

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

AIDA

RWANDA VISION 2020

What Rwanda want to do? & how?

Baek Joo Hyun
KOICA, Rwanda Development Board

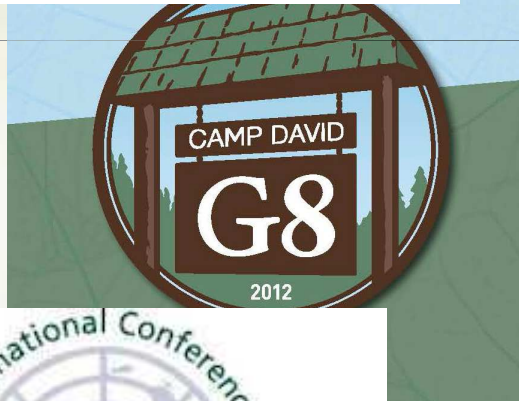
AFRIPANET



INDUSTRIAL POLICY OF
ETHIOPIA



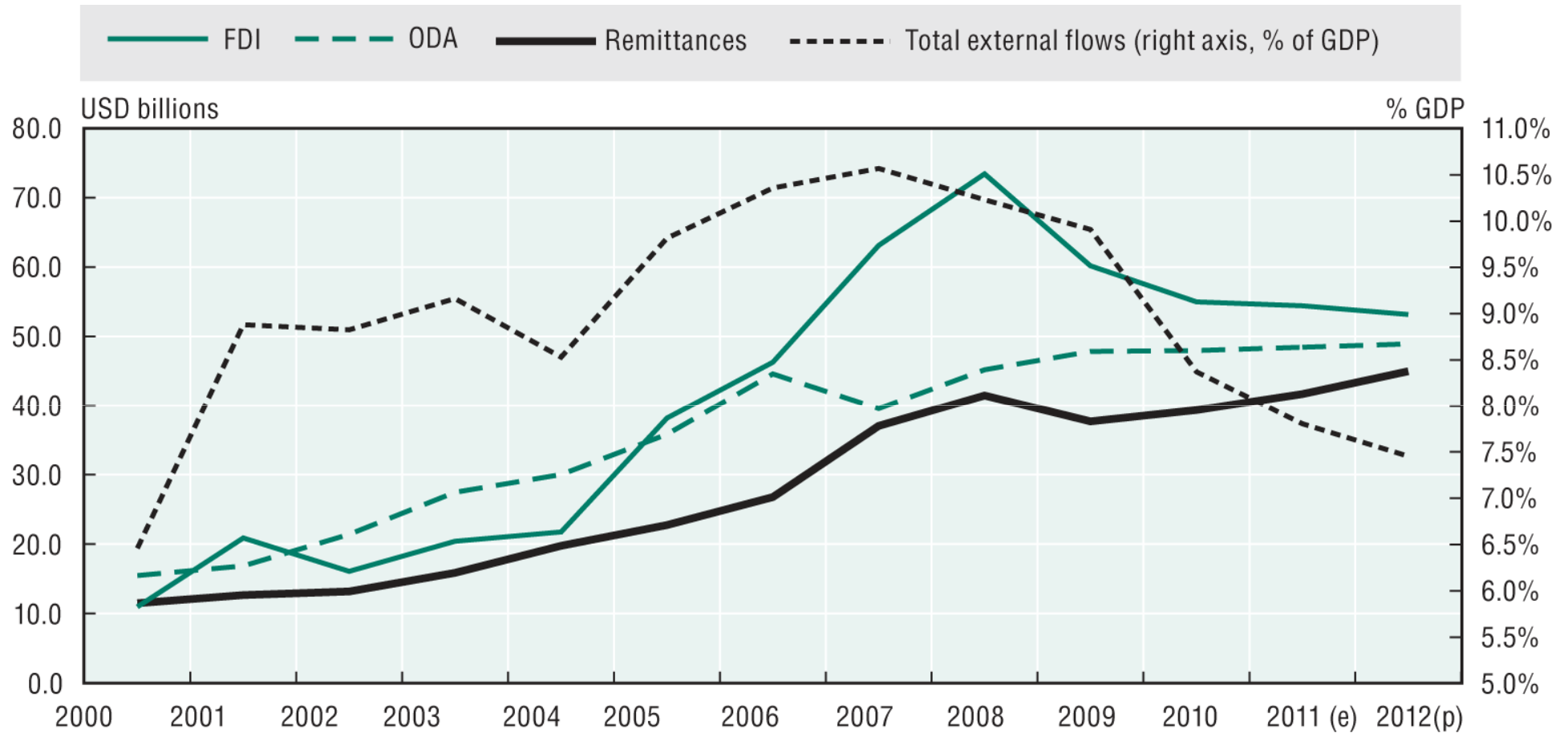
“We want to engage the private sector...”



Push factors

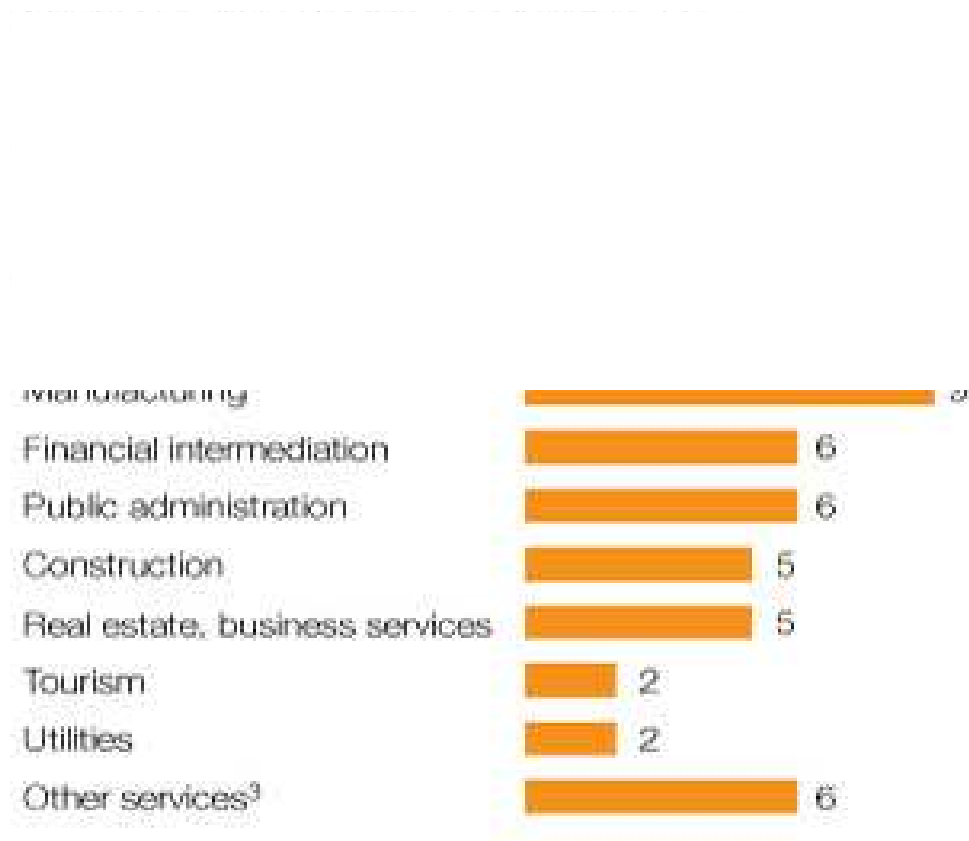
- ODA reaching its limits?
- Global economic and fiscal crisis
- Aid budget pressure
- “Development scepticism”
- Developed country economic stagnation
- Competition in third markets
- The “new” models of emerging players

Pull factors: Large FDI flows...!



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

Jobless growth?



¹In 2005 dollars.

²Government spending from resource-generated revenue contributed an additional eight percentage points.

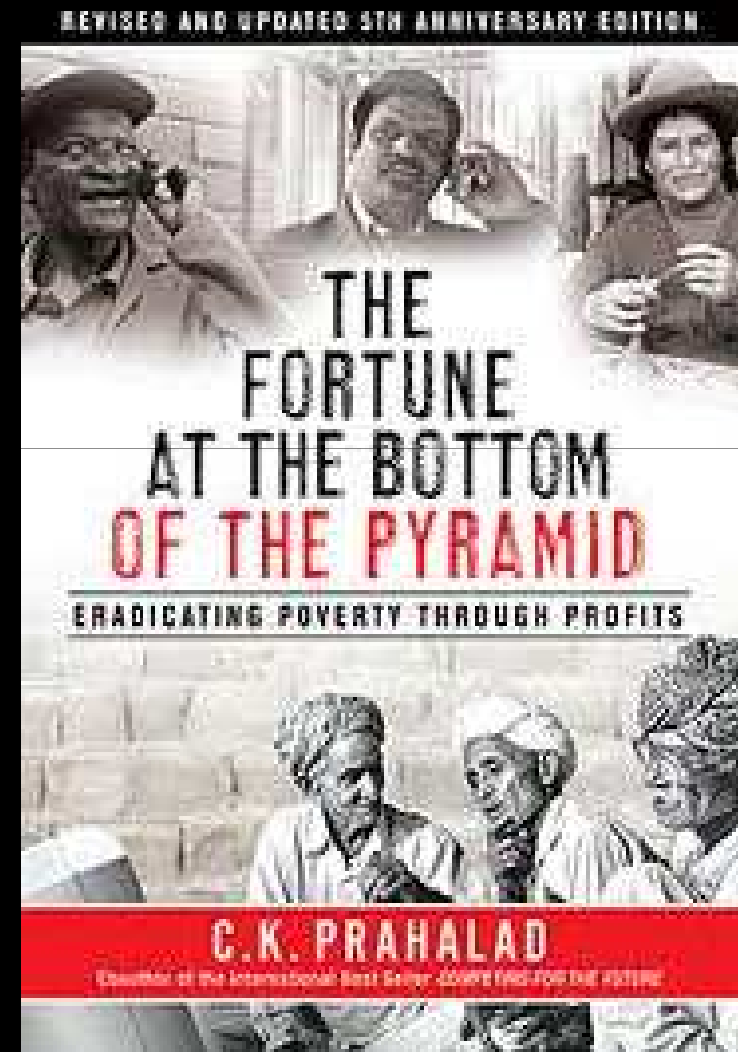
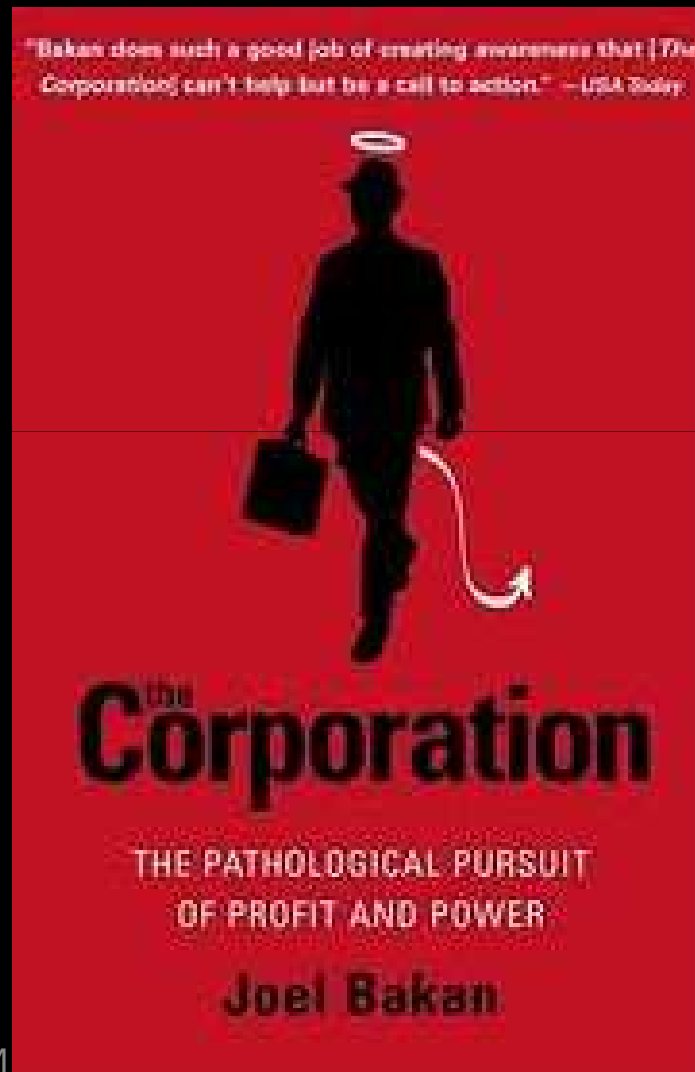
³Education, health, household services, and social services.

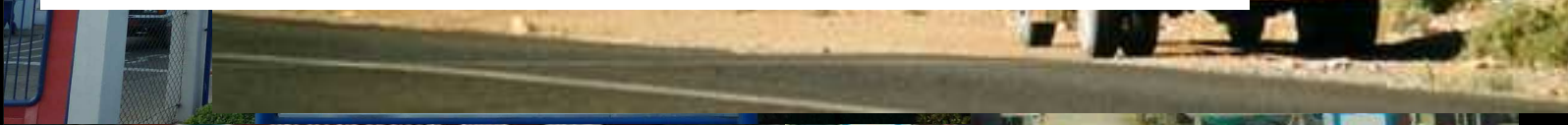
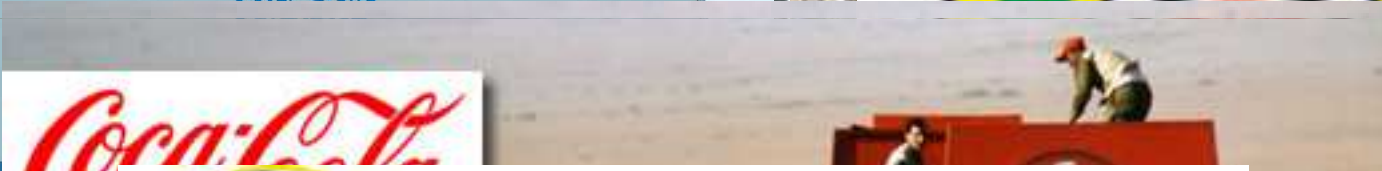
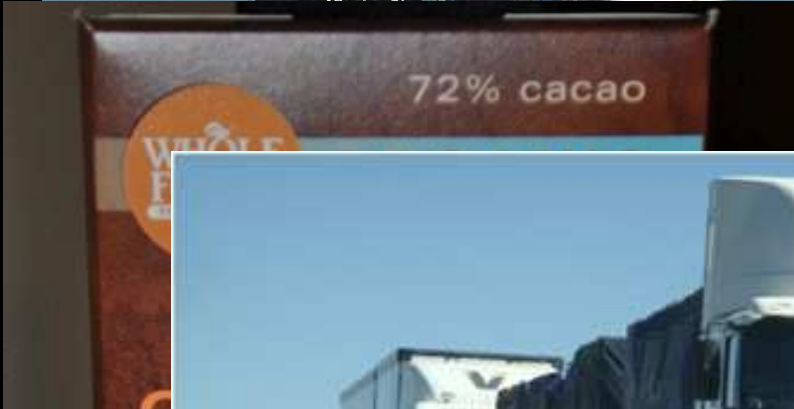
Source: McKinsey Global Institute analysis

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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