they do not ensure additionality across all areas of their work and engagement with the private sector. However, most have at least one initiative in their portfolio that includes financial and/or development additionality as criteria for partnership. A clear articulation of intended development and poverty reduction outcomes for example, is required for matching schemes that pair domestic companies with businesses in developing countries and innovation funds aimed at generating solutions to development challenges (see Table 1).

Donors are not always clear about which private sector (domestic or foreign) is best placed to contribute to growth and poverty reduction, and what this choice implies for other development actors. For example, challenge funds are open to most private sector actors, while matching initiatives benefit foreign and domestic firms. In general, donors see a role for their own domestic and international private sector actors in their strategies. Some donors include the promotion of their own commercial interests as an explicit part of their strategies.[18] Donors such as Austria, Finland and Norway see their own businesses as having the potential to make positive development impacts through linkages in developing countries. While many donors are supporting their own private sector, nearly all also include provisions for promoting the private sector in developing countries in their work, often using capacity building and financial services for small and medium sized enterprises as their entry points. Cognizant of the thin line that donors are starting to tread, in the OECD-DAC's most recent Peer Review, the OECD-DAC noted that Canada needs to ensure that development objectives and partner country ownership are paramount in the activities and programmes Canada supports with respect to private sector development.[19]

In terms of standards, only half of the OECD donors analyzed make reference to international norms and standards in their economic growth and/or private sector strategies. Table 2 below highlights the most commonly referenced norms and standards.

The extent to which donors' strategies and policies take into consideration key aid effectiveness principles set out in a series of High Level Forums in Paris (2005), Accra (2008) and Busan (2011) – ownership, alignment, harmonization, mutual accountability and results – varies. The majority of donors have a separate policy on aid effectiveness, and only a couple – Spain and New Zealand – make specific reference to Paris or Accra in their policies on the private sector. Many however, make implicit references to aid effectiveness principles, for example, by committing themselves to partnership, working with other donors and demand-driven assistance.

Table 2: Explicit mention of key international standards and principles as part of strategies

Donors[20]	UN Global Compact[21]	OECD Guidelines on Multinational Enterprises	International Labour Organization	UN Human Rights Conventions Declarations and/or Guiding Principles on Business and Human Rights
Australia				X[22]
Austria	x	x	x	x
Belgium				
Canada				
Denmark	X		X	X
EU		X[23]	X	
Finland	x	x	x	x
France			x	x
Germany	X	X		x
Ireland				
Italy				
Japan				
Korea				
Luxembourg				
The Netherlands	X	X	X	
New Zealand				
Norway	X	X	X	
Portugal				X[24]
Spain			x	
Sweden	X			x
Switzerland	X	X	X	
UK	X	X		

Conclusion

This scoping study has sought to unpack the logic, assumptions and implications of donor strategies and policies on the private sector and economic growth for development and for poverty eradication .

Currently it is very difficult to assess the scale of donor interventions with the private sector. In large part this is because 1) many forms of private sector engagement exist and 2) donors categorize and track their private sector interventions and partnerships differently. While most donors recognize that the benefits from growth need to be shared, this study shows that, at least at a policy level, most donors are not engaging fully on the critical structural questions relating to the roles of the state and the private sector in ensuring pro-poor development outcomes that tackle inequality. In addition, the study indicates that donors could be doing more to ensure financial and developmental additionality in their work and support for the private sector. Most donors promote their own private sector, with mixed provisions for supporting private sector

actors in developing countries. Finally, only half of OECD donors make reference to important international standards on corporate social responsibility, aid effectiveness and human rights to guide the implementation of their policies and strategies with the private sector.

A number of implications arise from this provisional analysis:

1. Donors emphasize different priorities, entry points and roles for state and non-state actors, creating potential for inconsistent policy advice and technical assistance across donors, as well as fragmentation in their private sector programming;

2. Donors have not made across-the-board commitments to financial and developmental additionality which creates a risk of diverting aid funding from development to the promotion of commercial interests;

3. To the extent that donors are looking to the private sector both as a financial substitute for their waning aid budgets and as a political substitute for investing in effective institutions in developing countries, without a balance to this approach, donors run the risk of continuing to bring short term solutions to long term development challenges; and,

Relative to other development programming, many donors have not sufficiently incorporated their commitments to human rights, aid effectiveness principles and other international standards into their private sector strategies.

While this chapter provides a broad overview of some of the emerging themes and characteristics of the various bilateral donor policies and strategies, more research is needed on three key areas:

1. The scope of bilateral donor engagement with the private sector, an accurate measurement of the scale and historical trends of such private sector support (in particular relative to the rest of their aid budgets), and an assessment of the range of national-level actors beyond traditional bilateral donors (for example, development finance institutes and investment banks) that are engaging more substantively in development;

2. An assessment of how these donor policies are being implemented in practice, in particular from a financial and development additionality perspective; and,

3. The impact of these interventions on the ground.

Endnotes

1 Donor Committee for Enterprise Development (DCED) Member Agencies, Bilateral Donors' Statement in Support of Private Sector Partnerships for Development, 22 September 2010, New York, on-line: http://www.enterprise-development.org/page/partnerships

2 Fourth High Level Forum on Aid Effectiveness, Expanding and Enhancing Public and Private Co-operation for Broad-based, Inclusive and Sustainable Growth, December 1, 2011, Busan, December 1, 2011, on-line: http://www.oecd.org/dataoecd/25/36/49211825.pdf

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

4 Norad, Norwegian Aid Statistics, 2012, online: http://www.norad.no/en/tools-and-publications/norwegian-aid-statistics. This figure includes the following sub-sectors: transport and

storage; communications; banking and financial services; business and other services; agriculture; fishing; industry; mineral resources / mining; construction; trade policy and regulations; tourism; other multi-sector; general budget support; developmental food aid / food security assistance; and action relating to debt.

5 Figures from Government of Canada, Report to Parliament on The Government of Canada's Official Development Assistance – 2010-11, 2011, p.5. CIDA's sustainable economic growth strategy includes the DAC CRS codes related to public economic management, trade policy and regulation, economic infrastructure, environment and natural resources, business development and industry, financial sector development, skills development and elements of urban and rural development.

6 Ministerio de Asuntos Exteriores y de cooperación (AECID), Sector crecimiento económico para la reucción de la pobreza, 2011, pp. 4-6, on-line : http://www.aecid.es/galerias/que-hacemos/descargas/AF_FICHAS_CRECIMIENTO_ECO.pdf.

7 In a study of six bilateral donors, the World Bank's International Finance Corporation, the European Investment Bank and six bilateral donors (not including Germany), Eurodad found that there is a growing trend among donors to identify projects through which they are able to leverage the most resources while giving only secondary consideration to the development impacts. Kwakkenbos, Jeroen, Private Profit for Public Good? Can investing aid in private companies deliver for the poor?, European Network on Debt and Development (EURODAD), Brussels, May 2012, on-line: http://eurodad.org/wp-content/uploads/2012/05/Private-Profit-for-Public-Good.pdf

8 BMZ (Federal Ministry for Economic Cooperation and Development [Germany]), Development partnerships with the private sector. Annual Report 2009. 2010, Bonn, p. 7, on-line: http://www.bmz.de/en/publications/type_of_publication/information_flyer/information_brochures/Materialie201_Information_Broschure_02_2010.pdf. It should be noted that in the context of Germany's annual ODA of $12 billion in 2011 alone, both these figures represent a very modest figure, in particular given it is over the past 10 years.

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

10 Examples include Austria, Germany, Netherlands, UK, and Sweden.

11 Australia, Austria, Canada, European Commission, France, Japan, Spain, Switzerland, US.

12 This includes Canada, Denmark, Switzerland, UK.

13 MAEE, Ministère des Affaires Etrangères et Européenne, 2011. Development Cooperation: A French Vision – Strategy 2011. Directorate General of Global Affairs, Development and Partnerships. P. 10.

14 MAEE, p. 14

15 Swedish International Development Agency, Business for Development: Programme for Sida's cooperation with the business sector 2010-2012, 2011, Sweden, on-line: http://www.sida.se/Global/12691_Business_for_Development_memorandum_C4.pdf .

16 Meant to harness private sector expertise and innovation to develop solutions to development challenges. Examples include Australia's Enterprise Challenge Fund (http://www.enterprisechallengefund.org/) and the UK's Construction Ideas Fund (http://www.dfid.gov.uk/Work-with-us/Funding-opportunities/Business/Construction-Ideas-Fund/) .

17 Donors seek to match their domestic business with business in developing countries. Extent to which these include explicit development additionality criteria varies. Danida Business Partnerships are one example (http://um.dk/en/danida-en/activities/business/partnerships/).

18 Austria, Finland, Germany, Norway, UK and the Netherlands.

19 Organization for Economic Co-operation and Development (OECD), Canada - Development Assistance Committee (DAC) PEER REVIEW, 2012, Paris, p. 11, on-line: http://www.oecd.org/development/peerreviewsofdacmembers/canadapeerreview2012.pdf.

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

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

22 Refers to "rights" in general sense.

23 Refers to OECD Guidelines broadly.

24 Refers to "rights" in general sense.

Private profit for public good? Can investing in private companies deliver for the poor?

Jeroen Kwakkenbos
EURODAD

Summary[1]

Donor governments and multilateral institutions have provided grants and loans to private companies operating in developing countries for decades. However, since the 1990s the scale of this support has increased dramatically.

In 2010 external investments to the private sector by international financial institutions (IFIs) exceeded US$40 billion. By 2015, the amount flowing to the private sector is expected to exceed US$100 billion – making up almost one third of external public finance to developing countries. As global Official Development Assistance (ODA) stagnates, several aid agencies have suggested a dramatic scaling up of public finance devoted to supporting private sector investments.

Development finance institutions (DFIs) 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. However, based on analysis of recent grant and loan trends, and the portfolios of some of the largest multilateral and bilateral development agencies providing this development support,[2] there is ample evidence showing that DFIs are focusing on projects where they can leverage large returns on investment and reduce their development impact to a secondary motivation.

Introduction

Box 1 How do DFIs aim to reach small companies? The key players

Increasingly, the majority of DFI and IFI funds for private sector investment in developing countries are channelled through financial institutions that operate as intermediaries, or as 'middlemen', between the development agency and the final beneficiary. Hence the process is often referred to as 'intermediated finance'.

Among others, these financial intermediaries (FIs) can be:

- commercial banks
- hedge funds
- private equity funds
- credit unions
- microfinance institutions.

The rationale for engaging with FIs in this way is that by doing so FIs reduce transaction costs and, as the DFI or IFI has no retail outlets, this is the only way in which they can engage directly with micro, small and medium enterprises.

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1 This chapter is a summary of a longer Eurodad report, "Private profit for public good? Can investing in private companies deliver for the poor?", by Jeroen Kwakkenbos, May 2012, accessible at http://eurodad.org/wp-content/uploads/2012/05/Private_profit_report_eng-VF5.pdf.

2 The World Bank's International Finance Corporation, the external lending of the European Investment Bank and six bilateral DFIs from Belgium, Denmark, the Netherlands, Norway, Spain and Sweden.

Public development finance can play crucial roles in providing funds to credit constrained companies, unleashing the potential of a thriving private sector that in turn creates decent jobs, pays a fair share of taxation to the government, and provides goods and services to citizens. However, it is fundamental that public finance is channelled to the companies and sectors that have least access to private capital markets, hence ensuring that scarce public resources are genuinely additional to private finance. These resources must also be channelled to firms and sectors that can deliver the best outcomes for the poor, thus ensuring that public development monies are used for intended purposes.

ODA flows to the private sector have been growing rapidly in recent years, though they remain a small proportion of the total. Belgium and Sweden are examples of striking cases, where aid channelled to the private sector has increased by four and seven times respectively since 2006. Previous Eurodad research has revealed that the majority of aid flows through the private sector in the form of procurement contracts for goods and services, and that the vast majority of this goes to rich country firms. The use of aid for private sector investments may also detract from much-needed public sector investments, which still face huge financing gaps.

During the economic and financial crisis, DFIs have seen their balance sheets increase dramatically. Between 2006 and 2010 the DFIs assessed by Eurodad increased their portfolios by 190%. Sovereign guarantees and preferred creditor status protect their investments whereby no other financial institution can compete. At the same time, the drying up of credit markets has allowed DFI expansion, including into new areas, such as trade finance.

DFIs providing support to private investments in the South have followed market-driven patterns regarding the sectors and type of companies that they finance. In the period 2006-2010 there has been a dramatic increase in lending and investments to the financial sector. Commercial banks are by far the largest recipients of IFI and DFI funds amongst financial intermediaries, although private equity funds are quickly becoming a favoured vehicle.

One of the main arguments provided by IFIs and DFIs to justify this massive shift to the finance sector is their willingness to scale up funding for small businesses. However, besides general statements of intent, it is almost impossible for external stakeholders to actually track whether DFI and IFI lending and investments reached the intended beneficiaries. Commercial banks, private equity funds and other financial intermediaries do not provide disaggregated data on which projects and companies they support and what development impacts are achieved. The DFIs themselves claim that providing this type of information is not possible due to commercial sensitivity and the fact that money is fungible and public and private funds are mixed once invested in private financial institutions.

More of this kind of development business in the pipeline…

As global ODA stagnates, policy reviews in several aid agencies, including the European Commission, suggest a dramatic scaling up of public finance devoted to supporting private sector investments.

While many DFIs were originally conceived to protect European countries' interests in their colonies or former colonies, their more recent mandates focus on engaging in high risk investments in areas that have limited access to capital markets. Some, such as Denmark's

Box 2 Key figures – who's winning the private sector development game?

- In 2010 IFIs' external investments to the private sector exceeded US$40 billion. By 2015, the amount flowing to the private sector is expected to exceed US$100 billion – i.e., an amount that is almost one-third of external public finance to developing countries.
- In 2010, on average over 50% of public finance flowing from DFIs to the private sector went to the financial sector.
- In 2010 lending and investments in the financial sector by DFIs and IFIs had increased, on average, more than two fold compared to pre-crisis levels.
- Only 25% of all companies supported by the European Investment Bank and the World Bank's International Finance Corporation were domiciled in low-income countries. Almost half goes to support companies based in OECD countries and tax havens.
- Around 40% of the beneficiary companies identified in the sample group of companies are large organisations listed in some of the world's biggest stock exchanges.

IFU, are tied directly to national commercial interests. Others, such as the World Bank IFC and the German DEG, are not. The DFIs tied to national interest require any project in the south to be sponsored by a company based within their country.

Though overall the majority of DFI lending flows to middle-income countries, DFIs have also expanded into poorer countries. The IFC's committed portfolio in low-income IDA countries has increased nearly fourfold between 2000 and 2010, from €843 million to €3.1 billion. The Dutch DFI, FMO, has almost doubled its investments to low-income countries from €1.7 billion in 2006 to €3.2 billion in 2010, and the Belgian DFI BIO has more than trebled, from €30 million to €100 million.

Considering their success in accessing difficult financial markets and their focus on generating a return on investments, governments might be tempted to regard DFIs as a new model for development finance. This would provide a convenient justification for government failures to deliver on ODA pledges.

Moreover, development debates are increasingly portraying the private sector as a more efficient vehicle for delivering tangible development results, without increasing the burden on public treasuries. However, the private sector is not a monolithic entity, and different firms and sectors can have very different development results. There remains a substantial need for direct public investment, including in basic services.

Why this approach to development is failing

Measuring development impact is difficult.

There is currently no harmonised approach amongst the DFIs for measuring development impact. One of the greatest difficulties in evaluating DFI projects and investments is that development impact assessments tend to begin once the key decisions on with whom, how and where investments will be made, are already determined. This suggests that the additionality of projects for development is assessed as a secondary aspect of project selection. If the methodology for monitoring and evaluating development impact is not included at the project

selection stage, it is unclear how the project will have an effect on development priorities.

Responsible finance guidelines insufficient.

The majority of DFIs are signatories to international investment agreements such as the Equator Principles, the UNPRI, or other responsible financing frameworks. These guidelines, that include IFC performance standards and other such commitments, are insufficient[3]. They tend to be ambiguous, general and often quite weak. Particular concerns arise over whether DFIs are operationalising aid effectiveness principles and poverty eradication into their project selection.

'Leverage' – poorly defined and problematic.

One of the latest arguments DFIs and aid agencies use to justify their investments is that they can *leverage* significantly more finance into their projects than development institutions could ever mobilise operating alone. DFIs, IFIs and aid agencies have introduced confusion into the issue by applying the term in a lax and confusing fashion.

The concept of leverage, as currently defined, has though a number of critical shortcomings, including:

- Additionality cannot be assumed just because public institutions are co-investors with private funds.
- The greater the leverage ratio, the smaller the overall contribution of the public body, and the lower its influence in design and implementation of the investment.
- Using public resources to try to leverage private sector investment means those resources cannot be used elsewhere.
- Leveraged finance increases debt – it is lending to companies, usually at market rates, that must be repaid. This may mean borrowers are more directly connected to global financial markets and thus will be more exposed to exogenous shocks and speculative capital flows.

Limited local knowledge of the developing world.

Foreign financial institutions, the recipients of growing volumes of development finance from DFIs, often have limited local knowledge in comparison to locally based organisations, challenging their ability to reach the most credit-constrained companies in recipient countries. As the Dutch DFI FMO has acknowledged, in 2010 in Africa "margins remained under pressure as supply of liquidity from Development Finance Institutions (DFIs) outstripped demand".

Keeping development funds close to home.

DFIs find it difficult to resist the temptation of supporting companies domiciled in donor countries rather than in developing countries. This is of particular concern given that: most credit-constrained companies without access to financial markets – the supposed target of DFI funds – are not in donor countries but in developing

[3] For the equator principles please ref er to: http://www.equator-principles.com/index.php/about-ep/the-eps
For the IFC performance standards please refer to: http://www1.ifc.org/wps/wcm/connect/115482804a0255db96fbffd1a5d13d27/PS_English_2012_Full-Document.pdf?MOD=AJPERES

countries; most jobs in these countries are created by domestic small and medium enterprises; and multinational corporations are likely to be responsible for the largest amount of tax evasion.

Most EIB and IFC support still goes to companies in rich countries ... and in tax havens

Research conducted in 2010 by Eurodad revealed that the lion's share of the World Bank's International Finance Corporation's (IFC) investments, 63%, went to OECD-based companies. Of the European Investment Bank's (EIB) projects where beneficial ownership could be traced in this new sample, 35% (€1.5 billion) went to companies based in the OECD. The fact that a large portion of investments made by the EIB and the IFC end up supporting firms headquartered in developed countries raises serious questions about the financial and development additionality that these investments provide.

A number of these OECD countries are well established to be tax havens or secrecy jurisdictions – 25% of EIB investments have a beneficial owner based in a secrecy jurisdiction. This is particularly worrying as an estimated USD 1 trillion dollars in illicit financial flows yearly exits developing countries. These flows are essentially money lost by developing countries as they are untaxed and provide no social or distributive element for the developing country.

This brings into question the ability of the EIB and IFC to engage as development institutions and their contributions to poverty eradication and real development impact. In order to demonstrate that they have clear development impacts, they must ensure that the majority of their investments have clear development and financial additionality.

Recommendations for DFIs

Box 3 Alarm bells ringing, within the DFIs themselves

Given all these weaknesses – and failings – of intermediated finance, it is perhaps not surprising that a May 2011 report of the World Bank Independent Evaluation Group (IEG), *Assessing IFC's Poverty Focus and Results,* found that less than half of the IFC projects reviewed were designed to deliver development outcomes, and just one third of the projects addressed market failures, such as enhancing access to markets or employment of the poor.

The IEG report rang serious alarm bells on whether donor governments are breaching their contract with taxpayers, as DFIs and development agencies are mandated to deliver poverty eradication and sustainable development as defined by the Millennium Development Goals, aid effectiveness principles and internationally agreed development goals.

The growing conception that development impact and return from investment are two-sides of a highly beneficial coin, which DFIs can readily deliver, makes it likely that the upward trend in public financial flows to the private sector via these agencies is likely to increase significantly in the coming years.

This model, though, comes with some very clear challenges, and in order for such investing in the private sector to become a truly developmental tool, Eurodad has the following recommendations for DFIs.[4]

[4] To encourage these institutions to raise their game, Eurodad has put together a "Responsible Finance Charter", which provides a comprehensive guide to engaging in responsible finance. It can be found at http://eurodad.org/4562/

- Align to developing countries' investment priorities.
- Make development outcomes the overriding criteria for project selection and evaluation, including by developing clear outcome indicators, and complying with high responsible investment standards.
- Target domestic companies as a preferred option whenever possible, including by ensuring that by 2015 at least 50% of companies receiving financing are domiciled within the developing country where they are active.
- Prevent tax dodging, and observe high corporate social responsibility standards, including by requesting country by country reporting.
- Improve transparency of financial intermediary investments and review their use.
- Set higher standards for transparency.

Aid for the Latin America Investment Facility: Clarity on private sector and focus towards SMEs needed

Toni Sandell, APRODEV
Gustavo Hernández, ALOP

Introduction: the focus on private sector

The private sector and its role in development has become in recent years a central political discussion in the European Union (EU). This is due to a change in the political environment in Europe as well as the prospect of shrinking aid flows. There is also an increasing recognition from donors that the private sector indeed plays a fundamental role in economic growth, innovation and job creation, providing tax income to poor governments as well as offering services and goods for the citizens.

The increasing role of financing to the private sector is shown also in numbers: by 2015, the amount flowing to the private sector from the International Financial Institutions (IFIs) is expected to increase from US$40 billion in 2010 to US$100 billion.[1]

Besides the IFIs, bilateral donors and the EU are more and more interested in collaborating with the private sector. The European Commission (EC) and some EU member states, such as Sweden and Netherlands, already direct significant amounts of Official Development Assistance (ODA) funds to the private sector by way of different "aid for trade" and other initiatives.

The private sector is also heavily involved in ODA through procurement processes: according to Eurodad calculations, more than 50 percent of ODA is spent on procuring goods and services from private firms for development projects, amounting to a rough estimate of US$69 billion annually. Eurodad also points out that approximately two-thirds of untied aid is still awarded to firms from OECD countries, and 60% of in-country aid resources in developing countries also go to firms from the donor country.[2]

Nevertheless, the EU still strives to find new ways to bring the private sector to the centre of its development strategies. The EC, in its 2011 policy document, "Increasing the impact of EU development policy: Agenda for Change",[3] identifies a three-fold strategy for supporting the private sector: (1) Support to a Small and Medium Enterprise (SME) business environment by supporting capacity building and legal frameworks, access to business and financial

[1] *Private profit for private good?* Eurodad 2012.

[2] *How to spend it. Smart procurement for more effective aid.* Eurodad 2011.

[3] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Increasing the impact of EU Development Policy: an Agenda for Change". Brussels, 13.10.2011 COM(2011)637 final

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services as well as promoting agricultural, industrial and innovation policies; (2) Support to regional integration, especially through Free Trade Agreements; and (3) Offer incentives for the private sector to fund and implement development projects, especially infrastructure initiatives. According to the EC, "crucial to developing countries' success is attracting and retaining substantial private domestic and foreign investment and improving infrastructure."[4]

It is in this context that so called "blending mechanisms" or investment facilities, which mix aid with loans from the International Financial Institutions (especially for large infrastructure projects) have become the EC flagship of innovative financing for the private sector.[5]

At the same time the European Commission recognises that these facilities are still in the making and that the EC is "learning by doing". This provides an opportunity to have a thorough debate on benefits and limitations of these blended investment and aid modalities.

Blended Investment Facilities: The logic of the Latin American Investment Facility (LAIF)

The new investment facilities mix non-refundable grants from the EC with loans from multilateral or bilateral European Development Finance Institutions (DFIs) and Regional Latin American Banks. A first facility was created for the neighbouring countries of the European Union in 2007 and the EC is planning to cover all the regions in the world with such facilities.[6]

As such, mixing grants with loans within a same project is nothing new. The European Investment Bank (EIB) and the German Development Bank (KfW) for example for years have already had access to their own grant resources, which they have used together with loans for infrastructure and other development initiatives. During the last decade the EC has worked hand-in-hand with the EIB and regional banks in Latin America, by offering parallel co-financing for infrastructure projects.[7] An innovation of so-called Loan and Grant Blending Facilities (LGBFs) is the inclusion of grants as an integral part of one joint investment.

In interviews carried out in Brussels during May 2012, EC officials expressed enthusiasm for Loan and Grant Blending Facilities (LGBFs) for the following reasons: (1) The economic leverage that is being achieved: with a small European taxpayers grant contribution, a very large loan-based investment is realized (up to 30 to 40 times the value of the grant); (2) The visibility this mechanism gives to Europe (difficult to reach with other, non-EU initiated mechanisms

4 Communication from the Commission, Ibid. Page 8.

5 On Blending Mechanisms, see for example: European Think-Tanks Group (2011). EU Blending Mechanisms: Implications for Future Governance Options.

6 Since 2007, eight Loan and Grant Blending Facilities (LGBFs) have been launched: the Infrastructure Trust Fund (ITF) in Africa (2007), the Neighborhood Investment Facility (NIF) for countries under the EU Neighborhood Policy (2008), the Western Balkans Investment Framework (WBIF, 2009), the Latin America Investment Facility (LAIF, 2010), the Investment Facility for Central Asia (IFCA, 2010), the Asia Investment Facility (2011), the Caribbean Investment Facility and the Investment Facility for the Pacific (2012).

7 The EU has been co-funding with EIB and regional Financial Institutions projects such as the "Transportation corridor Santa Cruz Puerto Suarez", providing a first non-refundable investment of €38.17 million, and a complementary sum of €18.89 million. Among these projects, it is also worth noting the gas pipeline Bolivia-Brazil, the largest joint investment in Latin America, crossing the ecosystems of the Gran Chaco, Pantanal and the Atlantic rainforest in the southwest of Brazil. See Hernández, Gustavo. The Chronicle of a Death Foretold. The bioceanic transportation corridor Santa Cruz - Puerto Suarez in Bolivia and its socio-environmental impacts. CLAES, 2008.

such as Trust Funds of the World Bank); and (3) The dialogue and improved coordination that this mechanism enables between the financial institutions, governments and the private sector.

The Latin American Investment Facility (LAIF) is financed with funds from the Development Cooperation Instrument (DCI) of the EU, which has an explicit poverty reduction focus. The LAIF aims to contribute to achieve the objectives of the DCI Regulation and the Regional Strategy for Latin America (by addressing the newly identified challenges such as climate change and its impact on the environment). The EC also justifies the LAIF with the view that pool investments support *inter-connectivity* in the region and advances regional integration.[8]

In practice, the LAIF focuses on energy, environment and transport investments. These priority sectors for developing infrastructure coincide with the sectors in which the EU has high geopolitical and economic interests. The EC also plans to support social infrastructure and SMEs with this mechanism. The expected results of the LAIF consequently relate to better transport and energy infrastructure, increased protection of the environment, improved social services and infrastructure, and strengthen growth for SMEs. The primary beneficiaries for the EC will be Latin American countries and their private sector, in particular the SMEs.[9]

The EU justifies the focus on infrastructure arguing that the Latin American countries have large problems in finding investment capital for improving infrastructure, which is key for technological development and improving competitiveness in the global markets. This in turn might lead to faster growth and reduction of poverty. On their side, Latin American governments also highlight the private sector orientation, access to European investors, and the importance of European investors´ role in support of EU foreign direct investments in the region.

Aid architecture in flux: what will be (un)done

The funding for LAIF for the period 2009-2013 is relatively modest (€125 million) but the EC has announced "a higher share of aid to be delivered trough such innovative financial tools".[10] As aid flows are reducing, utilising donor funds for blending mechanisms means reduction of aid for other purposes. In December 2011 the EC proposed country cuts and new priorities for aid to Latin America as part of its proposal for the Development Cooperation Instrument (DCI) for 2014-2020. Accordingly the DCI will end bilateral development cooperation in upper middle-income countries, as well as countries whose GDP exceeds 1% of the world's GDP (India and Indonesia). Out of 19 countries proposed to cut, 11 are in Latin America.[11]

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[8] http://eeas.europa.eu/la/docs/com09_495_en.pdf.

[9] http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif-action-fiche-2009.pdf

[10] http://trade.ec.europa.eu/doclib/docs/2012/january/tradoc_148992.EN.pdf

[11] The DCI proposal reflects the priorities set out by the EC on 13 October 2011 in its strategic document: *Increasing the impact of EU development policy: An agenda for Change*. This policy document proposes cutting aid from middle-income countries as well as focusing aid on two broad priorities - governance and inclusive and sustainable growth - and no more than three sectors at country level. The EC urges also the member states to implement this agenda.

EU country-level cooperation would continue only with Bolivia, Cuba, El Salvador, Guatemala, Honduras, Nicaragua and Paraguay. But all countries of Latin America would remain eligible for regional programmes, such as the LAIF, the two thematic programmes of the DCI (public goods and civil society organisations/local authorities), and the EU horizontal instruments (Instrument for Stability, Instrument for Democracy and Human Rights and the New Partnership Instrument). Thematically, the DCI proposes more private sector cooperation and new modalities, by mixing loans and grants.

This means that the LAIF will probably be the single most important cooperation modality for those Latin American countries that will not receive country-level aid from the EU. Considering that Latin America is still the most unequal continent in the world, and that every third person (around 180 million people) still lives in poverty, this leads to the following intriguing question: is this modality the most suitable one to tackle the *problem of inequality* in the region?[12]

Supporting the private sector through the LAIF: which private sector is benefiting?

As of June 2011, eight projects had been approved to receive funding from the LAIF. Of these projects, five are regional or country projects in Central America, and three cover all of Latin America. Three projects are related to renewable energy production, two to enable access to international climate financing, and three are building transportation infrastructure.

The EC argues that blended aid through the LAIF can both support public or private investments. In this context, it is important to clarify that ´the private sector´ comprises a wide array of formal and informal economic entities, from large international and transnational corporations, to state enterprises, domestic companies, micro, small, and medium-sized enterprises (MSMEs), and a range of social enterprises. Thus, an important question is which private sector is being supported with blending mechanisms in the region.

Indeed, Latin American MSMEs are key for development. For example, CEPAL has pointed the productivity gap that exists between big companies and SMEs (which are the main source of jobs both in the context of Europe and Latin America). Especially in Latin America, SMEs have very restricted access to the capital that they require to grow and expand, with nearly half of SMEs in developing countries rating access to finance as a major obstacle.[13]

However, in the context of projects approved by the LAIF, only one project supports directly SMEs. This relatively small regional project in Central America facilitates financing to SMEs for investment projects in the areas of energy consumption reduction, energy efficiency and renewable technology for energy generation.[14]

[12] On different aspects of inequality in Latin America, see for example: "The Scandal of Inequality in Latin America and the Caribbean". ChristianAid (2012). Accessed at: http://www.christianaid.org.uk/images/scandal-of-inequality-in-latin-america-and-the-caribbean.pdf.

[13] http://www.eib.org/attachments/dalberg_sme-briefing-paper.pdf[1]

[14] The list of projects can be found at: http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/projects_en.htm

This project will be carried out through financial intermediaries to whom technical assistance and funding will be provided in order to support SMEs.

Instead of SMEs, it seems to be the private *corporate* sector that is heavily supported by LAIF projects through the procurement processes for mega-scale investments in infrastructure. As the priorities for the LAIF projects focus on introducing technological innovation from Europe under the "green economy" framework,[15] especially in the energy and green technology sectors, it would not be surprising that most of the contracts are to be awarded to European companies.[16]

Besides financial benefits that may flow to the European corporations, the LAIF also gives political leverage for the EU to influence strategic decisions of partner governments. As boldly put by the Center for European Policy Studies in a study commissioned by the EC: "For the EU, the Loan and Grant Blending Facilities allow it to some extent to gear the lending activities towards specific areas of interest for the EU and the partners […] The LGBFs have increased joint European action for development and elevated European visibility in the regions concerned. Furthermore, the facilities have become centres for strategic dialogue with beneficiaries on large-scale development projects as well as collaboration and coordination platforms for the financiers".[17]

As stated above, involvement of European private companies in the implementation of ODA is nothing new as this has been the reality for traditional development projects. However, this political leverage with large-scale projects and possible benefits for the European companies is highly sensitive, considering that these capital-intensive investments are loan-based and thus increase the potential sovereign indebtedness of the partner country in the future.

Thus it becomes all more important to have clear and transparent criteria regarding the priorities, inception and implementation of LAIF projects, in order to reduce any possible doubt that there exist possible conflicts of interest between poverty reduction, European corporate self-interest and sustainability issues in mega-investment decisions.

Furthermore, while blending mechanisms may give more political leverage for the EU in influencing the strategic decisions of governments in infrastructure, this may be reduced in other areas such as good governance, democracy and human rights, to which the EC plans to give increasing importance from 2014 onwards as well.

Nicaragua offers a good case in point. European bilateral donors and the EC blocked their budget support to the current Sandinista government due to governance issues and especially due to fraudulent municipal elections during November 2008.[18] The EC has in principle earmarked these funds, totaling to around US$47 million, to be used for LAIF projects in Nicaragua. Governance

[15] *Rio+20: the discursive change of the EU from a (non-existing) "sustainable development" towards "green economy"* http://www.alop.org.mx/sites/default/files/Discursive%20Change%20EU%20GreenEconomyfinal.pdf. See also *Sustainability. Pandora's Box in the hands of corporations* http://www.alop.org.mx/sites/default/files/Ecoverde%20Boletin%20Alop%20final%20english.pdf[16] http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif-action-fiche-2009.pdf

[16] On the importance of the European companies in the energy sector in Latin America, see for example http://www.cepal.org/publicaciones/xml/0/46570/2012-181-LIE-capitulo_IV.pdf[1]

[17] CEPS. *Innovative Approaches to EU Blending. Mechanisms for Development Finance*. Jorge Núñez Ferrer and Arno Behrens. May 2011.

[18] See Sandell, T. (2010). *Nicaragua: A testing ground for Aid Effectiveness Principles.* ROA 2010.

conditionalities on the one hand, and economic development needs of the people on the other hand, are always a delicate balance for the donors. In this case, the Nicaraguan government has surely welcomed this shift in EC strategies as LAIF projects do not require engagement of the government in discussions on governance issues. As well, major infrastructure projects financed by the LAIF and other loans give high visibility to the Nicaraguan government.

"Bottom-up approach": the role of Latin American development banks

The EC and the Council of the EU consider that LAIF supports a bottom-up approach in development policy planning. It is, they argue, the regional banks in Latin America that take the initiative in proposing the LAIF projects together with their European partners. When interviewed on the issue of ownership, a functionary of the EC specifically explained: "Opinions are requested from the Delegations of the EU, civil society and governments. There is enormous transparency. But as in the case of a surgery, not everyone can have a say". The EC further stresses that the projects need to be in line with the national development plan.

From the civil society point of view, these arguments hardly guarantee a bottom-up approach. Latin American governments have no direct role in the LAIF governance structure, and there are no mechanisms for civil society´s participation and consultation. The final decision lies in the Board, which is in the hands of the EC and European Member States.[19] The financial institutions in Europe and Latin America have a consultative and an executive role, but only European banks can take the lead in the implementation and monitoring of the projects.[20] In summary, the role of beneficiaries in setting strategic priorities is not clear and there is also little formal information available as to how specific choices are made as to which projects to support.

Furthermore, due to the absence of sound and transparent socio-environmental safeguards for their own operations, the Latin American financial institutions [the Inter-American Development Bank (IDB), the Central American Bank for Integration (BCIE) and the Andean Development Corporation (CAF)] can hardly be considered as the most adequate guardians of the local ownership, transparency and sustainable development. Despite some advances in mainstreaming environmental and social sustainability, their comparative advantage as "green" banks in Latin America remains at best unclear. Recent initiatives on climate and sustainable energy have been at the margins of their core business, while poorly planned infrastructure and extractive sector investments have exacerbated land use contributions to greenhouse gas emissions.[21]

[19] According to the EC official this is also due to the financial regulations of the EU, which would make it complicated to give financial support through financial institutions based outside Europe.

[20] The LAIF Board is presided by the European Commission, and meets once or twice yearly. It defines the overall strategy and takes operational decisions. The Board is composed of representatives of the European Commission, EU Member States and other donors. Observers of each partner country and of each eligible finance institution are able to attend these meetings http://ec.europa.eu/europeaid/where/latin-america/regional-cooperation/laif/documents/laif-action-fiche-2009.pdf

[21] A new IDB Environmental policy came into effect in 2006 and a Blue Ribbon Panel (BRP) on the Environment was reconvened in 2007 to advise IDB Management on sustainability issues in the Bank reorganization. The BRP laid out three broad recommendations to Bank Management to make sustainability a viable outcome of the realignment: 1) to move from "do no harm" approach to "doing good"; 2) correct the sustainability functions within the Bank's organization; and 3) provide adequate human and financial resources to sustainability functions http://www.iadb.org/en/topics/sustainability/blue-ribbon-panel,1538.html

Monitoring and evaluation

As a whole, the blending finance facilities do not yet have unified standards on monitoring and evaluation. The lead financial institution currently carries out monitoring of individual projects based on their own criteria. However, following the fundamental principles of the EU, the EU may indeed insist on including poverty reduction more clearly in the strategies of the European and Latin American development banks as well as improving their transparency and sustainable development monitoring mechanisms. If implemented widely, this dialogue can be considered as one of the major strengths of the Latin American Investment Facility.

Establishing a critical number of select and minimum monitoring and evaluation requirements could facilitate comparability and a coherent basis for information on the performance of operations. At the beginning of each year, the LAIF secretariat prepares an annual activity report on the implementation of the Facility, which provides information on the financed operations and assesses their contribution towards the LAIF objectives. This report, however, is only presented and discussed in the LAIF Strategy Board meetings.

To strengthen accountability, the progress and development impact of projects should be systematically reported to justify the use of aid resources by the Facility, not only to the donors and the European institutions involved, but also to the whole society in Europe and Latin America.

Conclusions:

Strengthening SMEs is central to development in Latin America, but so far local SMEs have received little support through the LAIF. The focus on the energy sectors indicates that it will be European companies that are mostly involved in these large-scale investments.

The LAIF also brings political leverage as the EU may be in a better position to exert influence on business transparency and the investment environment of the partner countries by offering grants to accompany government loans. On the other hand, given political will to do so, the EC could also use this political leverage to influence the financial institutions' poverty reduction strategies.

The LAIF raises issues concerning the balance between supporting local companies or foreign investments as well as the question of debt sustainability. These issues affect the political economy and strategic directions for development in the partner countries themselves. If the EU strives for the most effective poverty reduction strategies in Latin America, then instead of simply attracting investments, the focus should be on productivity and generating employment that decreases inequality. Achievements in these areas are still early to evaluate. The LAIF so far lacks transparency and clear monitoring and evaluation mechanisms in order to make such assessments.

These issues of the benefits arising from the economic and political leverage provided to the EU by LAIF can be addressed only through more substantive and coherent discussions on the overall purpose of blended financing mechanisms. There must be greater transparency in project selection criteria and accountability to society. As long as the definition of the private sector continues to be unclear and the political desire to support European companies hidden, there will be no clarity on best strategies to involve the private sector in poverty reduction initiatives.

Chapter 2
Frameworks to Enable Positive Development Practice

Development Assistance and the Private Sector in Mexico

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Australia's Mining for Development Initiative:
Blurring the Boundaries Between Private Profit and Public Development

Claire Parfitt, Gareth Bryant and Liz Barrett, AID/WATCH

Private sector in development:The invisible return of the invisible hand

Jan Dereymaeker, International Trade Union Confederation (ITUC)

Corporate Social Responsibility in Peru:
An analysis from Non Government Organizations

Eduardo Toche, Centro de Estudios y Promoción del Desarrollo – DESCO

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Introduction

The incorporation of the private sector as a development actor in the system of International Development Cooperation is relatively new, or at least its reference in official documents. This does not mean that companies and individuals in particular are just starting to participate in development projects, but, taking off from the current globalization process, their participation is being recognized.

Many theoretical and practical efforts are aimed at addressing the deficiencies of the current economic model that foster exclusion and poverty. The so-called traditional development actors such as UN agencies and the sector of non-profit civil organizations mainly organized these efforts. This situation has led to disagreements with the business sector and some multilateral institutions like the World Bank and the International Monetary Fund.

Facing limited development results, specifically regarding the Millennium Development Goals (MDGs) to reduce the proportion of people living in poverty on the planet by 50% by 2015, generated international pronouncements and agency commitments to deepen and unite their efforts in the pursuit of these objectives. This is the point when the inclusion of the private sector in international development agenda is taken into consideration.

Through the Paris Declaration (2005), the Mexican government agreed to come up with strategies and operational programs on national development (paragraph14). Similarly, the signatories agreed to coordinate aid at all levels, as well as other development resources, in dialogue with donors and encouraging the participation of civil society and the private sector, (paragraph15).

The High Level Forum in Accra, Ghana (2008) issued the Accra Agenda for Agenda calling on governments to develop partnerships with the different development actors, both public and private, including the business sector and civil society organizations (paragraph 16).

But the Busan Partnership for Effective Development Cooperation (November 2011) is more explicit. It contains a specific section on the Private Sector and Development, which states: "We recognize the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction." Subparagraph (a) talks of engaging with representative business associations, trade unions and others 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, (FDI), public-private partnerships, (PPP), the strengthening of value chains in an

equitable manner. In sub-paragraph (b) the participation of the private sector in decision-making and implementation as well as in both the definition and the selection of strategies is recognized (paragraph 32).

Framework

It is difficult to find a precise definition of the "private sector"[1] in the system of international cooperation. Following the Eurodad (2011) observation that there is no common or consensual definition on who comprises the "private sector", international organizations engaged in international aid, such as the OECD Development Assistance Committee (DAC), sometimes included in their definition academia, volunteers not belonging to the formal government sector, and others, such as all private participants ranging from small landowners to multinational companies, (IBON: 68:2012).

According to the Report *Unleashing Entrepreneurship* of the United Nations' Commission on Private Sector and Development, the concept of the private sector contains at least four types of actors in the development processes: 1) financial corporations and institutions, (multinationals, large, medium, small and micro), 2) associations and foundations (international, regional, national), 3) academic institutions, and 4) private networks (which may include associations of retired executives who give advice to local businesses, student organizations, and increasingly migratory flows, with remittances becoming a growing source of funding) (UNDP: 30: 2004). For the purposes of our paper, we therefore consider the term "private sector" as a synonym for corporate sector, including financial institutions. This is due to the ambiguity of the concept offered on the sector by different development actors, which is just a product of its recent inclusion in development terminology.

Frameworks for guiding the private sector in development

In Mexico the legal provisions that guide and regulate the actions of the various development actors, including in this case the private sector, have a greater number of provisions coming from international organizations and multilateral bodies compared to national or local ones.

At the international level, there is the so-called Global Compact (2000), which followed from the adoption of the UN Millennium Declaration (2000). Both instruments are the result of international deliberation and created a consensus on priority actions for development and poverty eradication in the new millennium. The former sets out Ten Principles for Social Investment, which are proposed to guide the role and participation of the corporate world in different levels of development projects and assure their alignment with the Millennium Development Goals (MDGs), emanating from the Millennium Declaration.

For their part, the MDGs, as a basis for action in international development cooperation, open the door to private sector participation-as-ally for the attainment of these same objectives, mainly with

[1] From a large number of official documents reviewed from international organizations such as the OECD or government agencies engaged in international aid like the Spanish AECID, JICA (Japan) and the GTZ (Germany), it can be stated that the notion of the private sector is vague and in the analytical discourse – the reference directly excludes the corporate sector, the multi-national, transnational and national as well.

reference to the eighth MDG on partnerships for development (Prandi and Lozano: 12: 2009).

The OECD as part of the International Development Cooperation system has produced guidelines and recommendations addressed by governments on multinational companies to ensure that their activities are in harmony with government policies, thereby enhancing their contribution to sustainable development. These guidelines contain 11 voluntary principles (OECD: 4: 2008).

At the national level, there is the legal and regulatory framework for the private sector in development in the Constitution of the United Mexican States. Regarding development, the Constitution creates executive power to act through the Law of International Cooperation for Development (LCID), as well as tools for programming, promotion, coordination, advocacy, coordination, execution, measurement, evaluation and control of actions and programs for International Development Cooperation between Mexico and other countries and international organizations (Article 1).

The Law creates a special instrument: the Mexican Agency for International Development, (AMEXCID), which defines three models for development cooperation: i) Horizontal, ii) Triangular, and iii) Vertical. (art. 4 sections I, II, IV, V and VI). Thus, surprisingly, this law does not contemplate any action related to the role of the private sector.[2]

However in article 11, the LCID states, "it is the imminent obligation of AMEXCID to identify options for international cooperation and, where appropriate, develop assessments prior to project implementation arising from them." Therefore it has to be understood that the doors for the participation of private actors are not completely closed.

Beyond that this legal regulation, the involvement of business in development is not a recent development. In the drive for profit, businesses have found different ways to participate in state competitions linked to development opportunities, such as investment in strategic areas of social development, or production and supply of goods and services. One "traditional" mechanism of private participation in development in the country and in Latin America has been the so-called Public-Private Partnerships (PPPs). In Mexico PPPs already have a legal framework in the newly enacted Law on Public-Private Partnerships (LAPP), which are covered in constitutional articles 25 and 134.

In the law, PPPs are defined as arrangements that can be done "with any scheme to establish a long-term contractual relationship between public sector bodies and the private sector for the provision of services to the public or end user and infrastructure, which is wholly or partly provided by the private sector, with objectives to increase social welfare and investment levels in the country" (LAAP: Article 2: 2012).

Likewise the LAPP recognizes as agents of these partnerships all law enforcement agencies at the local, state and national level (article 4) and are subject to international treaties (article 6). Similarly the Commercial Code, Federal Civil

[2] As Gabriela Sánchez states: "Considering that international development cooperation is a normative principle of foreign policies, the social and private sector, the legislative power and all other government orders are not only not subject to the law, but are not even part of designing, formulation and execution of the different instruments the law foresees, among others there is the Mexican Agency for International Development Cooperation, AMEXCID, and the Program of International Development Cooperation". In SÁNCHEZ GUTIERREZ GABRIELA: The Mexican Law of International Development Cooperation; Document, consulted June 15 2012.

Code, the Federal Administrative Procedure Act and the Code of Civil Procedure have been established as extra laws thereof (article 9).

For now there are no local legal frameworks for the private sector or financial services at the local level for development projects. However, there are regulatory frameworks for specialized government institutions responsible for specific areas of social development, such as in the Ministry of Communications and Transport, the Ministry of Finance and Public Credit, among others.[3]

With the enactment of the LAPP, Mexico is one of the countries that have has specific legislation on Public-Private Partnerships, and is therefore entering into a new phase of a model that legitimizes detailed far-reaching privatization mechanisms.

This trend towards legal frameworks that guarantee these PPP models also have guidelines and legal support, starting with the principles of the International Finance Corporation, which is an instrument of the World Bank that is gradually increasing its stake presence in spaces for deliberation and coordination system of international development cooperation (UNDP: 33:2004). Meanwhile the International Labor Organization also has eight guiding principles for PPPs (ILO: 4-6: 2006). In 2007 the OECD launched its Principles for Private Sector Participation in infrastructure (IMTA-OECD: 11-46: 2008).

Therefore, we can say that governments have formal regulations for governing the competencies, scope and limits of private sector participation in development in terms of social development agendas, even with a human rights approach.

But in any investment or public-private partnerships, responsibility for monitoring and enforcing human rights obligations lies with the state. But there is no necessary guarantee that the state will ensure the private sector does not violate the rights of people or continues to put their priority on profit in joint partnership projects. It is no wonder then that in the early PPPs, in the ILO and the OECD, as well as in the Busan Declaration, there is stress on the struggle against corruption in multinational companies.

Terms and Roles for the Pricate Sector in Development Assumed by the Private Sector

According to the Social Investment Principles of the Global Compact, there are seven possible models of private sector participation in development projects for social investments by companies that are consistent with the expectations of both economic growth and impact and involvement of the recipient population. These models range from only expectation of profit on the one hand, to philanthropy on the other, passing through five other models that qualify both these poles, (Prandi: 16: 2009).

Table One demonstrates that the private sector can integrate social development as part of its objectives in its business model. Prandi and

[3] The transport sector is the more advanced in these kinds of frameworks as it already operates under three well-structured modalities: Concessions, Lending & Credit Services, and Benefits from Active Projects. Previously the legal framework guiding these practices was a combination of the Acquisition Law and its regulation, the Budget Law, Transportation Law and other applicable juridical orders, (Vasallo: 254:2010).

Table 1 Models for Private Sector Participation in Development Projects

Increase of philanthropic intention → ← Increase in the connection of the principal entrepreneurial activity

	Principal Activity of the Company	Responsible Business	Inclusive Business	Shared Values	Socially awareness in Business	Investment in Social Matters	Philanthropy
MODELS	Principal Activity of the Company	Responsible Business	Inclusive Business	Shared Values	Socially awareness in Business	Investment in Social Matters	Philanthropy
DEFINITIONS	The only responsibility of business is to obtain economic benefits	The awareness on environmental and social impact is integrated in economic strategies of the company	Specific inclusion of the less fortunate sectors in the value chains of the organization	Seeks to improve competitiveness of the company while showing progress in meeting social objectives	No loss, no dividends, the company's activity are the social objectives	A strategic investment for long term corporative sustainability	Donation of private resources for social purposes

Expected high economic return — Minimal or zero economic return expected

Lozano assert "the private sector has recently begun to take innovative and creative positions based on the incorporation of the MDGs at the periphery or even the core of its business strategy. This addition can be directly linked to the core business of these companies or it can be more peripheral in the business model and only partially alter corporate policies" (Prandi: 16: 2009).

In relation to these models, the most common in Latin America are: Corporate Philanthropy, Corporate Social Responsibility (CSR) and Public-Private Partnerships (PPPs). Corporate philanthropy is based on a direct transfer of funds, material good or human capacity for the betterment of a sector or social group.

With respect to Corporate Social Responsibility, Antonio Vives says: "Companies, as part of their corporate social responsibility in developing countries, may also contribute resources to improve the delivery of public services in the hands of the public sector itself, for example to make available technical and managerial volunteers, exploiting comparative advantages of the companies in these areas" (Vives: 54:2009).

Out of the three common forms of private sector participation in development in Latin America, PPPs have higher recognition or weight among the different actors of development. They are a way of assuring profit for the private sector, since as prerequisites for the implementation of a project, impact studies are undertaken for public sector investment that are meant to ensure both social results and private sector profit.

"Mexico has been one of the countries in Latin America that so far has more resources allocated to fund projects through a public works concession. The experience of concessions in Mexico has gone through different stages with greater and lesser success. Despite the problems that were acknowledged in the early nineties in

what were called the National Highways, Mexico has evolved rapidly in recent years and is now one of the most active countries in both concessions as other ways to bring the private sector into the provision of infrastructure," (Vasallo: 244: 2010).

The most common form of involvement of the private sector in Mexico in development has been public-private partnerships, particularly in the areas of transport, telecommunications and management of natural resources such as water, energy, etc. One study indicates that this form of partnership in the transport sector has existed since the 1960s (Vasallo: 244:2010).

The Ministry of Communications and Transport has promoted three models of public-private partnership: Grants, Projects Servicing and Asset Utilization. (SCT: 2:2011)

Scope and areas where the private sector is present

A study of experience in several countries suggests that economic infrastructure, such as transport, is generally more favorable for the creation of public-private partnerships, (PPPs) than social infrastructure, (e.g., health care and education).[4] There are three apparent reasons:

> "First, the sound projects aimed at solving obvious limitations in infrastructure such as roads, railways, ports and electricity are likely to have high rates of profitability and therefore attractive to the private sector. Second, often charging user fees is more feasible and also more convenient in economic infrastructure projects. Third, usually economic infrastructure projects have a market that combines construction with the provision of related services (e.g. construction and operation and maintenance of a toll road) than social infrastructure projects. Therefore, it is not surprising that public-private partnerships are used predominantly for road infrastructure. In general, PPPs allow the government to avoid or defer infrastructure spending without compromising their benefits" (Akitoby, et al: 16: 2007).

The current enthusiasm for PPPs in management and partnership with private investment is evident, especially because they are virtually guaranteed investments that mitigate the government's fiscal constraints, circumventing controls on spending and move public investment off budget (Akitoby: 16: 2010).

Among the limitations facing organizations and networks promoting CSR practices, Petkoski, Jarvis and Garza identified weak domestic pressure, weak judicial systems and institutions, the competitive position of nations, with a minimal influence of local consumers and workers, smaller rewards for responsible corporate attitudes, minimal government support, management's expectation for short-term gains, and the predominance of small and medium enterprises (SMEs), which represent 95% of the private sector and rarely have the luxury of long-term planning.

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[4] In Mexico the private sector accounts for 84% of total economic activity. If total production would be divided based on economic sectors, 60% would correspond to activities of credit for services, (commerce, transportation, financial services,), around 35% is in the secondary sector, (manufacturing activities, mining, construction and the gas and electricity sub contracting), and the remaining goes to the primary sector," (Foncerrada:26:2010).

According to the OECD:

> “International business has undergone a powerful structural change and the guidelines themselves have evolved to reflect these changes. With the rise of service industries and those based on knowledge, technology and service companies have emerged in the international market. Large enterprises still account for a significant portion of international investment and there is a trend towards large-scale international mergers. Simultaneously, foreign investment by small and medium enterprises also increased, which now plays a significant role in the international arena. Multinational enterprises, like their domestic counterparts, have evolved into a wider range of business arrangements and types of organization. Strategic alliances and closer relations with suppliers and contractors tend to blur the limitations of the corporation” (OECD: 1:2008).

Meanwhile the Economic Commission for Latin America (ECLAC) makes proposals in its 2012 outlook report to the governments in the region to promote a private sector with a more social horizon and increased transparency. This report states: “The state must address the private sector involvement in infrastructure with a strategic vision, seeking partnerships and tools most appropriate to increase the quality of services provided and goods.” The report places particular emphasis on private participation in transport and telecommunications sectors, saying to the national authorities: “The regulators and the entities responsible for the procurement of services and infrastructure should have greater autonomy to help ensure greater coordination among stakeholders” (ECLAC: 142: 2011).

Results of the private sector’s involvement

Some of the ways through which companies can contribute to development are technology transfer and management know-how in various sectors, support for the creation and management of new businesses, identifying environmental issues, education and awareness of workers conditions in developed countries, the momentum and building of public-private partnerships for development, implementation of corporate volunteer programs, and the promotion of CSR in their value chain, among others (CEOE-CEPEPYME: 23: 2011).

According to ECLAC there has been a trend in the region towards modernization of governments in the provision of services with high quality standards. This implies a new paradigm based on the administrative needs of efficiency, effectiveness and accountability. This paradigm is called “new public management”, which has slowly redefined the role of states with public servants becoming administrators or directors of a social enterprise (ECLAC: 54-55:2011).

International financial institutions linked to development are relying on approaches for consolidating public-private partnerships. It is noted that “the World Bank [is] working on PPPs through the International Finance Corporation (IFC), while the Inter-American Development Bank (IDB) does it through the Multilateral Investment Fund (MIF), and available resources and specific offices dedicated to the creation of such alliances. For its part, the OECD, as well as having a division for promoting private sector development, has launched a network that

deals with analyzing public-private partnerships. Hence the significance of the private sector in the programs of international financial institutions has grown tremendously in recent years. According to the platform Beyond 2015, private sector financing by multilateral development banks increased tenfold since 1990, from less than US$4 billion to US$40 billion dollars a year" (Ramiro: 2011).

According to the Secretariat of Communications and Transportation (SCT) of Mexico it was able to award 18 grants for a road of 1,306 kilometers through its three models of public-private partnerships, with the model of Servicing seven packages awarded with a length of 605 kilometers and with the Model Asset Utilization three packages awarded with a length of 1,200 kilometers, (SCT: 6-9: 2011). As Vasallo states: "... during the writing of this book, the SCT was preparing seven additional packages affecting longer than the 1623.5 km and had an investment of USD 3123.2 million," (Vasallo: 257: 2010).

According to Areli Sandoval in the 2006 Social Watch Report, the reality of the private sector's participation in the management and provision of social services has been negative: "In the process of health care, education, clean water and housing, the increased coverage has been determined by the ability of the population to pay for those services, transnational capital has displaced the domestic private sector and, contrary to the claims, the government has de-nationalized key social sectors such as education, health and social security" (Sandoval: 2: 2006).

The Social Watch report cites a number of human rights violations in different projects of public-private partnerships in the region, starting with the mega projects in the Puebla-Panama Plan, the Free Trade Agreement with the United States, among others, not to mention the serious environmental impact that these large projects and initiatives cause in different regions (Sandoval: 2: 2006).

Final Conclusion

Official Development Assistance (ODA) is emphasizing the importance of innovative financing mechanisms, attracting private sector resources or attempting to engage them in identifying solutions to development challenges. Donors do so, even though they say they wish to be focused on the fight against extreme poverty, or in the best case, to advance the Millennium Development Goals, instead of creating the conditions for sustainable development that would ensure the exercise of peoples' rights and achieve equality and equity.

This new emphasis in the official discourse in the Mexican case on the role the private sector as "development actor and partner" continues to show more risks than opportunities. The regulatory and policy framework for the participation of private sector actors in the development of the country is insufficient and imprecise and therefore do not ensure respect and recognition of international instruments related to the environment, sustainability and human rights.

The private sector largely ignores or disregards the evolution of ODA and its priorities, principles and strategies that have been discussed in the international High Level Forums, including the Paris Declaration, the Accra Agenda for Action, as well as the Istanbul Principles for CSO Development Effectiveness that were acknowledged by the 2011 Busan Forum, promoting development effectiveness through the work of CSOs.

One of the main challenges for the private sector's participation and performance as a complementary development actor is precisely how it aligns its priorities and timeframes with the different strategies and commitments in the global development agenda. Therefore it is crucial that the private sector remains in the category of "complementary" actor, serving as support to the development tasks that both government and civil society organizations are already doing.

As affirmed by Prandi and Lozano:

> "The private sector can join this new 'global social agreement', as experience, ability, technology and innovation that permeates corporate actions can facilitate the right conditions for their inclusion. The ultimate goal is the mutual benefit at a local and global scale. In this new framework of corporate responsibility, the private sector's potential is huge and alliances with certain involved stakeholders are vital." (Prandi y Lozano 2009:40)

In a context of financial crisis and recession, companies are natural actors seeking to survive and thrive by finding new areas where to settle and grow. They are familiar with the externalities affecting all development actors and that is why the sector has been establishing alliances and partnerships that address global risks. By taking into consideration various aspects of CSR, the more developed a community or population is, the better the conditions for the consolidation of a company.

Hence the insistence that the private sector continues its policy of expansion, finding new opportunities for growth, but at the same time strengthen relationships and partnerships for social development: "the company must discover, share synergies, and with joint efforts, also generate new ways of relating to excluded strata of society and thus reverse, multiply and transform their economic investment in a manner that results in new forms of growth for these populations while generating benefits" (Prandi: 12: 2009).

According to various experts, the private sector in a developing country such as Mexico still faces a number of dilemmas, whereby the solution or response they choose may be favorable or unfavorable to the development of the country. Some of these dilemmas have been identified by Prandri: Provide decent jobs or work under appalling working conditions; Create and share knowledge or protect your property and its usage; Pay corresponding taxes or evade their contribution; Restore the environment or cause serious harm; Stabilize governments or support oppressive measures and corruption. Prandi (2009:18) Several additional ones could be added: Accountability or lack in transparency; Act under the principles that have been developed and are consensual in the framework of development cooperation or ignore them; and Promote and respect individual and collective human rights or violate them.

As discussed in Busan at the High Level Forum, is a Global Partnership for Effective Development Cooperation possible with a private sector that does not solve or overcome these dilemmas through their actions.

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Australia's Mining for Development Initiative: Blurring the Boundaries Between Private Profit and Public Development

Claire Parfitt, Gareth Bryant and Liz Barrett
AID/WATCH

Australia's Aid Program: Private Sector Development and the 'National Interest'

The release of the *Independent Review of Aid Effectiveness* in 2011 has done little to change the character or content of Australia's international aid program. The Australian Government's aid agency, AusAID, responded to the *Independent Review* with a new framework for aid effectiveness that retains the dual focus of Australian aid on "overcom[ing] poverty" and "the national interest".[1]

AusAID understands the national interest in terms of Australia's economic and security interests. It links poverty with political instability, radicalisation and the potential for Australia's neighbours to be "influenced" by other non-friendly countries. Australian aid is also described as "good for Australian business" because it opens markets in recipient countries for Australian exports, currently worth AUS$90 billion annually.[2]

Despite pressure from civil society groups, the *Independent Review* did not support AusAID formally adopting a 'rights-based' approach to development, citing as one of its reasons the potential for a human rights focus to override or conflict with a focus on poverty.[3] Accordingly, AusAID's new aid effectiveness framework did not develop a comprehensive policy on human rights or clarify the inseparability of overcoming poverty and promoting human rights.

However, AusAID's response *was* very clear about the relationship between economic growth and overcoming poverty. "Sustainable economic growth" was confirmed as one of five strategic goals of the aid program and is described as "the best way to help people out of poverty". A key component of this strategic goal is providing support to recipient governments to develop policies that promote "private sector development and trade".[4]

Australia's version of aid effectiveness lays the groundwork for the substantial use of public development money to finance private sector development in the name of poverty reduction and the national interest. This chapter will discuss the problems with this approach that stem from the unclear boundaries between private profit and public development by focusing on AusAID's recently announced Mining for Development Initiative.

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1 AusAID, 2011, *An Effective Aid Program for Australia: Making a Difference – Delivering Real Results,* p.1

2 *ibid.* p.6

3 Australian Government, 2011, *Independent Review of Aid Effectiveness,* p. 113.

4 AusAID, 2011, *An Effective Aid Program for Australia: Making a Difference – Delivering Real Results*, pp. 33-34

Mining for Development Initiative: Overview and Critique

AusAID launched its AUS$127 million Australian Mining for Development Initiative (AMDI) in October 2011 with the official aim of promoting "sustainable mining" in developing countries. The AMDI is based on the belief that mining has the potential to reduce poverty by increasing economic growth, but that the mining sector needs good management practices and strong regulation if the benefits of mining are to be shared and environmental impacts are to be minimised.[5]

Mining projects have long been associated with dispossession of indigenous peoples and other communities from their land, irreversible environmental destruction, increasing economic and social inequality, government corruption, corporate rent-seeking and violent conflicts. These effects are sometimes referred to as the 'resource curse' or 'Dutch disease'.[6]

There are three main components of the 'resource curse'. First, in economic terms, overdependence on mining tends to crowd out other sectors of the economy that provide more jobs in the long-term. It also creates large disparities between the few that directly benefit from mining and those faced with price inflation and social dislocation. Second, in political terms, the availability of resource rents encourages increased corruption both within and beyond the mining country. Third, in ecological terms, mining causes environmental damage at the local level, global problems like climate change and inter-generational inequities through the exhaustion of non-renewable natural resources.[7]

The Australian economy has become increasingly resource-dependent in recent years. Although the mining industry is credited with maintaining high economic growth and contributing to job creation, these benefits are often over-stated.[8] Mining in Australia has resulted in an increased concentration of economic wealth and political power, while exacerbating conflicts with indigenous people over land rights, reducing the viability and competitiveness of other export industries and increasing the cost of living, particularly with respect to housing.[9] Nonetheless, AusAID argues that, as a "global leader in extractive industries", the Australian Government, together with Australia's mining industry, universities and NGOs, can share expertise, ensuring that economic growth from mineral wealth translates to human development in developing countries.

However, the opposite impacts are more the rule. The negative impacts of a mining boom as experienced in Australia have been amplified in less developed countries that rely heavily on mining oil, gas, coal, gold and other minerals for export. For example, in the fifteen years following the discovery of oil in Equatorial Guinea in 1990, rapid economic growth rates of up to 10 per cent corresponded with a worsening of infant and

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5 AusAID, 2012, *Mining for Development,* http://www.ausaid.gov.au/aidissues/mining/Pages/home.aspx

6 Classic texts on the resource curse include: Karl, T. 1998, *The Paradox of Plenty: Oil Booms and Petro-States,* Berkeley: University of California Press and Auty, R. 1993. *Sustaining Development in Mineral Economies: The Resource Curse Thesis,* London: Routledge.

7 Goodman. J. & Worth, D. 2008, 'The Mining Boom and Australia's Resource Curse', *Journal Of Australian Political Economy,* vol. 61, p. 203

8 Richardson, D. and Denniss, R. 2011, *Mining the Truth: The Rhetoric and Reality of the Commodities Boom*, Institute Paper No. 7, The Australia Institute, September 2011

9 Waters, L. 2011, 'Mining Boom: Fact or Fiction?', *The Drum*, 8 September, http://www.abc.net.au/unleashed/2876728.html

under-five mortality rates by around 20 per cent. This is a story that has been repeated in resource-rich countries across the Global South.[10]

Unlike the other aspects of Australia's aid program, the primary focus of the AMDI is Africa, with projects currently based in Liberia, Ghana and Mozambique.[11] The centrepiece of the initiative is the International Mining for Development Centre, which is partnered with the University of Queensland and the University of Western Australia. In March 2012 the Centre hosted a forum that brought together African government ministers and mining executives with Australian and multinational corporations Rio Tinto, Woodside and Chevron.[12]

Given Australia's national (i.e. private business) interests in overseas mining developments and the poor social and ecological record of mining in Australia and in developing countries, NGOs and academics have raised concerns that the AMDI is an expensive exercise in providing direct financial and regulatory support to mining projects and indirect support by rebranding their image as 'sustainable'.[13] Australia currently has a number of other mining-related projects funded by AusAID, who have flagged their intention to bring them under the AMDI umbrella at some stage. Many of these projects have been used as examples by AusAID of their 'sustainable mining' agenda.

The following case studies of the liquefied natural gas project in Papua New Guinea and the Australia Africa Partnerships Facility indicate that while Australia's 'sustainable mining' agenda is playing an effective role in promoting Australian mining interests, it will not seriously address environmental and human rights abuses caused by the industry.

Case study: PNG LNG project

The US$15 billion liquefied natural gas (LNG) project currently being constructed in the Southern Highlands of Papua New Guinea (PNG) is the country's largest industrial development to date. The primary project developer is US multinational ExxonMobil and will include an extraction plant, processing facilities, pipeline and export terminal at Port Moresby. It is projected to double PNG's GDP over its 30-year life.[14]

The Australian Government's Export Finance and Insurance Corporation (EFIC) is partly financing the project with a US$350 million loan from the EFIC's taxpayer-funded 'National Interest Account'. The EFIC justifies its involvement in

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10 Shaxson, N. 2007, 'Oil, corruption and the resource curse', *International Affairs,* 83:6, p. 1123

11 AusAID, 2011, *Australia's Mining for Development Initiative,* p.2

12 International Mining for Development Centre, 2012, *First Australia-Africa Local Supplier Development in Mining, Oil and Gas Forum a Success*, 28 March, http://im4dc.org/first-australia-africa-local-supplier-development-in-mining-oil-and-gas-forum-a-success/

13 Witcombe, R. 2011, 'Govt's Smart Aid Will Do Little : Mining Watchdog', *Probono Australia,* 8 November, http://www.probonoaustralia.com.au/news/2011/11/govt%E2%80%99s-smart-aid-will-do-little-mining-watchdog and 'Smart aid? Gillard funds mining for development', *Probono Australia,* 27 October, http://www.probonoaustralia.com.au/news/2011/10/smart-aid-gillard-funds-%E2%80%98mining-development%E2%80%99

14 ACL Tasman (2009) *PNG LNG Economic Impact Study: An Assessment of the Direct and Indirect Impacts of the proposed PNG LNG Project on the Economy of Papua New Guinea,* p.vi http://www.pnglng.com/media/pdfs/publications/acil_tasman_impact_study_revision_01.pdf

the PNG LNG on the basis that it will support Australian exporters. It says that Australian companies have been, or are likely to be, awarded over AUS$1 billion worth of contracts.[15] Two Australian companies - Oil Search and Santos - are major investors, owning over 40 per cent of the project. Australia's four biggest banks – Commonwealth, ANZ, NAB and Westpac – have also provided loans.[16]

In response to reports of human rights abuses, corruption and environmental damage, a 2009 report by Jubilee Australia questioned the responsibilities of the Australian Government beyond the interests of Australian corporations. AID/WATCH campaigned against the EFIC's secrecy, lack of accountability and poor social and environmental standards over a decade ago.[17] The EFIC's 'Environment Policy', introduced in 2000 as a result of these criticisms, was not strong enough to override Australia's corporate interests in the PNG LNG project.

In addition, the Australian Government is concurrently supporting the project using Australian aid money. AusAID is using official development assistance (ODA) to implement the Australian Government's Joint Understanding on the project with the PNG Government. With this agreement, AusAID is "building capacity" for managing the skilled migration and trade requirements of the construction phase of the project and AusAID's Chief Economist is modelling revenue flows for the broader economy. Aid money is also being used by the PNG's Department of Finance and Deregulation and the Treasury to assist in establishing a sovereign wealth fund.[18]

AusAID maintains that its work is separate from the work of both the EFIC and its broader assistance program in PNG.[19] However, the ODA and EFIC components of the project are inseparable and are potentially displacing funds from other aid projects. In the first instance, AusAID's assistance towards skilled migration and trade is providing a direct commercial benefit to the project, and in turn Australian contractors, investors and financiers. More fundamentally, the aid-funded Joint Understanding agreement between Australia and PNG and the EFIC loan can only be understood as part of the same commercial package.

The then Australian Trade Minister Simon Crean announced the Joint Understanding and the EFIC loan in the same press release on 8 September 2009, thus blurring the distinction between ensuring the financial viability of the project and maximising public benefit from an existing

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15 Export Finance and Insurance Corporation, 2012, *EFIC case studies: PNG LNG Project*, http://www.efic.gov.au/casestudies/Pages/PNGLNGproject.aspx

16 Jubilee Australia, 2009, *Risky Business: Shining a Spotlight on Australia's Export Credit Agency,* p. 37

17 Arvanitakis, A. 2000, 'Who the EFIC Are You?', *Green Left Weekly,* 26 July, http://www.greenleft.org.au/node/21887

18 Baxter, P. 2010, *Australian Senate: Estimates,* 20 October, http://greensmps.org.au/content/estimates/papua-new-guinea

19 Rudd, K, 2011, *Australian Parliament: Questions on Notice,* 4 November http://greensmps.org.au/content/questions-notice/export-finance-and-insurance-corporation-and-png-lng-project

private development.[20] Government export credit agencies and commercial lenders engaged the Italian consultancy firm D'Appolonia to write a report on the project's compliance with social and environmental standards. To satisfy lender requirements, a key recommendation of the report was for bilateral donors to assist the PNG Government in developing a sovereign wealth fund and transparency initiatives.[21] The project's *Environmental and Social Report* also boasts about the advantages of the *Sovereign Wealth Fund Law* passed by the PNG Parliament in February 2012 and the PNG Government's steps towards implementing the Extractive Industries Transparency Initiative.[22]

Despite these claims, reports by media, NGOs and local activists suggest that the negative social and ecological impacts of the 'resource curse' are already being felt during the construction phase of the project. The distribution of royalty payments has required land identification and incorporation, which has caused conflicts between and within customary land groups and outsiders that have fraudulently registered land. ExxonMobil has engaged its own private security force using violence against local resistance and aggravating tensions between local people, creating fears that the project may become the 'next Bougainville'.[23]

The economic impacts study for the project envisaged that only 20 per cent of construction jobs would go to local people, which in any case will only last until 2014.[24] Local people have complained about poor wages and conditions and a diversion of teachers and health workers to the project. They suggest that the presence of more highly paid skilled workers from outside the community has caused social tensions, including increased drug and alcohol abuse and price inflation.[25] The project has also been linked to deforestation, pollution from seabed drenching and localised air pollution.[26]. In January 2012, 62 people died in a landslide from a quarry used by the LNG project developers in the Hela region.

Case study: Australia Africa Partnerships Facility (AAPF)

Africa has traditionally been a minor region (around 3 per cent) of Australia's ODA activity. The Australian Government has indicated their intention to significantly increase the number of African countries that receive Australian aid

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20 Crean, S, 2009, *Australian Government Support for Gas Projec in PNG,* 8 December , http://www.trademinister.gov.au/releases/2009/sc_091208.html

21 D'Appolonia, 2012, *Report of the Independent Environmental and Social Consultant, Environmental and Social Compliance Monitoring: Papua New Guinea LNG Project,* p.74

22 PNG LNG Project, 2012, *Quarterly Environmental and Social Report: First Quarter 2012,* p.II

23 Loewenstein, A. 2012, *Mining and Gas Company Vandalism on Papua New Guinea*, 27 May, http://antonyloewenstein.com/2012/05/27/mining-and-gas-company-vandalism-in-papua-new-guinea/

24 ACL Tasman (2009) *PNG LNG Economic Impact Study: An Assessment of the Direct and Indirect Impacts of the proposed PNG LNG Project on the Economy of Papua New Guinea,* p.vi

25 Oxfam Australia, 2011, *Listening to the Impacts of the PNG LNG Project: Central Province, Papua New Guinea,* pp. 15-18

26 Jubilee Australia, 2009, *Risky Business: Shining a Spotlight on Australia's Export Credit Agency,* p. 42-4

and a doubling of aid volume, with expenditure expected to rise to AUS$625 million by 2016-17.[27] In 2011, the Australian Government provided mining-related assistance to 33 countries across Southern, West, East and Central Africa.[28] The majority of AusAID's mining-related projects in Africa since 2006 have focused on funding scholarships and providing technical assistance through earmarked funding to multilateral institutions, primarily the World Bank.[29]

A separate study of Australian aid effectiveness in Africa commissioned by the *Independent Review* found that the driving rationale behind this increase was the Australian Government's desire to be seen internationally as a strong "middle power" country, but that there was a tension between this broad political goal and the aid effectiveness agenda.[30] The study recommended increasing the effectiveness and integrity of aid spending in Africa by focusing primarily on food security, water and sanitation and maternal and child health.[31]

The review also noted that there was a strong commercial rationale for Australia's engagement with the African resource sector given the commodity boom in Africa and Australia's investment in resource extraction. Private Australian investment in African resources has grown from AUS$20 billion in 2008 to over AUS$50 billion today, with 230 Australian companies engaged in 650 projects in mining, exploration and extraction.[32] Back in 2005 the then Shadow Foreign Affairs Minister Kevin Rudd, argued that given China and India's increased investment in the continent, there needed to be a "new era of engagement" with Africa so that Australia would not be left behind in the "new scramble for Africa".[33]

AusAID and the Department of Foreign Affairs and Trade have provided financing for mining-related projects under the AUS$59.16m Australia-Africa Partnerships Facility (AAPF) for three years to July 2013.[34] The APPF project document is explicit about Australia's commercial interests, stating:

"Australia has a strong interest in helping African countries develop their mining sector and encourage greater investment, including by identifying and addressing barriers to industry development and by providing targeted support."[35]

The APPF primarily provides "capacity building assistance" with a focus on the sectors of mining and natural resources, public policy and food security.[36]

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27 Commonwealth Government, 2012, *Budget Australia's International Development Assistance Program 2012-2013,*

28 *Mining for development in Africa,* AusAID, date unknown, p.10

29 Annex A Past AusAID Supported Mining-Related Projects (2006-07 to 2010-11)

30 Joel Negin and Glenn Denning, 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, pp4

31 Joel Negin and Glenn Denning, 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, pp18

32 International Mining for Development Centre, 2012, *Australian Mining Investment Win Africa Worth More than $50 Billion: DFAT*, 14 February, http://im4dc.org/australian-mining-investment-in-africa-more-than-50-billion-dfat/

33 Lyons, T. 2009, 'Australia in Africa – the human dimension', *Australia Strategic Policy Institute*, [accessed 30/7/2012] at <http://www.aspi.org.au/research/spf.aspx?tid=8>

34 http://www.cardno.com/en-au/Projects/Pages/Projects-Australia-Africa-Partnerships-Facility.aspx [accessed 19 June 2012]

35 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.4

36 Australia-Africa Partnerships Facility, 2012, *Australia's Partnership and Development Program in Africa,* <http://www.aa-partnerships.org/> [accessed on 23 May 2012]

Although the AAPF project documents describe the facility as flexible to country needs, AusAID notes that Australia's interest in mining will mean that this is a priority sector.[37] Bias for mining over other sectors is programmed into the funding proposal criteria that give greater weighting to 'priority sectors'.[38]

Capacity building under the AAPF includes the provision of workshops and training to government ministers and senior bureaucrats. Trade Minister Simon Crean in an address to the Mining Indaba Conference in Africa in 2010 noted that "capacity building is [also] a key part of our trade agenda".[39] Since October 2011, a significant amount of training has taken place through study tours organised through the Independent Centre for Mining Development (IM4DC) under the AMDI. In 2011, Australia hosted a series of study tours for more than 120 African officials from 19 African countries.[40] These study tours also include Australian and African mining executives, which help establish networks for future mining contracts.

AusAID flagged a tenfold expansion of the scholarships ('Australian Awards') program in Africa, with places expected to expand from 109 in 2009 to 1,000 by 2013.[41] African scholarships are already being given to the "sectoral priority" of mining related activities and the APPF will coordinate with the scholarships program.[42] Awards for study in Australia provide revenue for the Australian education sector while subsidising the training needs of the mining industry. The West African Exploration Initiative (WAXI), for example, provides awards to study, with the main focus being to explore the potential for mining of the Leo-Man Shield resource base in West Africa.[43]

Workshops, trainings and scholarships are not the most immediate way to reduce poverty or inequality and the magnitude of spending does not correspond to the development outcomes they achieve.[44] An independent review of Australian aid in Africa found that "scholarships generally do not target the poor and they directly affect a very small number of individuals".[45] Independent researchers have recommended that AusAID scholarships instead focus on providing training in the areas of health and food security in order to more directly address poverty reduction.[46]

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37 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.4

38 Australia-Africa Partnerships Facility, 2012, *Australia in Africa,* <http://www.aa-partnerships.org/about_africa.asp> [accessed 21 May 2012]

39 Crean, S. 2010, *"The Australia Africa Partnership": Address to the Mining Indaba Conference,* 2 February, http://trademinister.gov.au/speeches/2010/100202_indaba.html [accessed 21 May 2012]

40 AusAID, date unknown, *Mining for development in Africa,* p.11

41 AusAID, 2010, *Looking West: Australia's Strategic Approach to Aid in Africa 2011-2015,* p 12

42 AusAID, 2009, *Australia-Africa Partnerships Facility Final Design Document,* p.13

43 < http://www.waxi2.org/> [accessed on 25 May 2012]

44 Negin, J. and Denning, G. 2011, *Study of Australia's approach to aid in Africa,* Final Report, February, p.26

45 Ibid

46 Ibid

In addition to training activities, Africapractice and a Communications consultant have been funded under the AAPF for public relations activities to promote the mining industry. Africapractice assist with "promotion literature … and media engagement opportunities to raise the AAPF and AusAID's profile in Africa and Australia".[47] Since 2011, AusAID and the AAPF have also funded an "awareness campaign"[48] that targets government and mining industry decision makers.[49]

These projects have successfully used Australian public funds to promote 'brand Australia' and support private interests in the myth of 'sustainable mining':

> "Team Australia had a successful and prominent presence at the 2012 *Investing in African Mining Indaba* conference in Cape Town, South Africa, last month…[who provided] African delegations with valuable perspectives on mining for development… our presence at the conference reinforced Australia's brand in Africa's mining sector".[50]

Conclusion

In providing public development money to finance, provide regulatory support and market public-private mining sector developments, AusAID is promoting corporate sustainability. The CEO of Anglo America echoed this understanding at a conference on 'sustainable mining', stating that mining companies "simply will not make those investments if there is a fear of arbitrary and unpredictable regulatory change".[51]

Socially and ecologically sustainable mining is a fallacy, whether in Australia or the Global South. Mining is by definition unsustainable, because it is based on the depletion of non-renewable resources. Countries in the Global South are entitled to exploit their natural resources, but there is little evidence of democratic support for the mining projects being supported by AusAID.

At best, AusAID is diverting resources from public and civil society institutions that could promote human rights, reduce poverty and support popular self-determination. However, evidence from the construction phase of the PNG LNG project indicates that using ODA for mining governance will not be able to align mining sector profitability with these public policy goals for development.

AusAID funded mining programs in Africa demonstrate the impact of incorporating the 'national interest' into the aid agenda. Here activities are supported that are central to Australia's trade and political interests. Instead of focusing on recommended areas of development such as maternal and child health, aid money is being used to fund projects with no tangible

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47 'What's on', *The AAPF Argus,* Issue 3, Feb 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0003_eng.pdf> [accessed 3 April 2012]

48 'Australia helps promote the Africa Mining Vision at AU mining ministers conference', *The AAPF Argus,* Issue 2, Jan 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0002_eng.pdf> [accessed 3 April 2012]

49 *Mining for development in Africa,* AusAID, date unknown, p.5

50 'Australia strengthens partnerships with African governments at Mining Indaba', *The AAPF Argus* Issue 4, March 2012 < http://www.aa-partnerships.org/aapf_argus/argus_issue_0004_eng.pdf> [accessed 3 April 2012]

51 missing footnote please check doc file

development benefits such as public relations exercises for the mining industry.

What is clear is that the current mining programs in PNG and Africa, and programming provisions under the AMDI demonstrate a clear lack of sustainable credentials. These projects support commercial interests, not only of mining companies, but also of education institutions and other business interests in Australia who benefit from development contracts. Training mining industry employees is also a clear form of corporate aid.

In the AMDI, the boundaries are unclear between improving mining operations, entrenching a flawed development model and spreading the 'resource curse'. Instead, the Australian Government should regulate Australian mining companies operating overseas to require them to fund such initiatives from their immense profits, not aid money.

Private sector in development: The invisible return of the invisible hand

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The current model of development based on market fundamentalism with its emphasis on export-led growth has failed to deliver sustainable growth and social progress in either the developing world, emerging countries or the industrialised world. Modest and fragile gains in poverty reduction - where they have occurred - cannot be accepted as a serious international response to the shared challenge of, and responsibility for, world development. Nor do they weigh heavily against the growth of inequality, the acceleration of environmental degradation or the brutal impact of the crisis on the lives of millions of working families.[1]

Statistics may show that many people have been lifted out of poverty over the last years, mainly as a result of the performance of a few successful states such as China and Brazil. But evidence also demonstrates that inequality has risen sharply, particularly in recent years. The crisis in governance is also more than ever a fundamental challenge at all levels: Following the neoliberal credo of the so-called Washington Consensus, state and other governance structures have been weakened and reduced to powerless tools through the adoption of unconsidered deregulations and privatisations of public goods and services and inadequate development support strategies.

Blind confidence in the "invisible hand" of the free market has not delivered progress, but rather has provoked rampant informalisation and precarious conditions for working populations, which has seriously darkened the prospects for the new generations. Fragile states, civil wars and exclusion have destroyed societal solidarity and a commitment to the common interest of people. Jobless growth patterns and externalisation of profits to low tax havens have deprived many developing countries of the benefits of economic growth for development.

Developing countries were the first to feel the perverse impact of free market driven globalisation. However over the years, the deregulation of especially the financial markets and lack of any serious common standards and control mechanisms has now also reached into and profoundly affected the developed world. The recent crisis shows that in Europe and elsewhere in the OECD countries, the welfare state development model, based on redistributive solidarity, has been under severe attack by the rampant greed of the markets and their anonymous players. It seems as if the Washington Consensus took a few decades to arrive on European mainland.

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1 ITUC 2nd World Congress, "Resolution on a Sustainable and Just Development Model for the 21st Century", Vancouver, British Columbia, June 21 – 25, 2010, accessible at http://www.ituc-csi.org/IMG/pdf/2CO_04_A_development_platform_for_the_21st_century_03-10-d.pdf.

2 See for example the crucial areas of climate change and environmental and social sustainability, the lack of consensus on Rio+20 conference, the undermining of Kyoto and subsequent discussions.

Beyond the financial and economic crisis, a governance crisis is rapidly spreading, weakening the capacity of states and the intergovernmental institutions to act. The failure of recent global summits and pacts, [2] the political crisis in "Euroland", the powerlessness of an outdated UN system and the multiplication of new economic and political decision making centres in the world (the BRICs, G8, G20, etc.) have opened up an new and urgent debate about world governance.

"It's the economy, stupid":[3] The end of aid and back to basics in Busan

The 4th HLF in Busan in November 2011 constituted, through the ambiguity of its outcomes, both the culmination and synthesis of the aid effectiveness agenda, but may also have brought the aid effectiveness process to its end.

In a contradictory move, the Busan outcome reaffirmed the values of the Millennium Declaration, the aid effectiveness principles from Paris and Accra, and then set them face-to-face with the economic growth paradigm,[4] the "mutual interest" approach of the new development players (BRICS),[5] but also the interests of the private sector.[6]

Although nobody wanted it to be said, the devastating conclusion of the Paris Declaration Survey released on the eve of the Busan Forum put the total failure of donors to respect their commitments massively in the spotlight. Incapacity or lack of political will? No one is interested in taking the blame; the escape route is called "growing donor aid effectiveness fatigue".

At the same time, multiple reports on growing inequality,[7] development-led globalisation,[8] and many other worrying indicators should reveal to the development community and policy makers that development aid has not brought development because of policy incoherence. It was not a matter of aid, but "it's the economy stupid". On the positive side there is increased awareness of the need for improved policy coherence, such as in the recently adopted OECD Development Strategy[9] or in the EU "Agenda for Change".[10]

This complex new picture and the complete lack in the Busan outcome of any indication of action plans, targeted commitments and timetables, combined with the ineffectual idea of the "building blocks" has brought the aid effectiveness process to its end. At the same time, the "back to business" (sic) approach based on expectations and practices of the new middle

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[3] Campaign slogan on Bill Clinton's election headquarters in the 1992 elections.

[4] Busan Global Partnership for Effective Development Cooperation (GPEDC), § 28 a) "*This calls for a framework within which:* a) Development is driven by strong, sustainable and inclusive growth."

[5] § 30 & 31

[6] GPEDC, § 32 e) "*…to advance both development and business outcomes so that they are mutually reinforcing*"

[7] See for example, http://www.ilo.org/global/about-the-ilo/newsroom/comment-analysis/WCMS_179430/lang--en/index.htm

[8] See the Report of the Secretary General of UNCTAD to the 2012 UNCTAD XIII Conference: http://unctad.org/en/docs/tdxiii_report_en.pdf

[9] See the OECD Strategy at http://www.oecd.org/belgium/50452316.pdf

[10] See the EU Agenda for Change at http://ec.europa.eu/europeaid/what/development-policies/documents/agenda_for_change_en.pdf

income aid providers, but, above all, traditional donors' pretext of aid effectiveness fatigue, and new ideological growth agenda, is being promoted in the G20 and other policy forums.

On top of that, all quarters of the aid/development community seems to have found in the post-2015 development framework debates a new focus for policy attention and have shown much more commitment to this emerging agenda, than to the implementation of the complexity of commitments in the Busan Global Partnership.

The invisible hand of the invisible private sector

In the 18th century, the invisible hand of the market was already called upon to create the "wealth of nations".[11] That this "mysterious hand" was driven by self-interest was not only the philosophical argument that underscored Adam Smith's approach, it has been proven again and again to lead to unequal and unsustainable development patterns.

If the Washington Consensus was a political manifesto that emerged from the globalisation decades of the 1980s and 1990s, it is not surprising that the logic of the predominance of market-driven approaches has made its reappearance in the current situation of multiple global crises. The mantra of the 1990s was the structural adjustment targeting of the role of the state. This time, the mantra is the private sector itself, which will bring along growth acting as a "catalyst for development", but will also bring resources and save us from a catastrophe of declining aid resources through "innovative financial mechanisms".[12]

However the pre-Busan preparatory process clearly demonstrated that this approach remained primarily ideological (driven by neoliberal governments, and not by business themselves) and in the result was a nearly faith-based type belief in Busan in private sector benefits for development. Any evidence-based analysis of the past development decades would have demonstrated the contrary, or at least have shown the imbalance between those who have profited from the neoliberal development pattern and those who have not.[13.]

In an effort to carry forward the commitments made in Busan, a multi-stakeholder group was established as a "building block on private sector and development", mainly consisting of donor governments, multilaterals and a handful of business organizations, such as the Business and Industry Advisory Committee to the OECD (BIAC) and the International Chamber of Commerce (ICC). The multi-stakeholder group is convened with an aim to "develop concrete initiatives for improv[ing] understanding of the role of the private sector in development and sharing lessons learned, in order to propose specific actions for greater development effectiveness".[14]

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11 Adam Smith, *The Wealth of Nations*, 1776

12 GPEDC, §32 c)

13 See the ILO and UNCTAD reports quoted above.

14 "Expanding and Enhancing Public and Private Cooperation for Broad Based, Inclusive and Sustainable Growth" A Joint Statement for endorsement by representatives from the public and private sectors at the Fourth High Level Forum on aid Effectiveness, November 11, 2011, accessed at *www.oecd.org/dac/aideffectiveness/49211825.pdf* .

Dialogue, rights-based approaches and inclusiveness on the way to sustainable development

The development community has become gradually an arena with more and more actors and interests, with the Busan Global Partnership for Effective Development Cooperation being the best illustration of the most advanced and all-encompassing development framework to date. It is also, as shown above, the political crossroads of the aid-driven development agenda and the other economic development agendas. It has brought to the forefront a number of crucial issues, particularly in crisis-affected donor countries.

Valid domestic accountability concerns in donor countries should not lead to short term accounting practices that do not do justice to the intricacy and complexity of development and development cooperation. Impact and value for money should only be measured in relation to aid's contribution to realize sustainable development outcomes. It is essential to acknowledge that impact and "value" in development is far more than the direct result of aid, and is in no way a linear result of aid. This recognition will require a dialogue-based and narrative-impact assessment, rather than the traditional methods that proved very limited in assessing the complexity and reality of development beyond tracking money.
Creating, beyond bureaucratic regulations and accounting sheets, permanent, rights-based, participative, multi-stakeholder structured dialogues on development policies at all levels, is crucial and a prerequisite for ensuring, ex-ante, maximum impact, accountability and visibility.

CSOs, trade unions and others have argued strongly for the broad human rights framework as the main value and indicators for assessing impact in the achievement of development results in-country (including human rights, gender equality, decent work and environmental justice). This framework does not only refer to the established national developmental goals, but also to respect for the internationally agreed commitments such as ILO conventions and standards, UN-based resolutions on human rights, women's rights (CEDAW), and the UN convention on Economic, Social and Cultural Rights, etc.

Caminando se hace el camino

The debate on the private sector and development is far from new. Following the Great Depression of the 1930s, UN institutions, and in particular the ILO, were created to structure and restrain the uncontrollable and unpredictable outcomes of the "invisible hand". Gradually an international framework has emerged and adapted to the new challenges of global political and economic change in the past decades. The adoption of a set of universal core labour standards by the ILO in the 1990s was a clear response to the rampant undermining of labour protection under the globalisation drive, the Washington Consensus and the structural adjustment programmes with their deregulation, liberalisation and privatisation agendas.

The Decent Work Agenda,[15] promoted by the ILO since 1999, and the Global Jobs Pact (ILO, 2009) have in turn built upon these norms, translating social and political strategies to deal with the challenges of the globalisation. They are

[15] http://www.ilo.org/public/english/dw/ilo-dw-english-web.swf

intended to address practical paths towards rights-based, inclusive and sustainable development by focusing on,

- Creating jobs – an economy that generates opportunities for investment, entrepreneurship, skills development, job creation and sustainable livelihoods.

- Guaranteeing rights at work – to obtain recognition and respect for the rights of workers. All workers, and in particular disadvantaged or poor workers, need representation, participation, and laws that work for their interests.

- Extending social protection – to promote both inclusion and productivity by ensuring that women and men enjoy working conditions that are equal, safe, allow adequate free time and rest, take into account family and social values, provide for adequate compensation in case of lost or reduced income, and permit access to adequate healthcare.

- Promoting social dialogue – Involving strong and independent workers' and employers' organizations is central to increasing productivity, avoiding disputes at work, and building cohesive societies.

There is increased awareness that these dimension of development have rarely found their place in the traditional aid agenda. The relatively recent commitment by the trade union movement to the aid agenda[16] also demonstrates that from the social partners side, engaging on the development aid issues has not been high on its agenda.

But the changing paradigm coming out of the Busan High Level Forum (HLF), favouring an more "holistic" approach to development effectiveness, does fits much better the overall focus of trade unions on development, with its greater orientation toward economic, trade and investment policies, rather than the more narrow aid agenda.

The trade unions defined their position in a short statement to the Busan HLF highlighting the following elements:

> Private sector actors are very diverse and have the potential for contribution to sustainable development, in terms of job creation, improved living wages and transfer of technologies. To maximize these positive contributions, priority should be given to the **local private sector and to social economy** entities.
>
> - **Social partners** (workers' and employers' organizations) and social dialogue should be recognized as fundamental in promoting the private sector as a partner in sustainable development. Social dialogue is essential to ensure broad based democratic ownership of economic and social development objectives, including respect of core labour standards and the promotion of social equity. Through social dialogue employers and workers representatives contribute to shape effective social and economic development strategies and enhance conflict management and social peace. Social partners should be recognised as development actors in their own right.

[16] The Trade Union Development Cooperation Network was launched in 2007 following the 1st ITUC Congress resolution from Vienna (November 2006). The engagement with CSO platforms started with the Ottawa Civil Society Forum in 2008.

- Private sector actors should respect and apply the **ILO principles and labour standards** as elaborated in the ILO Conventions and monitored by the ILO supervisory system. The private sector, and more in particular the transnational companies should observe the *Guiding Principles on Business and Human Rights:* Implementing the *United Nations 'Protect, Respect and Remedy' Framework*, the *ILO Tripartite Declaration on Multinational Enterprises and Social Policy*, the *OECD Guidelines for Multinational Enterprises*, the *UN Global Compact*, and follow the best practice of the IFC (WB)-ILO cooperation on promoting core labour standards throughout the production chain.
- **Transparency and accountability** should be at the heart of private sector engagement. Companies should report on their financial affairs, including tax and procurement procedures, on a country-by-country basis.
- **Private-Public Partnerships (PPP)** should be based on a thorough analysis of real needs, appropriateness on the longer term, fair risk sharing for the community, accessibility and affordability of the services and goods produced. They should genuinely respect a multi-stakeholder approach.
- **Social economy** entities (including cooperatives) should be supported and their potential as key actors for sustainable development should be developed.
- Private sector should adhere to the **development effectiveness principles and agenda**: the *Paris Declaration* and *Accra Agenda for Action* commitments as well as the internationally agreed standards on human rights, gender equality, labour rights and decent work, disability and environmental sustainability.
- **Policy coherence** is essential for equitable development: social, employment, economic, trade, financial and environmental policies have to go hand-in-hand in order to contribute to the achievement of the Internationally Agreed Development Goals (IADGs).
- **Country ownership** should be supported and promoted by respecting and using country systems by default (including local public procurement).
- **Democratic and inclusive ownership** of development should be supported by social integration and participation. The role of social partners and social dialogue are essential for ensuring ownership and effectiveness in elaborating and implementing the economic and social development strategies.
- The private sector must promote and adhere to international **transparency and accountability standards** in development cooperation.[17]

[17] Quoted from "Private sector in development", Trade union statement for the 4th High Level Forum on Aid Effectiveness in Busan, November 2011, accessable at http://www.ituc-csi.org/IMG/pdf/private_sector_in_development_tu_messages_for_hlf4.pdf.

Fighting the windmills?

The inclusion of the decent work target as MDG 1b for poverty reduction and the recent adoption of the Ministerial Declaration on "promoting productive capacity, employment and decent work to eradicate poverty in the context of inclusive, sustainable and equitable economic growth at all levels for achieving the Millennium Development Goals"[18] in an indication that the development community worldwide is now integrating in concrete terms the social dimension of development as a key element of its sustainability.

Engaging with the private sector in development will above all be an in-country challenge and social dialogue, as a truly democratic multi stakeholder process will be crucial in this respect. The importance of power relations and the ownership by autonomous and recognised partners is crucial for producing lasting results and for driving development on a sustainable path. This has been demonstrated in many recent reports, such as the 2011 Norad report on Social Dialogue in Developing Countries,[19] evidence from the ILO [20] and its Decent Work Country Programmes,[21,] the joint strategy by ILO, IMF and the ITUC following the 2010 Oslo summit on the Challenges of Growth, Employment and Social cohesion,[22] and the more recent EU plans for promoting social dialogue in development.[23] Development aid can certainly support capacity development and capacity building of social partners as shown in some of the ILO programmes in the past decade.[24.] However building strong and mature labour relations will need long-term approaches and will involve a capacity for high-risk mitigation on the part of all partners, including development partners that would like to engage.

At the European Union and international level, the social and labour agenda, as a counter-part of the private sector engagement, has been recognised. But the reality at the level of individual donors is far from reassuring, as demonstrated by studies by the trade union confederation LO in Denmark and by the recent UK TUC report: "A decent job? DFID fails the TUC's Decent Work test".[25]

The way forward?

Trade union engagement with the private sector is not in the first place a development issue; however, the changing paradigm of development has recognised the key role the economic and social agendas for sustainability in development.

In this context, three strategic areas will be instrumental for dealing with the private sector in development:

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[18] http://www.ilo.org/pardev/partnerships-and-relations/un-system/WCMS_185169/lang--en/index.htm

[19] http://www.norad.no/en/tools-and-publications/publications/norad-reports/publication?key=268452

[20] http://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/documents/publication/wcms_176786.pdf

[21] http://www.ilo.org/public/english/bureau/program/dwcp/index.htm

[22] http://www.osloconference2010.org/

[23] http://www.ituc-csi.org/social-dialogue-unearthed.html

[24] PRODIAF Promotion du Dialogue Social en Afrique http://www.ilo.org/wcmsp5/groups/public/---ed_mas/---eval/documents/publication/wcms_160680.pdf

[25] http://www.tuc.org.uk/international/tuc-21502-f0.cfm

- The promotion of social dialogue at country level as an instrument for economic and social policy, promoting ownership by workers and employers and ensure redistributive developmental policies. Donors and multilateral organisations, as well as the bilateral and multilateral actions of social partners themselves, can contribute to supporting capacity building and development in the long term, and to the establishment of a social dialogue "infrastructure" at country level to allow for structured social dialogues to take place.

- The application of the international agreed framework of ILO principles and standards at work, including its supervisory mechanism and technical assistance instruments. The interaction between a universally agreed standard system and a country-based implementation assessment has proven to be an effective way of protecting workers and employers from unwarranted interventions and unilateral imposition of rules and policies. Especially the Freedom of Association and collective bargaining as a fundamental right has been the pivotal piece of the enabling environment for workers and employers to defend their rights. The ILO as a tripartite structured dialogue and as a unique experience in the UN family also give positive grounds as to the benefits of a genuine multi-stakeholder system based on consultation, on co-decision and on joint monitoring and follow-up strategies.

- The promotion of policy coherence for development as a prerequisite for genuine development strategies. The costs of incoherence have so dramatically reversed much of the efforts of development aid that the issue of policy coherence has to be recognised as the key issue for improving international cooperation. Progress in policy coherence will be fundamental to the chances for genuine development strategies that are rights-based and owned by the countries and their populations. This calls for a new international governance system that can address not only the national state actors, but also the diversity of transnational actors and players. This new development governance should learn from the failure of the government-only based approach and opt radically for a multi-stakeholder approach that can keep all players accountable.

Progress in these areas should give the private sector the opportunities it needs and allow the potential it has to contribute to development. However, it is essential to resist the "believers" approach as preached by some in the recent preparatory debates for the post- 2015 development framework whereby aid will be replaced by the benefits of the "invisible hand".

Corporate Social Responsibility in Peru: An analysis from Non Government Organizations

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Why should corporate social responsibility be important in Peru?

Socio-economic actors in Peru usually respond to this question by referring to the changes that have taken place in the world and the country over the past decades. Accordingly, an issue that is immediately raised is Peru's growth pattern, which has caused a chain of reactions involving intense social conflicts, especially in the mining sector, the primary factor creating growth in recent years.

Peru's economic performance, with historical and growing inequality, is another critical issue, leading to the need to implement more effective policies to improve the impact of the economy on society. Hence an economy based primarily on exporting raw materials not only requires that extractive activities adapt international standards to make their products competitive, but also a new way to understand and interacting with social environments in relation to these activities.

As pointed out by Baltazar Caravedo, corporate social responsibility (CSR) "is not only to ensure markets for corporations operating in and exporting from Peru, it is intended to extend the benefits to the State and the society from foreign investment, offer new opportunities for employment and income, and boost the internal market".[2] In other words, the goal is to build a competitive economy, capable of reducing poverty and providing living conditions and terms of production that will benefit all its members.

In this context, there are those who consider the progress achieved in social responsibility quite significant, as suggested by Rossana Arbocco.[3] Others, such as Baltazar Caravedo, after a decade of intensive discourse on what the social responsibility of corporations should be, point out that not more than 1% of Peruvian companies have CSR programs. [4] Both statements expressed quite well the actual situation for CSR found in Peru: undeniable progress compared to the past, but, on the other hand, very weak advancements with regards to CSR's expected scope and impact.

Remarkable in the discourse on CSR in Peru is the little significance given to an essential feature, the potential and the challenges in forming alliances between organizations, specifically NGOs and corporations. In general, it seems that CSR has begun to be perceived as an alternative source of financial resources, in the context of a gradual decline in funds from international cooperation. In this regard, this chapter seeks to explore the potentialities and challenges in an area that is crucial to understanding: that is, how Peru, as a middle income country, is mobilizing its resources for development as well as the social awareness of NGOs' continued role as development agents.

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Non-governmental organizations and corporate social responsibility

Generally the view is held that NGOs are not likely to establish linkages and alliances on CSR with other entities, particularly corporations. But there is evidence that this is not true. It is important to develop an analysis that identifies what types of NGOs have major issues with these relationships, and the "conditions" that might allow NGO-corporate engagement.

The first distinction is grouping NGOs by origin. On one hand, there are international NGOs based in Peru, the so-called INGOs, and on the other hand, there are NGOs of national origin.

It is well known that the best and major relationships made with the private sector are to be found among the INGOs. This is because of confidence generated by their seemingly established "neutral" image in comparison to their national counterparts, which are perceived to be "politicized".

However, the crucial factor may be the internal processes of these INGOs: they follow standardized criteria of management and evaluation of their respective international centers, that is, ensuring management for results.

Country level NGOs could be grouped according to two dimensions: the "historical" NGOs and the "new " NGOs. The criteria differentiating them is not so much the length of time they exist, but actually a differentiation around objectives, lines of work and way of organizing themselves.

The "new" NGOs seek to be very precise and specific in their objectives, intending to be identified not so much as an NGO, but more as a "social enterprise". In this aspect, they seek efficiency and competitiveness by adopting business practices. But unlike business corporations, their objectives would be directed to improving social indicators strictly relating to their lines of work.

These "new" NGOs tend to be organized around specific lines of work, and generally, focus on their "technical" expertise, which in other words, puts aside factors considered "political". In doing so, the concern is to obtain results, narrowly defined, with much less consideration of a number of decisive circumstances that are part of the everyday life of a person, basically what can be consider the cultural dimension.

The range of topics in which "new" NGOs intervene is more or less wide, but the focus is on aspects such as sustainable environment, children, micro-credit, risk management and humanitarian interventions, nutrition, maternal and child health assistance, improvement of health and education indicators, good governance, among others. This focus seeks to highlight their "technical" understanding and, therefore, is directed to obtain results, but without a major concern about real and sustained change that could result from their intervention.

In other words, their projects are formulated and standardized in ways that seldom incorporate specificities from the context in which such interventions are applied. Thus, the technical impeccability may have limited impact on the factors that are important to change if the intervention is to be sustainable.

The "new" NGOs tend also to be organized around a business model, meaning that they establish very clear hierarchies in their decision-making processes. In this way, they are seeking to streamline institutional synergies and improve the operational management of the group,

generate competitiveness and comparative advantages, maximize the use of the capacities in place, and develop efficient systems of internal and external information management. These characteristics provide these NGOs with an approach that appreciates very much how they profile themselves and make their proposals plausible, "how they sell themselves", in relation to the corporate world.

In the case of the "historical" Peruvian NGOs, their objectives are broad and generic, for example, "to promote a better quality of life of the population traditionally excluded". Their interventions are therefore multidimensional, (address different aspects of conditions affecting development) and, generally, comprehensive (i.e. these different aspects interrelating within a defined territorial space, such as an urban or rural orientation). Among these organizations are those that at some point became known as "Aid and Development NGOs", in other words, NGOs devoted to the promotion of development.

However, alongside development NGOs, are those organizations that are dedicated to specific issue areas such as human rights, gender, environment, labor rights, indigenous peoples, among others. The common denominator, which clearly differentiates them from "new" NGO, is, above all, their approach: they are guided by approaches that promote the exercise of rights. This implies that they focus more on the mobilization and organization of the population, than seeking "results" based on a rigid system of indicators.

These NGOs clearly direct their actions towards social empowerment in their projects. This is the measure of their sustainability, unlike "new" NGO, which tend to match the result of the project strictly with the objectives of the organization, without adapting them to the expectations of the so-called "beneficiaries".

Accordingly "historical" NGOs, the so-called development NGOs as well as the thematic ones, emphasize the building of a democratic institutional framework in which the key is citizens' participation through the strengthening of civil society. This is a framework that in general is perceived to be a "political" one. It is a framework that tends to give these organizations a national scope and, therefore with a purview much broader than the ones proposed by "new" NGO. The latter are more restricted to very specific and localized conditions, although it must be recognized that often their impact turns out to be much more effective.

On the other hand, these "historical NGOs", being "politicized", are prone to develop a significant degree of distrust of the State and as well corporate enterprises. This distrust in turn often creates a more closed attitude to organizational transparency, due to a widely held view among them that transparency can be a practice that can cause them problems (i.e. "giving information to the enemy"). But from another point of view, this secrecy is also an entrenched institutional practice whose origin is surely in their formation in large part by founders from left-wing parties, which in the past were semi-legal or illegal.

It is also important to note that aspects of organizational culture in "historical NGOs" are the product of relations that have been maintained for a long time with international cooperation agencies. One of their challenges is the enormous difficulty to "demonstrate and document" the results of their work, in part due to their notion that the promoters of development should be "invisible", and leave the realization of results to society.

Another important aspect for the "historical NGOs" is their focus in seeking resources from development cooperation agencies, usually without consideration for the diversification of their sources, or even less, the possibility of building a resource mobilization strategy. Indeed, then partnerships with corporations - given the current funding context and their possibilities - are designed as a substitute for declining opportunities in their relations with cooperation agencies. While not fully an alternative resource mobilization strategy, in the best case, exploring these corporate relationships means identifying an alternate source of income, while facing the gradual removal of international cooperation.

For "historical NGOs", in contrast to the "new " NGOs, these factors give the perception that the former, as organizations, have difficulties to even come up with concrete outputs, with deficiencies in their accountability, poor management and with little capacity to measure impacts.

It evident then why "new" NGOs and the majority of the INGOs are the ones more likely to successfully approach corporate enterprises. This is largely the result of the strengths of "new" NGOs and INGOs in the way they are organized -- "they do more and argue less" – and the nature of their projects, generally characterized by short-term and immediate results. This orientation is often opposite to the goals of "historical NGOs", such as strategic alliances with long-term objectives.

Something shared by all NGOs in Peru, regardless of their characteristics, is the little inclination they have for networking. All NGOs form their goals and operate in an isolated manner, while frequently declaring their intentions to work together. The truth is that they do not generate capabilities for networking and collaboration. "Historical NGOs" have been somewhat more successful, because some of their networks have existed for a long time, such as the *National Coordinator of Human Rights (CNDH), the Group of Citizen's Proposal (GPC)*, the *National Association of Centers (ANC)*, and the *Peruvian Environmental Network*, among others.

However, these networks did not particularly aim to establish broader socio-economic alliances, in which corporations, universities or other social organizations are involved. Summing up, in general NGO shortcomings become more evident in the absence of spaces for reflection on what kind of role civil society and the private sector need to engage around aid and development issues, including corporate social responsibility.

Lessons learned and conclusions

Contrary to what is sometimes portrayed, Peru still lacks an appropriate enabling environment for the development of corporate social responsibility (CSR). Developing such an environment is partially hindered by an absence of a full analysis of both the contextual aspects important for economic growth and the seemingly positive evolution of social indicators, which, however, are still worrying. But to pay exclusive attention to these factors may miss other aspects that can be seen as equally important, such as the fact that the economic model has created increasing economic "informalization".

Informalization turns out to be significantly high in sectors that generate major employment in the country, such those represented by the Association of Peruvian Entrepreneurs and the Peruvian Association of Micro and Small Enterprises. Informalization of large parts of the economy restricts the scope for CSR to medium-

sized and large corporations. Informalization can also be extended to social organizations and NGOs. A general characteristic of these organizations is their high degree of informality and organizational precariousness.

Accordingly, a reading of NGOs on their mobilization of resources and adaptation to the environment of CSR, would conclude the following:

1. An important aspect that sidelines the analysis and diagnostics by NGOs is the context of profound and rapid changes arising in the global international cooperation architecture (including the withdrawal of aid funding from Latin America by donors) and these NGOs are the most affected negatively by these changes.

2. .CSR is not a matter of public policy, and in the best cases, the initiatives of the State focus on very circumstantial aspects of corporate behavior relating to management of short-term and sectoral level issues, such as conflict management. This is reflected in the limited standards produced by the State and its complete lack of definition with regards to CSR.

3. Even so, it cannot be denied that there has been a certain progress in the last decade, although in a very uneven manner and induced by the circumstances that need to be managed by the actors involved in CSR. To give an example, mining entrepreneurs have developed a discourse with more content than their colleagues in other productive branches, promoted by the fact that their activities endanger public goods owned by the population living in the environment of their production units. In the same way, those dedicated to financial services or deliverables have been driven to a greater sensitivity to their clients and communities with whom they engage. Similarly, the exporters of agricultural products are very attentive now to comply with existing international standards.

4. However, there has never been a holistic reflection on the extent to which the private sector sees themselves and is recognized as agents of development. Entrepreneurs have a reduced sense of the community and are, in general, limited to the scope of their activity (customers, suppliers, population affected by mining, workers in their companies, etc.).

5. On the other hand, NGOs and other entities engaged in international cooperation are also encountering the same difficulties, and with a few exceptions are trying to evolve out of these conditions.

6. This situation is highly complex and creates a diversity of perceptions and even contradictions. Hence the differences between wider social responsibility and corporate social responsibility can hardly be identified. When this happens, the roles of other actors are generally invisible.

7. In addition this diversity of perceptions often does not include ways of understanding sustainable development, which theoretically should be the take off point from where the discourse of CSR should start.

8. The difficulties encountered in establishing partnerships between the actors in social responsibility and CRS are not particular to this environment. They have to be seen as due to more general factors such as organizational weaknesses, few mechanisms to facilitate conflict resolution, the absence

of information and, above all, the high level of distrust among these different actors.

9. The lack of clear rules significantly hinders awareness of objectives and without this basic transparency it becomes almost impossible for different actors to work on the possibility of building strategic alliances.

10. There are large power imbalances between the different actors involved, which hinders the creation of a proper equitable relationship among them: on one side, the corporation has considerable resources, and on the other, NGOs have the *know-how*, but resources are the decisive factor.

11. In general, NGOs have a more social approach, since they seek to promote public goods and social development, while the corporate world is guided by practical ways in which to first realize their own profits, even though, as already noted, they also incorporate the social dimension, especially those corporations engaged in the extractive industry, seeking benefits for their workers and their communities.

12. In the discourse on social responsibility led by NGOs there are two issues that seem to be emphasized: the need to promote networking and a more intense exchange of information.

13. Finally, a key element that is repeated but is seldom discussed in alliances between NGOs and the corporate world is the assumption that the latter are the financers of the process. This element is crucial because at any time this can also appear as an obstacle for creating a common interest ("the corporations pay, the NGOs execute what the corporate wants") and for generating an adequate equity among the members of an alliance.

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[2] In, http://www.rstodos.org/index.php?option=com_content & view = article & id = 63 & Itemid = 81

[3] Rossana Arbocco; "CSR: a long way to go". In, power; April 19, 2012; Lima, Peru, p 90.

[4] Baltazar Caravedo: "today, companies that have bad reputation begin to lose clients". In supplement to Corporate Social responsibility; La República newspaper, April 27, 2012; Lima, Peru; pp. 2-5.

Chapter 3
Appraising Development Results

What's in it for development? Assessing the Belgian Investment Company for Developing Countries' (BIO) Development Outcomes
Jan Van de Poel, 11.11.11 – Coalition of Flemish North South Movement

Mass Transport and Development in the Philippines: Privatizing the rail transit system
Goldie Liza L. Tanglao, IBON International

Private Sector in Development: Infrastructure challenges and opportunities for Africa
Fanwell Kenala Bokosi, PhD and Taurai Chiraerae, African Forum and Network on Debt and Development

Does private sector focus on real development in Bangladesh?
Ahmed Swapan Mahmud and Farjana Akter, VOICE

What's in it for development? Assessing the Belgian Investment Company for Developing Countries' (BIO) Development Outcomes

Jan Van de Poel
11.11.11 – Coalition of Flemish North South Movement

Introduction

In the light of declining aid budgets in Europe's 'Age of Austerity', governments are looking for a cheap 'win-win situation' where reduced ODA is supposed to leverage significant amounts of additional private capital to be committed to developing countries. As a result, ODA flows to the private sector have been growing rapidly in recent years, albeit remaining a relatively small share of the total.

Different multilateral and bilateral development agencies are becoming the main interlocutors making public funds available for private investments in the developing countries. According to a recent Eurodad study these Development Finance Institutions (DFIs) increased their portfolios by 190% between 2006 and 2010.[1] In that same period DFIs moved into new areas and sectors – such as infrastructure – where finance is no longer available from private credit markets. Belgium and Sweden are striking examples of increasing amounts of ODA being channeled to the private sector. Within Belgian ODA, private sector support quadrupled since 2006 (see Belgium Country Chapter in this report). Most of these resources were spent through the Belgian bilateral DFI, the Belgian Investment Company for Developing Countries (BIO).

This chapter assesses the effectiveness of BIO in the realization of its mission. According to the 2001 Act creating BIO it is to 'invest in the development of companies in developing countries in the interest of economic and social progress […] with the aim to achieve the Millennium Development Goals'.[2] BIO's ambitions, however, to enhance its 'leverage capacity' - the additional private capital that is attracted by matching public funds – seem to be at odds with stakeholder's expectations in terms of sustainable development and poverty eradication. There is a trade-off between financial performance and development outcomes in BIO's activities.

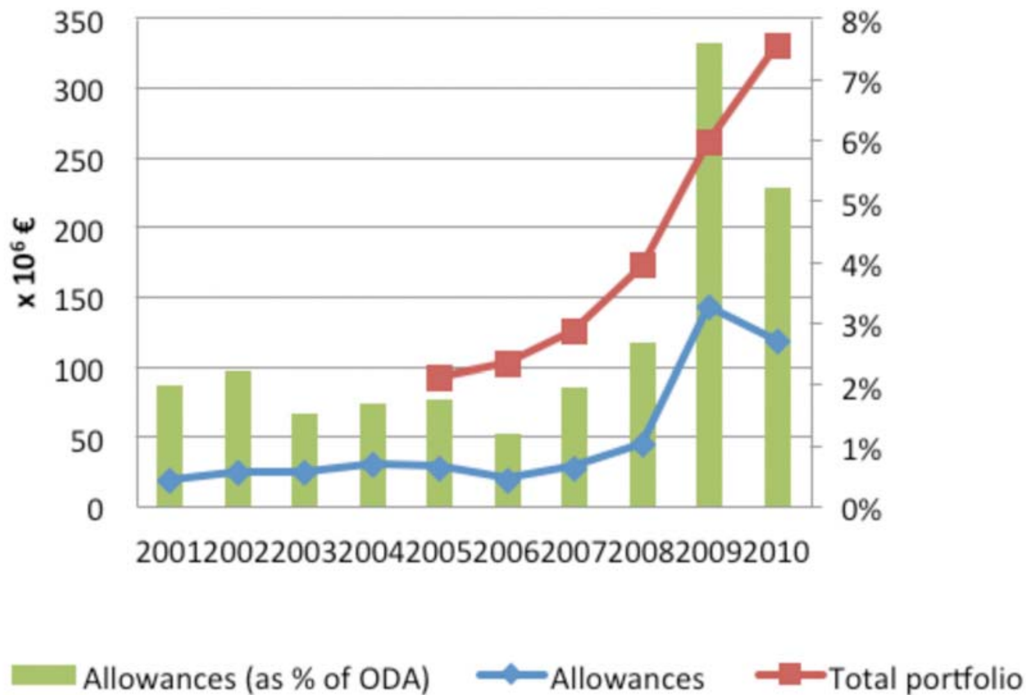
A new actor in Belgian development cooperation?

BIO was created in 2001 by the Belgian government to invest in growing companies in developing countries in order to promote the economic and social development of those countries. According to its law of establishment, BIO's interventions should directly or indirectly lead to sustainable productive employment taking into account basic social rights as defined in the fundamental conventions of the ILO. The Belgian government intended to involve the Belgian business community in its initiative. Therefore the Belgian Corporation for International Investment, a semi-public provider of medium and long-term financing for Belgian business ventures overseas, was engaged to commit half of BIO's registered capital.[3]

Additional financing for BIO is provided by the Belgian state through 'development certificates', redeemed shares that do not influence BIO's ownership structure. Since 2001 BIO has received more than €500 million additional resources, all designated as ODA. The spectacular growth of BIO (see Chart 1) has been largely motivated by the neutral impact of its activities on the government's budget. Since BIO makes investments, which are projected to generate a certain return, they do not need to be booked as expenditures in the State's budget. BIO, thus, allows the state to increase its ODA-budget without having an impact on the budget. This, however, implies BIO must generate sufficient returns on its investments (approximately 5% on average for its total portfolio).

BIO holds an ambiguous statute within Belgian development cooperation, outside the Belgian law on international cooperation, which determines the objectives for all actors in Belgian development cooperation. The state's expectations for BIO, as its main shareholder, instead are defined in its Investment Charter, a seven-page document that includes BIO's investment criteria, target sectors, geographical focus, code of conduct and principles of ethical and sustainable entrepreneurship, and exclusion criteria. The Charter also sets out a number of basic principles such as additionality and the catalytic role of the investments, local added value, good governance and transparency. Nevertheless, BIO's ambiguous position within development cooperation allows for its

Chart 1 Growth of BIO,2001-2010



Source: Annual Reports BIO, 2002-2010; Statistical Report on Belgian Development Assistance, 2001-2010.

investment policies to be insufficiently targeted towards development outcomes and inconsistent with the principles and objectives laid out in the law on international cooperation. Furthermore, BIO's Investment Charter is currently not even inspired by a strategic and comprehensive vision on private sector development (PSD) of Belgian development cooperation

Who profits?

In order to fulfill its development mandate, BIO should contribute to a thriving private sector in developing countries providing goods and services for local markets, which in turn unleashes the sector's potential to create sustainable decent jobs and an increasing tax base for developing states. It should be doing so by directing its resources to companies that have most difficulties in accessing private capital markets. Moreover, those companies need to be active in regions and sectors that are delivering best outcomes for the poor. Under these conditions, we believe BIO assumes its additionality, catalytic role and local added value to the fullest.

Between 2006 and 2011 BIO mainly focused on lower middle income countries (32% of its total portfolio), while least developed and low income countries on average received 12% and 11% of BIO's resources respectively.[4] This bias towards middle income countries is amplified by BIO's investments with a regional coverage, which accounts for nearly 45% of its total portfolio, and are mainly directed towards more developed, middle income countries. In some cases even upper middle income countries, where BIO has no mandate, are targeted. The financial sector is by far the most important benefiting sector making up 54% of the total portfolio between 2006 and 2011, seconded by financing of small and medium sized enterprises (SME) through intermediary funds (29%). Agri-business (5%), manufacturing (2%) and health and education (1%) have a minor share in BIO's portfolio. Recently, infrastructure is becoming more important as target sector. In 2010, 21% of all invested resources went to infrastructure projects, contrasting to only 8% on average between 2006 and 2011.

Targeting financial sector investments

BIO's focus on the financial sector is replicated at international level. Eurodad found that over 50% of public finance flowing from donors' DFIs to the private sector went to the financial sector. Investments in the financial sector are usually targeted towards commercial banks, microfinance institutions and funds specializing in microfinance and specialized service deliverers such as leasing companies, factoring, etc. In a few cases BIO also participates in derivatives, such as currency swaps. In the financial sector, BIO's portfolio between 2006 and 2011 breaks down as follows: commercial banks (37%), microfinance (36%) and non-banking financial institutions (27%).

BIO and other DFIs focus on financial sectors because they expect those institutions to scale up financing opportunities for local business life. These scaling up effects however are largely assumed, while hard data is lacking to check that assumption. From BIO's reporting it is impossible to learn even which companies benefit from BIO's investments in commercial banks and equity funds, not to mention their development outcomes. Moreover, an assessment of BIO's activities in the microfinance sector revealed clear signs of crowding out effects. BIO and other DFIs are aiming for the 'low hanging fruit' in the market, thus pushing away conventional players. According to a study by rating agency MicroRate DFIs are mainly interested in spending public

resources relatively quickly through easy, risk-free and profitable Micro Finance Institutions that are hard to discern from regular commercial banks. The former offer consumer credits, mortgage loans, remittance transfers, etc.[5] In some countries, such as Nicaragua, Peru and Bosnia-Herzegovina, competition between private investors and DFIs led to overheated markets and debt crises pushed many small borrowers into poverty.[6]

Reaching small companies?

Between 2006 and 2011 nearly 36% of BIO's investments were channeled through specialized microfinance funds and private equity funds that serve as intermediaries between BIO and the final beneficiary company. BIO engaged with these intermediary funds because they reduce transaction costs and allow for direct engagement with small and medium sized enterprises. Although, working with intermediary funds creates opportunities for BIO, their day-to-day practices seem less tailored for maximum returns in terms of development outcomes. Financial intermediaries, such as private equity funds, are usually very opaque in their investment strategies. Similar to the financial sector, it is often impossible to determine the final beneficiaries of fund investments, let alone their development outcomes. Moreover, fund managers – private consultancy companies that receive a fee of approximately 2.5% for managing these funds – are in the driving seat controlling investment strategies. DFIs such as BIO are often not even in the back seat, because their share of such intermediary funds is too limited.

Leveraging additional private capital in intermediary funds creates certain expectations about returns on the part of private equity and venture capital investors. Usually they expect a return on invested capital of approximately 15 to 20%, bringing about a Matthew effect[7] in the selection of projects and companies. Intermediary funds, in which BIO is participating, make investments in large, industrial corporations with proven profitability and growth and able to absorb €3 to €5 million investments in mining, leisure, chemical industry, etc.

In order to fulfill its objective of additionality, BIO should be investing in companies in developing countries that would otherwise not be able to access other private capital markets. Those companies are mostly small-scale local firms, strongly embedded in the socio-economic fabric of developing countries. Country ownership is one of the key principle of effective aid and is also applicable to investment in the private sector for development outcomes. Just because a project is situated in a developing country, does not mean that it is owned or operated by companies rooted in the economic fabric of the target country for the investment. From the top ten direct investments made by BIO between 2006 and 2011, only 4 showed beneficial ownership in the targeted country. Companies that receive loans or equity investments are often subsidiaries of transnational corporations that are 'special purpose vehicles' specifically created to implement a particular project. These findings seem to undermine BIO's claim for financial and development additionality in its investments. (See Table 1)

When making direct investments, BIO adheres to an internationally-agreed definition of SMEs as an enterprise with less than 250 employees, a maximum annual turnover of €40 million and maximum €27 million in assets. The 'ideal business case' for BIO is a profitable, export-oriented company that has been growing for at least five years and is looking for financing in Euros or US dollars. Moreover the company should be able to absorb an amount between €1 million and €3 million.

Table 1 Final beneficiary of top 10 direct investments by BIO, 2006-2011

PROJECT	COUNTRY OF OWNERSHIP
Sacombank	Vietnam
Jakarta Tank Terminal	The Netherlands & Indonesia
Maple Ethanol	UK & Peru
Amayo	Panama & US
Polaris	US
Banco Financiera del Peru	Peru & Ecuador
Hohhot Cokes	China
BOA Group	Luxemburg & Mali
Banco Nacional de Bolivia	Bolivia
Bancentro	US & Nicaragua

Source: BIO Portfolio and project/company websites

Various studies demonstrate that mainly local microenterprises, with maximum ten employees and a maximum annual turnover of €2 million, have difficulties to get the necessary funding. According to a study by Root Capital, quoted by the FAO, the 'missing middle' in Africa and Latin America is largely crowded by companies active in agriculture in need of financial support between US$10,000 and US$1 million.[8] Those SMEs in particular play a crucial role in economic development, because they often constitute the first step in the transition from an informal, 'black' economy to a formal, 'white' economy.[9] Particularly in agriculture there is indeed a so-called 'missing middle' between family farming and large, industrial corporations. BIO and the other DFIs avoid investing in that 'missing middle' because risks are considered too high and growth is relatively slow.

Demonstrating development effects

For all development actors demonstrating a causal link between their interventions and development outcomes can be very difficult. For DFI's such as BIO this challenge is compounded. Development outcomes in fact do not constitute the main objective of the private entities with which BIO is partnering in its investment strategy. A recent report of International Finance Corporation (IFC, a similar DFI to BIO in the World Bank) by its Internal Evaluation Group demonstrates that the IFC's investments lack a clear focus on poverty eradication. 'Fewer than half of the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries, or tracking of impacts.'[10]

To assess its development impacts, BIO uses the Corporate-Policy Project Rating (GPR) tool, which has been developed by DEG, the German DFI. The GPR-analysis is performed ex ante, prior to the investment's approval, and maps the expected results in terms of development and the strategic role of BIO's portfolio. The GPR tool uses sector specific 'development impact criteria' such as number of jobs, generated income, access to education, market expansion, environmental protection and gender effects. Based on the scores for development outcomes the project will be allocated to one of six groups, of which only projects in groups 5 and 6 will not be implemented.

Although development effects are taken into account for 60% of the GPR's total score, the test is essentially hard to fail. The tool has several deficiencies: information is essentially delivered by the benefiting company, there is no triangulation by gathering information through independent sources, the analysis is only focused on potential positive development, there is no indicator for country ownership, no minimum standards or exclusion criteria are defined. The tool places too much emphasis on financial outputs and quantitative aspects to the

detriment of qualitative outcomes ('incremental job creation', quality of employment and transfer effects, impact on inequality, etc.). Moreover, such measuring tools 'tend to begin once the key decisions on who, how and where investments will be made, are already determined'.[11] In order to be aligned with development priorities of a given developing country and have a real impact on its development, project selection should be based on a clear assessment of different alternatives for investment linked to expected development outcomes of various alternatives. Furthermore, BIO needs to invest in effective environmental, social and governance assessment mechanisms that allow for development finance to be channeled towards the sectors and companies that have demonstrated the potential for impacts on development outcomes for people living in poverty.

Conclusion

BIO and other Development Finance Institutions offer opportunities for development since the private sector in developing countries can indeed be a motor for the creation of decent jobs, increasing revenue for governments from tax, providing local markets with necessary goods and services, etc. DFIs need to demonstrate the potential of their investment policies to address poverty eradication and inequality through sustainable private sector development targeted at poor and marginalized people. As the OECD-DAC is suggesting in its policy guidelines for PSD, 'reducing poverty requires greater efforts to address the needs and maximize the contribution of the many informal enterprises, family run farms and self-employed men and women that conduct business in developing countries'.[12] DFIs also need to devise strategies to aim at formalizing micro-enterprises in which poor and marginalized people tend to be active. However, in the case of BIO the evidence suggests that leveraging public resources to attract additional private capital clearly has meant a setback for development returns on their investments.

A new balance is required between financial and development objectives in which development returns are at the heart. Development returns means investing in locally embedded and owned company life, stimulating local entrepreneurship, creating additional, permanent and decent jobs, sustainably increasing tax incomes for local governments, providing knowhow and innovation to local businessmen, respecting the highest standards of environmental protection, transparency and accountability. Maximizing development returns for DFIs means engaging in innovative financial services and products that mitigate risk for local entrepreneurs in order to foster private enterprise adapted to and strengthening local markets and value chains. Through these approaches DFIs will fulfill their goal of additionality for development, which is a fundamental principle to justify spending public ODA resources in private sector development.

Endnotes

[1] Kwakkenbos, J. (2012), Private profit for public good ? Can investing in private companies deliver for the poor?, Eurodad.

[2] Act for the creation of BIO and revision of the Act of 21 December 1998 for the creation of the Belgian technical Cooperation in the form of a corporation by public law, 3 November 2001.

[3] \BMI-SBI is for 63% state-owned, 37% of ownership is in hands of private investors such as BNP Paribas Fortis (bank), ING (bank), Electrabel (energy production), etc. BMI-SBI's main objective is to strengthen exports and foreign expansion of Belgian enterprises.

[4] These calculations are based on BIO's portfolio, compared with OECD-DAC list of ODA recipients, effective for reporting on 2009 and 2010 flows.

[5] Von Stauffenberg, D. & Rosas, D. (2011), Role Reversal Revisited. Are Public Development Institutions still Crowding Out Private Investments in Microfinance?, MicroRate.

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[7] A sociological term describing a process whereby the rich get richer and the poor get poorer.

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Mass Transport and Development in the Philippines: Privatizing the rail transit system

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Overview

The privatization of Metro Manila's rail transit system is one of the top priority projects for President Benigno Aquino's Public-Private Partnership (PPP) program. To advance this, since 2010 the government has been proposing a controversial fare hike of as much as 100%[1] when implemented. The fare hike, authorities said, will "send a clear signal to private sector investors that regulatory risks will be minimized in future PPP projects."[2] Government officials are aware that investors are closely monitoring the privatization of the Metro's mass transit system as this could potentially affect the success or failure of PPPs, which is the Aquino government's centerpiece economic program. Unfortunately, while government's concern about the interests of the private investors is apparent, the same concern cannot be said about the interests of over a million daily train commuters who will soon be paying higher fares.

Introduction: system and passenger profiles

Metro Manila is served by two metropolitan rail systems: the Light Rail Transit system (LRT) and the Metro Rail Transit system (MRT). The LRT and MRT are operated by the Light Rail Transit Authority (LRTA), a government-owned and controlled agency under the authority of the Department of Transportation and Communication (DOTC).The LRTA was founded in July 1980 under Executive Order (EO) No. 603 as a "government corporation primarily responsible for the construction, operation, maintenance, and/or lease of LRT Systems" in the country.[3]

The LRT and MRT system is composed of three operational lines: LRT-1 (Yellow Line), LRT-2 (Purple Line) and MRT (Blue Line). The three lines have a combined span of 48.4 kilometers, covering 44 stations, and serving over a million passengers on weekdays (see Table 1).

A survey on the ridership profile of the LRT/MRT passengers revealed that almost 90% are students, employed and unemployed workers.[5]Among LRT/MRT respondents to the survey, the groups with income less than Php 10,000/month (US$242/month) comprise more than 60% of the total.[6] Those groups with less than Php 8,000/month (US$193/month) income comprise more than 40% of the respondents (see Table 2).[7]

Historical role of ODA and private investors in mass transit construction

The Manila Electric Company (MERALCO) operated an electric tram network since 1903, but it was damaged in World War II. Studies to rebuild a rail system in the capital were funded by the Japan International Cooperation Agency (JICA) and the World Bank. A study commissioned by the World Bank in 1976 suggesting a street-level light railway and this proposal became the basis

Table 1. Profile of the LRT and MRT system[4]

INDICATOR	LRT LINE 1 (YELLOW LINE)	LRT LINE 2 (MEGATREN/PURPLE LINE)	MRT (METROSTAR/BLUE LINE)
Year commercial operation began	1984	2003	1999
Commercial length (km)	18.95	12.49	16.95
No. of stations (location)	22	11	13
No. of trains	40	18	20
Capacity per train	1,200	1,628	957
No. of passengers daily	431,879	175,501	487,000

of then President Ferdinand E. Marcos's LRT project, with some revisions to the proposal.[8]The then newly created Ministry of Transportation and Communications (MOTC) reviewed and revised the study's recommendations and introduced an elevated version because of the many intersections, raising the cost from Php1.5 billion (US$35.4 million) to Php2 billion (US$47.3 million).[9]

The LRT project (LRT 1) took off with official development aid (ODA) from the Belgian government, which granted a Php300 million (US$7.1 million) "soft" and interest-free loan, with a repayment time of 30 years.[10]An additional loan of Php700 million (US$16.5 million) was provided by a Belgian consortium of private companies that also supplied equipment and technical assistance.[11]The project was expected to be self-sustaining through revenue alone within a period of 20 years. The entire system was expected to be out of debt by 1993. Against an expected gross revenue of Php365 million (US$8.63 million) for the first operating year, government losses were expected to reach Php216 million (US$5.1 million). The system was intended as a public utility rather than as a profit center.[12]

LRT-2 was also built in 2000 through ODA loans amounting to about Php 31 billion (US$733 million) mainly from the Japan Bank for International Cooperation (JBIC).[13]The Asia-Europe MRT Consortium participated in the construction of the structures and associated components, including trains and other equipment. The consortium was composed of British, Korean and Japanese companies under the leadership of Japanese-owned Marubeni Corporation.[14]

Table 2 Occupation and income distribution of LRT/MRT passengers on weekdays

BY OCCUPATION	SHARE (%)
Student	31.5
Employed	48.8
Unemployed	9.5
Businessman/Self-employed	5.1
Professionals/Executive	3.2
Others	2.1
BY INCOME (PHP/MONTH)	**SHARE (%)**
None	15.3
<8,000	28.5
8,000 – 10,000	24.3
10,000 – 15,000	18.8
15,000 – 20,000	7.8
20,000 – 30,000	3.9
>30,000	1.4

Source: Mega Manila Public Transport Study, April 2007 https://www.box.com/shared/g6gxcga9mr

In contrast to the LRT lines, the MRT was built through the Build-Operate-Transfer (BOT) scheme, under which the Department of Transport (DOTC) entered into a 25-year agreement with the Metro Rail Transit Corp. Ltd (Metro Rail) in August 1997.[15] Metro Rail is a consortium led by Fil-Estate Management Inc. and Ayala Land Inc. Under the contract, Metro Rail is responsible for the construction and maintenance of the MRT, after which it will lease the system to the DOTC.The DOTC would then assume all administrative functions such as the regulation of fares and operations.

Total cost of the MRT project amounted to Php 28.6 billion (US$675.5 million) comprised of Php 8.1 billion (US$190 million) in equity from Metro Rail and total loans of Php 20.5 billion (US$485.5 million) from JBIC and other Japanese, European, Chinese, American and local banks. Under the BOT scheme, the DOTC would pay Metro Rail monthly fees for a certain number of years to reimburse any incurred costs. This includes equity rental payments (ERP) for the guaranteed annual 15% return on investment (ROI) for investors as well as reimbursement for maintenance expenses and loans assumed by Metro Rail to finance the project. To compensate for costs, the DOTC originally proposed a maximum Php 60 fare for a one-way single ticket journey for the MRT. This fare proposal was vehemently opposed by several groupsas being too high, forcing the government to reduce the fares to Php 12 – 15. Thus the government claims that it pays a minimum of Php7 billion (US$165 million) subsidy yearly for approximately 500,000 MRT commuters since it shoulders Php 40 of the Php 60 actual cost.[16]

Mass Transit privatization plans

In March 2011, President Aquino's government formally announced public projects open to investors as it inaugurated its public-private partnership (PPP) program, with infrastructure projects spearheading the endeavor.Operation and maintenance contracts for the LRT and MRT are among the top priority PPP projects to be offered to investors by the government (see Table 3).

An LRT/MRT Expansion Program will begin with the LRT-1 Operation and Maintenance (O&M) privatization. The project aims to contract LRT operation and maintenance to a private sector service provider during the interim period of 3-4 years. [18]This is an interim project for 3 to 4 years, after which the LRT Extension Project contractor is expected to assume overall responsibility for the integrated LRT and MRT systems.

The integration and expansion of Metro Manila's rail system was first pursued by President Joseph Estrada in 1998 and continued by President Gloria Macapagal-Arroyo in 2003 as part of the Strong Republic Transit System. Nonetheless, the PPP efforts of President Aquino are arguably more aggressive in attracting private investors for

Table 3 PPP projects in LRT and MRT for 2012 rollout[17]

PROJECT	INDICATIVE COST (IN PHP BILLION)
LRT Line 1 South Extension and Operation & Maintenance	59.2 (US$1.4 billion)
LRT Line 2 East Extension and Operation and Maintenance	11.9(US$281 million)
Automatic Fare Collection System	1.8 (US$43 million)
Integrated Transport System (ITS) Project	TBD
Cebu Bus Rapid Transit Development Project	TBD

Source: PPP Brochure, May 2012, www.ppp.gov.ph

the country's rail development projects. Efforts include "pertinent incentives" provided to attract the private sector in financing the construction, operation, and maintenance of infrastructure and development projects. One such incentive is the protection of PPP investors from "certain regulatory risk events such as court orders or decisions by regulatory agencies which prevent investors from adjusting tariffs to contractually agreed levels" (see Box: Legal framework).[19] In other words, under this scheme, private investors are guaranteed profits, especially at times when the public resists and protests fare increases.

Current LRT/MRT projects and key players

Private companies continue to play a key role in the development and operation of the LRT and MRT. In fact, renewed privatization efforts of the government, through its PPP program, have encouraged private investors to completelytake over the LRT and MRT.

The Metro Pacific Investments Corporation (MPIC) and Ayala groups have jointly submitted to the government an unsolicited proposal to rehabilitate and upgrade the MRT (Blue Line). The two companies, which formed an "exclusive" alliance in early 2011 to pursue LRT projects, submitted the new MRT proposal to the DOTC in August 2012. [20]In its previous offer submitted in 2011, MPIC asked to be given rights to manage the train line until 2040, extending MRT's current BOT contract by 15 more years (current contract ends by 2025).Under the new deal, MPIC and Ayala groups sought to create new cash flows by doubling the capacity of the Blue Line and doubling fares to Php30 (currently Php 15) for a one-way, end-to-end trip.[21] If approved, the deal will give the conglomerates a greater edge in acquiring 10 potential railway projects in Metro Manila, and thus bring MPIC closer to its objective of full ownership of the MRT. At present, MPIC already owns 48% of the economic interest in MRT.

Legal framework

PPP projects in past administrations were implemented under the Build-Operate-Transfer (BOT) scheme, with the Republic Act 7718, or the BOT Law, as the legal frame. The BOT Law provides diverse methods where private corporations can take over the functions of government in implementing infrastructure projects. Under Aquino's PPP, key amendments to the BOT Law are being proposed in order to provide an enabling environment for private sector investment: expedite the timeframe of the process; expand the coverage of the law to include joint ventures, concession and management contracts; and, provide guarantees against "regulatory risks".

Source: Overview of the PPP Program. http://ppp.gov.ph

Among these 10 potential railway projects in Metro Manila, the newly created alliance between the MPIC and Ayala groups, along with SMC Infra Resources Inc, is among the top bidders for railway projects that would extend the LRT-1 to the southern province (LRT-1 Cavite Extension).[22]

The LRT Line 1 Cavite Extension Project aims to connect Metro Manila to nearby province of Cavite with eight passenger stations. The project, implemented through PPP, has an estimated project cost of Php 61.53 billion (US$1.45 billion), with government and private sector to provide Php 30.594 billion (US$727 million) each. Public sector components will be financed through ODA from JICA and National Government Subsidy Appropriation.[23]

Official bidding will not begin until January 2013, but already large private investors, both local and foreign, have expressed interest to bid. Aside from MPIC and Ayala groups, Japanese, South Korean and French transportation contractors, as well as local and foreign banks, have also indicated interest to undertake the projects.

Meanwhile, the LRT-1 North Extension Project started by former President Arroyo in early 2007, aiming to complete the LRT-1 – MRT loop by 2010, has been shelved indefinitely. The total project costs Php 9.63 billion (US$227.7 million). The main contractors would have included Filipino-owned companies, DM Consuji, Inc (DMCI) and First Balfour, Inc, for the construction phase, as well as various foreign companies for electro-mechanical works.[24] The announcement to shelve was made by former DOTC secretary Manuel Roxas in July 2012, citing planning and technical issues.[25]South Korea-based Hyundai Rotem, a member of the Hyundai Motor Group, had already expressed interest in bidding for the O&M contracts of the LRT-1 and MRT, with costs of about Php 14 billion (US$331 million).[26]

Privatization projected impact on commuters: Doubled fare hikes

As an added boost to its PPP program, the government has been pushing for increased fares in the LRT and MRT. The DOTC's proposed fare hike in 2010 was derailed by strong opposition from several groups. In September 2012, however, the government announced that the MRT/LRT fare hike will proceed in 2013. The announcement was made after Congress slashed rail subsidies to allocate more funds to the development of the Philippine countryside.[27]However, this time, former DOTC secretary Roxas called it a "fairness issue" saying, "It will be unfair for the areas in the provinces if we continue to subsidize Metro Manila as we have done so for the past ten years."[28]

Under the proposed fare matrix, according to DOTC, commuters will only shoulder a maximum of 60% fare increase (see Table 4).

However, the above presentation is too simple and does not show the full and actual impact of the fare hike, which can only be appreciated on a per station basis using the new fare matrix approved by the LRTA. Based on this new fare matrix, a train ride (single journey ticket) from both LRT-1's Baclaran station to Roosevelt and from Baclaran to Tayuman will double, from P20 to P30 and from P15 to P30, repsectively. But a train ride from LRT-2's Recto station to Santolan will be 67% more expensive (P15 to P25) while the fare from Recto to Anonas will jump by 79% (P14 to P25).[29]Based on the matrix, in the case of LRT 1, the biggest increase in real terms will be P15, amounting to a 100% increase (see Table 5).

Table 4 Average LRT and MRT fares

LINE	AVERAGE TRIP LENGTH (KM)	CURRENT FARE (PHP)	PROPOSED FARE (PHP)*	INCREASE	
				PHP	PERCENT
LRT 1	8.00	14.20	19.00	4.8	33.8%
LRT 2	8.08	13.51	19.08	5.57	41.2%
MRT	8.61	12.30	19.61	7.31	59.4%

**Based on the fare structure of P11 boarding charge + P1/km*
Source: Department of Transportation and Communication, Newsbreak. (Landingin. 12 Jan 2011)

Onerous deals resulting to major debt burden

The LRTA/DOTC further justifies the fare increase by claiming that the full cost per fare for operating the LRT/MRT ranges from Php 35.77 to Php 60.75, which is way above current fares of Php 12.30 to Php 14.20. Based on this comparison, the LRTA/DOTC calculates government subsidies reached Php 13.85 billion (US$327 million) in 2010, and an approximate of Php 17 billion (US$402 million) in 2011.[30]

In reality, a huge portion of this operating amount (Php 35.77 to Php 60.75) actually comprises the debt service burden of the LRTA and DOTC for the light rail infrastructure, and not simply the shortfall in the costs of operating and maintaining the trains. In fact, according to a DOTC official, the rule of thumb for large infrastructure projects, such as the LRT and MRT, is that 85% of the cost is made up of servicing loan principal and interest payments. This means that debt servicing consists about Php 51.64 of the alleged Php 60.75 full cost. Conversely this also means that the actual cost to finance the O&M expenses per passenger falls to only Php 9.11.

In the case of the MRT, the original proponents were private local and Japanese corporations, which formed the Metro Rail consortium. Under a Build-Operate-Transfer (BOT) deal, the Metro Rail was allowed to build the MRT infrastructure

Table 5 LRT 1 Old rates versus New rates (in Php)

BACLARAN STATION TO/FROM:	STORED VALUE			SINGLE-JOURNEY		
	OLD	NEW	INCREASE	OLD	NEW	INCREASE
EDSA	12	12	0.0%	12	15	25%
Libertad	12	13	8.3%	12	15	25%
Gil Puyat	12	13	8.3%	12	15	25%
Vito Cruz	12	14	16.7%	12	15	25%
Quirino	13	15	15.4%	15	15	0%
Pedro Gil	13	16	23.1%	15	20	33.3%
UN Avenue	13	17	30.8%	15	20	33.3%
Central	13	18	38.5%	15	20	33.3%
Carriedo	14	19	35.7%	15	20	33.3%
D. Jose	14	19	35.7%	15	20	33.3%
Bambang	14	20	42.9%	15	20	33.3%
Tayuman	14	21	50%	15	30	100%
Blumentritt	15	21	40%	15	30	100%
Abad Santos	15	22	46.7%	15	30	100%
R. Papa	15	23	53.3%	15	30	100%
8th Ave	15	24	60%	15	30	100%
Monumento	15	25	66.7%	15	30	100%
Balintawak	19	27	42.1%	20	30	50%
Roosevelt	20	29	45%	20	30	50%

Source: Light Rail Transit Authority

and supply the needed equipment. It will then lease the MRT to the DOTC as operator while Metro Rail takes care of maintenance. As a lessee, the DOTC will pay equity rentals to Metro Rail for a guaranteed annual 15% return of investments of the investors (US$190 million) throughout the 25-year lifespan of the BOT deal (2000-2025). The DOTC will also reimburse Metro Rail for the maintenance expenses and provide payments for loans by Metro Rail to finance the project (US$485.5 million), which the government guaranteed. These onerous deals were the source of the financial bleeding of MRT.

For instance, in 2010, the DOTC spent Php 8.52 billion (US$201 million) for the MRT, of which Php 5.3 billion (US$125 million) went to the ERP; Php 1.18 billion (US$28 million) for maintenance costs; Php 1.16 billion (US$27 million) for guaranteed debt payments; and Php 880 million (US$21 million) for other expenses. But actual revenues in 2010 were only Php 1.92 billion (US$45 million). Thus, the DOTC is short of Php 6.6 billion (US$156 million), which the government finances through additional borrowings.

Nonetheless, these are not actual losses, from abusiness point of view, but relate to a public investment for a public good. The debt issue is paramount. These debts should, in principle, be serviced through taxes (and if they are onerous like in the case of the MRT, should be renegotiated), and not through higher user fees. Debt servicing through higher user fees will negate the social and economic gains that the LRT and MRT create.

The debt issue also disproves the claim that the fare increase is needed because the government is losing money. The government is losing money due to onerous contractual and debt obligations, not because commuters pay below the actual operating and maintenance costs of the rail systems. In fact, without the guaranteed profits and debt payments stipulated in the BOT deal, passenger fares alone could cover the full cost of operation and maintenance expenses.

Conclusion:

It is not unusual for state agencies managing public infrastructure like the LRTA to be "financially in the red" because their performance is measured not solely in narrow financial terms, but through the net social and economic benefits they bring. The new capability that results from public infrastructure such as improved mobility of the economy's workforce, for instance, far outweighs what government deems as its "losses".

Moreover, the LRTA-DOTC, in its study on the fare hike, recognizes the social and economic role of the LRT and MRT, even though they are not profitable, to wit: "Most urban railway systems in the world are not financially viable, but are implemented for their socio-economic benefits. Our Manila Light Rail Transit (LRT) systems promote the use of high-occupancy vehicles, thereby reducing traffic congestion on the corridors served, local air pollution and greenhouse gases emissions. Besides the substantial savings in travel time cost of LRT riders, the LRT systems reduce infrastructure investment in Metro Manila road expansion."[31]

The government also recognizes that the increased fares in the LRT and MRT will immediately impact low income and vulnerable groups that compose over 90% of the ridership profile of the light rail system. The issue can be more appreciated if one will scrutinize the socioeconomic profile of regular LRT and MRT commuters (see Table 2).

Unfortunately, these benefits and issues do not appear to have been factored in by the

government in determining its next steps concerning the privatization of the Metro's light rail system. In fact, it would appear that the fare increase and the government's offer to guarantee so-called "regulatory risks for major PPP projects" continue to be used to further attract private local and foreign investors alike. Indeed for private investors these guaranteesare particularly attractive as they are allowed to maintain property rights and maintain profits while avoiding operational risks.

Finally, the government should not, in principle, transfer its role in national development and delivering social services to the mercy of big corporations and foreign interests whose prime motive is maximizing profit without regard to public expense or interest. In particular, PPP projects, characterized by the BOT scheme in the case of the rail system, should be abandoned as this creates a high risk environment that leads to the government – and ultimately, the people – absorbing incurred loses while private companies still retain the right to rewards. #

Endnotes

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Private Sector in Development: Infrastructure challenges and opportunities for Africa

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Development funding from the private sector is becoming more significant in the form of investments, loans, and guarantees. The private sector received recognition in the Paris Declaration (2005), the Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011) as an active actor in the development discourse, as a source of financial flows, and as a benefactor from an enabling environment for investments at the country level. A number of private sector activities have been funded with aid resources over the years. Hitherto there has not been much documentation of the positive/negative development results of private sector activities funded with aid. This chapter takes a closer look at the development results generated by aid to infrastructure projects in Africa.

The conventional view has been that supporting infrastructure development projects accelerates growth and poverty reduction in low income countries and is needed to support pro-poor growth. Thus infrastructure, especially economic infrastructure underpins wealth creation, human development and poverty reduction. Infrastructure is required for the achievement of the Millennium Development Goals.[1] Given that the private sector has a fundamental role in defining the directions of infrastructure development, it has been noted that having the "right" infrastructure enables the private sector to flourish.

Governments have long recognized the vital role that modern energy, telecommunications, transport and water services play in economic growth and poverty reduction. The African Development Bank notes that prices paid by African consumers for infrastructure services are exceptionally high by global standards. Tariffs charged in Africa for power, water, road freight, mobile telephone, or internet services are several times higher than those paid in other parts of the developing world.[2] In line with these potential profits, the donor community is guaranteeing private companies to implement development projects in Africa as part of the Official Development assistance (ODA) programs. A significant number of countries now highlight private sector development as a key element of poverty reduction or national development strategies.[3]

Whilst the decade from 1999 to 2009 has clearly demonstrated that private sector involvement in infrastructure projects is not a complete panacea to poverty reduction, it cannot be denied that the lack of an efficient infrastructure is part of the root causes of poverty in Africa.[4] Lack of a vibrant transport network hurts intra-regional and international trade, thereby undermining economic growth. The Millennium Development Goals agreed by the world leaders in the UN Millennium Declaration also acknowledged the centrality of infrastructure to poverty reduction. For example, infrastructure projects in the transport sector (roads, bridges) for rural areas increase agricultural productivity by easing mobility challenges to and from the

market. It also promotes access to education and health facilities for rural populations, as well as stimulating the development of private sector activities and providing employment.

Nevertheless, the demand for infrastructure oriented to the needs of the majority of Africa's population is not being met. On just about every measure of infrastructure coverage, African countries lag behind their peers in the developing world (Yepes, Pierce, and Foster 2008). It is estimated that around the world more than one billion people lack access to roads, 1.2 billion do not have safe drinking water, 2.3 billion have no reliable sources of energy, 2.4 billion lack sanitation facilities and 4 billion are without modern communication services. It is clear that Africa takes the largest share in these global statistics, given that countries on the continent have continued to lag behind in comparison to other developing countries. For example, according to the African Development Bank (2012), the proportion of the population who have access to water is 29% in Somalia, 45% in the Democratic Republic of Congo, 50% in Mauritania, 51% in Angola and Chad, while in Tanzania its 53%.[5] This low level of access to safe drinking water is attributed partly to lack of infrastructure.

The importance of infrastructure for growth, poverty alleviation and the Millennium Development Goals (MDGs) has been recognised at several other major platforms like the International Conference on Financing for Development(Monterrey, 2002) and World Summit on Sustainable Development (Johannesburg, 2002). Donors such as DfID have presented evidence that private sector investment is necessary for infrastructure development and poverty reduction and that private provision can improve the quality and efficiency of services (DfID, 2007).

The OECD notes that US$93 billion is needed annually for Africa's infrastructure: two-thirds for investment in new physical infrastructure and a third for operations and maintenance of existing assets.[6] ODA to Africa is directed mostly to the social sector (45%), followed by economic infrastructure (15%), and the remaining resources allocated to the production sectors, multi-sector programs, debt, humanitarian and other needs. Interesting to note is the increasing role played by infrastructure investors from emerging markets. A number of companies from India, Malaysia, and South Africa are active investors and operators in infrastructure projects all over Africa. The African continent lags behind the other regions for almost all measures of infrastructure (road density, telephone density, generation capacity or service coverage). The African Union and African Development believes that the need for infrastructure is a critical challenge for Africa in its bid to compete in global and regional trade markets that rely on just-in-time production and flexible, speedy and reliable delivery.[7] From this African Union perspective, infrastructural projects are critical for poverty reduction and the development of the continent. It was for this reason that the African Union endorsed the Programme for Infrastructure Development in Africa (PIDA) to channel resources to deal with the deficit.[8]

Different perspectives on approaches to reduce poverty and improve the impact of aid have sometimes led to different and unrelated motives and consequences in determining and completing projects. Large scale infrastructure projects especially in construction, such as highways and bridges, in some instances have also been chosen

for political millage rather than pro-poor poverty reduction purposes. In Zimbabwe projects such as the world-class swimming pool (Chitungwiza Aquatic Complex) have been built in a high-density area with no adequate schools.[9] Projects may proceed without sufficient knowledge of maintenance costs. Zimbabwe has many examples of derelict, crumbling and abandoned infrastructure. Investments in roads and bridges rarely generate short-term revenue that can be used to pay the cost of the capital invested in building and maintaining them.

Infrastructure opportunities for Africa

Apex organisations like the African Union underscore the importance of development partners' support for national and continental infrastructure initiatives. The New Partnership for Africa's Development (NEPAD), as the flagship development programme of the African Union, identifies infrastructure as a key sector priority. Africa has prioritized increased investment both in maintenance and in new infrastructure, new regulatory frameworks, and the promotion of public-private partnerships depicting the centrality of private sector in poverty reduction.

While companies are investing, improving productivity, employing people, paying salaries, providing goods and services, generating profits and paying taxes, to be effective for development progress they must also consider corporate social responsibility, which should assume a poverty reduction dynamic. In this context, recognizing that Africa's infrastructure projects remain central to its future, continued aid to that sector is essential, alongside effective taxation regimes that transfer financial resources from the private sector to the public sector. Private sector activities in this sector should have a long term focus on sustainability, and should continue to be strategically oriented to development goals, rather than being led by profit motivation alone.

A major problem that has plagued African industrialisation has been the focus on Africa's natural resources by a number of donors funding the private sector, such as Chinese and Indian assistance and investment. For example, in Angola China has been swapping infrastructure projects on roads for oil and minerals. Since the mid-1990s, under the influence of the World Bank, China has been securing around 20% of all construction contracts in Africa. (Taylor, 2010) Chinese enterprises have built more than 6,000 kilometres of roads, 3,000 kilometres of railways, and 8 large and medium-sized power plants in Africa. (Wang, 2007). The two largest beneficiary sectors of Chinese infrastructure investment are power and transport. This assistance is often tied, with Beijing requiring that "70% of infrastructure construction and other contracts are awarded to 'approved', mostly state-owned, Chinese companies and the rest handed to local firms, many of which are also in joint ventures with Chinese groups. Many [of these] projects have been undertaken with imported Chinese labour." (Reality of Aid Network, 2010) At the India Africa Forum Summit in May 2011, India's PM, Manmohan Singh, announced a US$300 million contribution to the African Development Banks' funding of the Ethiopia-Djibouti railway line, for which India has already provided significant investment. (Maasho, 2011) In addition, Indian firms are also heavily involved in Africa's energy production.

Angola and China Infrastructure synergies

China and Angola have developed a unique model of cooperation. Angola receives loans from Chinese banks and in return contract Chinese

companies to construct new infrastructure, while also extending in return rights to extract natural resources.[10] This has resulted in the reconstruction of the war torn sub-Saharan African country, with massive economic growth recorded due to the extraction of Angola's mineral resource. The standard of living for the ordinary Angolan has thus started to improve. Benefits to poverty reduction are just but a mere spill-over effect and the real beneficiaries are the companies extracting the mineral resources. Angola is a particularly favorable market for Chinese companies in the construction industry since the country needs significant outside investment after years of war. In addition there is little competition in this sector in Angola and as a result Chinese firms have found profitable deals.[11]

The private sector as a recipient of aid

Support for private sector initiatives have resulted in positive development outcomes for some sectors. A mega project funded by Emerging Africa Infrastructure Fund[12] provided aid to the telecommunications sector by sponsoring a Seacom cabling project. It was the first undersea fibre optic cable project along the east coast of Africa and involves the construction of a 15,000 kilometers of cable directly connecting Mtunzini in South Africa to Mumbai India, via Marseille in France, Egypt, Mozambique, Madagascar, Kenya and Tanzania. This region was the only one in the world not served by such an infrastructure. The project was completed in November 2007. In Senegal, the introduction of the private sector in the provision of water in Dakar increased coverage of low-income households by 3.2% per year after receiving funding from the AFD, the French development agency. This privately managed utility did better at connecting the poor than the 8 publicly-managed utilities in Africa for which data was available (Clarke and Wallsten, 2002). A private sector firm, SNE, received funding to undertake this project, and was the operator in charge of drinking water systems, together with SONES, Senegal's national water operator and ONAS, Senegal's national sanitation authority.[13]

The private sector has also played a positive role in the energy sector. Access to electricity can drastically improve the quality of life. The provision of energy, particularly renewable energy sources such as solar electrification and hydropower, can have many positive impacts on the poor communities. The majority of people in Africa live in rural areas where access to electricity is very limited and where access to the national power grid is too expensive. DfID has provided funds to firms working towards clean energy in Africa such as the Abellon clean energy project in Ghana. Many rural areas in Ghana do not have grid access and have generally poor energy coverage. To address these energy gaps, Abellon built the Bio Power Plant that aims to produce up to 50 MW power from biomass sources by 2015. They have also built the Solid Biofuel Manufacturing Plant in Central Ghana, and in other Biomass Rich Zones. It is estimated that the project will create employment opportunities for up to 25,000 Ghanaians over five years by 2015.[14]

Private sector as donors

The private sector also plays an active role in the aid sector as a partner in global health. In 2008, the private sector and NGOs contributed a total of US$182 million, representing 6.6% of the monetary donations to the Global Fund. By the end of 2010, more than US$160 million had been raised for the Global Fund through this channel, through partnerships with companies such as Apple, Bugaboo, Converse, Starbucks, and Nike.

In 2010, the Global Fund launched its "Gift from Africa" campaign, which invites private sector leaders from the continent to invest in its fight against disease, achieving initial pledges of US$5 million.[15]

However it has also been noted that the private sector has won tenders for projects funded with aid through corrupt means in some countries. In the Chad-Cameroon Petroleum Development and Pipeline project, financed also by the World Bank, regimes with poor human rights records and well-documented corruption were supported. There was failure to disclose the environmental and social impacts associated with this project, and a failure to properly consult with affected populations. Resettlement was undertaken without adequate compensation being provided to the affected population.

This chapter has only been able to point to a few of the negative impacts of aid-funded private sector activities. Private sector activities have a record of violation of environmental regulations ranging from contamination, pollution to deforestation. On the management side, the private sector (if firms) is accountable to the owners of the business, and not to the public. Hence there are fears of corruption in aid activities which might not be transparent and lack full accountability.

However, infrastructure remains core for the development of the African continent and as a popular Chinese maxim notes "development follows where there is a road". Private sector involvement in development will thus remain a viable option to work towards poverty reduction and social service delivery. Delivering official development assistance through the private sector might increase the visibility and roles of the private sector as development actors. Notwithstanding the foregoing statistics, Africa's infrastructure still carry a large deficit that needs an estimated US$20 billion in investment per year, and has an associated funding gap in the order of US$10 billion per year (Foster et al, 2009). It is apparent therefore that there is critical room for engaging the private sector in closing this gap in infrastructure development, which is a sector that can play both the funding and implementing roles towards strengthen Africa's development potential.

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Does private sector focus on real development in Bangladesh?

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VOICE

Traditionally, Bangladesh's economy is based on agriculture, although with the increasing influence of the free market economy, the service sector is rapidly expanding. More than half of Bangladeshi national production now comes from the service sector. In terms of market trends, Bangladesh has become an emerging market in South Asia. Ready-made garments and remittances have emerged as the prime contributors to economy. Bangladesh is now the third largest exporter of garments in the world, while total export earnings were US$23 billion in 2010-2011. It also provides employment opportunity to around 4.2 million Bangladeshis. Progress has also been made on poverty, with the poverty rate declining from 57% of the population in 1990 to 31.5% in 2010 (World Bank Bangladesh country overview 2010). The country is in a better position to achieve Millennium Development Goals by 2015.

Right after independence, Bangladesh undertook a major drive to nationalize about 92 percent of its total fixed assets that were abandoned by the Pakistani Entrepreneurs (Rahman 1994). Since then the Bangladesh economy was protected up to the end of the 1970s. However, during the early 1990s, the country sharply adopted financial sector reforms and was among the fastest to undergo structural reforms in the world. In the 1980s, a Structural Adjustment Programme was introduced, and in late 1990s, a Poverty Reduction Strategy Paper (PRSP) was introduced as a core part of the country's development strategy. In fact, the national development plan was greatly influenced by the International Financial Institutions and the international donor agencies through the PRSP. The latter promoted high economic growth related development and privatization of public institutions. It is worth to mention that the close involvement of the private sector in Bangladesh's development began through the implementation of the Structural Adjustment Programme and the Poverty Reduction Strategy Paper.

Like many other developing countries, Bangladesh now considers the private sector as the engine of economic growth and development as well as essential tool for poverty reduction. In general, the sector is also considered a powerful tool for job creation, which is essential for poverty reduction. As a result, the government of Bangladesh highly encourages private sector investment and development in its development plan and strategies. The country is on way to implement its Vision 2021 through investment-friendly economic policies and trade liberalization.

Bangladesh had much earlier created an enable environment for investment through the Foreign Private Investment (Promotion and Protection) Act in 1980, which ensures legal protection to foreign investment. In all recent documents setting out Bangladesh's development strategy, the Poverty Reduction Strategy Paper (PRSP), Vision 2021 and the 6th Five Year Plan, the focus is on the involvement of the private sector and the non-government sector in economic

development. Some sectors have been developing over the past 30 years. The financial sector is the key driver for any economy. In 1982, the first private sector bank was established in Bangladesh. Currently, there are 43 private banks, while public sector banks are under attack for corruption and weak management. The telecommunication sector is almost fully privately owned. The state-own telecommunication sector is small compared to private telecommunication companies. Bangladesh pharmaceutical companies have a global footprint in 70 countries including Singapore, Denmark, France, Fiji, among others. (Rahman, ASF, 2011)

Considering the importance of private sector involvement in development, the Government of Bangladesh in 2009 issued a position paper on Public Private Partnerships (PPP), "Invigorating Investment Initiative Through Public-Private Partnership", and then adopted a policy on PPPs in 2010, 'Policy and Strategy for Public-Private Partnership'.

Bangladesh is looking to achieve rapid inclusive growth, which would increase the GDP growth rate to 8% by 2013. To achieve this level of growth, the share of investment to GDP needs to increase significantly to between 35% and 40%, from its current level of 25%. The country has investment deficit, and to meet this gap Bangladesh has encouraged the participation of the private sector through public-private partnership in its development plan. There are 18 sectors selected as the priority area in the PPP position paper. Among them, exploration, production, transmission, and distribution of oil, gas, coal and other mineral resources, highways and expressways including mass-transit, bridges, tunnels, flyovers, water supply and distribution are critical areas for investment.

Donors also think that private sector investment is the only solution for poverty reduction through high economic growth. They are interested to provide support for PPPs. It is increasingly seen as an important modality of development cooperation by some development agencies. The Asian Development Bank (ADB) added direct Private Sector Operations (PSO) to provide direct assistance to private enterprises through equity investments and loans, without government guarantees. Development agencies believe that improvement of the institutional foundations of the market economy would be helpful in reducing poverty and inequality. In this regard, donors promote a regulated private sector in most of their sectoral development programs. For instance, they encourage the leasing of the government's 'express mail delivery service ', or corporate commercial banks owned by the state, and compel them to run on a solely profit motive, instead of the previous intention to provide services to the general masses in the country.

As a consequence, donors have increased their portfolio of private sector development projects. Nevertheless a study published by EURODAD (European Network on Debt and Development), 'Public Private Partnerships: Fit for Development?, has observed that during the past twenty years, the annual volumes of PPPs have fluctuated considerably, making them an unpredictable source of development finance.

As part of these donor initiatives, a Local Consultative Group has been formed on Private Sector Development and Trade. The group provides a forum for information exchange, coordination and collaboration among donors and the Government of Bangladesh in the area of private sector development. In 2006, the government of Japan and Germany, on behalf of the Local Consultative Group, conducted a donor mapping, while the Bangladesh Enterprise Institute worked as the local partner. The main purpose of the mapping was to avoid duplication,

and promotes coordination and collaboration in private sector development. According to the mapping, the following graph demonstrates that DFID is the largest funder in this area of cooperation.

Private Sector Development Donor Mapping

In January 2012, DFID launched a new private sector development strategy. Mike Foster, Parliamentary under Secretary of State in the UK commented that "the 90 million people who face extreme poverty because of the global slowdown need the opportunities that business provides". (Business Fights Poverty, 2009) This statement reflects DFID's integration and focus on a core business philosophy in its strategies for poverty reduction and economic development in partner countries.

The World Bank is the key player in providing funding to the private sector in Bangladesh. In 2011, according to the World Bank's portfolio, domestic credit, which refers to financial resources provided to the private sector, such as through loans, purchases of nonequity securities, and trade credits to the private sector in Bangladesh was 49.4%, while in 2002 it was 30.1 percent. (World Bank)

The Asian Development Bank (ADB) is another lead donor in Bangladesh. According to ADB's `Country Operation Business Plan' for Bangladesh, the ADB will step up private sector development and private sector operations during 2012–2014. ADB promotes 'reforms' of the water sector and introduced public-private partnership in that sector, with the result that the state gradually withdrew from the domain of the utility sector.

Most of the donors in Bangladesh are signatories to the Paris Declaration. In the context of aid effectiveness, therefore, it is necessary to look into whether private sector funding is following the Paris Principles to realize aid and development outcomes. The private sector prefers to invest in projects where they can maximize their profits. So on the whole, this sector is mainly concerned with financial benefits for its owners and shareholders, rather than economic outcomes for development.

While there is often a lack of coordination and cooperation, as well as political will, from government's side, private sector projects seldom follow the development principles of the Paris Declaration and the Accra Action Agenda. Donor-funded projects are mainly implemented through a direct agreement between the donor and the private sector directly concerned. The national government has hardly any ownership over these projects and they often are not consistent with national development strategies.

Most PPP projects have been followed BOO (Build-Own-Operate) model of PPP, with the private sector managing the infrastructure on a build-own-operate basis. The government usually does not manage the infrastructure developed under this model. The model raises questions about country ownership and the share of benefits. Companies' first priority is profit and a PPP has financial incentives. The Bangladesh government has policy guidelines for PPP, but there is no regulatory framework under the PPP will operate. Without any legal framework, the partnership may not be effective and accountable. In addition, financial risk could be disproportionately carried by the public sector. A strong regulatory framework is needed

to ensure these investments comply with human rights, social and environmental standards as well as high standards of transparency and public consent, and pay their fair share of taxes. (Policy Strategy for PPP, 2010) However, the tax system of the country is regressive and bias in favour of the wealthy and the corporate sector. The government continues to enhance VAT tax, while there is hardly any concerted effort to increase income tax and reduce tax evasion by corporate houses. While inflation is increasing, there are no adequate policies to offset income erosion for the poor. (Newstoday, 2011)

In spite of growing involvement and increasing growth of the private sector in development in Bangladesh, the gap between the rich and poor is widening and inequality is increasing. The reduction of both the depth and the severity of poverty is moving at a slower rate than in earlier decades, due to a rise in inequality. The rate of decrease in the percentage of poverty during 2005 to 2010 (5.6%) was lower than that of 2000 to 2005 (5.9%) at national level. In case of rural areas, the percentage of both the depth and severity of poverty has also reduced at a slower rate during the 2005-2010 period than that between 2000 and 2005. Affluent classes have been getting most of the benefits from the private sector growth. Although the poverty rate is declining, the poor are becoming poorer, with one-third of the population living under poverty line. Donors' promotion of privatization has increased the price of basic services such as water, electricity, health, and education. Private sector engagement in development is seemingly not stimulating pro-poor growth.

No doubt all sectors have potential to contribute to development. If the government is financing private companies to work in important sectors for development, they need to maintain strict monitoring mechanisms in order to realize robust outcomes. But to realize a quick and fruitful outcome, a number of priorities should be under consideration. For example 'poverty reduction' is a long-term process and it success is related to a number of associated issues, for example, illiteracy, political turmoil, natural calamity, and the economic policy of the government. Government should concentrate on reducing the conditions that increase poverty and vulnerability in the society.

The private sector should not be given the leading role to manage projects on critical areas affecting 'poverty alleviation' or social development. Neither should it be endowed with the duty of building large infrastructure projects like seaports, airports or oil refineries, because the private sector in Bangladesh is presently not adequate for these major initiatives. The private sector should be financed for projects that require a modest level of investment and an equally modest level of service delivery.

Above all, private sector can only contribute in the real development in Bangladesh, if it maintains country ownership and bring effective development result for poor and vulnerable populations.

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Chapter 4

Global Aid Trends, BRICS Reports and OECD Reports

Global Aid Trends: A Growing Donor Private Sector Orientation in a Multi-stakeholder Aid Architecture

Brian Tomlinson, AidWatch Canada

BRICS Reports

OECD Reports

Global Aid Trends: A growing donor private sector orientation in a multi-stakeholder aid architecture

Brian Tomlinson
AidWatch Canada

Overview

Meeting Aid Quantity Targets

1. Declining ODA in 2011

Official Development Assistance (ODA) provided by the 23 members of the OECD Development Assistance Committee (DAC), at US$133.5 billion, declined in 2011 for the first time since 1997 by 2.7% when inflation and exchange rate changes are taken into account.

2. Two-thirds of DAC donors reduced their "Real ODA" in 2011

Reality of Aid's calculation of 2011 "Real Aid" (ODA less debt cancellation, refugee and student costs in donor countries) was $115.4 billion (in 2010 dollars), down from $118.7 billion in 2010. The decline was across the board: more than two-thirds of donors (16 out of out of the 23 DAC donors), representing close to 80% of aid in 2010, reduced their "Real ODA" in 2011.

3. Donor promises abandoned

Around the 2005 Gleneagles G8 Summit, donors made significant commitments to increase ODA and international assistance by 2010. Reality of Aid has calculated that if these commitments had been realized, 2011 "Real ODA" would have been US$156.9 billion, US$41.5 billion more than the actual 2011 level. Among European Union members, Austria, France, Germany, Greece, Italy, Portugal and Spain were furthest from their commitments. Among other donors, Canada, Japan and Switzerland had significant gaps between their actual "Real Aid" in 2011 and aid projected by their 2005 commitment.

4. Citizens support meeting aid commitments despite economic crisis

According to the polls conducted by Eurobarometer, among 11 EU Member States that reduced aid in 2011, the majority of their citizens supported increasing their country's aid budgets as promised, despite economic challenges. Political will, not an economic capacity to contribute, is a key driver for sustaining and growing aid flows. Even in the midst of down-sizing government programs, several donor countries such as the UK, Switzerland and Australia have explicitly committed to maintain increased aid flows and meet their 2005 targets.

Donor Aid Quality and Allocations

1. Foreign policy concerns continue to drive donor aid allocations

Of new bilateral aid money disbursed in the past decade (i.e. money over and above the level of bilateral aid in 2000), Reality of Aid has calculated

that only 35.7%, or slightly more than a third, was even available for meeting MDG and other long-term development priorities for poor and marginalized people in developing countries. Between 2004 and 2010, on average close to 12% of bilateral aid was disbursed to Afghanistan, Pakistan and Iraq, based on donor foreign and security policy interests. Increased ODA allocations to debt cancellation, despite donor promises in 2002 that this be additional to their aid levels, as well as increased allocations to refugees and students expenditures in donor countries, took up significant new bilateral aid resources after 2000.

2. Very modest improvement in prioritizing MDGs

A Reality of Aid proxy indicator for donor commitments to MDG-relevant sectors shows modest improvement from 2000 to 2010, but is still only slightly more than one third (37.7%) of "Real ODA" in 2010.

3. Increasing concern for growing debt burdens

While most ODA is provided as non-repayable grants, ODA loans are still prevalent in Japanese, German and French aid. In 2010, developing countries paid back to donors US$11.9 billion in loan payments on outstanding ODA loans. Most highly indebted poor countries have benefited from debt cancellation in the early part of the last decade. But debt campaigners are drawing attention to recent growth in private sector debt in these countries, which for some poor countries are now double the foreign debt payments owed by the pubic sector.

3. Growing importance of Development Finance Institutions as alternative to increasing ODA

As donors abandon their ODA targets in the continuing wake of the 2008 financial crisis, some are focusing on non-ODA bilateral and multilateral financial instruments. While largely untransparent, these institutions claim to leverage additional private sector resources for development purposes with small amounts of ODA. Development finance, delivered through International Finance Institutions grew dramatically between 2006 and 2010, reaching an estimated US$40 billion in 2010, with expectations that this financing will grow to US$100 million by 2015.

4. ODA shifting towards private sector-oriented sectors and activities

Most donors have also been placing greater emphasis on the private sector and "sustainable economic growth" in their aid policies in the past several years. Aid directed to sectors oriented to the private sector (economic services and production) increased from US$14.4 billion in 2005 to US$22.6 billion in 2010, or by 58.2%. Agriculture, fisheries and forestry aid activities increased by 66.2% from US$4.5 billion to US$7.4 billion in the same period. Aid-for-trade activities are growing in scale and in importance in donor policies. A policy marker on aid reported to the DAC indicates that US$11.3 billion was directed to aid-for-trade in 2009.

5. How much ODA is available under the "ownership" of developing country partners?

Despite donor commitments and rhetoric for country ownership of the use of aid resources, donors have made only modest progress in improving country ownership and leadership in bilateral aid. As one indicator, Reality of Aid's has made its own calculation of "Country Programmable Aid", which in 2010 was only 40.7% of DAC "Real Bilateral Aid", but an improvement from 32.5% in 2000. This is the total amount of aid that is even available, in theory, to be used by developing country partners

for their priorities; as demonstrated in the 2011 pre-High Level Forum Survey by the DAC, much of this aid was still programmed in relation to donors' priorities.

6. Gender equality programs continue to be invisible in DAC donor ODA

At the 2011 High Level Forum in Busan, all stakeholders acknowledged the importance of gender equality and women's empowerment for development outcomes. Nevertheless, donors continue to put only very minimal resources into activities where they consider gender equality to be the "principal objective": US$3 billion in 2009/10 or a mere 3.2% of sector allocated aid.

7. Climate finance not additional to ODA

If the US$22.9 billion for climate finance included by donors in their ODA were excluded, 2010 "Real ODA" would have been only US$95.8 billion, rather than US$118.7 billion, and the DAC ODA performance would have been 0.23% of GNI, rather than 0.30%. At the 2009 Copenhagen climate conference, donors committed to targets for climate finance additional to their targets for ODA.

Non-DAC Donors and Non-State Actors in Development Cooperation

1. Non-DAC Donors consolidate south-south cooperation

An estimate for 2008 of US$12.5 billion in total aid-like contributions through south-south cooperation by Non-DAC Donors has perhaps grown to US$15 billion by 2010, assuming a growth in aid allocations by China, India and Saudi Arabia, the major donors. South-south cooperation in 2010 is therefore approximately 12.6% of "Real ODA" (US$118.7 billion) from DAC countries.

2. Civil society organizations have become major donors

The DAC donors estimate that they channel US$18.5 billion of their ODA through civil society organizations (CSOs), which is 22.8% of their "Real Bilateral ODA". This amount has more than doubled since 2007. The DAC members estimate that CSOs in donor countries raise at least an additional US$30.6 billion through private donations (other estimates are as high as US$56 billion). CSOs therefore provide close to US$50 billion in aid resources to developing country partners. More than two-thirds of these CSO-channeled resources go to priorities in social infrastructure and services and to humanitarian assistance.

3. The private sector increasingly recognized as an aid actor

While the 2011 Busan High Level Forum recognized the "central role of the private sector" in development cooperation, this sector has long been substantially engaged in the aid regime. CSOs estimate that more than 50% of ODA, is spent on procuring goods and services for development projects, still largely from private sector suppliers in the donor country. The private sector is engaged through special donor Trust Funds and Challenge Funds set up at the World Bank and other International Financial Institutions, Development Finance Institutions noted above, and through the conversion of private wealth into large pools of capital for private foundations.

A. Meeting Aid Quantity Targets

1. Abandoned ODA commitments ...

During the peak of the 2008 financial crisis, Angel Gurría, Secretary-General for the Organization for Economic Co-operation and Development (OECD), and Eckhard Deutscher, Chair of the OECD's Development Assistance Committee (DAC), issued a call to the world's main aid donor countries to stand by their 2005 development pledges. In the face of the deepest economic crisis of the past forty years, accompanied by pressures of rising food and energy prices, the OECD urged donor countries to make an "Aid Pledge" that would confirm existing aid promises. The intent was to avert cuts in aid budgets, aware of the impact of such cuts on countries whose people were least able to accommodate compounding economic, food, energy and climate crises.[1]

Nevertheless, in 2012, donors' 2005 aid pledges remain largely unmet. Most DAC donors have abandoned time-bound aid commitments, just three years before the 2015 MDG milestone year. European economies teeter on the brink of a deeper recession with no end in sight for the euro zone debt crisis; food prices may be again on the rise; while many parts of the world are experiencing more extreme climatic events, long predicted by scenarios of unchecked climate change. Meanwhile, DAC forward projections for aid are pointing to declines in core aid resources, particularly for Africa, for 2013 and 2014.[2]

This section considers a number of ongoing and emerging trends in Official Development Assistance (ODA).

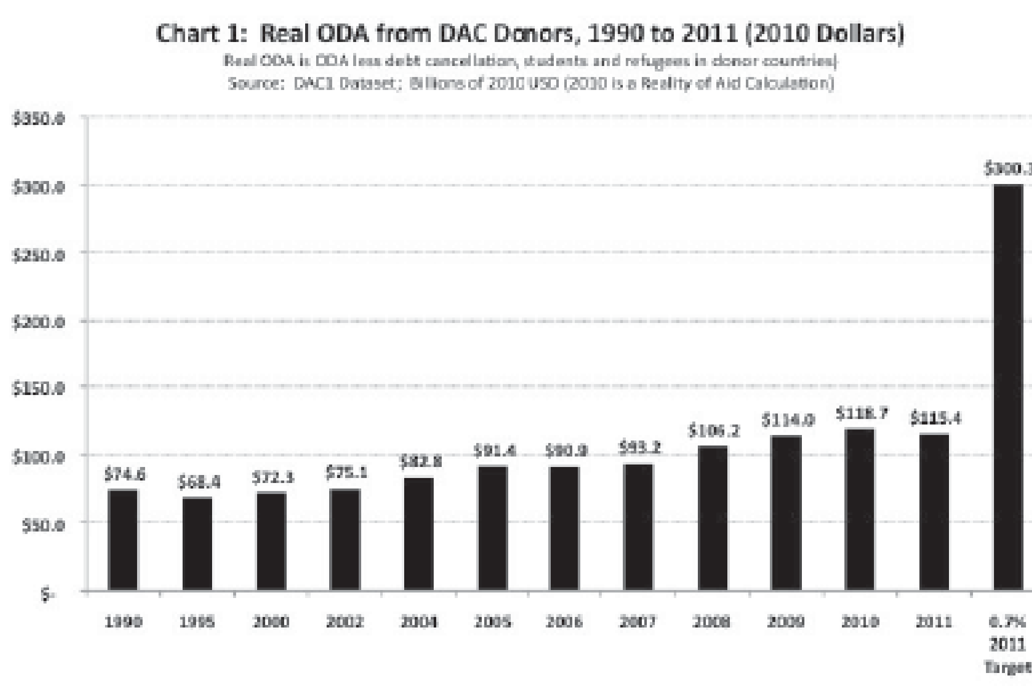
ODA in 2011 declines

After increasing by more than 63% between 2000 and 2010, the DAC reported that ODA in 2011 fell by 2.7% in real terms, breaking 14 years of real growth in aid since 1997 (discounting years of unusually high debt relief). ODA in 2011 was US$133.5 billion, up from US$128.5 billion in 2010. However, when discounted for inflation and exchange rate changes, 2011 ODA in 2010 dollars declined to US$125.1 billion or by 2.7%.

Real ODA in 2011 declines

"Real Aid" in 2011 also declined by 2.8%, following steady increases since 2000. Reality of Aid calculates "Real Aid" as reported-ODA minus debt cancellation by donors, the cost of refugees in donor countries for their first year, and the cost of students from southern countries studying in donor countries. CSOs have strongly encouraged unconditional debt cancellation and donors in 2002 promised that such cancellation would be additional to ODA. Furthermore, while donors can write-off the full value of debt cancelled in the year that it is cancelled, in practice developing countries only reap a small benefit each year in foregone principal and interest payments.

In 2011 "Real Aid" (in 2010 dollars) was $115.4 billion, down from $118.7 billion in 2010 (Chart 1). The decline was across the board, with more than two-thirds of donors (16 out of out of 23 DAC donors), representing close to 80% of aid in 2010, reducing their "Real ODA" between 2010 and 2011. The largest declines, not unexpectedly, were reported by Greece (49.2%) and Spain (44.1%). In contrast, Sweden, Australia, Switzerland, New Zealand and Korea reported increases in "Real ODA". Italy, while falling far short of its 2005 commitment to reach the UN target of 0.7% by 2015, also had a 24.5% increase in its "Real ODA" between 2010 and 2011 (but at 0.17% of Gross National Income (GNI) was only 23.8% above its 2004 level).

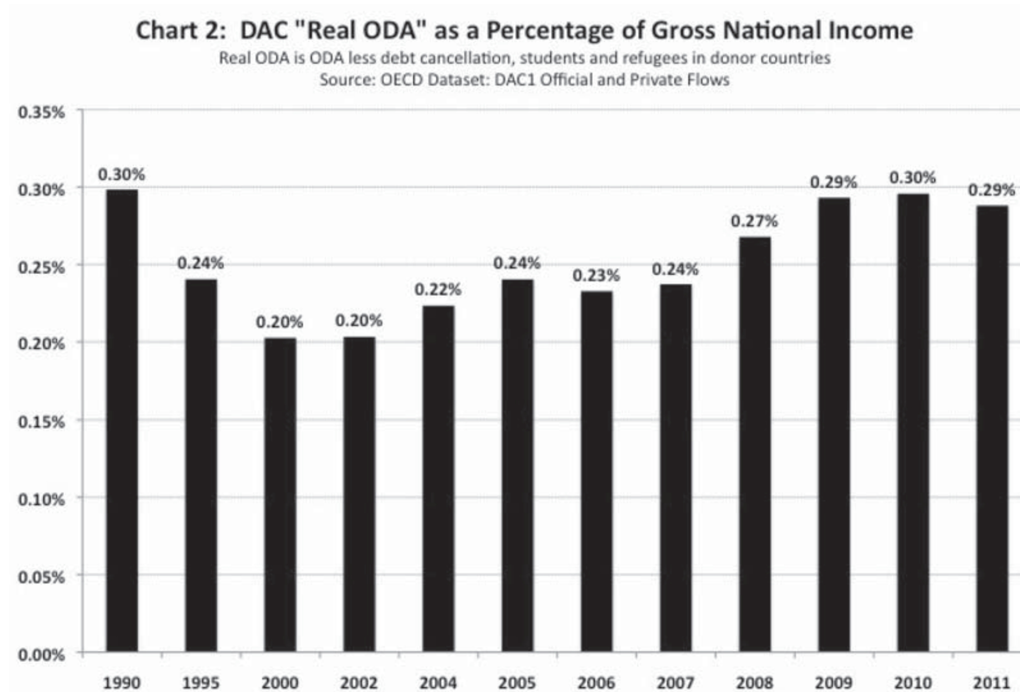


Declining ODA to Gross National Income (GNI) Performance in 2011

With the exception of the United States, all donors have acknowledged the United Nations (UN) target for ODA of 0.07% of donors' GNI, putting a mere 70 cents out of each $100 dollars in national income to reduce poverty in developing countries. Only five donors have consistently achieved this target (Norway, Sweden, Denmark, the Netherlands and Luxembourg).

In 2011, the DAC donors contributed no more than 0.31% of their GNI to ODA, down from 0.32% in 2010. The performance of "Real ODA" demonstrated even less commitment, falling from 0.30% in 2010 to 0.29% in 2011. "Real ODA's" performance has improved substantially since 2000, when donors provided only 0.20% of their GNI to ODA. But donors have failed to meet their commitment to Millennium Development Goal (MDG) Eight to maximize ODA. With 1990 as the base year of comparison for all the MDGs, donors' 2011 "Real ODA" performance remains below 1990's performance of 0.30% (Chart 2).

If all donors had achieved the UN's target of 0.7% in 2011, ODA would have been US$300.3 billion, resulting in an extra US$185 billion in resources for development cooperation (see Chart 1 above). To put this in context, $300 billion is equal to the total of private charitable giving in the United States alone in 2011. The current costs of maintaining the Afghan mission for the United States alone is slightly over $100 billion per year.[3] The DAC has recently estimated the incremental cost of fully meeting the MDGs for poverty, education and health at $120 billion in additional resources[4] – which would only require donors to collectively commit 0.55% of the GNI to ODA.



Promises not honoured

The international community of donors made significant commitments to increase ODA and international assistance at the 2005 Gleneagles G8 Summit. Overall, the European Union (EU) pledged to reach the UN goal of 0.7% by 2015, with an interim collective goal of 0.56% by 2010. EU aid was to double between 2004 and 2010, with at least 50% of the increase available for Africa. Other non-EU donors made parallel commitments to aid increases.

Reality of Aid has calculated that if these commitments had been realized, "Real ODA" would have been US$156.9 billion in 2011, more than US$40 billion more than the actual 2011 level (see Annex One for a Table of Donor Commitments, 2005).[5] Rather than US$61.2 billion in 2011, EU aid would have been US$88.3 billion. Among the EU members, Austria, France, Germany, Greece, Italy, Portugal and Spain are furthest from their commitments. In addition to those EU countries already achieving the UN target of 0.7%, only Finland, the UK, Belgium and perhaps Ireland have a realistic chance of achieving the EU target by 2015. Among non-EU countries Canada, Japan and Switzerland had significant gaps between actual 2011 "Real Aid" and aid projected by their 2005 commitment (Chart 3).

2. Aid commitments are affordable despite the economic crisis

Donors have a strong moral and ethical obligation to meet their aid commitments irrespective of the impacts of the ongoing economic crisis on government finances. Aid can be a vital resource and catalyst for reducing persistent poverty, inequality, and the impacts of humanitarian emergencies. The poorest countries of the South are the victims and not the culprits of the 2008

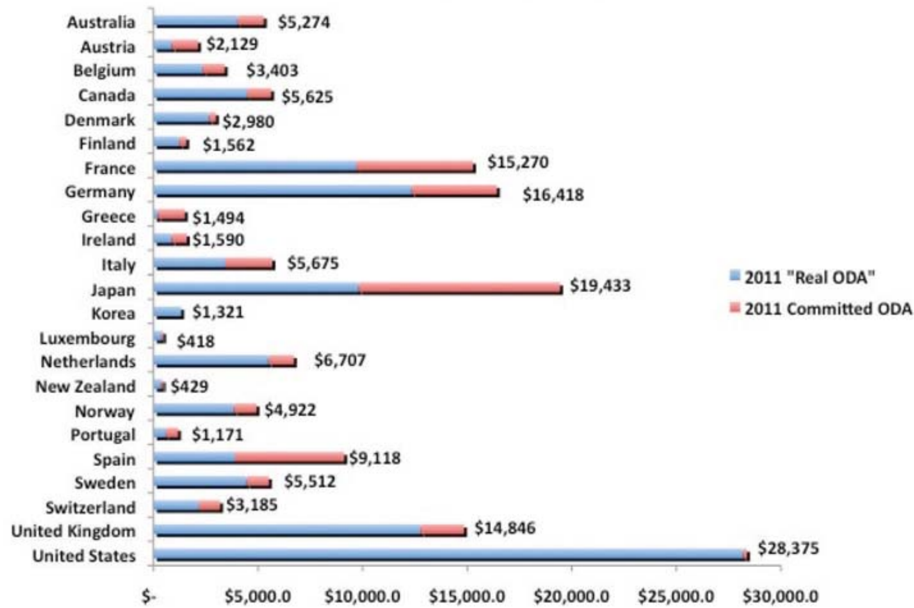


Chart 3: Donor Performance: 2005 ODA Commitments in 2011 (Compared to Actual "Real ODA" for 2011)
Millions of US Dollars; Dollar amount is the projected ODA in 2011 if 2005 commitment realized.
Source: Annex One
Australia $5,274
Austria $2,129
Belgium $3,403
Canada $5,625
Denmark $2,980
Finland $1,562
France $15,270
Germany $16,418
Greece $1,494
Ireland $1,590
Italy $5,675
Japan $19,433
Korea $1,321
Luxembourg $418
Netherlands $6,707
New Zealand $429
Norway $4,922
Portugal $1,171
Spain $9,118
Sweden $5,512
Switzerland $3,185
United Kingdom $14,846
United States $28,375
2011 "Real ODA"
2011 Committed ODA
$-
$5,000.0
$10,000.0
$15,000.0
$20,000.0
$25,000.0
$30,000.0

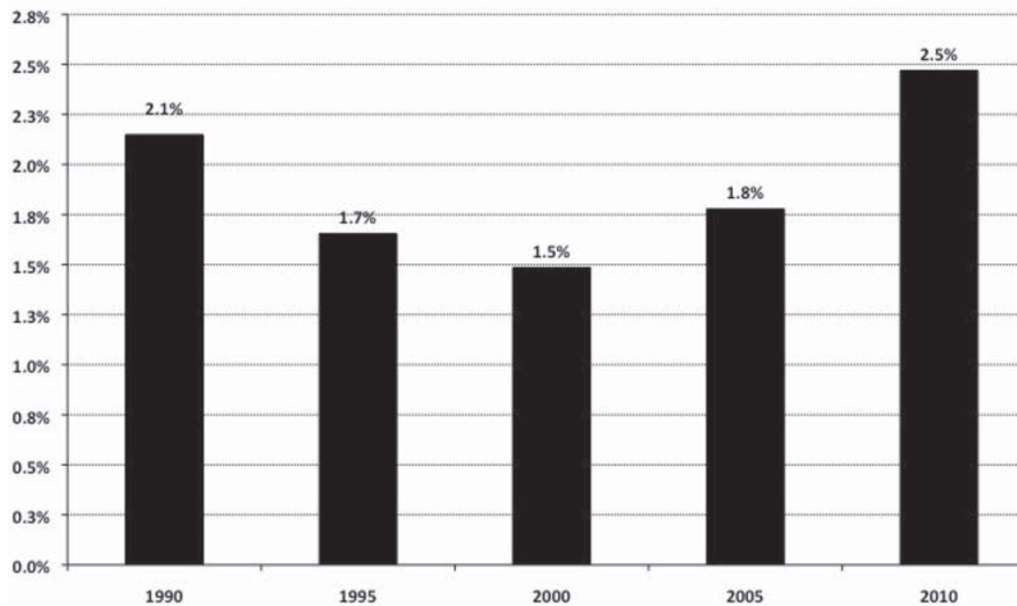


Chart 4: Real Aid as a Percentage of DAC Donor Federal Tax Revenue
Real Aid is Net of Debt Relief Grants and Support for Refugees in Donor Countries
2.8%
2.5%
2.3%
2.0%
1.8%
1.5%
1.3%
1.0%
0.8%
0.5%
0.3%
0.0%
2.1%
1.7%
1.5%
1.8%
2.5%
1990
1995
2000
2005
2010

financial crisis. In 2008 and 2009, lower trade and investment volumes, falling remittances from migrant populations living in donor countries, and volatile commodity prices, affected many countries in the South. Those living in extreme poverty are also the populations most vulnerable to severe climatic events. On the threshold of 2015, this is not the moment for most donor countries to abandon a decade of progress in building aid volumes.

With falling donor government tax revenue, aid was 2.5% of government revenue in 2010, its highest level in the decade, but only marginally above the level of 2.1% in 1990 (Chart 4). Aid remains eminently affordable. There is no apparent and necessary linkage between reducing government deficits by reducing ODA. AidWatch Europe likens cutting aid to reduce government deficits to cutting hair to reduce body weight.[6] Nor is there broad public support for such cuts. According to Eurobarometer, among 11 EU Member States that reduced aid in 2011, the majority of citizens supported increasing aid budgets as promised despite economic challenges.[7] In Sweden, with ODA at 1% of its GNI, 60% of the population support Sweden maintaining or increasing its level of ODA, a level of support in that has been steady since 2005.

In both the US and the UK more than 80% of the population consistently say that developed countries have a moral obligation to work to reduce poverty in the poorest countries.[8] A majority of Canadians believe that their country has a human rights obligation to reduce global poverty and compared to US and UK citizens, Canadians were more optimistic about the impact of poverty reduction measures on human rights obligations.[9] Consequently political will, not an economic capacity to contribute, is a key driver for sustaining and growing aid flows, even in the midst of down-sizing government programs. Several donor countries such as the UK and Australia have explicitly committed to maintain increased aid flows and meet their 2005 targets.

AidWatch Europe has pointed to positive commitments to aid increases in a number of EU Member States as evidence that, "EU Governments who claim that the challenges they face leave them no choice but to ignore their aid promises are absolving themselves of their responsibility to the world's poorest people and exposing themselves as fair weather development partners".[10] At the same time, however, with tightening economic circumstances, increasing numbers of political constituencies in donor countries continue to question the impact and effectiveness of aid in delivering outcomes from increased aid resources.

Box 1 Worsening EU aid is slowing down the positive development achievements of past years ...

"Despite ... urgent needs and the vast opportunities for EU aid to make a difference, in 2011 EU Member States not only delivered less aid than in 2010, a lower proportion of its aid was spend on development activities. ... [Efforts] to reshape the EC's aid programmes to the benefit of economic and security interests also gained momentum."

"In 2011, 11 of the EU-15 decreased their aid levels, 5 of them by more than 10%."

"At least nine Member States are planning on reducing their aid further in 2012, with reductions of 53% in Spain and 38% in Italy."

"EU Member States (except Luxembourg) counted at least €2.34 billion [US$2.9 billion] provided for Fast Start Climate Finance initiatives towards their aid targets, when such financing should have been additional to long-standing aid promises."

"National security and migration concerns influenced continued large allocations to Afghanistan and increased allocations to North African countries."

AidWatch Europe, "Aid We Can – Invest More in Global Development, 2012 Report", Concord, page 9, accessible at http://aidwatch.concordeurope.org/

B. Aid Quality, Aid Allocations and Development Effectiveness

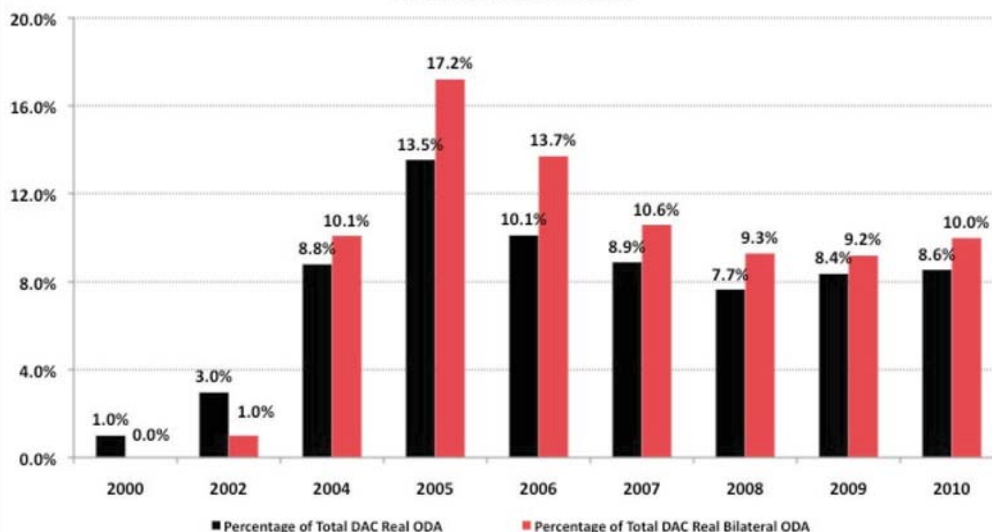
1. Foreign policy concerns continue to drive donor aid allocations, with only modest new resources for human development goals

Allocating new aid resources since 2000

Bilateral aid increased by more than 150% between 2000 and 2010, potentially bringing significant amounts of new aid resources to meet donor commitments to reduce poverty and achieve the MDGs. By 2010 donor governments had cumulatively disbursed US$314 billion additional bilateral aid dollars above what they had allocated in 2000 (Box 2). But how were these new resources allocated?

Donors had direct decision-making on the allocation of bilateral aid resources. Unfortunately, of the additional resources of US$314 billion, only slightly more than a third (35.7%) were even available for meeting MDG and other long-term development priorities for poor and marginalized people in developing countries.

Direct foreign policy interests, closely related to the post-2001 security agenda, played a major role in determining the cumulative allocation of US$54 billion of new bilateral aid (above what was allocated in 2000) to Afghanistan, Pakistan and Iraq in this past decade. Total ODA to these three countries increased markedly after 2001, peaking at 13.5% of total "Real ODA"(excluding debt cancellation) and 17.2% of DAC "Real Bilateral ODA" in 2005. In 2010 these shares have declined to some extent to 8.6% and 10% respectively of "Real ODA" and "Real Bilateral ODA" (Chart 5). Nevertheless it is clear that strategic foreign policy considerations continue to drive DAC aid allocation decisions.



As a result of effective civil society campaigns on cancelling unfair and unpayable debt in the late 1990s and early 2000s, donors dramatically increased their commitment to debt cancellation for the poorest highly indebted countries. But this debt cancellation was not additional to ODA, as committed in the 2002 UN Monterrey Financing for Development Conference, but included by donors as bilateral aid. Consequently, US$69 billion of the new bilateral aid resources between 2000 and 2010 were allocated to debt cancellation. Debt cancellation is clearly a benefit to the treasury of the highly indebted low-income countries in the longer term. But in the short term very little benefit is realized on cancellation of loans that had very long amortization periods.

Beyond foreign policy considerations, increased DAC bilateral aid allocations for refugees in donor countries and students studying in donor countries took up US$18 billion in new bilateral money. Finally, additional allocations to humanitarian emergencies (by definition not open to long term development priorities) and to donor administrative costs amounted to an additional US$61 billion over what was spent in 2000.

Aid alone is not the answer to complex socio-economic issues of poverty and inequality. But in light of these allocations of new aid money over this past decade and dramatic nominal increases in ODA, it is not surprising that major financing gaps continued to plague efforts by the world community to achieve the MDGs in the poorest countries in Africa and elsewhere.

Achieving the MDGs

In July 2012, just three years before the deadline of 2015, the United Nations reported broad progress in achieving the MDGs.[11] The UN's annual report on the Millennium Development Goals claims that the first goal to halve the rate of poverty (proportion of people living on less than $1.25 per day, in comparison with the proportion in 1990) may already have been achieved in 2010, thanks in large part to significant reductions in poverty in China. When China is excluded, the decline in absolute poverty is still positive, but less dramatic, from 41% of the population in developing countries in 1990 to 28% in 2008. The report also highlights gains towards gender parity in primary education, a decline in levels of child mortality, a downward trend of tuberculosis and global malaria deaths, and an expansion of treatment for HIV.

These are important gains against debilitating diseases and in preventable deaths. Yet more than 1.4 billion people, according to the UN, will still be living in absolute poverty in 2015. Many people remain highly vulnerable to economic downturns with at least 2.6 billion people, equivalent to almost half the population of developing countries, living on less than $2.00 a day (in terms of Purchasing Power Parity). Nearly half the population in developing countries still lacks access to improved sanitation facilities. Under-nourished populations remain a critical issue, particularly in Sub-Saharan Africa, which is a region that was hit hard by the impact of the 2008 economic and financial crisis.

Where are the poor?

Geo-economic shifts in the past twenty years have changed the patterns of persistent poverty and accentuated inequalities within many countries, with still large numbers of people living in poverty. As more countries move from "low income" status to "lower middle income" status due to strong economic growth, Ravi Kanbur and Andy Sumner have calculated that three quarters of the world's poor now live in

middle-income countries. They argue for a focus in development cooperation strategies on poor people rather than poor countries.[12] This may imply different post-2015 targets and instruments for poverty reduction. They suggest that poor people in middle income countries will benefit from improved income distribution, better access to social services, productive and decent jobs, and the ability to exercise human rights.

As Jonathan Glennie notes, another way of looking at these same trends in poverty, in the context of the role of ODA, follows from his observation that 85% of poor people have for many years always lived in the same 10 countries (albeit now some of these countries have achieved middle-income status). Aid has always been a marginal financial resource for most of these countries' GNI: "aid to low-aid countries such as Chile, China and India doesn't fill a gaping hole in the public finances, as it did in Korea and Botswana, but it has supported particular projects or initiatives within or outside government to catalyze larger change – the development of a civil society, crucial in countries where the problem is wealth inequality rather than an absolute lack of capital – and provided targeted support to the poorest."[13]

Three more years, but modest donor aid commitments to the MDGs

How dedicated have donors been in directing their aid towards sectors that would impact the achievement of the MDGs? While the UN has been following 60 indicators related to progress in results for the eight MDGs, there are no comparable benchmarks for donor contributions to their achievement. Reality of Aid in its global reports has created and followed a proxy indicator to track donor support for the MDGs based on key sectors for MDGs that donors report to the DAC.[14]

The Reality of Aid MDG Proxy (Chart 6 and 7) demonstrates modest improvement in focus on the MDG-relevant sectors for donor bilateral and multilateral ODA since 2000. Focus on these proxy sectors has steadily increased to 37.7% in 2010 as a proportion of total DAC "Real ODA" commitments (Chart 6). While the increase since 2000 is notable, the level of support for the proxy MDG sectors has leveled off since 2006 at slightly more than a third of "Real ODA". The trend for Sub-Saharan Africa is somewhat stronger (Chart 7). These proxy sectors make up more than 42% of DAC "Real ODA" commitments to this sub-region in 2010, up from 36% in 2000. In the context of the international community's Millennium Declaration commitment to "spare no effort" to reduce poverty and achieve the MDGs, it should be no surprise that MDGs remain elusive given this seemingly very modest improvements in donor aid commitments to MDG-relevant sectors.

2. International Humanitarian Assistance reaches highest level in 2010

In 2010, total International Humanitarian Assistance (IHA) reached a peak of US$11.5 billion, due to a robust response by the international community to the devastation of the Haiti earthquake and floods in Pakistan. However, disbursements to humanitarian assistance have remained relatively constant at about 10% of "Real ODA" since its peak as a in 2004 and 2005 (12.3%) as a result of the Tsunami and Kashmir earthquake in those years (Chart 8).

The *Global Humanitarian Assistance Report 2012* (GHA)[15] points to a small decline in IHA in 2011, which corresponded to a decline in the total population requiring assistance. In 2010, the top three recipients of IHA – Haiti (25%), Pakistan (17%) and Sudan (7%) – accounted for about 50% of all IHA disbursements. On the other hand, the Report also drew attention to

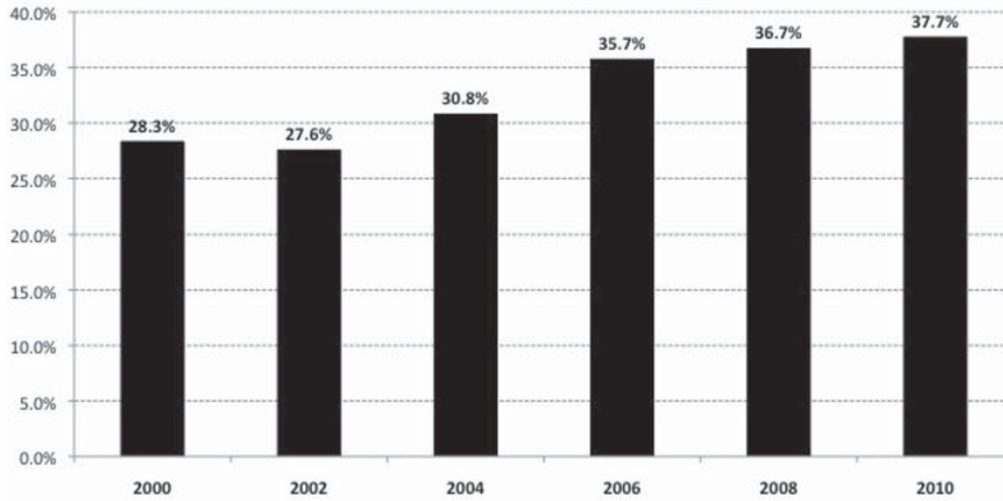


Chart 6: Reality of Aid Proxy for DAC Donor Commitments for MDGs,
MDGs Proxy as Percentage of DAC Real ODA Commtiments
Proxy derived from DAC Sector Codes by Reality of Aid
Real Aid is ODA less debt cancellation, students and refugees in donor countries
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
28.3%
27.6%
30.8%
35.7%
36.7%
37.7%
2000
2002
2004
2006
2008
2010

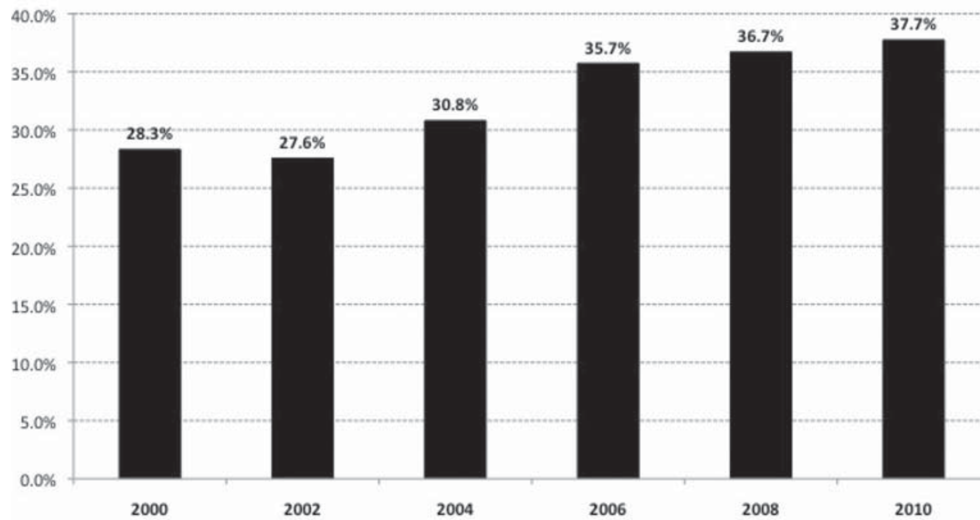


Chart 7: Reality of Aid Proxy for DAC Donor Commitments for MDGs,
MDGs Proxy as Percentage of DAC Real ODA Commtiments
Proxy derived from DAC Sector Codes by Reality of Aid
Real Aid is ODA less debt cancellation, students and refugees in donor countries
40.0%
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10.0%
5.0%
0.0%
28.3%
27.6%
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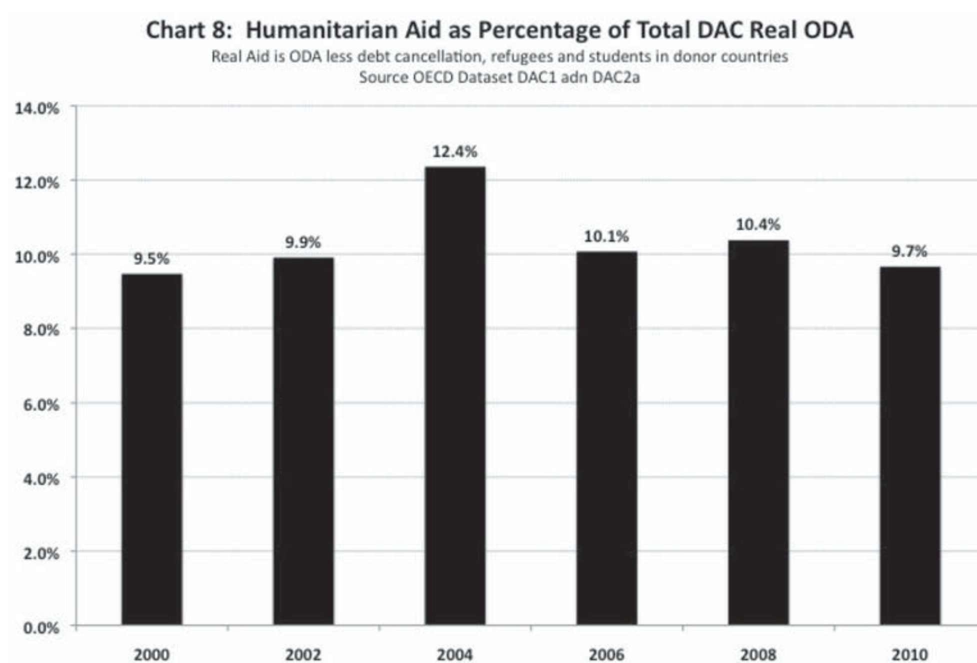
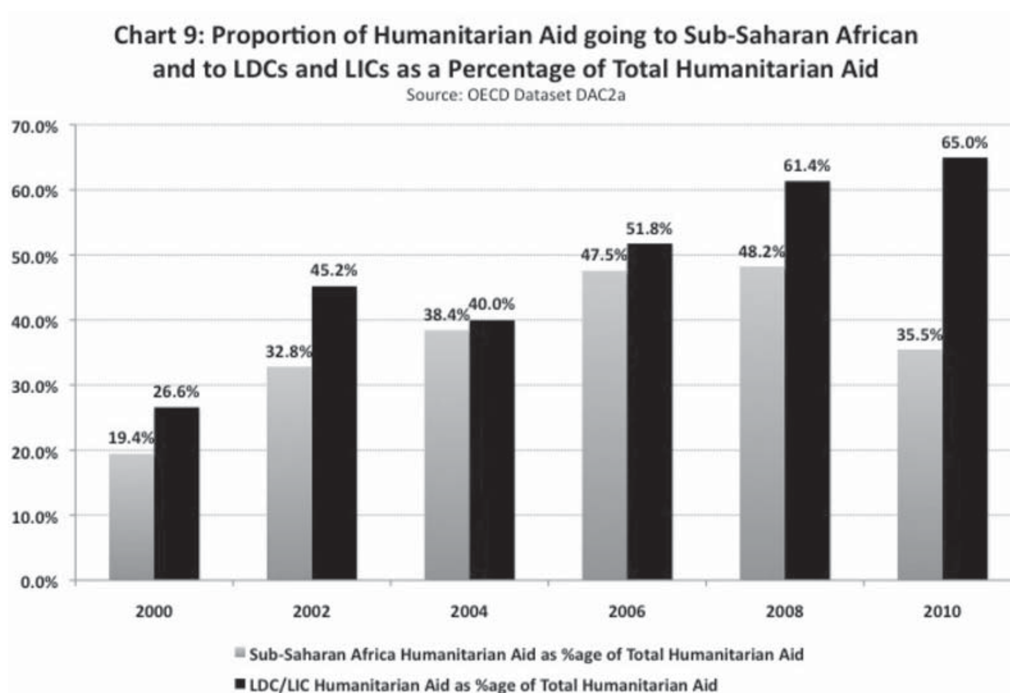


an alarming financing gap for all UN emergency appeals in 2011, reaching the widest level, not seen in 10 years (US$3.4 billion or 38% of the consolidated appeal).[16] The GHA reported that privately raised funding for humanitarian emergencies grew to US$5.8 billion in 2010 (see Section E below and the growing share of NGOs in humanitarian assistance disbursements). It also noted that between 2006 and 2010, US$1.38 billion in IHA was delivered by defense agencies from 13 donor countries, of which the United States accounted for 80% (with 21% directed to Afghanistan and 33% to Haiti).[17]

During the past decade IHA has been increasingly concentrated in least developed and low-income countries (65% in 2010), with Sub-Saharan Africa also taking an increasing proportion up to 2009 (46.8%). Distributions in 2010 were affected by Haiti and Pakistan emergencies. Not surprisingly, the *GHA Report* also noted that conflict-affected states received the over-whelming majority of IHA between 2001 and 2010, averaging between 64% and 83%.[18] (Chart 9)

3. Growing importance of Development Finance Institutions and leveraging private sector financing with public sector finance

ODA flows through and to the private sector have been increasing for several DAC donors (see below the sector distribution of ODA (B4) and the section E2 on private sector actors). The private sector is also engaged in ODA through procurement contracts for goods and services mainly in donor countries. But as donor commitments to ODA growth are abandoned in the continuing wake of the 2008 financial crisis (see Section A), donors are increasingly focusing on non-ODA bilateral and multilateral financial instruments that claim to leverage additional private sector resources for development purposes.



The G20 Development Working Group has consistently emphasized the importance of mobilizing private finance for development. At the June 2012 G20 Leaders Summit, the Working Group restated this call:

> "While we recognize that public funds will remain key, they need to be complemented by private funds in order to advance IGG [Inclusive Green Growth]. We therefore reiterate broader calls to mobilize private funds, and investments for IGG in developing countries. To this end, sharing of knowledge and best practices on existing innovative mechanisms to mobilize private funds for inclusive green investments, create enabling environments that catalyze and support the design and implementation of IGG initiatives in the context of poverty alleviation and sustainable development, is essential and welcomed."[19]

Eurodad, in a recent report,[20] suggests that in 2010 external investments by International Financial Institutions exceeded US$40 billion and is expected to increase to US$100 billion by 2015. The report documents the significant growth of development financing through Development Finance Institutions (DFIs), a growth of 190% between 2006 and 2010 in the portfolios of 6 national DFIs (Netherlands, Norway, Spain, Sweden, Belgium and Denmark) and 2 multilaterals (the European Investment Bank and the World Bank's International Finance Corporation). National DFIs are either entirely government owned or have government as their majority shareholder.[21]

The main financing instrument for DFIs are direct loans to domestic and non-domestic private sector enterprises in developing countries, but direct equity investments are also on the increase. The Funds, as government bodies,

also provide sovereign guarantees and preferred creditor status to protect investments. The vast majority of these investments flow to middle-income countries that already have developed financing sectors. But DFIs have also expanded into low-income countries. The International Finance Corporation (IFC) has increased its portfolio in IDA low-income countries four-fold in the past decade.[22]

Only a small portion of this public finance to the private sector through DFIs is included as ODA expenditures by the donors (about 2% in the case of the DFIs for the Netherlands, Norway and Sweden). Most public financing through DFIs fails to meet the DAC ODA criteria for concessional finance, although it is important to note that several donors are advocating at the DAC for an expansion of the criteria for ODA to include new forms of development finance. Additional ODA also goes directly to the private sector through direct procurement of goods and services (most often in the donor country) and public private partnerships (PPPs) (see section E2 below).

DFI investments have focused largely on infrastructure and extractive sectors, with a very significant growth of the financial sector since the 2008 global economic and financial crisis. Both the Eurodad report and a report by the Breton Woods Project[23] raise questions about both the claim that such large public investments create additionality – would the investment proceed without the DFI's role – and about the measurement of development impact for poor and vulnerable populations.

Measuring development outcomes for DFI investment is difficult, in part due to the nature of private sector investment and the lack of transparency and evaluation of these investments against development criteria. But according to a 2011 evaluation of the IFC's portfolio by the World Bank's Independent Evaluation Group, "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." Only 3% of projects explicitly analyzed the project's effects on women's assets, capacities and decision-making.[24]

The stated purpose for DFI investments is to strengthen the private sector in developing countries with finance that would not otherwise be available to meet development goals, create decent jobs and tax revenue for government. But according to Eurodad, their research demonstrated that most investments by the European Investment Bank and the IFC still go to firms based in donor countries (63% of IFC's investments). For low-income countries, IFC investments are mainly with companies based in middle-income or OECD countries.[25]

4. ODA loans are becoming a growing source of development finance

The vast majority of DAC donors provide ODA as grants to recipients. However, ODA in the form of loans remains a significant and increasing modality for aid delivery for four major donors (France, Germany, Japan and Korea). Such loans are often directed to middle-income countries in support of donor's foreign economic interests in these countries. In 2010 ODA loans were US$19.9 billion or 14.1% of gross ODA disbursements for that year. This amount of ODA loans has grown (in constant 2010$) over the decade, from US$11.8 billion in 2000 and US$12.9 billion in 2005. These four donors account for more than 90% of all bilateral aid loans in 2010. For Japan, US$10.4 billion in loans amounts to more than 55% of gross ODA disbursements for Japan in that year.

Looking ahead, even more ODA is expected to be allocated through loans. For example, the European Commission has recently proposed to shift 19 upper middle-income recipient countries to non-grant cooperation instruments. These countries include Colombia, India, Peru and Indonesia, where still a large proportion of the world's poorest people live. As the EU CSO Platform, Concord, notes, excluding these countries from grants by using the level of growth as the sole criteria, may take the focus away from the needs of millions of the poorest people. These populations have benefited little from a highly unequal distribution of growth in middle-income countries.[26]

A decade of concerted debt cancellation for heavily indebted poor countries (HIPC) has had meaningful impact. For the 32 HIPC countries that have qualified for International Monetary Fund (IMF) and World Bank debt relief, payments on foreign debt has fallen from 20% of government revenue in 1998 to less than 5% in 2010. While successful in financing terms, the conditions attached to debt cancellation also led to externally directed privatization of many public services, with reduced access for poor and vulnerable populations. In the context of the ongoing financial crisis in the North, the sustainability of these reduced debt loads are being questioned by CSO debt campaigners.[27]

Despite these measures, many indebted countries were never eligible for the HIPC Initiative. According to a recent report by the UK Jubilee Campaign, several middle-income countries, such as El Salvador, the Philippines and Sri Lanka, continue to spend a quarter of their government revenue on debt servicing. This report predicts that many low and middle-income countries could see a return of the debt trap, as they remain vulnerable to the impacts of the continued economic crisis on their export earnings and income from migrant workers. They are increasingly dependent on foreign financing, from both the IMF/World Bank (accounting for 45% of new loans over the past five years) and from the private sector.[28]

The Jubilee report points out that debt owed by the private sector in low-income countries (which collect these statistics) has increased dramatically from 4% of export earnings in 2000 to 10% in 2010, now double the foreign debt payments owed by the public sector. In 2007, for example, it is reported that privately owed debt made up 75% of Zambia's external debt, 50% of Ghana's and 40% of Uganda's. In total, private external debt was 20% or more of GDP in Zambia, Cameroon and Ghana.[29]

DAC statistics on ODA loans LAO point to a continued heavy burden for indebted aid recipients of interest and principal payments from previous ODA loans. In 2010, developing countries reimbursed donors US$11.9 billion in loan payments on outstanding ODA loans (OECD Dataset DAC2a). These payments came mainly from Peru, China, Indonesia, the Philippines, India and Egypt.

A portion of DAC donors' multilateral grants (US$8.1 billion in 2010) are directed to the World Bank's International Development Association (IDA), the Bank's concessional lending window for the poorest developing countries. In turn, IDA is another source of loans for developing countries governments, with these loans amounting to US$12.1 billion in 2010. The 16th IDA replenishment, covering the period July 2011 to June 2014, grew by an estimated 12%, with total pledges and income increasing to US$49.3 billion from US$41.6 billion in the previous round. Most of this increase, however, came from the Bank's own resources, while donor levels of pledges at US$26.4 billion remained flat.

CSOs continue to raise serious concerns about conditionality attached to IDA loans affecting developing country ownership of their policy space for financing their own development options. These concerns also relate to the policy orientation of IDA indicators of expected results, such as the "reduction of regulatory obstacles to private sector development."[30]

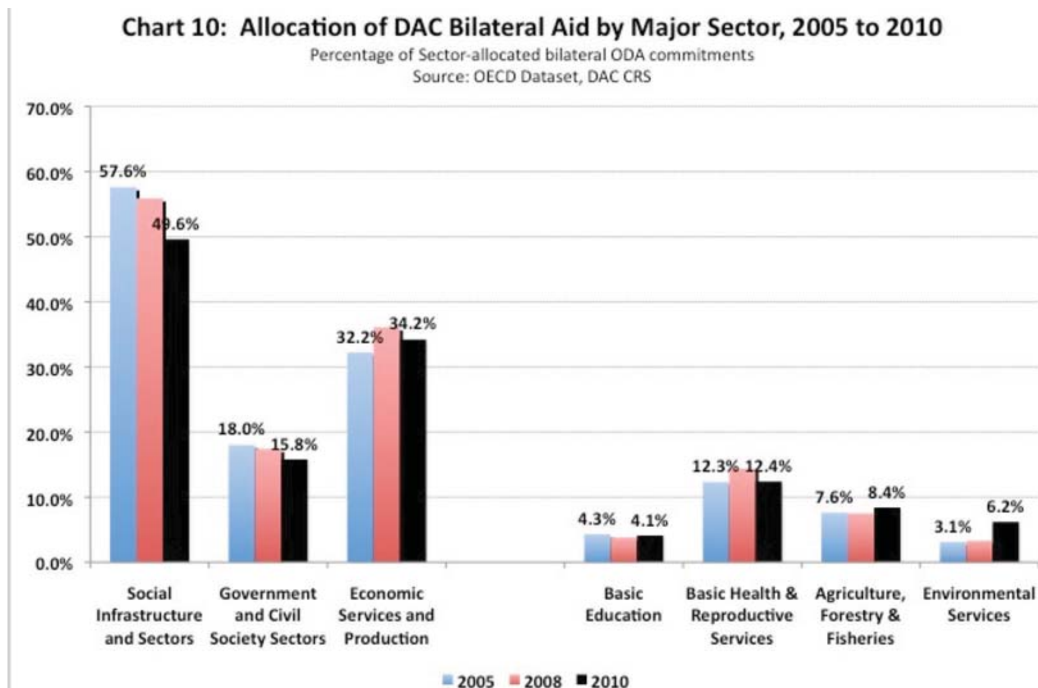
5. Sector allocation of DAC bilateral ODA shows modest shift towards private sector- oriented sectors

Sectoral allocation of bilateral aid trending towards private sector-oriented investments

DAC bilateral aid directed toward the social sectors declined slightly as a share of sector-allocated aid between 2005 and 2010, but these sectors still received close to 50% of bilateral aid in 2010 (Chart 10). Aid directed to economic services and to production, which would tend to be oriented towards the private sector, increased from 32.2% to 34.2% as a share of sector-allocated aid.

However, the value of this aid (in constant 2010 dollars) registered sharper increases for private sector-oriented activities between 2005 and 2010 than comparable increases for the social sectors. Aid directed to the social sectors increased from US$33.8 billion to US$47.8 billion (in constant 2010 dollars) or by 29.5%, while aid directed to sectors oriented to the private sector (excluding agriculture) increased from US$14.4 billion to US$22.6 billion or by 58.2%. Agriculture, fisheries and forestry aid activities increased by 66.2% from US$4.5 billion to US$7.4 billion.

Bilateral aid for basic health and reproductive services amounted to US$10.9 billion in 2010, but this amount is only 27.4% greater than the



value of this aid in 2005. On the other hand, basic education at a modest US$3.6 billion in 2010 was lower than 2008, but significantly above 2005 levels by US$2.5 billion.

Aid-for-trade growing in scale and in donor policies

The Busan Partnership for Effective Development Cooperation (BPd) called for strengthening diverse sources of development finance for development, including ramping up "aid-for-trade". With the failure of the Doha Round of trade negotiations, which were intended to bring a development focus to trade liberalization, the WTO alongside donors has increasingly pushed more aid resources to support trade objectives. A WTO Task Team on Aid for Trade has established several core objectives for these initiatives:

- Enable developing countries, particularly the least-developed countries (LDCs), to use trade more effectively to promote growth, development and poverty reduction and to achieve their development objectives, including the MDGs;
- Help developing countries, particularly LDCs, to build supply-side capacity and trade-related infrastructure in order to facilitate their access to markets and to export more;
- Help facilitate, implement and adjust to trade reform and liberalisation;
- Assist regional integration;
- Assist countries' smooth integration into the world trading system; and
- Assist in the implementation of trade agreements.[31]

Trade, as part of country-owned economic policies, can indeed contribute to development goals and improve the lives of people. In aid-for-trade programs, the assumption is made that increased trade liberalization necessarily contributes to growth and therefore to poverty reduction. However, in doing so, donors often ignore evidence of significant negative impacts of externally imposed trade regimes on the conditions of rural populations, on women's rights and empowerment, or decent work.

In the words of the South Centre, LDCs in particular face structural disadvantages in a WTO liberalized aid regime: unlike current donor prescriptions, these countries "must be allowed and assisted to grow their own food and expand manufacturing, including through processing and manufacturing based on natural resources."[32] BetterAid has also called for aid-for-trade to follow aid and development effectiveness principles, that is, to "respect democratic ownership, human rights, policy space and freedom for developing countries to choose their own trade strategies in accordance with local needs and priorities and sustainable development".[33]

A review by the WTO and OECD reveals that more than half the donors surveyed had changed and enhanced their aid-for-trade strategies since 2008, for many this was the result of placing greater emphasis on the private sector and growth in their aid policies. This same study suggests that ODA directed to aid-for-trade amounted to US$40.1 billion in 2009, a 60% increase on the base period of 2002-2005.[34] However, DAC aid-for-trade figures must be disaggregated to enable a more accurate picture of aid-for-trade investments. The DAC includes for example all aid investments in economic infrastructure (including banking and services for micro-finance) and in production (including all investments in agriculture). The DAC figure of US$40 billion is consequently a gross exaggeration as many of these aid investments target producers in the informal sector (micro credit) and small-scale producers (agriculture) producing for the local markets.

While much more modest, donors report to the DAC Creditor Reporting System (CRS) their aid for "trade policy and regulation". These amounts have also grown significantly from US$462.1 million in 2005 to US$861.5 million in 2010 (a growth in value of 86% in constant 2010 dollars).

It is not possible to completely disaggregate other trade-related investments in economic infrastructure and production in the DAC CRS. However, the WTO/OECD study noted above does report a donor "marker" for aid-for-trade. Of US$18.2 billion in 2009 for aid investments for building productive capacity (all of which is included in the US$40 billion figure), donors marked US$1.9 billion (10.4%) as investments where aid-for-trade was a "principal objective". A further US$2.9 billion (15.9%) in investments had aid-for-trade as a more undefined "significant objective". Using this marker as an indicator suggests that in 2009 aid-for-trade accounted for a total of US$11.3 billion in ODA for 2009,[35] still not an insignificant amount and one that is growing in relation to donor trade interests in developing countries.

Agriculture and greater emphasis on the private sector

The continuing global economic crisis in Europe, alongside extreme weather patterns in food producing regions of the world, have brought renewed fears of food price spikes in 2012. As pointed out in the 2010 Reality of Aid Report three-quarters of the world's hungry are the rural poor, and many of these people are highly vulnerable to climate change impacts on their food production.

At US$8.1 billion in 2010, the value of bilateral and multilateral aid commitments to agriculture has increased by 111% since 2000 and 82% since 2005. Between 2009 and 2010, aid for agriculture increased by 3.2%, perhaps reflecting G8 leaders' commitments to stress agriculture and food security in their aid strategies at the Italian 2009 Summit, where they launched a three-year US$22 billion L'Aquila Food Security Initiative.

Total commitments to agriculture and food security amounted to US$16.8 billion in 2010, an increase in value (in 2010 dollars) of 80% from 2000 and 55% from 2005.

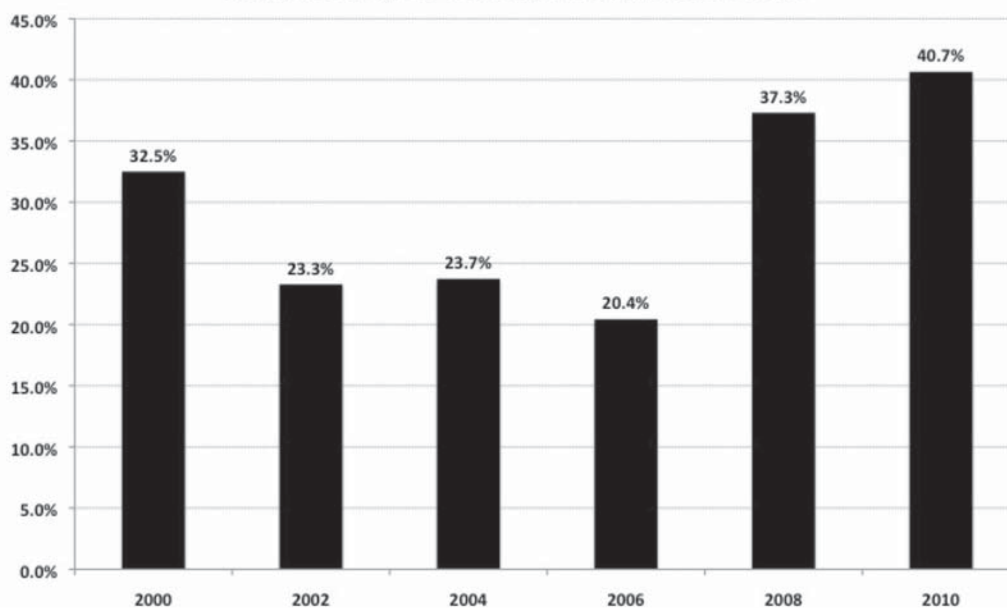
The L'Aquila Initiative ends in December 2012. By May 2012, the fund had attracted only 44% of donor commitments that were to be targeted to meet country generated plans. Perhaps as a result of this shortfall, at the 2012 G8 Summit, the United States launched the next initiative, but this time with much less donor funding commitments expected. Rather the "New Alliance to Increase Food and Nutrition Security", will rely on partnerships with the private sector to focus their non-aid resources on strengthening smallholder producers, and particularly women producers.

President Obama announced the participation of 45 companies in the Alliance, including agribusiness companies such as Cargill, DuPont and Monsanto, with a total pledged commitment of US$3 billion.[36] A coalition of African civil society organizations, supporting smallholder producers, questioned the evidence that the private sector can deliver for small-scale producers. Nor did they see the US initiative as an "Alliance", given that women small-scale producers, youth, and pastoralists were never consulted in the drafting of the plan and African governments were simply asked by the G8 to "rubber-stamp" the initiative.[37] In these global initiatives, seldom is there any analysis or commitment to addressing the kinds of return that host governments and communities might want to insist upon to ensure long-term sustainable outcomes.

6. Realizing country ownership: Less than half of bilateral aid is available to country partners to program

The DAC has developed the notion of "country programmable aid" (CPA), which it defines as "the portion of aid donors programme for individual countries, and over which partner countries could have a significant say."[38] The notion of "country ownership" has been a key defining principle for effective development cooperation since 2005 and the Paris Declaration. At the fourth High Level Forum on Aid Effectiveness (HLF4), held in Busan in November 2011, the Outcome Document took this notion further with its expression of support for "democratic ownership" at the country level. How stakeholders measure country ownership in aid relationships has been a controversial issue over these past years.

Since 2007 the DAC has focused primarily on bilateral aid in its measure of CPA. For 2010, the DAC calculates that US$56.1 billion or 55% of bilateral aid in 2010 (constant 2009 dollars) could be classified as CPA. This CPA share of bilateral aid is down slightly from 57.6% in 2009. While DAC figures are not available for multilateral aid in 2010, the DAC has previously calculated that this aid has a much higher percentage of CPA.[39]



Note: RoA Country Programmable Aid is bilateral ODA less debt relief, refugee costs in donor countries, students in donor countries, support for NGOs and PPPs, humanitarian assistance, food aid, 80% of technical assistance, 15% of tied aid, development awareness, administration and other in-donor expenses.

Reality of Aid (RoA) considers that the DAC systematically over-estimates country programmable aid, particularly with respect to free-standing technical assistance. Studies repeatedly demonstrate that technical assistance remains tied to donor country consultants and donor personnel. Reality of Aid therefore does not include 80% of technical assistance in its calculations of CPA. As a result, Reality of Aid's calculation of CPA in 2010 was only 40.7% of DAC bilateral aid (Chart 11). While much less than the DAC estimate of 55% for that year, Reality of Aid's calculations still show that CPA has increased substantially since the mid-2000s, due in large part to less debt cancellation in the later part of the decade.

7. ODA directed to gender equality shows modest improvement

It is widely acknowledged that the economic empowerment of women in development, in the context of women's equality and access to rights, is essential for the achievement of development goals for health, education, environmental sustainability, economic and human development.[40] Women's economic empowerment is about rights and equitable societies as well as a holistic approach to achieving development outcomes that are fully inclusive of women. In Busan at HLF4 gender equality was highlighted in the Outcome Document (BPd):

> "We must accelerate our efforts to achieve gender equality and the empowerment of women through development programmes grounded in country priorities, recognizing that gender equality and women's empowerment are critical to achieving development results. Reducing gender inequality is both an end in its own right and a prerequisite for sustainable and inclusive growth." [§20]

While welcoming this progress in Busan, women's organizations and CSOs in BetterAid were concerned that donors and governments could go no further to give concrete commitments to strengthening the central role of women's empowerment, grounded in a rights-based approach to implementing ODA programs.[41]

DAC statistics on donor commitment to gender programming in ODA reflects this tension between words and action. The DAC has been tracking gender-oriented programming through a gender marker that identifies activities where gender is either a principal objective or a significant objective. In total, ODA identified with this marker increased significantly from US$15 billion in 2007/08 to US$24.9 billion in 2009/10, representing a 66% increase. However, activities marked as "principal objective" only increased from US$2.1 billion to US$3 billion. In 2009/10, these latter activities were a mere 3.2% of sector allocated aid for these years.[42] Activities that were marked "significant objective" were 23.1% of sector allocated aid, but this indicator is subject to differing interpretations among donors, and therefore less reliable.

In terms of the US$24.9 billion marked as gender equality, a very small and declining percentage (from 14% in 2007/08 to 12% in 2009/10) is going to projects with gender equality as a primary focus. Even more worrying, the DAC tracks funds dedicated for women's equality organizations. These resources declined from US$515 million in 2007/08 to only US$331 million in 2009/10, a decline of just under 36%. The Association for Women's Rights in Development (AWID) has conducted their own survey of women's organizations. Thirty-five percent (35%) of responding organizations reported shortfalls in meeting their budgets in 2010 and of these 15% experienced catastrophic shortfalls (of 80% – 100% shortfalls).[43]

In a review of financing for gender equality and women's rights, AWID does point to a number of positive initiatives. At the UN they saw a continuance of the UN Trust Fund to End Violence Against Women and the creation of the UN Fund for Gender Equality, both within UN Women, as positive. However, at the same time, UN Women received less than half of the Secretary General's suggested starting budget of US$500 million. At the country level, Sweden's Global Gender Equality Program increased 3.5 times from 2008 to 2011. The Dutch government re-launched its gender equality funding window as Funding Leadership Opportunities for Women with an investment of €70 million between 2012 and 2015.[44]

AWID's commentary also noted increased involvement of private sector-based foundations, including Nike and Nova Foundation (Girl Effect), Exxon Mobil (Women's Economic Opportunities Initiative) and Goldman Sachs (10,000 Women Initiative for business and management skills). On this trend, Lydia Duran, Executive Director of AWID, has commented that, "it seems apparent that in some cases corporations are using this heightened interest in women and girls as part of their broader marketing efforts, without meaningfully transforming harmful corporate practices for women in their communities (violation of labour rights, land grabbing etc.)."[45]

AWID is calling for a minimum investment of 20% of ODA in gender equality and women's rights programming by donors. They propose a three dimensional approach 1) gender equality as a sectoral thematic area; 2) mainstreaming gender equality; and 3) supporting, promoting, and ensuring women's participation in government, women's rights and women's organizations in all aspect of development cooperation.[46]

6. Allocations of ODA to regions and income groups: Donors fail to meet their 2005 target for Africa

At 2005 Gleneagles G8 Summit donors committed to increase aid to Sub-Saharan Africa by at least US$25 billion by 2010. They were short by more than US$15 billion (or 60%) of this commitment. According to the 2012 *G8 Accountability Report*, bilateral ODA to Sub-Saharan Africa increased from US$19.4 billion to US$24.9 billion (in constant 2004 dollars), an increase of only US$5.5 billion.[47]

Overall trends in the distribution of DAC bilateral ODA by regions suggests that regional distribution has changed only slightly over the decade 2000 to 2010 (Chart 12). Bilateral aid to Sub-Saharan Africa increased from 39.4% to 44.4%, while other regions saw difference in their share of bilateral aid.

Bilateral ODA distribution by income group (Chart 13) does show a significant improvement towards low-income countries over the past decade (including the least developed countries) from 48.9% to 63.5% of country allocated aid. There has been a corresponding decline for lower middle-income countries from 41.2% to 28.2%.
Chart 14 represents aid to least developed countries (LDCs) only. This chart indicates that a substantial part of the increase for these countries was the result of dramatic increases in aid to Afghanistan during the decade. When Afghanistan is excluded ODA for LDCs rose only slightly from 24% to 29% as a share of total DAC ODA from 2000 to 2010.

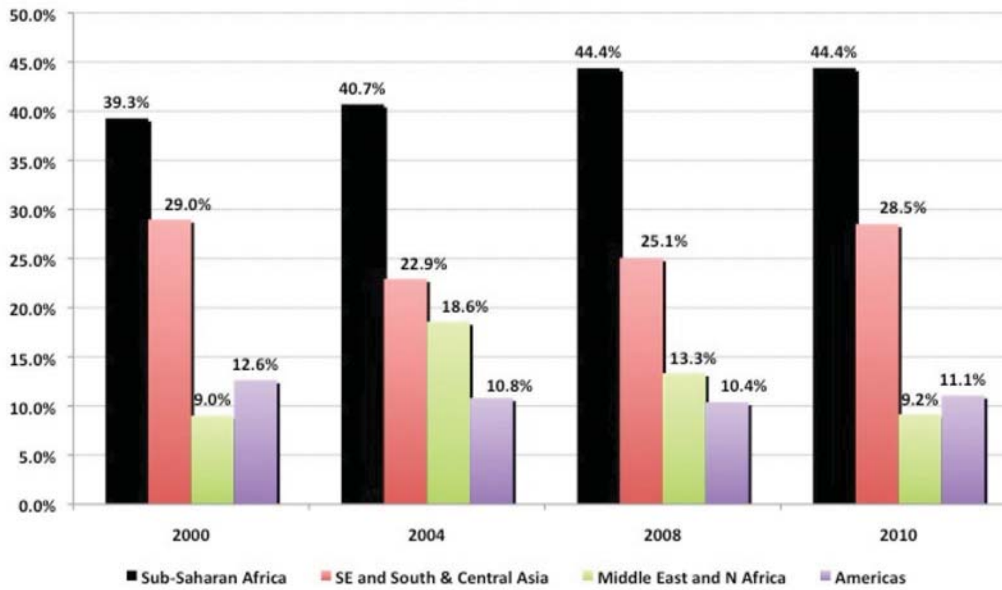


Chart 12: Regional Distribution of DAC Bilateral ODA
DAC Bilateral ODA is net of debt cancellation (not including "other" areas)
Source: OECD Dataset DAC2a
50.0%
45.0%
40.0%
35.0%
30.0%
25.0%
20.0%
15.0%
10.0%
5.0%
0.0%
39.3%
29.0%
9.0%
12.6%
40.7%
22.9%
18.6%
10.8%
44.4%
25.1%
13.3%
10.4%
44.4%
28.5%
9.2%
11.1%
2000
2004
2008
2010
Sub-Saharan Africa
SE and South & Central Asia
Middle East and N Africa
Americas

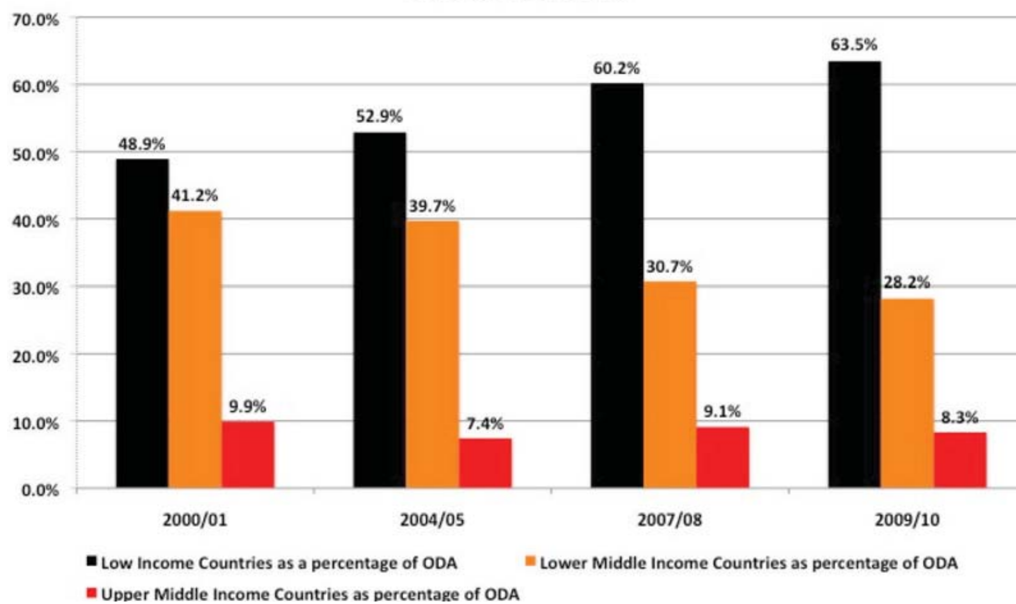
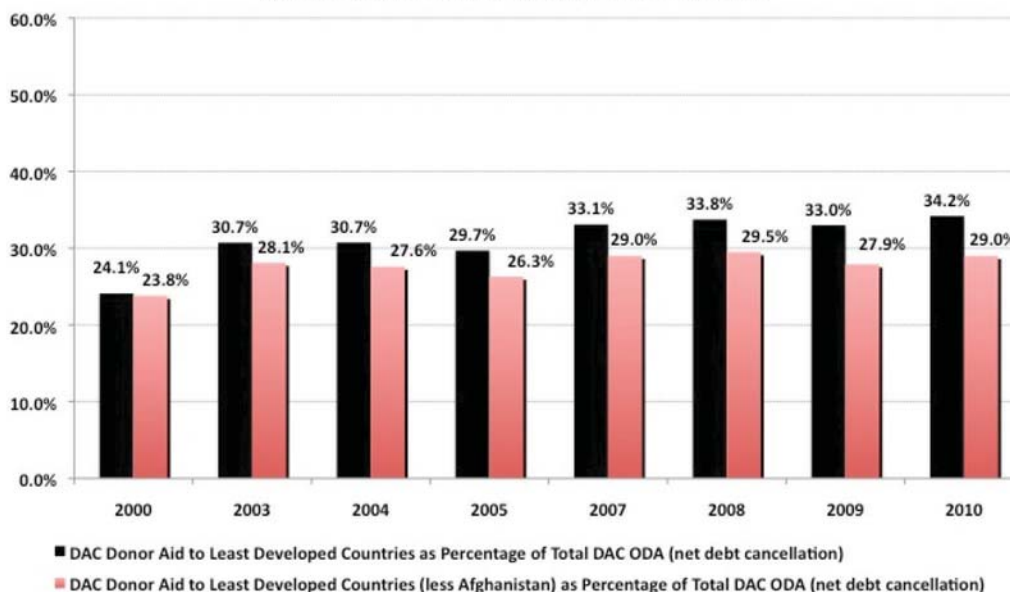


Chart 13: Distribution of DAC Bilateral ODA by Income Group,
Two-Year Average; Note: ODA is country allocated ODA (excluding debt cancellation)
Source: OECD Dataset DAC2a
70.0%
60.0%
50.0%
40.0%
30.0%
20.0%
10.0%
0.0%
48.9%
41.2%
9.9%
52.9%
39.7%
7.4%
60.2%
30.7%
9.1%
63.5%
28.2%
8.3%
2000/01
2004/05
2007/08
2009/10
Low Income Countries as a percentage of ODA
Lower Middle Income Countries as percentage of ODA
Upper Middle Income Countries as percentage of ODA



C. Climate Finance and ODA: No additional finance

At the meeting of the Conference of the Parties to the UN Framework Convention on Climate Change (COP-15) in Copenhagen in 2009 developed countries agreed to provide "new and additional resources" for climate change adaptation and mitigation pledging US$30 billion in fast-track financing for the period, 2010 to 2012, with a view towards mobilizing US$100 billion of these purposes by 2020.[48] After several years of discussion following the Copenhagen meeting, the Green Climate Fund mechanism, which is intended to channel this US$100 billion, was proposed at Cancun in 2010 and is expected to become operational in 2013.[49] So far, three countries have agreed to cover the start up costs of the Fund – Germany, Denmark and the U.K.[50] CSOs have consistently called on governments to prioritize the impact of climate change on the billions of poorest and most vulnerable people who bear no responsibility for the climate crisis.[51] The Africa Development Bank, for example, has estimated that 50% of Africa's population live in countries that are most exposed to the impacts of climate change. They also suggest that the cost for adaptation alone in Africa could be in the order of US$20 billion to US$30 billion per year.[52]

Many CSOs are calling for a Green Climate Fund that exemplifies the principles of development effectiveness, piloting a new approach to international cooperation finance based on equality, interdependence, common interest, cooperation and accountability to stakeholders. For example, CSOs are also highly supportive of a recent call by the UN Independent Expert

on foreign debt and human rights that "finance under the proposed Green Climate Fund does not exacerbate the external debt burdens of recipient countries".[53]

A joint study by the OECD and the International Energy Agency (IEA) on tracking climate finance underscored the fact that, despite years of international dialogue, there is still no agreed definition of "climate finance", particularly for "private flows", and no centralized comprehensive system for tracking all the relevant public and private climate flows. Moreover, there is also no agreement on methodologies for measuring the need for climate finance.[54] The OECD/IEA study called for greater transparency and agreement on clear definitions in order to accurately track flows for relevant climate mitigation and adaptation activities.[55]

This OECD/IEA study also reported a wide margin in the estimates of public and private climate finance flows at between US$70 billion and US$120 billion in 2009/10. Climate-related flows from private investments were estimated to be between US$37 billion and US$72 billion. It remains to be seen what role is contemplated for private sector finance in the financing of the Green Climate Fund, in particular given the fiscal pressures on many of the donor countries. Without significant public sector finance, the unregulated and untransparent profit-oriented interests of the private sector could subvert the public purposes and goals of the Green Climate Fund. On this point, CSOs raised grave concerns about proposals at the June 2012 Rio+20 conference that aim to "commodify the environment" in the interests of tackling climate change.[56]

Recently the DAC CRS made available comprehensive data on public financing for climate change mitigation and adaptation by DAC donors, with the addition of an "adaptation marker" for reporting aid in 2010.[57] In May 2012, the multilateral banks have also now agreed to jointly track their climate change financing, consistent with this DAC methodology.

Based on the mitigation and adaptation markers, the DAC put total bilateral climate change activities from ODA in 2010 at US$22.9 billion, with adaptation finance at US$9.3 billion and mitigation finance at US$17.6 billion.[58] The DAC also provided a preliminary estimate of US$718 million for multilateral climate change aid. The markers for bilateral aid were allocated by principal and significant objectives as set out in Box Three.

Box 3 Climate Change Finance by DAC Members, 2010

Mitigation

Mitigation Finance Principal Objective:	US$ 11.5 billion
Mitigation Finance Significant Objective:	US$ 3.1 billion
Total Mitigation Finance:	US$ 14.6 billion

Adaptation

Adaptation Finance Principal Objective:	US$ 1.7 billion
Adaptation Finance Significant Objective:	US$ 3.2 billion
Total Adaptation Finance	US$ 4.9 billion
Activities marked both mitigation and adaptation:	US$ 3.4 billion
Total Bilateral Mitigation and Adaptation Finance:	**US$22.9 billion**

Source: Reality of Aid calculations from DAC, "First Ever Comprehensive Data on Aid for Climate Change Adaptation", www.oecd.org/dataoecd/54/43/49187939.pdf

Clearly mitigation activities have been the predominant priority for DAC bilateral ODA, accounting for more than 70% of all DAC identified climate change activities. But DAC climate finance was also highly concentrated among five (out of 23) DAC donors. Based on mitigation activities that were marked principal objective, almost 92% were accounted for by Japan (47%), France (20%), Germany (13%), Norway (6%) and the United States (5.5%). Five donors contributed 73% of all activities marked adaptation principal objective: United Kingdom (25.6%), France (23%), the United States (14.4%), Japan (6.1%), and Korea (5.1%).

Box 4 Allocation of DAC Climate Finance by Country Income Group

Mitigation	
Least Developed and Low Income:	13.6%
Lower Middle Income:	75.5%
Upper Middle Income:	10.9%
Adaptation	
Least Developed and Low Income:	58.1%
Lower Middle Income:	38.3%
Upper Middle Income:	3.6%

Source: Reality of Aid calculations from DAC, "First Ever Comprehensive Data on Aid for Climate Change Adaptation", www.oecd.org/dataoecd/54/43/49187939.pdf . *Percentages are of country-allocated climate finance.*

The DAC does not comment or adjust its ODA figures to take account of the Copenhagen commitment that climate finance be additional to ODA. While several donors have consciously added resources for climate change (such as Canada and Norway), all DAC donors have included climate finance in the ODA they report to the DAC, if the activities meet the criteria for ODA grans or concessional loans.

If the DAC total of US$22.9 billion for climate finance were to be excluded from ODA for 2010, "Real ODA" for that year would have been only US$95.8 billion rather than US$118.7 billion. Excluding climate finance, DAC donor ODA performance would have been significantly lower at 0.23% of GNI, rather than 0.30%.

The DAC data also allows for a breakdown of the allocation of climate finance among developing country income groups as set out in Box Four.

DAC bilateral investments in mitigation are overwhelmingly concentrated in lower middle-income countries and in a few countries: India (US$2.8 billion), Algeria (US$1.8 billion), Indonesia (US$870 million) and China (US$560 million). Adaptation investments are more evenly distributed among countries, with a high concentration in least developed and low-income countries. Some of the largest investments are Kenya (US$338 million), Vietnam (US$321 million), Ethiopia (US$288 million), Indonesia (US$485 million) and Peru (US$175 million). Sub-Saharan Africa received 31.1% of all DAC investments in adaptation in 2010.

CSOs were the implementing channel for 18.5% of adaptation projects, while they accounted for only 4.7% of the mitigation projects. The DAC registered a low level of public private partnerships (PPPs) for DAC climate investments – only US$3.4 million for mitigation and only US$2 million for adaptation. Government and multilateral organizations were the primary implementing channels.

Special climate change funds are an important channel for donor climate change financing. *Climate Fund Update*, a database maintained by the UK Overseas Development Institute and the Heinrich Boll Stiftung Foundation (North America), tracks multi-year pledges made to 26 national and multilateral climate change funds.[59] As of July 2012, there was a total of US$32 billion in public resources pledged by all donors to all funds (both national and multilateral).

Japan alone makes up close to 40% of these pledges. Of the total pledged to funds, 73% are for bilateral funds under the direct control of the donor (with the largest being US$15 billion for Japan's Fast Start Finance Fund and US$4.6 billion for the UK's International Climate Fund).

Most of the remaining pledges, or more than 31%, has been allocated to funds under various World Bank windows, including the Global Environment Fund (GEF).[60] CSOs have been highly critical of the approach and investment decisions of the Bank's Climate Investment Funds.[61] Recently CSOs have written to the government funders of these Funds, asking them to adhere to the sunset agreement made at their creation, conduct a full independent review of their programs, projects and overall performance, and redirect their donor climate financing to the newly created Green Climate Fund noted above.[62]

Recalling the concern of the UN Independent Expert on foreign debt noted above, *Climate Fund Update* reports that 37.7% of current pledges are for loans or concessional loans (out of US$7.9 billion pledges that are allocated by financial instrument). The disbursements for the 26 funds tracked targeted mainly lower and upper middle-income countries (81.7% of total disbursements recorded), with only 18% directed to low-income countries. However, consistent with the DAC data, Sub-Saharan Africa received close to 38% of the disbursements from funds dedicated to adaptation, with countries in Asia/Pacific receiving 23% of these disbursements.[63]

D. Non-DAC Donors

South-South Cooperation (SSC) received considerable attention in the lead-up to the November 2011 HLF4 in Busan. In early 2010, a High Level Event on South-South Cooperation and Capacity Development was held in Bogota, Colombia. This High Level Event aimed at profiling the experience of development actors in SSC as "contributions to a more effective and inclusive cooperation architecture."[64] In Busan, the Outcome Document (PBd) recognized that "South-South and triangular co-operation have the potential to transform developing countries' policies and approaches to service delivery by bringing effective, locally owned solutions that are appropriate to country contexts." [§30]

At the previous High Level Forum in Accra in 2008 donors and partner countries acknowledged that the principles guiding South-South Cooperation were distinct from those agreed by donors in the Paris Declaration: "South-South co-operation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content." [AAA§19] Several countries engaged in SSC, such as Brazil and China, have subsequently affirmed these goals in policy statements.[65]

China

An accurate measure of the total financial commitments and trends in SSC are affected by both a lack of transparency and published data and by confusion among some analysts about what to include in SSC as aid. This has been particularly true for the many instruments that China has used to extend economic relationships in its global diplomacy. But now for the first time, in a 2011 *Policy on Foreign Aid*, China clarified that Chinese "aid" includes only grants, interest-free loans and concessional loans. The policy paper stated that by the end of 2009, China had disbursed a total of 256 billion yuan or US$37.7 billion through these three modalities of assistance. It also revealed that this aid had grown by close to 30% between 2004 and 2009.[66]

With the exception of concessional loans, Chinese aid is managed centrally through the Department of Aid to Foreign Countries in the Ministry of Commerce. Concessional loans are handled as a small part of the portfolio of the China Development Bank.

However, beyond the 2011 policy paper, there is no regularly published official Chinese data for aid. Kang-Ho Park at the Brookings Institute has recently estimated Chinese aid in 2008 at US$3.8 billion, and Deborah Brautigam puts Chinese aid to Africa at US$1.2 billion in that year.[67] Clearly these resources make up only a small share of rapidly growing Chinese financial relationships with developing countries and with Africa in particular. China trade with Africa has expanded rapidly in the last decade to well over US$130 billion. In January 2011, for example, the *Financial Times* reported that China had loaned more money to developing countries governments and companies in 2009 and 2010 through the China Development Bank and the China Export-Import Bank (US$110 billion) than World Bank loans for these years (US$100.3 billion).[68] For the most part, these were non-concessional loans and were not included in China's policy on foreign aid.

Brazil

Brazil, through a study conducted by ABC, the Brazilian Cooperation Agency, has similarly defined its concept of international development cooperation:

> "The total funds invested by the Brazilian federal government, entirely as non-repayable grants, in governments of other countries, in nationals of other countries in Brazilian territory or in international organizations with the purpose of contributing to international development, understood as the strengthening of the capacities of international organizations and groups or populations of other countries to improve their socioeconomic conditions."[69]

According to this definition, Brazilian total cooperation for international development in 2009 was estimated to be US$362.2 million, made up of the following components: humanitarian assistance: US$43.5 million; scholarships for foreign students: US$22.2 million; technical cooperation: US$48.9 million; and contributions to international organizations: US$247.6 million.[70] Between 2005 and 2009 these forms of cooperation grew by more than 46% in real value. A high percentage of this cooperation is directed to Brazil's immediate neighbours in the Americas and to Africa (particularly the Portuguese speaking countries). Brazilian cooperation (technical cooperation and humanitarian assistance) is often provided "in-kind" and financial contributions are made through triangular cooperation with a multilateral or bilateral donor partner. The latter is due in part to an unfavourable legal regime in Brazil for the transfer of resources for development to other countries.

India

Since the 1960s, India's Technical and Economic Cooperation programs have aimed at sharing India's development experience primarily through technical cooperation. In July 2012, the Indian government announced the establishment of the Development Partnership Administration (DPA), which will oversee Indian development projects around the world. It will have a US$15 billion budget over the next five years (which would be a substantial increase over the estimate of US$1 billion in 2008 by Kang-Ho Park).[71] The sectoral emphasis of India's cooperation in the past has been in the areas of education, healthcare, energy and Internet technology. The programs are currently taking place in more than 60 countries, but with strong emphasis on regional partners and Africa.

Similar to China, these resources for development cooperation are only a small part of India's growing economic relationships with Africa. This relationship has been rooted in a series of India-Africa Summits, the most recent being held in Addis Ababa in May 2011. At that Summit India's pledged to meet the goals of boosting trade from $45 billion in 2011 to $70 billion by 2015, providing an additional $500 million of aid to the $5.4 billion already promised, and building capacity.[72]

South Africa

Since the end of apartheid, an important emphasis in South Africa's foreign policy has been the promotion of development and stability in Africa. This policy has been implemented since 2001 through the Africa Renaissance and International Cooperation Fund (ARF) administered by the government's International Relations and Cooperation Department. The focus for this Fund has been democracy and good governance, conflict prevention, social and economic development and humanitarian assistance. In 2010, ARF contributed €45 million, a significant increase from €9.3 million in 2006.

In April 2012 the government established the South African Development Partnership Agency (SADPA). This new body is intended to coordinate both South Africa's out-bound international partnership programs as well as its development assistance from other donors. It replaces the ARF and brings together other programs currently dispersed among many departments. It is expected to have an annual budget of approximately US$70 million to $US90 million.

Other non-DAC Donors

Twenty non-DAC donors report their aid to the DAC under the DAC definition for ODA. These include OECD members such as Turkey and Eastern European countries as well as non-OECD countries such as Saudi Arabia, UAE, Kuwait, Thailand, and Liechtenstein. In 2010, these 20 countries contributed US$7.2 billion in ODA. However, this was down from a peak of US$9.0 billion in 2008. Saudi Arabia, at US$3.5 billion in 2010, is by far the largest donor among the 20. A decline in its ODA from 2008 accounted for close to 80% of the overall decline for non-DAC donors reporting to the DAC. Approximately 15%, or US$1.1 billion, of the US$7.2 billion were loans.[73]

Saudi Arabia has been a significant donor since 1974 when it established the Saudi Fund for Development, through which it has provided both grants and technical assistance, mainly to Islamic developing countries. It was a major contributor to alleviation of the Sahel drought in the 1980s. By 2010, the Fund was supporting 12 major projects in Africa and 11 projects in Asia.[74]

In summary, an estimate for 2008 of US$12.5 billion in total aid contributions through SSC has perhaps grown to US$15 billion by 2010, assuming growth in aid allocations by both China and India. SSC would therefore be approximately 12.6% of "Real ODA" (US$118.7 billion) from DAC countries for 2010.[75]

E. Non-State Actors in Development Cooperation

1. Civil Society Actors play a growing role in development cooperation

Civil Society Organizations (CSOs) are playing a significant role in both long-term development and humanitarian assistance. They do so in their own right, raising funds from private donations, and as implementers of programs on behalf of official donor agencies. Because of the great diversity in sources of funding and the independence

of CSOs, exact measurement of the financial scope for their role in resourcing development is incomplete. But some statistics are available that begin to provide a picture of the scale of CSOs in aid and development cooperation.

Overall Trends

The members of the OECD DAC submit annual statistics on the amount of ODA that is channeled through CSOs and NGOs.[76]

- In 2010, DAC donors channeled a total of US$18.5 billion in aid through CSOs. This amount represents 15.6% of "Real ODA" from DAC members in that year (US$118.7 billion).
- In 2010, DAC donors channeled close to a quarter of their "Real Bilateral ODA" (22.8%) through CSOs (bilateral aid net of debt cancellation, refugees and students).
- ODA channeled by DAC members through CSOs has more than doubled in value since 2007 (from US$7.8 billion to US$18.5 billion in 2010 dollars).
- Nevertheless, in 2010 there was considerable variance in the priority given to this channel by different donors for their bilateral aid (share of total bilateral aid):

  Ireland 39.0%
  Netherlands 38.9%
  Switzerland 37.1%
  Sweden 32.4%
  United States 26.5%
  Canada 22.5%
  United Kingdom 14.9%
  Australia 12.9%
  Japan 6.4%
  France 3.1%
- Non-DAC donors that report to the DAC allocated less than 4% of their bilateral aid through CSOs (mainly the United Arab Emirates). The Republic of Korea, a new DAC member, channeled only 2% of its bilateral aid through CSOs in 2010.

The DAC also provide an estimate of the amount of funds raised privately for aid activities by CSOs in the donor country independent of government resources. In 2010, this estimate totaled US$30.6 billion for the DAC members. This amount is up from US$20.5 billion in 2007 (although some of the increase may be due to improved reporting on the part of some donors). Several members of the DAC do not report private flows and other DAC members are said to under-estimate private CSO aid flows. At US$30.6 billion, privately raised funds by CSOs were more than 25% of "Real ODA" for 2010.

According to these DAC statistics, the United States represents the largest share of private funds raised by CSOs. In 2010 the United States reported to the DAC that its CSOs raised US$22.8 billion (or 75% of these private flows). The next largest was Canada at US$2 billion and Germany at US$1.5 billion.

There are no reliable statistics on total aid flows, including privately raised funds, through CSOs to developing countries, particularly for countries outside of the United States. As noted above, the DAC estimate of private flows in 2010 was US$30.6 billion. The US-based Centre for Global Prosperity, however, puts the estimate at US$56 billion for 2010, of which the United States accounted for US$39 billion).[77]

If the DAC estimates are taken as the minimum amount of privately raised aid channeled by CSOs, then in 2010 civil society organizations disbursed more than US$49 billion, when ODA flows and private flows are combined.

Some DAC donors not only channel funds through CSOs in their own country, they also channel resources directly to CSOs in developing

countries, most often from funds established for this purpose in the Embassies. In a survey conducted by the Development Cooperation Directorate (DCD) at the OECD, 20 of the 26 responding donors reported that they allocate between 1% and 30% of their ODA directly to CSOs in developing countries.[78]

Sector Distribution of NGO/CSO Aid

The DAC Creditor Reporting System provides a sector breakdown for all DAC ODA channeled through CSOs.[79] This provides a good understanding of the sector priorities for donor funds channeled through these organizations, and a reasonable proxy for privately raised aid delivered by CSOs. Some highlights include the following:

- More than half (52.4%) of CSO aid from DAC countries is allocated to "social infrastructure and services" (human development priorities in education, health, reproductive services etc.). This is more than the 43.1% for this sector in DAC members' ODA as a whole.
- Humanitarian assistance for emergencies is a strong priority for CSOs (16.9% of their aid) compared to 10.1% for DAC donors' ODA as a whole. Donors are also reported to channel 7% of their IHA aid to the Red Cross. A number of large CSOs raise considerable private funds at the time of major humanitarian emergencies. The 2012 *Global Humanitarian Assistance Report* calculated that the proportion of total IHA responses from private funds increased from 17% in 2006 to 31% in 2010.[80] This modality of aid is therefore likely a larger share of CSO total aid flows than indicated by the DAC statistics.
- On the other hand, "economic infrastructure and services" (banking, transportation, etc.) and "production sectors" (agriculture, mining, forestry etc.) is relatively weak for CSOs (at 10.5% of their aid). These sectors are a stronger priority for DAC donors (23.5% of their ODA). NGOs/CSOs mainly contribute to micro-finance banking and agriculture in these sectoral areas.

While "social infrastructure and services" is a strong priority for NGOs/CSOs across all donor countries, it is important to note considerable variations among the donor countries. CSOs from the United States, Sweden and Canada, for example, all have a very high allocation to the social infrastructure and humanitarian sectors, while Dutch CSOs work in multi-sector programs (52.6% of all CSO aid from that country).

2. New attention to the role of the private sector in development

Special recognition was given to the role of the private sector in development cooperation at the Busan HLF4 : "We recognize the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilizing domestic resources and in turn contributing to poverty reduction." [BPd §32]

Engagement of the private sector takes a variety of forms in development cooperation, through aid-for-trade programs (already described above in section B5), substantial procurement contracts, direct local private sector development, and through public private partnerships (PPPs). The role of private foundations in development cooperation, and in particular the Gates Foundation, is built around the conversion of substantial wealth generated by the private sector for wealthy individuals. In addition, some analysts point to the potential impact for development of the considerable transfers of resources through remittances of migrant populations.

The Centre for Global Prosperity claims that the "new financing mechanisms ... are blurring

the line among philanthropy, remittances, investment, and profit/not-for-profit socially aware organizations".[81] In an era of declining official aid resources, former World Bank President, Robert Zoellick proclaimed in 2011 that "the time has come to 'move beyond aid' to a system in which assistance would be integrated with – and connected to – global growth strategies, fundamentally driven by private investment and entrepreneurship".[82] This is the vision that informed the emphasis on private sector engagement at Busan. The private sector is already substantially engaged in the aid regime.

Foundations and the private sector

The Centre for Global Prosperity provides an annual overview of philanthropy and remittances for developing countries. In the United States, the Centre calculated that US$12.2 billion were contributed to development cooperation from foundations and corporations. The Gates Foundation, for example, has a private endowment of approximately US$37 billion, and makes annual disbursements in the order of US$4 billion (exceeding the ODA disbursements for 11 DAC donor countries). Corporate philanthropy in the US provides an estimated US$7.6 billion, but the Centre points out that 90% of this corporate giving to developing countries was in-kind contributions from pharmaceutical companies.[83]

Multi-Donor Trust Funds

Multi-Donor Trust Funds, whether at the World Bank or in regional institutions, have become an increasingly important channel for donor concession finance to the private sector. Examples include the several Climate Funds at the Bank noted above, the Global Agriculture and Food Security Program managed by the Bank, the G20 Small and Medium Enterprise Finance Challenge, the Advanced Market Commitment for vaccine, and the Caribbean Catastrophic Risk Insurance Facility, among many others.

The World Bank's Independent Evaluation Group (IEG) reviewed US$57.5 billion that donors contributed to Bank-administered Trust Funds between 2002 and 2010, an amount greater than what donors gave to the Bank's low income country window, the International Development Association in the same period. The IEG concluded that such funds fail to foster coordination on the group, with little or no recipient participation in their initiation or design, despite some broad contributions to global public goods (in response to country emergencies or global health issues).[84]

Public private partnerships

Within the aid regime, there has been growing interest in public-private partnerships. These partnerships are said to augment limited official aid resources, through the investment of private sector funds in public purpose projects. In recent years the DAC has systematically tracked PPPs as a channel for aid delivery. In 2010, DAC members channeled US$903 million in this aid modality (unfortunately there is no corresponding estimate of the private sector contributions). This amount has grown dramatically since 2007 when PPP's accounted for only US$234 million of DAC ODA, which could be in part the result of under-reporting in 2007.

The sector allocation of ODA for PPPs in 2010 emphasized projects in the health sector, including population and reproductive health (40.9%), in economic infrastructure (31.8%), agriculture (15.2%), and environmental protection (6.0%). More than half of PPPs (58.7%) were implemented in Least Developed Countries (however, this percentage is based on

US$216 million that were allocated by the DAC to country income groups).

ODA Procurement and the private sector

Eurodad has undertaken substantial research on public procurement and its impact on development outcomes.[85] Their summary report, based on six case studies, points out that

> "Development projects are administered by ministries and aid agencies but they rely on inputs from the private sector, for example to contract construction firms to deliver infrastructure works, buy drugs for health programmes, or purchase textbooks for education projects. The exact amount is not officially disclosed, but our calculations suggest that US$69 billion annually, more than 50% of total official development assistance, is spent on procuring goods and services for development projects from external providers."[86]

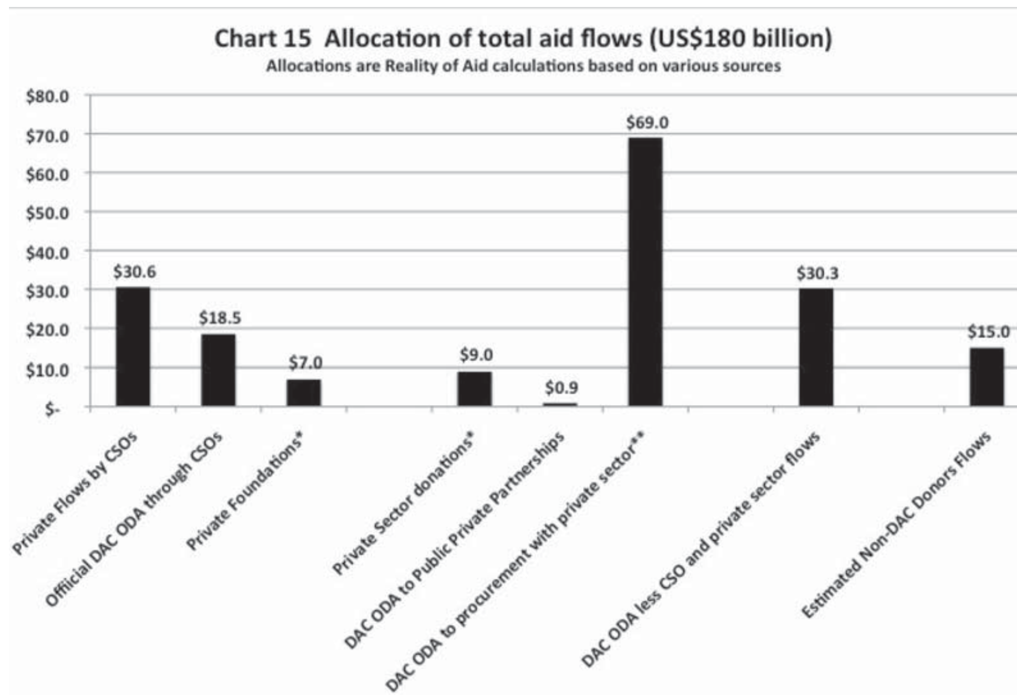
The development impact of procurement policies and practices can be profound. Where developing country governments are permitted to give priority to domestic firms, these practices can strengthen local economic spin-offs from the implementation of aid projects and/or budget support. The degree to which procurement practices respect international norms and rules, including ILO core labour standards and human rights frameworks will also influence the nature of their development impacts.[87]

Procurement practices in aid are therefore closely aligned with both the degree to which donors have untied their aid and the extent to which developing country governments are permitted to use domestic government systems for aid procurements. In both cases, there is cause for concern. While formal untying status for DAC ODA has declined substantially (to about 16.3% of bilateral aid commitments in 2010), DAC rules do not include substantial investments in technical assistance and in food aid, much of which remain tied, in their consideration of tied aid. Furthermore, research undertaken by the OECD DAC on the implementation of untying policies suggests that in fact "informal tying" remains very high. This OECD DAC study estimated that two-thirds of ODA contracts are still awarded to firms in OECD countries and up to 60% are in the donor country that provided the aid resource.[88] With respect to the use of country systems, the survey of the 2005 Paris Declaration commitments prepared for the Busan HLF4 indicated only limited progress, with "less than half of all aid reported in the Survey uses countries' PFM [public financial management] and procurement systems."[89]

Remittances

Remittances from migrant populations living in DAC donor countries to developing countries recovered quickly from the 2008 financial crisis. These flows were estimated to be US$190 billion in 2010, 60% more than total "Real ODA" and up from US$174 billion in 2009. Almost half of the remittances were directed to Asia (48%), with China and India accounting for 50% of Asian flows. Sub-Saharan Africa accounted for only 7% of total remittances and half of these flows were directed to Nigeria.[90]

While not considered remittances, a recent report pointed out that in the Muslim world an estimated US$200 billion to US$1 trillion are raised and spent annually in mandatory alms (2.5% of wealth and assets) and voluntary contributions. While a quarter of the population of Muslims lives in absolute poverty, there is no strategic disbursement of these funds for poverty reduction and many in the Muslim world do not trust to give these resources to government.[91]



** These are estimates based on US figures from the report of the Centre for Global Prosperity.*
*** This amount may include some CSOs flows where CSOs procure goods and services for donors.*

In summary, not including remittances, there was an estimated total of $180 billion in aid-related flows to developing countries in 2010 (see Chart 15). Of these flows, CSOs accounted for 26% of total flows and the private sector for 41.8%. Non-DAC donors provided 7.9% of the total public and private flows that can be identified as development cooperation (broadly using the DAC ODA definition).

Annex 1 "Real ODA" Performance of DAC Donors Against Projected 2005 ODA Commitments

	2011 "REAL ODA"*	"REAL ODA"* PERFORMANCE 2011	PROJECTED ODA 2011 (IF 2005 COMMITMENT ACHIEVED)	PROJECTED ODA PERFORMANCE RATIO	2005 COMMITMENT
Austria	$870.4	0.22%	$2,129.1	0.51%	0.51% in 2010 (in 2008 abandoned target for later date)
Belgium	$2,340.1	0.48%	$3,402.7	0.65%	0.7% in 2010
Denmark	$2,653.0	0.82%	$2,980.5	0.86%	Minimum of 0.8%
Finland	$1,229.4	0.51%	$1,561.9	0.58%	0.7% in 2010 subject to ec circumstance; adjusted to 0.55% in 2010
France	$9,699.4	0.37%	$15,270.5	0.54%	0.51% by 2010 and 0.7% by 2015
Germany	$12,349.2	0.36%	$16,418.4	0.45%	0.51% by 2010 and 0.7% by 2015
Greece	$205.7	0.08%	$1,494.1	0.51%	0.51% in 2010
Ireland	$867.0	0.52%	$1,589.4	0.92%	€1.2 billion in 2010.
Italy	$3440.9	0.17%	$5,674.8	0.26%	0.51 by 2010 and 0.7 by 2015
Luxembourg	$380.9	0.99%	$418.2	1.00%	1% in 2009
Netherlands	$5,496.6	0.70%	$6,706.6	0.80%	Minimum of 0.8%
Portugal	$602.8	0.28%	$1,171.3	0.51%	0.51% in 2010
Spain	$4,891.5	0.28%	$9,118.1	0.62%	0.7% in 2012
Sweden	$4,451.1	0.90%	$5,511.7	1.00%	1% in 2006
United Kingdom	$12,762.3	0.55%	$14,846.4	61.00%	Achieve 0.7 by 2013 and 0.56 by 2010
EU Members	$61,240.3	0.38%	$88,293.7	0.54%	The European Union pledged to reach 0.7 percent ODA /GNI by 2015, with a new interim collective target of 0.56 percent ODA /GNI by 2010. The European Union will nearly double its ODA between 2004 and 2010 from €34.5 billion to €67 billion. At least 50 percent of this increase should go to sub-Saharan Africa.
Australia	$4,028.2	0.35%	$5,274.2	0.39%	0.35% in 2010 and 0.5% by 2015
Canada	$4,478.7	0.28%	$5,625.3	0.33%	Double international assistance from 2001 to 2010 and double aid to Sub-Saharan Africa between 2003/04 and 2008/09. Assume 8% increases beyond 2010.
Japan	$9,802.3	0.17%	$19,432.9	0.32%	Increase ODA volume by $10 billion by 2010 and double aid to Sub-Saharan Africa by 2007. Assume continuance of 2.7% growth 2004 to 2011.
New Zealand	$366.2	0.27%	$429.1	0.28%	0.28% by 2007; later NZD600 million (US$480 million) by 2012
Norway	$3,842.2	0.92%	$4,921.6	1.00%	1% by 2009
Switzerland	$2,173.1	0.38%	$3,185.2	0.61%	0.5% by 2015
United States	$28,186.8	0.19%	$28,375.0	0.19%	The United States committed to double aid to sub-Saharan Africa between 2004 and 2010 to $8.67 billion. Assume 8% growth 2004 to 2011 and beyond.
Total DAC Real ODA	**$115,439.1**	**0.27%**	**$156,858.3**	**0.37%**	**Distance from Commitment: US$41.4 billion**

Sources for Commitments: G8 2012 Report; DAC Development Cooperation Report 2010, page 99, and DAC Development Cooperation Report, 2006
** Real ODA is Total ODA, less debt cancelation, refugees in donor countries, and students in donor countries.*
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Brazil

Emerging Brazilian cooperation: Reflections on its parameters and public-private boundaries

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In the last decade Brazil has been pursuing a more ambitious international agenda in order to leverage its economic growth and strengthen its position in multilateral forums of global governance. Regional integration in South America, the promotion of commercial and political relations with African countries, and deeper engagement with other emerging countries are key goals for its foreign policy. Based on this framework and taking advantage of Brazil's economic significance, its social and natural resources, the country has taken a proactive role in the reconfiguration of power dynamics at the global level, with the view to making it more multi-polar, with a better balance between Northern and Southern nations.

It is within this context that Brazil emerges as a new actor in the field of international cooperation, recognized among the so-called "new donors", protagonists of a new modality of intervention, South-South cooperation. Great expectations are growing in relation to these new actors, in an environment which increasingly recognizes the quantitative and qualitative limits of the traditional model of aid as it has been practiced by countries of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD/DAC). However, besides positive expectations, there are also significant questions that should be addressed: Are these "new donors" in fact promoting a qualitative and quantitative change in the policies of international cooperation? Or are they simply reproducing the same standards of traditional cooperation and, even worse, without the mechanisms of transparency and social control that have been built into the trajectory of North-South cooperation?

Brazilian international cooperation confirms this ambivalence: there are reasons for hope, but also apprehension about whether governmental and non-governmental diplomacy will adhere to the principles of solidarity and justice, and the worldwide defense of human rights and common public goods.

Brazil's implementation of its national development project is itself ambivalent. The country is the 6th largest world economy and, at the same time, a country of extreme inequalities where 36 million people live in poverty. Innovative policies for income distribution and social inclusion, support of family agriculture and cooperative enterprises coexist with the promotion of mega projects for commodity production, energy and infrastructure, whose social and environmental benefits are rather controversial. The country has developed solid democratic institutions, with channels of social participation in the design and monitoring of various social policies. Yet, some areas continue to remain impervious to social accountability, especially economic and foreign policies. In recent years, the government has created a hostile environment for civil society organizations and social movements, making access to public and private resources more difficult, due to the lack of clear policy and legal frameworks needed to promote the autonomous organization of society.

Despite Brazil's expansion of its international cooperation programs, there is little data available. This is partly due to the absence of an integrated accounting system for the various institutions involved and the lack of consensus on what is understood as international cooperation for development, (Usher, 2011; Cabral and Weinstock, 2010). In addition, there are few independent impact evaluations and also little analysis of approaches used, and of existing barriers to cooperation. (Bava, 2011; Souza, 2012)

An Overview of Brazilian Cooperation and its modalities

Brazil has been traditionally regarded as a recipient country in international cooperation. Despite its recent economic growth, the OECD-DAC data on financial flows does not indicate a decline in received resources in recent years, reaching US$664 million in 2010. But few studies about the characteristics and trajectory of this aid have been produced, maybe because the amount was never very relevant in relation to the country's GDP. A plausible assumption, which would require a more thorough investigation, is that these funds are currently changing focus, migrating from traditional areas of assistance to new strategic areas such as power generation and protection of forests. (Beghin, 2012)

Information on Brazil as a donor is even scarcer, since it involves a multiplicity of actors such as ministries, secretariats, municipalities, foundations, universities, companies and NGOs. A pioneering effort of documentation has recently been produced by the Brazilian Cooperation Agency (Agência Brasileira de Cooperação, ABC), linked to the Ministry of Foreign Affairs, and the Institute of Applied Economic Research (Instituto de Pesquisa Econômica Aplicada, IPEA). They examined the resources invested in international cooperation for more than 100 federal Brazilian agencies between the years 2005 to 2009. (Cintra, 2010)

The aspect that most stands out is the increase in Brazilian investment in international cooperation, growing from US$24.9 million in 2005 to more than US$362.2 million in 2009 (constant values). Three quarters of this cooperation is accounted for by Brazil's contributions to international organizations and regional banks, while 9.9% is directed to scholarships, 8.5% to technical cooperation and 5.0% to humanitarian aid. Technical cooperation and humanitarian aid were the fastest growing modalities, which together accounted for 7.5% of the total in 2005 and represented 25.5% in 2009. In both areas, the country has sought innovative approaches, sharing experiences of participation and social inclusion but, as noted above, still lacks independent studies on their impacts.

Financial and commercial cooperation between Brazil and other developing countries can be considered the largest information gap about the Brazilian cooperation (Schlager, 2007), and unfortunately the study by ABC/IPEA does not provide comprehensive data on this cooperation. However, when financial and commercial cooperation data is included, it is clear that concessional lending to support Brazilian exports is quite relevant. According to Cabral (2011), the values of loans from 2005 to 2009 exports correspond to US$1,776 million, debt cancellation $474 million, and food financing $349 million. If considered along with the other modalities of cooperation, export loans would represent 43% of the total, as illustrated in the chart below:

It is in the field of concessional loans that the private sector is more visible, since these are Brazilian companies that receive loans to facilitate

Distribution of total investments according to cooperation modalities 2005 – 2009

Graphic 1 – Modalities Included in the IPEA/ABC study

Graphic 2 – Calculation of ABC, including financial and commercial cooperation

2% 4% 3% 29% 11% 43% 8%

Source : Cintra (2010)

Source : ABC in Cabral (2011)

the internationalization of their business or, when resources are provided to partner countries, they are under the condition that purchases must be made from Brazilian companies. As it will be further explored in the next section, it is likely that technical cooperation linked to the private sector also follows the same pattern, as this modality is integrated into financial and commercial cooperation.

The Brazilian Private Sector in Africa: Private Gains, Public Costs?

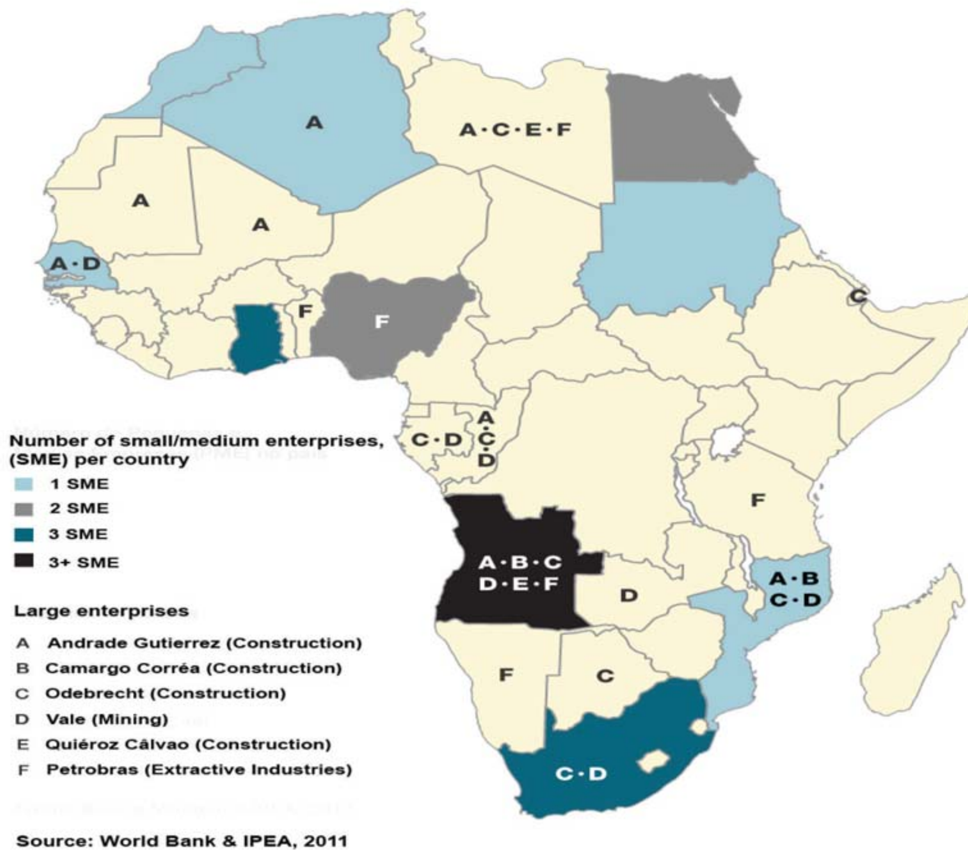
The Brazilian presence in Africa is particularly relevant to demonstrate the potential risks and contributions of Brazilian South-South cooperation, linked to the participation of the private sector, for development effectiveness. In the first place, half the resources for technical cooperation invested by Brazil are directed to Africa and a majority of the partner countries are highly dependent on ODA. In addition, many African countries do not have a robust and organized civil society, with the autonomy to demand and ensure government and private sector accountability for their actions. As a result there is greater risk that social and environmental impacts of projects are not taken into consideration. In the case of countries with an incipient national private sector, the possibility of large Brazilian companies creating unfair competition is also significant.

Africa is not only the main focus of Brazilian cooperation during the Lula Government (2003-2010), but the continent is also an important frontier for the expansion of Brazil's trade and political alliances. The Brazilian diplomatic network in Africa grew significantly during the Lula period, resulting in the establishment of 37 embassies and two general consulates. Between 2003 and 2008, trade flows between Brazil and Africa increased from US$6 million to US$30 million, and the presence of Brazilian companies in Africa has been growing significantly (see map below).

Investments in infrastructure projects by Brazilian companies on the continent are not new; they have been investing at least since the 1970s. However, since the Lula government there has been more intense and concerted support for the promotion of trade with Africa, alongside greater engagement by Brazilian foreign policy officials in encouraging the involvement of Brazilian companies in projects of national reconstruction. Support for the execution of projects in Africa have developed around three axes: encouraging the participation of Brazilian companies; funding and granting credit for national reconstruction projects; and bilateral technical cooperation, by sending missions to support urban development. (MFA, 2011)

The National Bank for Economic and Social Development (Banco Nacional de Desenvolvimento Econômico e Social, BNDES) has, in recent years, implemented significant reforms to support the new role of the state

Map 1: Presence of Brazilian Companies in Africa



within Brazil and abroad. This Bank's importance in terms of investment resources is growing, not only for the Brazilian economy: since 2005 the volume of loans increased by 391% reaching US$96.32 billion in 2010, approximately 3.3 times more than the World Bank. The role of the BNDES has been essential for investments in infrastructure in Africa. The large conglomerates of engineering and construction firms are the main beneficiaries of public credits directed for these projects. (Garcia, 2011) For instance, funding was targeted to the following countries, (BNDES, 2011 and MRE, 2011):

- Mozambique: approval of funding of US$80 million in 2009 for the construction of the Nacala airport;
- Ghana: funding for the construction of the Eastern road corridor in 2010, to be undertaken by Brazilian construction firms Oderbrecht and Andrade Gutierrez, budgeted at more than US$200 million; and
- Angola: approval of a credit line of US$3.5 billion, aimed at national reconstruction projects, undertaken by four major Brazilian construction companies operating in Angola.

This increase in funding by BNDES for Brazilian companies carrying out infrastructure projects in Africa coincides with growing governmental technical cooperation projects in these countries. The relationship between these two kinds of activities on the part of Brazil in Africa is still unclear. There is little data available to analyze the public-private relationship in countries where governmental cooperation co-exists with private investments. Nonetheless, there is an urgent need for assessing how far there is *alignment* of cooperation practices with support to Brazilian private investment. If so, what are the positive and negative impacts? Can these different initiatives find synergies in ways that promote greater transparency and effectiveness of social development projects, especially when the various partners are relating to the same sectors and territories?

Since the terms and conditions of loans are not made public, there is no information about the social and environmental criteria guiding the internationalization of Brazilian companies, even though their investments involve the financing of infrastructure projects, with considerable social and environmental risks and costs. Bearing in mind that BNDES resources are public, the lack of transparency is of deep concern. To what extent do the activities involved in private sector investment in infrastructure and development cooperation as a whole, take into account the right of African countries and their populations to fair and sustainable development? (Beghin, 2012)

Integration of technical, financial and commercial cooperation

A particularly interesting example regarding the integration of technical, financial and commercial cooperation is the program *More Food Africa* (*Mais Alimentos África*). This program adopts a cross-sectoral approach in order to increase the productivity of smallholder agriculture in a sustainable manner and strengthen national strategies for food security (Leite, in press). The program, led by the Ministry of Agrarian Development, (MDA), is inspired by the Brazilian program *More Food* (*Mais Alimentos*).

More Food Africa has three lines of action. First, a technical cooperation project is signed with authorities from each country, with the objective of facilitating the exchange of technical assistance and extension activities for rural areas. The Brazilian Government offers credit through concessional lending to the country to import Brazilian agricultural machinery and

equipment, considered by the partner country as necessary to implement its national strategy for the development of family farming. Finally, an agreement with the Brazilian industrial sector is made, in which African country partners formulate a list of machinery needed, while MDA negotiates prices with the relevant trade unions in Brazil with predetermined conditions. (Patriot and Pierre, in press)

The program is considered innovative for trying to reconcile different goals and interests: supporting family agriculture in the partner country as well as Brazil's industrial sector. However, such approaches have been common in North-South cooperation in agriculture. It is necessary, therefore, to explore what really differentiates the Brazilian program and how to ensure that it will not replicate past mistakes. An important factor to be considered is the role that the mobilization and involvement of civil society and social movements in Brazil have had, to make such programs successful in Brazil. To what extent can this experience be replicated without the participation of these actors?

The *More Food Africa* also includes practices highly criticized by global civil society. (Reality of Aid, 2010) The requirement to buy Brazilian machinery can be characterized as "tied aid", and the need to submit a national strategy for agricultural development to have access to finance, can be seen as conditionality. The Brazilian Government itself has taken positions against such practices in multilateral debates on aid and development effectiveness.

Conclusion: Piecing together the puzzle

Brazil-Africa relations in recent decades illustrate the integration between Brazilian international cooperation, intensification of imports and exports, and direct investment by the Brazilian private sector in the continent. (World Bank and IPEA, 2011; Schlager, 2007) If, on the one hand, private sector participation in infrastructure projects can contribute positively to the socio-economic development of African countries – assuming a growing volume of resources invested will bring gains in terms of innovation, scale and technology transfer – on the other hand, such investments also represent risks and concerns of various kinds. (Beghin, 2012)

Government funding for the internationalization of Brazilian private companies in Africa raises a series of questions about the legitimacy of this arrangement, and of the *motivations* for Brazilian cooperation: What are the criteria for the selection of companies and projects to be subsidized? Do they include environmental impact concerns and the participation of civil society in partner countries? In which way do activities of Brazilian subsidized companies correspond with projects and international technical cooperation programs carried out in the same countries? Are they aligned with principles defended by the official discourse on South-South cooperation? Above all how does such a cooperation modality combine the principle of non-conditionality with the search for mutual interests?

These are difficult issues, but unavoidable for the maturation of Brazilian international cooperation policy. There is an urgent need to promote research, technical studies and evaluations that can support and build local knowledge about these forms of cooperation. It is also crucial to support civil society engagement to conduct independent studies, to develop common positions regarding Brazilian and multilateral organizations' policies and practices, to participate in the design, implementation and execution of projects, and to encourage mobilization of civil society in the partner countries and their integration into global citizenship movements.

Some important initiatives of civil society organizations in this regard are underway: the *BNDES Platform*, for example, brought together several Brazilian civil society organizations to monitor and influence development policies of the Bank, at both the national and international levels. The Brazilian Network for the Integration of Peoples (REBRIP) has also been bringing together organizations engaged in the monitoring and impact of Brazilian foreign policy since 2001. On the occasion of the Fourth High-Level Forum, held in Busan, 2011, the NGO platform, ABONG (Associação Brasileira de ONGs), with other partner organizations, organized a meeting to exchange knowledge and facilitate interaction among representatives of the Brazilian civil society that would be present in Busan. It resulted in a declaration by Brazilian civil society organizations on international cooperation and development effectiveness.

Finally, we must bear in mind that horizontal cooperation, or South-South Cooperation, as a broader concept than the traditional concept of Official Development Assistance (ODA), requires new analysis and parameters for evaluation. The Brazilian case suggests that the analysis of the United Nations Economic and Social Council (ECOSOC) is correct, according to which South-South Cooperation should include the country's provision of commercial loans for exports, granted at concessional terms, since such flows are important to the economic development of the partner countries and to the promotion of mutual interests. (Cabral, 2011) For researchers and civil society, there is a pressing need to understand cooperation as part of foreign policy, an arena that encompasses state actors, private companies and organized civil society, in a struggle that can either promote or compromise fair and sustainable development, human rights and common goods.

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India

Aid and the Private sector: A study in the context of India

Sagarika Chowdhary, Balendushekhar Mangalmurty and Anil K Singh*

Background

The international aid system has undergone a lot of changes in recent years. Initially dependent on Official Development Assistance (ODA) by DAC countries, it has moved on and become more complex. Under pressure to prune budgets in the wake of financial crises, the traditional donors are finding it difficult to meet their commitment to allocate 0.7% of their GNI to ODA. ODA has also come under criticism for being an inappropriate mechanism through which to assist development in poor countries. An OECD report, *The Tying of Aid*[1] found that donors continue to be driven by economic and political motivations in tying their aid. Donor countries aim at increasing their exports through aid. Tied aid also influences the policy options for the recipient country as they are tied to the decisions made at the behest of the donor countries.

At the international level new and competing paradigms for development are emerging. A consensus is growing for both the decentralisation of resources and, more equitable access to make development more inclusive. The June 2012 UN Rio +20 Outcome advocates for democratic access and control by smallholders, women, indigenous people, youth and other marginalised groups over resources; committing adequate public financing for poverty eradication, social equity and sustainable development; establishing a strong regulatory framework for the private sector; and establishing participatory accountability mechanisms.

Over the years increasing concerns have been raised that aid has not been able to achieve its goals. Against such background, a movement towards international aid effectiveness began to take shape in the late 1990s, acknowledging that money alone is not enough. Aid had to be seen as a partnership, rather than a one-way relationship between donor and recipient. This agenda for aid effectiveness has been expressed through a series of High Level Forums since 2003.[2]

Emerging trends

The dominance of the G8 and the hegemony of OECD donor countries, including the leadership of the United States, are being challenged by several players on the world stage. The BRICS is one such formation of growing upper middle-income countries. It is estimated that the BRICS economies will overtake the G7 economies by 2027. Four countries (Brazil, Russia, China and India), combined, currently account for more than a quarter of the world's land area and more than 40% of the world's population. Goldman Sachs predicts that China and India, respectively, will become the dominant global suppliers of manufactured goods and services, while Brazil and Russia will become similarly dominant as suppliers of raw materials.[3]

The ten largest economies in the world in 2050, measured in GDP (billions of 2006 USD), according to Goldman Sachs.[4]

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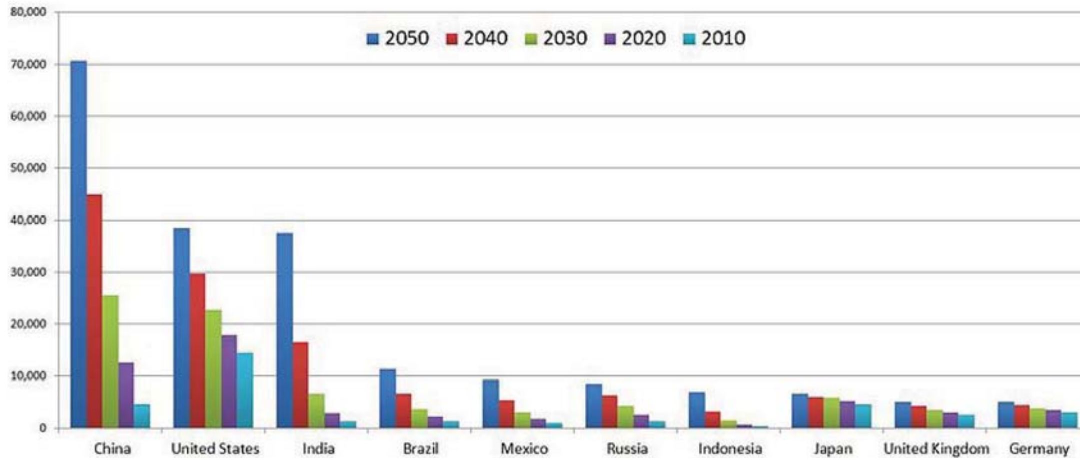


The international aid system is also no longer dependent on OECD Development Assistance Committee (DAC) members alone. In recent years non-DAC countries, and particularly the BRICS, have started flexing their muscles in the international aid system. Global Humanitarian Assistance published a report in July 2010[5] ranking BRICS countries on the total amount of humanitarian aid channelled through United Nations (83.6%), elected governments (7.3%), NGOs (3.3%) and others (5.8%).

- Saudi Arabia- US$51.8 million
- United Arab Emirates- US$35.3 million
- Kuwait- US$34.2 million
- Russia- US$32.5 million
- India- US$14.6 million
- South Korea- US$13.2 million
- Qatar- US$12.9 million

The international aid system is also witnessing increasing levels of public private partnerships. The role of the private sector is growing in the aid system. International donors have been associating the private sector, sometimes through non-governmental organizations (NGOs), in the implementation of the projects funded by the donors. In recent years, WHO's work has involved more collaboration with NGOs and the pharmaceutical industry, as well as with foundations such as the Bill and Melinda Gates Foundation and the Rockfeller Foundation. Some of these collaborations may be considered global public-private partnerships (GPPPs). Half of the WHO budget is financed by private foundations.

The Case of India

India is an interesting case in this evolving international aid scenario. From being one of the world's largest recipients of foreign aid in the mid-1980s, India has become a net donor. In 2008 it allocated about US$547 million to aid-related activities, while approving US$2.96 billion in Lines of Credits (LoCs) mostly to Sub-Saharan Africa (SSA).

In 2003, India became a net creditor to the IMF and the World Food Program after having been a borrower from these organisations for years. India laid out its new policy towards aid in June 2003.[6] It would no longer accept tied aid. Bilateral aid would be accepted only from five countries, namely the United Kingdom (UK), the USA, Russia, Germany and Japan, in addition to the

European Union (EU). Bilateral cooperation with other donors would not be renewed after completion of existing projects, although these donors may still channel their assistance through NGOs and multilateral agencies. In many respects, this decision was a political one in order to secure a permanent seat in the reform of the UN Security Council, and not based on any financial consideration. It is important also to note that many innovative schemes were initiated and implemented successfully by these bilateral donors, which have become models for development.

Government of India has established its own overseas development aid agency named Development Partnership Administration under the Economic Relations Division of the Ministry of External Affairs. Major traditional donor countries usually have an autonomous agency to administer their aid, such as USAID and the UK's Department for International Development (DFID). Development Partnership Administraion is GOI's effort along that direction.[7]

India focuses its development assistance in two geographical regions: its immediate neighbourhood, particularly Bhutan, Nepal, and Afghanistan and the developing countries of Africa.

India has pledged US$5 billion in aid to Africa, an amount almost equivalent to its own annual healthcare budget- around US$5.9 billion.[8] Africa is one of the weakest links in the realisation of the Millennium Development Goals (MDGs). Apart from development aid, India will also US$700m to build institutions and establish training programmes and US$300m to develop the Ethio-Djibouti Railway. Plans for an India-Africa virtual university and more than 22,000 higher education scholarships for African students are also in pipeline. Apart from these initiatives, India will contribute US$2m to the African Union Mission in Somalia (AMISOM).[9] Similarly, India's largest public-sector oil company, ONGC, has invested US$10m to build a railroad in Nigeria.

Afghanistan has also become a significant recipient of Indian development assistance. If current trends continue, Afghanistan will shortly overtake Bhutan as the single-largest recipient of Indian development assistance. Since 2002, India has pledged US$750m under the assistance programme for Afghanistan.

India's official development assistance (ODA) is a mix of project assistance, purchase subsidies, lines of credit, travel costs, and technical training costs incurred by the Indian government.

One new idea that holds significant potential is contained in a government report currently under review. The report recommends that Indian non-governmental organisations be permitted to use their funds in other countries. This move will open the door for Indian non-governmental organisations to serve as the 'soft' arm of the MEA. Although this policy is being debated under the aegis of the Planning Commission of India, most signals point to a policy that will also enable public-private partnerships in Indian development assistance. When it happens, this change will be assisted by the establishment of large voluntary organisations by India's biggest corporations, including Reliance, Tata, Bharti Airtel, Mittal etc.[10]

While India's assistance to Bhutan, Afghanistan, and Nepal is devoted mainly to infrastructure and project assistance, aid to other countries (especially in Africa) is focussed on training civil servants, engineers, and public-sector managers in recipient nations. Aid goes to providing loans to enable foreign governments to purchase Indian equipment and services and for project-related

activities such as feasibility studies and sending technical experts from India. The country provides very little development assistance in the form of cash grants.

While CSOs criticize the conditionalities of traditional donors, countries like India and China have their own tied conditionalities attached to their aid. These latter policies ignore the fact that traditional ODA have come under attack mainly on the grounds of the tied nature of their aid. China and India are implicated in many cases in human rights violations in the countries of Asia and Africa through their support to dictatorships that supress human rights. Civil society organisations in India should not remain a mute spectator. They should take a definite and ethical stand on these issues with their own government.

Geopolitical Considerations in Indian aid

A strong underlying motivating factor for India's aid priorities is the India-China rivalry for regional supremacy and the quest for natural resources. This competition focuses on three major issues: diplomatic influence, oil reserves, and markets for goods.

India's rivalry with China is most evident in the two countries' quest for African energy resources, with both countries trying to secure 'equity oil'.[11] Africa enjoys some eight percent of the world's known oil reserves, an attractive prospect for China (the world's second largest importer of energy) and India (the fifth). Africa is also a growing market for exports. Indian firms have begun to invest in Africa in significant volumes, with almost US$400 million in the last two years alone. In Africa, Indian products in light engineering, consumer goods, and intermediate products can compete on price and are well adapted to local conditions. For instance, trucks made by the India corporate giant Tata sell well in Africa.

Given its quest for regional power status and membership in the UN Security Council, India is increasingly eager to portray itself as a provider of development assistance. In fact, in a major development, at the 2012 G20 summit, held at Los Cabos, Mexico, Prime Minister Manmohan Singh announced that India would contribute $10billion to the International Monetary Fund's additional firewall of $430 billion meant for the eurozone, in a stark reversal of roles![12] At one point in the mid-1980s, the country was the world's largest recipient of foreign aid. Now foreign aid constitutes less than 0.3 percent of the country's national GDP and is marginal at best in India's economic development. On the other hand India's development assistance is well behind China's development assistance. (Estimated to be about seven times that of India's!).

Critical debates in international aid in India

Indian NGOs' response to aid is divided into two main perspectives. One perspective says that Indian NGOs should focus on generating resources from the people in the country itself, from a growing and affluent middle class. This will ensure that they become more politically rooted as well as more accountable to the people they claim to represent. This way they can also overcome the conditionalities that come with their reliance on foreign funds. The donors dictate strategies for implementing projects, which are often completely out of tune with social and political realities and most of the time do more harm than good. More reliance on domestic resources would check this aid dependency.

On the other hand, the advocates for aid argue that all Indians deserve entitlements to food

security, safe drinking water, healthcare, sanitation and education at affordable prices. These are areas where well-targeted aid has the potential to reshape India in a more inclusive, participatory, and egalitarian direction. In absolute dollars, aid may not deliver much to India's social spending programmes. But its contribution must not be trivialized so long as the Indian state fails in public services provision for all Indians.

Public-private partnership model: A case study of India

Sectoral priorities for public investment

The focus of the Eleventh Five year Plan (2007-12) has been on infrastructure. It envisaged an increase in investment in physical infrastructure from the level of about 5% of GDP during the Tenth Plan (2002-07) to about 9% of GDP by 2011-12 (final year of the Eleventh Plan). This was estimated to require an investment of Rs 20,56,150 crore[13] (US$514 billion) during the Eleventh Plan period as compared to an estimated investment of Rs 8,71,445 crore (US$218 billion) during the Tenth Plan. Further, it was estimated that the contribution of the private sector in this investment would increase from about 20% in the Tenth Plan to about 30% in the Eleventh Plan.[14] The contribution of the private sector in total investment in infrastructure in the first two years of the Eleventh Plan was 34.3% and 33.7% respectively, which is higher than the Plan's target of 30% of investment by the private sector.

The focus of Twelfth Five Year Plan (2012-17) has been on social sector. But investment is well below its targets. The Approach document for this Plan notes that resource limitations imply the need to prioritize carefully and that some priority areas, e.g., health, education and infrastructure, will receive more funds than other areas. Although the country targeted 6% share of GDP to the education sector, performance has fallen short of expectations. During the Financial Year 2011-12, the Central Government of India has allocated Rs 38,957 crore for the Department of School Education and Literacy. Within this allocation, a major share of Rs 21,000 crore is for the flagship programme 'Sarva Siksha Abhiyan'. However, a budgetary allocation of Rs 21,000 crore is considered very low in view of the officially appointed Anil Boradia Committee's recommendation of Rs 35,659 crore for the year 2011-12. This higher allocation was required to implement the recent legislation, 'Right to Children to Free and Compulsory Education Act', 2009.

Similarly, India's total expenditure on health amounts to 5.1% of the GDP, while its per capita total expenditure on health is $ 80 compared to an average of over $220 spent by many other developing countries. These trends have resulted in shift in demand towards private providers, which are prohibitively expensive for most of the population.

Strengthening Public-Private Partnerships (PPPs)

A Public-Private Partnership is not the panacea for all development ills; however, at its best, it represents the convergence of private sector capabilities and the government's priorities. A large number of PPP projects have been taken up in various infrastructure sectors, including roads, ports, airports, and urban infrastructure. A total of 937 projects, involving an investment of Rs 7,16,439 crore are currently at various stages of awards and implementation.

Some illustrative PPP projects include the following:[15]

- Bangalore International Airport, Karnataka
- Rajiv Gandhi International Airport, Hyderabad
- Chhatrapati Shivaji International Airport, Mumbai
- 6 Laning of Jaipur- Kishangarh National Highway
- Hyderabad Metro Rail Project, Hyderabad
- Bridge across River Godavari between Yanam-Edurulanka, Andhra Pradesh, etc.

As a major policy decision, Government of India notified the Viability Gap Fund (VGF) Scheme[16] in 2006 to enhance the financial liability of competitively bid infrastructure projects.

Public-Private Partnerships extend to other areas

This public-private partnership framework, however, is not limited to the area of infrastructure alone.

As a matter of fact, several of India's flagship programmes are running under the PPP framework, (though not in the traditional sense of PPP) with significant external funding. For example, Sarva Siksha Abhiyan (SSA)[17] was partially funded to the tune of Rs 4700 crore from 2003-04 to 2006-07 by the World Bank, the European Commission and DFID.[18] SSA involves a Public-Private Partnership; not at the stage of construction of physical infrastructure, but at the monitoring stage. The monitoring mechanism includes apart from government representatives, representatives of civil society (i.e. two NGOs working on elementary education). The Government of India is also commissioning several independent assessments to assess the implementation of SSA and the elementary education situation in the country.

Similarly under 'Rajiv Gandhi Grameen Vidyutikaran Yojana'[19], a franchisee can be an NGO, a Self Help Group, User Associations, Cooperatives or individual entrepreneurs. This is also an excellent example of PPP.

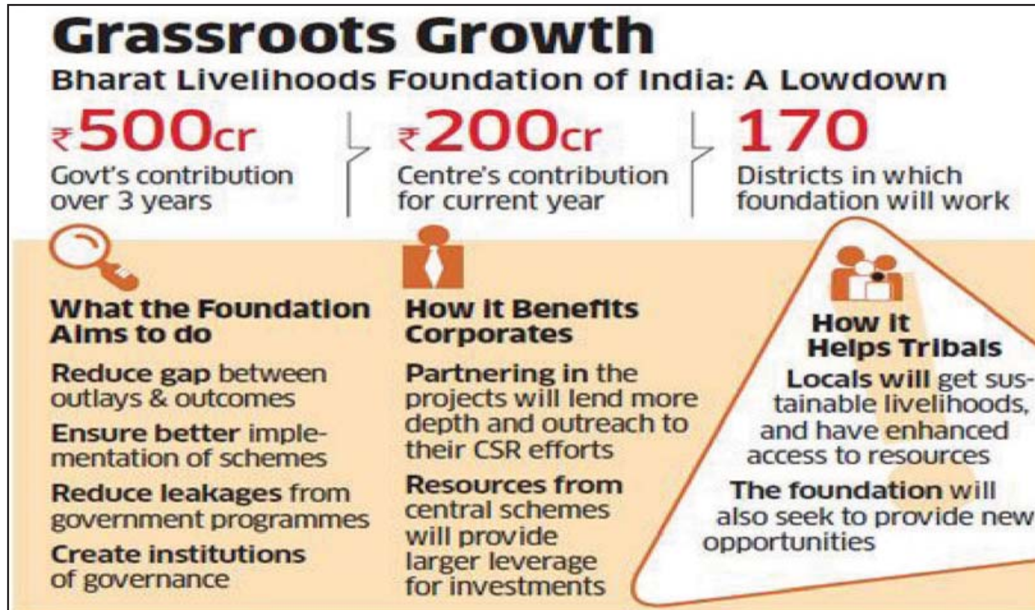
The Mid-day Meal Scheme[20] in the state of Karnataka has successfully involved private sector participation in the programme.[21] In the mid-day meal scheme, the weekly menu is decided by the local authorities (i.e. village Panchayats, VEC, Self-Help Groups, etc). Representatives of Gram Panchayats/Gram Sabhas, members of VECs, PTAs, SDMCs as well as Mothers' Committees can monitor the quality of the food cooked.

The Bharat Livelihood Foundation of India[22] is an acknowledgement of the resourcefulness and initiative of the private sector. The Foundation attempts to link leading corporate houses with the Government initiatives in a public-private partnership framework to counter naxal insurgency through development work. For 2012, the Government has allocated Rs 200 crore to the Bharat Livelihood Foundation of India, which will work to improve livelihoods and the habitat of tribal communities in 170 districts. It plans to provide a total of Rs 500 crore to the Foundation over three years.

Draft National Public-Private Partnership Policy

The considerable growth in Public-Private Partnerships in the last 15 years has led the Government to envisage a substantive role for PPPs as a means for harnessing private sector investment and operational efficiencies in the provision of public infrastructure and services. The Government has set up a Public-Private Partnership Appraisal Committee to streamline appraisal and approval of projects. PPPs are now seen as the preferred implementation mode for Government initiatives in many sectors such as highways, ports and airports. Increasingly PPPs are being adopted in the urban sector and in social sectors.[23]

Fig: Bharat Livelihood Foundation of India.



In September 2011, the Ministry of Finance promulgated a "Draft of PPP Policy 2011" and solicited views and suggestions from all stakeholders over a month.

The Draft National PPP Policy seeks to facilitate this expansion of PPPs, where appropriate, in a consistent and effective manner, through measures:

1. Setting out the broad principles for pursuing a project through PPP;
2. Providing a framework for identifying, structuring, awarding and managing PPP projects;
3. Delineating the cross-sectoral institutional architecture and mechanisms for facilitating and implementing PPPs;
4. Standardizing some of the vital interpretations and processes of PPPs so that a clear and consistent common position is adopted for key issues; and
5. Identifying the 'next generation issues' to mainstream, upscale, broaden and expedite PPPs.

The implementing agency for a PPP project must establish appropriate mechanisms for project monitoring such as Project Monitoring Unit (PMU) as well as appropriate inter-department committees. The latter would oversee project implementation, facilitate coordination between departments and render assistance during dispute resolution or arbitration.

In order to continuously monitor the performance of the PPP projects over the project life cycle, the Government is establishing a Management Information System for PPP projects.[24]

The Government has created a progressive financial support system for PPP projects. It has put in place a number of financing mechanisms to support PPPs, either for project development or for gap financing of capital and life cycle investments. These mechanisms include the

India Infrastructure Project Development Fund (IIPDF), the Viability Gap Funding (VGF), resources for annuities/availability based payments, long term lending, a refinancing facility, infrastructure debt funds, among others.

The implementing agencies are to encourage leveraging funding for PPPs available from schemes such as JNNURM[25], Bharat Nirman[26] etc, as well as alternate sources of finance such as Municipal Bonds, Pooled Finance Structures or Pension Funds. The Draft Policy states that monopolistic tendencies inherent in basic services projects will be controlled so as to protect the interests of both the consumers as well as private investors.

Government agencies sponsoring a PPP project retain full responsibility for making available unencumbered land for the project and obtaining clearances from relevant regulatory authorities. The agency must also ensure that the interests of land owners are fully protected under the extant laws.

A number of capacity building interventions have also been initiated by the Government to develop organizational and individual capacities for identification, procurement and managing PPPs. A National Capacity Building Programme provide training on PPPs in a phased manner for State Governments, Urban Local Bodies and Central Government departments.

Implementing Corporate Social Responsibility

While the Draft Policy on PPPs is welcome, Corporate Social Responsibility (CSR) is another mechanism whereby the government is managing the utilization of private sector expertise in the social sector. However, CSR raises certain challenges.

The Indian Government would like to make it mandatory for companies to spend at least 2% of their net profits on CSR. Industry has strongly resisted a mandatory requirement for CSR. Facing strong criticism, it gave up the effort in mid-July 2011 and made CSR spending mandatory only for public sector companies and for rest it remains voluntary. Instead of defining CSR, the Indian Government recast it as "responsible business" in a set of voluntary guidelines for firms.[27] In the latest round of recommendations, the Government asks that companies keep tab on CSR spending and disclose it to their principal stakeholders.

Recently, the Government also sought to include vocational training for employees as part of CSR. But vocational training was also difficult to delimit. The first Government paper on CSR, released by the Ministry of Corporate Affairs in 2009, also raises health, cultural and social welfare, and education under the purview of CSR.[28]

In the Indian experience of CSR, corporate houses establish their own not-for-profit arms. In majority of the cases, Indian companies are working through their own foundations, using their not-for-profit extensions as tax breaks.

The Azim Premji Foundation, for example, has committed to train five lakh teachers through distance education in the next five years under its 'Wipro Applying Thought in Schools' programme. Indian Oil has set up the Indian Oil Foundation (IOF) as a non-profit trust to protect, preserve and promote national heritage monuments.

A survey conducted by TNS India on behalf of the Times Foundation of Bennett, Coleman & Co has brought out several stark realities about CSR.

It demonstrates that

- Most of the companies implement CSR projects through their own CSR project management divisions, with just about 29 percent involving voluntary organisations and over one-tenth of the companies giving financial support directly to the community or to community-based organisations.
- Education, health and environment are three of the most popular areas of intervention for companies as part of their CSR initiatives.
- Companies continue to decide their own projects depending on a number of parameters. These efforts are driven purely by the company's operational perspectives and the ease of implementation for their CSR projects.
- Many CSR initiatives and programmes are taken up in urban localities. As a result, the impact of most projects does not reach the poor and marginalised in the rural areas.
- Only medium and large corporate houses are involved in CSR activities, and only in selected geographical areas. To address the issue of reaching out to wider geographical areas, the involvement of small and medium enterprises (SMEs) in the CSR domain will be essential.
- Companies end up duplicating each others' efforts on similar projects in the same geographical locations. This creates problems and induces a competitive spirit amongst companies. It is recommended that companies involved in CSR activities urgently consider pooling their efforts into building a national alliance for corporate social responsibility.

But as corporate social responsibility is not compulsion under law, corporate initiatives under CSR are erratic, unplanned and have elements of spontaneity. The Indian companies are clearly not utilising 2% of their earning as CSR. This percentage would have been a very large outlay by any measure and if utilised in proper way, it could have given a huge boost to the PPP model. It is a major failure on the part of Indian Government, especially considering that companies take many benefits from the state such as tax breaks, special economic zones, purchase and lease of land at highly concessional rates. For these reasons, the Government should not have given way under corporate pressure, but rather should come back to make CSR spending by Indian companies compulsory.

Extending financial regulatory mechanisms to fight corruption

The financial regulatory system in India is well developed. Recently the Government has taken an initiative to check corruption in the private sector (including the social sector). A Transparency International India Report[29] says that the private sector is no longer a victim of government corruption; instead, they are instrumental to corruption and work hand-in-glove with public officials. As such the Government must bring a strong deterrent tool to curb corruption in the private sector. In this regard, the Government has proposed to amend the Indian penal code to make bribes exchanged between private persons a criminal offence.

National Policy on voluntary sector

NGOs were intended to fill gaps in government services. In countries like India, NGOs are also gaining powerful strongholds in policy decision-making. In the interest of sustainability, most donors require NGOs to demonstrate a relationship with governments.

The scale and variety of activities in which NGOs participate in Indian development has grown rapidly since the 1980s, witnessing a particular expansion in the 1990s. Foreign funding has played a significant role in this expansion, as Indian NGOs/CSOs have been getting substantial financial help from foreign donor agencies. In the period from 2001 to 2010, Indian CSOs received more than Rs 70,000 crore. In one particular financial year 2009-10 the foreign contribution was Rs 10,338 crore, as reported under FCRA (Foreign contribution regulation Act).[30]

A breakdown of this financial assistance shows that the highest amount of foreign contributions was allocated (*rather utilised*) for Establishment Expenses (Rs 1482.58 crore), followed by- Rural Development (Rs 944.30 crore), Welfare of Children (Rs 742.42 crore), Construction and Maintenance of school/college (Rs 630.78 crore), and the Grant of Stipend/Scholarship/ Assistance in cash and kind to poor/deserving children (Rs 454.70 crore).

Realising the significant role of the voluntary sector in the national life, as well as their growing international stature, the Government's efforts to establish a new and defined policy with respect to NGOs/CSOs is a breath of fresh air. It recognises that the voluntary sector has contributed significantly to innovative solutions to poverty, deprivation, discrimination and exclusion, through means such as awareness raising, social mobilisation, service delivery, training, research, and advocacy. The voluntary sector has been an effective non-political bridge between the people and the Government. This affirms the growing need for collaboration with the voluntary sector by the Government, as well as by the private sector, at the local, provincial and national levels.

The policy addresses issues of critical importance to Voluntary Sector:

- The Government will encourage the evolution of, and subsequently accord recognition to, an independent, national level, self-regulatory agency for the Voluntary Sector.
- At the same time, there is need to bolster public confidence in the Voluntary Sector by opening it up to greater public scrutiny. The Government will simplify and streamline the system for granting income tax exemption status to charitable projects under the Income Tax Act.
- The Government will review the FCRA (Foreign Contribution Regulation Act) and simplify its provisions that apply to Voluntary Organisations (VOs).
- The Government will encourage all relevant Central and State Government agencies to introduce pre-service and in-service training modules on constructive relations with the Voluntary Sector.
- It is essential that the Government and the Voluntary Sector work together, as Voluntary Organisations have alternative perspectives, capacity to conduct a meaningful dialogue with communities. Where feasible, such partnership may also include other entities such as Panchayati Raj Institutions, municipalities, academic institutions, and private sector organisations.
- The expertise of the Voluntary Sector will also be utilised, by including experts from Voluntary Organisations in the committees, task forces, and advisory panels constituted by the Government from time to time to help address important issues.
- The Government will identify national collaborative programmes to be implemented in partnership with Voluntary Organisations

in areas like poverty alleviation, skill promotion, entrepreneurship development, empowerment of women, population stabilization, combating HIV/AIDS, managing water resources, elementary education and forest management.

- Concerned Government agencies will be encouraged to ensure proper accountability and monitoring of public funds distributed to Voluntary Organisations.
- The Government will encourage various agencies, including those in the Voluntary Sector, to develop alternative accreditation methodologies for Voluntary Organisations, which will lead to better funding decisions and make the funding processes more transparent. Accreditation may provide incentives for better governance, management and performance of Voluntary Organisations.
- The Government will support and encourage existing, as well new, independent philanthropic institutions and private foundations to provide financial assistance to deserving Voluntary Organisations.
- The Voluntary Sector is expected to set its own benchmarks in the areas of transparency and accountability. The Government will recognize excellence in governance among Voluntary Organisations by publicizing best practices.
- The Government will commission suitable agencies to prepare and update databases on Voluntary Organisations.
- The websites of various Government agencies will be re-designed to provide links to key documents and databases, including those related to project funding schemes.
- The Government will encourage involvement of volunteers in public services, such as in family welfare centres, primary health centres, hospitals, schools, vocational training centres, sanitation campaigns, etc.

The relationship between Indian government and the Voluntary Sector has generally been one characterized by a lack of trust and hostility. Voluntary Organisations have been viewed as greedy recipients of foreign aid and dictated by the foreign funders. This attitude is exemplified in a statement of Prime Minister Manmohan Singh wherein he pointed to the foreign funded NGOs behind opposition to Kudankulam Atomic Project.[31] Indian NGOs/CSOs have hope that this Voluntary Sector policy opens a new chapter in the relationship between the Government and NGOs/CSOs.

But it seems to a be wishful thinking, at least for the time being. At present, the Government's Voluntary Sector Policy is still only "on paper" and has not been implemented since its acceptance by the Union Cabinet in 2010. All Ministries and Departments are not following the spirit of the Policy. Even the Ministry of Home Affairs recently made major amendments to the FCRA (Foreign Contribution Regulation Act), which has made it even more stringent to receive funds from foreign funding agencies.

Conclusion

To sum up, the aid and international cooperation are undergoing major paradigm shift. In the wake of emergence of new private players, Government is being forced to make changes in its perspectives and policies towards private players and aid system. PPPs are emerging as new implementing mechanisms. And unlike the traditional definition of PPPs, they are not limited to infrastructure projects, but are extending to social areas, where not-for-profit organisations have increasingly been playing a bigger role. As such, PPPs have emerged as a significant avenue for the aid mechanism. Foreign aid has only scaled up and become more complex, with the

involvement of private sector actors and the foundations in this increasingly globalised world. Bill and Melinda Gates Foundation being one of the illustrious examples. Government has been doing a lot to make adjustments in this changed scenario. And this is not smooth sailing for the government. On one hand, it recognises the role of the private sector, and plans to use them as a 'soft arm' of government; on the other hand, the government tries to clip their wings by making stringent provisions in the FCRA. As a matter of fact, a lot of the challenges owes to the problem that the bureaucracy has, with its old mindset, in sharing space with other stakeholders.

Endnotes

1 OECD Development Centre Studies: The Tying of Aid

2 High Level Forum on Harmonization at Rome (2003), Paris Declaration on Aid Effectiveness (2005), Accra Agenda of Action (2008), Fourth High Level Forum on Aid Effectiveness, Busan (2011).

3 " BRICS AND BEYOND"-Goldman Sachs Study of BRIC and N11 nations, November 23, 2007

4 Ibid

5 http://www.globalhumanitarianassistance.org/report/gha-report-2010

6 www.realityofaid.org/userfiles/roareports/roareport_3ce2522270.pdf

7 http://www.mea.gov.in/development-partnership-administration.htm

8 http://www.indiaafricaconnect.in/upload/publication/AQ_May-July2011.pdf. The Second Africa India Forum Summit was held in Addis Ababa, Ethiopia, from May 24 to 25, 2011. The theme for the second summit was 'Enhancing Partnership and Shared Vision'. The Prime Minister of India Manmohan Singh announced that India would provide US$5 billion in credits to support infrastructure and other development in Africa.

9 http://www.guardian.co.uk/global-development/poverty-matters/2011

10 http://www.idrc.ca/EN/Documents/Case-of-India-pdf

11 'Equity oil' is oil obtained as part of ownership (in part or whole) of an oil-production facility. It is generally much cheaper than oil purchased on the open market and thought to be of great strategic value in unpredictable market conditions.

12 The Hindu, June 19, 2012

13 Crore is equivalent to ten million.

14 http://planningcommission.nic.in/plans/mta/11th_mta/chapterwise/chap14_invest.pdf

15 planningcommission.nic.in/plans/planrel/fiveyr/11th/.../11th_vol1.pd.

16 Government of India has established a *Viability Gap Fund* to aid the PPP infrastructure projects which face the viability gap due to inherent nature of the project. The Viability Gap Funding Scheme provides financial support in the form of grants to infrastructure projects in PPP mode to make them commercially viable. The Scheme is administered by the Ministry of Finance. Provision has been made to provide upto 20% of total project cost as capital grant to meet the funding gap. Also in such project sponsoring agency/department/state can give additional 20% of the project cost VGF support. The criteria is that the PPP project should be implemented, i.e. developed, financed, constructed, maintained and operated for the Project term by a Private Sector Company; selected through a transparent and open competitive bidding process.

17 *Sarva Siksha Abhiyan (SSA)* is Government of India's flagship programme for achievement of Universalization of Elementary Education (UEE) in a time bound manner, as mandated by 86th amendment to the Constitution of India, which makes free and compulsory Education to the Children of 6-14 years age group, a Fundamental Right. Opening new schools in those habitations which do not have schooling facilities and strengthening existing school infrastructure through provision of additional class rooms, toilets, drinking water, maintenance grant and school improvement grants.

18 http://pib.nic.in/archieve/flagship/ssa_faq.pdf

19 Launched in April 2005, Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) aims at providing access to electricity to all rural households and providing electricity Connection to Below Poverty Line (BPL) families free of charge. Habitations above population of 100 are being covered under the scheme.

Under the RGGVY scheme, deployment of franchisees is mandatory in the areas for the management of rural distribution in the areas, where projects have been financed under the scheme. These franchisees will be the authorized representatives of the state power utilities. They may be given the responsibilities of operation and maintenance of the distribution system, issuance of electricity connections, attending of minor faults, meter reading, issuance of electricity bills, collection of bill payment etc. They will work under the supervision of the state utility, which will have the overall responsibility of providing proper services to its consumers.

20 The Mid Day Meal is the world's largest school feeding programme reaching out to about 12 crore children in over 12.65 lakh schools/EGS centres across the country. Purpose- to enhance enrolment, retention and attendance and simultaneously improving nutritional levels among

children.

21 Akshaya Patra Foundation is a not-for-profit organization providing freshly cooked, hot and nutritious cooked classroom lunches for nearly 1.3 million underprivileged children in India. It runs the world's largest NGO midday meal program for underprivileged school children in India. A public-private partnership project, Akshaya Patra delivers school lunch at a fraction of the cost of similar programs in other parts of the world. The Board of Trustees comprise missionaries of ISKCON Bangalore, corporate professionals, and entrepreneurs.

Voluntary organizations such as Akshaya Patra are encouraged to set up operations wherever possible. They act as the implementing arm of the government. Karnataka Human Development Report 2005 explains the policy of involving NGOs in development programs, "*Involvement of the NGOs in multilateral/bilateral programs raises the level of co-operations to another level. The NGOs become not only implementers; they also find a place in designing and managing programs together with government at all levels."*

22 "I have written to the Tatas, Reliance, Infosys, Wipro. It will be a public-private-partnership model. The Foundation will be an independent body with a full-time professional CEO. On [April] 27 we have called a meeting of non-government organisations, donors and State governments. We are hoping to get a good response from the private sector," Mr. Ramesh told reporter. Foundation "will work with civil society organisations" directly in 170 Adivasi (tribal) districts. "Its function will be to build institutions and capacity of NGOs working in livelihood areas, such as dairy, watershed management, women's empowerment, in these difficult districts."

The Foundation will raise an initial corpus of Rs. 1,000 crore, of which Rs. 500 crore will come from the Centre and the remaining from the private sector. This news appeared in the Hindu, April 15, 2012 http://www.thehindu.com/news/national/article3315406.ece

23 "Draft of PPP Policy 2011" *, www.pppinindia.com, accessed on October 7, 2012*

24 The evaluation of the PPP projects would also be tabulated and summarized so as to utilize the same for improving the quality of service delivery levels and sustainability of PPPs in the future. The database of the projects would not only contain information on the ongoing projects but also set out frameworks for monitoring them during various stages of the project cycle. The database would be so developed so as to generate information for undertaking VfM (Value for Money) analysis. PPP Cells would be responsible to set up MIS systems and disseminate information to Government agencies from time to time so as to effectuate suitable policy changes based on the previous experience of managing PPP projects.

25 Jawaharlal Nehru National Urban Renewal Mission (JNNURM) is a massive city-modernisation scheme launched by the Government of India under Ministry of Urban Development. It envisages a total investment of over $20 billion over seven years i.e. the duration of the Mission is seven years beginning from December 2005-06. During this period, the Mission seeks to ensure sustainable development of select cities. Currently, ten projects are being covered by JNNURM funds pertaining to road network, storm water drains, bus rapid transit system, water supply, solid waste management, sewage treatment, river and lake improvement, slum improvement and rehabilitation. It supports public-private partnerships and cost recovery to make service providers financially self-sustaining.

26 Bharat Nirman is an ambitious plan for creating basic rural infrastructure, launched by Government of India in 2005. It comprises projects in six areas: irrigation, roads, housing, water supply, electrification and telecommunication connectivity with an eye on overall development of the infrastructural facilities of the country.

27 http://www.mca.gov.in/Ministry/latestnews/National_Voluntary_Guidelines_2011_12jul2011.pdf

28 http://www.mca.gov.in/Ministry/latestnews/CSR_Voluntary_Guidelines_24dec2009.pdf

29 http://transparencyindia.org/resource/survey_study/Assessment%20of%20Integrity%20Pact%20in%20IP%20compliant%20PSUs.pdf

30 FCRA (Foreign Contribution Regulation Act), 1976, amended in 2010. The prime objective of the Act is to regulate the acceptance and utilization of foreign contribution and foreign hospitality by persons and associations working in the important areas of national life. The Act also seeks to regulate flow of foreign funds to voluntary organizations with the objective of preventing any possible diversion of such funds towards activities detrimental to the national interest and to ensure that individuals and organizations may function in a manner consistent with the values of the sovereign democratic republic.

31 American NGOs fund the protests that hold India back from building the nuclear reactors it needs to meet fast-growing energy needs, Mr Manmohan Singh said in an interview published in Science magazine on February 24.

Australia

Focus on Market-Driven Economic Development Undermines Aid Effectiveness

Liz Barrett and Claire Parfitt
AID/WATCH

Overview

- Total ODA in 2012-2013 is budgeted at AUS$5.2 billion or 0.35% of GNI. This represented an increase in real terms of AUS$315 million;
- Australia has delayed its commitment to achieving 0.5% GNI for its ODA until 2016-2017, missing the target year for the Millennium Development Goals;
- Australia undertook a comprehensive review of aid effectiveness in 2011 resulting in a new policy framework outlining spending priorities for the next 5 years;
- Economic development is a core priority of the aid program and received the highest level of funding of all strategic goals in the 2012-2013 budget; and
- The Government has committed to increase spending through multilateral institutions and NGOs.

Review of aid effectiveness

The Independent Review of Aid Effectiveness undertaken in 2010/2011 aimed to assess the overall effectiveness of the Australian aid program and give advice on the strategic direction of Australian Overseas Development Assistance for the next five years and beyond.[1] The Government accepted 38 of the 39 recommendations from the review and have used this process to produce an overarching policy framework for Australian ODA. This is the first substantial review of the aid program in 15 years, and replaces the previous government's 2006 White Paper on Australia's Overseas Aid.

The new policy framework ("Framework") reconfirms Australia's commitment to the Millennium Development Goals and sets out Australia's ODA as being guided by five core strategic goals. (See Figure 1)

These core strategic goals are reinforced by 10 individual development objectives that includes the development of "sustainable mining" industries as a means of achieving economic development.[2]

The new Framework for Australia's aid program also proposes some changes to the way the aid program operates as it expands due to expected increases in funding. Despite lip-service to "aid effectiveness", many NGOs were disappointed that the Framework did not incorporate the international aid effectiveness agenda to which Australia is a signatory, such as the 2008 Accra Agenda for Action. It also lacks a human rights framework or approach to development.

This chapter examines five aid program highlights:

- Commitment to aid spending
- The purpose of the aid program
- Delivery of aid program
- Regional focus
- Improvements to transparency

Figure 1 The strategic goals of the Australian aid program

SAVING LIVES	PROMOTING OPPORTUNITIES FOR ALL	SUSTAINABLE ECONOMIC DEVELOPMENT	EFFECTIVE GOVERNANCE	HUMANITARIAN AND DISASTER RESPONSE
Increased access to safe water, sanitation and maternal and child health services; large-scale disease prevention, vaccination and treatment	School access, empowering women to participate in the economy, leadership and education, enhancing the lives of people with disabilities	Improved food security, incomes, employment and enterprise opportunities, negating impacts of climate change	Improving governance to deliver better services, improve security, enhance justice and human rights	More effective preparedness and response to disasters and crises

Commitment to aid increases: but not just yet

Although the Australian Government had previously committed to reaching aid expenditure of 0.5% of Gross National Income (GNI) by 2015, the 2012 budget delayed this target under domestic pressure to return the budget to surplus. Aid spending in 2012/2013 increased in real terms from AUS$4.9 billion to AUS$5.2 billion but remained at 0.35% of GNI.[3] This delay has affected initiatives in the new Framework, with most announcements in the budget expected to commence in 2014-2015.[4]

The 0.5% target is now scheduled for 2016-2017, missing the deadline for the Millennium Development Goals. To reach the delayed target, the aid budget for 2012/2013 expects to increase Australian aid to 0.37% of GNI in 2013/2014, 0.41% in 2014/2015 and 0.45% in 2015/2016.[5] In real terms this means an increase of approximately AUS$1 billion per year from 2013 onwards, an amount never before seen in the history of the aid program. These amounts have led some analysts to cast doubt on the achievability of this goal.[6]

Although the commitment to reaching 0.5% at some stage retains bipartisan support, the opposition Liberal Party have been vocal in their criticism of Australia's aid agency[7], and there is some concern that if in power after the 2013 elections, they will abandon the 0.5% target.

NGOs have been strongly critical of the delay, especially given Australia's economic growth and record of being the only OECD nation not to have experienced a recession over the past 5 years. The retention of an aid budget at 0.35% of GNI means that Australia's contribution to overseas aid and development remains much lower than the average OECD contribution for 2011 of 0.46 percent.[8]

The purpose of the aid program

Although the Australian Government has tweaked the language describing the aim of its aid program to focus more on poverty reduction and less on the national interest, there has been an abject failure to completely remove the national interest from the aims of the Australian aid program. The latter continues to be viewed in terms of strategic, economic and security benefits to Australia.

Australian aid allocations to countries, regions and sectors, incorporate the national interest as one of four criteria that determine these allocations. The other criteria include poverty-related need, effectiveness and the capacity to make a difference.[9] Like the new Framework, aid allocation criteria do not include measuring

a particular program or area against international aid and development instruments to which Australia is a current signatory.

Priority Areas

Funding streams in the 2012-2013 budget are assigned according to each of the new five priority areas. 'Sustainable economic development' (SED) is a flagship sector for Australian ODA under this new Framework, expected to account for 27% of ODA expenditure in 2012-2013, representing the highest amount of expenditure for any area. This spending is articulated by AusAID as a link between economic growth and poverty reduction, with an expectation that countries will become less reliant on aid as their economies expand.

SED encompasses food security, with AusAID committing to increase spending on agricultural productivity and work towards the 'opening of markets'. Mining has also taken a dominant role in AusAID's economic development strategy with a focus on providing expertise and regulatory advice to other nations. Funding for climate change mitigation and adaptation programs will continue to be supported through the aid budget. This is despite ongoing criticism that such funding should be additional to aid funding as per international agreements such as the United Nations Framework Convention on Climate Change, the Kyoto Protocol, the Bali Action Plan and the Copenhagen Accord.[10]

'Promoting opportunities for all' encompasses education, gender and disability and represents AUS$1.04 billion or 21% of ODA in 2012-2013. Spending on this component, and education in particular, is expected to increase up to 2015-2016 when it will become the largest sector (closely followed by economic development) for Australia's ODA. Scholarships remain a major part of the education aid budget, with spending on scholarships expected to be AUS$350 million in 2012-2013, 7% of total ODA and 56% of all education spending. Funding for scholarships is expected to expand despite increasing international consensus on the limited impact of scholarships on development objectives[11] and the clear relationship to Australia's economic interests, where the provision of education services is one of our largest exports.

Other areas of expansion include health, with a particular focus on increased funding to water and sanitation (WASH) to help meet MDG targets. Funding in this area is expected to be AUS$1 billion between 2012-2016. As the last of the five core pillars, humanitarian and emergency response has also received greater funding, with AUS$493 million earmarked in 2012-2013, around 10% of total ODA. This funding is largely to be channelled through multilateral partners, which has disappointed many NGOs that work on in-country disaster relief programs.[12] (See Figure 2)

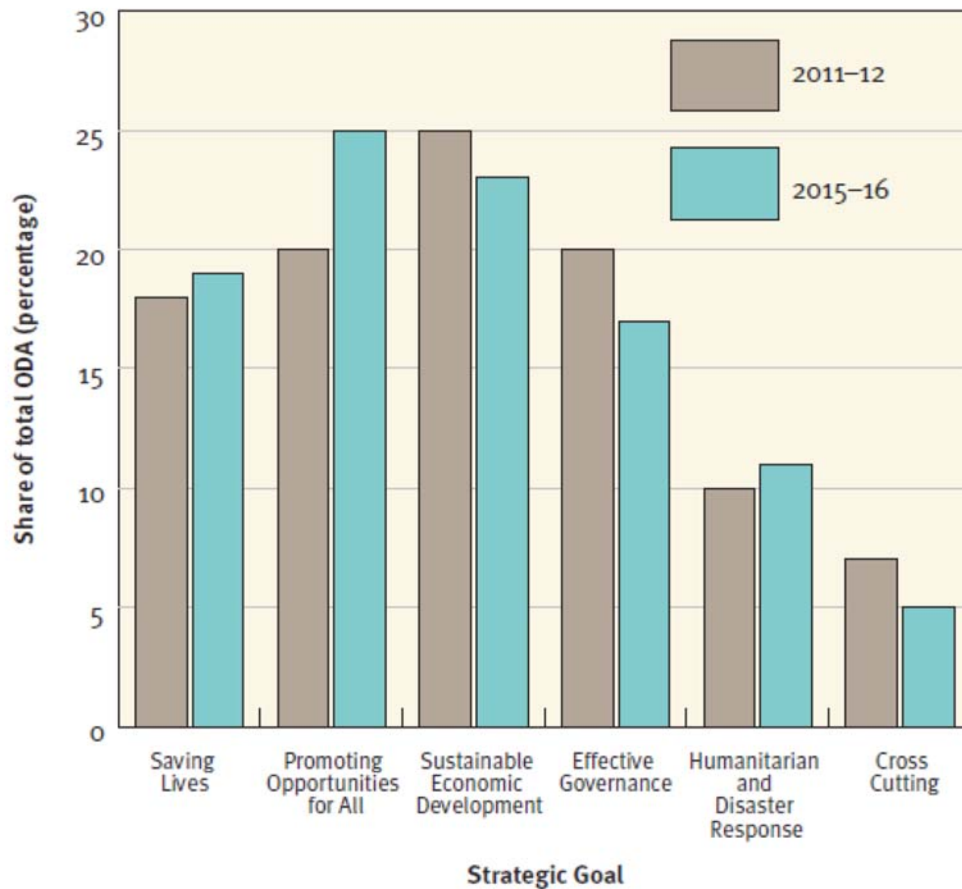
Regional Focus

Given Australia's strategic and trade interests, near neighbours in the Pacific and East Asia will continue to receive the highest levels of ODA, expected to be around 75% of aid allocations for 2015-2016. PNG and Indonesia will remain the two largest recipient countries, and an additional 10 of the largest bilateral aid recipients are located in the Asia Pacific region.[13]

Aid spending to Africa and South Asia is increasing as Australia seeks to boost its image as a "growing middle power with global interests" whilst bilateral aid to China and India will be phased out.[14]

In keeping with earlier commitments to articulate engagement strategies in each country where development assistance is provided, and also to

Figure 2: Share of total ODA expenditure in 2011-2012 and 2015-2016 by strategic goal



Source: Figure reproduced from 'Helping the World's Poor Through Effective Aid: Australia's Comprehensive Aid Policy Framework to 2015-16', AusAID, 2012

achieve Accra Agenda for Action aims of greater recipient input into program design, AusAID has developed country strategies. Country strategies now cover most of AusAID's major country programs.[15]

Aid Delivery: Multilaterals and NGOs set to gain

In keeping with the Independent Review on Aid Effectiveness, the Australian Government has committed to increase core funding to multilateral organisations, including United Nations agencies, global funds and the multilateral development banks. In 2010–2011, total funding to the 42 multilateral organisations was AUS$1.6 billion, or almost 40 % of ODA.[16]

A review of the 42 multilateral institutions receiving funding from Australian ODA was undertaken in 2012 to rank institutions based on effectiveness and value for money, including how their mandate aligned with AusAID priorities and the national interest. Priority for additional funding was given to organisations that ranked a 'high degree of confidence'.

The 2012-2013 budget announced that the World Bank, Asian Development Bank (ADB), World Food Program and UNICEF will be Australia's main multilateral partners, receiving 30% of the total aid budget. An additional AUS$154.3 million will be provided over four years to United Nations Organisations.[17] As the only G20 country not currently a member of the African Development Bank and Fund, the Australian Government has started consultations on joining this institution.[18] Extra funding provided to the ADB in 2012-2013 means Australia is now its second largest donor.[19]

Funding for Civil Society Organisations is also set to increase from AUS$500 million in 2011-2012 to between AUS$700 – AUS$800 million by 2015-2016. In June 2012, the Government produced a framework outlining how they intend to engage with civil society organisations. Like the *Multilateral Assessment,* increases in funding to CSOs will be linked to their effectiveness, capacity to make an impact and relevance to the strategic goals of the Australian aid program.[20]

The predominance of aid spending on technical assistance (TA) will continue to decrease with a commitment to reduce the number of technical advisers by 25% over the next two years.[21] In 2009 spending on TA had peaked, representing 46% of AusAID's budget expenditure, a level twice the average of other OECD countries.[22] A process to reduce unreasonable levels of remuneration is currently underway to also address criticisms over the level of spending on Australian advisors labelled 'boomerang aid'.

Transparency

In November 2011, the Australian Government released a charter on aid transparency, in time for the Busan meeting on aid effectiveness. This Charter commits the Australian Government to publishing detailed information on AusAID programs including policies, plans and internal audits.[23]

Then Foreign Minister Kevin Rudd stated, "the Government intends to be upfront with the Australian public as to what has gone right, what might have gone wrong and what needs to be improved. We are committed to ensuring that the beneficiaries of Australia's aid know that the money is being spent effectively".[24]

In the past, assessments of Australian aid transparency have been mixed, with a report by the Office of Development Effectiveness ranking Australia highly in 2011, but NGO Publish What You Fund (PWYF) ranking Australian aid transparency as 'poor'. PWYF awarded a score of 26% (on a scale of 100) and ranked Australia 36th out of 58 countries and agencies assessed.[25]

AusAID has slowly started publishing country program documents on its website. Whilst this is clearly a welcome and positive reform, there are concerns that the commitment to transparency is being hindered by both the process time for uploading documents and a continuation of old dogmas within the agency. In July 2012 AID/WATCH complained that key documents concerning resettlement in an AusAID funded project in Cambodia were blocked on the grounds that release of the documents would threaten Australia's relationship with the Cambodian Government.[26]

Australia is a signatory to the International Aid Transparency Initiative (IATI) but is yet to give a due date for full implementation of IATI principles.

Conclusions

Whilst there have been some positive reforms implemented in the Australian aid program with the new policy Framework, it also presents a missed opportunity to integrate initiatives from international agreements on effectiveness to which Australia is a signatory. A particular disappointment is the lack of commitment to a human rights approach to development.

Of continuing concern is the link between Australia's aid program with the Australian national interest and the prominence this is given in deciding aid allocations. Programmatically, this has the potential to skew funding towards programs that have stronger links with the strategic, security and economic interests of Australia, and weaker links in terms of effective poverty reduction strategies. This is witnessed in the continuing support of the scholarship program and preference towards supporting mining-related activities.

Nevertheless there are some areas that are cause for celebration such as increased spending towards education, health, higher funding for NGOs and the move towards greater transparency. Given the election in 2013 and continued scrutiny of the domestic budget situated against a global economic downturn, the delivery of current aid program commitments will continue to be challenged.

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Belgium

New persepectives after two years of standstill

Koen Detavernier, Jan Van de Poel & Griet Ysewyn
11.11.11 – The Coalition of Flemish North South Movement

Overview

- In 2011, Belgian ODA was €2,011 million or 0.53% of GNI. This represents an 11.4% decline compared to 2010 when ODA amounted to €2,269 million or 0.64% of GNI.
- Without debt cancellation and spending on refugees and students, 'real' ODA between 2010 and 2011 remained constant at 0.48% GNI, despite Belgium's commitment in 2002 to reach the 0.7% ODA/GNI target by 2010.
- Belgium will continue to move away from this 0.7% target as budgets for Development Co-operation are being frozen.
- The amount of ODA spent by the Development Co-operation Department was 67% in 2011, considerably higher than in 2010 (58%), but similar to 2009 (67%)
- Budgets for 2012 plan Belgian ODA to get close to 0.56%, but it is unlikely this percentage will be reached.
- ODA to the private sector nearly trebled between 2008 and 2009 (from € 44 million in 2008 to €142 million in 2009), fluctuating between 8% and 6% of total ODA between 2009 and 2011
- Budgets for 2012 plan a significant decrease of private sector support from €124 million in 2011 to €100 million in 2012

Stagnating aid budgets

Belgian aid levels have fluctuated since 2002, when the Belgian parliament passed a law committing the government to reach the 0.7% ODA/GNI target from 2010 onwards. Between 2008 and 2010, the Belgian government has made real efforts to systematically increase ODA levels. The 2010 ODA/GNI ratio was 0.64%, up significantly from the 2007 figure of 0.43% and an all time record. In 2011 the ODA/GNI ratio was 0.53%. The sharp decrease is mainly due to less debt cancellations in 2011 in comparison with 2010.

However, Belgium's genuine or "real" aid – total ODA after deducting spending on debt cancellation, refugees and students – was €1.79 billion in 2011, up from €1.74 billion in 2010. As a percentage of GNI, real aid remained constant at 0.48% between 2010 and 2011, but down from 0.50% in 2009. (See Table 1)

In the 2012 budget, the government reaffirmed its commitment to the 0.7% goal, but says it has to delay this commitment due to the economic crisis and budgetary constraints. The budget of the Department of Development Cooperation will be frozen at the 2011 level for 2012 and 2013. Given the impact of inflation and (limited) economic growth, the ODA/GNI ratio will most likely decline further in the near future.

Table 1 Belgian aid levels 2002-2010

YEAR	TOTAL ODA IN € MILLION	SPENT BY DEVELOPMENT COOPERATION DEPARTMENT (% OF TOTAL ODA)	TOTAL AID (ODA/ GNI RATIO)	REAL AID (ODA/GNI RATIO)
2002	1 090	66%	0.43%	0,31%
2003	1 604	46%	0.60%	0,32%
2004	1 178	58%	0.41%	0,36%
2005	1 571	54%	0.53%	0,40%
2006	1 573	53%	0.50%	0,38%
2007	1 425	59%	0.43%	0.37%
2008	1 654	66%	0.48%	0.43%
2009	1 863	67%	0.55%	0.50%
2010	2 268	58%	0.64%	0.48%
2011	2 011	67%	0.53%	0.48%

NGOs watching the budgets closely

Belgian NGOs congratulated the government on its effort to increase the budget between 2008 and 2010, but regret the fact that no additional money is being provided in the coming years, thus leading Belgium away from its ODA commitment to spend at the 0.7% target.

Belgium continues to include debt cancellations, refugee costs and costs for foreign students in its ODA figures, as most donors do. In 2010 a large debt cancellation of €416 million (mainly for the DR Congo) was included in ODA. In 2011 only €95.5 million in cancellation of commercial debt was counted. For 2012 a debt cancellation of €154 million (for Ivory Coast) is being included in the ODA projections.

The real challenge for the Belgian government will be to sustain an increasing ODA/GNI ratio in 2012 and in following years, let alone reach the 0.7% target, when all major debt cancellation packages will have been implemented. A new and large increase in the budget of the Department of Development Cooperation would have been needed for 2012 for Belgium to successfully attain the legislated target of 0.7%..

World record without glory

From July 2010 until December 2011, Belgium was facing a major political crisis. For 541 days the different political parties failed to come to an agreement to form a new government after the parliamentary elections of June 2010. The country was in a state of "current affaires", meaning that no new policies and initiatives could be elaborated. As a consequence Belgium lacked credibility on the international scene. The Rwandese president cynically commented: "Imagine being taught good governance by somebody who is not even able to form a government in his own country".

In December 2011, a new government was formed. The new government's statement of priorities and policy initiatives identified the major coming challenges. The chapter dedicated to international cooperation was titled "For a respectful, efficient and coherent cooperation". The statement promised the installment of an inter-ministerial conference on policy coherence for development. At the end of December, that promise was repeated in a policy statement by the Minister for Development Cooperation, a socialist after more than a decade of center of right politicians leading the department. For the

new Minister, policy coherence for development is clearly a priority, which has created an important momentum for advancing the debate in Belgium.

While the future may be promising, 2010 and 2011 were mainly characterized by political stagnation, including regarding development cooperation policy. Some examples:

The Belgian law on development cooperation

Belgium is one of the few donor countries with a law on international cooperation. In December 2007, the Minister of Development Cooperation announced that the law needed to be revised, to fill gaps (e.g. regarding humanitarian aid) and to adapt the law to the Paris Declaration aid effectiveness framework. But this process was put on hold since the fall of the government in 2010. The new Minister has reopened the debate within the majority. In July 2012 the Federal Council of Ministers approved a draft bill. This draft will be debated and voted in the Belgian Parliament in the last trimester of 2012. The main new aspects are the incorporation of concepts such as a human rights-based approach and policy coherence for development.

Policy coherence for Development

For many years, NGOs are saying that the technocratic focus on aid effectiveness in Belgian development cooperation must not distract from policy coherence for development (PCD). Ensuring coherence between decisions in policy areas with a clear international impact and development goals remains a major challenge.

So far there has been too little progress towards PCD in Belgium as repeatedly argued by the OECD-DAC peer reviews.[1] The December 2011 coalition agreement makes clear reference to PCD, but it could be interpreted in different ways. Nevertheless, the new Minister stressed the need for a 'development reflex' in all international policy areas, which seems to indicate a new trend towards greater coherence. However, the main challenge remains to reflect the Minister's political commitment in measures on the part of the whole of government (in the Belgian federal context – whole of governments). A working institutional mechanism is required to deliberately align policies and their implementation with PCD, including a reference to the PCD-principle in a legal framework or in a revised law on international co-operation. The Belgian government should strengthen inter-ministerial information and coordination mechanisms and between different levels of government to ensure greater efficiency and effectiveness in efforts to promote positive development results.

Climate change

The annual pledged fast-start finance for Belgium for the years 2010 to 2012 is €50 million, €150 million in total. But in 2010 Belgium disbursed only €42 million. Of this amount, €40 million were disbursed through the development budget and registered as ODA. The remaining amount was disbursed by the Walloon region. The regions of Flanders and Brussels were asked to join this engagement but refused to contribute. In 2011 the federal government disbursed only €20 million and the Wallonia region €4.1 million. For 2012 the federal government promises €20 million. For the first time, the Flemish region contributed as well: a little over €1.5 million. These amounts are far below the pledged €150 million.

Although The Copenhagen Agreement promised new and additional resources, this is not the case for Belgium. Not only did the government fail to meet its pledge, most of the actual amount

disbursed and promised has not been additional. Moreover, there is no indication that new sources of finance will be found to meet short (fast start) and long term needs for climate finance. Belgium was in favour of the creation of the new Climate Fund, apart from the existing bilateral, multilateral and other UNFCCC-funds. But at this point it is not clear whether any funding will be pledged to this new Climate Fund.

Fourth High Level Forum on Aid Effectiveness, 2011, Busan

At the Fourth High Level Forum in Busan, Republic of Korea, Belgium was not represented at the ministerial level. While this allowed the administration to play a progressive role, the lack of political backing have undermined its commitments. Belgium has been very committed to the Paris Aid Effectiveness Agenda in the past years, particularly concerning the differentiated approach in fragile states and division of labour. Notwithstanding, Belgium missed a political opportunity at the HLF4 to be more proactive, including encouraging more ambitious European involvement in Busan.

Good intentions, little implementations

In 2010 the Belgian Peer Review was published by the OECD DAC covering Belgium's efforts and performance in the area of development co-operation over the previous four years. The DAC main conclusions were positive: "Belgium improved the quality and volume of its aid". The main recommendation was the need for a shared vision and a clear understanding of policy guidance and aid management among the many development actors involved in improving the efficiency and effectiveness of Belgium's aid.

The Coalitions of the Flemish and French speaking North-South Movement agree that improvements were made by the Belgian government. Given the strong criticisms in the previous 2005 Peer Review, progress was not too difficult to accomplish. But Belgian NGOs suggest that it is too early to applaud this progress on the part of the Belgian government. So far there have been a lot of intentions expressed by the new government, but real implementation is falling behind. In that respect, the 2010 Peer Review urged Belgium to develop an explicit policy statement on policy coherence for development and to promote a better understanding of this concept amongst government entities and the general public. The peer review team also encouraged the NGO coalitions to continue lobbying for a better understanding of the concept.

The Peer Review stresses the importance of "fragility" as a key framework for Belgian development co-operation. As a consequence of its strong involvement in Africa's Great Lakes Region, one-third of Belgium's partner countries are fragile states. A 2009 Policy Note put fragility high on the political agenda for 2010, and declared it a priority for Belgium's presidency of the European Union.[2] However, Belgium is still struggling to translate this political priority into its operations.

A lot of dough, but no recipe

Since 2008, private sector development (PSD) has seen the strongest growth in Belgium's aid budget. In 2008 €44.6 million was disbursed for PSD, rising dramatically in the following years (see table 2). Starting from a base of 2% in earlier years, PSD now represents nearly 5% of total ODA, peaking briefly at 8% in 2009. This

increase was almost exclusively channeled through BIO-Invest, the Belgian Development Finance Institution (DFI). BIO-Invest supports the private sector in developing countries by means of equity participations and debt finance (loans).

In 2012, the Belgian NGO coalition 11.11.11 published a report on BIO-Invest criticizing its unequivocal focus on financial returns and its limited development outcomes in terms of sustainable development and poverty eradication.[3] The report launched a debate on the legitimacy and functioning of Belgium's bilateral DFI in the parliament and cabinet. Recently, an official evaluation has been commissioned. The expected reform of the organization should align BIO-Invest with the objectives of Belgian development cooperation and should revise its expected financial returns.

Apart from BIO-Invest, Belgian PSD also aims to enable developing countries to benefit from enlarged market access for their products. In this respect, projects funded by the Trade for Development Centre aim to ameliorate the negative consequences of trade liberalisation. Finally, a budget line was opened for initiatives enhancing capacity building and exchange of know-how between companies, chambers of commerce, producer organizations. (See Table 2)

One of the main conclusions of the Belgian NGO-coalition's report on BIO-Invest was the lack of coherence between the DFI's activities and the policy objectives of the Belgian development cooperation regarding PSD. The most recent policy note on PSD from 2004 has lost most of its relevance. It strongly invokes the idea that growth and development are synonymous and are best obtained through the private sector. The policy note, therefore, has provided "safe-conduct" for an institution such as BIO-Invest to develop its outreach in which development relevance is rightfully questioned. PSD has been receiving a lot of *dough* these past few years, but little effort has been put into finding a recipe to bake a cake that works for sustainable development and poverty eradication. The Belgian NGO-coalitions hope the announced renewal of the 2004 PSD policy note will result in a more inclusive and pro-poor approach towards the private sector in developing countries, based on a participative and broad analysis of the role of the private sector in development.

Table 2 Belgian Private Sector Development 2009-2010
Millions of Euros

YEAR	2008	2009	2010	2011
Aid for Trade/Trade for Development Center	1.02	3.05	1.65	3.20
Business for Development	0.6	0.70	0.973	1.90
BIO-Invest	43.0	140.0	115.7	118.5
TOTAL	**44.6**	**143.8**	**118.3**	**123.6**

Endnotes

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Canada

A new era for Canadian aid - but is fighting poverty in the mix?

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Overview

- Canadian official development assistance (ODA) for 2012 is estimated by the Canadian Council for International Co-operation (CCIC) to be Cdn$5.17 billion or 0.29% of Gross National Income (GNI), assuming no supplementary estimates and GNI growth remains consistent with current levels.
- Canada ranked 14th in 2011 among the 23 donors in the Organization for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) with respect to percentage of GNI for ODA.
- The international assistance envelope (IAE) for Canadian aid is set to decrease by 7.6% over the next three years, from Cdn$5 billion in 2011 to Cdn$4.66 billion in 2014/15. These cuts are projected by CCIC to move Canada to 0.26% of GNI by 2015.
- Canada has increased funding to Latin America and multilateral organizations. Aid to Sub-Saharan Africa has remained steady at 2008 levels (which met Canada's 2005 Group of Seven commitment), while Asia is seeing a slight decline. In 2012, the government made further reductions and cuts to 13 country programs, including eight in Africa.
- Support has also declined to governments by 12.2% and to civil society organizations by 17.9% between FY2008/09 and FY 2010/11.

A pivotal year for Canadian ODA

2012 will be a landmark year for the Canadian International Development Agency (CIDA) in many ways. Canada's Aid Effectiveness Action Plan (AEAP) is up for renewal and the new plan should highlight how Canada expects to implement commitments made at the 2011 Fourth High Level Forum on Aid Effectiveness (HLF-4). This will be particularly important following an OECD Peer Review critical of Canadian aid. This year, 2012, will also see the government translate its transparency pledge to the International Aid Transparency Initiative (IATI) into concrete deliverables. It may see further clarity around CIDA's long-term approach to Canadian civil society organizations (CSOs). Finally, it will see CIDA release a new Private Sector strategy, including how it will promote the role of the Canadian private sector in development. And all of this comes in the context of major cuts over the next three years to Canada's aid program and countries of operation. Canadian aid may never be the same again.

A lack of vision and scant predictability

Since 2009, when CIDA launched its *Aid Effectiveness Action Plan* (AEAP), the Agency has been all about being "focused, effective, transparent and accountable". CIDA has advanced on commitments to transparency and untying aid. But its interpretation of "aid effectiveness" is a very loose one. As the 2012 OECD DAC Peer Review notes, this *Plan* "combines domestic accountability and internal efficiency with

implementing the Paris Declaration principles themselves", consequently lessening the emphasis CIDA places on the actual principles.

The 2012 Peer Review makes a number of further important observations:

While the ODA Accountability Act has improved accountability and established criteria to guide development cooperation, CIDA still needs a clear and consistent vision for its development work, with commensurate and measurable objectives. In terms of ways forward, the Review makes a constructive recommendation: Canada should update its *AEAP* "and ensure it is fully aligned with the Paris Declaration principles and the objectives agreed at Busan".

Similarly, in the absence of a humanitarian assistance strategy – something noted in the 2007 Peer Review – the DAC also recommended Canada establish a cross-government humanitarian strategy with transparent measurable objectives and expected results. CIDA has been finalizing this strategy for more than a year now, but has not yet made it public. While positive on the overall directions of Canada's humanitarian assistance and its strong track record, the DAC identified the need for clearer funding criteria for humanitarian interventions and more transparent processes to address concerns that funding decisions are based more on politics than humanitarianism.

Recognizing Canada's interest in disaster risk reduction, the DAC also suggested CIDA establish clearer links between its humanitarian and development interventions and better integrate resilience-building and post-crisis recovery into both programs.

The OECD Report notes that the AEAP only tackles the portion of aid delivered through CIDA and not other government departments. A renewed Plan should mobilize all government departments to make all Canadian aid fully effective, in particular in terms of addressing aid predictability and aligning with countries' systems. In fact, "aid predictability" – and the delegation and decentralization of decision-making – is a major theme of the Peer Review Report and a central challenge for CIDA looking ahead.

Transparency a winner

In 2011, Canadian NGOs welcomed Canada's decision to join 13 other bilateral donors as signatories to IATI. Improved transparency has been a focus of the Canadian government in the past few years. CIDA now produces regular substantive and statistical reports and short current country reports, and launched its new open-data project browser in 2011.

CCIC looks forward to CIDA releasing its Implementation Schedule for IATI by December 2012. This schedule must include other Canadian government bodies, in particular Finance Canada and Foreign Affairs Canada. The Schedule must also greatly enhance access to qualitative and quantitative data, with information on projects, programs, policies, priorities, and forward-planning data.

CIDA funding directive has major impacts on civil society

In July 2010, CIDA launched its "*Partnership Modernization and Effectiveness Framework*", introducing new policy guidance on civil society funding and programming. Despite the promise that the new call-for-proposal mechanism would "streamline the application process,"

it has instead been characterized by a lack of transparency, unacceptable delays, and what seems to be a lack of adequate resources to manage the process efficiently within CIDA.

In a detailed study of the impacts of the new mechanism on Canadian CSOs, CCIC found that it is profoundly destabilizing the sector and its programs in developing countries. CCIC has made a number of technical recommendations for improving the mechanism and has asked for it to be reviewed in light of its impacts. This situation has been further aggravated by the lack of public guidelines for policy consultation – something the OECD Peer Review highlighted – and a worsening political climate in Canada that has decreased CSO space for holding the government to account.

Beyond funding, CIDA's 2010 framework also lacks a clear strategy for civil society within the agency's broader development agenda, in particular in the context of the new *Istanbul Principles on CSO Development Effectiveness*, endorsed at HLF-4. In response, the OECD Peer Review suggested CIDA develop a CSO effectiveness strategy with clear aims and strategic objectives. Such a policy, the review said, should balance respect for CSOs as independent development actors in their own right with CIDA's own desire to steer CSO work in a way that helps CIDA achieve its own development objectives.

From freeze to free-fall – Canada's budget cuts

In 2011, the Conservative government froze the International Assistance Envelope (IAE), which finances Canadian ODA, at Cdn$5 billion, ending the 8% annual increases to the IAE from 2003 to 2010. A year later, in the context of austerity cuts, the government announced reductions to the IAE between FY2011/12 and FY2014/15 of 7.6%. Between FY2012/2013 and FY2015/16, Canada will have reduced cumulative spending on aid by close to Cdn$1.2 billion. Perhaps more astonishingly, Canada's aid relative to its GNI is expected to tumble nine points from 0.34% to 0.25%, between 2010 and 2015. This will put Canada among the lowest ODA performers.

In the context of cuts to the aid budget, and in particular to Low Income Countries, the DAC Peer Review urges Canada to continue to prioritize the advances made in previous years in Canadian aid for Africa. To do so, it suggests maintaining ODA levels at 0.31% of GNI in the short term and returning to higher levels when the economy improves.

The private sector and the future of Canadian (tr)aid

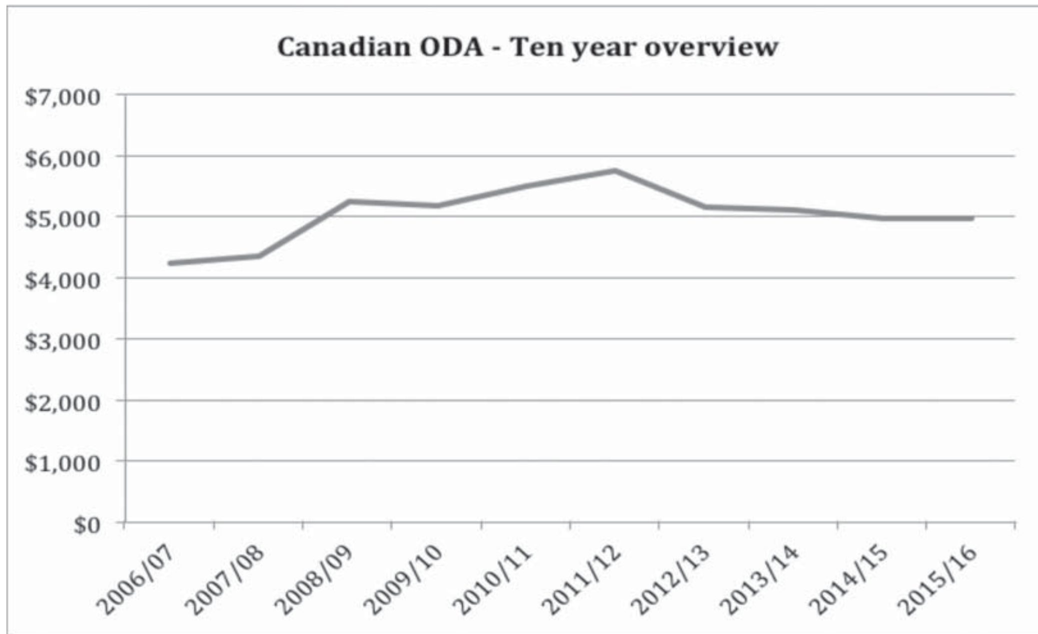
Canada's focus on the private sector is not a new one. CIDA has had a private sector policy in place since 2003. But in the past five years, the private sector has become more important as a defining force behind CIDA's (and other government departments') overall approach to development cooperation. This emphasis is beginning to blur the lines between responding to poverty-focused country-led development priorities and promoting Canada's own economic self-interests.

CIDA, Growth and the Private Sector

In October 2010, CIDA released its Sustainable Economic Growth Strategy (SEG).[1] The intent of the SEG is to make growth more inclusive of the majority of the world's population, generate revenue, create employment and establish a strong role for the private sector in fulfilling this mandate.[2]

CIDA's Strategy, however, makes a one-to-one relationship between increased growth and poverty reduction, without giving due consideration to

Figure 1 Canadian ODA 2006-2016 (in thousands). Figures up to FY 2011/12 include supplementary estimates. Subsequent years do not.



Source: Table compiled by CCIC from various Statistical Report on International Assistance, CIDA and Jobs, Growth and Long Term Prosperity – Economic Action Plan 2012, Annex 1, Government of Canada, 2012, p. 272.

where and how growth is occurring and whether it is having a positive effect on the livelihoods, assets and capacities of the poor. Consequently, it assumes that the key to poverty reduction lies in improving legal and regulatory frameworks and creating enabling conditions for business that will in turn generate growth and create jobs. While important, in the end it is not about creating the conditions for the private sector to develop, but the conditions for how the private sector can contribute to development.[3]

So how does CIDA's SEG strategy play out in practice? CIDA, and increasingly Finance Canada, seem to be making four different broad categories of investment through ODA.

1. *Private sector trust funds* currently make up a core component of the government's approach to the Private Sector. Such trust funds, often administered by the World Bank, generally provide large pools of funding from Canada and other bilateral donors to encourage greater private sector or public-private initiatives on a development issue. These donor resources fill a financing gap often with a concessional component that provides the incentive for the private sector to get more engaged. For example, through the International Finance Corporation of the World Bank, CIDA and Finance have invested in private sector lending to help small and medium–sized agribusiness and farmers integrate into global markets and distribution chains, and to encourage private-sector led investments in clean energy.

2. *Challenge funds* provide funding to generate innovative solutions to very specific global

development challenges. The intent of the funding is to promote innovation and create a market that would not otherwise exist without such support. In the past six years, Canada has launched three principal initiatives: a) Advance Market Commitments in health, agricultural production and nutrition; b) the Caribbean Catastrophic Risk Insurance Facility, which provides a rapid and guaranteed payment to participating Caribbean countries when a natural catastrophe strikes; and c) the SME Finance Challenge to find innovative ways of supporting SMEs and scale up the best ideas. Assessments of each have been mixed.[4]

3. CIDA also makes direct investments in *Micro, Small and Medium-sized Enterprises, smallholder farmers and women entrepreneurs*, all with a view to creating jobs, increasing incomes, and better integrating these actors into local, national and regional markets and value. Women's economic empowerment is gaining increasing prominence in CIDA's strategies.[5]

4. *Corporate social responsibility in the extractive sector* is an increasing focus of the government with Canada promoting a new International Institute for Extractive Industries and Development to support and build natural resource management capacity in developing countries,[6] alongside a number of pilot projects between Canadian CSOs and Canadian mining companies.[7] Further announcements from CIDA of additional pilot projects are expected in 2012, along with a possible *Corporate Social Responsibility Framework for the Extractive Sector.*

Towards a new Private Sector?

CIDA's 2003 Private Sector Development (PSD) policy clearly focused CIDA interventions around "more, better, and decent jobs and sustainable livelihoods and […] stimulating the growth of the local private sector in developing countries and countries in transition". [8] In contrast, new and current initiatives for the private sector are increasingly and more explicitly promoting Canada's national economic interests and Canada's domestic private sector. Former CIDA Minister, Beverly Oda, in fact, has publicly commented that she saw no difference between Canada's trade and foreign policy interests and Canadian development goals.[9] In fact, CIDA is currently developing a strategy that is expected to determine how to promote the Canadian private sector in international development – a strategy that will purportedly replace its 2003 (local) Private Sector Development policy.

Cognizant of the thin line that Canada is now treading, the 2012 DAC Peer Review noted that Canada should ensure that development objectives and partner country ownership are paramount in the activities and programmes Canada supports. "There should be no confusion between development objectives and the promotion of commercial interests."[10] It noted that any private sector strategy should provide a clear rationale for Canada's engagement, including well-defined aims, strategic objectives and transparent procedures for partnerships with private sector enterprises.

In this regard, the Strategy could benefit from applying the original approach of CIDA's 2003 Policy on Private Sector Development to pursue "pro-poor equitable economic growth".[11] Unlike that Policy, the SEG Strategy is missing references to clear standards that its private sector investments are expected to meet, including the *Canadian Environmental Assessment Act, ILO core labour standards, OECD Guidelines for Multinational Enterprises, and the Beijing Platform of Action.*

Conclusion

The challenge for Canada looking forward will be how it deepens and strengthen its unmet commitments to Paris and Accra, while addressing its new commitments from Busan. In an environment that has seen aid resources declining, decisions about their use becoming increasingly political, and CIDA's agenda becoming more short-term and directive, how will CIDA reconcile these challenges with an emphasis and approach that is meant to respond to the priority needs as determined by developing countries? And how will CIDA include all development actors in shaping that process, in particular civil society?

2013 will demonstrate whether Canada's role in the Busan Partnership for Global Development Cooperation will spell out a new era for development cooperation and development effectiveness that engages all development actors, or whether it will be just business (and the private sector) as usual.

Endnotes

1 The International Assistance Envelope or IAE, a Canadian peculiarity, contains the budgetary allocations by the federal government to programs for international cooperation. This includes allocations to CIDA, Foreign Affairs Canada, the Department of Finance and other departments. However, not all of the allocations in the Envelope are eligible to be counted as Canadian aid or ODA. This includes some disbursements for peace and security (decommissioning of nuclear warheads in the former USSR, security programs in non-ODA eligible countries). Nor does the Envelope include all items that can be included when calculating Canadian ODA since they are allocated through other government expenditures (first year of supporting refugees from developing countries in Canada), are non-budgetary (bilateral debt forgiveness) or are imputed values (developing country students studying in Canada). Total Canadian Official Development Assistance is therefore made up of: ODA-eligible line items in the International Assistance Envelope less IAE items not eligible for Canadian ODA plus non-budgetary items that can be included as ODA.

2 Organization for Economic Co-operation and Development (OECD), *Canada - Development Assistance Committee (DAC) PEER REVIEW,* 2012, p. 17, on-line: http://www.oecd.org/development/peerreviewsofdacmembers/canadapeerreview2012.pdf.

3 See Brian Tomlinson, "Canada's ODA Accountability Act", in the Reality of Aid 2010 Report. The 2008 Canadian ODA Accountability Act states that the responsible Minister must be of the opinion that ODA disbursements meet three criteria: reduce poverty, take account of the perspectives of the poor, and be consistent with international human rights standards. Despite this, in the third Report to Parliament on implementation of the Act, CCIC has noted that only two of the 13 Departments that report even reference these criteria, and none mention how the respective Ministers came to the opinion that the activities profiled reflect the criteria of the Act. CIDA was not among them. See CCIC's report on the implications of the Act, *A Time to Act: Implementing the Canadian ODA Accountability Act*, April 2010, on-line: http://www.ccic.ca/what_we_do/aid_liability_act_e.php),and ongoing analysis of the implementation of the Act and of the government's Annual Reports to Parliament on the Act available on-line: http://www.ccic.ca/what_we_do/aid_oda_accountability_act_e.php.

4 OECD, op. cit., 2012, p.18.

5 OECD, *Canada - Development Assistance Committee (DAC) PEER REVIEW,* 2007, p. 101, on-line: http://www.oecd.org/development/peerreviewsofdacmembers/39515510.pdf

6 CCIC, *Canadian international development platform congratulates CIDA for stride forward on transparency*, Press Release, November 29, 2011, on-line: http://www.ccic.ca/_files/en/media/2011_11_Press_Release_CIDA_stride_forward_on_transparency.e.pdf

7 TheProjectBrowserison-line:http://les.acdi-cida.gc.ca/servlet/JKMSearchController?desTemplateFile=cpoSearchEn.htm&desClientLocale=enUS&AppID=cpoEn

8 CIDA, *Minister Oda announces next step to CIDA's aid effectiveness*, Press Release, July 22, 2010, on-line: http://www.acdi-cida.gc.ca/acdi-cida/acdi-cida.nsf/eng/cec-722111726-kxg

9 For more details see CCIC and the Inter-Council Network, *Putting Partnership back at the Heart of Development: Canadian Civil Society Experience with CIDA's Call-for-Proposal Mechanism, Partnerships with Canadians Branch - An Analysis of Survey Results*, March 2012, online: http://www.ccic.ca/_files/en/what_we_do/2012_03_Survey_Report_e.pdf

10 "Voices" has begun to document the worsening environment in Canada for civil society and other actors, on-line: http://www.voices-voix.ca

11 Open Forum for CSO Development Effectiveness, Istanbul Principles for CSO Development Effectiveness, September 2010, on-line: http://www.cso-effectiveness.org/IMG/pdf/final_istanbul_cso_development_effectiveness_principles_footnote_december_2010-2.pdf

12 For more specific details relating to different dimensions of the cuts, see "CCIC Analysis of Budget 2012", Canadian Council for International Co-operation, July 2012, on-line at http://www.ccic.ca/_files/en/what_we_do/2012_08_CCIC_Initial_Analysis_Budget_2012.pdf

European Union (EU) Institutions

CONCORD AidWatch Europe

Summary

- The European Commission made total aid disbursements of €9.1 billion in 2011, which represents a decrease of almost €0.5 billion from 2010.
- The recent re-organizations of EU system of development cooperation may further politicize aid decisions and de-prioritize development compared to other foreign affairs policies.
- The EU is only weakly delivering on its responsibility to promote policy coherence for development, a legal obligation under the Lisbon Treaty. Here, the reform processes of its trade, agriculture, fisheries and energy policies need to be urgently addressed.
- An EU 15-month structured dialogue with civil society organizations resulted in broad multi-stakeholder agreement reaffirming important principles, in particular the rights-based approach, democratic ownership and the right of initiative of civil society, and the Open Forum's *Istanbul Principles*.

The European Union (EU) institutions are unique in the way that they provide direct development assistance to developing countries and play a "federating role" vis-à-vis the 27 Member States (MS) - coordinating them for better development impact, and preparing common positions to strengthen the EU voice in global debates. They are a major trading and investment actor, maintaining a political and policy dialogue with a wide range of partner countries.

The European Commission (EC) is the world's third largest provider of development assistance with aid disbursements in 2011 of €9.081 billion. The European institutions are committed to poverty reduction and to realizing the MDGs and have an obligation to achieve Policy Coherence for Development. Their size, their weight and the presence of 136 EU delegations around the world allow the EU to implement development programmes on a scale many MS alone cannot match, and in places they do not prioritise. This is part of the real value added of the EC.

System of development cooperation

The development policy of the EU was made both explicit and legally binding with the enactment of the Lisbon Treaty. According to the Treaty, development policy is an area of EU policy in its own right, with the eradication of poverty as the primary objective. Equally, development objectives need to be considered when setting all other policies with repercussions for developing countries. This complements the already existing European Consensus on Development as signed off by the EU in 2005 and the Cotonou Agreement of 2000.

This chapter is reproduced with the generous permission of CONCORD AidWatch from its 2012 Report, Aid We Can – Invest More in Global Development, pages 33 – 38, accessible at http://aidwatch.concordeurope.org/ CONCORD is the European NGO Confederation for Relief and Development. Its 27 national associations, 18 international networks and 2 associate members represent 1,800 European NGOs. AidWatch is a pan-European project of development NGOs, monitoring aid quantity and quality across the EU 27.

The Commissioner for Development, A. Piebalgs, is in charge of development policy and its implementation. The High Representative (HR), C. Ashton, is responsible for the EU's external affairs and security policies. Besides being the HR based in the Council, she is the Vice-President of the Commission, Chair of the Foreign Affairs Council (FAC) and the Development FAC and head of the European External Action Service (EEAS). This latter service includes all 136 EU Delegations, is in charge of the political dialogue with third countries and has a responsibility to defend development objectives in the EU's external activities.

The EEAS was introduced by the Treaty to help conduct the EU's foreign affairs and security policy. The EEAS has put an end to the geographical division between the Commission's DG Development for ACP countries and DG Relex for all other non-European countries. In the meantime the EC has undergone major changes, bringing its policy and implementing services together in the Directorate General for Development and Cooperation – EuropeAid (DEVCO) - led by the Development Commissioner.

In practice a compromise was agreed on development cooperation: strategic programming of funds (country and regional and sector spending) went to the EEAS, under close collaboration with DG DEVCO. Development policy and implementation remain squarely with the EC, but with a stronger role by the EU delegations. This makes development programming more complex and runs the risk of aid being politicised and development being de-prioritised compared to other foreign affairs policies. However, the EEAS also provides an opportunity to improve the coherence and consistency of the EU external relation agenda in promoting development objectives.

European institutions peer review

In April 2012, the OECD published the findings of its peer review on the European Union. It commended the European institutions for significant efforts made to increase their efficiency and impact on development over the past five years. The review highlighted the strong impact of the European Commission's provision of humanitarian assistance linked to its strong field presence and good understanding of operational realities. This finding is pleasant. These are encouraging findings given that about 40% (€1.2 billion) of the EU 15 countries' funding of €3.1 billion is channelled via the EC´s Directorate for Humanitarian Aid and Civil Protection.

Nevertheless, it has been identified that EU development programmes are suffering from poor institutional coordination – mainly as a consequence of the formation of the new EEAS (see above). The division of labour between the EEAS and the EC still needs to be better operationalised. The EEAS has a long way to go before it is effectively coordinating its activities with the EC, fully integrating its poverty focused development policy work into its service and maximising its support to policy coherence for development.

AidWatch members welcome the improvements the EC has made in its aid management, in particular by developing closer relations with partner countries and common principles across the EU 27. However, we deeply regret that the EU is only weakly delivering on its responsibility to promote policy coherence for development, a legal obligation under the Lisbon Treaty. Here, the reform processes of its trade, agriculture, fisheries and energy policies need to be urgently addressed. Without developing more equitable and just relationships between developing partners and the EU in these thematic areas,

the successes of development policy are being seriously undermined. One way that PCD could be better addressed is to ensure that impact assessments are – as a rule – undertaken before any external policy is approved.

Budget Support

In addition to the launch of the Agenda for Change for EU Development Policy in October 2011, the EC released its Communication on "the future approach to EU budget support to third countries" at the same time[1]. CONCORD is encouraged to see that the Communication puts a strong emphasis on contractual partnership and mutual commitment to fundamental values of human rights, democracy and rule of law, as essential components for the establishment of any partnership between the EU and third countries.

To take forward the objective of improving the EC's preferred aid modality, the communication distinguishes between three types of budget support for the future:

- **Good governance contracts** (formerly general budget support) with the objective to strengthen core government systems, such as public finance management and public administration;
- **Sector reform contracts** (formerly sector budget support) aiming at promoting service delivery or reforms in a specific sector; and
- **State building contracts**, budget support for fragile contexts to ensure vital state functions, support the transition towards development and to deliver basic services to the populations.

In addition to the three existing eligibility criteria (stable macro-economic framework, national/sector policies and reforms and public financial management) CONCORD welcomes the creation of a **fourth criterion on transparency and oversight of the budget**, to grant budget support to countries disclosing their budgetary information (or making rapid progress to do so).

However, despite some welcome wording on the importance of more participatory approaches and strengthening support to oversight bodies and CSOs, the Communication does not emphasise the importance of concrete actions to promote inclusive processes around budget support through involving actors such as Parliamentarians, local governments, CSOs, audit institutions and media. It is important that the EC takes such action by earmarking a fixed percentage of budget support envelopes to finance capacity-building of all stakeholders. It is only with this kind of financial commitment to ensuring proper oversight that we will see the necessary improvements in the record of budget support as an aid modality.

Following the Council conclusions in May 2012 endorsing this Communication, CONCORD expects EU Member States and the Commission to increase the use of this aid modality when deciding the EU's development priorities for the next EU budget (2014-2020).

Aid for Trade

In 2005, the EU and its MSs made a commitment to increase their Trade Related Assistance (TRA) to €2 billion annually by 2013 and a joint 'EU Aid for Trade strategy'[2] was adopted in October 2007.

Aid for Trade (AfT) - which has a broader focus than TRA - represents about a fifth of total EU ODA since 2005 and reached 22% in 2009

(€7.15 billion from EU MSs and €3.35 billion from the European Commission).

Despite the apparent trade-related needs of LDCs, the EU and its MSs allocate only about 22% of their total AfT to LDCs, while 7 of the top 10 recipients of EU AfT are Middle Income Countries, including China and India. This seems to be in contradiction with the EC´s proposal adopted in 2011 for the new General System of Preferences (GSP). One of the key elements of the proposal that will enter into force in 2014 is to apply a drastic cut in the number of countries eligible for the GSP, which will in turn lead to an increase in EU tariffs on all imports from UMICs that do not have a free trade agreement with the EU and on some imports from certain LMICs and LICs.

We fear that the graduation formula applied will mainly benefit richer states and populations that already have the capacity to make the best use of AfT while having an adverse effect on poor and small producers in UMICs. CONCORD is concerned that AfT will have little impact on fighting poverty and inequality in developing countries as long as incoherence between EU trade and development objectives are not seriously addressed.

EU working with CSOs

The year 2011 saw the culmination of a 15 month process of dialogue and consensus building between the EU institutions, CSOs and local authorities through the **Structured Dialogue (SD) on the involvement of CSOs and local authorities in EC development cooperation.**

Through the SD process, important principles have been reaffirmed by all stakeholders; in particular the rights-based approach, democratic ownership and the right of initiative of civil society and the Open Forum Istanbul Principles. The Final Statement of the Structured Dialogue[3] constitutes a firm multi-stakeholder commitment to cooperate for an effective partnership in development, in full respect of each actor's prerogatives, roles and mandates.

Some concrete outcomes of the SD process are:

- The EC will produce a **new Civil Society Communication** reflecting the consensus reached during the SD. Clear **support and commitment by EU institutions in favour of an enabling environment** for civil society's multiple roles in line with a rights-based approach to development.
- **Establishment of a multi-stakeholder institutionalized dialogue** in Brussels and most importantly at country and regional level, involving local civil society actors.
- **The EC intends to use a broader range of delivery mechanisms for supporting civil society and** is committed to increasing the share of its geographic programmes allocated to and delivered through civil society.

Aid Quantity - Disbursements by the European institutions in 2011

In 2011, the European institutions disbursed €9.081 billion which represents a decrease of €491 million compared to 2010 aid levels. The budget of the European institutions is counted towards ODA through the bilateral contributions of its member states. The amount of €9.081 billion covers both disbursements through the EU budget and the EDF (the financial instrument

dedicated to the African, Caribbean and Pacific countries).

In 2011, out of the €53 billion of total ODA from EU Member States 54% was delivered through their own bilateral channels and 46% was delivered through multilateral channels, of which 19.7% (€10.4 billion) was received by the EU institutions.

The 27 EU Member States had agreed to contribute about €1.91 billion to the EDF in 2011[4]. This included the first contribution by the EU12 to the European Development Fund, amounting to a total of €45 million. While it is not yet clear what the actual level of disbursements was for 2011, we assume that a similar level of payments was executed as in 2009 and 2010: about €3.23 billion.

Are the EU institutions providing genuine aid?

The share of inflated aid of the European institutions is minimal. Elements which Member States include in their reports, such as refugee costs or imputed student costs are not relevant. The figures reported by the OECD for the European institutions do not contain any loan payments; therefore repayments for interest on loans do not apply. Only the €12.14 million it provided in debt relief is relevant in 2011.[5]
The majority of European institution funding is formally untied and efforts have been taken to use country systems. However, aid delivered through the EU budget and, in particular under the EDF, is partially tied. Procurement under the EDF is open to all DAC members and to the group of ACP countries, but not to other developing countries. The Development Cooperation Instrument provides access to more countries: it is open to all Member States, all candidate countries, members of the EEA, DAC members for co-operation in LDCs and 47 beneficiary countries (145 beneficiary countries for thematic programmes).[6] The EU is advancing efforts to open up its external funds to further countries, based on the principle of reciprocity

We regret however that in practice a high share of EU aid is still informally tied. The vast majority of contracts are won by donor countries' companies. ACP country providers still find it difficult to compete with EU providers in this set up, which means there is a real endemic power imbalance in competition for aid contracts. If we look at some of the main recipient countries of EC aid contracts in 2010 we can see that a minor share were won by companies from countries such as Afghanistan (6 contracts), Democratic Republic of Congo (28 contracts), Haiti (13 contracts), Mozambique (3 contracts). In comparison, the number of contracts won by European countries was substantially higher: Belgium (864 contracts), UK (415 contracts), France (331 contracts) and Germany (186 contracts).

Climate Finance

The EC committed to provide €150 million in Fast Start Climate Finance over the period 2010-2012. 19 regional and national programmes (in Benin, Bhutan, Ethiopia, Lao PDR, Nepal, Samoa and the Gambia) have benefitted so far from such funding from the EC. This funding has been grant payments, 50% of which has been focused on building climate resilience in LDCs and small island developing states, in many cases through the Global Climate Change Alliance (GCCA). It is positive to note that the share of the EC's climate funding that goes to adaptation is higher than the average across all donors (32%) and that all of this funding is provided in the form of grants.

Some doubt remains however as to whether international organisations, such as the World Bank and UNDP who are also benefiting from this funds, are capable of responding swiftly to the immediate needs of vulnerable populations. Moreover, we wonder whether the resources provided are additional to the Commission's development finance. If existing interventions have been simply labelled as "Fast Start Climate Finance" then this funding could not be judged to be additional. However, if climate finance commitments have led to additional contributions through the EU budget, e.g., through the budget of DG Climate Action, then this funding could be considered additional.

Recipient countries and sectors of EU aid

Disaggregated data on countries and sectors receiving EU aid in 2011 was not yet available at the time of writing this report. This section therefore explores trends in the allocations of EU aid for 2010. In 2010, LDCs, LMICs and Other Low Income Countries (68%) were the main recipients of aid of the EU institutions. Sub-Saharan Africa was the main targeted region, receiving 33% of disbursements. The top 3 recipient countries were however the Occupied Palestinian Territory (€333 million), the Democratic Republic of Congo (€275 million) and Turkey (€ 223 million). We are encouraged to see that amongst the top 6 recipients there were 4 LDCs (Afghanistan, DRC, Haiti and Sudan). However, Turkey which is an Upper Middle Income Country takes a large share of the EU's development finance.[7]

In terms of the sectoral focus of EC aid, we note that there was a slight increase in 2010 in ODA disbursements for health, education and population and reproductive health to 12.1 percent. Nevertheless, it is still far less than the 20% benchmark which the Commission committed to achieve during the current financial perspective. Regrettably, the EC is proposing that in the next financial perspectives (covering the period 2013-2020) it will count contributions to social protection towards efforts to achieve this 20% target. Concord believes that the EU institutions need to stick to their existing commitments and reach this target through increases in funding for health and basic education.

During 2010 sectors such as agriculture, forestry and fishing received a mere 4.7% or €446.6 million of the EC's the allocated resources. We look forward to seeing stronger support to these areas in the future, particularly to smallholder farmers, as set out in the EU Food Security Framework.

Concord recommends:

1. The EC must urgently implement its development effectiveness commitments and be more transparent. It should allocate more resources through budget support and to the joint monitoring and evaluation of policies and programmes, involving partner countries and other donors, to improve sharing and learning processes.

2. The EU should take action to further improve the accessibility of its external funds to partner country providers of goods and services, as well as grants applicants from partner countries.

3. The EEAS and DEVCO should complete and make public the Memorandum of Understanding on how they will divide tasks and responsibilities for development. The MoU should cover both the approach to

the programming of funds, as well as PCD, cooperation in-country, joint programming and in-country consultation processes.

4. The positive outcome of the Structured Dialogue needs to be translated into tangible improvements in the enabling environment for civil society, including through responsive and flexible funding mechanisms and in the way non-state actors are involved in political and policy dialogue and resource management at country level and with the EU institutions, including the EEAS.

5. The European Commission should honour its commitment to dedicate 20% of its external funds to health and basic education.[8] This 20% benchmark should be applied across geographic, intra-ACP and thematic programmes, in line with its international commitments.

Endnotes

1 European Commission (2011), The future approach to EU budget support to third countries. Available at http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0638:FIN:EN:PDF

2 The EU Strategy embraces the full AfT agenda, which can be divided into six categories: (1) trade policy and regulations; (2) trade development; (3) trade-related infrastructure; (4) building productive capacity; (5) trade-related adjustment; and (6) other trade-related needs, notably regional trade integration. Categories 1, 2 and 6 correspond to more narrowly focused 'Trade-Related Assistance' (TRA). TRA plus the remaining categories are referred to as 'the wider Aid for Trade agenda', designed to benefit trade in a broader sense. Council of the European Union (2007), Adoption of an EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries. Available at http://register.consilium.europa.eu/pdf/en/07/st13/st13070.en07.pdf

3 Final Statement of the Structured Dialogue, Budapest, 19th of May 2011. Available at https://webgate.ec.europa.eu/fpfis/mwikis/aidco/images/f/fb/Joint_Final_Statement_May_2011.pdf

4 European Commission (2010), Proposal for a Council Decision on the financial contributions to be paid by the Member States to finance the European Development Fund in 2011 and 2012, including the first instalment for 2011. Available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2010:0556:FIN:EN:PDF

5 It can be expected that the further analysis of data will reveal a higher amount. According to EuropeAid´s Annual Report, in 2010, actions related to debt amounted to € 119,2 million.

6 http://www.hipc-cbp.org/files/en/open/Guide_to_Donors/EC_11_09_2009.pdf

7 European Commission (2011), Annual report on the European Union´s development and external assistance policies and their implementation in 2010.

European Commission: http://ec.europa.eu/europeaid/how/ensure-aid-

8 Health should be defined according to the OECD DAC codes and basic education should encompass primary and lower secondary education

France

Implementing consistent policies in the fight against poverty and inequality

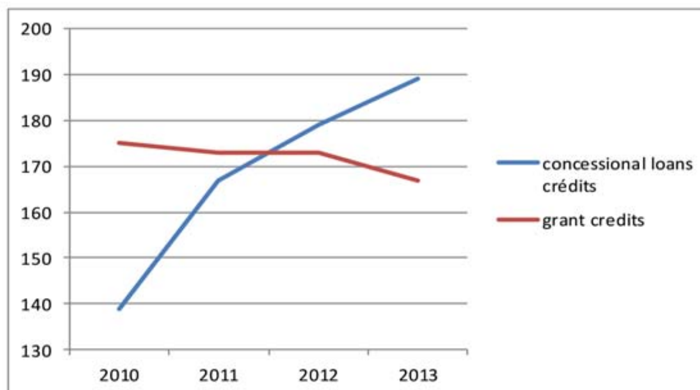
Flore Tixier
Coordination SUD

Overview

- France's ODA allocation does not respond to its development policy objectives where so far the relative priorities have yet to be clearly defined.
- A major challenge in French ODA is to rebalance ODA loans and grants in favor of grants.
- France must improve the transparency of its strategies and the changing modalities for its development cooperation.
- French development aid lacks an overall institutional framework and there is no multi-stakeholder dialogue in French policy in this area

Introduction

The French government's stated priority to strengthen the social sectors in developing countries is not reflected in the French budget effort for its assistance programs. The strong growth of concessional loans to emerging countries has resulted in a diminution of bilateral grant projects. The following graph shows the evolution of grants and concessional loans in French budget plans since 2010.



The French Development Agency seeks to minimize state commitments by increasingly focusing its aid on lending mainly to creditworthy countries. The poorest countries find themselves de facto excluded from this funding. Sub-Saharan Africa received only 36% of French bilateral aid in 2011. In contrast, France has devoted a growing part of its aid to middle-income countries, using the leveraging effect of subsidized loans with the intention to provide a benefit to its own companies. "These interventions have been costly for the State budget with an uncertain effect"[1].

In 2012 the Court of Accounts carried out a thorough analysis of the French Official Development Aid Policy. The Court of Accounts characterized French aid as "aiming at unrealistic, too numerous and unprioritized objectives". It also concluded that France's development policy's tripartite organization is poorly articulated between the Ministry of Foreign Affairs, the Ministry of Economy and Finance and the French Development Agency (AFD)[2].

The findings of the Court of Auditors are categorical. They converge with recurrent interpellations from French NGOs, who now call on the government to show political courage, not to sacrifice the least developed countries on the altar of the crisis and to meet its other commitments. In October 2012, the new French government announced that it would engage in a reform process ("Assises du développement et de la solidarité internationale") for its development cooperation policy. It is hoped that this process will clearly address paramount challenges of France's development policy and include all actors of international cooperation. This chapter aims at presenting some of the main characteristics and challenges that should be included in this reform process.

An ill-defined three-way organisation

The French State has experienced difficulties in defining its role in the sharing of responsibilities between ministries and AFD, the French Development Agency, and in the positioning of the Agency as an implementor of French ODA. It is only since late 2011 that the Agency can rely on a single objective and resource contract with the State. "The control of French aid policy is shared mainly between two ministries, the Ministry of Foreign Affairs and the Ministry of the Economy, Finance and Industry. The way their roles are shared out depends less on the type of aid involved than on a historical compromise, which has led to some difficulties". The Ministry of Foreign and European Affairs (MAEE) is responsible for France's diplomatic and development initiatives, and for developing sectorial strategies. It managed 12.2% of bilateral ODA in 2010, all of which was disbursed as grants. The Ministry of the Economy, Finance and Industry (MINEFI) managed 30.2% of bilateral ODA 2010, of which 62% was debt relief.

Both ministries can have diverging views on the nature and amount of French ODA. While the MAEE is in favor of an increase in its overseas presence and a reinforcement of its in-country services making its assistance more visible, the MINEFI would prefer a freeze or decrease of assistance. While the MAEE and MINEFI are key players in managing ODA, the French Inter-ministerial Committee for International Cooperation and Development (Comité Interministériel de la Coopération Internationale et du Développement, CICID) is the body that broadly defines the strategic and geographic priorities for France's development policy and coordinates all ministries. The Prime Minister chairs the CICID, which is supposed to meet once every year. However, the Committee did not meet between 2006 and 2009, and has not met since, thus further accentuating the lack of coordination in French aid policy.

In 2010, the French Development Agency (AFD) was responsible for 35.9% of the bilateral assistance budget in French ODA. In 2011, it accounted for over 30 percent of aid documented and managed two-thirds of programmable bilateral aid. The AFD has a dual status as a public agency and a development bank. The Agency is wholly owned by the French government and is overseen by the CICID. Despite the development cooperation strategy, the AFD and the MAEE continue to have separate sector strategies. The Agency's involvement is mainly in the form of loans, which accounted for 84% of its activity in 2011. The Agency's funds come principally from the financial markets, with favorable financial terms: more than half of AFD's funding comes from bonds issued on international capital markets and through private investments.

A Framework for France's Development Policy

In 2011, the government finalized a development cooperation strategy, which provides a ten-year outlook on the strategic objectives and modes of intervention of French development assistance. The strategy focuses on four overarching objectives: fostering sustainable and equitable growth for the poorest populations; combatting poverty and inequality; preserving global public goods; and ensuring global stability and the rule of law. The strategy also includes health and agriculture as two key priority areas. CSOs generally welcomed the adoption of this Comprehensive Framework for France's development cooperation strategy, which also highlights the right-based approach and the recognition of the role civil society.

Nevertheless, France's ODA does not appear to respond to these objectives whose relative priority has not been defined. French ODA is still too oriented by security interests, as well as foreign policy and instrumental approaches. The Budget Plan for 2012 reflects the tension between the budget for ODA (modest) and French ambitions (grand). "France has the ambitions of the United States with the budget of Denmark," say the senators themselves.[3]

Changing priorities in the French Budget for International Assistance

The Development Goals of the 2011 Framework are far from being translated into French budget allocations. French official development assistance should help to fund local and national public policies that contribute to the fight against poverty and inequalities. Only the consistent deployment of grant financing in social sectors ensures the relevance of French ODA instruments with this fight against inequality in the Least Development Countries (LDCs). French ODA should target countries with the greatest need (the 14 countries and LDCs as stated by the Inter-ministerial Committee for International Cooperation and Development) and with evidence of improving effectiveness.

The major challenges in French ODA for the years leading up to 2015 and its contribution to the achievement of the MDGs is to rebalance ODA loans and grants in favor of grants, like its European counterparts, and as recommended by the OECD Development Assistance Committee (DAC).

The strong growth of loans to emerging countries with low concessional conditions has resulted in a diminution of funding projects on bilateral grants. An increasing share of ODA is allocated to middle-income countries through loans, following a logic that moves away from development cooperation. Representing 84% of the French Development Agency disbursements in 2011, loans have become its main instrument of intervention. Without significant new budget resources for grants, ODA will follow an instrumental logic, which leads to an increased use of loans at near-market conditions, and therefore at low cost to the State. These loans are still considered as concessional in relation to the OECD criteria and counted as ODA.

With an objective to minimize the cost for the State, i.e. to minimize the concessionality, the AFD searches for creditworthy borrowers. The Agency seeks to minimize the cost of state commitments and focuses on lending to creditworthy countries.

Being a financial institution as well as an agency supporting French foreign policy, the Agency's financial programs have more than tripled in six years, amounting to €5.13 billion in 2011, with the share for Sub-Saharan Africa being 45% of its loans.

The bilateral grants, used to finance projects in social sectors, mainly in Sub-Saharan Africa, have plummeted since 2006 (by close to 30% according to the OECD DAC). In 2011, the envelope used to finance new projects amounts to €170 million, down 46% from 2006. This declining commitment to grants strongly constrains the capacity to review and undertake new projects in the social sectors. The steady decline of this envelope since 2006, if confirmed in the coming years, will no longer allow France to be present in the financing of the social sectors in many priority countries.

Thus, in spite of repeated assertions to the contrary, development aid is having difficulty in concentrating on countries and sectors most in need: mainly in Sub-Saharan Africa. France allocated 70% of its aid to this region over the past decade, but only devoted 36% of its bilateral aid to the region in 2011. This means that the 2011 Framework's objective of allocating 60% of the French aid to Sub-Saharan Africa, set for the three years from 2011 to 2013, seems ambitious.

Tied aid and debt cancellation

The French Development Agency has committed to go "beyond the DAC recommendation by fully untying its aid projects, regardless of the contract amount, and to LDCs as well as to all partners". However, after the November 2011 Busan High Level Forum, France declared that it would not go beyond untying 85% of its aid due to domestic economic issues. France wants reciprocity in untying aid, i.e. getting the BRICS "donors" to untie their aid as well.

According to the OECD DAC, France cancelled US$1.2 billion in debt in 2011, which made up more than 14% of its bilateral ODA in this year. Much of the canceled debts were generated by an active policy of support to French exporting companies, via the state guarantee for exports managed by Coface. This type of debt resulting from public policy to promote French exports is based on a logic that is clearly distinct from sustainable development goals.

The Ministry of Economy publishes the table of outstanding claims of France on foreign states.[4] This table includes claims held either by the State / AFD directly, or by Coface and Natixis on behalf of the State. There are two categories of claims – for ODA loans and for trade receivables. In presenting outstanding claims as of December 2011, the Ministry reported that "outstanding significant countries such as China, Indonesia, Morocco and Pakistan corresponds mainly to finance projects involving French companies in these emerging countries". These four countries account for 17% of total outstanding debt owed to France by foreign states. However, the information provided notes that 79% of receivables on loans from these four countries can be included as ODA.

Support to CSOs

Despite their multiple roles in international cooperation as humanitarian and development actors, technical experts and advocates, French CSOs received only a very modest share (1%) of French ODA. Non-governmental cooperation remains the "poor relation" of French cooperation. According to a recent survey published by the OECD, at 1%, France ranks last among DAC donors for the share of ODA channeled through NGOs, while the OECD average is 13%. It is essential that France significantly improves in this area to respect NGOs as development actors creating conditions for cooperation based on partnership.

French CSOs have important programs in the field of international solidarity and development education, working closely with their partners in the South and in the East. France provides financial support for French CSOs primarily through AFD, through a competitive bidding process to select CSO implementing partners. Civil society dialogue between the government and international solidarity associations has been characterized by dashed hopes, discontinuities and dissonances. Beyond the need to strengthen financial support, French CSOs insist upon a formal framework for strategic dialogue with the government on French policies for development cooperation.

Transparency needs to be improved

Dissemination of information on government policies to parliament is a democratic imperative. A public policy is legitimate only if it is transparent, if responsibilities are clearly assumed, and if the democratic debate about its objectives, its implementation and its results is facilitated. In this sense, the goal must be to maximize the predictability and transparency of French ODA, at the governmental and parliamentary levels, to enable responsible partnership with developing country governments and civil societies. Parliament must be involved in setting priorities and be able to evaluate government policies. French parliamentarians also expressed their wish to be more consistently involved in the development and evaluation of the effectiveness of development cooperation policies. A debate on appropriate policy guidelines for development cooperation should be held in a Parliament that is regularly informed on French ODA expenditures and practices by the government.

France must improve the transparency of its strategies and the changing modalities for its development cooperation (information and quality of information provided, accountability for its positions in multilateral bodies, etc.). France should sign IATI, develop an implementation schedule and begin publication of information against the IATI Standard through the IATI Registry. AFD could publish to the Registry by improving its online project database and ensuring that it is compatible to the IATI Standard. France should support and deliver on an ambitious and comprehensive EU Transparency Guarantee.

The government should anticipate that the level of debt forgiveness will decline in French ODA. If the government wants to translate its commitments to increase ODA with new budget resources, it should undertake a programming review to accurately determine the allocation of new appropriations for ODA over the period 2012-2017. Considering the significance of the amounts involved and the current weight of constraints on the state budget, this should be done quickly and lead to a substantial parliamentary debate to propose a multi-annual programming law for French ODA.

Endnotes

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Finland

Transformation of the Finnish Development Policy: The private turn

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Introduction

- The ODA budget will be frozen to the euro level of 2012 for the next two years.
- Previous government aligned Finnish development projects more with sectors important for Finnish exports and introduced new private sector aid modalities.
- The present government emphasises more traditional Finnish values in its development cooperation, such as human rights, but will not withdraw from the increased focus on private sector development.

The election of a new government in March 2011 brought major changes to Finnish development policies – again. The previous administration had de-prioritised the traditional focus on education, health and other social sectors. It had expanded work in areas such as agriculture, forestry, infrastructure, and even innovation policies, with a constant search for "Finnish added value" in development projects. Aid priorities were to be aligned with sectors important for Finnish exports.

The new government approved its Development Policy Programme in February 2012.[1] It reaffirmed Finnish commitments to the Millennium Development Goals (MDGs), aid effectiveness and to human rights, which had received less attention in the previous government's policy. The new development minister Heidi Hautala also promised a new culture of transparency in Finnish development cooperation, which was a fresh start after the often-secretive procedures of the previous development administration.

Fading ODA targets?

The changes in Finland's development policy coincided with the global economic crisis, which has brought an end to years of steady growth of Finnish Official Development Aid (ODA), with Finnish ODA performance likely peaking at 0.52% of Gross National Income (GNI) in 2011.[2] The ODA budget will be frozen to the euro level of 2012 for 2013-2014 and cut by €30 million in 2015, the only exception being the addition of possible profits from the EU emissions auction. However, as the timing and amounts of possible additional income arising from this trade are highly uncertain, it is difficult to estimate their amount or plan their use. It looks like the UN target of 0.7 % GNI for ODA by 2015 is fading from view.

With the ODA budget frozen and the planned cut, the big question is whether the government can bring the human rights-based approach and other new priorities of the Development Policy Programme to the current implementation plans for ongoing projects in forestry, agriculture and other fields inherited from the previous government. Active debates on this have been held in the Ministry for Foreign Affairs (MFA) in 2012, centred on the concept of green economy (another new opening of the current government), but the results remain to be seen. The previous government's four-year long neglect of social inclusion has made these efforts more difficult.

Farewell to the concessional credit programme

Regarding private sector development, the single biggest change brought by the new government is the phasing out of the concessional credit programme. Between 2002 and 2009 there were a total of 47 projects corresponding to €156 million in the concessional credit programme.[3] The deadline for the last new projects was June 2012. After that date no new concessional credits have been granted and the programme will phase out after the current projects reach their completion.

The concessional credit programme has so far survived despite the outspoken criticism by several OECD Development Assistance Committee (DAC) peer reviews and by civil society organisations. The programme has focused on a small number of large projects in sectors such as agriculture, energy, water and health services, conducted usually by major Finnish multinational companies, with a history of several controversial projects. The latest evaluation looked at project relevance, effectiveness, impact and sustainability, efficiency, complementarity, coherence and coordination, and Finnish value-added of the programme. The main conclusion rated the scheme poorly on most the above criteria (D.C.F. SAU 2012). Finnish CSOs have also been criticising the programme along similar lines and discontinuation of the programme is thus a welcomed development.

Overall, it seems likely that the current government will build upon the paradigm change in private sector cooperation initiated by its predecessor rather than overhaul it. The Development Policy Programme notes that "today, development is based increasingly on the rapidly growing private investments, both from domestic and foreign sources".[4] However, principles such as decent work, human rights and green economy are supposed to be emphasised in the implementation of private sector activities in global South. This private sector emphasis is not just a result of the freeze in the ODA budget but a conscious policy decision by the government. A moderate shift is already visible in the new alignments in Finland's policies on export credits (see below).

The previous government had decreased programme aid (especially direct budget support) and initiated a number of smaller projects in various countries. This benefited especially Finnish consulting firms, as international agencies such as the World Bank or UN organisations are less likely participants in smaller projects. The result has been an increase in aid fragmentation and also the spreading of Finnish ODA across a wider geographical span, with many new regional and country-level programmes e.g. in West Africa where Finland has traditionally not had much presence.

Focus on Aid for Trade

The previous government placed an increasing focus on Aid for Trade (AfT). The new projects shifted focus from education and social development to infrastructure, forestry, agriculture and other new areas. According to the MFA, currently some 3% of Finnish ODA goes to financing private sector related activities. While this is not a substantial proportion as such, there has been a clear trend in scaling up private sector financing.

The MFA evaluation of Finnish Aid for Trade (2011), for example, demonstrates that Finnish AfT commitments increased between 2006 and 2009 by 29.1% per year, while disbursements

increased by 8.9% on average. Total AfT commitments have increased by 377% since 2006, while disbursements have increased by 238%. In 2009, total AfT commitments accounted for 38.5% of total sector-allocable aid, while AfT disbursements were 23.4%. Commitments and disbursements have increased from 20.5% and 14.1% respectively in 2006, therefore achieving the former government's aim of increasing broad AfT as a share of aid. The largest AfT category is building productive capacity (approximately 72% of disbursements), which covers two of Finland's focus sectors, forestry and agriculture.[5]

The MFA's programme for Aid for Trade cooperation expired in 2011, and the next programme will be published in late 2012. The principles outlined in this programme will guide the funding decisions of AfT related projects. In addition to private sector instruments covered in this chapter, Finnish AfT cooperation centres around public sector projects aimed at fostering an enabling environment for private sector activities. Finding relevant statistical information on sector development of this aspect of ODA is difficult.

Finnish CSOs have criticised the Finnish approach towards Aid for Trade for its lack of focus on the impacts of trade agreements on long-term development in partner countries[6] and for not taking into account "numerous pieces of UN and independent research [showing] that international trade offers little help to the poorest countries".[7] CSOs have proposed that all Aid for Trade cooperation should promote only companies that operate sustainably under international standards and guidelines for responsible corporate investment. It will be crucial for the new government to enhance policy coherence between Aid for Trade co-operation, international and national work against illicit capital flight, and better trade policies.[8]

New tools for private sector cooperation

Some existing Finnish aid instruments were modified to better support the private sector. Funding criteria of the Local Cooperation Fund (LCF), an instrument traditionally used for financing civil society organisations in the South, was broadened in 2009 to include Chambers of Commerce and other business organisations. The projects supported under the LCF often span several years, and until now very few private sector related projects have been initiated under it. The LCF disbursements represent slightly more than 1% of the Finnish ODA.

The 2008 evaluation criticised the fragmentation of LCF funding into a large number of too small projects.[9] Decisions on the use of the LCF are made in the Finnish embassies. The 2008 evaluation recommended clarifying and explicitly defining the role of the LCF as a capacity building instrument. It suggested more focussed LCF support for fewer partners and systematically in line with the country mission plan of action.[10]

In addition to widening the scope of the LCF, the previous government initiated a new aid modality labelled the Institutional Cooperation Instrument (ICI). The ICI is intended to strengthen collaboration and capacity-building efforts between institutions such as universities and research centres. Although the ICI is tailored for cooperation between public institutions, it is also used in sectors related to the Aid for Trade. In that context, it is employed particularly in aid programming in the mining and forestry sectors.[11]

The Finnish civil society has emphasized the need for clear and transparent guidelines for allocations made through the LCF, as well as robust and transparent mechanisms for evaluating the effectiveness of the work.[12] The ICI instrument, on the other hand, is still a relatively new tool, and Finnish NGOs have not yet been voicing any recommendations. However, from the viewpoint of the quality of aid, it is important to ensure that its use genuinely benefits the Southern organisations involved.

Strengthened ministry guidance in the Finnish export credit agency

Finnfund, the Finnish development finance company, has expanded its operations with annual capital contributions by the government of €10 to €15 million over several consecutive years.[13] While the contributions have been small related to Finnish total ODA (€879 million in 2012), they have been substantial relative to the total capital of Finnfund, reaching €162 million in 2010.[14] The capital contributions as such are not ODA-eligible, but the discounted proportion of Finnfund's investments and loans is included in ODA. Finnfund's six executive directors are responsible for funding decisions. Two of directors always come from the MFA, one from Ministry of Finance, and one from Finnvera, the Export Credit Agency of Finland.

The Finnfund's strategy requires that the financed projects create developmental impacts. The independent National Audit Office conducted an evaluation of Finnfund in 2010, criticising it for fragmentation of its funding and "hands-off" governance of its activities by the Ministry for Foreign Affairs. As a result, the MFA issued a Guidance Note for Finnfund in 2011. The updated Note of the new government requires Finnfund to concentrate 75% of the value of its new funding on low income and least developed countries.[15]

Finnfund refrained from tying its aid to Finnish companies in 2001,[16] but the investments need to align with "Finnish interests". Defining this interest has often created confusion, since it can be interpreted either in terms of commercial interests or emphasising Finnish development policy priorities. In practice the "Finnish interest" refers mainly to commercial benefits[17], and there have been very few projects (excluding private equity funds) that do not have any linkages to Finnish business.[18]

The current Guidance Note calls on Finnfund to evaluate its investments for direct and indirect jobs creation, net tax income, and net export revenues, as well as environmental and gender effects of its operations. However, the evaluations are often based only on questionnaires completed by companies themselves, and not on independent audits. Only a few large projects are being evaluated annually by outside consultants or the Finnfund staff.[19] Finnish CSOs have argued that all Finnfund lending should be based on the highest corporate responsibility standards.[20]

Private equity and the new instrument for high-risk lending

Finnfund channels part of its funding through several private equity funds. An evaluation noted that decisions on private equity investments include analysis of the risks and an environmental assessment. However, private equity funds are often registered in tax havens such as Cayman Islands, and those funds that Finnfund invests are no exception. Obtaining detailed information on private equity investments is therefore difficult due to corporate and banking secrecies. Private equity investments represent currently a significant 30% of Finnfund's total investments.[21]

Negotiations are now underway to expand Finnfund's operations with a new lending instrument tailored for financing high-risk projects. The new instrument will be modelled in a way that distributes the risk for Finnfund to the state of Finland, which would cover part of potential losses for a high-risk project. A survey conducted for a background report for the high-risk instrument identified middle-income countries as the primary targets for this instrument. However, the MFA's guidance note for Finnfund, with its goal of delivering 75% of the financing to low and least developed countries, will also bind the use of the new instrument. In addition, the instrument will not be earmarked for projects involving Finnish companies.

Finnfund administers Finnpartnership, a programme started in 2006 to help Finnish companies invest in the South. The programme is supported by Finnish ODA with approximately €7 million per year.[22] The number of supported projects in the programme has risen steadily from 22 in 2006 to 110 in 2010. However, there has been a significant discrepancy between the commitments and actual disbursements. In 2008, for example, the disbursements were less than half of the pre-approved amounts.[23] Some country-level programmes include similar financing windows for local companies in the South, for example, for conducting feasibility studies on planned investments.

Finnish NGOs have expressed their concerns over Finnfund's private equity investments channelled via tax havens. The governments of Norway and Sweden have recognised the problems that tax haven based private equity funds create for policy coherence. These governments have started to look for ways to refrain from using tax havens in the future. In Finland, the CSOs argue, this discussion has not yet begun.

Other developments in private sector cooperation

Increasing dialogue with Finnish companies has been a priority for two consequent governments. The previous government initiated working groups ("clusters") around the sectors where Finnish export industries interests overlapped with potential development cooperation projects. Work of the clusters, however, did not gain momentum and their meetings were discontinued. The present government initiated a broader-level corporate forum for similar purposes. But the focus of these forums has been more on listening to the needs of Finnish exporters, and much less on discussing corporate responsibility issues.

A potentially very interesting theme in the connection between private sector and development policies is the work on illicit financial flows and tax havens. Both the Government Programme, which is the highest level document for government's commitments, and Development Policy Programme, which complements it, have strong wordings on taking Finland to the forefront of international work against illicit capital flight from the South. The new government has given support for an international dialogue on tax issues and the topic will also be included in the 2013 Ownership Guidance Note to Finnfund. There is less clarity on how these commitments will be included in bilateral cooperation.

Despite ambitious commitments, it is also worth pointing out that Finland was one of the few countries in the EU opposing wide-range country and project level transparency of tax payments in EU extractive industry companies present in the South. The main responsibility for this decision was in the Ministry for Trade and Employment. It represents the continued challenges for development policy coherence within a broad coalition government.

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[6] Lappalainen 2010

[7] Kepa 2010

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Germany

More private engagement – less poverty reduction?

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Overview

- The German government continues to reaffirm the 0.7 percent target by 2015, although it has started to communicate the qualification that the target "cannot be reached only by funds coming from the general budget. Instead innovative financing instruments should make a significant contribution."[1]

- Despite this public confirmation, Germany is not on track meeting the target. In 2011, Germany's aid increased only by 5.6 percent to US$14.53 billion.

- While Germany is now the second largest donor in absolute numbers, its ODA performance reaches only 0.40% of gross national income (GNI) and increased by only 0.01 percentage points compared to 2010. Germany ranks twelfth among the 23 OECD/DAC member states. This is – compared to its relative economic power – remarkable low.

- Among the existing "innovative financing instruments" there are two mechanisms with a considerable potential impact: One is the auctioning of carbon emissions certificates that led to the establishment of a national special fund for energy and climate financing. The second are revenues from a financial transaction tax that is very much welcomed by the German public.

- According to the ministry, Germany plans to channel nearly 50% of its bilateral assistance to Africa[2] and 37% to the Least Developed Countries (LDCs) in 2012. In 2010, US$3.2 billion was directed to Africa, and US$2.8 billion to the LDCs.[3]

- Sectoral priorities of German development policies demonstrate continuity: democracy and public administration, energy and environmental issues are among the top priorities, while education and food security still lack sufficient financial resources.

- Aid inflation continues to be an issue, especially related to imputed student costs, which made up US$886 million (6.8% of ODA) in 2010. Debt relief has been insignificant since 2008, declining from a peak of almost 40% of ODA in 2005 to a little more than 3% in 2010. Refugee costs amount to only 0.6% of ODA in 2010.

- Germany still has a way to go in untying its aid: The latest numbers say that Germany has untied 73% of its ODA in 2009[4]. But what is especially problematic is that only 48% of freestanding technical cooperation (TC) was channeled through local procurement, and more than 50% of TC is still tied. The German government has suggested that it has achieved "nearly 80 percent of untied aid" in 2011.

- Climate finance is an integral component of the German ODA. According to "official information"[5] the government has made the commitment to give €433 million as Fast Start Finance (FSF) for 2011. Actual official information regarding FSF-disbursement is not available.

Structural changes in the aid system

One of the major changes concerning development politics in Germany has been the creation of the Deutsche Gesellschaft für Internationale Zusammenarbeit (German Organization for International Cooperation (GIZ) GmbH in 2011, a company of which the Federal Ministry for Economic Cooperation and Development (BMZ) is the sole shareholder. It emerged from the three former implementing organizations GTZ, DED, InWEnt. The GIZ mandate is to implement German governmental technical and regional projects and to present German development work "with one face to the customer". At the beginning of 2012 another new implementing agency was founded. This new agency is called "Engagement Global – Services for development initiatives" and is responsible for development education and cooperation with civil society organizations.

Besides these institutional changes, the Federal ministry (BMZ) has developed more than 12 new strategy papers for different development sectors, among them for education, HIV-control and Aid-for-Trade. The ministry has also created an overreaching political strategy paper entitled, "Minds for Change – Enhancing Opportunities".[6] The paper was drafted by a small group of political officials working with the minister and then released for public comments. However, the results of this consultation were never made public, and according to civil society, the resulting paper is more of a collection of keywords than a real strategy document.

Aid and the private sector

Since assuming office (2009) the Development Minister, coming from a liberal party, has been strongly pushing for cooperation with the private sector in Germany's development initiatives.

Strategic vision

The election of the conservative-liberal government in 2009 resulted in a strategic shift with regard to the directions for German development cooperation. As noted above, Development Minister Niebel strongly pushed for an increased cooperation with the private sector and its involvement in development cooperation. In its coalition agreement, the coalition defines economic cooperation as one of the key sectors within the field of development cooperation. In this sector, the government aims to expand and protect the private sector, e.g. through Public-Private Partnerships (PPPs), micro-finance systems and infrastructure support.[7] Furthermore, in order to create win-win impacts, German development cooperation should not only contribute to development, but also take into account German external trade interests:

> *"Foreign trade and development co-operation must build upon each other and be integrated in a seamless fashion. Development policy decisions must take sufficient account of the interests of the German economy, particularly the needs of small and medium-sized companies. Foreign trade chambers should be informed in good time about development organisations' commissions when contracts are awarded."*[8]

With regard to this approach, German Civil Society Organizations (CSOs) are concerned that development cooperation may now be used to promote external trade interests, rather than focus on poverty reduction. Furthermore, they are skeptical about the logic behind the approach: Growth alone does not automatically lead to poverty reduction, and the role of private sectors in the development process has not been carefully analyzed. In their view, the government is following a one dimensional approach, one which emphasizes coherent action by state and

private stakeholders, but without taking into account possible trade-offs affecting poor and vulnerable populations (e.g. private profits versus poverty reduction).

Private sector partnerships neglect African countries and social services

From 2010 onwards, concrete action was taken by the development ministry to foster cooperation with the private sector. A new service unit in the development ministry was established in order to advise small and medium enterprises with regard to possible engagements in development policies.

Funding for public-private partnerships increased significantly. Already introduced in the 1990s, PPPs are not a completely new tool in German development cooperation. An evaluation conducted in 2002 revealed that PPP contributed to increased funding from the private sector on the one hand, but also warned to be cautious about possible windfall gains and crowding-out of local competitors in partner countries' markets.[9]

Since 2002, a detailed evaluation of the impact of PPPs on development is missing. Therefore, it is difficult to assess the concrete impacts of PPPs for poverty reduction. However, taking a look at the regional and sectoral concentration of PPP projects in German development cooperation, it is doubtful that the poorest people really benefit from this instrument. The focus of PPP cooperation projects is mainly in Asia. Since 2000, only one-fourth of all PPP projects have been implemented in Africa. Cooperation projects have been concentrated where German companies can expect to make profits. The resources are so far going to investments in sustainable economic development and the environmental sector. Sectors that are important for meeting the MDGs have received only a small share, especially sectors like education (4.4% share in PPP projects), health (5.6%) and water (4.8%). [10] Therefore, the regional and sectoral concentration of PPPs seem to reflect more the interests of German companies rather than a distribution in line with the needs of the poorest populations.

At the same time, CSOs would find a private sector shift towards the social sectors rather problematic. Strengthening public education and public health and social protection systems are essential for achieving the MDGs. Abolishing school fees or out of pocket payments in the health sector have been proven to be successful tools in poverty reduction, as well as social cash transfers for poor populations. But this has to be done by public financing, for example through additional donor budget support. For the private sector, these areas are also uninteresting, since investments do not automatically lead to profits, and, if so, might not lead to poverty reduction. Furthermore, investments in building private schools, hospitals or water and sanitation systems take place where people can afford private services. Therefore, the potential of PPPs in making a substantial contribution to achieving the MDGs might be rather limited.

Increased use of repayable loans at market conditions

In a broader picture, since the 2009 change of government, there has been a trend to increase the use of concessional loans eligible as Official Development Assistance (ODA) in order to finance market-related development. The amount of this interest-subsidized mixed-credit financing has increased from €332 million in 2008 to €1,155 million in 2010. This kind of financing is mainly

to support projects in the field of infrastructure – for example, transportation, energy, telecommunication, and water and sanitation. With these concessional loans, it is mainly the economically stronger developing countries that are supported, and poorer countries only to a small extent. [11]

At European level, the German government is also pushing for a broader use of mixed financing, in the context of the so-called blending of EU budget grants with loans from international and European bilateral financial institutions. In order to increase blending, a number of regional facilities in Latin America and other regions have been created. It seems that these new instruments have improved EU donor coordination, increased the leverage of EU development finance, and enhanced effectiveness and efficiency of the operations. However, a recent study on behalf of the European Parliament's Committee on Development concludes with the concern "that [these] instruments do not fit well the needs of the poorest."[12] CSOs are particularly concerned that blending could lead to unsustainable debt levels in partner countries, since loans have to be paid back, which could be a serious burden especially for Low-Income Countries (LICs). Furthermore, due to fiscal constraints in budgets of donor countries, they fear that grant assistance, which is necessary to support the poorest countries, could be reduced since loans can be used to increase aid at lower budgetary costs for the donor. Finally, the poverty focus of blending is often not clear: *"Quite often, no direct links between blending and poverty deduction can be observed. Blending facilities are focusing on growth incentives through investments in infrastructure, energy and transport. Impacts on poverty cannot be taken for granted, which is why transmission channels need to be identified for stakeholders to directly or indirectly pursue the MDGs and other goals."*[13]

Conclusions and recommendations

So far the implications of the strategic shift in German development cooperation towards a stronger cooperation with private actors are not fully clear, and it is too early to draw final conclusions. However, several risks have to be taken into account when cooperating with the private sector, as the DAC Peer review on German development cooperation in 2010 stated: *"Germany should carefully manage the risks posed by combining the emphasis on private sector development in the Coalition Agreement and other policy documents (which is a positive response to the growth agenda) with the promotion of Germany's own commercial interest. This risks using the development programme for purposes which would not qualify as ODA."* [14]

In general, cooperation between Germany's development program and the private sector has limits. Experience shows that these development partnerships cannot be a substitute for increases in traditional ODA, especially in order to support essential public systems and programs in sectors such as education, health, and basic social care.

From a German CSO perspective, there are some key principles that have to be taken into account in the cooperation with the private sector:

- Development cooperation must support those countries most in need of external assistance, and those sectors that are relevant for achieving the MDGs and realizing universal human rights, not those countries and sectors that are most attractive for the private sector.
- All cooperation projects with private partners have to be fully integrated into bilateral development cooperation policies and in the national development strategies of partner countries.

- Projects with private partners in German development cooperation should undergo a Human Rights Impact Assessment to ensure that projects are in line with international human rights standards.
- All instruments for cooperation with the private sector should be open for local companies in the partner countries.
- All projects need to be evaluated *ex-post* to ensure that they really provide win-win impacts, particularly for development outcomes for poor and marginalized populations.[15]

For civil society, it remains an open question whether the benefits of poor people in the South or the interests of German external trade are the decisive driver for future German government cooperation with the private sector in development.

(Endnotes)

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Italy

The struggle to arrest the decline in Italian development cooperation

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Overview

- The Italian government remains officially committed to the international agreed aid targets. On the other hand, the Development Minister publicly referred in January 2012 to the fact that Italy will not be able to reach the 0.7% UN target by 2015.

- ODA allocations to the grant budget managed by the Ministry of Foreign Affairs (MFA) decreased from €179 million in 2011 to only €86 million in 2012 (a decline of 51%), which is an 88% reduction compared to 2008 levels. It is the third 50% decrease of the MFA budget over the past 4 years, since the beginning of the current legislature.

- In 2011, Italy was the fourth worst performer on aid quantity among the DAC members, providing a mere 0.19% of its gross national income in ODA. In 2010, Italy's ODA was 0.15% of GNI, the second from bottom in the DAC ranking.

- Italy has increased since 2010 the share of ODA allocated to debt relief, from €170 million to €400 million in 2011. Over the past four years, however, debt relief as a share of ODA has decreased from 18% in 2008 to 14% in 2011.

- In 2010, Italy provided a 58% share of bilateral assistance (excluding debt relief) as tied aid, with a 55% increase from 2009; and more than 20% from 2008. In 2010, Italy was the second largest provider of tied aid among the European countries.

- In 2011, Italy provided 60% of its total disbursements as multilateral aid, compared to the 40% European average and 30% for G8 countries.

Background

In May 2008, Silvio Berlusconi was sworn in as Prime Mister. His party's electoral manifesto included no references to development cooperation, which was and still is ruled by Law 49/87 and managed by the Ministry of Foreign Affairs. The ODA grant component managed by the MFA decreased from €179 million in 2011 to only €86 million in 2012 (a decline of 51%), with an overall 88% reduction compared to 2008 levels. It is the third 50% decrease in the total available resources through Law 49/87 over the past 4 years, since the beginning of this legislature.

In 2010, total Italian aid flows were 0.15% of GNI (€2.3 billion), which was significantly lower than the agreed European target of 0.51% by 2010, and accounted for one of the largest pledging gaps among European Union member states. According to the preliminary OECD/DAC data of April 2012, Italy's ODA performance recorded an improvement on the previous year: from 0.15% to 0.19% ODA/GNI in 2011. Italy and Greece, members of the EU-15, delivered less ODA than some EU-12 new member states; Italy is currently the fourth worst performer among OECD/DAC donors. Moreover, the

2011 figures are controversial in the light of the fact that 30% of its 2011 bilateral aid is not "real aid"; a large share of aid resources was in fact made up of funds to support refugees at the time of the Arab Spring. In addition, approximately 36% of Italian aid comes from debt conversion and cancellation. By leaving out the contributions to the European institutions and the remission of Italian ODA credits, it is possible to identify the amount of ODA that is directly managed by the Italian politicians in government and officials, which is a clear measure of the country's commitment to development cooperation. This aid which is subject to direct decision-making by the Italian government, decreased from 46% to 40% of total Italian ODA between 2008 and 2011. Since the beginning of the sixteenth Italian legislature, such aid has never exceeded 0.10% of GNI; in 2011, it was a mere 0.08% against an official ODA/GNI ratio of 0.19%.

According to the 2012 AidWatch Report,[1] Italian "genuine aid" in 2011 - which leaves out the costs for refugees, foreign students, debt relief, tied aid and interest derived from loans of donor countries to recipient countries - was 0.13% ODA/GNI.

Political change: the appointment of the Minister of cooperation

Against a backdrop of economic and political turmoil, in November 2011, a new government was installed. For the first time ever, a Minister for International Development and Integration was appointed and included in the Cabinet. The new Minister promised to "turn over the negative picture of Italian cooperation". Even though the Minister's mandate also includes the integration/ migration agenda, the focus on development cooperation marks a turning point that all Italian CSOs would like to amplify and preserve.

The new Government led by Mr. Mario Monti appointed the Development Minister. This was a remarkable change in many ways: it was a largely unexpected move because of the dire economic situation; the Development Minister, Andrea Riccardi, is a leading figure from the CSO community; one of his first initiative was to appoint experts from NGOs to his team. Despite this positive charge, one should bear in mind that this is a Minister without portfolio and has not been permanently established, which makes his position weaker than the other Cabinet posts.

According to DAC data, a Minister for development cooperation goes hand in hand with a positive trend in the ODA budget. All countries that have achieved (and in some cases exceeded) the 2010 European goal of 0.51% ODA/GNI have had a Minister for international cooperation. By contrast, out of the seven countries that have not reached 0.51% (Italy, Greece, Portugal, Austria, Germany, Spain, France), six do not have a development Minister, with Germany the exception. In addition, ODA performance is higher when the Minister for cooperation is part of the Cabinet: 0.63% ODA/GNI on average compared to 0.23% for the "no Minister" group (2000-2011). In terms of aid quality, based on the indicators set by the Paris Declaration and Accra Agenda for Action,[2] DAC analysis confirmed that donors having a development Minister better performed on development policy compared to the others.

2011 might be seen as the beginning of a period of transition in Italy. As mentioned earlier, the Development cabinet post is a without-portfolio Minister, which means that human and financial resources are still in the hands of the usual players: the Ministry of Foreign Affairs and the Ministry of Finance. The latter plays a pivotal role in many key areas including Italy's participation in the multilateral development banks. Considering

that the budget of the MFA can be submitted to periodic reviews throughout the year to accommodate spending adjustments required by the Treasury, clearly Italy is still far from having an autonomous development policy. It may well happen that agreed expenditures are withheld even in the face of international commitments.

Destination of Italian ODA

In 2011, the share of multilateral aid in total ODA disbursements is 60%, compared to the 40% European average, and 30% for G8 countries. Italian multilateral aid is mostly made up of contributions to the European Development Fund and the EC budget; such expenditures over the last four years accounted for about half of Italy's ODA, making up 6% of total aid in 2011 and for 52% in the previous year. Compared to other DAC European countries, Italy is second only to Greece, which in 2011 allocated 78% of ODA resources through the EU; the EU average is 19%.

In 2011, bilateral aid accounts for 27% of the total ODA (debt relief excluded). Although the bilateral aid flows grew by almost 9% from the previous year, in 2011 Italy comes nearly at the bottom of the DAC donor list, again second only to Greece (18%).

The top ten Italian aid-recipient countries in 2010 were Albania, Afghanistan, Mozambique, Palestinian territories, Lebanon, Ethiopia, Sudan, Pakistan, India and Uganda. Among the top twenty recipient countries, eight are not on the priority list of the MFA. This is the case of Brazil, India, Uruguay and China, which received about US$10 million each. Between 2008 and 2010, Italy increased its aid to some of these countries; the most striking case was Uruguay, which moved from almost US$2 million in 2008 to over US$10 million in 2010. Allocations to Burundi and the Democratic Republic of the Congo, which are not priority countries, increased by 25% between 2008 and 2010. The average share of ODA to Sub-Saharan Africa is higher than that of the G8 countries and even the European Union (around 28% for both groups). Although it marks a slight decrease compared to the 2009 levels (34%), in 2010 Italy allocated 32% of total ODA (debt relief excluded) to the 51 countries in the region.

Tied aid

In 2009, the OECD/DAC recommended that Italy address the gap in terms of political commitment to pursuing external policy coherence with the objectives of international cooperation for development. In particular, OECD/DAC called for the reduction of tied aid. In 2010, Italy provided 58% of its bilateral assistance (debt relief excluded) as tied aid, with a 55% increase over 2009; and more than 20% over 2008. Italy in 2010 was the second among European countries in tying its aid, second only to Portugal.

Ethiopia provides a good example of tied aid generated through loans. In accordance with the Italian National Guidelines for Development Cooperation, Ethiopia is a priority country. In 2005, out of total aid disbursements of US$100 million (debt relief excluded), around US$87 million were in the form of a loan for the Gibe II dam project; in 2006, loans totaled US$90 million out of US$120 million (debt relief excluded). The percentage of total aid (debt relief excluded) as loans was 87% in 2005, 75% in 2006 and 80% in 2007. In 2008, loans were 77% of total aid, with respectively US$61 million and US$47 million reported by the DAC database (Creditor Reporting System - CRS) as "Hydro-electric power plants". According to Salini Costruzioni SpA - a top Italian construction contractor - the

Gibe II dam cost €365 million, of which €220 million have been financed through loans from the official Italian development cooperation, "the largest ever loan" of this kind. Italian NGOs have questioned the role of Salini as the ultimate beneficiary of the Italian loans.

Recommendations

- As stated in the 2012 "Documento di Economia e Finanza" (the government's three-year financial paper), the Italian government should implement commitments to aligning Italy's performance with "the international standards for development cooperation".
- The Italian government should mobilize fresh resources to match the most urgent outstanding ODA pledges; this is the case for the Global Fund to fight AIDS, Tuberculosis and Malaria (a gap of €260 million in Italy's funding commitment) as well as for Food Aid (a €300 million gap). In the short term, these resources can be drawn from anti-tax-evasion norms as well as from a careful assessment of military spending.
- The Italian Parliament should make the recently established Cabinet post of Minister for Development Cooperation permanent starting with the 2013 general elections for the new Parliamentary bodies.
- All political parties, in their programs for the 2013 general elections, should include clear commitments to increasing aid quantity and quality in accordance with global standards. They should support the introduction of a Minister for Development Cooperation as well as the comprehensive reform of the Italian ODA system.
- The Italian Government should put an end to tied aid grants and loans.

Endnotes

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Japan

Japan's Aid: A Real *Kizuna*?

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Overview

- According to the OECD Development Assistance Committee (DAC), Japan's ODA for 2011 (net disbursement) was US$10,604 million, or 0.18% of GNI (Gross National Income). Compared to 2010, this was 10.8% decline.
- The government's ODA budget in the General Account Budget for Fiscal Year (FY) 2012 is 561.2 billion Japanese Yen, 2.0% reduction compared to FY 2011. However, as Japan's ODA has other financial sources like Fiscal Investment and Loan Program (FILP)[1], it doesn't automatically mean that ODA would be cut by 2 percent.
- For a decade until 2000, Japan was the largest bilateral aid donor. But after the government's decision to cut ODA as one of the measures to cope with government's huge deficit, aid volume has continuously decreased; Japan is now only fifth largest donor in terms of volume, and third from the last among 23 DAC members in terms of ODA/GNI performance ratio.

Earthquake, Tsunami and ODA

In the afternoon of the 11th of March 2011, the eastern part of Japan, especially the prefectures of Iwate, Miyagi and Fukushima in the Tohoku region, was hit by the Great East Japan Earthquake, the world's fourth-largest earthquake since modern record-keeping began in early 20th century, followed by the tsunami and the accident at the nuclear power plant in Fukushima Prefecture. As of the summer of 2012, more than 15,000 people are confirmed dead, and nearly 3,000 still missing. There has been global financial, personnel and technical support for the victims of the earthquake and tsunami.

The first part of the Japanese Ministry of Foreign Affairs (MoFA) 2011 annual report on ODA was titled "Overcoming the Earthquake: ODA and our *Kizuna* with the World". *Kizuna* is a Japanese word meaning bond or ties. The global support for the regions and the people affected by the earthquake and tsunami, according to MoFA, is the result of Japan's contribution to solving global issues including provision of ODA. MoFA went on to say that in order to respond to the worldwide *kizuna*, it is firmly required that Japan continue to actively work on global issues through ODA and other means.[2]

But if we analyze the recent trends in Japan's aid, it is hard to say it would truly promote *kizuna* in the global community through reducing poverty and tackling other global issues.

Continuing Reduction of Aid Volume

Japan was the largest bilateral donor in 1989, and from 1991 to 2000. Historically, Japan's aid volume was the largest in 1995, with US$14,489

million (net disbursement). The ODA/GNI ratio was the highest in 1999 with 0.34 percent.

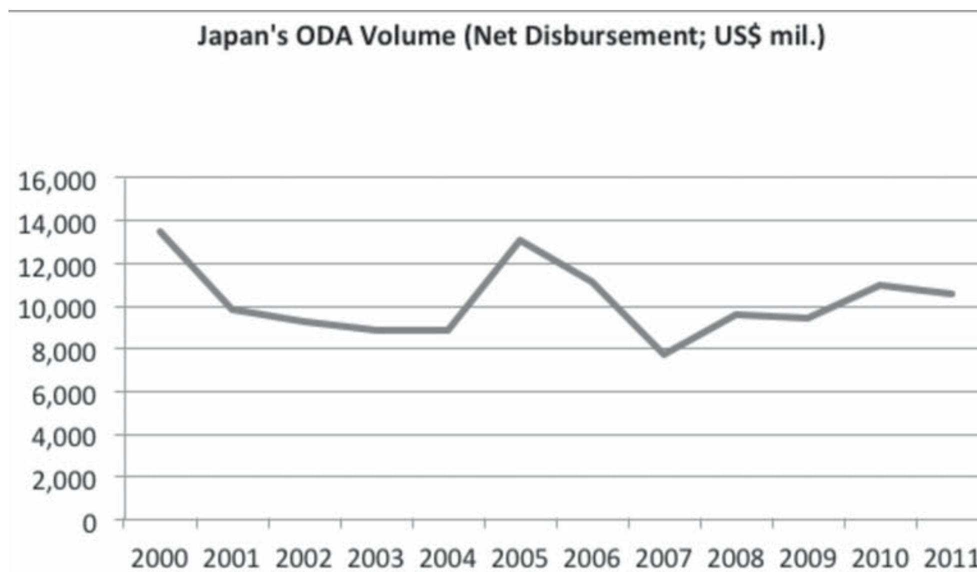
Since 2001, when the government announced that it would cut the aid budget by 10% as a measure to tackle its huge budget deficit, aid volume has been on a downward trend, although on some occasions (emergencies such as the Sumatran Earthquake, the tsunami in late 2004, and debt relief) there have been temporary increases.

In the 2010 OECD-DAC peer review, it was recommended that Japan should "set a timeline for increasing volumes to regain ground lost over the previous decade and make progress towards meeting the UN target of 0.7% ODA/GNI and other existing commitments."[3]

About three weeks after the earthquake, in early April 2011, the ruling Democratic Party proposed a 20% cut for the original FY 2011 aid budget, reallocating the money for reconstruction of the regions in Japan damaged by the earthquake and tsunami. After facing opposition from CSOs such as JANIC and GCAP Japan and some members of the parliament,[4] later in the same month, the Cabinet decided to reduce the cut to the aid budget to 10 percent.

Public Support

Behind the downward trend for Japan's ODA is declining public support. In the early 1990s when Japan became the largest donor, opinion polls had around 35% of the Japanese public in support of increase of aid, 45% for maintaining the existing aid volume, and a little more than 10% favouring a reduction. By the early 2000s, public support had rapidly declined; only about 20% supported an increase, while about 25% asked for reduction. After 2005, public support for aid has slowly recovered. Comparing the 2010 and 2011 polls, support for increased aid declined slightly, but people asking for a reduction did not increase. The earthquake and tsunami is thought to be one reason for the 2011 decline in support for increased aid.



Source: MoFA, Japan's Official Development Assistance White Paper and OECD press release.

	ODA SHOULD BE INCREASED	CURRENT LEVELS OF ODA SHOULD BE MAINTAINED	ODA SHOULD BE REDUCED	ODA SHOULD BE ABOLISHED	DON'T KNOW
2011	27.4	47.4	17.8	2.6	4.9
2010	31.5	43.1	19.2	2.0	4.2
2004	18.7	44.2	25.6	3.1	8.4
2000	23.0	41.4	22.3	4.8	8.5
1995	35.6	43.1	12.5	1.6	7.2

Source: Government's Opinion Poll on Foreign Policy and Security

When asked why they did not support aid, respondents name domestic reasons such as the prolonged recession and the budget deficit, rather than question the effectiveness of aid.

Despite the apparent necessity to strengthen public awareness of international development issues and the support for aid, in May 2010, the ruling Democratic Party's team reviewing government activities and expenditures decided to cut dramatically the communications and public relations budget of the aid agencies.

The DAC peer review expressed its strong reservations about these cuts and recommended, "Japan needs to write and adequately fund a strategy, preferably whole of government, on building public awareness and support. Such a strategy should encourage a more proactive approach to communication and engage all major stakeholders".[5]

Trends in Geographical and Sectoral Allocation

There have been little significant changes in the geographical and sectoral allocation of Japan's ODA.

Geographically, a focus on Asian countries has continued. In 2009-2010, 49.5% of ODA went to East, Southeast Asia and the Pacific, 28.5% to South and Central Asia (meaning in total three quarters of Japan's ODA went to Asia-Pacific), while only 14.5% was directed to Sub-Saharan Africa. However, the Japanese government's commitment at the 4th International Conference on African Development (TICAD)[6] in 2008 to double ODA to Sub-Saharan Africa is likely to be met. The top five recipients of Japanese ODA were Indonesia, India, Vietnam, China and the Philippines.

Sectoral allocation of Japan's ODA has always been quite different from most of the other DAC members. Japan's aid policy has consistently been growth-oriented and has emphasized aid to economic infrastructure (transportation, communication, power, etc.), rather than social and administrative infrastructure. In 2010, 48.0% (compared to 17.2% for all DAC donors) was used for economic infrastructure, and 22.6% (compared to 37.7% for all DAC donors) for social and administrative infrastructure.

Tied Aid

While always facing pressure from the business sector to increase tied aid, the Japanese government has considered itself as a forerunner in aid untying; at the same time, DAC statistics have shown that Japan has been well above

average in tying status of aid among the 23 DAC donors. The 2010 DAC peer review identified a problem with the Japanese government's definition of tied/untied aid:

Japan considers a project to be untied even if it requires the primary contractor to be Japanese. It justifies this on the grounds that the primary contractor is the project manager and is able to sub-contract freely. However, where primary contractors have to be Japanese and can act as both agents and suppliers of goods or services (including management) Japan should report such aid as tied.[7]

Up to the time of writing this chapter, there has been no indication from the government to change its practices regarding its reporting on the tying status of Japanese aid.

In June 2011, the government announced its plan to provide goods produced by manufacturers in the areas affected by the earthquake and tsunami as in-kind commodity grants to developing countries. Although reconstruction of industries in these areas is vital, CSOs criticized this plan as an example of tied and supply-driven aid, undermining the developmental needs and ownership of partner countries.

Public-Private Partnership

In the past, Japan's ODA was often criticized for its strong ties to the commercial interests of Japanese businesses. In the early days of Japan's aid program (the 1960s and early 1970s), the government did not hesitate to write that its major objective was to promote its own economic interests through its ODA.

Public-Private Partnerships (PPPs) have recently been emphasized in Japan's aid policy. The government defines a PPP as:

> A new method of cooperation between the public and private sectors, in which governmental and private organizations collaborate in the undertaking of a project. Input from private businesses is incorporated in the formation of the project, and the basic infrastructure is prepared with ODA, with investment, operation, and maintenance management conducted by the private sector. In this manner, roles are divided between the public and private sectors, with the technologies, knowledge, experiences, and funds of the private sector used in an effort to implement activities that are more efficient and effective. (Examples of preparatory survey: Water and sewer systems, airport construction, motorways, railways, etc.)[8]

In 2008, the government announced a new policy regarding PPPs titled "Public-Private Cooperation for Accelerated Growth". Specific measures in this policy were: (1) to implement private sector proposals on public-private cooperation; (2) to hold regular policy consultations between aid agencies and business communities; and (3) to promote public-private cooperation in developing countries.[9]

Several new PPP schemes and programs were introduced in FY 2010.

- A "Preparatory Survey for PPP Infrastructure Projects", in which the government calls for proposals from the private sector for a preparatory survey of infrastructure projects.
- Another new call for proposals from the private sector was for a preparatory survey on BOP (base of the pyramid) business projects.

- JICA Private Sector Investment Finance, which is a scheme to provide loans to "private development business implemented by private Japanese companies in developing countries,"[10] was re-launched. (This program had been abolished in 2001.)

In June 2011, the MoFA launched the "MDGs Public-Private Partnership Network" to promote public-private partnerships towards achieving the Millennium Development Goals (MDGs). JICA initiatives to support business activities of Japanese medium and small-sized corporations in developing countries were also started in FY2011 and FY2012.

Although some of the above-mentioned developments in Japan's PPP could potentially have positive impacts in reducing poverty, from a CSOs perspective, several concerns should be raised. First, it goes without saying, these initiatives would continue to promote the commercial interests of Japan, which are in many cases incompatible with developmental objectives. Second, the initiatives also may promote supply-driven aid, undermining developmental needs and ownership of partner countries. Third, the call for proposals for private sector in infrastructure projects could further accelerate Japan's overconcentration of its ODA in economic infrastructure, which is growth-oriented but has little direct impact on poverty reduction.

Conclusion

The Japanese government has emphasized that in order to respond to the worldwide *kizuna* for those affected by the earthquake and tsunami, Japan should actively work on global issues through its ODA and other means. But from a CSO perspective, a real *kizuna* should aim to bring about sustainable changes that address the causes, as well as symptoms, of poverty, inequality and marginalization, and to respect, protect and fulfill the human rights of all people. If we look at the reality of what has happened under the name of *kizuna*, it is hard to say that Japan's aid has been promoting a real *kizuna*. In reality, after the earthquake and tsunami, CSOs saw in Japan an increased tendency to consider aid as a means of pursuing its own interests. The declining trend in aid volume has continued, and there was an additional aid cut, reallocating the money for reconstruction of the earthquake and tsunami-affected regions. There was also a special commodity aid program, purchasing goods of manufacturers of the affected regions and granting them to developing countries, which is an example of tied and supply-driven aid. The government's call for *kizuna* has not resulted in increased public support for aid.

Many international development CSOs in Japan have also worked on the emergency relief and reconstruction efforts in the regions damaged by the earthquake and tsunami. However, CSOs consider that Japan's ODA program should not be used as a means to promote reconstruction of the earthquake and tsunami-affected regions.

After the turn of the century, Japan's aid volume has been on a downward trend. Public support for aid has been declining, and there have been calls, especially from businesses, but to some extent from the public, to align aid policy to Japan's own foreign policy and commercial interests rather than global and developmental objectives. Behind these pressures are domestic issues such as the prolonged recession, an increasing income gap between the rich and the poor, increased unemployment, and an aging population (meaning increased government's spending for welfare and social security programs).

But if Japan is to be really serious about *kizuna*, it must regain its performance on aid volume, making progress towards meeting international commitments, including the UN target of 0.7% ODA/GNI, and qualitatively, reconsider its current aid allocations and enhance its aid effectiveness. Concrete measures for building public awareness on global issues and support for international cooperation as the DAC Peer Review recommends are also vital.

Endnotes

1 According to the Japanese Ministry of Finance, FILP is "long term low interest loans and investments by the government to achieve policy objectives of financial support for small and medium enterprises, construction and improvement of hospitals and welfare facilities, and to obtain natural resources. Procuring the capital through issuing FILP bonds, a type of Japanese Government Bond, FILP provides long-term and low-interest funds that are difficult for the private sector to deal with and enables the execution of large-scale and long-term public projects." Ministry of Finance, *FILP Report 2011* (http://www.mof.go.jp/english/filp/filp_report/zaito2011/index.html: accessed 28 Sept. 2012)

2 Ministry of Foreign Affairs, *Japan's Official Development Assistance White Paper 2011: Japan's International Cooperation*, Chapter 1.

3 OECD, *Japan: Development Assistance Committee Peer Review*, 2010, p.18.

4 JANIC's statement asking to maintain the aid budget can be accessed at: http://www.janic.org/Emergency%20Statement%20on%20ODA%202011.4.pdf

5 *Ibid*., p.35.

6 TICAD has been held every five years since 1993, hosted by the Japanese government and co-sponsored by UNDP, the World Bank, etc. The 5th TICAD is scheduled to be held in Yokohama in Metro-Tokyo Area in June 2013.

7 OECD, *Japan: Development Assistance Committee Peer Review*, 2010, p.21.

8 Ministry of Foreign Affairs, *Japan's Official Development Assistance White Paper 2011: Japan's International Cooperation*, p.29.

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Korea

Republic of Korea: Infrastructure-Oriented ODA policy and increasing role of private sector in development cooperation

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Overview

The Korean government has played a leading role in making substantive progress in the implementation of the *Seoul Development Consensus*, which was adopted at the G20 Seoul Summit in 2010. The government is working for concrete results as co-chair of the G20 High-Level Development Working Group (DWG). In late 2011, the Fourth High-Level Forum on Aid Effectiveness (HLF4) was also successfully hosted with the Korean government's active role and contribution.

Korea's recent efforts and performance contributing to poverty reduction and sustainable development has heightened not only the international community's interest, but also Korean people's support.

The volume of Korean aid has been increasing steadily. In 2011, Korea's net Official Development Assistance (ODA) recorded its highest level (US$1.32 billion). However, Korea's ODA to Gross National Income (GNI) performance ratio has not increased for two consecutive years since 2010, remaining at 0.12%.

There has been some progress nevertheless in some other areas that affected the quality of Korea's ODA. The government has reaffirmed that the loan to grant ratio for its aid would be maintained at 4 to 6 in favour of grants. In the early 2000s, the volume of loans was twice as high as grants. Since then grants have rapidly increased. In 2007 there was a marked decrease in loans. However, the proportion of loans has actually been increasing again. While not returning to the levels of loans in the early 2000s, in 2011, the level of grants continued to decline relative to loans. The loan ratio increased by 26.2%, showing a ratio of 42 (loans) to 58 (grants).

Consistent with the emphasis by other donors of the private sector's role and participation in development cooperation to extend development finance, the private sector is also emerging as a prominent agent of development cooperation in Korea. The government has been eagerly promoting the private sector's participation in its infrastructure projects in developing countries.

In June 2012, Korea underwent its first Peer Review since it became a member of OECD DAC. This Peer Review is important for Korea to demonstrate its efforts to improve its aid policy and institutional management system. Civil society organizations (CSOs) also took this opportunity to examine the progress made by government departments and agencies toward meeting the commitments made by the Korean administration. They urged the government to increase the pace of reforms and improvements in the quality and practices of its aid.

Increasing ODA volume, but still a high proportion of loans

It is encouraging that the volume of Korean aid has been increasing steadily since 2006. However, the amount of Korean ODA remains insufficient compared to that of other DAC members. In 2010, Korea ranked as the 13th largest economy and 9th largest by trade volume, while its aid performance remains at the bottom among DAC donors. As a country enjoying a favorable economic situation, Korea needs to sustain the political will to take concrete measures to implement its commitments to increase its aid volume and ensure its accountability to the international community.

The Korean government has continued to reaffirm its promise to annual increases to its ODA. This commitment is made in national strategies and plans such as the Mid-Term ODA Strategy (2008) and the Public Financial Management Plans (2009, 2010, 2011). But actual increases in 2010 and 2011 were insufficient to meet the target performance (ODA to GNI) in both years, which points to the significant challenges in achieving the 0.25% ODA/GNI target by 2015 without stronger measures and political will.

In 2010, loans represented 39% of the total bilateral aid disbursements, which is a high ratio compared to that of other DAC donors. Most DAC members' bilateral aid consists almost 100% of grants, with the exception of three countries: Germany, France and Japan.

Despite a recommendation to correct this bias towards loans, the ratio of loans has actually been increasing since 2008. The grant ratio in 2011 declined by 2.8% compared to that of the previous year (US$560 million), while the loan ratio increased by 26.2% (US$410 million).

According to the *Strategic Plan for International Development Cooperation*, the government has vowed to keep the loan ratio around 40% of total bilateral aid, which means that Korean ODA will involve more volume of loans than at present, as the total volume of aid increases.

Far from an integrated ODA policy

The Korean aid architecture consists of two pillars. Under the current system, the Ministry of Foreign Affairs and Trade (MOFAT) manages Korea's grant aid through the Korea International Co-operation Agency (KOICA). The Ministry of Strategy and Finance (MOSF) works through the Korea EximBank and its loan institution, the Economic Development and Co-operation Fund (EDCF), to implement concessional loan programs. The Special Review of Korea's international development cooperation in 2008, which was conducted by OECD DAC at the request of Korea, suggested that the shortcomings of the dual system of development cooperation had been solved, but in reality this duality still exerts a negative influence on aid effectiveness.

In 2010, the *Framework Act on International Development Cooperation* (hereafter the 'Framework Act') and its Presidential Decree came into effect, serving as a legal basis for Korean development aid. According to Article 7 of the *Framework Act*, the Committee for International Development Cooperation (CIDC) and the ODA Policy Bureau were established under the Prime Minister's Office. The Strategic Plan for International Development Cooperation and the Sectoral Basic Plans for 2011-2015 were created to lay the legal groundwork for a development policy that is structured, integrated, and policy consistent.

Despite these legal and policy improvements, integrated aid policy and strategy has not been achieved due mostly to the weak coordinating function of the CIDC under the Prime Minister's Office, which only works as a negotiating channel between agencies.

Institutional fragmentation is a crucial issue. Besides the Ministry of Strategy and Finance and its EDCF in charge of loans, and the Ministry of Foreign Affairs and Trade and its KOICA in charge of grants, there are over 30 ministries, central government organizations, and local municipalities providing aid. The problem is that a number of these actors are providing aid in the absence of coherent guidelines or principles from the central government, whereas their actions may sometimes result in duplication and eventually impede aid effectiveness.

As a basic strategy paper, the Strategic Plan for International Development Cooperation is not premised on a strategy to streamline aid policy with a partner country's demands and local needs. Rather, it highlights the importance of learning from Korea's economic development experience and sets out a "Korean ODA Model". Therefore, this paper has been criticized by CSOs in Korea as an aid strategy that is highly donor-centric.

Little access to information

The government has announced a plan to select 26 priority partner countries. It intends to complete a unified Country Partnership Strategy (CPS) for each of these 26 priority partner countries by 2012. Among the 26 countries are 11 Asian, 8 African, 4 Central-South American, 2 Central Asia and CIS, and 1 Oceanic. The list of 26 countries and the criteria for their selection were not made public, allegedly to avoid a deterioration of diplomatic relations with countries not selected as priority countries. This secrecy and limited access to information have been criticized as a problem of transparency in relation to Korean ODA.

Focus on the private sector's participation

The Outcome Document of HLF4 refers to "Private Sector and Development" (paragraph 32), highlighting expectations for the role of the private sector as a development actor. The Korean government, which has been actively involved in developing the Post-Busan Partnership Framework, has been emphasizing the role of the private sector with a strong interest in corporations' participation in development projects.

In its Strategic Plan for International Development Cooperation, the government has stressed private-public partnerships (PPPs) as an important modality in its development cooperation policy. KOICA is responsible for grants in a newly adopted Global Social Responsibility Partnership program (2010). KOICA formulated a Mid-term ODA Policy for 2011-2015 to support various types of projects implemented by both NGOs and corporations. In 2010, the first year of the Global Social Responsibility Partnership Program, KOICA channeled US$1.06 million (KRW1.2 billion) to five projects from five organizations, which was funded from corporations. In the following two years, 2011-2012, 22 projects by 19 organizations were provided with US$4.4 million (KRW5 billion). Considering the plans for a growing budget for KOICA's NGO support program, which are expected to amount to US$80 million (KRW90 billion) by 2015, the ODA volume channeled through NGOs and the private sector will steadily increase.

The EximBank had announced (but did not publish) an Invigorating Plan for Private Public Partnership in 2011 to support and encourage through its loans program private corporations to get more involved in development cooperation projects. Even though the plan has not been established yet as of 2012, the Bank now provides loans to PPP projects. The Laos Sapien-Senamnoi hydropower project was announced in 2011 as the first PPP project supported through the EximBank EDCF fund. It demonstrates a PPP scheme under which corporations' investments cover part of the project's cost and the partner country received a loan from the Korean government to make up the rest of the project budget. In this scheme, the EximBank provided project financing with cooperation from Multinational Development Banks (MDBs) and private financial institutions. A high-level official from the Ministry of Strategy and Finance reaffirmed that it would promote and encourage more corporations to participate in PPP projects, saying that "because PPP projects allow for big projects even where only a small amount of development aid is provided, we plan to increase EDCF loans to PPP projects".[1]

Korean rush to developing countries

Many Korean corporations have been competing to invest in the Asian and African regions and win contracts for large-scale infrastructure projects such as resource exploitation, mining, industrial plants, and urban development. This rush for overseas development investments is the consequence of not only the intensifying competition for resources across the world, but also the enduring recession in the domestic construction sector. To ensure Korean engagement in this global trend, the government has provided Korean investment funds with US$60 billion as well as regional investment information to help Korean corporations make inroads overseas.

Due to insufficient investment capital and lack of technological know-how, donors' assistance and foreign corporations' participation in large-scale infrastructure projects are necessary for many developing countries. Recently, more Korean corporations have invested directly in infrastructure projects in developing countries with the Build-Operate-Transfer (BOT) approach. For developing countries struggling to attract foreign investment, it may be good news. However, most of the PPP projects are involved in large-scale public infrastructure construction projects, which may create public goods, but may also burden local people with the impacts of these projects, in order to create profits for external corporations.

Through the private sector's participation in development cooperation projects, governments can access funding and expertise from the private sector and project efficiency can increase. However, when the private sector is driven by the pursuit of their own benefit, with little consideration of social responsibility and business ethics, these engagements by the private sector may be in contradiction with the objectives of ODA to reduce poverty and contribute to the partner countries' development. They may also dramatically harm or even destroy local communities, their environment and peoples' livelihoods. Although the private sector may also endure unexpected business conditions and poor environments in which to invest in developing countries, corporate involvement in projects that are supported through ODA should be guided by their contribution to poverty reduction and to the partner country's development strategy.

There have been many cases of Korean corporations doing harm to local communities

and people while implementing development projects in developing countries. Daewoo International Corp.'s commuter train project in southern Philippines is known as one of the worst cases. This project caused strong local resistance against Korean ODA because of a large number of people being forced out of their homes. The Karian Dam project in Indonesia was funded with a Korean concessional loan. It faced criticism for its forced evictions and environmental degradation, which resulted in its suspension and the demand for an environment and social impact assessment.

Besides the ODA supported cases, there have been many allegations of human rights violations relating to other development projects managed by Korean corporations. POSCO's steel project in Orissa, India, provoked a storm of protests by local communities because of environmental impacts and forced evictions. Local NGOs and the media have also criticized the inadequacies of working conditions at the Subic Shipbuilding Company in the Philippines, which was bought out by the Korean corporation, Hanjin Heavy Industries and Construction Co. In the case of Daewoo International's Burma gas pipeline project, the dismissal of workers who protested against overdue wages and inadequate land compensation was reported.

Korean corporations, negligent in human rights

In this context of a rapid and widespread trend of investment by the private sector in overseas development projects, corporations have not taken sufficient consideration of the rights of local people who reside close to the project sites and become affected by these projects. Despite the fact that many Korean corporations have committed to respect human rights through the UN Global Compact, their awareness or attitude concerning human rights remains at a low level.

According to a 2008 study report by the National Human Rights Commission of Korea, only 16.7% of companies said that they carry out a human rights impact assessment when a new domestic project is launched and 15.6% of companies when a new overseas project is started.[2] Although many companies said human rights issues would stand as an important risk factor in a long-term perspective, they did not see human rights as an important operational principle in their day-to-day practices.

ODA as a means of resource diplomacy

The scramble for resource is not exceptional to Korean corporations. As more Korean companies participate in resource exploitation and investment projects, more impacts are apparent and are reported. In fact, the provision of ODA to a country in return for access to that country's resources is often in tension with the goal of poverty reduction, a development cooperation objective that is widely agreed upon by the international community.

In early 2012, the corrupt practices of a Korean mining company, CNK Global Co., which invested in a diamond-mining project in Cameroon, were uncovered. It was a typical corruption scandal involving incumbent high-level government officials. However, the other side of the scandal clearly revealed the problem with the Korean government's ODA policy. In the process of CNK's obtaining the mining concessions in Cameroon, the Prime Minister's office selected Cameroon as a priority partner country under the name of 'Resource Diplomacy'. This scandal disclosed the government's hidden agenda to

utilize ODA as a means of resource diplomacy to secure Korea's political and economic interest.

The lack of transparency about priority countries and PPP projects may be hiding more scandals in the privatizing of ODA for the interests of an individual company or its utilizing as an incentive in resource negotiation. The Korean government has officially announced that its ODA is aimed at reducing poverty, but in reality it often uses ODA as a means to further Korea's resource diplomacy or economic benefit.

Recommendations from civil society

Although harmful consequences from Korean corporations' participation in overseas development projects have increased as more corporations rush into developing countries, government initiatives to regulate the activities of these corporations seem a long way off. The Eximbank is preparing Safeguards for Environmental and Social Impact Assessments for their Operating Manual. Based on these Safeguards, further efforts must be made to provide binding power to the recommendations from Environmental and Social Impact Assessments and to ensure access to ODA information and consultation with civil society in the affected communities.

Here are some recommendations from CSOs concerned about the private sector's unrestricted development activities and its support by the Korean government and corporations.

- Korean corporations, which invest in developing countries, should elaborate a code of conduct for their engagement in development projects and follow these standards of conduct irrespective of the laws of the country concerned.
- Korean corporations, which invest in developing countries, should carry out a fair and transparent Environmental and Social Impact Assessment before the development project is launched.
- Korean corporations, which invest in developing countries, should respect and abide by international standards and guidelines such as the OECD Guidelines for Multinational Enterprises and ILO Standards.
- Korean corporations, which invest in developing countries, should not collude in human rights violations by the partner country government, such as forced evictions or forced labour.
- The Korean government should prepare corporate regulations to prevent Korean corporations from perpetrating human rights abuses and environmental destruction.
- The Korean government should issue human rights and environmental guidelines for corporations and monitor their compliance.
- The Korean government should make it compulsory for corporations to prepare a Preparatory Investigation, a Project Progress Assessment and Post-Project Assessment and guarantee active participation for civil society, especially from the partner country, in the process of assessment.

Conclusion

Since Korea became a member of the OECD DAC, Korean ODA has been considerably improved through the creation of new legislation, strategies and policies to guide Korea's international development cooperation. Like many other donors, in the context of shrinking global aid budgets due to the economic crisis,

Korea has been encouraging the private sector to participate in development cooperation projects. However, there have been few discussions in Korea to put in place guidelines and standards for the private sector to preserve the environment and respect human rights in developing countries, while involvement in large-scale infrastructure projects might have a profound social and economic impact on the country.

The government should issue human rights and environmental guidelines for corporations and monitor their compliance, so that corporations are not the only ones benefitting without any improvement in the lives of local people. Also, in the process of assessment, active participation of the civil society, especially from the partner country, should be guaranteed. Only when Korean ODA policy is implemented, based on respect for the partner country's people and their rights, will Korea meet the international community's expectations for a country that used to receive aid, but now provides aid, and avoid the criticisms of using ODA as a means to pursue its own interests.

Endnotes

1 Press release by the Ministry of Strategy and Finance, December 7th 2011

2 Center for Corporate Social Responsibility, "An Analysis of Human Rights Policies and Management Practices of Major Korean Corporations and a Study of Korean-style Business Human Rights Guideline", 2008, National Human Rights Commission of Korea.

Luxembourg

A proud deliverer of development aid with some concerns on policy coherence

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Overview

- In 2011, Luxembourg slightly missed the official development assistance (ODA) target of 1% of gross national income (GNI), spending 0.97% of GNI on ODA (or €294.3 million) – a decrease from 1.05% of GNI in 2010 (€303.6 million).[1]
- In 2011, Luxembourg ranks third among the European member states in terms of its ODA performance (ODA to GNI ratio): after Norway (1.02% of GNI) and Sweden (1% of GNI), and ahead of Denmark (0.86%) and the Netherlands (0.75%).
- The Ministry of Foreign Affairs is responsible for 84.4% of this ODA (€248.5 million) and 9.1% is spent by the Ministry of Finance. The remaining amount is spread among several other ministries (0.1%) and concerns the Luxembourg contribution to the overall EU budget.
- Luxembourg remains committed to providing 1% of GNI for ODA (confirmed in the government declaration 2009-2014) and consequently plans to increase ODA again in order to maintain the level of 1% at least until 2014.
- Apart from some positive trends in the quality of Luxembourg's aid, Luxembourg has room for improvements - mainly in climate financing, policy coherence for development and in financing development education and awareness-raising.

The 1% target

Since 2001, Luxembourg has been reporting official development assistance (ODA) levels exceeding the United Nations (UN) target of 0.7% of GNI, and has been steadily improving this performance in ODA to GNI ratio over the past decade. In 2009, Luxembourg committed to allocate 1% of GNI to aid, at least until 2014 (reaching 1.1% in 2009, 1.05% in 2010).[2] This impressive target has been achieved since 2009 (except in 2011 when it was 0.97%, see above) and remains a commitment for the current government.

There is continued strong support for the 1% target among the Luxembourg population according to recent surveys. However, this ODA level and the untying of aid to national economical interests have recently been questioned by the minority right-wing party.

In Luxembourg, debt cancellation, refugee and student costs are not included in the calculation of ODA.

Countries and sectors[3]

Luxembourg's development cooperation is focused on ten "partner countries" with which the Luxembourgish government has signed country programmes. These are mainly from West Africa (6), Asia (2) and Latin America (2). Luxembourgish NGOs, however, are not bound to this country "restriction". Apart from these

partner countries, Luxembourg provides aid to three Balkan countries (Kosovo, Serbia and Montenegro), Rwanda and Mongolia.

The selection of sectors has been inspired by the MDGs. Luxembourg focuses mainly on health, education and local development. The latter supports the water and sanitation sectors, decentralization and microfinance.

A new law on development cooperation[4]

In 2010, the Ministry of development cooperation and humanitarian action launched a reform of the law governing development cooperation that had been in place since 1996. Consultations on revisions to the law were held with the Parliament, but NGOs were less pleased with the process. The latter regretted not having been involved actively in the drafting process from the outset and they were concerned that the proposed changes lacked ambition. The new law came into force in May 2012.

The private sector involvement

Luxembourg is proud that its aid is untied and that there are no instrumental interactions between Luxembourg development cooperation on one hand and other ministries and national interests on the other.

In 2011, a public private partnership (PPP) called "emergency.lu"[5] was launched. This is a satellite based telecommunication platform providing a rapid telecommunication solution for disaster relief and humanitarian operations. This PPP involves three Luxembourg-based companies - HITEC Luxembourg, SES and Luxembourg Air Ambulance, the operational partners - and the technical partners Ericsson and Skype, which provide their technical expertise to the undertaking. One might consider that this PPP is a form of tied aid because the initiative exclusively relies on Luxembourg telecommunication and air rescue companies.

Another sector of development cooperation in which the Luxembourg private sector is increasingly involved in is microfinance. The Ministry responsible for development cooperation encourages collaborations with Luxembourg's financial services providers, for instance in the area of management and transfer of financial data, emphasizing the added value for Luxembourg economy and reputation.

OECD DAC Peer review

In May 2012, the OECD Development Assistance Committee undertook a peer review of Luxembourg's development cooperation. The report of this peer review, which included peers from Spain and Greece, is expected to be made public in November 2012.

Climate financing

Despite the fact that Luxembourg is not including its climate finance within its ODA and is one of the strongest advocates within the EU for its additionality, climate finance is one of the major challenges for Luxembourg's ODA. Based on the lack of EU leadership to contribute to mitigation and adaptation for global climate change, Luxembourg committed only €9 million toward the Copenhagen Fast Start Financing for the period 2010-2012. Luxembourg has also had delays in its disbursement as a result of

administration hurdles. Until now Luxembourg has not shown any signs that it would increase this amount for climate change before 2020.

NGOs have recommended the government apply the Greenhouse Development Rights Framework in order to estimate Luxembourg's fair share of climate finance and calculate amounts of funding that correspond to Luxembourg's real climate obligations.

Development education and awareness raising

NGOs are also urging the government to improve its contributions towards development education and awareness-raising by increasing the share of ODA allocated to education and advocacy programming from currently 0.63% of ODA (0.55% in 2010) to 2%.

Endnotes

1 Annual report 2011 of the Luxembourg development cooperation http://www.cooperation.lu/2011/

2 A new government will be elected in 2014.

3 http://cooperation.mae.lu/fr/Politique-de-Cooperation-et-d-Action-humanitaire/Programmes-indicatifs-de-cooperation

4 http://cooperation.mae.lu/fr/content/download/32928/251138/version/1/file/M%C3%A9morial+A+-+n%C2%B0+111+-+1er+juin+2012.pdf

5 http://emergency.lu/

The Netherlands

The Netherlands: Development aid and the private sector

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Summary

- In 2010, Dutch government spending on official development assistance (ODA) was €4.7 billion (net). This equalled 0.81% of Dutch gross national income (GNI). The financial crisis and the resulting lower GNI, negatively affected the budget by approximately €0.5 billion (gross).
- In 2011, the Dutch government spent €4.5 billion (net) on ODA or 0.75% of Dutch GNI.
- In 2012, Dutch government spending on ODA is projected to be €4.3 billion (net). The government that came to power in 2010, agreed to lower ODA to 0.7% of GNI. Additionally, an amount of €200 million for climate spending that was originally allocated in addition to official aid, will now be included in the 0.7 percent. Altogether, the total cut for 2012 will amount to €958 million. This represents a decrease of 17.8 percent.

Overview

Since the late 1990s the Dutch government has been allocating the equivalent of 0.8% of gross national product (GNP) to aid—more commonly referred to as "development cooperation" in the Netherlands. In 2010, the then newly-elected government decided to lower this target to 0.75% in 2011 and structurally to 0.7% in 2012.

A large share of Dutch ODA is channelled bilaterally, multilaterally and to civil society organisations (CSOs). In 2010, about one-third of Dutch aid consisted of bilateral aid (through embassies), a quarter went to multilateral organisations, and 23% to civil society. Part of spending on civil society is directly channelled to southern CSOs by the Dutch government (via bilateral aid budgets) and part is channelled through Dutch CSOs. The budget that was historically allocated to the so-called Dutch co-financing NGOs has been cut significantly by one-third in 2011 as compared to the years before. Risks of further budget cuts remain.

The current Dutch government has also implemented a major change in focus on recipient countries. This new policy is premised on the idea that Dutch ODA will be more effective if the Dutch efforts are more focused. The focus countries have been reduced from 33 to only 15. These fifteen are Benin, Ethiopia, Mali, Mozambique, Uganda, Rwanda, Afghanistan, Burundi, Yemen, Palestinian Territories, South Sudan, Bangladesh, Ghana, Indonesia, and Kenya. Additionally, Dutch ODA will be organized around four themes within these countries: water, food security, sexual health, and security and the rule of law.

Political analysis: what's to come

The current Dutch government led by Prime Minister Rutte—"Cabinet Rutte"—has been a "care-taker" cabinet since the defeat of the government in April 2012. This means that it has significantly fewer powers than a conventional government, with its main aim being the

organisation of elections. Cabinet Rutte is a minority government formed by VVD (the conservative liberal party) and CDA (Christian Democrats) and supported by PVV (populist party led by Geert Wilders).

Elections were held in September 2012. As expected, they resulted in a close tie between the Labour Party (PvdA) and the Conservative Liberals (VVD), with 39 seats for PvdA and 41 for VVD (out of a 150-seat total). The Netherlands has a multi-party system that makes it near-to-impossible for one party to win an outright majority. Therefore, there are several combinations of parties that may form the ruling coalition. At the time of writing, two formateurs had just been appointed to attempt to form a new government—initially one of just VVD and PvdA.

Risk of budget cuts

The current Dutch government has decreased 2012 spending on ODA to 0.7% of GNI, lowering ODA spending by €840 million from the previous year. An additional €200 million allocated to climate spending, which was originally budgeted *on top of* official development aid over several years, has now become part of the ODA target. This means that the total ODA budget has been decreased by €958 million in 2012. Across all government departments, cuts to aid represents the largest budget cut in both absolute and relative terms, for both 2011 and 2012. The aid budget has made by far the largest contribution to resolving the Dutch budget deficit in these two years.

Another major political debate pushing for deeper cuts to the development budget took place in 2011. Luckily, a major cut was avoided, in part due to a large-scale campaign by Dutch civil society organisations. What's more, the government eventually fell in April 2012 as a result of fundamental disagreements over a series of budget cuts that were to take place in order to accommodate the consequences of the economic crisis—development aid was among one of the themes taking centre stage.

The results of the recent elections and the new government that will ensue will greatly influence the direction in which Dutch development assistance will be taken. In terms of their points of view related to international policy and development aid in particular, it is fair to say that there is quite a gap between the two biggest parties—the Conservative Liberals (VVD) and Labour (PvdA). Leading up to the elections, major budget cuts on development aid figured prominently in the VVD's campaign: wanting to cut aid by €3 billion out of a €4 billion total budget. Alternatively, PvdA has a progressive stance on development aid, with a platform to stick to the 0.7% international norm, and even wanting to raise it to 0.8% as soon as the economic situation allows for it. Hence, the topic will be one of several on which one or both parties will have to compromise significantly during the coalition negotiations that have started after the election.

Dutch aid and the private sector

A significant share of Dutch ODA is channelled to and through the private sector. In 2010, this aid through the private sector was 5% of ODA, growing to 7% of ODA in 2011. In 2012, this channel is projected to be approximately 9% of the total ODA budget. In addition to the budget that is allocated directly to the private sector, part of the ODA budget is allocated to Excess Crude Account (ECA) debt cancellation that benefits Dutch companies. In 2010 this Account represents 7% of the total ODA budget, in 2011 it is 2%, and in 2012 it is projected to be 2 percent.

In recent years, private sector involvement in development has become an increasingly hot topic in the Dutch development debate. In January 2010, the Dutch Scientific Council to the Government (WRR)[1] produced a report on development cooperation that is having a large impact on the future design of Dutch development policies. While the report includes many valuable insights and recommendations, in some areas CSOs consider the recommendations less well-founded. A key recommendation of the report is for Dutch development aid to focus on economic growth and development instead of investing in health and education, arguing that this is the way to make people and countries self-reliant.

Granted, economic growth is a key factor in development and investing in economic development – and in particular livelihoods for small-scale producers – is vital. But, first of all, growth will not help to reduce poverty unless it goes hand-in-hand with policies that strengthen equality, which is where a strong civil society can make a difference. And, secondly, economic growth requires healthy and educated citizens: investing in health and education therefore remains crucial.

In September of 2011, the Dutch Social-Economic Council (SER)[2] published an advisory report to the government that was titled "Development through sustainable entrepreneurship" (*Ontwikkeling door duurzaam ondernemen*). This report explicitly builds on the report by the 2010 Dutch Scientific Council. It emphasizes the importance of a strong private sector in developing countries to promote sustainable and inclusive growth. The report emphasizes the importance of developing countries' increasing economic independence.
According to the SER report, sustainable growth and economic independence requires a proper "enabling environment" for the private sector, referring to the conditions that need to be in place in order to ensure local private sector development. Among these conditions are good governance, macro-economic stability, appropriate physical and technological infrastructure, legal security and an effective tax system, labour law, presence of qualified personnel, access to social security, independent trade unions and employers' organisations, and a strong civil society. It states that the Netherlands can contribute to private sector development by utilizing the power of its private sector, knowledge and expert centres, as well as societal organisations in a series of specific fields in which Dutch experience offers a comparative advantage.

Self-evidently, private sector development is closely related to the overall encouragement of economic growth worldwide, and it has the potential to positively impact people's livelihoods. Nonetheless, it is more equal distribution of this growth that will be key for private sector development to actually lead to poverty reduction. The focus therefore should remain on inclusive sustainable growth and the overall enabling environment for equitable development.

Aid effectiveness and the private sector: to fund or not to fund

The private sector could be in an excellent position to encourage sustainable development. Dutch companies are able to contribute positively to the overall purposes of development aid by building partnerships with civil society organisations and by ensuring that their business positively impacts global interests related to climate change, sustainability, and poverty reduction. Key here is encouraging and monitoring the sustainability of the private sector's investments in relation to these purposes. Positively, there are a multitude of Dutch companies that are moving in this direction, particularly from an environmental point of view, inspired by a deeper understanding of what it means to live in an era where scarcity is

becoming an ever bigger concern. Unfortunately, many businesses still pay too little attention to the impact of their operations on people and their environment. It is here that strategic ODA investments and Dutch civil society may play a major role in encouraging change.

There is much debate about the effectiveness of channelling ODA via the private sector. Focusing on sustainable economic growth in developing countries is essential and Dutch CSOs welcome companies' increasing awareness of this orientation in their investments. But nonetheless, when it comes to channelling aid through the private sector, there are significant obstacles to effectiveness.

Firstly, channelling ODA via the private sector sometimes appears to be a goal in and of itself, which is mostly inspired by the desire to contribute to the success of Dutch companies abroad, rather than giving priority to the goal of effective ODA spending for poverty reduction. Actual experience in the past has demonstrated that channelling aid through Dutch enterprise insufficiently contributes to the general objectives of development aid. Moreover, if ODA should be directed to the private sector, it should focus on strengthening the private sector *in developing countries*. Spending ODA via Dutch companies' activities abroad does not automatically contribute to this objective.

A recent Dutch private sector investment evaluation demonstrated that investments in the private sector hardly benefited the local economy, since 55% of projects focused on exports of goods while relying on imported inputs. This is an orientation that severely limits positive local economic spinoff.[3] These types of projects should not be eligible for ODA funding.

Additionally, local private sector development in developing countries, as noted above, requires a proper enabling environment, entailing solid governance, rule of law, an effective taxation system, qualified and healthy personnel, access to social security, and a strong civil society. These should be stimulated through allocations of Dutch ODA. Last but not least, many companies have expressed that they do not require additional subsidies in order to successfully establish themselves in developing countries.[4] That is why it is essential to properly evaluate and adapt rules and regulations in private sector policies for ODA accordingly.

Strengthening the use of the OECD Guidelines for Multinational Enterprises

There is increasing willingness among companies to adhere to the OECD Guidelines[5] and the Dutch government has made the Guidelines mandatory for every company receiving ODA funding. This has been an excellent step and the government is now looking into the practical ways of implementing this policy. Dutch civil society believes the OECD Guidelines should not only be evaluated at the company level, but should also apply to all the company's activities abroad. Furthermore, accountability requires appropriate and independent checks and balances, which are lacking at this stage. More action is needed in these areas.

Apart from the Guidelines, strong criteria should be put in place in order to ensure a positive impact of Dutch private sector investments in developing countries on poverty reduction. The current criteria in Dutch ODA for this purpose are too weak to have a meaningful impact. So far, there has been too little willingness by the government to fine-tune criteria for poverty reduction — in spite of pressure from parliament to improve the development criteria.

Endnotes

1 The Scientific Council for Government Policy (in Dutch: *Wetenschappelijke Raad voor het Regeringsbeleid*, WRR) is an independent think tank of the Dutch government. The Council has the objective to supply the government with scientific information on long-term social developments. The Council falls under the responsibility of the Ministry of General Affairs.

2 The Sociaal-Economische Raad (Social and Economic Council, SER) is a major economic advisory council of the Dutch government. Formally it heads a system of sector-based regulatory organisations. It represents the social partners' trade unions and employers' organisations. It forms the core organisation of the corporatist and social market economy known as the "polder model" and the main platform for social dialogue.

3 Private sector investment, "EVALUATION PSOM/PSI 1999-2009 AND MMF," commissioned by the Dutch Ministry of Foreign Affairs: http://www.minbuza.nl/binaries/content/assets/minbuza/nl/import/nl/producten_en_diensten/evaluatie/afgeronde_onderzoeken/2010/07/evaluatie_psom_psi_1999_2009_en_mmf/rapport

4 At a Dutch conference titled "Enterprising Development Cooperation" (*Conferentie Ontwikkelingssamenwerking in Bedrijf*), 78% of companies present stated this.

5 OECD Guidelines for Multinational Enterprises, 2011 edition: http://www.oecd.org/daf/internationalinvestment/guidelinesformultinationalenterprises/48004323.pdf

New Zealand

Aotearoa New Zealand: Abrupt changes challenge CSOs

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Overview

- Continued divergence of the New Zealand Aid Programme from the path of poverty elimination into the realm of economic development over the past two years.
- New Zealand's official development assistance (ODA) was 0.28% of gross national income (GNI) in 2011.
- Spending in 2011 represents a 10.7% increase from 2010 in real terms.
- In 2015, the proportion of ODA to GNI is projected to fall to 0.24% - its lowest level ever in New Zealand.[1]
- The funding mechanism for NGOs has undergone major changes, becoming more competitive and less transparent.
- Focus on the Pacific is increasing, with over 50% of ODA and more than 80% of bilateral funding going to the region.

Economic and Political Context

Government policies calling for and implementing changes in the New Zealand Aid Programme have been influenced by the impacts of the economic and environmental crises both globally and locally in New Zealand.

Since the conservative National Party formed the new government in 2008 and was re-elected in late-2011, the New Zealand Aid Programme has continued to undergo radical change. The re-integration of the NZAID into the Ministry of Foreign Affairs and Trade (MFAT) in 2009 marked the beginning of a shift to more closely align the programme with government foreign policies. With the move away from a poverty reduction mandate, the government has maintained its directive that there should be a focus on fewer and larger, economic-oriented projects in the Pacific region. ODA is increasingly channelled to this region, while projects related to New Zealand's areas of comparative advantage are favoured.

Earthquakes in the Canterbury region have resulted in a massive economic cost to the nation, with rebuilding estimates equivalent to around 10% of GDP (in comparison, the 2011 earthquake and tsunami in Japan is estimated at damage of around 3-4% GDP). Combined with the lingering effects of the global financial crisis, New Zealand's economic outlook is therefore weak. The combined impact has translated into cost cutting across most government programmes, including aid.

The Reforms Continue

NZAID was formed as a semi-autonomous agency within MFAT in 2002. In 2009 the agency was re-integrated with the Ministry as the International Development Group (IDG). The government's rationale for this reform was primarily increased accountability, reduced management overheads and better alignment with foreign policy objectives. This alignment has come at the expense of the New Zealand Aid

Programme's semi-autonomous status, and there is concern that this integration in the Ministry is a less appropriate mechanism for providing the assistance to developing nations. Further issues and concerns will be discussed below. Fortunately, the importance of keeping the ODA budgetary vote separate is still recognised.

During this period, the New Zealand Aid Programmes' main policy outcome has morphed from "poverty eliminated through development partnerships", to "sustainable development in partner countries", to "sustainable development in developing countries, in order to reduce poverty and to contribute to a more secure, equitable and prosperous world". These alterations are based upon National's perspective that NZAID's initial mandate was "too lazy and incoherent".[2]

Further change has been oriented around "fewer, deeper and longer relationships tightly focused on sustainable economic development", in accordance with a more business-like ethos and stronger Pacific orientation.[3] Consequently, the number of programmes has been reduced from 33 (2009) to 24 (2011).

Narrowing Focus

The Pacific

With a core focus on the Pacific Island countries, more than 50% of total ODA is currently directed to the region, including around 80% of all bilateral funding.

The rationale for this focus is sound as the Pacific is second only to sub-Saharan Africa in being off-track in achieving the Millennium Development Goals and some of the countries are amongst the most vulnerable to climate change. Further, Pasifika peoples[4] currently comprise 6.9% of the New Zealand population – a figure that is projected to rise to close to 10% by 2026. As a Pacific nation itself, New Zealand is in a unique position to deliver aid to the region, especially given its close cultural and historical ties.[5]

With each successive year since the government's greater emphasis on the Pacific region, NGO members of the Council for International Development (CID)[6] have also reported a trend in their aid with less spending directed to Africa and Asia and more to the Pacific. In 2010, CID members spent 50% more on the Pacific, and this trend continued in 2011, with an additional $10 million prioritised for Oceania.[7] It reflects changes in government funding to NGOs that favour projects in the region. While NGOs have expressed concern with the absorptive capacity of the region, and how this Pacific focus is enacted through funding mechanisms, this change is generally well received.

Sustainable Economic Development

Proponents of the recent changes have argued in economic terms that the goal of poverty elimination is a 'deficit model', which tries to fill gaps. In contrast, the aim of sustainable economic development is regarded as an "opportunity model," creating added value.[8]

In a DAC peer review of New Zealand's aid in 2010, it is recommended that "economic activities are viable, sustainable and include positive environmental impact".[9] Beyond this, however, NGOs,[10] religious groups[11] and opposition political parties[12] have expressed concern that the goal of poverty reduction will become secondary to economic growth. This could mean that projects that contribute to sustainable development through the empowerment of people living in poverty, but lack a tangible impact on economic growth, may be overlooked.

Complementary to this approach, the New Zealand Aid Programme has been directed to make use of New Zealand's comparative advantage to "add the most value to addressing our partner's needs". Areas of advantage have been identified as fisheries, tourism, agriculture and renewable energy. The government's decision regarding the choice of areas where New Zealand was seen to have comparative advantage was based upon what was "largely obvious" at the time.[13]

CSOs in New Zealand

CSOs in New Zealand have also experienced a tough and tumultuous period of change particularly in relation to the processes for government funding that is channelled through them to overseas partners.

The previous funding scheme for CSOs, KOHA-PICD (Kaihono hei Oranga Hapori o te Ao - Partnerships for International Community Development) was initially replaced with the Sustainable Development Fund (SDF) in 2010. The Programme Management Committee, which oversaw KOHA-PICD (comprising of representatives from NZAID and NGOs), received no warning of the changes and CID received written notice only after the decision had been made. There was no consultation with affected CSOs and no evaluation of the performance of the KOHA-PICD fund. The new Fund has been criticised as "a step backwards from good development practice,"[14] and much less transparent.

The criteria for KOHA funding covered promotion of self-reliance, addressing poverty and injustice, community development and participation, human rights, gender equality and more. However, the SDF criterion merely states that activities should be "consistent with the New Zealand Government's aid policy and priorities."[15] SDF saw the introduction of a competitive funding mechanism and, most regrettably, the early, unplanned and forced termination of some projects.

Despite the disruption caused by this shift to the SDF, the funding programme is set to change once again in late 2012. The 'New Zealand Partnerships for International Development' (NZPFID) scheme will replace SDF, but will be similar in many ways. Still there has been no published review of the effectiveness of the KOHA or the short-lived SDF. The new scheme will seek proposals that will "deliver sustainable development outcomes and value for money,"[16] and harness New Zealand's expertise in primary, service and manufacturing industries. In contrast, activities based around social services will be considered "where they can be linked to enabling economic development".[17] Further, projects must be able to articulate how tangible (short-term) results will be delivered – exacerbating the possibility of activities which provide sustained developmental, but non-economic benefits, being overlooked.

The competitive modality to access funds continues, but worryingly NZPFID aggregates other funds, and will be open to state and private sector organisations as well as the traditional CSOs. While competitive funding has in some ways led to greater cooperation between NGOs (through coordination to avoid similar proposals and information sharing), the incorporation of other actors is concerning, and may destroy the delicate CSO unity presently achieved. Potentially, this could mean a decrease in funding channelled via development NGOs.[18] Consultation concerning this newest fund has allowed reasonable opportunities for CSO engagement, but it is feared this process will have limited impact on the final outcome.

Official Development Assistance

- New Zealand provided net ODA of NZ$586 million in 2011, thereby having a ratio of ODA to GNI of 0.28%. This figure is far below the internationally agreed 0.7% of ODA to GNI target. While nominal funding is expected to increase to NZ$620 million in 2014/2015, there are presently no commitments regarding the ratio of ODA to GNI.
- Based upon current projections, the proportion of ODA to GNI will fall to 0.24% in 2015 - its lowest level ever in New Zealand.[19]

Over the past 20 years, New Zealand's ODA performance has barely changed, with ODA being 0.26% of GNI in 1992 to the current level of 0.28%. Despite continuing calls from the OECD Development Assistance Committee to implement a clear and strategic forward spending plan in order to reach ODA of 0.7% of GNI, New Zealand has repeatedly failed to comply.[20] With New Zealand's highest proportion of ODA to GNI being 0.52% back in 1976, it is highly unlikely New Zealand will reach the target of 0.7% by 2015. This is reflected in New Zealand's ranking at 17th out of 23 DAC donors in terms of ODA to GNI.

Aid and Development Effectiveness – A balanced effort

The New Zealand Aid Programme encompasses many efforts to make aid more effective. New Zealand is a signatory and remains committed to the Busan Partnership for Effective Development Cooperation.

Several reforms have worked to make New Zealand aid more effective. Such changes include a greater utilisation of Joint Commitments for Development (which establish a shared vision for achieving development outcomes between the New Zealand Government and partner countries), encouraging 'value for money' throughout the life of an activity and the introduction of SWAps (sector-wide approaches). These aim in different ways to increase the harmonisation, ownership, alignment and effectiveness of projects.

The implementation of New Zealand's commitment to the International Aid Transparency Initiative (IATI) reporting standard for aid activities, and more efforts by New Zealand to build capacity with Pacific partners, reflects a commitment to the Busan Outcome Document. With respect to IATI implementation, New Zealand ranked poorly in the 2011 Pilot Aid Transparency Index[21] (30 out of 58), in large part due to the absence of reporting on activities. Recent changes, however, have seen IATI reporting of activities being made available on the MFAT website, which is commendable, but more detail should be provided consistent with the IATI Standard.

There are many areas in the Busan Partnership for Effective Development Cooperation that require significant new commitments by New Zealand. Among the 23 OECD DAC donors, New Zealand aid currently scores as one of the least predictable. This should be rectified, as unpredictability has been shown to reduce the value of aid by 15% to 20%.[22] In the Commitment to Development Index, New Zealand was ranked 16th out of 23 nations in 2011 for aid.[23] Further, the many changes to the New Zealand Aid Programme have been counter-productive to an enabling environment for civil society, despite the commitments made in Accra and repeated in Busan to work with CSOs for an enabling environment as development actors "in their own right." The recent reforms in funding modalities are unsettling for actors both within New Zealand and in recipient nations. More transparency and dialogue with civil society organisations, especially during policy development, are vital.

Endnotes

[1] Based on current projections: http://nzadds.files.wordpress.com/2012/07/nzadds-aid-trends-analysis-charts-july-2012.pdf

[2] Murray McCully (2009) http://ips.ac.nz/publications/files/9a837c22669.pdf

[3] MFAT Annual Report 2011: http://www.mfat.govt.nz/Media-and-publications/Publications/Annual-report/0-Overview.php

[4] 'Pasifika peoples' is a term which describes people living in New Zealand who have migrated from the Pacific Islands or who identify with the Pacific Islands because of ancestry or heritage.

[5] International Development Policy Statement, NZ Aid Programme: http://www.aid.govt.nz/webfm_send/3

[6] The Council for International Development is the umbrella body for international development NGOs in New Zealand.

[7] Please note these figures are drawn from the CID Annual Report 2010 & 2011, and are based upon the financial year prior to the publication of the report. http://www.cid.org.nz/assets/About/2010annual-report.pdf

[8] DAC Peer-Review 2010: http://www.oecd.org/dataoecd/16/22/47468242.pdf

[9] http://www.oecd.org/dataoecd/16/22/47468242.pdf

[10] http://nzadds.files.wordpress.com/2011/04/economic-development-and-aid-agencies-working-paper-wood-t-v2.pdf

[11] http://www.presbyterian.org.nz/speaking-out/ecumenical-and-inter-church/change-to-nz%E2%80%99s-aid

[12] Labour Party: http://www.labour.org.nz/news/minister-moves-silence-nzaid

Greens Party: http://www.greens.org.nz/press-releases/mccully-s-backroom-aid-meddling-could-hurt-frontline-efforts

[13] NZADDS OIA: http://nzadds.files.wordpress.com/2011/01/oia-1-comparative-advantage.pdf

[14] CWS, 2010, http://www.cws.org.nz/the-issues/aid

[15] SDF guidelines: http://www.aid.govt.nz/webfm_send/127

[16] IDG defines value for money as "achieving the best possible development outcomes over the life of an activity relative to the total cost of managing and resourcing that activity and ensuring that resources are used effectively, economically, and without waste." http://www.aid.govt.nz/sites/default/files/Value%20for%20Money%20Guideline.pdf

[17] http://www.aid.govt.nz/webfm_send/223

[18] Please note that all descriptions of NZPFID may be subject to change as the scheme is currently undergoing consultation.

[19] Based on current projections: http://nzadds.files.wordpress.com/2012/07/nzadds-aid-trends-analysis-charts-july-2012.pdf

[20] DAC Peer-Review 2010: http://www.oecd.org/dataoecd/16/22/47468242.pdf

[21] This Pilot Index ranked implementation of and achievement under the IATI reporting standard.

[22] http://www.oecd.org/document/54/0,3746,en_ 2649_3236398_46010014_1_1_1_1,00.html

[23] http://www.cgdev.org/section/initiatives/_active/cdi/

Sweden

Improving transparency, challenges with emphasis on the private sector

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Overview

- In 2011, Sweden reached the official development assistance target of 1%, spending €4 billion or 1.02% of GNI on ODA.
- Climate and development is together with democracy and human rights and gender equality the three priority areas for Sweden's aid. However, climate change finance is not additional to the ODA target.
- There has been a lot of criticism on the quality of Swedish development cooperation in the media during the last two years, including from the Minister of Development Cooperation. Public support for the ODA level however remains high, with 7 out of 10 Swedes believing that the current ODA level should remain or increase.
- Sweden´s three priorities for the aid effectiveness agenda at HLF4 and the Global Partnership have been transparency, results and the private sector. A positive outcome has been the Open Aid initiative that was launched in 2011.
- The private sector is playing a larger role in Swedish aid delivery compared to previous years. Aid to private sector cooperation has increased significantly.
- The proportion of development aid directed to the state venture capital firm, Swedfund, has also increased substantially, despite criticism of its ability to demonstrate development results for poor and marginalized populations.
- According to "Sweden's policy for global development" all government policy areas should act coherently to contribute to equitable and sustainable global development. However, there is a lack of results-oriented indicators and independent monitoring, and some policy areas show serious incoherencies. For example over half of Swedish arms export during 2011 went to non-democratic countries.

Aid quantity commitment and aid allocation

In 2011, Sweden reached its target of 1% of its GNI, spending €4 billion or 1.02% on ODA. This is an increase compared to 2010, when Sweden spent 0.98% of GNI on ODA. Sweden has committed to maintain the 1% target in the future.

Sweden continues, however, to inflate its development cooperation budget with expenditures that have limited or no impact on development results, or that are part of other international commitments. In 2011, 9% of the ODA budget was spent on refugee costs, which is an increase from previous years. Despite a decreasing number of refugees, ODA allocated for this purpose has increased by more than 100% during the last five years.

The government further inflates the ODA budget by including cost of embassies, many of them located in OECD countries. The method used

for the allocation of aid money to embassies does not specify to what development outcomes they will contribute. The OECD DAC has pointed out that this method of calculating is not ODA eligible. ODA-funded foreign service administration costs have increased by more than 100% since 2005, with more than €3 million allocated in 2011[1]. The Swedish Ministry of Foreign Affairs has now developed more strict guidelines for ODA funding of embassies, which is said to be used from 2013 and onwards.

Top Recipient Countries and Thematic Priorities

Sweden's top five partner countries (gross ODA) are Tanzania, Mozambique, Afghanistan, Democratic Republic of Congo and West Bank & Gaza. Democracy and increased respect for human rights is one of Sweden´s three long-term priority areas and constitutes the largest thematic sector within Swedish bilateral development cooperation. Gender equality and women's role in development is another priority area.

Climate

A third long term priority for development cooperation is climate change. For the period of 2010-2012, Sweden is allocating €870 million to the Fast Start climate finance commitment that was announced at the Copenhagen Climate Summit in 2009. Since Sweden finances this commitment through the development cooperation budget, it is not respecting the internationally agreed commitment to provide new and additional finance for climate change. This also means that in practice Sweden is not fulfilling its 1% target. The government argues that it is respecting the principle of new and additional funding since Sweden is well above the UN ODA target of 0.7% of GNI. Further, the government finds the question of additionality somewhat artificial since it regards climate change adaptation and mitigation as an integral aspect of development assistance.

In total, Sweden inflates its development cooperation budget with unspecified costs of embassies and refugee costs by more that 12%, which is equivalent to around €0.5 billion. Added to this amount is the annual allocation of €290 million to the Fast Track climate financing.[2]

The aid debate in Sweden

During the past few years, Swedish development cooperation has been subject to significant public debate. The Minister of Development Cooperation, journalists and aid skeptics, have painted a picture of Swedish ODA and aid in general as inefficient and marked by corruption. Mutual discontent and lack of confidence between the development minister and the Swedish development agency, Sida, has been publically exposed.

CSOs and their activities have also been criticized. In 2009 the government cut funding for CSOs' information activities by approximately half. Further, it has since then increasingly restricted CSOs' possibilities to use information grants for advocacy activities. These actions contradict Sweden's Policy for Global Development, which states that funding CSO information and advocacy activities is central to create a broad and dynamic debate in Sweden, building on the experiences of civil society in the North and South.

Nevertheless, public support for Sweden's ODA level remains high according to the 2011 annual

opinion survey, with 7 out of 10 Swedes believing that the current ODA level should remain or increase.

Sweden´s coherence policy for global development.

The Swedish Policy for Global Development (PGD) dates from 2003 when Sweden – through the national parliament´s adoption of a government bill - became the first country to have an official coherence policy for development.[3] The PGD states that all government policy areas should act coherently to contribute to equitable and sustainable global development. The policy is characterized by two guiding perspectives: a human rights perspective and a poor people's perspective on development.

In June 2012 the Swedish government presented its fifth and most recent report to parliament on the implementation of the PGD. Four years ago, the government identified six global challenges, and has presented examples of results for each one of the six global challenges: oppression,[4] economic exclusion, climate change and environmental impact, migration flows, communicable diseases and other health threats, conflict and fragile situations. In the 2012 report, the government focuses on economic exclusion, and for the first time is trying to tackle the main conflicts of interest or incoherencies in this thematic area.

Compared to other OECD DAC countries, Sweden has come far in adopting a coherence policy for development, but some important challenges remain. As the DAC points out in its 2011 peer mid-term review of Sweden[5] the government has not yet identified indicators for monitoring the PGD. And, so far there have not been any external evaluations of the PGD. But in its 2012 report, the government says that an external evaluation of work methods and governance of the policy for coherence will be undertaken.

The PGD stresses the importance of identifying conflicting objectives or interests in order to make well-informed and well-considered strategic choices. Yet Swedish CSOs have criticized the government for placing too much emphasis on promoting synergies between policy areas and less on handling incoherencies. For example, Sweden is the largest arms exporter per capita, and during 2011 over half of these exports went to non-democratic countries. The most recent report, however, does deal with some of these incoherencies (for instance tax flight is identified as a development issue), but it remains to be seen how the words translate into action.

New platform for development cooperation

The government is in the process of developing a new comprehensive development cooperation policy, which is expected to provide political direction for future aid priorities. The objective, according to the government, is to have a joint strategy for all activities, simplify governance procedures, and be more results oriented. The initiative is partly a response to criticism on how Sweden's development cooperation is governed, in the Swedish Agency for Public Management's evaluation from 2011[6] and in the OECD/DAC 2011 mid-term review.[7] The government will present the new policy in the autumn of 2012. CSOs have been invited to submit their view on future Swedish development cooperation to the Ministry of Foreign Affairs. It remains unclear to what extent the platform will change current development objectives and criteria for aid allocation.

The Aid Effectiveness agenda

Sweden is actively involved in the international efforts to improve aid effectiveness. Improving transparency is one of three priorities for the government. In 2011, Sweden launched Open Aid, an initiative that includes a transparency guarantee, anti-corruption activities, and support for increased accountability in partner countries. Data is published on the Open Aid website according to the International Aid Transparency Initiative (IATI) Standard. Swedish CSOs welcomed the initiative, and encourage the government to broaden the reporting in accordance with the full IATI Standard. In 2012, Sweden also joined the Open Government Partnership, a global initiative to make governments more transparent, effective and accountable.

Sweden's other two aid effectiveness priorities are results and value for money, and the role of the private sector in development. According to the government, the new approach towards results will ensure that Swedish policy decisions, interventions and approaches are based on evidence of what works and of what represents value for money in terms of poverty reduction. The government argues that broad public support for development cooperation will continue only if Sweden focuses more on results in the future when deciding how to allocate taxpayers´ money. Results in development cooperation raise complex issues. Swedish CSOs emphasize that decisions on aid modalities and aid allocation should be based on rigorous research and evaluations, including drawing on lessons from aid effectiveness evaluations. They are advocating for an approach that recognizes the complex and unique realities of donor support for development processes. The approach to results must therefore be "fit for purpose". Often, impacts that are of importance for development are not easily apparent or quantifiable. CSOs think that the pursuit of such impacts must not be neglected, and these results are likely to emerge over more extended periods of support. Therefore, there is a need to focus on long-term results at the same time as trying to achieve short-term goals. Further, CSOs have highlighted the need to have a human rights perspective, to work from country results frameworks as the point of departure, and to strengthen democratic ownership.

The Private sector

Funding and strategies

The Swedish government has initiated a process to strengthen the role of the private sector in development cooperation and to draw on the knowledge and resources of the Swedish private sector. In 2004, Sweden published Policy Guidelines for Sida's Support to Private Sector Development.[8] Since then, the government has significantly increased development aid through various forms of private sector cooperation. Most of the support to private sector initiatives is channeled either through Sida or through the state venture capital fund, Swedfund.

In 2012 the government is allocating €70 million, or approximately 2% of the development assistance budget, to support for private actors or initiatives that involve private actors in poverty reduction. The aim is to help developing countries create a large number of enterprises, to provide employment for people living in these countries. Of this amount, the government is allocating approximately €28 million to support innovative approaches and capacity development in the areas of business for development and information and communication technology for development.

The government has increased the proportion of development aid allocated by the state venture capital firm, Swedfund. Since Swedfund was created in 1979, the government has contributed around €270 million to the fund. More than half of this amount, €160 million, was provided after 2007. The government wants to encourage the growth of robust small and medium-sized enterprises in countries where it is difficult to mobilize private capital for these ends. Therefore, it has provided a long-term capital contribution to Swedfund, which is additional to other forms of support to the private sector, amounting to at least €130 million over the next three-year period.

Sida´s Program Business for Development (B4D) is part of the support to entrepreneurship for poverty reduction mentioned above. In both 2011 and 2012 the government granted project support of approximately €22 million to B4D. Embassies and other departments within Sida can choose to allocate additional funds to B4D projects beyond this budget.

The B4D program has several instruments through which Swedish aid supports private sector engagement in development:

Private-Public Partnerships (PPP): Supports initiatives where private and public actors identify a possible solution to a development problem and join forces to address it.

Challenge funds: Invites companies and entrepreneurs to apply for catalytic funds in competition with others, in accordance with a number of pre-defined selection criteria. An example is Sida's DemoEnvironment programme, where companies can apply for small grants for feasibility studies.

Drivers of Change: Supports organizations whose activities can contribute to the goals of B4D. Examples include organizations that enhance corporate social responsibility, social entrepreneurship and building of relations between NGOs and the business community.

Innovative finance: A pilot program is under development, aiming at mobilizing capital resources in the private sector.

Challenges ahead

The private sector plays an important role in advancing development as provider of resources, jobs, and innovations. Cooperating with the private sector in aid can therefore provide opportunities to advance development goals. However, there are also a number of challenges and risks with this "private turn of aid" that should be addressed and discussed.

- Weak evaluation of development impact: Swedish business has been involved in aid for many years. Compared to earlier decades the framework around private sector actors are now more in line with aid effectiveness principles.[9] Still, civil society organizations have identified some risks and negative outcomes from business' involvement in development aid. In 2011, Swedish CSOs carried out a mapping of independent evaluations of Swedish aid channeled through the private sector. The report revealed that several activities and projects lack clear development objectives or the ability to demonstrate development results.[10] The information necessary to assess and draw general conclusions about development impacts has not been collected according to independent evaluations.

  Norwegian Church Aid assessed the development impact evaluation systems in

European Development Finance Institutions (DFIs), including Swedfund. This study revealed that although improvements had been made, several challenges remain. A key finding is that the Swedfund and other DFIs rarely do development impact assessments before deciding on where, with whom, and how to make investments. Furthermore, Swedfund and other DFIs seem to rely on an honor code. The DFIs accept on good faith the assurances of the companies that sign a code of conduct with them, especially with regard to ESG performance (environmental, social and governance areas). Companies financed through portfolio firms are not even required to report to Swedfund. Finally, external auditing is rarely performed.

Another concern relates to tax issues. In 2009, the government issued a general ban to prevent Swedfund from making new investments in funds based in tax havens. In April 2012, the government replaced the ban with new Guidelines. The new Guidelines rely on the OECD Global Forum on Transparency and Exchange of Information on Tax Purposes and its peer review process. As the Tax Justice Network[11] has pointed out, the Global Forum's peer review process is questionable and the new Guidelines actually open the possibility for Swedfund to channel funds through well-known tax havens such as Cayman Islands and Jersey.

- Lack of transparency: The government has applied less stringent transparency requirements on the private sector compared to other actors working in development cooperation. One argument for not requiring full transparency is that companies must be able to protect their commercial secrets. It is however difficult to assess whether the argument for commercial secrecy is valid or not. Less stringent requirements also apply to activities of state-owned companies and the International Council of Swedish Industry.

  However, recently the government has taken steps to strengthen transparency requirements for some aspects of private sector engagement in development. According to the revised government Guidelines, Swedfund must abide by the new transparency guarantee in Swedish aid and report to IATI Standard, to the OECD/DAC and to the Swedish OpenAid initiative. Further, during the Forth High Level Forum in Busan, Sweden was one of the actors pushing for an ambitious paragraph on transparency and the private sector.

- Risk of tied aid: Swedish ODA is formally 100 % untied according to Sweden's reports to the OECD/DAC's Creditor Reporting System. At the same time, research by Swedish CSOs shows that a part of the aid allocated to cooperation with the private sector is primarily directed towards Swedish companies.[12] Examples include projects within Swedpartnership, aid financed activities of the Swedish Trade Council, and parts of Swedfund´s investments. It is even stated in Swedfund's annual report that "in its activities, for the purpose of developing the Swedish business sector´s involvement in development cooperation, the Company should strive to collaborate with Swedish companies". There is a concern that the strengthened role of the Swedish private sector could result in increased informal tying of aid, as is the case in many other donor countries.

Swedish CSOs recognize the private sector as an important actor in promoting development. They welcome private sector involvement provided that it undergoes the same scrutiny as other actors and aligns with the objectives of Sweden´s development policies. In other words, the private sector must meet more stringent transparency requirements and demonstrate how it contributes to development results.

This is especially important as official evaluations have shown that there is currently a lack of transparency and weak results measurement standards in private sector aid in terms of its impact on development. Sweden must also clarify how it will avoid the risk of informally tying Swedish aid to large-scale non-domestic private sector, rather than supporting the private sector in partner countries.

Endnotes

1. http://sverigesradio.se/sida/artikel.aspx?programid=83&artikel=4502395
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4. Which includes: Freedom of expression, sexual and reproductive health and rights and organised crime with special focus on human trafficking
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12. Ibid

Switzerland

Swiss Parliament finally agrees to increase ODA

Nina Schneider
Alliance Sud – Swiss Alliance of Development Organisations

Overview

- In February 2011 Parliament decided to increase Swiss ODA to 0.5% of gross national income (GNI) by 2015 and approved an increase of the current 2011/2012 global credit lines by CHF640 million (approx. US$660 million). Of this increase, 60% will be allocated for the implementation of the Millennium Development Goals, in particular poverty reduction, water supplies and climate change adaptation measures. The remaining 40% will cover gaps in Switzerland's multinational commitments.

- In 2012 for the first time, Parliament decided simultaneously on all four-year credit lines for international cooperation (humanitarian aid; technical cooperation; trade and economic measures; and cooperation with CIS countries) and their shared development strategy for the period 2013-2016. Thereby the House of Representatives and the Senate confirmed the previous year's decision for a 9% annual increase in the development budget up to 2015. For years Alliance Sud and its partners had fought for this increase with their petition "0.7% - Together against poverty". In 2008 a group of parliamentarians from nearly all parties agreed on the compromise of a 0.5% increase that now finally has been confirmed by the Parliament in the strategy of Switzerland's international development cooperation 2013-2016.

- Swiss ODA was CHF2.7 billion or 0.46% of GNI in 2011. But again the share of the non-aid component was considerable. At CHF489.3 million, spending on asylum seekers reached a new high in 2011, accounting for almost 18% of overall ODA.

Main Developments 2010/2011

The petition launched in 2008 for an increase in Official Development Assistance (ODA) to 0.7% of gross national income (GNI) is finally bearing fruit. In February 2011, the parliamentary majority agreed on a compromise to increase ODA gradually to 0.5% of GNI by 2015. The new four-year credit lines had to be decided in 2012. For the first time, humanitarian, technical and economic cooperation were combined in a single Message under a common strategy. In line with the provisions of law and the Constitution, and with the UN Millennium Declaration, Switzerland's top priority remains poverty reduction in developing and transition countries.

Besides its engagement in ten Least Developed Countries (LDCs), the Swiss Agency for Development and Cooperation (SDC) wants to be more involved in "fragile contexts". The agency has accordingly designated a further ten priority crisis regions (including the Great Lakes, Horn of Africa, Hindu Kush). An external assessment identified SDC shortcomings, particularly in staff recruitment and training, and with respect to security and the lack of direct involvement of those in power. Nevertheless SDC argues that as a neutral country with no colonial past and with decades of experience in humanitarian aid, Switzerland is well positioned to work effectively in fragile states.

In 2011, in the context of the "Arabellion" (Arab spring), SDC and the State Secretariat for Economic Affairs (Seco) launched a five-year North Africa programme with a new focus in Tunisia. Besides income support, democratization and institution building by Seco, SDC is involved in humanitarian aid and in a recently-agreed migration partnership for the reintegration of asylum seekers rejected by Switzerland.

In the run-up to the new Message a vociferous debate erupted about linking development assistance to the readmission of asylum seekers turned down in Switzerland. By a small majority, Parliament rejected any strict linkage. But for the first time, migration-related self-interest figured prominently in the Message. To combat irregular migration, the Federal Council and the development agencies are directed to seek concrete quid pro quos or agreements with partner countries.

New global programmes

Four years ago, SDC launched four global programmes on climate change, water, food security and migration. SDC's objectives were to build expertise in these fields and influence international organizations and agreements, promote pilot projects, demonstrate groundbreaking solutions and generate know-how for practical work in priority countries. The 2013-2016 Message adds a new "Health" programme. A sixth global programme "Finance and Trade" groups existing Seco development programmes. For SDC and Seco priority countries, the objectives and expertise of the global programmes will feed into existing country programmes.

Moreover, SDC is launching programmes to tackle international energy and environmental issues in high-growth emerging countries like China and India. As Switzerland lacks a specific budget to enter "strategic partnerships" with these countries, one wonders whether development funds might not be diverted towards foreign policy goals.

Swiss foreign policy coherence

As recommended by the 2009 DAC Peer Review, the 2013-2016 Message devotes an entire chapter to foreign policy coherence for sustainable global development. It promises that conflicts between development policy and other Confederation foreign policy goals will be resolved less at the expense of developing countries than hitherto. It remains to be seen whether future consultations within the Administration will bring greater coherence with SDC positions than previously.

However, little has changed in practice. Swiss arms exports reached a new high in 2011. Switzerland still supplies military goods to developing countries embroiled in conflicts. But distinct progress has been made regarding stolen assets. In 2011 the Federal Cabinet arranged to block unlawful assets from Côte d'Ivoire, Egypt, Libya and Tunisia. These assets are to be returned as soon as possible. In contrast, there are still no effective measures to end tax flight from developing countries. In April 2012 the Swiss Government nonetheless stated its readiness, in principle, to negotiate Tax Information Exchange Agreements (TIEAs) with selected developing countries. Countries with which Switzerland already has double taxation agreements (DTAs) are not covered by this decision. These countries will benefit from tax information sharing only by renegotiating existing DTAs. In return for introducing information exchange, Switzerland wants to further reduce current withholding taxes on the revenues of Swiss investors.

Thanks to parliamentary initiatives, Switzerland is slowly accepting the consideration of social and environmental rights when negotiating bilateral free trade agreements. It has thus begun offering its negotiating partners the possibility to include the European Free Trade Association (EFTA) voluntary provisions on environmental and labour rights. There has been less progress however on investment protection agreements. Under pressure from Parliament and as requested by a number of countries, Switzerland now includes principles of sustainable development in the preamble of agreements, but still lags far behind the European Union in the anchoring of human rights.

"Corporate Justice"

In late 2011, fifty Swiss civil society organizations (CSOs) launched the "Corporate Justice" campaign. These CSOs call on the Government and Parliament to create the necessary legal basis to compel companies headquartered in Switzerland to respect human rights and environmental standards worldwide. In the summer of 2012 this CSO alliance delivered a petition on the issue to the Federal Parliament with over 130,000 signatures.

Swiss Aid and the Private Sector

Switzerland has longstanding experience and recurrent budgets in the field of private sector development. While a modest share of ODA, partnerships with profit-oriented Swiss enterprises are most dominant in trade and infrastructure projects of the Swiss economic development programme. Regulation and assessment of these partnerships are project-specific, and there are neither universally applicable rules nor an accreditation procedure for corporations.

Swiss private sector development and its characteristics

Alongside the SDC, which reports to the Foreign Ministry, another governmental development agency, Seco, accounts for some 10% of the overall development budget and manages economic and trade programmes. It forms part of the State Secretariat for Economic Affairs and falls under the Department of Economic Affairs.

Seco's primary emphasis is private sector development in middle-income countries (MICs). Along with SIFEM, a quasi-commercial corporate financing fund (see below), Seco provides approximately CHF35 million annually for multilateral initiatives by the World Bank Group and other development banks to improve general conditions for the private sector (40%), to develop new corporate funding instruments (40%), and for business skills training programmes such as corporate governance (20%). For the years 2013-2016, Seco is assigning an indicative amount of 15% of its funds or CHF30 million annually to these initiatives. Seco further states that the local private sector also benefits from infrastructure, tax and financial reforms, which help stabilize the investment climate.

SDC spends CHF30 million for private sector development in LDCs, or less than 2% of the SDC budget of CHF1.7 billion. The focus is mainly micro-enterprises and value chains in the agricultural sector. A further CHF10 million is spent on financial services for poor households and farmers, plus CHF18 million for vocational training.[1] In addition to direct funding for job creation, SDC also supports the elimination of obstacles to economic initiatives in the formal sector, the establishment of a financial

sector geared to the needs of small and micro-enterprises, as well as capacity building in public administration.

The Swiss Development Finance Institution (SIFEM)

One of Seco's important tools for promoting the private sector is the quasi-commercial Swiss Investment Fund for Emerging Markets, SIFEM. For seven years, its total assets (currently CHF530 million) was replenished largely from Seco's ODA budget. The last tranche, worth CHF30 million, falls due in 2012. The government envisages no further contributions from ODA funds.

SIFEM is a limited company under private law, owned since 2011 by the Swiss Confederation. Its official mandate is to "assist the private sector in developing countries and transitional economies either by investing in financial intermediaries that provide long-term capital and know-how to local small and medium-sized companies (SMEs) or by directly co-financing sustainable private businesses."[2] All of SIFEM's direct investments and at least 60% of its indirect investments are to be made in official priority countries for both SDC and Seco. According to SIFEM's latest Annual Report, the Internal Rate of Return of 11% in 2011 was just below the average for the preceding years.[3]

SIFEM made investments worth some CHF52 million (US$55.6 million) in 2011. This included, for example, investments in the Maghreb Private Equity Fund III and the Cambodia-Laos Development Fund. Under its long-term business plan the Fund's target is to invest at least CHF60 million annually. These investments, as well as the administrative costs, are to be funded exclusively from the returns on current investments. According to the Board of SIFEM, this level of investment would require assets of CHF620-650 million in funding. It is therefore likely to request additional contributions from Seco.

In early 2011, just before restructuring, SIFEM found itself in the media spotlight. Journalists from the Swiss weekly *Handelszeitung* revealed that through the investment company Tuninvest, SIFEM had invested in several companies closely linked to overthrown Tunisian President Ben Ali.[4] One of these companies, the Tunisian airline Nouvelair, had been chaired directly by the brother of the President's wife, Leila Trabelsi. This illustrates one of the dangers constantly confronting indirect investments by international financial institutions, as there is no direct control over the use made of the investments. There are no guarantees that the financial intermediaries concerned will properly observe terms of reference of the donors, however stringent these may be.

Partnerships with the internationally active private sector

As stated above, Seco supports trade and infrastructure-related Private-Public Partnerships (PPPs). Over the past five years it has invested CHF55 million in the donor consortium Private Infrastructure Development Group (PIDG).[5] In close cooperation with the Swiss private sector, Seco has also launched value chains for commodities costing CHF25 million annually. The priorities are to develop and implement certification standards as well as quality assurance for exports from developing countries and measures to promote imports into Europe.

These partnerships aim to leverage funds and invite business groups to co-sponsor the development of standards and value chains in

trade in the areas of sustainability, fair trade and organic trade. According to Seco, there are no regulatory frameworks for such partnerships, nor are they needed. The necessary conditions are agreed at the project level. Private partners are expected to display corporate social responsibility and a high degree of initiative. Free riders are not accepted. For example, Seco has been involved in the sustainability assessment of coffee and cocoa certifications by the Committee on Sustainability Assessment (COSA) since 2008.[6] In a comparative study of 8 countries and 5,000 sample farms, the Committee gauges the social, economic and environmental impacts of various agricultural initiatives on yield and income, as well as on food security, education, health, etc. To be able to document the degree of poverty reduction more accurately, further indicators such as local governance and school attendance are to be added to the survey in the years ahead. Still, Seco does not envisage a comprehensive monitoring of poverty and human rights for all its commodity initiatives or for its collaboration with for-profit enterprises in general.

Under the 2013-2016 Strategy, SDC will also expand its partnerships with the profit-oriented private sector. For the past ten years, SDC has maintained a small, relatively unstructured number of partnerships (20 to 25) with Swiss multinationals under the Public-Private Development Partnership (PPDP) program. These initiatives are scattered throughout the world and are extremely diverse. They range from vocational training, small farmer education, the development of medicines, the sale of micro-insurance, water supply and irrigation programmes, to the recycling of refrigerators. SDC has no specific budget line for PPDPs. These partnerships are designed and funded within the country programmes. According to SDC, some CHF40 million have been allocated over the past ten years for PPDP implementation. Annual spending on PPDPs is therefore far below 1% of ODA and is expected to increase only modestly in the coming years.

According to SDC, roughly half of all new PPDP initiatives are developed by the heads of Swiss coordination offices in priority countries in direct contact with Swiss enterprises that are present locally. The current project cycle management tools for Swiss development cooperation are used for planning and assessment of these initiatives. SDC does not plan to introduce specific human rights or poverty reduction assessments. The other PPDPs are multi-stakeholder programmes with world-leading Swiss pharmaceutical, agricultural and insurance companies and often involve other official donors.

It's doubtful whether "the principle of ownership" has been respected, as there is no information available to what extent local governments and/or the civil society have been considered in the planning and design of PPDPs. Project monitoring is undertaken by the enterprises. The donors coordinate only the overall programme. All assessments to date have been withheld from public access and review. Only programme content information is available to the press, but no assessment or budget information. SDC reports that it has so far not compiled any systematic data that would allow for comparative analyses of programmes. That should now change.

In the spring of 2012, SDC created the position of PPDP Policy Advisor. This position has no budget and will initiate no PPDPs, but will revise and operationalize the guidelines. The aim is to come to grips with the dangers and conflicting challenges posed by PPDPs. SDC aims to deal with the lack of ownership or the possible implementation of projects in isolation from the development context. It will do so

by integrating PPDPs in the respective country programmes. A mandatory consultation with local CSOs or with the government in the planning and assessment of PPDPs, however, is not being considered. SDC's new Policy Advisor has promised to develop, by the autumn of 2012, indicators with which to measure the impact of the policy principles and guidelines. These indicators include pro-poor development, additionality, the avoidance of any local market distortion, beneficial effects on public governance and local structures, and the potential for scaling up and sustainability. Insights from completed programmes will be harnessed for future partnerships. But SDC is still reluctant to commit to making such assessments publicly available.

Selection of private sector partners

For now SDC is considering private sector partnerships only with globally active Swiss corporations. SDC is not striving for minimum standards or an accreditation procedure similar to the one currently in place for cooperation with NGOs. To minimize reputational risk, SDC recommends that its partner companies should join the Global Compact and take (voluntary) corporate social responsibility seriously. The development agency reports that it would rather not exclude companies whose subsidiaries or branches are publicly accused of human rights violations or environmental damage, so long as they do not refuse to engage in conflict management. Instead, SDC intends, through partnership, to invite multinational corporations to participate actively in development dialogues and to develop sensitivity to social and environmental issues.

It remains to be seen whether these corporations will voluntarily abide by the high aspirational principles. Alliance Sud will be monitoring the evolution of cooperation with profit-making multinationals. Owing to the prevailing lack of transparency and poor standards, civil society organizations have to date not been able to recognize PPDPs as legitimate contributions to development outcomes.

Endnotes

1 Switzerland's contribution, The achievements of SDC in 2006-2010,http://www.ddc.admin.ch/de/Home/Dokumentation/Publikationen

2 See: http://www.sifem.ch/med/205-strategic-objectives-of-the-federal-council.pdf.

3 Further information: www.sifem.ch (in particular the 2011 annual report: http://www.sifem.ch/about/annual-reports/)

4 http://www.handelszeitung.ch/unternehmen/im-dunstkreis-des-diktators, Jan 27, 2011 (in German).

5 http://www.pidg.org

6 http://sustainablecommodities.org/cosa

United States

U.S. Foreign Assistance in 2012: Effectiveness, Ownership, and the Private Sector

William Merrow
InterAction[1]

Overview

- In 2011, U.S. official development assistance (ODA) totaled US$30.7 billion, making the U.S. the largest donor in the world. This amounts to 0.20 percent of Gross National Income (GNI) and is a decrease of 0.9% in real terms from 2010.[2] The future outlook for U.S. foreign assistance funding is uncertain, with mild to severe cuts expected in the coming year.

- At a time of severe budget pressure, the U.S. Agency for International Development (USAID) is seeking to reform the agency and leverage aid dollars through private sector partnerships. USAID is increasingly favoring new, "non-traditional actors" such as corporations over "traditional actors" such as NGOs in its partnerships and consultations.

- U.S. aid officials have embraced the principles of aid effectiveness and country ownership, and the Agency is attempting consequential reforms through USAID *FORWARD*. However, the lack of meaningful consultation with civil society groups jeopardizes the effectiveness of these reforms.

- Policymakers view economic growth as central to development, and see the private sector as a key partner in achieving development outcomes. This is reflected in new initiatives such as the Partnership for Growth and the New Alliance for Food Security and Nutrition, and in USAID's focus on public private partnerships (PPPs).

- Unfortunately, in many of these initiatives, the planning and design process has not included meaningful consultation with local and international civil society groups, and it remains to be seen if the Partnership for Growth and New Alliance will be effective at fostering broad-based and inclusive development.

Conclusions

- The way in which certain USAID reforms and private sector initiatives are being implemented risks undermining the principles of effectiveness, impact, and ownership that the Agency has rightly identified as key priorities.

- U.S. aid officials should improve consultations and engagement with civil society groups in the early stages of policy development. These consultations should critically evaluate the extent to which the new private sector initiatives align with local priorities, will likely result in significant poverty reduction, and can achieve broad-based and inclusive development outcomes.

The State of U.S. Foreign Assistance

> As President, I have made it clear that the United States will do our part. My national security strategy recognizes development as not only a moral imperative, but a strategic and economic imperative. Secretary of State Clinton is leading a review to strengthen and better coordinate our diplomacy and development efforts. We've re-engaged with multilateral development institutions. And we're rebuilding the United States Agency for International Development as the world's premier development agency. In short, we're making sure that the United States will be a global leader in international development in the 21st century.[3]
>
> *President Barack Obama*
> *September 22, 2010*

Policy and strategy

Upon assuming office, President Barack Obama made foreign assistance a priority, pledging to double the budget for foreign aid and make development a central tenet of U.S. foreign policy. The administration issued the Presidential Policy Directive on Global Development (PPD) and commissioned the State Department's Quadrennial Diplomacy and Development Review (QDDR). These were both significant steps that established a new vision for U.S. foreign assistance and its role in U.S. foreign policy. The PPD emphasized sustainable outcomes, economic growth, increased effectiveness, and coordination of development agencies,[4] while the QDDR aimed to modernize U.S. foreign assistance and elevate "civilian power", identifying development as a national security tool to be used alongside U.S. diplomatic capabilities.[5]

What legacy will the Obama administration leave for U.S. foreign assistance? The administration's largest initiatives are Feed the Future, the Global Health Initiative, and the Global Climate Change Initiative, focusing on key Millennium Development Goals. The administration has also placed a strong emphasis on economic growth and the private sector, rolling out the private sector-based Partnership for Growth and New Alliance for Food Security and Nutrition, while continuing to use the Global Development Alliance model.[6] The past four years have also seen a greater focus on fragile and conflict-affected states and renewed and enhanced gender integration in development programs as well as a new agency-wide gender policy. In its rhetoric and new initiatives, the administration has embraced principles of aid effectiveness, including country ownership (the principle that recipient countries – governments and their people – should have ownership over development initiatives).

Overall, U.S. development policy appears to be shaped by four central tenets:

- The Millennium Development Goals are key components for effective development outcomes and should be prioritized;
- The U.S. should strive to ensure aid effectiveness by adhering to principles of results, accountability, and country ownership;
- Aid is a key tool to advance the national security of the United States, with large amounts of assistance going to countries of strategic interest; and
- Economic growth and the private sector have a central role to play in reducing poverty.

Challenges and trends

Recently, one of the greatest challenges to U.S. foreign assistance has been the U.S. political environment. In 2011, U.S. ODA stood at US$30.7 billion, a significant increase from the 2008 level of US$26 billion, although cuts are expected in the near future.[7] While President Obama pledged to double U.S. foreign assistance, Congress ultimately determines the budgets of USAID and other poverty-focused ODA programs, and in 2011 concerns over government spending resulted in cuts to many areas of the aid budget. While calls for deeper cuts have come largely from the Republican Party, several prominent Republicans have supported more robust funding for foreign assistance. Based on the current state of budget negotiations, we can expect Congress to enact mild to severe cuts to the foreign assistance budget in the coming year.

On a positive note, 2011 saw the release of a discussion draft of the *Global Partnerships Act* by Representative Howard Berman (D-CA), outlining much-needed reforms to modernize and strengthen U.S. foreign assistance. Most importantly, the bill lays out a vision for U.S. global engagement that emphasizes partnerships and aid effectiveness. Although it will not become law in the near future, parts of the bill are being moved forward separately such as the *Foreign Aid Transparency and Accountability Act* introduced by Representative Ted Poe (R-TX).[8]

Ultimately, U.S. foreign assistance survived negotiations on the 2011 and 2012 budgets mostly intact, due largely to strong leadership and advocacy by NGOs and other allies. But it is clear that the era of growth and relatively broad support that the aid budget enjoyed over the past several years is over for the foreseeable future. This transition from a period of growth to a period of stagnation or decline is one of the more consequential shifts for U.S. foreign assistance in the past few years.

An overview of the years since President Obama's election highlights a number of additional trends that will have large implications for the future directions of U.S. ODA:

- USAID's decreasing independence from the State Department, for example through the integrated planning and budgeting outlined in the QDDR;
- The continued alignment of USAID priorities with U.S. national security objectives, carried over from the Bush Administration (a large portion of U.S. aid dollars are devoted to countries of strategic interest to the United States, such as Afghanistan and Pakistan, which received more than 15% of U.S. bilateral aid in 2010 according to the OECD DAC[9]);
- An "out with the old, in with the new" mentality toward development approaches, with increasing bias toward new, technical innovations and private sector solutions, predicated on the belief that these solutions can achieve rapid, large-scale results; and
- An increasing emphasis on principles of aid effectiveness, including country ownership.

Reform and effectiveness

From building sustainable capacity to restoring performance monitoring and impact evaluation to promoting science, technology and innovation, we are

> transforming our capabilities … USAID is poised and ready to reclaim our place as the world's premiere development agency.
>
> *USAID Administrator Rajiv Shah*
> *September 22, 2010*

Considerable energy has been devoted to reforming USAID, primarily through the USAID *FORWARD* initiative. USAID *FORWARD* comprises seven areas of reform: Implementation and Procurement Reform, Talent Management, Rebuilding Policy Capacity, Strengthening Monitoring and Evaluation, Rebuilding Budget Management, Science and Technology, and Innovation.[10] American civil society organizations (CSOs) generally welcomed the launch of these reform efforts, which demonstrate a serious commitment on the part of USAID leadership to transforming USAID into an effective, modern development agency.

Subsequently, serious questions have been raised about the way in which some reforms are being carried out, particularly those in the "Implementation and Procurement Reform" area, which affect the Agency's partnerships with NGOs, for-profit contractors, and other third parties. USAID intends to work more directly with local actors, with the stated target of channeling 30% of Agency resources directly to local partners by 2015. However, the reasoning behind the 30% target is unclear, and making these changes too quickly and without adequate planning may jeopardize their effectiveness. Moreover, USAID is limited by its staff capacity, and many of the newly-hired staff may lack the experience and knowledge required to select, guide and advise local organizations who become new recipients of direct funding.

Most troubling, however, is the lack of meaningful consultation with U.S.-based international NGOs and other civil society groups in the design of these reforms. This is a serious concern given that these NGOs have decades of experience working directly with local partners. USAID should consult with all stakeholders in frequent, in-depth discussions to help shape both the design and implementation of these direct-funding reforms to ensure they are consistent with the Agency's stated intentions. The intention and energy behind USAID's reform effort are commendable, but without thorough and meaningful consultation, some reforms may work against the Agency's important goals of increased effectiveness and local ownership.

In 2011, the U.S. government took strides to advance aid effectiveness through its participation in the Fourth High Level Forum on Aid Effectiveness (HLF-4) in Busan, South Korea. HLF-4 brought delegates from governments, civil society, parliamentarians and the private sector to find agreement on principles and commitments to guide change in the practices of official development assistance. Notably, the U.S. government agreed to join the International Aid Transparency Initiative (IATI) and was a strong advocate for new donors such as the BRICS to agree to principles of aid effectiveness. In addition, the consultations with NGOs and other civil society groups leading up to HLF-4 were productive, providing a clear blueprint for how consultation between the U.S. government and civil society should be conducted.

The Private Sector: A New Emphasis

> To unleash transformational change, we're putting a new emphasis on the most powerful force the world has ever known for eradicating poverty and creating opportunity. It's the force that turned South Korea from a recipient of aid to a donor of aid. It's the force that has

> raised living standards from Brazil to India … The force I'm speaking of is broad-based economic growth.[11]
>
> *President Barack Obama*
> September 22, 2010

> If we are going to encourage truly sustainable, broad-based economic growth in developing countries, we have to do a far better job of working with private firms—be they domestic or foreign, established or entrepreneurial … We must partner with the private sector much more deeply from the start, instead of treating companies as just another funding source for our development work … In short, we must embrace a new wave of creative, enlightened capitalism.[12]
>
> *USAID Administrator Rajiv Shah*
> *October 20, 2011*

In 2001, USAID under Administrator Andrew Natsios rolled out the Global Development Alliance, a model where government and private sector actors identify development outcomes of common interest and each contribute resources and skill sets to achieve those outcomes.[13] Since then, USAID has engaged in over 1,000 private sector partnerships with over 3,000 partners, with Administrator Rajiv Shah reinforcing this focus through increased partnerships and dialogue with business leaders.[14] Simultaneously, the Obama administration has established the Partnership for Growth and the New Alliance for Food Security and Nutrition, two large initiatives that leverage private sector investment.

U.S. aid officials view the private sector—including businesses ranging from multinational corporations to local small enterprises—as a partner that can provide significant new resources, achieve unparalleled scale and reach, and generate economic growth that can lift millions out of poverty. Additionally, the private sector provides new dollars at a time of declining aid budgets; allows the Obama administration to create new initiatives despite Congressional inaction; and generally wins more political support from skeptical members of Congress.

The private sector can be a powerful engine for poverty reduction if engaged effectively, and USAID and the administration should be seeking to achieve greater impact through partnerships. In practice, however, the engagement of the private sector thus far has raised a number of concerns:

- "Private sector" and "public private partnership" have been used as catch-all terms that include a multitude of forces and actors that interact with human development in very different ways. Involving a private sector actor sounds innovative but does not guarantee that a private sector partnership is the most effective way to achieve the desired results for poor and marginalized populations.
- Private sector partnerships should be prioritized based on the extent to which they are likely to produce development outcomes. Engagement of the private sector has been somewhat opportunistic and ad hoc, rather than strategically determined based on an analysis of what is most effective at reducing poverty. Engagement of local businesses and entrepreneurs is particularly important.
- Private sector partners should be held accountable to appropriate standards in development practice, and the U.S. government should advocate for standards such as respect for workers, good governance, anti-corruption measures, environmental

stewardship, and respectful engagement of communities.

- Thus far, the lack of outreach to U.S. NGOs to be meaningfully involved in new public-private partnerships is troubling. In previous public-private partnerships, NGOs have helped to ensure a focus on poverty reduction and positive development outcomes through employment, capacity strengthening and positive ripple effects for local small businesses.

The Partnership for Growth

One of the U.S. government's signature private sector-focused initiatives is the Partnership for Growth (PFG), announced in late 2011. The PFG is described as a new approach, not a new allocation of resources – a "framework for engagement" by multiple U.S. government agencies with four pilot recipient countries: El Salvador, Ghana, the Philippines, and Tanzania. The aim is to "accelerate and sustain broad-based economic growth" by enacting the principles contained in the September 2010 Presidential Policy Directive.[15] The PFG is a framework for engagement in which Joint Country Action Plans are formulated and agreed upon by the U.S. and each partner country. Multiple U.S. government agencies as well as the recipient country government coordinate to facilitate and support economic growth in each recipient country. Priority areas of intervention are determined through an analysis of the country's primary constraints to growth.

The initiative is still in its infancy, and so it remains to be seen if this type of engagement will indeed be successful in contributing to the reduction of poverty in these four countries. In determining priority areas of intervention, the PFG's primary consideration should be what interventions are most likely to produce growth that is broad-based and inclusive, and benefits the poor and marginalized in each recipient country. Additionally, one open question is how much input the host country's civil society has to ensure that PFG programs actually meet local needs and reflect local interests.

The New Alliance for Food Security and Nutrition

At the May 2012 G-8 summit, President Obama announced the New Alliance for Food Security and Nutrition. The White House describes the New Alliance as "a commitment by G8 nations, African countries and private sector partners to lift 50 million people out of poverty over the next 10 years through inclusive and sustained agricultural growth," although few details have been released. This will supposedly be achieved through agricultural investments, with US$3 billion worth of investments over ten years identified thus far. The New Alliance will begin in Ghana, Ethiopia, and Tanzania, and eventually expand to other African countries.[16] The private sector, broadly defined, certainly has a critical role to play in increasing food security and improving nutrition, and the U.S. and other G-8 countries are right to try to leverage private dollars to achieve these ends. However, many CSOs have raised serious questions about the New Alliance.

To begin with, the extent to which private investment in agriculture actually reduces poverty depends on the nature of the investment.

Effective investment should focus on smallholder farmers, who account for over 70 percent of agricultural production and 75 percent of labor in Africa.[17] The White House's fact sheet on the New Alliance recognizes "the critical role played by smallholder farmers," but it is not clear to what extent they will actually benefit from the New Alliance investments. Overall, the specific pathways toward poverty reduction and food security, engaging smallholder farmers themselves, should be explained in more detail.

The stated goals of the initiative are to increase responsible private investment, take productivity innovations to scale, and reduce and manage risk.[18] Priority outcomes should go beyond productivity and risk to include gender equity, nutrition, environmental sustainability, and climate resilience. In addition, it is unclear how private sector actors are held accountable to standards beyond financial commitments.

Unfortunately, the New Alliance appears to be driven by donor priorities, particularly corporate investment priorities. The initiative should consult with African civil society groups, particularly those representing smallholder agriculturalists and farm laborers, to ensure that investments align with the interests of smallholder agriculture and do not compromise host country-led food security initiatives. One strong criticism of the New Alliance came from a group of African civil society leaders: "For the initiative to truly be an alliance, women small-scale producers, youth, and pastoralists should have been consulted in the drafting of the plan. Instead, G8 leaders are merely asking African governments for a rubber stamp."[19]

Finally, private sector investment cannot be a substitute for continued public investment. The U.S. and other donor countries should fulfill their 2009 L'Aquila commitments and sustain robust ODA funding of country-led agriculture and nutrition investment plans over the coming years.

Conclusion

The U.S. government has taken a strategic lens to the administration of U.S. aid dollars by focusing on effectiveness, impact, and ownership. However, the implementation of some reforms and initiatives currently underway must be improved if they are to be effective, locally owned and have real impact on the lives of the poor. U.S. aid officials should undertake meaningful consultations with civil society, including international NGOs and local groups, and should take a critical look at whether the new efforts to engage the private sector can actually achieve broad-based and inclusive development outcomes for poor and marginalized populations. The U.S. government should engage in co-planning with all stakeholders to ensure these initiatives match local priorities, are equitable, and make a real difference in the lives of the poor. Initiatives focused on economic growth and the private sector can and should be a part of U.S. foreign assistance. But if not implemented strategically, these initiatives can undermine the principles of effectiveness, impact, and ownership that the U.S. government has worked hard to elevate.

Endnotes

[1] This paper was finalized on August 13, 2012, and does not reflect changes or advances made between its finalization and the date of publication. InterAction staff who contributed include: Stephanie Cappa, Brian Greenberg, Laia Grino, Filmona Hailemichael, Carolyn Long, Mark Lotwis, and John Ruthrauff.

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Part 2

Glossary of Aid Terms

Glossary of Aid Terms

AAA Accra Agenda for Action

ACP African, Caribbean and Pacific States (see Lomé Convention).

ADB Asian Development Bank

AECI Spanish Agency for International Cooperation

Aid see ODA Official Development Assistance

APEC Asia-Pacific Economic Cooperation, or APEC, is the premier forum for facilitating economic growth, cooperation, trade and investment in the Asia- Pacific region.

ASEAN Association of South East Asian Nations

Associated Financing is the combination of Official Development Assistance, whether grants or loans, with any other funding to form finance packages. Associated Financing packages are subject to the same criteria of concessionality, developmental relevance and recipient country eligibility as Tied Aid Credits.

African Union (AU) Formed following the September 1999 Sirte Declaration by African Heads of State and Government, the AU succeeds the Organisation of African Unity (OAU) as the premier vehicle for accelerating integration in Africa, ensuring an appropriate role for Africa in the global economy, while addressing multifaceted social, economic and political problems compounded by certain negative aspects of globalisation. See http://www.africa-union.org

Bangladesh Aid Group was formed in October 1974 under the direct supervision of the World Bank, comprising 26 donor agencies as well as countries that made the commitment of providing support to the country for its development.

Bilateral Aid is provided to developing countries and countries on Part II of the DAC List on a country-to- country basis, and to institutions, normally in Britain, working in fields related to these countries.

Bilateral portfolio investment includes bank lending, and the purchase of shares, bonds and real estate.

Bond Lending refers to net completed international bonds issued by countries on the DAC List of Aid Recipients.

BoP Balance of payments

BOT Build, Operate and Transfer

BOOT Build, Operate, Own and Transfer

BSS Basic Social Services (Basic Education, basic health and nutrition, safe water and sanitation) defined for the purposes of the 20/20 Initiative

BSWG Budget Support Working Group

Budgetary Aid is general financial assistance given in certain cases to dependent territories to cover a recurrent budget deficit.

CAP The Consolidated Appeal Process for complex humanitarian emergencies managed by UNOCHA

Glossary of Aid Terms

CAP Common Agricultural Policy (EU)

CAS Country Assistance Strategy

CBSC Capacity Building Service Centre

CDF Comprehensive Development Framework used by The World Bank

CEC Commission of the European Community

CEE/CA Countries of Central and Eastern Europe and Central Asia

CFF Compensatory Financing Facility

CGAP Consultative Group to Assist the Poorest. A micro-lending arm launched by the WB in 1995. A recent report prepared by the Washington DC-based Institute for Policy Studies, found that 46 percent of CGAP's expenditures in its first year of operation was spent on policy reforms which may benefit lenders but end up hurting poor borrowers, particularly women.

CGI Consultative Group on Indonesia

CIS Commonwealth of Independent States

Commitment a firm obligation, expressed in writing and backed by the necessary funds, undertaken by an official donor to provide specified assistance to a recipient country or a multilateral organisation. Bilateral commitments are recorded in the full amount of expected transfer, irrespective of the time required for the completion of disbursements.

Concessionality Level is a measure of the 'softness' of a credit reflecting the benefit to the borrower compared to a loan at market rate (cf Grant Element).

Conditionality is a concept in international development, political economy and international relations and describes the use of conditions attached to a loan, debt relief, bilateral aid or membership of international organisations, typically by the international financial institutions, regional organisations or donor countries.

Constant Prices Prices adjusted to take inflation and exchange rates into account and so make a 'like with like' comparison over time.

Cotonou Partnership Agreement Signed in Cotonou, Benin, on 23 June 2000, the agreement replaces the Lomé Convention, as the framework for trade and cooperation between the EU and its Member States and African, Caribbean and Pacific (ACP) States. For more information, go to: http://europa.eu.int/comm/development/body/cotonou/ index_en.htm

Country-owned ownership implies that all sectors of the country should be involved in determining whether an aid is needed or not, how it is used and in monitoring the implementation of the projects and programs supported by the aid

Glossary of Aid Terms

(grants or loans). Although governments represent partner countries, they can no longer act independently, but have to be accountable to the country as a whole, comprising the citizens, parliament, business sectors and civil society.

CPIA Country Policy and Institutional Assessment

Current (cash) prices are prices not adjusted for inflation.

CSO Civil Society Organization (see NGO below)

DAC Development Assistance Committee the DAC of the Organisation for Economic Cooperation and Development (OECD) is a forum for consultation among 21 donor countries, together with the European Commission, on how to increase the level and effectiveness of aid flows to all aid recipient countries. The member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, UK and USA. DAC sets the definitions and criteria for aid statistics internationally.

Debt Relief may take the form of cancellation, rescheduling, refinancing or re-organisation of debt.

a. Debt cancellation is relief from the burden of repaying both the principal and interest on past loans.

b. Debt rescheduling is a form of relief by which the dates on which principal or interest payments are due are delayed or rearranged.

c. Debt refinancing is a form of relief in which a new loan or grant is arranged to enable the debtor country to meet the service payments on an earlier loan.

d. Official bilateral debts are re-organised in the Paris club of official bilateral creditors. The Paris Club has devised the following arrangements for reducing and rescheduling the debt of the poorest, most indebted countries.

Toronto Terms agreed by the Paris Club in 1988 provided up to 33% debt relief on rescheduled official bilateral debt owed by the poorest, most indebted countries pursuing internationally agreed economic reform programmes.

Trinidad Terms agreed by the Paris Club in 1990 superseded Toronto Terms and provided up to 50% debt relief.

Naples Terms agreed by the Paris Club in 1994 superseded Trinidad Terms and provide up to 67% debt relief. They also introduced the option of a one-off reduction of 67% in the stock of official bilateral debt owed by the poorest, most indebted countries with an established track record of economic reform and debt servicing.

Enhanced Naples Terms Under the Heavily-Indebted Poor Countries (HIPC) debt initiative, Paris Club members have agreed to increase the amount of debt

Glossary of Aid Terms

relief to eligible countries to up to 80%.

Democratic ownership - one of the five principles of Paris Declaration. It implies the participation of the people from the very first stages of any project or program to be funded by foreign aid. The project and program implementation should similarly be transparent and directly or indirectly accountable to the people.

Developing Country The DAC defines a list of developing countries eligible to receive ODA. In 1996 a number of countries, including Israel, ceased to be eligible for ODA. A second group of countries, 'Countries and Territories in Transition' including Central and Eastern Europe are eligible for 'Official Aid' not to be confused with 'Official Development Assistance'. OA has the same terms and conditions as ODA, but it does not count towards the 0.7% target, because it is not going to developing countries

Developing Countries Developing countries are all countries and territories in Africa; in America (except the United States, Canada, Bahamas, Bermuda, Cayman Islands and Falkland Islands); in Asia (except Japan, Brunei, Hong Kong, Israel, Kuwait, Qatar, Singapore, Taiwan and United Arab Emirates); in the Pacific (except Australia and New Zealand); and Albania, Armenia, Azerbaijan, Georgia, Gibraltar, Malta, Moldova, Turkey and the states of ex-Yugoslavia in Europe.

DFID Department for International Development (UK)

DGCS Directorate General for Development Cooperation

Disbursement **Disbursements** record the actual international transfer of financial resources, or of goods or services valued at the cost to the donor. In the case of activities carried out in donor countries, such as training, administration or public awareness programmes, disbursement is taken to have occurred when the funds have been transferred to the service provider or the recipient. They may be recorded gross (the total amount disbursed over a given accounting period) or net (less any repayments of loan principal during the same period).

DPL Development Policy Loan

DSF Decentralization Support Facility

EBRD European Bank for Reconstruction and Development

EC European Commission

ECHO European Community Humanitarian Office

ECOSOC Economic and Social Council (UN)

ECOWAS Economic Community of West African States, described at: http://www.ecowas.int/

EDF European Development Fund see Lomé Convention and Cotonou Partnership

Glossary of Aid Terms

	Agreement.
EFA	Education for All
EFF	Extended Fund Facility
EIB	European Investment Bank
EMU	Economic and Monetary Union
EPC	Engineering Procurement Construction
ESAF (E/Sal/F)	Enhanced Structural Adjustment (Loan)/Facility
Export Credits	are loans for the purpose of trade extended by the official or the private sector. If extended by the private sector, they may be supported by official guarantees.
FAO	Food and Agricultural Organisation (UN)
G20	Group of 20 Finance Ministers and Central Bank Governors established in 1999 to bring together systemically important industrialized and developing economies to discuss key issues in the global economy
G24	Group of 24 developed nations meeting to coordinate assistance to Central and Eastern Europe
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GEF	Global Environment Facility
Gini	coefficient is an indicator of income distribution, where 0 represents perfect equality and 1 perfect inequality.
GNI	Gross National Income. Most OECD countries have introduced a new system of national accounts which has replaced Gross National Product (GNP) with GNI. As GNI has generally been higher than GNP, ODA/GNI ratios are slightly lower than previously reported ODA/GNP ratios.
GNP	Gross National Product
Grant element	reflects the financial terms of a commitment: interest rate, maturity and grace period (interval to first repayment of capital). It measures the concessionality of a loan, expressed as the percentage by which the present value of the expected stream of repayments falls short of the repayments that would have been generated at a given reference rate of interest. The reference rate is 10% in DAC statistics. Thus, the grant element is nil for a loan carrying an interest rate of 10%; it is 100 per cent for a grant; and it lies between these two limits for a loan at less than 10% interest. If the face value of a loan is multiplied by its grant element, the result is referred to as the grant equivalent of that loan (cf concessionality level) (Note: the grant element concept is not applied to the market-based non-concessional operations of the multilateral development banks.)
GSP	General System of Preferences
HIC	High Income Countries those with an annual per capita income of more than US$ 9385 in 1995.

Glossary of Aid Terms

HIPC Highly Indebted Poor Country (Debt Initiative)

HIV Human Immunodeficiency Virus

IADB InterAmerican Development Bank

IASC Inter-Agency Standing Committee (Committee responsible to

ECOSOC for overseeing humanitarian affairs, the work of OCHA and the CAP).

IDA International Development Association (World Bank)

IDPs Internationally displaced persons

IDT International Development Targets (for 2015) as outlined in the DAC document 'Shaping the 21st Century' also known as International Development Goals

IFAD International Fund for Agricultural Development

IFC International Finance Corporation

IFIs International Financial Institutions

IMF International Monetary Fund

INGOs International Non-governmental Organisations

Internal Bank Lending is net lending to countries on the List of Aid Recipients by commercial banks in the Bank of International Settlements reporting area, ie most OECD countries and most offshore financial centres (Bahamas, Bahrain, Cayman Islands, Hong Kong, Netherlands Antilles and Singapore), net of lending to banks in the same offshore financial centres. Loans from central monetary authorities are excluded. Guaranteed bank loans and bonds are included under other private or bond lending.

IsDB Islamic Development Bank

ISG International Steering Group

JANIC Japanese NGO Centre for International Cooperation

JAS Joint Assistance Strategies

JBIC Japan Bank for International Cooperation

JCPR Joint Country Programme Review

JICA Japan International Cooperation Agency

LIC Low Income Countries those with an annual per capita income of less than US$765 in 1995

LDC (or sometimes LLDC) Least Developed Country 48 poor and vulnerable countries are so defined by the United Nations, with an annual per capita income of less than US$765 in 1995

LMIC Lower Middle Income Countries those with an annual per capita income of between US$766 and US$3035 in 1995

Lomé Convention Multi annual framework agreement covering development cooperation between the EU members and African, Caribbean and Pacific (ACP) States. Funding for Lomé came from the EDF. Lomé has now been replaced by the Cotonou Partnership Agreement.

Glossary of Aid Terms

MADCT More Advanced Developing Countries and Territories, comprising those that have been transferred to Part II of the DAC List of Aid Recipients.

MDGs or Millennium Development Goals are the international goals for poverty reduction and development agreed by the United Nations in the year 2000. These include the IDTs.

MTDS Medium-Term Development Strategies

Multilateral Agencies are international institutions with governmental membership, which conduct all or a significant part of their activities in favour of development and aid recipient countries. They include multilateral development banks (eg The World Bank, regional development banks), United Nations agencies, and regional groupings (eg certain European Union and Arab agencies). A contribution by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency. Unless otherwise indicated, capital subscriptions to multilateral development banks are recorded on a deposit basis, ie in the amount and as at the date of lodgement of the relevant letter of credit or other negotiable instrument. Limited data are available on an encashment basis, ie at the date and in the amount of each drawing made by the agency on letters or other instruments.

Multilateral aid is aid channeled through international bodies for use in or on behalf of aid recipient countries. Aid channeled through multilateral agencies is regarded as bilateral where the donor controls the use and destination of the funds.

Multilateral portfolio investment covers the transactions of the private non-bank and bank sector in the securities issued by multilateral institutions.

NABARD National Bank for Rural Development

National Program on People's Empowerment (known as PNPM) sets out the details of operational plans for poverty reduction through promoting capacities of the local communities and providing funds for development.

NBR National Board of Revenue

NEDA National Economic and Development Authority, the economic planning agency in the Philippines

NEPAD New Partnership for Africa's Development. For information, go to http://www.nepad.org/ and see also African Union.

NGDO Non Governmental Development Organisation

NGO (PVO) Non-Governmental Organisations (Private Voluntary Organisations) also referred to as Voluntary Agencies. They are private nonprofit- making bodies that are active in development work.

Glossary of Aid Terms

NIC Newly industrialised countries

NIPs National Indicative Programmes (EU)

NPV Net Present Value

OA Official Assistance (Aid) is government assistance with the same terms and conditions as ODA, but which goes to Countries and Territories in Transition which include former aid recipients and Central and Eastern European Countries and the Newly Independent States. It does not count towards the 0.7% target.

OAU Organisation of African Unity now succeeded by African Union.

OCHA (See UNOCHA)

ODA Official Development Assistance (often referred to as 'aid') of which at least 25% must be a grant. The promotion of economic development or welfare must be the main objective. It must go to a developing country as defined by the DAC

ODF Official Development Finance is used in measuring the inflow of resources to recipient countries; includes [a] bilateral ODA, [b] grants and concessional and non-concessional development lending by multilateral financial institutions, and [c] Other Official Flows that are considered developmental (including refinancing loans) which have too low a grant element to qualify as ODA.

OECD Organisation for Economic Cooperation and Development (see DAC)

OHCHR Office of the UN High Commissioner for Human Rights

OOF Other Official Flows defined as flows to aid recipient countries by the official sector that do not satisfy both the criteria necessary for ODA or OA.

PARIS21 Partnership in Statistics for Development capacity programme for statistical development

Paris Declaration on Aid Effectiveness is a commitment to make aid more effective towards the goal of poverty reduction and better quality of life. Aside from institutional and structural reforms, it also raises concerns about the effectiveness of the aid regime for sustainable development. The Paris Declaration commits signatories to five principles:

Ownership Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions

Alignment Donors base their overall support on partner countries' national development strategies, institutions and procedures

Harmonisation Donors' actions are more harmonised, transparent and collectively effective

Managing for Results Managing resources and improving decision-making for results

Mutual Accountability Donors and partners are accountable for development results"

Glossary of Aid Terms

Partially Untied Aid is Official Development Assistance (or Official Aid) for which the associated goods and services must be procured in the donor country or a restricted group of other countries, which must however include substantially all recipient countries. Partially untied aid is subject to the same disciplines as Tied Aid and Associated Financing.

PDF Philippines Development Forum

PEFA Public Expenditure and Financial Assistance. A partnership established in December 2001 involving the World Bank, IMF, European Commission, Strategic Partnership with Africa, and several bilateral donors (France, Norway, Switzerland, and the United Kingdom. Its mandate is to support integrated, harmonized approaches to the assessment and reform of public expenditure, procurement, and financial accountability, focusing on the use of diagnostic instruments.

Performance-based aid is a system of benchmarks which, once reached, trigger additional funding packages.

PFM Public Finance Management

PPP Public-Private Partnership

Power privatization model imposed by the United States and United Kingdom on Chile and India in the 1990's which is claimed to be contrary to the principle of democratic ownership.

PRGF the Poverty Reduction and Growth Facility, which replaces the ESAF and is the name given to IMF Loan Facilities to developing countries. (See also PRSP).

Private Flows are long-term (more than one year) capital transactions by OECD residents (as defined for balance of payment purposes) with aid recipient countries, or through multilateral agencies for the benefit of such countries. They include all forms of investment, including international bank lending and Export Credits where the original maturity exceeds one year. Private flows are reported to DAC separately for Direct Investment, Export Credits and International Bank Lending, Bond Lending and Other Private (lending).

Programme Aid is financial assistance specifically to fund (I) a range of general imports, or (ii) an integrated programme of support for a particular sector, or (iii) discrete elements of a recipient's budgetary expenditure. In each case, support is provided as part of a World Bank/ IMF coordinated structural adjustment programme.

PRSP Poverty Reduction Strategy Papers

RoA Reality of Aid Network

Real Terms A figure adjusted to take account of exchange rates and inflation, allowing a 'real' comparison over time see Constant Prices

Glossary of Aid Terms

Recipient Countries and Territories is the current DAC list of Aid Recipients see LDC, LIC, LMIC, UMIC, HIC.

SAPs Structural Adjustment Programmes, a program imposed by the WB for providing its loan to recipient countries

Soft Loan A loan of which the terms are more favourable to the borrower than those currently attached to commercial market terms. It is described as concessional and the degree of concessionality is expressed as its grant element.

South-South Development Cooperation refers to the cooperation/ relations amongst developing countries; in the AAA, "South-South cooperation on development aims to observe the principle of non-interference in internal affairs, equality among developing partners and respect for their independence, national sovereignty, cultural diversity and identity and local content. It plays an important role in international development cooperation and is a valuable complement to North-South cooperation."

SPA Special Programme of Assistance for Africa (World Bank)

SPADA Support for Poor and Disadvantaged Areas

SSA Sub-Saharan Africa

SWA (SWAp) Sector Wide Approach

TA or TC Technical Assistance/ Cooperation includes both [a] grants to nationals of aid recipient countries receiving education or training at home or abroad, and [b] payments to consultants, advisers, and similar personnel as well as teachers and administrators serving in recipient countries (including the cost of associated equipment). Assistance of this kind provided specifically to facilitate the implementation of a capital project is included indistinguishably among bilateral project and programme expenditures, and is omitted from technical cooperation in statistics of aggregate flows.

Tied Aid is Aid given on the condition that it can only be spent on goods and services from the donor country. Tied aid credits are subject to certain disciplines concerning their concessionality levels, the countries to which they may be directed, and their development relevance designed to try to avoid using aid funds on projects that would be commercially viable with market finance, and to ensure that recipient countries receive good value.

TNC Transnational Corporation

Triangular development cooperation refers to Northern donors or multilateral institutions providing development assistance to Southern governments to execute projects/programmes with the aim of assisting other developing countries.

UMIC Upper Middle Income Countries those with an annual per capita income

Glossary of Aid Terms

	of between US$3036 and US$9385 in 1995
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNCED	United Nations Conference on Environment and Development, Rio de Janeiro 1992
UNCHS	United Nations Centre for Human Settlements, Habitat
UNCTAD	United Nations Conference on Trade and Development
UNDCF	United Nations Capital Development Fund
UNDAC	United Nations Disaster Assessment and Coordination
UNDAF	United Nations Development Assistance Framework
UNDCP	United Nations Drugs Control Programmes
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Fund for Population Activities
UNHCR	Office of the United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNIFEM	United Nations Development Fund for Women
UNITAR	United Nations Institute for Training and Research
UNOCHA	UN Office for the Coordination of Humanitarian Assistance
UNRISD	United Nations Research Institute for Social Development
Untied Aid	Official Development Assistance for which the associated goods and services may be fully and freely procured in substantially all countries.
UNV	United Nations Volunteers
Uruguay Round	Last round of multilateral trade negotiations under the GATT
USAID	United States Agency for International Development
Vertical programmes	also known as vertical funds, global programmes and global initiatives, defined by the OECD and the World Bank as "international initiatives outside the UN system which deliver significant funding at the country level in support of focused thematic objectives."
WB	World Bank
WFP	World Food Programme
WHIP	Wider Harmonization in Practice
WHO	World Health Organisation
WID	Women in Development
WSSD	World Summit for Social Development, Copenhagen 1995. See 20/20 Initiative.
WTO	World Trade Organisation

Sources consulted include: Reality of Aid, Annual Development Cooperation Report of the DAC

Part 3

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Directory

ROA Members Directory

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Servicios para la Educación Alternativa AC (EDUCA)
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Website: www.educaoaxaca.org

Centro Operacional de Vivienda y Poblamiento (COPEVI)
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Servicio de Información Mesoamericano sobre Agricultura Sostenible (SIMAS)
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Base, Educación, Comunicación, Tecnología Alternativa (BASE-ECTA)
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Servicio Ecumenico de Promoción Alternativa (SEPA)
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Centro De Derechos Y Desarrollo (CEDAL)
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Website: www.cedal.org.pe

Centro de Estudios y Promoción del Desarrollo (DESCO)
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Centro Peruano de Estudios Sociales (CEPES)
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ROA EUROPEAN OECD COUNTRIES

Global Responsibility Austrian Platform for Development and Humanitarian Aid
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OEFSE- Austrian Foundation for Development Research
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11.11.11 - Coalition of the Flemish North-South Movement
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Website: www.eurodad.org

Eurostep
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Website: www.eurostep.org

MS Action Aid Denmark
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Terre Des Hommes - Germany
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Germany Postfach 4126 49031
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Christoffel-Blindenmission Deutschland e.V. (CBM)
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Campagna per la Riforma della Banca (CRBM)
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Fax: (44) 20 7837 4220
Website: www.bond.org.uk

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Website: www.forumsyd.org

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Aid/Watch
Address: 19 Eve St Erskineville
NSW 2043, Australia
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Website: www.aidwatch.org.au

Canadian Council for International Cooperation/ Conseil canadien pour la coopération internationale (CCIC/CCCI)
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Friends of the Earth (FOE) Japan
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Japanese NGO Center for International Cooperation (JANIC)
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Japan International Volunteer Center (JVC)
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Phone: (81) 3-3834-2388
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American Council for Voluntary International Action (InterAction)
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