

Private Sector in Development

Why Is Private Sector in Development Important?

Discussions on the role of private sector in development have taken place for a long time. However, the EU's new development policy – Agenda for Change – puts more focus on the role of economic growth to ensure development. This places the private sector in the centre of the development debate. More state and supra state level policies on the inclusion of private sector in development are emerging as EU governments are often looking at the private sector to leverage the limited development funds available.

The effects of the private sector engagement in development are not always clear. Examples of private sector contributing to the eradication of poverty and the realisation of human rights exist, while contrary examples where much more harm than good is done by private companies are no secret either.

This issue of private sector in development should be of special interest to EU13 countries because of the relatively recent transformation from communist-socialist society to democratic-capitalist society in the beginning of the 1990s. The role of CSOs, however, should not be captured into the historical debates and judgments on different political systems but rather be guided by the basic principles of the protection of human rights, environmental sustainability and solidarity. Also, the sudden entrance of private sector into society in EU13 may have developed a huge database on good and bad practices of that process that could be shared.

This policy digest will explore different forms the pri-

ivate sector is engaged in development, while putting special attention on civil society organisations' (CSOs) cooperation with the private sector in development activities. Second part of the policy digest will focus on EU level policy processes on the topic and how to get involved and influence these processes through civil society actions.

How to Understand the Private Sector?

There are big differences in the ways the private and public sectors operate. One main difference is that the private sector's main goal is profit, which is the key engine of the sector. One of the key questions concerning private sector's engagement in development is in which way is the gained profit distributed? Is it kept within the private sector only or are parts of it shared with the community, particularly the one that has indirectly contributed to the accumulation of capital? Other important questions include whether human rights, decent work conditions as well as environmental sustainability is guaranteed by the private sector actions.

The private sector is very heterogeneous and its actors differ in size, activities and in the scope of the impact they have on development. **Microenterprises** are usually self-employed individuals or family businesses and their impact is small scale. Nevertheless, they might play a crucial role for local sustainability as in developing countries, most businesses are micro businesses employing up to 10 employees. Such businesses are the most accessible to people living in poor communities and especially to women. Through development cooperation there are numerous opportunities

to promote such local businesses and to exchange knowledge to help local poor communities to achieve sustainable livelihoods.

Small and medium size private sector actors (SMEs) are very diverse as they can be businesses employing up to 50 or up to 300 people. Such businesses provide a wide range of services and engage in production and manufacturing, and often employ local people. SMEs have a very high potential to impact poverty through its effects on employment, tax and allowing access to innovative new technologies. SMEs have especially high importance for ensuring food security and the sustainability of local food chains through local farmers. However, the challenges related to this sector exist regarding the responsibility for the protection and respect of environment and human rights, including workers' rights.

The most challenging private sector actors in development are the global actors – **multinational and transnational companies** (T/MNCs). T/MNCs are corporate entities that have commercial operations in more than one country. They are the most powerful actors of the private sector with huge financial and structural power (e.g. the number of employees that depend on them) and have direct influence on policy frameworks and outcomes. Over many years T/MNCs have been criticised and their harmful practices causing economic, social and environmental problems have been exposed by CSOs. However, more and more governments, international finance institutions and development banks are looking at these actors to leverage the limited development funding, for example, by looking at innovative ways to leverage aid such as blending loans and grants. CSOs' big concern is, however, how to ensure transparency, development and financial additionality and accountability of such mechanisms, which use both private and public finances.¹

EU Policies' Effect on Private Sector Actions

Another issue that concerns the private sector in development is the effect European companies active in developing countries have on the local communities. Sometimes EU companies operate on the basis of EU policy incentives that can lead to harmful outcomes in developing countries. EU policies concerning subsidies, taxes, quotas and other topics can have a direct effect on the way businesses operate. For example, the EU policy aim to have 10% of energy for the transport sector from renewable energy and mostly from biofuels, lead to 'land grabs' in numerous developing countries

which had direct negative influence on local development, food security and poverty². From the **Policy Coherence for Development**³ perspective such policy incentives for the private sector have to be prevented by ensuring all EU and member states (MS) policies likely to affect developing countries support these countries' development needs, or do not at least contradict the objective of poverty eradication.

How Can CSOs and Private Sector Work Together Towards Development?

Common work of CSOs and private sector provides important opportunities for development. There are numerous ways how private sector and civil society organisations have partnered up to work towards development. These forms include CSOs receiving funds from private philanthropic actors, CSOs engaging in social economy and Fair Trade movement, CSOs engaging in multi-actor projects (e.g. through Public-Private-Partnerships – PPPs), direct partnership between CSOs and private companies (e.g. through corporate social responsibility programmes) and through multi-stakeholder dialogues. However, in addition to opportunities, many challenges are hidden in these partnerships between CSOs and the private sector.

One of the most sensitive parts for CSOs in this joint work is when private sector uses cooperation with and the image of CSOs to justify their business plans and actions or to cover up negative effects of their work on human rights, environment or local communities. This phenomenon is known as the 'green-wash', the 'pink-wash' etc. One way for CSOs to avoid such harmful relations with the private sector is to develop (minimal) **standards of cooperation with private sector** through which the actors can build mutual trust regarding common work. The standards or principles of cooperation could address issues such as transparency, benefit sharing, gender equality, sustainability and others.⁴

The presumptions for successful cooperation between CSOs and the private sector should rely on a common belief that business can be done and the profit can be accumulated without violating human rights, damaging environment and by including the less powerful in the business cycle. This approach has

¹ Read more from "Background paper. Private Sector Special Event 10 December 2012", CONCORD.

² Read the EVF report "Fuelling Progress or Poverty? The EU and Biofuels in Tanzania" at: http://www.hivos.org/sites/default/files/biofuels_in_tanzania_impact_study.pdf

³ Policy Coherence in Development is outlined in article 208 of the Lisbon Treaty and is an obligation for the EU and Member States.

⁴ Look at principles for cooperation with the private sector from ICCO at <http://iccointwebsite.prd.prisma-it.com/int/linkservid/9D20549B-F759-0A0D-0DC3118F1ACF1ECC/showMeta/0/>

been fostered through numerous CSO initiatives on **corporate social responsibility** (CSR); mostly in a form of trainings and awareness raising among private sector. Working on CSR is a long-term process, which has to be integrated through education of future businessman. The concept of CSR has sometimes been misused and not lived up to its expectations. Today many citizens advocate beyond CSR and towards inclusive business models.

There are several examples of innovative practices of CSOs and private sector actors working together. For example, Terre des Hommes has partnered with C&A in Tirupur, India to fight child and bonded labour in early parts of clothing supply chain in India by running a vocational school funded by C&A, which provides alternative skills to young people⁵. Oxfam and Nokia developed together an app that allows users to respond to charity requests and donate from their phone⁶. Also, there are many opportunities and cases that show the importance of the involvement of local level private sector in development activities:

- In health – combining NGOs' educational expertise with specific technologies available to the private sector.
- Social entrepreneurship – recruiting local people in enterprises and engaging in business with social aims.
- Social dialogue – ensuring cooperation of enterprises and social partners of European countries and developing countries.

Recent EU and Global Policy Processes Regarding Private Sector in Development

Since the **Agenda for Change** was published in October 2011, the focus on private sector in development has increased among numerous EU stakeholders. Agenda for Change stresses the importance of private sector as an actor for global change and stronger business environment is seen as a driver for inclusive and sustainable growth. Since then, several instruments have been favoured for engagement with the private sector, such as blending and risk-share mechanisms. The European Commission (EC) communication from July 2012 also reinforces the importance of engaging private sector in development financing as an innovative way forward⁷. The EC has also established two expert groups in relation to the private sector's role in development. The **EU Expert Group with MS on Pri-**

ivate Sector Development in Third Countries⁸ is tasked to coordinate strategies and instruments for private sector development, including development partnerships with the private sector (DPP) and public-private partnership (PPP) for the delivery of public goods and services. The other group was established in a form of a platform – **EU Platform for Blending in External Relations**⁹. It includes representatives from MS, the European Parliament, the European External Action Service (EEAS) and the EC. The task of the new platform is to act as a forum to build on the existing experience in this area and look at how to improve the quality and efficiency of blending mechanisms. CSOs want to make sure, however, that positive impact on development is guaranteed by the blending mechanisms.

At the end of 2012 **EC commissioned a study on engaging the private sector in development** and extending the blending activities of the EU¹⁰. The study aims at: (1) identifying EU (EC and MS) existing blending initiatives, and exploring further opportunities for blending; (2) benchmarking EU (EC and MS) initiatives aiming at private sector development and promoting development partnerships with the private sector and public-private partnerships.

On a global level the **4th High Level Forum on Aid Effectiveness** that took place in the end of 2011 in Busan, South Korea, addressed the new focus of the inclusion of private sector in development. The Busan outcome document¹¹ recognises the central role of the private actors in development in advancing innovation, creating wealth and mobilising jobs. The signatories commit to improving the regulatory framework of private investment, enabling the participation of private sector in the design and implementation of development policies and strategies to further develop innovative financial mechanisms to mobilise private finance for shared development goals.

Several civil society actors have also highlighted the importance to further think and define the role of private sector in development. **CONCORD Private Sector Task Force** was established in November 2011 to further explore this link. In December 2012 CONCORD organised a high-level panel discussion on private sector and development, which addressed among others the link between human rights and the private sector and blending mechanisms.

⁵ Read more at <http://www.candacr.com/en/2012/06/>

⁶ Read more at: <http://www.oxfam.org.uk/get-involved/how-your-company-can-partner-with-us/corporate-engagement>

⁷ http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/com-366.pdf

⁸ <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2748>

⁹ <http://ec.europa.eu/transparency/regexpert/index.cfm?do=groupDetail.groupDetail&groupID=2852>

¹⁰ <http://ted.europa.eu/udl?uri=TED:NOTICE:143405-2012:TEXT:EN:HTML>

¹¹ http://www.aideffectiveness.org/busanhlf4/images/stories/hlf4/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

What Are the Next Steps and How Can CSOs Engage?

One way to work on the issue of private sector's engagement in development is **to analyse the experience of your organisation** or of other organisations in your country in working together with private sector. Share the good and bad case studies with your partners, CSOs and also with national officials who are engaged in development policies. One similar large-scale exercise is now being undertaken through a project with partners in 9 new member states (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia, and Slovenia). One of the purposes of the project is to examine the role of the private sector as development actor in each of these countries. Find out more about the project partners and publications from <http://www.ced.bg/project.php?ProjectID=137>.

Also, **engage in dialogue with national officials** on their views on private sector engagement in development. For example, one such opportunity is to enquire about the national officials' input and replies to the EC questionnaire concerning the EC study on national private sector engagement policies and best practices. The questionnaire is expected to be sent to the MS in spring 2013. CSOs can ask their governments to see their inputs and replies to the questionnaire and make sure the officials address the importance of ensuring human rights, sustainability and democratic ownership when engaging with private sector in development.

CSOs can also voice their views on particular issues concerning private sector engagement ahead of the possible publication of the **EC communication on Private Sector and Development** in the beginning of 2014. Look out if the EC will organise an **online consultation** or **stakeholder meetings** where civil society is invited to participate ahead of the publication of the communication. This would be a great opportunity to share experiences and lessons learned when engaging with the private sector. CSOs interested in and working with private sector in development are called to **join the CONCORD Private Sector Task Force** which facili-

tates the exchange of knowledge and experience of CONCORD members on the private sector in development. The group also influences the institutional policy developments e.g. by following the EC study on private sector, mobilizing and supporting national platforms to be active, reacting on findings and, if upcoming, coordinating the input into EC consultations or stakeholder meetings. Please contact Lonne Poissonnier (Lonne.Poissonnier@concordeurope.org) to join the task force or its mailing list.



What Can I Do?

- Establish standards of cooperation when engaging with private sector in development.
- Analyse your experience when engaging with private sector in development and share it.
- Engage in dialogue about private sector in development with national officials.
- Ask you government how they will ensure that development aid or grants – especially when blended with loans – still have a positive development impact.
- Engage in consultations ahead of the EC communication on private sector in development.
- Join the CONCORD Private Sector Task Force.
- Look out for the date in 2013 and join CONCORD workshop on exchange of experiences with private sector.

AUTHORS:

Inese Vaivare (Lapas)

Gordan Bosanac (CMS)

Mirjam Sutrop (TRIALOG)

TRIALOG Partners: EU13 Development CSO Platforms



www.bpid.eu/en



www.cms.hr



www.cvindep.eu



www.fors.cz



www.terveilm.ee



www.hand.org.hu



www.lapas.lv



www.pagalba.org



www.litdea.eu



www.skopmalta.org



www.zagranica.org.pl



www.fondromania.org



www.mvro.sk



www.sloga-platform.org

Other Consortium Partners



www.concordeurope.org



www.ageh.de



www.light-for-the-world.org



www.pah.org.pl



This project is funded by the European Union.

With funding from

Austrian Development Cooperation

Lead Agency

HORIZONT 3000
www.horizont3000.at