Preface

The private sector is not a new actor in development cooperation policies or in partner country societies. It has been around for decades - be it as a local societal actor, as a procuer of goods or services or as an external player having a positive or negative impact on the lives of people living in development countries. What has changed, however, is the regained focus on economic growth as proposed in the EU's Agenda for Change. This Agenda pushes the private sector even more to the center of the development debate, yet struggles to ensure sustainability and tackle increasing inequality. EU governments are also looking more and more at the private sector to leverage the limited development funds available and bridge the increasing finance and investment gap. This leads the EU and its Member States to scaling up public-private partnerships, increasing financial inputs into blending mechanisms and extending the European Investment Bank's external lending mandate. Taking into account these trends and the impact they will have on the forward-looking debates focused on the next 7-years EU budget (the Multiannual Financial Framework 2014-2020), the Post-Millennium Development Goals and Rio+20 framework, CONCORD wants to take this opportunity to increase the general understanding of what is at stake and proactively and constructively contribute to the debate based on its own experience and vision of development.

With profit as the private sector’s primary objective, and poverty eradication at most to a lesser extent, every engagement with private sector actors requires caution, as private sector actors have the potential to positively contribute to development but can also have a very harmful impact. The large-scale positive examples are rather scarce, but there are various small-scale examples, involving for example smallholder farmers and SMEs, that need support and replication. The key question in this regard is ‘how do we prevent private sector actors from doing harm and at the same time stimulate those private sector actors positively contributing to development to grow?’ Development cannot be achieved without the realization of human rights.

So in line with the first Istanbul Principle adhered to by CSOs, we should look at this issue from a human rights perspective.¹

A human rights-based approach to development builds on the premise that all human beings have inalienable rights which cannot be taken away from them and is guided by the values, norms and principles of the universally recognized and codified human rights. Human rights entail an obligation on the part of the duty-bearers to respect, protect and fulfill them. Furthermore, the work of the Special Representative of the UN Secretary-General on the issue of Human Rights and Transnational Corporations and Other Business Enterprises has clearly shown that ‘all human rights have the potential to be relevant to all businesses, regardless of the sector or country of operation’, like for example the right to education, decent work or healthcare.² It is in everyone’s interest and should be considered a shared responsibility to respect and promote and fulfill human rights and remedy violations.

The State is the principal duty bearer when it comes to protecting human rights in their country, but what about donors’ extraterritorial obligations to promote and protect human rights, such as in developing countries? And how can the private sector be prevented from doing harm and instead positively contribute to the realization of human rights and the eradication of poverty - local private sector actors but also European companies investing in developing countries or leveraging development funding? Finally, what are the various roles for CSOs to play vis-à-vis these different private sector actors and how should it position itself in this debate? This background paper seeks to provide an entry to discuss and finally answer those questions.

¹ http://www.cso-effectiveness.org/istanbul-principles,067
² http://www.business-humanrights.org/SpecialRepPortal/Home

- This paper is a background document prepared for the Special Event 2012 not necessarily reflecting CONCORD positions -
Introduction

Given the increased prominence of the private sector as an actor in development, CONCORD decided to set up a private sector task force. This group was tasked to explore the topic, to map the work that has been done by its members, and to stir debate and build capacity amongst these members. All of this should culminate in the CONCORD Special Event, where members should identify common messages and decide whether and how CONCORD should be working on this topic in the future.

2012 has been a year of internal debate on the private sector topic within CONCORD. Members were able to give inputs into a mapping exercise and exchange views on various occasions in Policy Forum meetings, a General Assembly discussion, private sector task force meetings and two online webinars. On the basis of these discussions, this background paper was drafted and, after multiple commenting rounds, finalized into its current state. Its content however is not written in stone. The paper should be considered an open tool to build capacity, provoke debate and identify common ground.

A few people should be explicitly thanked for their contributions to this background paper, namely Katharine Teague from Christian Aid (Defining the private sector), Blandine Bouniol from CONCORD (Policy Coherence for Development: Ensuring Development-friendly operations of the European private sector in development countries), Erinch Sahan from Oxfam UK (Government policies to promote inclusive and sustainable business), Jan Van de Poel from 11.11.11 (Aid as leverage for private money: making it work for development) and Ad Ooms from ICCO (CSOs and private sector: roles and partnerships). They all wrote the first draft of their respective chapters and led the subsequent commenting process. Others such as Claire Des Mesnards (CONCORD), Carlos Villota (Eurodad), Karine Sohet and Rob van Drimmelen (Aprodev), Sara Jespersen (ActionAid) and Sarah Kristine Johansen (CONCORD Denmark) have delivered valuable contributions to this paper. As CONCORD Board member, Izabella Toth from Cordaid engaged proactively with the private sector task force. These, and many other CONCORD members – from the private sector task force and beyond - are responsible for making this paper an interesting and useful background document. Also Sergi Corbalán, Hilary Jeune (FTAO), Hanan El-Youssef and Marc Noel (Cooperatives Europe) have provided good inputs into the paper. The entire process has been coordinated by Lonne Poissonnier (CONCORD).

We start the paper by having a closer look at what constitutes the heterogeneous actor we call ‘private sector’, thereby looking at the various ways this actor engages in development. In the second chapter, we examine more closely the stimuli of European policies on the behaviour of the European private sector in developing countries. Subsequently, we look more closely at what partner governments can do to promote sustainable and inclusive business in their respective countries and what donors can do in support of these policies. The third chapter analyses more profoundly the multiple ways in which aid is used as a catalyst for private sector finance and investment, summing up its prerequisites. Finally, we inspect more in-depth the different ways CSOs interact and partner with private sector actors, accumulating lessons learned. We end this background paper with some concluding remarks and a glossary explaining the more technical terms used throughout the document.
Defining the private sector

What is the Private Sector?

Introduction
It is important from the outset of this paper to define what the private sector is and the role it should play in development. In this background paper, we propose to depict the private sector not as one homogenous actor but instead as a multi-faceted entity that has a range of profit-seeking organizations, which encompass economic actors from micro social enterprises to huge transnational organizations. Alongside privately owned enterprises it is also important to mention publically or government owned corporations as these are often major players in some of the most dynamic markets in the world. In short, the huge scale of the private sector and its power of driving economic growth make of it an actor potentially able to contribute to the realisation of development objectives.

However, one cannot discuss the role of the private sector without approaching the role of the state in developing a successful trajectory for equitable and sustainable growth and in setting out a clear framework for the private sector to operate within. Indeed, governments can play a catalytical role in establishing and financing policies, regulations and a legal framework that promotes a private sector that's potential is harnessed to create jobs and equal opportunities for all men and women. Governments must protect the interests of the poor by taking an active role in setting the direction of private sector development and by making sure that safeguards are put in place for the private sector to protect and promote the rights of the poor.

Definition
The private sector is a complicated stakeholder in both developed and developing economies. To explain this in a little more detail, the private sector is generally understood as made up of Trans- or Multinational Corporations (T/MNCs), large, Small-and-Medium Enterprises (SMEs) and Micro-Enterprises (MEs). Their scale of intervention goes from the local to the international level, including the regional and national levels. However, these actors can overlap and there can be slightly different typologies depending on the characteristics being focused on. There is often a blurring of the different categories.

An alternative typology is for instance the distinction between formal and informal sectors, i.e. between activities respecting legal and regulatory framework and activities taking place outside the law. The latter are particularly developed in low- and middle-income countries, where the scarcity of public administration or too few resources devoted to control mechanisms can bring individual and collective entities covering a wide range of economic activities to work outside the law. It essentially concerns casual or unpaid jobs and subsistence farming that help individuals living in poverty, which significantly contributes to national wealth creation although it cannot be accounted for. However, the informal sector can also be deliberately chosen by more thriving businesses as a way out from the state's regulatory framework.

Size standards to define the private sector

Micro Actors:
- The World Bank states that a 'micro-enterprise' has up to 10 employees, total assets of up to US$10,000 and total sales up to US$100,000.
- They are usually operated by self-employed individuals or a family business.
- In developing countries, most enterprises are micro, and most are in the informal sector.

Small, Medium-sized Actors:
- They represent the major employer in both developed and developing economies.
- Generally domestic and ownership model can vary e.g. private corporations, partially or fully government-owned corporations, co-operatives, partnerships, etc.
- The World Bank states that ‘a small enterprise’ has up to 50 employees and total assets and sales of up to US$3m; a ‘medium enterprise’ has up to 300 employees, and total assets and sales of up to US$15m.

Global Actors (Multinational companies: MNCs and Transnational companies: TNCs):
- They are corporate entities that have

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commercial operations in more than one country, then taking the shape of truly
global networks.

Obviously, the amount of influence (positive or negative) that these actors have on the economy and subsequently, on people’s lives, varies
according to their size and nature. T/MNCs are the most powerful of them by reason of their
substantial resources; when they compete with the
less prominent SMEs or with isolated MEs, the
imbalance of power is manifest so that the private
sector actors do not have equal opportunities to
significantly contribute to development. This means
that all private sector actors can actually either
harm or contribute to development, but with more
or less clout depending on their size. Paradoxically,
most of the potential for development is often held
by the less powerful stakeholders.

Thus, defining the private sector through the
different ways in which its actors can engage for
developing countries might be more relevant than
categorisations based on size. A private sector
actor can be defined not only through the location of
its activities, which can extend from the local to
the international level, but also through the way it
is being engaged ‘for development’, either through
encouraging productive activities or by using public
ODA to leverage private sector finance. Finally,
looking at the corporate purpose of a private sector
actor also allows a better understanding of the way
it interacts with development, from conventional
for-profit entities to social economy entities which
have deliberately chosen to make of social concerns
their core business.

What is the role of the private sector in development?

The private sector is a crucial stakeholder in
development. It is commonly assumed that the
private sector generates economic growth by
engaging in economic activity, frequently being
referred to as the 'engine of the economy'. By doing
so, it would directly create jobs and wages for the
people and opportunities and markets for small
enterprises. Moreover, the potential contribution
of the private sector to the eradication of poverty is
increasingly considered a significant development
issue. While economic growth and private sector
development should be taken into account in
development policies and strategies, the interests of
poor women and men must be championed. In
other words, an equitable and sustainable private
sector should be mainstreamed in a resource
constrained world which has to be well regulated.
Alongside direct impacts there are also indirect
impacts of the private sector on development, for
instance by providing goods, services and capacity
needed by poor communities at the right price, or
by paying taxes honestly to enable governments to
boost their fiscal capacity.

Although economic growth has the potential to
contribute to development, growth on its own is not
enough. Growth must be inclusive, comprehensive
and equitable, as well as ecologically sustainable.
Not all growth contributes to poverty reduction.
While we agree that economic growth is an
essential element to enable a country to develop,
benefits do not automatically trickle down. For
every $100 worth of growth in the world’s income
per person from 1990 to 2001, only $0.60
contributed to reducing poverty below the $1-a-day
line. Growth must occur in a framework that does
not perpetuate or even increase existing
inequalities, so safeguards need to be put into place
to ensure inequality is addressed. One group
particularly worth mentioning is youth (under 24) -
currently amounting to half of the world’s
population. They are experiencing unprecedented
rates of unemployment. Their lack of opportunities
not only places them in a particularly vulnerable
position, but generates a major challenge for
development as they are alienated with the
consequent risk of social braches and a burst of
illegal behaviours. Facilitating their access to the
job market – through apprenticeships, training and
job placement – would economically empower
them, securing their future. In this process, the role
of the private sector is crucial. But it is also
imperative for sustainable and equitable growth to
go beyond jobs and wages to have an impact on
development, which encompasses a wide range of
human needs. It is even in the interest of the private
sector to meet these needs, since shallow and weak
development has been shown to limit growth.
However, growth should never be seen as a goal for
itself but as an instrument among many to achieve
sustainable human development.

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4 ECDPM Discussion paper “Common or conflicting
interests? Reflections on the Private Sector (for)
Development Agenda”, Bruce Byiers and Anna
Rosengren, July 2012.

5 Woodward David and Andrew Simms, “Growth isn’t
working: the uneven distribution of benefits and costs
from economic growth”, London: New Economics
Foundation, 2006

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As the private sector is a heterogeneous group, its impact and contribution to development follows that pattern too. Micro-enterprises are arguably the most important private sector actor for those living in poor communities: by establishing ME’s, the individuals and groups of individuals, especially the women, can work their way towards better living conditions. Their role as a safety net when men and women have limited access to formal sector jobs due to a lack of education or skills remains crucial for poor people to work and earn money. The promotion of micro-enterprises is paramount in tackling poverty and a range of new innovative policies and programmes have been established to support this area of the private sector.

Another group of private sector actors that have the potential to have a significant impact on development are SMEs. SMEs are a heterogeneous group within the private sector. Their contribution is to act as the major employer in developing countries alongside performing the role of a major participant in economic activity. They engage in a wide variety of commercial activities, ranging from primary production to complex manufacturing, at different levels and in different locations. As a result of their diversity and wide sectorial coverage their potential to impact on poverty is incredibly important and must be harnessed to make an impact on reducing poverty. Alongside their impact on the economy, as a less mobile sector due to their structures, they are usually closer to the local communities that they operate in, thereby contributing to the community's survival and development. Furthermore, the linkages that are established between SMEs and MNCs will continue to be crucial in opening up new opportunities and benefits for development. The ability for SMEs to be involved in more diverse supply chains, production and distribution processes alongside enabling access to innovative new technology and increased productivity is crucial for future sustainability. The potential for development is both from direct impacts (jobs, tax and the economy) alongside the future opportunities that can be created through innovative approaches taken by SMEs.

The most powerful and influential of private sector actors in the world is the MNCs and TNCS. Globalisation over the last two decades has seen a skyrocketing effect on the number and also the wealth of these organisations. Much has been written about this group of actors and the imbalance of their influence, which has a direct effect on policy frameworks, practice and developmental outcomes. While donors praise their contribution, CSOs have challenged their records and exposed the harmful effects they have on the environment and human rights and their direct and indirect impacts on development. In recent years MNCs have been viewed as a major cause of social, economic and environmental problems which need to be addressed. Multi-national and trans-national enterprises need to change their mindset and start to consider how to win and rebuild the trust of societies in the developed but more importantly the developing world to have an impact on development. These influential actors need to start championing long-termism and become more accountable and transparent in their actions, with the aim of developing business practices that have mutual benefits for business and society.

To conclude, there is absolutely no doubt that the private sector has the potential to be a key driver of the economy, and as such to contribute to development. As part of society, they should behave socially responsible and respect human rights. Unfortunately, this does not always happen automatically. With governments having relevant involvement and appropriate policies, regulations and institutions, the trajectory can be set for the private sector having more positive impacts on development in the future.
Policy Coherence for Development: ensuring development-friendly operations of the European private sector in developing countries

Introduction

The private sector is an actor whose practices, strategic choices and societal role are directly influenced by public policies that can create incentives (e.g. subsidies, tax exemptions), opportune regulatory vacuum, or constraints (e.g. standards, quotas) for the activities of the private sector. Thus, the EU and Member States have a crucial role in regulating the operations of the European businesses in developing countries; while these are also subject to the local legislation.

At the same time, article 208 of the Lisbon Treaty sets out an obligation on the EU and Member States to ensure that their policies likely to affect developing countries support these countries’ development needs, or at least do not contradict the objective of poverty eradication.6

The concept of PCD applies to policies and policymakers, not to actors directly. PCD is a strategy that views development beyond the narrow scope of aid policies and traditional development policy actors. PCD enhances the accountability of EU policy makers to encompass the sum of impacts of EU policies in all sectors on the development path of developing countries and their vulnerable population. PCD also offers a chance to strengthen the dialogue between all these actors, including the private sector, with the objective to put development and human rights on top of their common agenda.

EU policies’ impact on European private sector behavior in developing countries

With regards to the private sector, PCD is a useful lens through which to analyse the causal link between the behaviour of the European companies operating in developing countries, and the EU policy framework, which can help explain – at least partly – harmful or otherwise productive behaviour.

CONCORD is engaged in an important work to document evidences of development-friendly EU policies as well as policies that are not coherent resulting in adding obstacles to the development path of developing countries, threatening or completely denying local peoples’ rights. Some of these policy incoherencies (i.e. an unfair policy or a lack of appropriate policy) have given way to harmful conduct of some European companies in some developing countries.

Example1: European companies participating in land grab in developing countries to fulfill EU biofuel quotas

European companies have been incentivized to invest in biofuels production by the introduction of an EU target of 10%-use of renewable energy in the transport sector by 2020. With the admirable goal to respond to the challenge of climate change, the 2009 EU Renewable Energy Directive (RED) that sets out this target poses serious challenges to the achievement of the EU’s development objectives.

Europe has nowhere near enough land to grow the crops to produce the first generation biofuels. As a result, European companies are responding by moving the production to places where large amounts of land and water can be cheaply and easily acquired: predominantly in the developing world. A large number of these companies, and some of the most powerful, are European companies.

Thus, this biofuel market created by a European policy adds to the pressures on land and water in many developing countries and poses problems for Human Rights, food security and poverty eradication. Access to land and water are crucial natural resources and key factors of production

6 Art. 208 of the Lisbon Treaty: “The Union shall take account of the objectives of development cooperation in the policies that it implements which are likely to affect developing countries”.

7 2009/28/EC
which are enablers of pro-poor development and the realisation of people’s right to food. Moreover, biofuels are largely responsible to rise in food prices which affects more severely the poorest people.

The EU has a clear role to play in monitoring and redressing the behaviour of European companies operating in the energy sector. In compliance with the EU obligation for Policy Coherence for Development, the production of biofuel produced from food crop should be abandoned, while sustainability criteria especially taking into consideration development impact should be strengthened, in order to avoid prioritizing feeding cars over feeding people. Under the pressure of development and environment NGOs, the European Commission came one step closer by proposing to reduce the target down to 5% - this is still insufficient. The Parliament and the Council now have to discuss these proposals; so there is still a hope that development concerns will prevail.

Case study: Kenyan community under threat of land grab by Italian company

In 2010, in Dakatcha, Kenya a community of 20,000, people's daily lives and livelihoods have been threatened by an attempt of an Italian company, Nuove Iniziative Industriali (NII), to acquire 50,000 hectares of land to grow jatropha for biofuel production. The company was to lease the land at a rate of €2 per hectare per annum, well under the market rate. This puts into question even more the idea of the benefits that biofuels companies are bringing to Africa.

The community has been using this land to produce food, honey, medicine, for wood and for ecotourism. No proper consultation of the community took place; no alternative land or compensation was offered. However, following intense pressure from civil society organisations, the Kenyan government banned jatropha in Kenya's coastal region, and the local authorities have asked NII to stop their existing plantations in the region.

Example 2: Soon an end to the financial secrecy of European extractive companies in developing countries?

European companies are largely represented amongst the extractive industries (i.e. oil, gas, mining and logging) operating in developing countries. The EU is under pressure to secure its supply of raw materials as fierce competition takes place for such strategic resources that are essential to maintain the current consumption patterns in Europe.

Until now, European companies have no legal obligation to publicly disclose information about the payments, such as taxes, they make to public authorities in countries they operate in. Such flawed regulation allows tax avoidance and tax evasion and results in many developing countries missing out on tax revenue, since tax authorities lack the resources to tell whether companies are paying the right amount of tax. The lack of transparency and corporate accountability also drives corruption, conflict and unaccountable governance that hinder people in natural resources rich countries from benefiting from the revenues that the country generates or could have generated – a significant obstacle to the right to development.

A disclosure of financial information on a country-by-country and project-by-project (e.g. a mine or an oil platform) level is needed in order to better monitor businesses’ operations and dealings with governments in developing countries. Companies should be required to disclose revenues, sales, profits and a total value for intragroup transactions at a country-by-country level, so as to curb the risk of tax dodging. This would help tackle corruption and calculate more accurately the tax liabilities of large multi-national companies operating in the extractive industries, especially those domiciled in EU Member States, their offshore jurisdictions, and their subsidiaries.

The improved transparency brought by country-by-country reporting would give power firmly back to the people. With more information available about companies’ tax payments to governments, citizens will be able to put pressure on politicians to see it is spent well. Companies too will come under more scrutiny, and be forced to explain their tax planning practices or risk consumer boycotts.

Positively, after pressure from development NGOs in October 2011, the European Commission tabled proposals to revise the existing EU Transparency and Accounting Directives, which introduces the country-by-country reporting on tax payments, thus setting an important precedent for mandatory corporate accountability in the extractive industry sector. However, the on-going negotiations between the Council and the European Parliament reveals that requirement of additional financial information to tax payments such as sales, profits

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and a total value for intragroup transactions are not likely to be part of the revision of the directives due to unwillingness from EU Member States to include the information. This information is crucial in order to curtail tax avoidance since they will disclose not only the amount of the tax payments made by companies to governments but also why the tax payments are low, which is often the case. Disclosure of these kinds of financial information will hopefully be part of the next revision of the EU directives.

**Case study: Mopani copper mine in Zambia**

Glencore, the world's biggest commodity trader, owns most of Mopani Copper Mines Plc in Zambia which, as a leaked auditors' report suggests in 2011, may have conducted a series of tax irregularities. The copper mine may have artificially reduced its profits in Zambia by using derivatives trades to shift profits out of the country. Glencore, for its part, strongly denies Mopani has done anything wrong. At the same time the company previously obtained a EUR 48 million development loan from the European Investment Bank. What is certain is that in spite of Zambia's considerable deposit of copper, the people's average life expectancy is 46; the country desperately needs tax revenues, notably for funding public services, such as health and education systems.

The lack of Policy Coherence for Development in the EU – in spite of the existence of a solid obligation enshrined in the Treaty – is caused by many reasons. Clearly, development objectives are subordinated to other (vested) interests, strongly defended by powerful lobbies, which reveals a lack of political will at the highest governance level. Moreover, existing institutional mechanisms are insufficient and inefficient to turn the rhetoric into practice.

**Recommendations**

In order to ensure Policy Coherence for Development, the EU leadership must walk the Lisbon talk and demonstrate stronger commitment to PCD as a valuable strategy to progress with poverty eradication. Staff capacity for PCD must be strengthened within all institutions and throughout policy departments.

The EU must improve the institutional mechanisms to prevent, detect and redress incoherencies.

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9 Christian Aid / Counterbalance / Friends of the Earth / Eurodad in CONCORD report “Spotlight on EU Policy Coherence for Development”, 2011
Government policies promoting inclusive and sustainable business

**Introduction**

The role governments should play in regulating markets is a hot topic. While it has been an issue in political debates for as long as politics has existed, in the wake of the global financial crisis, it has arisen as the core of the debate on how to create a more prosperous and fair society. While it has risen sharply in relevance for developed economies, it remains a critical battle ground of ideas for developing economies also, one that has immense implications for those trapped in poverty and powerlessness.

Leaving markets unregulated, failing to invest in the skills of marginalised and impoverished people, and focusing purely on economic growth leaves people in poverty. In fact, it can further entrench people in poverty, as it provides greater wealth and power to a chosen few. When the rules of the game fail to even the playing field and ignore the issues faced by small businesses, workers, farmers and community members; they keep people poor and powerless. However, by making sure that power and wealth are not misused in the market, the right rules of the game can allow small farmers and small businesses to grow, prosper and compete. They can also allow workers to work and live in a dignified way.

By investing in infrastructure and services, governments can allow smaller players to access and leverage markets, which can create sustainable livelihoods for otherwise marginalised communities. By promoting and incentivising business practices that are fair and transparent, they can make sure that the power of markets is used to get people out of poverty and become empowered. One key theme is that in order to tackle poverty, governments must ensure they tackled the barriers keeping smallholders marginalised and powerless.

**Governments shaping rules and investments**

Governments can create rules and make investments that shape how business trade, hire, procure, produce and engage with natural resource. These rules and investments can drive whether businesses empower local people or further entrench inequality and poverty. Governments can have, to varying extent, an impact on the following:

1. the formal rules, laws and regulations that governments at all levels impose on markets and private businesses;
2. the informal customs and norms that determine business practice and shape how markets work, where government can only have an indirect impact; and
3. public investments in infrastructure (e.g. roads to marginalised farming communities) and provision of public services by the government (e.g. supporting skill development programmes to promote youth entrepreneurship).

Under certain conditions, governments can also lean on global governance bodies such as the WTO or the IMF to exert their negotiating power vis-à-vis donors. In that way, the latter can be compelled to invest in the local governments’ priority sectors or to protect their markets. In that respect, Senegal’s special measures to secure local onion production are a case in point.

**Senegal’s self-sufficiency for onions**

While the onion is the most cultivated vegetable in Senegal and an essential ingredient of the local cooking, storage capacity problems as well as the burdensome presence of cheaper imported onions have been jeopardizing the livelihood of local onion producers. To remedy this situation, has been, the Senegalese government has been requesting for ten years the implementation of special safeguard provisions foreseen by the WTO for the agricultural sector. These provisions allow a country to increase its customs rights on specific products in case of a massive import increase in volume or of a massive fall of import prices, so that strong competitive pressure can be counterbalanced. However, resorting to these provisions can also have, to varying extent, an impact on the following:

- http://www.unido.org/fileadmin/user_media/Publications/documents/creating_an_enabling_environment_for_private_sector_development_in_subSaharan_Africa_01.pdf (page 33 and 37)
- http://www.wto.org/english/tratop_e/agric_e/ag_intr o02_access_e.htm
Why focus on smallholders?

Smallholders are the majority of food producers globally. Yet, because they often produce less than enough to feed themselves, they also are the majority of those who go hungry: about 80% of hungry people live in rural areas, mostly working as small-scale producers. Improving and securing smallholder yields in a sustainable way and without making them dependent on agro-business could improve livelihoods and food security.

Increasing access to and sustainable use of resources, particularly by female smallholders, presents a significant opportunity to increase production and close the yield gap. Currently, low smallholder yields are not a function of inefficiency but rather the result of limited access to and control of the resources – markets, land, finance, infrastructure, technologies and know-how – that large farms enjoy. Unfortunately, however, policymakers are often unaware of or have ignored this opportunity.

Smallholders are not a homogenous group. They have varying access to resources, markets, government and information. A minority (see figure below) are in a position to work with supply chains. However, significant support is needed to move the majority – the poorest and most marginalised (represented as the 40-50 per cent at the base of the pyramid – up the pyramid to be in a position to sell (more) to markets. The pyramid below demonstrates that, when we take a snapshot of smallholders, too few are able to engage in markets to lift themselves out of poverty, with only a tiny minority of smallholders (represented in the top two levels of the pyramid) able to sell regularly into markets. These could be local markets. Giving producers, who are currently at the base of this pyramid, an opportunity to move up requires targeted government policy-marking (both legal and investment related policy).

Figure: Maize in Southern Africa

![Maize in Southern Africa diagram]

Like smallholders, small and medium-sized businesses (SMEs) also provide important livelihood opportunities for the most marginalised populations. For this reason, most of the discussion in this section is equally applicable to supporting SMEs.

Active governments promoting fair and inclusive markets

Government policies play a defining role in promoting inclusive, sustainable and fair markets and business models. These policies include public investment in structures and institutions such as:

- Government regulation
- Infrastructure
- Communication
- Standards
- Business support
- Training
- Research
- Credit
- Extension services
- Marketing
- Information
- Distribution
- Data

These policies also need to be accompanied by investment in structures and institutions focused on regulatory frameworks that ensure fair and transparent trade practices, access to finance and support for SMEs.


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• hard infrastructure (e.g. reliable transportation networks, including rural feeder roads and storage);
• soft infrastructure that improves access to finance, inputs, technology, information and advisory services for small businesses and farmers;
• organisation of production (e.g. in agriculture this improves traders’ access to aggregated volumes of product of a reliable quality and safety);
• open and competitive markets for efficient trade between regions and across borders; and
• oversight of contracts, and rule of law (including land tenure for marginalised communities).

Within these categories, governments can do many things, including adopting improved policies, introducing new laws and making investments that promote the rights and interests of the poorest and most marginalised people. Of particular importance are laws on contracts, land tenure and tax. For instance, poor enforcement of rights over land have and continue to lead to already marginalised communities being driven off their land to make way for large-scale agriculture investments. This is one of many areas where governments must protect the rights of the most marginalised. Across a vast list of issues, governments must act to invest in and protect the rights and interests of their most marginalised citizens, who in many cases are small-scale producers. Some of these issues are explored below.

Addressing Power Imbalances

In general, markets are biased and favour large businesses over smallholders. This power disparity is one reason marginalised workers, smallholders and small businesses cannot leverage markets to escape poverty. The less powerful people and businesses trying to make a living in a market dominated by a powerful monopoly have to participate in that market on poor terms. They have no bargaining power and are price takers, not price makers. Such market failures are much more common in less developed parts of the world. This is why it is critical that governments address the power imbalances that are causing and exacerbating these market failures in developing countries.

Supporting producer organisations and market links for smallholders

Power imbalances mean that large investments in land, agriculture and food processing often marginalise or displace smallholders rather than work with them. However, even where smallholders are included, the reality is that the most powerful in the supply chain usually extract the majority of profits while pushing a disproportionate share of the risks onto the least powerful – the smallholders. Any attempts to integrate smallholders which ignore these realities usually lead to dependency and exploitation, rather than sustainable livelihoods.

Governments can address power imbalances that impede smallholders by supporting producer organisations. These organisations bring economies of scale, increased influence and a stronger political voice for smallholders. They can allow smallholders to reach the scale necessary to access both input markets (e.g. seeds) as well as output markets (e.g. in neighbouring countries). Other market mechanisms that can empower smallholders are specialised intermediaries, which are businesses that connect smallholders to more formal markets through product quality control, processing and access to inputs. Governments can support these businesses, including through training and market regulation, to help create links for smallholders.

The fair trade movement has shown it is possible to support fairer market access for smallholders. This has led to improved access to services, information, inputs and markets while sharing risks and rewards more fairly between market actors. Governments that help facilitate the spread of such initiatives can play a key role in empowering smallholders and producer organisations. They can also actively help producer organisations exchange experiences, and provide direct training and other support to the organisations and their members.

Competition Laws

As a part of the solution, governments should implement competition policies that seek to address the power imbalances between smaller and larger businesses and producers. Power imbalances may be addressed by pro-poor competition policies that prohibit anti-competitive practices and actively promote participation by smallholders and small businesses. For example, governments should:

• Tip the power concentration away from large companies and monopolies to create a


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fairer playing field, specifically: (i) prohibit monopolies; and (ii) prohibit cartels.

- Prohibit anti-competitive behaviour in a market, such as when a dominant player uses predatory behaviour (e.g. below-cost pricing to eliminate competitors) towards competitors.
- Prohibit unfair trade practices, such as price fixing\(^{16}\) collusion between groups or cartel members to avoid competition; or collective refusal to deal with certain businesses.

Integrity in procurement and the fight against corruption, particularly for public procurements, are vital ingredients in order to proactively promote a level playing field and fair competition in contracting by public sector organisations.\(^{17}\)

### Ensuring eco-system health – a job for governments

Unfortunately, the natural environment does not protect itself from devastating practices by businesses that are driven by short-term profiteering. This issue is particularly apparent in food production, which completely depends upon healthy ecosystems. Yet natural resources are becoming ever more constrained. Disregarding the health of ecosystems may produce short-term profits, but real gains will come from long-term environmental sustainability. Steps like organic certification represent a positive beginning, but more fundamental shifts are needed.

There is a huge potential for low-input, agro-ecological techniques (such as soil and water conservation or agroforestry) to raise yields, improve soil fertility, conserve resources, and reduce smallholder dependence on expensive inputs. Further, growing a greater diversity of crops (including ‘orphan crops’ - e.g. tef, the staple grain in Ethiopia - which are highly valued in communities, help retain biodiversity, and often show higher productivity on marginal lands\(^{18}\)) can bolster resilience. Several expert agencies and studies – including UNEP, FAO and the IAASTD\(^{19}\) - have reviewed the evidence and advocate these approaches.

Furthermore, when smallholders are supported to produce more food through these approaches, they are less vulnerable to shocks. For example, in northeast Thailand, jasmine rice farmers have been adapting to increased drought by innovating ways to manage water resources and thereby also improve yields.

Without government support, eco-systems will not be protected. This can include support for the green and renewable energy sector. Rules, regulations and investments in the dissemination of sustainable practices are needed. Governments should develop and enforce laws against the use of industrial agricultural practices that erode the natural environment. Equally, they should make sure that those that are practicing sustainable agriculture attract support from the government so they can continue to grow food sustainably.

### Protecting the rights of workers

The private sector can create jobs that can be of enormous benefit to local people. However, these jobs can be of varying quality. Too often, when labour rights are not adequately protected, workers can be abused, underpaid and put at risk. To avoid this, it is critical that the jobs created are decent jobs in line with the ILO decent work agenda\(^{20}\) and that labour rights are comprehensively promoted and protected by governments.

Governments must ensure that the private sector respects and applies the ILO principles and labour standards as elaborated in the ILO Conventions and monitored by the ILO supervisory system and promote core labour standards\(^{21}\) throughout the production chain.

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\(^{15}\) See UNCTAD's 'The United Nations Set of Principles and Rules on Competition' (2000) for detailed list of competition policies and suggested ways to encourage enforcement of these laws at regional and national levels.

\(^{16}\) where an individual market actor, or a group acting in collusion, is able to use their market power to push the price for a commodity or service above (or below) the price which would naturally emerge if there was freer competition between rivals

\(^{17}\) http://www.oecd.org/gov/fightingcorruptioninthepublicsector/integrityinpublicprocurement.htm


\(^{19}\) IAASTD reports available at: [http://www.agassessment.org/](http://www.agassessment.org/)

\(^{20}\) The ILO Decent Work Agenda includes four strategic objectives: Employment is freely chosen; social protection; rights at work; social dialogue.

\(^{21}\)Adopted in 1998, the ILO Declaration on Fundamental Principles and Rights at Work covers four fundamental Principles and Rights at work (Core Labour Standards): Freedom of association and the effective recognition of the right to collective bargaining; Elimination of all forms of forced or compulsory labour; Effective abolition of
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, and the UN Global Compact.

**Promoting quality of growth, not quantity**

It is too often the case that governments are focused on generating just any kind of economic growth. For the private sector to impact the lives of poor people, quality of growth is the most important thing. Equity drives good growth, the kind of economic growth that empowers the poor and leads to development. Over 20 years to 2001, only 1.5 percent of global GDP growth went to people on less than $1/day (which was 1/3rd of the world population at the time). This demonstrates that simply generating growth is not enough.

The laws and investments of governments should promote economic growth, private investment and market expansion that is fair, equitable and sustainable. As the key player shaping markets, government must see as its role creating rules and conditions that allow workers, smallholders and small businesses to thrive.

**Recommendations**

It is crucial that governments in developing countries have ownership over their own development strategy, including the one they lay out to develop their own local private sector. Donor countries need to align with these strategies. As stated in the previous chapter, donors must ensure – through Policy Coherence for Development – their policies have no detrimental direct or indirect repercussions for development countries. But even more proactively, they can contribute to these strategies via the provision of general or sectoral budget support, by providing support to programmes and projects in support of the local government's policy to promote inclusive and sustainable business, by procuring locally and by investing in basic social services such as basic health and education thereby contributing to creating an enabling environment for local private sector development.

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(child labour; Elimination of discrimination in respect of employment and occupation)
Aid as leverage for private money: Making it work for development

Introduction

In the light of declining aid budgets European governments are looking for new ways to finance development. Increasingly the focus is falling on financing mechanisms where reduced ODA serves as 'capital base' to leverage additional resources from the private sector. 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 – around 2%.23 Both on national and international level, donor governments have made several commitments underpinning this trend:

- In the outcome document of the most recent **High Level Forum on Aid Effectiveness in Busan** – the Busan Partnership for Effective Development Cooperation – all participants made a commitment to 'ensure a sound policy and regulatory environment for [...] increased foreign direct investment, public-private partnerships, the strengthening of value chains' and to 'further develop innovative financial mechanisms to mobilize private finance for shared development goals'.24
- In its **Agenda for Change**, the European Commission (EC) states that 'the EU should develop new ways of engaging with the private sector, notably with a view to leverage private sector activity and resources for delivering public goods. It should explore up-front grant funding and risk sharing mechanisms to catalyze public-private partnerships and private investment'.25 In its most recent **communication on financing for development**, the EC proposes that 'the EU should leverage more private resources and capacities through blending mechanisms that can crowd-in additional private and public financing'.
- Likewise, **individual donors** such as the United Kingdom, Sweden, The Netherlands and Denmark have reflected similar ambitions and are pushing this agenda forward.

Private sector as investor and financier for development?

This briefing papers looks at two distinct ways in which private resources and solutions to development problems are leveraged by public aid funding (ODA). Procurement is a first important channel which allows for ODA investment in private sector companies. Secondly, many developing countries experience an investment gap, unable to find sufficient public or private finance for large financing requirements in areas such as infrastructure, financial services, etc. This provides an argument to use ODA as a financial leverage to engage private sector finance for development through essentially Public-Private Partnerships (PPPs) and so-called ‘catalytic mechanisms’ including portfolio investment, private equity, private infrastructure funds, etc.26 CONCORD members remain concerned that the utter lack of strong and sound regulatory frameworks and international transparency, accountability, and monitoring mechanisms bode negatively for private sector action in development.

Procuring development?

An important weight of ODA goes to the private sector in the form of **procurement contracts for goods and services**, and the vast majority of this

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goes to rich country firms. The use of aid for private sector investments may also detract from much needed public sector investments that still face huge financing gaps.

Eurodad estimates that USD 69bn of aid is spent annually on procuring goods and services either by donors or by recipient countries, which in fact is more than 50% of total ODA. Joseph Stiglitz, the former chief economist of the World Bank, stresses that ‘government procurement policies have important economic and social roles in developing countries’. However, procurers are often under massive external pressure to ensure value for money and thus has traditionally driven into tied aid behavior that could increase the cost of supplies by 15-40%.

The 2001 OECD DAC Recommendations on Untying ODA to the Least Developed Countries aimed to address the fact that aid is provided under the condition that goods or services are bought exclusively from the donor country, excluding Southern companies from business opportunities and therefore not contributing on job creation, income or human capacities in the recipient country. Ten years later a research commissioned by the OECD, entitled “Untying Aid. Is it Working?” shows that 60% of procurement contracts “are awarded within the donor country”. While not explicitly tied, this so-called de facto tied aid does not differ much in terms of results from formal tied aid. For example, existing research by the World Bank reveals that less than 20% of all aid to the Solomon Islands was spent locally resulting in very little job creation and income opportunities for the local peoples. Multilateral Development Banks (MDB) diversify their supplier base better, but still OECD countries companies’ and increasingly companies from emerging economies benefit the most from MDB-funded contracts.

Financing for development?

In leveraging public ODA to crowd-in private financial resources, we distinguish between public-private partnership mechanisms and catalytic mechanisms.

Public-private partnerships

A Public-Private Partnership comes about when public authorities use private business to deliver certain services or goods; implying the private business partner underwrites part of the risk of the undertaking. PPPs are increasingly seen as an adequate modality of development cooperation. Hence, several donors are already boosting financial support and technical advice for this modality, including both ODA co-funding and other types of financial support such as equity, loans and guarantees provided by development finance institutions (DFIs). PPPs are expected to boost private sector investment, to encourage private sector participation in riskier investments by sharing risks with the public sector and to deliver intended development outcomes more efficiently. There are instances, however, where private investment was not forthcoming; the public sector unfairly absorbed all financial risks which were paid by the public purse; the average citizen did not enjoy the benefits of greater investments or increased access to good quality essential services at affordable rates. All too often PPPs tend to distort development priorities and allow private companies to interfere with policy making. Private sector actors can easily use PPPs, with the UN for example to gain influence in public policy making arenas that intersect with their market goals, and, at the same time, “bluewash” their tarnished images through association with the UN.

Public Private Partnerships

A Public-Private Partnership comes about when public authorities use private business to deliver certain services or goods; implying the private business partner underwrites part of the risk of the undertaking. PPPs are increasingly seen as an adequate modality of development cooperation. Hence, several donors are already boosting financial support and technical advice for this modality, including both ODA co-funding and other types of financial support such as equity, loans and guarantees provided by development finance institutions (DFIs). PPPs are expected to boost private sector investment, to encourage private sector participation in riskier investments by sharing risks with the public sector and to deliver intended development outcomes more efficiently. There are instances, however, where private investment was not forthcoming; the public sector unfairly absorbed all financial risks which were paid by the public purse; the average citizen did not enjoy the benefits of greater investments or increased access to good quality essential services at affordable rates.


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partnerships risk to serve mainly to improve corporate images.


36 On average close to 80% in the sample of countries and institutions assessed by Eurodad (2012): Private profit for public good? Can investing in private companies deliver for the poor?
37 Ibid, p. 22.
38 Eurodad (2012): Private profit for public good? Can investing in private companies deliver for the poor?

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because public donor agencies and DFI s are co-investors with private funds. Current research casts doubt on these assumptions. High leverage implies private investors invest most of the capital and are in the investment’s driving seat. This means there will be trade-offs between the investor’s financial objectives and development objectives.

2. **Development outcomes** - Development outcomes are not the objective of most private actors involved in above mentioned mechanisms, so positive development outcomes of those investments may not be assumed a priori.

3. **Development Effectiveness** - The quest for leverage in catalytic mechanisms often leads to ignoring aid and development effectiveness principles such as country ownership, alignment to national development plans and management for development results.

4. **FDI** - Existing catalytic mechanisms are aimed at promoting foreign direct investment (FDI) by TNCs or rich donor country companies in developing countries. Although they have the potential to create jobs and demand for local products and upgrading skills and technology, research shows a number of associated problems such as FDI going largely to extractive industries with limited job creating potential and detrimental macro-economic, social and environmental impacts; exposing developing countries to external shocks, capital flight and tax evasion, outward profit repatriation and equity capital withdrawal, etc.

5. **Debt** - Catalytic mechanisms for leveraging public resources often increase debt and involve linking poor countries more closely to volatile global financial markets. Although, catalytic mechanisms may open developing countries to global financial markets, it also exposes to severe ‘external shocks’ that are associated with them.

6. **Opportunity costs** – Using public resources trying to leverage private sector investment means those resources cannot be used elsewhere. Those opportunity costs may be very high in countries where there are clear needs for public investment in sectors such as climate adaptation, healthcare, education, etc.

7. **Transparency and accountability** – Transparency and accountability of both DFIs and private actors involved remain very weak. The use of financial intermediaries entails further loss of transparency and accountability.

**Recommendations**

Private sector investment and finance allow developing countries access to much needed resources for large financing requirements in infrastructure, etc. and private sector development. Nevertheless, CONCORD remains concerned about the development effectiveness for the poorest people in developing countries. Based on years of analysis and experience in the field, CONCORD recommends donor governments to:

1. **Promote a multi-stakeholder dialogue** around private sector investment and finance for development. Donor countries need to strengthen public-private dialogue and cooperation at the country and global levels.

2. **Align private sector finance to development priorities of national and local governments**. All investments should prioritize country owned development strategies, including national industrial and agricultural policies and strategic priorities for private sector development. Governments need to identify key potential private sector actors willing and able to play a true role in development.

3. **Demonstrate clearly the financial and development additionality** of private sector finance for development. Scarce ODA must prioritize the needs of the poorest and most marginalized. We are concerned that scarce ODA could be diverted from where it is needed most - to support the domestic public and private sector in partner countries and to ensure that businesses are properly regulated so that they can contribute to development.

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4. Make development outcomes the overriding criteria for project selection and evaluation. Development objectives should be mainstreamed into all investments, with clear outcome indicators and effective monitoring from the project selection phase to its completion including disclosure of outcomes at project level. Those indicators should take issues such as public indebtedness and opportunity costs of investments into account.

5. The need for Aid Effectiveness Principles for private sector finance for development. Donors have developed principles to guide their work in aid and development – the Paris Declaration (PD) and the Accra Agenda for Action (AAA). Civil society has done the same through the Istanbul Principles and International Framework for CSO Development Effectiveness. Development actors in consultation with key private sector constituents need to develop their own principles and framework in line with PD and AAA, to guide, monitor and evaluate the use of aid in the private sector, and engage with other development actors in an effective and pro-poor fashion.

6. Target domestic companies whenever possible. As main beneficiaries of PPP and catalytic mechanisms are firms headquartered in OECD countries and private sector actors in emerging, middle-income economies, specific strategies for domestic private sector actors and low income countries need to be implemented. To ensure that investments in the private sector have the greatest development impact, they should be targeted towards domestic enterprises owned and domiciled within developing countries.

7. Prevent all forms of tax dodging. Paying taxes in the communities of operation is a company’s fiscal and legal duty and responsibility. Donor agencies and DFIs should ensure beneficiaries are domiciled in the country of investment or when beneficiaries are not the reason should be clearly stated. Donor agencies and DFIs should request companies to disclose information related to sales, employees, profits made and taxes paid in the country and beneficial ownership of related legal structures. They should implement effective systems to ensure adherence to international social, environmental and human rights standards.

8. Review the use of financial intermediaries and improve transparency. Public investors should support DFIs only if they can track where public funds are being invested. All project information from different investors should be harmonized and made available to the public. Address shortcomings of investments through DFIs, e.g. their limited support to the poorest countries.

9. Set high standards for transparency and improve accountability. Governments and the public should be able to hold private sector interventions to account. In this vein, it is crucial that all private sector actors adopt policies of automatic, full disclosure of relevant information and adhere to the highest transparency standards. Public access to critical project information is essential, in particular for affected people to have a meaningful voice in how projects will be designed and implemented, how project costs and risks will be distributed among affected people, and how negative impacts will be mitigated and managed.

10. Need for effective regulatory regimes to prevent tax dodging and illicit profit repatriation. One of the most effective ways in which private sector finance for development contributes to development is by increasing the tax base for developing countries. Research finds that publicly backed private investors and DFIs pay actually little taxes facilitated by the existence of tax havens, and the absence of binding transparency standards for reporting profits, turnover, etc. This allows for transfer price manipulation and other forms of tax dodging. Donor agencies and DFIs should take a strong stand against tax dodging and set high standards of corporate social responsibility.

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Introduction

The world of development cooperation is changing with a demand for more efficiency as well as a demand for more Southern ownership. Recent years have bared witness to a significant change in the European business sector towards a trend of corporate social responsibility and more involvement in development cooperation. At the same time, Northern NGOs have repositioned themselves in their interaction with the private sector in a more embracing and less confrontational way. As if to underpin this tendency, many institutions such as the Dutch Social and Economic Council (SER) have been stressing the importance of civil society in supporting local enterprises as the driver of sustainable growth and decent work.

At present, cross-sector collaboration for development cooperation is rapidly increasing as an answer to the failure of government, private sector or civil society on their own to foster sustainable development. Joint actions on the field and increasingly numerous Public-Private Partnerships have gradually led to a blurring of the roles and identities of the development actors. Several examples either of companies starting their own foundations or of Civil Society Organisations establishing people-centred businesses show that these very distinct actors tend to rub off on each other, thus challenging the role and identity of CSOs in developing societies. While the establishment of partnerships is increasingly seen as a way forward to meet the development objectives as well as to safeguard the long term interests of every stakeholder, it is time for CSOs to clearly position themselves within this new context, each with a different focus on one or more of the multiple roles of CSOs.

Different types of interaction between CSOs and the Private sector

In this blurred context, highlighting the different kinds of linkages that already exist between CSOs and private sector actors can help determine the relevant position for CSOs in development. There are actually different models of engagement and interaction with the private sector, which may pursue different objectives.

1. Civil society as aid recipient from private philanthropic actors or foundations: the oldest interaction model. Although a few innovative private sector actors are moving into approaches based on really comprehensive goals such as Human Rights, these interactions are mainly related to a traditional charity approach which often leads the private actor to financially support tangible CSOs' projects. European philanthropy foundations allocated €490mn to development programmes in 2005, which compares to about 1% of European ODA. It is in the USA, where generous tax exemptions are a strong incentive to setup private foundations, and where they have to fill larger gaps in public services provision, including development assistance, that private foundations are the strongest.

2. Social economy, cooperatives and Fairtrade movement, microfinance: CSOs engaging in economic development while taking into account social and environmental purposes and acting as entrepreneurs or service provider to small scale entrepreneurs.

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43 This chapter is – among others - based on and compiled from reports and presentations made to contribute on the debate on Private Sector and Development in The Netherlands in 2011 and 2012, a 2012 study from Science Po students on CSO-private sector partnerships and other related documents.

44 Social and Economic Council: Development through sustainable enterprise, Abstract of advisory report, 2011/10 (the report is prepared in response to a request for advice from the Dutch Minister for European Affairs and International Cooperation, Mr. Ben Knaapen).

45 The concept of partnership should be used with caution, as different actors may have different understandings of what real partnership is; hence the preferred concept of interaction or cooperation.


47 E.g.: “Learning for well-being”, an initiative led by the Universal Education Foundation and by a Consortium of European foundations doing advocacy work around quality education.
**Divine Chocolate: How the private sector can empower small producers**

In 1998, a cooperative of cocoa farmers in Ghana, Kuapa Kokoo, became shareholders (45%) in a company processing chocolate bars called Divine Chocolate. The company introduced the first Fairtrade certified chocolate bar for the United Kingdom’s mass market. The overall strategic aim of Divine Chocolate Ltd is to improve the livelihood of smallholder cocoa producers in West Africa by establishing their own dynamic branded proposition in the UK chocolate market, thus putting them higher up the value chain. In 2011 their profit had reached £1.7 million with a 33% growth in sales.

Divine Chocolate Ltd purchases cocoa from Kuapa Kokoo at the guaranteed minimum price of $2000 per ton, protecting the farmers from any fluctuations of price on the volatile market. They guarantee long-term trading contracts with the farmers. The cooperative receives an additional $200 per ton of cocoa, as a premium. A Fairtrade premium is money paid on top of the Fairtrade minimum price that is invested in social, environmental and economic developmental projects, decided upon democratically by a committee of producers within the organisation or of workers on a plantation.

Some examples of the investments made by the cooperative of the premium includes increasing women’s participation in all affairs of the cooperative, developing environmentally friendly cultivation of cocoa, investing in income generating initiatives such as installing corn mills and palm nut crushers to schools and water wells. The gained recognition as stockholders in the cocoa industry is translated into increased power and representation within the market.

The cooperative has set up their own company, the Day chocolate company that now sells also to other Fair Trade buyers including The Body Shop for all their cocoa butter products. As the benefits have grown, so has the cooperative. In 2011 there were 65000 members in approximately 1,500 village societies united in this people-centered business model.

“Kuapa Kokoo owning Divine has had an impact on my life. It has increased my confidence level and empowered me to approach many important people which any ordinary farmer cannot do. It has enlightened me about the chocolate market especially how my own cocoa can be processed into Fairtrade Chocolate. I am more respected in my community and my organization through my involvement in Divine Chocolate.”

Comfort Kumeah, cocoa farmer, member of Kuapa Koko.

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**Working together on green light for Africa – a replicable partnership**

This initiative has involved the Dutch multinational Philips Lighting alongside the Dutch MFA and some African NGOs to address the lack of electricity in Southern rural areas. The MFA and Philips Lighting have invested on an equal basis in solar-powered lamps as a sustainable and affordable alternative to the hazardous and expensive kerosene lamps. Philips invested €3 million to develop the right technological solution while the MFA contributed with the same sum to fund NGOs activities aiming at supporting the local market development. Following the pilot project launched in Northern Ghana in 2008, the partnership was extended to Kenya, Tanzania and Mali. Indeed, this kind of partnership is easily replicable since it secures for the company a potentially huge market without subsidizing its products through a governemental grant. The partnership is seen as promising, as it combines “NGOs’ knowledge of local markets and the large-scale input and innovation of a multinational.”

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4. Operational partnerships or direct cooperation between CSOs and private companies: probably the most recent and challenging interaction model, where both actors are involved on an equal basis in a development project. Four main development outcomes can be identified from these cooperations: partnerships can aim at strengthening the impact of European CSOs, upporting local sustainable businesses, accompanying mainstreaming businesses in responsible approaches, or promoting a specific development goal.

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3. CSOs engaging in multi-actor programmes and projects (including PPP) where private sector is one of the other actors: an interaction model which is increasing because of a significant political will. This is a kind of cross-sector partnerships which find their origins in the realization by a number of NGOs that the boundaries of what they can accomplish alone was reached and that, in order to increase their effectiveness and impact, alliances with actors from a different sphere of society might enhance their efforts.

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50 Detailed examples of such partnerships are available in a mapping exercise conducted by Sciences Po Paris, which describes for some 29 partnerships the objective of the joint project, the respective contributions of CSO and private partner, and the achieved or expected results. Léa Champeau, Elise Clédat, Hilkkka Komulainen, Laure Pontis, Camille Riebels, Océane Thieriot, Les partenariats ONG-entreprises et la rénovation de la coopération internationale – Répertoire de partenariats, 2012.

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48 http://www.divinechocolate.com/about/kokoo.aspx

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Accompanying mainstreaming businesses in responsible approaches – Designing strategies for Corporate Social Responsibility

Partnerships between CSOs and the private sector can serve to rethink big businesses impacts on people’s living conditions, and make it evolve from negative consequences on local society and environment to the realization of human rights, the respect of gender equality and of the rule of law. CARE France and Thomas Cook France get involved in such a partnership. The project between the development NGO and the tour operator took place in Brazil and Cuba from 2002 to 2008. CARE was deeply involved in the design of Thomas Cook’s CSR strategy for sustainable tourism. Concretely, it took part in the “Ethical Committee” that was set up in order to run the project; it participated in the definition of a training plan for new staff on sustainable tourism, and conducted studies on the socio-economic impacts of the company. The common work resulted in some concrete outcomes: an “ethical traveler guide” to raise awareness of the company’s clients, calls for sustainable practices among local agencies; and co-definition of indicators regarding sustainable development in hostels.

5. Another type of interaction is the multi-stakeholder dialogue, where various stakeholders such as CSOs and private sector actors are consulted on a certain policy, strategy or partnership. Within such dialogues, it is vital that local communities and organisations are involved in order to strengthen efficiency and the likelihood of long-term sustainability. In particular marginalized groups, often still excluded, should be included in these multi-stakeholder dialogues.

To complement or test this proposed classification, one could question how it fits into the reality of the interactions that take place on a daily basis with and between local CSO actors, local SMEs and producers, local authorities and government and the beneficiary population.

Recommendations for successful partnerships

The sharing of roles between CSOs and the Private sector

In 2011, the Partnerships Resource Centre (Netherlands) published a first of its kind report on comparative empirical information on NGO partnership strategies, highlighting cross-sectoral partnerships between CSOs and the private sector.

These partnerships originate from various motives which should be well identified before starting any interaction:

<table>
<thead>
<tr>
<th>Motives for partnering</th>
<th>Business</th>
<th>NGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Issues cannot be solved alone</td>
<td>Issues cannot be solved alone</td>
<td></td>
</tr>
<tr>
<td>Competitive advantage/improve efficiency</td>
<td>Reinforce the focus on specific needs</td>
<td></td>
</tr>
<tr>
<td>Corporate Social Engagement</td>
<td>Achieve greater impact</td>
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<tr>
<td>Image and Branding</td>
<td>Find new resources/finance</td>
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<tr>
<td>Customer and Employee Loyalty</td>
<td>Achieve higher level of legitimacy</td>
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<tr>
<td>Improve stability of the operational environment</td>
<td>Influencing core business of companies</td>
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<tr>
<td>Increase legitimacy</td>
<td></td>
<td></td>
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<tr>
<td>Search for Systems solutions (shared value)</td>
<td>Shared value creation</td>
<td></td>
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<tr>
<td>Trigger innovation/ New product development</td>
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<td></td>
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</tbody>
</table>

Based on these motives and on their skills, the actors of a partnership can adopt different roles, which should also be well identified to avoid a blurring of identities. Indeed, not specifying the roles of each actor from the outset of cooperation leads to confusion. Finally, the roles that NGOs and private sector actors could play vis-à-vis each other can be complementary:

Complementary roles

<table>
<thead>
<tr>
<th>Business</th>
<th>NGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creativity</td>
<td>Knowledge on local customs/power structures/laws</td>
</tr>
<tr>
<td>Capital</td>
<td>Technical expertise</td>
</tr>
<tr>
<td>Managerial efficiency/expertise</td>
<td>Assure acceptance within community</td>
</tr>
<tr>
<td>Technical expertise</td>
<td>Market/society expertise</td>
</tr>
</tbody>
</table>

54 Compiled by Partnership Resource Center. Source: Stadtier, 2010; Dahan et al. 2010; Van Tulder & Kostwinder, 2007
Entrepreneurial spirit | Value of NGO brand that is transferred to the company  
Cost-efficiency | Access to local distribution systems and sourcing abilities  
Promotion/Power | Legitimacy with local community

However, it might happen that initial roles need to be adjusted during a cooperation to make it work adequately. This can bring changes to the traditional roles of both actors, then to their relations with each other, and subsequently to their identity. The consultancy firm Accenture\(^5\) has found that in particular large INGOs tend to become more ‘business-like’ in their operations, using ‘professional’ human resource and performance management systems, which facilitates further establishment of business-INGO-partnerships.

Keeping the various roles distinct would be a way for NGOs to overcome the risk of drifting towards practices that would not comply with their original mindset. This need for distinction in roles (and in certain cases legal obligations) has caused some NGOs to establish separate legal entities to be able to work with the private sector or to compete with the private sector in calls for tender.

Focus on the role of development NGO

Next to the specific roles NGOs have in a partnership with a business, development NGOs have several other traits through which they contribute to a stronger private sector in developing countries that can contribute to inclusive sustainable development.

- **Providing expertise** in the area of the local situation, the culture, the politics, the economic structure also on the smallest level, the legal system, and social relations. More and more companies see the opportunities of the emerging markets in developing countries and are planning to invest in, or cooperate with, enterprises in developing countries. Knowledge about the local context in those countries is often still missing. Development organizations have been active in developing countries for many years. Their local knowledge and contacts could be of great value for SME’s interested in starting a business there. That knowledge must be unlocked and brought together in order to help entrepreneurs on the one hand who want to get started and on the other hand, to increase the development impact of their investments.

- **Creating an enabling environment** for economic development, for example society building, democratization, human rights, rule of law development (e.g. property rights). For a vital private sector there are some essential conditions that together create an enabling environment. Conditions for a healthy business environment include: good governance, legal certainty, an effective tax system, the presence of qualified and healthy staff, a strong civil society that citizens access to social security and empowering, independent trade unions and employer organizations. Emphasis should be laid on a broad development policy and approach – particularly when it comes to stimulating the private sector in developing countries. Investments in the private sector will only be effective if they are done in the context of an enabling environment. Civil society organizations play an important role in building this enabling environment, in addition to their other activities in areas such as conflict management, human rights in a broad sense, world citizenship and of course emergency aid.

- **Being a broker** between business, Government and citizens who will otherwise still be excluded from the processes of growth and development.

- **Promoting corporate social responsibility.** When it comes to the impact of companies on People & Planet, good criteria exist for international corporate social responsibility (ICSR). The (Dutch) employers and employees have played a major role in the drafting of such criteria. These criteria should be made mandatory for all companies, by self-regulation and otherwise by law. In the Netherlands these ICSR criteria are mandatory for companies who receive ODA in order to stimulate their contribution to development. A good example of an area where much more potential can be achieved is value chain sustainability. In our view is this is one of the most promising ways for

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-This paper is a background document prepared for the Special Event 2012 not necessarily reflecting CONCORD positions-
business to contribute to sustainable development, and a crucial element of ICSR. NGOs play an important role already in value change improvement (e.g. certification). From that role, they can help ensure that self-regulation in this area is a success for all chains.

- **Being a watchdog** of industry and Government in the field of development cooperation and the development relevance of all ODA investments, including through business.

These different roles may result in difficulties in how NGOs are positioning themselves towards governments and private sector: one part of the NGO might cooperate with the private sector while the other part plays the watchdog role denouncing negative impact of certain companies on human rights, poor communities and the environment.

**Basic principles for cooperation with companies**

There are a number of factors that besides the ‘roles’ issue are of importance for successful partnering toward the efficient achievement of development goals: interests, phasing, monitoring, trust and ownership. As the lack of one of these factors or the combination of a few factors could pose a major barrier to successful interactions, CSOs should share their experiences of partnering with the private sector in order to collect best practices and to finally set a limited number of criteria for any future cooperation with these actors. Indeed, minimal standards of engagement with the private sector would be a useful reference for every CSO to guarantee that the desired outcome and impact of its partnerships is achieved, even in complex and blurred constellations of actors.

The question of whether CONCORD should have a role and which one in the establishment of these standards remains open. Nevertheless, one could be inspired by a few experienced CSOs which have already formulated a number of basic principles. This is the case of ICCO, which has made them an integral part of its deliberation on whether or not to engage in collaborations with a specific company, and which serves then as a basis to engage in discussions on progress, desired outcomes and positive or negative developments influencing the partnership.

**ICCO principles for cooperation with the private sector**

- **Transparency, trust and respect**: openness and respect for each other’s points of view, objectives and autonomy. This comprises, among other things, transparency, trust, reciprocity, flexible attitudes, a willingness to learn and invest in the relationship;
- **Focus on results**: a joint long-term vision with clear and time bound objectives;
- **International standards**: companies adhere to internationally accepted business standards and are not guilty of deliberate violations of international treaties or violations of human rights;
- **Chain responsibility and demonstrable sustainable entrepreneurship**: companies that ICCO works with on core activities demonstrably wish to engage in operational sustainability and recognise their supply chain responsibility. This implies that they are willing to take action to effectuate improvements throughout their supply chain: an equitable distribution of profit margins throughout the supply chain, fair prices for small producers, a living wage for workers, economic independence for local actors and a sustainable use of natural resources;
- **Market conditions**: partnerships are based on market based modes of operation;
- **Gender equality**: within their sphere of influence, companies promote equality between men and women; they take corrective measures when their activities lead to greater gender inequality;
- **Local partnerships**: international companies are willing to cooperate with local actors. Where possible, they engage local businesses, advocate improvement of the local investment climate and take care to avoid that local businesses are crowded out;
- **Benefit sharing**: when partnerships generate results to which intellectual property rights apply, rights will be granted for the use of knowledge, methods or natural resources of local actors, including NGOs, sections of the population or communities. This may take the form of an equitable price or a fair share in the products or services developed;
- **Ambassadorship**: companies that ICCO works with on increasing public support and effectuating their commitment are prepared to act as ambassadors for development cooperation;
- **Formalising commitments**: joint activities are formalised and laid down in a written agreement. Communication regarding the partnership will take place on the basis of a collectively agreed communication plan.

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56 ICCO and the Private Sector, position paper of ICCO on PSC and CSR (2009).

57 See for example the CSR Frame of Reference, including an inventory of standards, agreements and operational aspects of CSR in an international context developed by Dutch civil society organisations; www.mvoplatform.nl
Nevertheless, the trickiest issue for any partnership is trust, which is the origin of each CSO-private sector joint project. Accenture has set out that there are good reasons for the business sector to partner: “there are many areas in which NGOs are better qualified to excel than are businesses. Levels of public trust in NGOs would be the envy of most corporate relations departments ...”58 And “Businesses will have to work collaboratively with international NGOs to address new business opportunities or protect their 'license to operate'”.59 Probably unintentionally, Accenture has even identified the main reason why many critical CSO voices reject partnerships with the private sector: there is an obvious fear for CSOs to be abused for ‘greenwashing or ‘bluewashing’ of dodgy firms, or legitimize harmful activities. This evidence should encourage CSOs to always keep in mind that by motives, nature and origin, private sector and CSOs are very different actors. Private sector is driven by profit-making whereas CSOs are driven by social motives to eradicate poverty.

However, donors and development CSOs certainly do not have a monopoly on tackling poverty. There are many obvious actions that private sector actors can take to realise their potentially positive contribution to development, depending on the country context, size, and sector as well as the priorities of the business owners. In relation to TNCs, there is consensus that purely philanthropic projects are not enough. If the concept of Corporate Social Responsibility (CSR) has been looking rather outdated for a number of years, with NGOs raising concerns about the limited power that CSR professionals have within companies60, the semantics of the debate are changing with a new focus on core business and inclusive business – i.e. allowing more people to participate in the benefits of private sector activity. Indeed, inclusive business models can have significant development impact61. By including poor people in value chains, be it as producers, consumers or intermediaries, by developing innovative products able to reach remote citizens, or by establishing environmental-friendly enterprises, such models are at the cutting edge of the socially responsible and ecologically sustainable private sector which CSOs call for. However, these models only arise from innovation, which cross-sectoral partnerships only can encourage and concretely promote – while being careful that every public subsidy to these businesses targeting developing countries is really necessary. Hence the necessity for CSOs to recognize that exploring positive actions by business is not incompatible with more systematic approaches to ensure alongside governments that companies do no harm.

59 Ibid, p.22
61 Business Innovation Facility and Innovations Against Poverty - Spotlight: Innovation in inclusive business (April 2012)
Concluding remarks

From the various chapters within this background paper, it became clear that each actor has different roles and responsibilities vis-à-vis the realization of human rights.

Donor governments should make sure their external policies are coherent with development policies and even more importantly with the development strategies of partner countries. This includes the policies that influence private sector behavior towards people in development countries. In addition, donor governments are expected to invest in the development of local small scale private sector actors who constitute the main driving force behind a country's economic growth but need support to grow.

From local government's side we need a proper regulatory framework in place with a three-fold purpose. It should prevent private sector actors from engaging in harmful practices, allow for accountability and remedying mechanisms where needed and provide the right environment for the local private sector to be able to grow.

From private sector actor's side, as they have the potential to positively contribute to the realization of human rights not just with respect to a company's own operations and workers, but also throughout the supply chain, to local communities, and beyond, we believe they should exercise “due diligence” in identifying and managing human rights risks and should establish poverty, social and human rights impact assessments so they can make adjustments where needed.

Especially when partnering up with governments or Civil Society Organisations – be it for policy implementation or financing – these latter should be mandatory in addition to a number of other conditions that should be fulfilled. Partnerships can significantly increase development impact, but only when the right conditions are in place, the roles and expectations of the stakeholders are clear, and there is an open and multi-stakeholder dialogue.
Glossary

**Cartel:** A group of enterprises or traders who attempt to limit competition and control prices or the supply of a good or service through mutual restraint on production or supply, or simply by colluding to fix prices.

**Catalytic mechanisms:** Financing mechanisms that involve public support for creating and developing private markets, often by reducing risk of private entry or facilitating private investment through DFIs.

**Development Finance Institution (DFI):** Financial institution, usually established by a donor government and sometimes supported by a private partner. DFIs participate in companies in developing countries, issuing loans are capital shares. The largest DFI is the World Bank's International Finance Corporation (IFC).

**Economic growth:** Quantitative change or expansion in a country's economy. It is measured as the percentage increase in gross domestic product (GDP) or gross national product (GNP), that is to say in the value of all final goods and services produced in a country during one year.

**Impact Assessment (IA):** Ex-ante evaluation mechanism which is part of the policy-making process. It is used in particular by the EU to foresee the influence of possible policies on a variety of factors determined by the policy-maker.

**Inclusive business:** A private sector approach to tackle development issues, making socially responsible the core business of an enterprise. It goes beyond the concept of Corporate Social Responsibility, which was traditionally set back to secondary projects only.

**International Finance Corporation (IFC):** A member of the World Bank Group. It is the main global development institution financing private sector actors in developing economies.

**(Private) equity:** Equity is synonym for capital. In addition to loans (debt finance), enterprises can raise capital by issuing shares (equity finance). Equity finance holds higher risk than debt finance.

**Financial intermediary (FI):** Institution bringing together supply and demand of financial products, usually a bank, but other financial institutions like investment funds, insurance companies, etc. may act as intermediaries as well.

**Foreign Direct Investment (FDI):** Investment (mainly in buying shares) in an enterprise that operates outside the investor's country, implying a lasting interest or an effective management control over the enterprise.

**Market failure:** Evidence for a market economy to fail providing people with a desirable supply of goods and services.

**Monopoly:** A situation in which a single market actor controls all (or nearly all of) the market for a given type of product or service. This is an extreme form of market power. It can arise because of barriers which prevent other rival traders competing: e.g. high entry costs, government regulation, or coercion and/or corruption.

**Procurement:** Acquisition of goods and services. Corporations and public bodies need to procure these goods and services at the best possible cost and in agreement with the purchasers needs in terms of quality, quantity, time and location.

**Policy Coherence for Development (PCD):** A European strategy and legal obligation to ensure that the EU and Member States policies likely to affect developing countries support these countries' development needs, or at least do not contradict the objective of poverty eradication. It is binding for governments only, not for the private sector actors.

**Public-Private Partnership (PPP):** Government service or private business venture funded and operated through a partnership of government and one or more private sector companies.