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European Centre for Development  
Policy Management

***ecdpm***

# *The role of the private sector in the development cooperation system*

*ECLAC - Global Economic Governance  
Session 2: ODA and the Aid Architecture*

**Bruce Byiers**  
*Madrid March 2013*

# Overview

1. Context
2. Which private sector?
3. Roles & forms of engagement
4. Opportunities and risks
5. Impact
6. PS & Global Governance

“We want industrialisation...”

CAADP



NEPAD

A PROGRAMME OF THE AFRICAN UNION

AIDA

AFRIPANET



AFRICAN TAX  
ADMINISTRATION FORUM

RWANDA VISION 2020

What Rwanda want to do? & how?

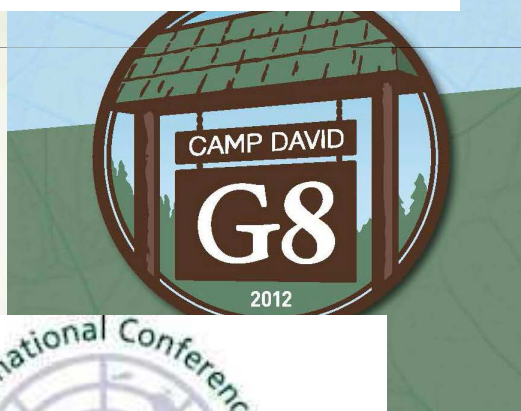
Baek Joo Hyun  
KOICA, Rwanda Development Board



PROGRAMME FOR INFRASTRUCTURE  
DEVELOPMENT IN AFRICA

INDUSTRIAL POLICY OF  
ETHIOPIA

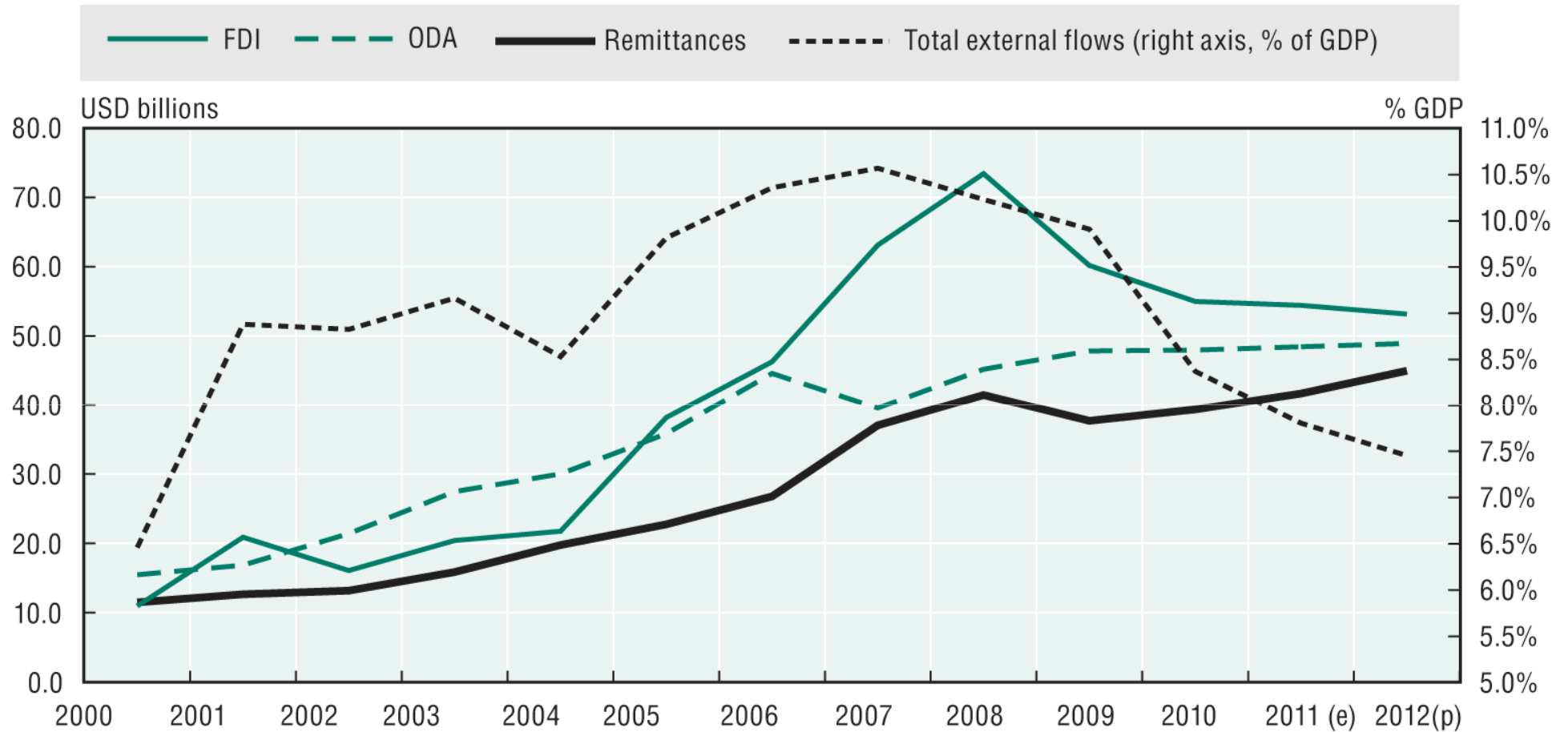
“We want to engage the private sector...”



## Push factors

- ODA reaching its limits?
- Global economic and fiscal crisis
- Aid budget pressure
- “Development scepticism”
- Developed country economic stagnation
- Competition in third markets
- The “new” models of emerging players

# Pull factors: Large FDI flows...!



...but largely to mining and minerals...

# Jobless growth?



<sup>1</sup>In 2005 dollars.

<sup>2</sup>Government spending from resource-generated revenue contributed an additional eight percentage points.

<sup>3</sup>Education, health, household services, and social services.

Source: McKinsey Global Institute analysis

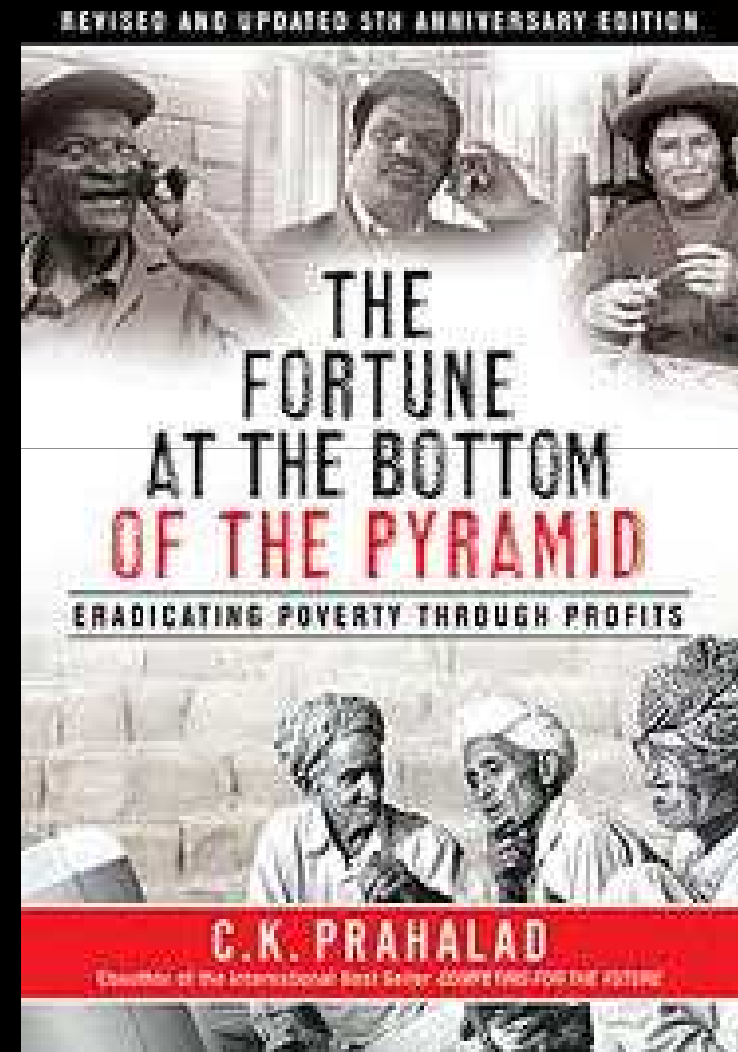
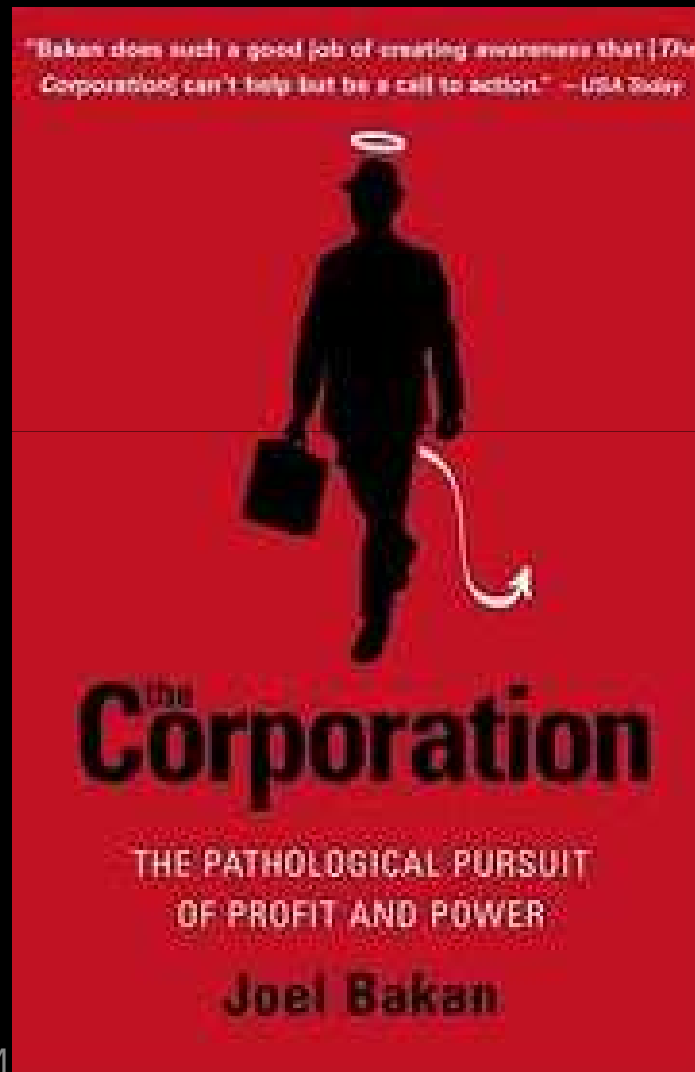


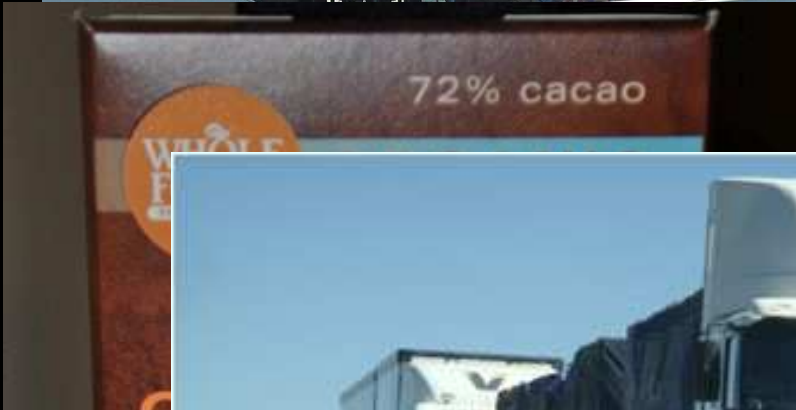
# Pull factors: Learning from the private sector





# From “pscyhopath” to BoP and “shared value”





# Different roles:

- **Private sector development**  
Old agenda: domestic, enterprises, value-addition, exports, credit- access, business climate, firm-level skills, industrial policy etc
- **Private sector *investment* for development**  
New agenda: international, partnering with developed country firms, offset risk, link producers & suppliers, CSR to Shared value
- **Private sector *finance* for development**  
Input side – promote and leverage private sector finance
- **Policy and dialogue**

# Donor policies for Private Sector *Investment* for Development

## ODA/Multi-donor

- Public-private dialogue
- Challenge funds
- Match-making/partnerships
- Multi-stakeholder partnerships- PP-CSO
- Corridors approach etc

## Non-ODA

- Domestic industrial policy
- Outward FDI promotion
- State-aid?
- China – includes SEZs, export credit, etc

# Donor policies for Private Sector *Investment* for Development

- Opportunities

  - Consumption goods/services

  - Production - "better" jobs?

  - Lowering risks

  - Sustainability

  - Technology

  - Know-how

  - Business mindset...

- Risks

  - Additionality/development impact

  - External reliance

  - Reversion to "tied aid"

  - Market distorting subsidies?

  - Sufficient donor knowledge/flexibility

  - Missing the point?

# Private Sector *finance* for Development

- About inputs – private finance for development ends
- Leveraging effects
- Foundations, investment/pension funds
- Development “bonds”
- Blending grants, loans & private finance
- Advanced market mechanisms
- Various purposes e.g. infrastructures, equity funds, vaccination development
- Sovereign bond issues

# Private Sector *Finance* for Development

- Opportunities
  - Make aid go further
  - Fill financing gaps
  - Alter incentives
- Challenges
  - Need to be profitable
  - Risk management and balancing
  - Legal environment
  - Capacity to use effectively
  - Primarily a lack of finance?



# Impacts

- Identifying & measuring impact is key for all!
- Attribution a major challenge
- Growing demands for harmonised measurement
- Tradeoffs – cost&time vs results&timeliness
- Results chains – DCED process
- “measuring shared value”
- Overall weakness

# The PS and Cooperation Governance Structures

- Plenty of commitments
- Does “the private sector” want to be engaged?
- Post-Busan Building Blocks– what mandate?
- Beyond dialogue and the business environment?
- Post-MDG agenda – 2/27 of high-level panel
- Realistic expectations?
- What about the recipients?
- Is this a fad or here to stay?

## In sum...

If development is the ultimate goal, then:

- Potential to find synergies – but need to avoid naivety
- Need to identify the trade-offs
- Agree on how to identify & measure impact
- Regulate expectations and understand the mandate and capacity of the other
- Improve PS-donor-gov-CSO communication and mutual understanding
- Focus on how to boost transformation, no matter the financing!

# Thank you

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