

# GREAT *insights*

GOVERNANCE

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ECONOMICS

AGRICULTURE

TRADE

2030: Smart  
engagement  
with business

**Featuring:**

**LI Yong, DG UNIDO,**  
on sustainable industrialisation

**HRVP Federica Mogherini &  
Commissioner Neven Mimica,**  
EC, on the European External  
Investment Plan

**Mebrahtu Meles,**  
Ethiopian Minister of Industry,  
on agro-industrial parks in  
Ethiopia

**Grete Faremo, U-S-G UNOPS,**  
on SDGs in the private sector



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## About GREAT Insights

Governance, Regional integration, Economics, Agriculture and Trade (GREAT) Insights is ECDPM's magazine covering a wide range of topics related to economic development in Africa and the developing world. GREAT Insights gathers expert analysis and commentary from a wide variety of stakeholders with different perspectives.

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# Editorial

Engaging the private sector has become a common motto for the development community. This, in itself, is a major evolution, as private forces have too long been dismissed, when not chastised, by many development actors! It is now well recognised that the vast majority of employment is provided by the private sector, which plays critical roles in production, investment, innovation, technology, services and finance provision. It can also be a major social actor, which can contribute to accelerate sustainable development and prosperity for all.

But engaging the private sector cannot be an end in itself. It is only one of the means, albeit a most important one, to achieve development, as embodied in the 2030 Agenda for Sustainable Development. To do so successfully requires public and private actors to adhere to some key principles regarding issues such as responsibility, accountability, transparency, mutual respect, equity and sustainability. Such principles must guide the framework, instruments and modalities for engaging the private sector and promoting its activities towards sustainable development goals (SDGs).

There are numerous initiatives towards such endeavours. The challenge is to learn from such experiences, better understand the contextual issues and environment in which they operate, pay more attention to the interests and incentives at stake, and better assess their impact, including unintended consequences. One question is thus, how to do better?

One emerging lesson seems to always relate to local contexts. There is no “one-size-fits-all” approach. Build on local initiatives, from individual actors, companies, public authorities, and government. The role of the business environment matters a great deal. But it cannot be viewed in isolation from broader governance dynamics and policies, including health and education. Perceptions also matter a great deal. Take risk assessment in Africa for instance, which is generally perceived as much higher by outsider companies than by those companies already operating in Africa. Taking explicitly self-interested and profit-making motivations is also a key condition for a constructive engagement with private sector. Also from a partner country perspective, as in the case of economic diplomacy, which is gaining increasing attention and recognition, including in development circles. The challenge there is to balance - and often reconcile - different incentives, in the pursuit of economic and financial sustainability, combined with developmental, social and environmental sustainability. This requires attention not only to the design of interventions and policies, but also greater efforts in implementing, monitoring and assessing such private and public initiatives.

To achieve the SDGs also requires a leap forward in terms of scale and scope. Therefore, a major question relates to what should be done differently to better leverage and scale-up engagement with the private sector to achieve the SDGs. While anchored in local realities, the challenge is to think big, including in terms of frameworks and initiatives. In terms of resources flows, this relates to the stated ambition of moving from mobilising billions to trillions of dollars to achieve the SDGs, following the call by international financial institutions (IFIs).

The European Union (EU) is initiating a first significant response, with the launch of the European External Investment Plan (EEIP). Focused on the EU's neighbourhood countries and on Africa, the EU will dedicate €3.35 billion from its budget and the European Development Fund (EDF) to the EEIP by 2020 in the hope of leveraging €44 billion from development finance institutions, institutional and private financiers. That may go up to €88 billion if EU member states also chip in. Besides the aim of leveraging additional billions, the true EU ambition is to establish one single coherent framework for its investment support, which has been conducted in a rather uncoordinated and segmented manner so far. Next to the new European fund for sustainable development (EFSD) and its much needed guarantee mechanisms, the EEIP will provide technical assistance and promote a better business environment, seeking greater efficiency under a stronger political drive to stimulate sustainable investment.

Such initiatives can only be effective, though, if they come in support of development endeavours at local, national and regional levels in developing countries. There is no substitute for domestic dynamics towards structural transformation for sustainable development. This includes moving away from a commodity-based economy to more productive and diversified activities, with the aim of stimulating decent and sustainable jobs and improving social well-being in a sustainable and inclusive manner. That is, it is about industrial development, in the broad sense. Oddly enough, the term is still out of fashion, when not taboo, in many circles. It shouldn't be. Private sector engagement for sustainable transformation requires industrialisation, in a strong multi-stakeholder partnership, with key roles for state, other public actors, as well as civil society actors.

Last, but not least, engaging the private sector must lead not only to more wealth creation, but also to more sustainable and inclusive outcomes. Next to poverty and under-development, the major challenge faced by our societies, in developing, emerging and developed countries alike, is the rapidly rising inequality. Only through shared prosperity can private sector engagement become meaningful.

This issue of *GREAT Insights* brings together many perspectives and insights on the many innovative approaches pursued to rise to these challenges. As always, we hope you enjoy them, and welcome your comments and suggestions.



Dr San Bilal (Editor), Head of Economic Transformation and Trade Programme, ECDPM

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# Mobilising the private sector for sustainable industrialisation

by LI Yong



Inclusive and sustainable industrialisation and the private sector must be a high policy priority.

Rarely has a country progressed and become developed without sustained structural transformation from an agrarian or resource-based economy towards more productive agri-business and a sophisticated industrial or service-based economy. Private sector-led industrial development plays a significant role in bringing about the much needed structural changes that can set the economies of poor countries on a path of sustained economic growth.

Industry provides an ecosystem for entrepreneurship, promotes business investment, fosters technological upgrading and dynamism, improves human skills and creates skilled jobs, and through inter-sectoral linkages establishes the foundation for both agriculture and services to expand. Industry, by providing decent jobs and expanding the fiscal revenues needed for social investments, can boost capacity for inclusive development, creating decent work for all, improving health and education systems and living standards, thus alleviating poverty, socio-political tensions and tackling the root causes of migration.

A deepening in manufacturing sophistication corresponds to changes in the quality of production factors and a decrease in transaction costs, usually reflecting good infrastructure (transport, energy, telecommunications

and utilities), favourable business environment for development of small and medium-sized enterprises (SMEs) and their networks, a solid regulatory framework and effective system of enforcement, and the indispensable facilitating and coordinating role of government.

Industrial processes that are less carbon-intensive can reduce the consumption of non-renewable resources and minimise greenhouse gas emissions, while also stimulating innovation, technological change, job creation and economic diversification. Inclusive and sustainable industrial development (ISID) is thus recognised as a primary engine of technology development and transfer, skills development, productivity growth, infrastructure and green technology development and adoption - some of the key requirements for eliminating poverty by 2030, as set out in the sustainable development goal – SDG 1.

Through the adoption of the 2030 Agenda for sustainable development and related SDGs, particularly SDG 9 “Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation”, the international community recognised the importance of inclusive and sustainable industrial development for economic growth because of its multiplier effect on all economic sectors. Industry and

manufacturing in particular, is key to promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all, on the way to eradicating poverty everywhere (SDGs 8 and 1). There is a strong correlation between the manufacturing value added (MVA) and poverty reduction. For example, according to UNIDO industrial statistics 1% increase in MVA per capita decreases the poverty head count by almost 2%. Inclusive and sustainable industrialisation that mainstreams the three pillars of sustainable development permeates the 2030 Agenda in many other SDGs, as outlined in the UNIDO publication “Achieving the industry-related goals and targets”.

Sustained economic development typically requires agriculture — through higher productivity — to provide food, labour and even savings to the processes of urbanisation and industrialisation. The economic development of today’s industrialised countries was almost universally accompanied by an increase in agricultural productivity in the early stages of development.

Most least-developed countries (LDCs) are seeing urbanisation and increasing shares of employment and GDP in services and manufacturing. The main issue is that structural

transformation is not accompanied by productivity growth in agriculture, which still employs 60% of the population and 25% of the value added in LDCs. In contrast to Asia, in many Sub-Saharan African countries structural change has been growth reducing because labour moved from high- to low-productivity sectors.

Given that agriculture and agribusiness will remain important sources of livelihoods in Africa and a cornerstone of food security and economic development, diversification within agriculture to higher-productivity activities, as well as from agriculture into modern manufacturing, is vital for countries to pull out of poverty, and to remain there.

### **The role of private sector and the 2030 Agenda**

The private sector, as the primary driver of economic growth and employment creation, has a central role in poverty reduction and the achievement of the SDGs. For the private sector to drive economic growth, social inclusion and environmental sustainability, a favourable business environment, industrial policies and a system of incentives are necessary. This has been even more recognised in the aftermath of the 2008 economic crisis, when both developed and developing countries have prioritised the development of their private sector and industry in their economic policy strategies. To increase the impact of private sector development on poverty, UNIDO supports developing countries to improve the business environment and lay the policy

and institutional foundations for the development of a vibrant private sector.

At the global level, the 2030 Agenda for sustainable development, approved in September 2015, also recognises the role of the private sector to support the international community's endeavours to tackle our economic, social and environmental challenges. In the 2030 Agenda, the call for an active engagement of the private sector can be found in several passages. Among the goals, SDG 17 "Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development" refers directly to the role of the private sector, in line with the Addis Ababa Action Agenda and its multi-stakeholder approach to ending poverty once and for all.

More recently, the UN General Assembly adopted a resolution on the Third Industrial Development Decade for Africa (IDDA) 2016-2025, whose implementation requires again a strong commitment by the private sector, both domestically and as a foreign direct investor.

At the European Union (EU) level, the Joint Africa-EU Strategy Declaration and Roadmap 2014-2017 also reaffirm the priority of accelerated industrialisation. Moreover, the European Parliament resolution of 14 April 2016 on the private sector and development (2014/2205(INI)) stresses the importance of the UNIDO's Lima Declaration on ISID and the impact of the manufacturing sector on development.

In September 2016, the G20 launched a new "Initiative on supporting industrialization in Africa and Least

Developed Countries". The Hangzhou G20 Leaders' Communiqué recognises the importance private sector, economic diversification and industrial upgrading play in developing countries, and launched the G20 Initiative in line with UNIDO's report to G20 Development Working Group "Industrialization in Africa and Least Developed Countries. Boosting growth, creating jobs, promoting inclusiveness and sustainability".

The business community associated with the work of the G20 (B20) equally recognised the importance of enhancing the role of SMEs, women and young people in business, including the participation of SMEs in global value chains as essential to inclusive and sustainable growth worldwide.

Therefore we see a strong consensus on the role the private sector and industry can play in driving sustainable development. The policies and initiatives outlined above indicate that policy-makers are willing to help create the enabling environment that can drive businesses to engage in development. But to be effective, all these initiatives need the private sector to step up to the challenge and be ready to reap the opportunities of inclusive and sustainable industrial development.

The private sector has a major role to play in the development and uptake of new innovative technologies and business practices. Businesses will be essential contributors to the establishment of a circular economy, through more resource efficiency and effectiveness, cleaner production and better waste management, and to the

fight against climate change through more energy efficiency and renewable energies. But government support in addressing market failures and under-provision of public goods such as new knowledge, technology and information, financial stability, preserving the environment and addressing climate change through various instruments (taxes, subsidies and others) is crucial.

SMEs are the largest job providers in the formal and informal sectors. They are key drivers of innovation in many sectors, as they exhibit higher degrees of flexibility and less bureaucratic organisational structures. Effective policies that create an enabling environment for SMEs, and networks to develop, including affordable access to basic infrastructure, prudent legislation and provision of adequate finance, are imperative. Notably, and due to the composition of the enterprise population across low-income economies, a holistic approach that supports start-ups and micro enterprises to enter industrial value chains or even develop into industrial SMEs through training remains critical.

These moves will require greater promotion of green industries and environmental policies for sustainable production and consumption through incentives and targeted support to private industries, and to SMEs in particular. It becomes particularly important to ensure that specialised knowledge and technical assistance is brought to businesses and industries,

in order to enhance their capability to comply with such standards. Technology transfer and the sharing of best practices from large-scale businesses, academic and research institutions and the public sector is one important way of support.

### Leveraging power of partnership

Discussions have long been underway regarding the roles that private sector and industry can play, and their relevance to the development agenda. Considering the investments required to achieve the SDGs are estimated to range from US\$1.6 to 2.8 trillion per year, it becomes clear that the private sector is needed to provide a large share of resources.

Partnering with the private sector is therefore the foundation of any successful large-scale development strategy. It is absolutely critical to build up vibrant, systematic and innovative partnerships with the private sector for the successful implementation of the SDGs. Working in public-private partnerships to provide reliable knowledge, information, innovative and scalable solutions, and other multi-stakeholder resources can have a transformational effect.

Achieving the transformative and ambitious 2030 Agenda will only be possible if synergies are developed between governments, businesses, the international community and other stakeholders.

UNIDO has always been at the forefront of the United Nations work with the private sector. Looking back, as the organisation is celebrating its 50th anniversary this year, engaging with business associations and SMEs – the backbone of the economy – has been one of UNIDO's core areas of work. In recognition of this role, to ensure that the private sector is fully associated with the UN process leading to the 2030 Agenda, on behalf of the whole United Nations system, UNIDO co-led with the UN Global Compact a series of global consultations on "Engaging the private sector in the post-2015 Development Agenda". The consultation, that took place on all continents, highlighted the indispensable contribution the private sector and industry can deliver for achieving sustainable development.

Moreover, UNIDO has been actively engaged in partnerships with the private sector to make real development happen on the ground. To scale up its partnership approach, UNIDO has recently developed a new type of assistance package for its member states: the Programme for Country Partnership (PCP). PCPs are fully aligned with the industrialisation priorities of the benefitting country and the national programmes relevant for advancing ISID. These priorities are connected with the work of development finance institutions that provide credit lines for large-scale development, such as infrastructure and industrial zones, as well as commercial banks that provide finance for private investment. Other partners in PCPs include UN organisations, bilateral donors and the private sector. With an increasingly complex array of actors, strategies and means of intervention, it is important that activities and resource flows are well coordinated.

The PCP brings together actors through a multi-stakeholder platform to coordinate and optimise the contribution of each. A strong national coordination mechanism is required to manage the complex partnerships involved in a PCP. Therefore a task force is established that brings together key PCP partners, under the leadership of the national government.



## The 2030 Agenda for Sustainable Development: Achieving the industry-related goals and targets

In collaboration with UNIDO, the task force is responsible for overall coordination, prioritises projects and programmes, and allocates resources for the execution of the PCP. The task force also monitors progress to ensure that expected results are achieved. The Programme for Country Partnership is already being implemented in Ethiopia and Senegal and is in its early stages in Peru, which recently requested to become a pilot country.

The PCP for Ethiopia focuses on developing light manufacturing industries, particularly in agro-food processing, textiles and apparel, and leather. These sectors were chosen due to their prospects for job creation, strong linkages to the agricultural sector, and potential for exports and private sector investment. The PCP also integrates complementary cross-cutting interventions according to government-defined priorities.

In Senegal, the PCP focuses on industrial policy development, the establishment of agro-poles for agricultural value chains and industrial park development, while integrating complementary cross-cutting interventions. The Programme, officially launched in April 2015, is chaired by the Prime Minister of Senegal.

The current implementation in both countries is very encouraging and many other countries have indicated their interest in the PCP approach. With the Ethiopian government, we are organising the First International Agribusiness Investment Forum in Addis Ababa, from the 5th to 7th October on “Unleashing Ethiopia’s Investment Potential”. It will give the possibility to development partners and investors to better understand the business opportunities offered by the PCP and to join us in the sustainable industrialisation of Ethiopia. With a large mobilisation, we can really create many opportunities for women and youth and a better future for the Ethiopian people and beyond. ■

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UNITED NATIONS  
INDUSTRIAL DEVELOPMENT ORGANIZATION

# The European External Investment Plan: An innovative new chapter

by HRVP Mogherini and Commissioner Mimica

With the External Investment Plan, the EU is taking its development policy to the next level. As it steps up its financial commitment to sustainable development, it also needs the private sector to get on board. Together with its partners in Africa and its Neighbourhood, they can help their young generations achieve their full potential.

This is a decisive moment for Europe and for our region, which calls for innovation, new thinking, and vision. We need to foster internal growth and the wellbeing of our citizens. And we have to cooperate with our neighbouring countries to support their own growth, stability and well-being. Two years ago the European Commission put forward an ambitious Investment Plan for Europe to get our continent back on track mobilising new private investments. Its combination of improved access to finance, guarantees, technical assistance, and measures to create a positive business environment has delivered impressive results. For each euro spent, it is mobilising about €10 in investments.

## Why Europe is stepping in

The same innovative approach could benefit our entire neighbourhood immensely. For this reason we are now proposing a European External Investment Plan. With this new Plan, we are implementing commitments taken by the international community on Financing for Development and with the global Agenda 2030 for Sustainable Development. In Addis Ababa and in New York we collectively agreed to boost productivity, inclusive growth and job creation in full respect of human and social rights, the environment, and the preferences of partner countries and local communities.

If we look at regions like the Horn of Africa, the Sahel or the Great Lakes, we see the huge socio-economic potential being hampered by war, poverty, lack of infrastructure, and weak governance.

The Sahel is an area of strong and ancient traditions, where skilled and educated young people can make the difference: they just need the opportunity to show what they are worth. The Great Lakes are incredibly rich in natural resources, but the risk of investing is often perceived as too

high. The Horn of Africa is becoming one of the continent's most integrated regions, with hundreds of thousands of Micro, Small and Medium Enterprises (MSMEs) as engines of growth: it is an expanding market, but money still does not flow there.

Millions of Africans are looking for opportunities to improve their lives, or are forced to escape from conflicts, insecurity, or natural disasters. In their quest, many of them risk their lives in dangerous journeys towards Europe. Others become the targets of propaganda from terrorist groups and criminal networks.

The European Union is already the first donor and investor in Africa. During all our visits to the continent, governments, entrepreneurs and NGOs testify the great impact of our investments, and the need to step up our partnership. Through the External Investment Plan, Europe is offering its experience and support to Africa to fulfil its potential, ensuring continued political and policy dialogue, ownership of the strategies and the promotion of universal values, whilst stimulating the local economy. It can be a cornerstone towards a successful EU-Africa Summit in 2017.

When we say "Europe", we do not just mean European and national institutions. Alongside local firms, European firms are already employing hundreds of thousands of people in Africa, providing many young people with an opportunity to flourish in their home country, and contributing to addressing one of the root causes of migration.

These investments can contribute to our foreign and development policy objectives, such as stability and poverty eradication. But private initiatives can only thrive in a safe environment, where the opportunities outweigh the risks. This applies to companies of all sizes, but particularly to small and micro enterprises, as well as young and female entrepreneurs.





EU High Representative and EC Vice-President, Federica Mogherini, (l) and EU Commissioner Neven Mimica (r) at an Informal EU Development Ministers Meeting. Photo: EEAS, flickr.com.

### Taking our development policy to the next level

This is why Europe is stepping in. The External Investment Plan aims to leverage at least €44 billion in investments in Africa and the EU's Neighbourhood, in those areas where private investment otherwise would not go. This amount could be doubled to €88 billion if Member States and other institutions contribute.

The new European Fund for Sustainable Development will facilitate private investments through access to finance and through risk-sharing. Private investors will benefit from a guarantee against the risk of starting a business outside Europe. This guarantee will not only promote single projects, but also larger portfolios of investments under "investment windows" in strategic regions or sectors.

A "one stop shop" will encourage private and institutional investors such as development banks, from both Europe and our partner countries, to channel their proposals to specific investment windows. It will put companies with a project in touch with potential partners, and will give information on the existing incentives. The External Investment Plan will provide technical assistance to enhance the quality, the number, and the sustainability of projects. The European Commission, the European Investment Bank and other international financial institutions – with the specialised advice of independent experts – will work hand in hand to deliver a swift and business-oriented screening of projects.

Investments will be accompanied by policy dialogues and capacity building activities: our action will be coordinated and joined-up, in the spirit of our Global Strategy for Foreign and Security Policy. We are not only a donor – the largest together with our Member States – but more importantly we are a political partner.

With the External Investment Plan, we are taking our development policy to the next level. Grants are central, but not enough to deliver the transformation we have agreed to under the Sustainable Development Goals. Development policy is not exclusively about Official Development Assistance. As we step up our financial commitment to sustainable development, we also need the private sector to get on board. Together with our partners in Africa and our Neighbourhood, we can help their young generations achieve their full potential. A new chapter in European development policy has just begun. ■

### About the authors

Federica Mogherini is the European Union High Representative and Vice-President of the European Commission.

Neven Mimica is the EU Commissioner for International Cooperation and Development.

# Agro-industrial parks key for Ethiopia's industrial policy

by Mebrahtu Meles

Ethiopia is one of the few African countries with an industrial policy. Several industrial parks have been created all over the country, and the government is now going one step further with the development of integrated agro-industrial parks, which will be at the centre of the first agro-industrial forum held this October in Addis Ababa in collaboration with UNIDO.

## Industrialisation as a national priority

Industrialisation has become a national priority for Ethiopia for two reasons: first, Ethiopia is an agrarian country. In consequence, we need first to transform the raw materials of our agriculture to be processed and sell them on the global market. This process necessitates the growth of the whole economy, so this will be our focus for the upcoming ten years. Ethiopia is undergoing a massive socio-economic transformation. In the last 12 years, we have registered a double-digit growth, but we are still in the middle of our structural transformation process, from agriculture towards industry through the light manufacturing industry. A second reason for industrialisation is that at the moment, most of our exports are raw materials and commodities, such as coffee. We are the first exporters in Africa of premium quality Arabica. When it comes to our small and medium-sized enterprises (SMEs), we are leaders in Africa when it comes to livestock – a traditional activity that we are trying to modernise – as well as in fruits and vegetables. The surplus is processed and value-added. We have a base on which to build on and move forward.

## An ambitious roadmap

In order to reach our industrialisation objective, the Second Growth and Transformation Plan (GTP II, 2016-2020) includes ambitious targets and

programmes. We want to keep on massively investing in infrastructure. Our priority sectors are light-manufacturing, agro-processing, textile and leather. These sectors will be developed for export and will be the drivers of the economy. Beyond this objective of reaching the global market and moving up the global value chain, we also want to develop our internal market. At the moment, there is a deficit between imports and exports of about US\$10 million in the country. This is why we are also moving to the chemical, metal and engineering and fabrication sectors, because as the GTP is getting bigger, our mega-infrastructure projects and industries demand more supplies, such as metal or plastic-based materials for packaging. So the shift to the chemical, metal industries and even the pharmaceutical sector is necessary and an opportunity to attract investment and to satisfy the domestic market.

## A growing local market

The population is growing – Ethiopia is the second most-populous nation in Africa – and the population's income is also increasing progressively. We expect a minimum of US\$1050 per capita by 2025. So you can imagine that a 100 million people's population with such income would be a huge market. We are also targeting the neighbouring markets, Middle-Eastern markets, China and Europe. Ethiopia is looking at

strategic locations all over the planet, which makes it an interesting place for investors to locate. We are also focusing on emerging sectors, such as high-tech sectors and knowledge-based sectors like biotechnologies, ICT, petrochemicals and so on. We are currently laying the foundations and these sectors will become priorities in the next plans. To reach our objectives and make our agro-processing, textile and leather sectors internationally competitive, the GTP includes programmes such as the creation of industrial parks. We have built a big industrial park in Addis Ababa, Bole Lemi, which is almost fully occupied. We are in the process of building others. We are also developing new kind of parks called integrated agro-industry parks that will add value to agricultural products destined for export. They are going to be launched by next year, and an agro-industrial forum is going to be held in October 2016 in Addis Ababa.

## Roadmap to establish the integrated agro-industrial parks

These integrated agro-industrial parks, exclusively focused on agricultural raw materials, will link agriculture with industry. We have identified marketable surplus commodities for which we have carried out a detailed value-chain analysis. In the coming few months, we are going to do an environmental safeguard analysis and side-by-

side, other programmes focused on productivity, on community integration, on investors, capacity-building, and resource mobilisation. Between now and October, we will make concrete offers to investors in four locations. The master plan for the clusters of industry is ready. There are also rural transformation centres and collection as well as aggregation centres, so that on the farm level on the way to the final processing, these commodities will pass through the proper process.

### ‘Spiral growth’

In the clusters, industries will supply different inputs to agriculture. Agriculture itself is going to transform from subsistence agriculture into modern agriculture. Therefore, there are also investment opportunities in harvesting technologies, in agro-mechanisation, and in different input to agriculture. In this way, agriculture will supply the raw material and industry will supply agriculture with different inputs. This will result in a ‘spiral growth’ that will be the epicentre of the transformation process. There is a huge opportunity, starting from the small farmers, cooperatives, small as well as medium industries, domestic and international investors. When we identified the locations, we also fully considered the infrastructure: road, railway, proximity to ports, airports, so that the corridors will be efficient for the incoming and outgoing of goods from these parks.

### Attractive market and incentives

Our park development policy considers incentives. In general, investments in Ethiopia benefit from attractive incentives packages. However, given the nature of these parks, there might be additional incentives to be considered by the government. For me, the biggest incentives are the market itself, the raw materials, the environment and the very supportive government. However, to make the industries competitive, we are going to look into those areas which should be incentivised. Ethiopia is becoming a destination for investment, the interest is growing from year to year by about 25%. This is primarily due to the political and macro-economic stability of the country, which was rated by Moody and Fitch at B and B+ levels. We also raised bonds from the international capital for the industrial park development.

Besides that, the government is investing heavily in infrastructure of all

types. In terms of railway for example, the Djibouti-Addis line is completed. Operations are going to start on this line, which will reduce the transport cost by almost 50%. Cheap, clean power is also a factor. Electricity costs about 5 cents per KWh. Labour is attractive since it is trainable and very cheap. More importantly, the government is pro-investment, very committed and open. Of course, our investments in health and education also help a lot. We are very open to go alongside the investors, to pave the way so that the investors will be attracted and remain competitive in the country. Generally, the incentives for the country are under constant improvement.

### Investors from Asia and Europe

Even though the investment flow is sharply growing, most of the investments are coming from Asia, namely China, India, Turkey. European investors are not as numerous. As H.E. Prime Minister Hailemariam mentioned, we don’t want to put all our eggs into one basket, and we also want to create the basis for competition. Europe is known for its quality; which is why we expect quality investors to come from Europe. In this regard, I am advising most of the European companies to come to invest to Ethiopia. The next growth pole is Africa because Africa is least developed. The battlefield is in Africa. Countries like China have an African strategy, they have already been investing and working for a long time because this is about global positioning. I am sure that Europeans will also think along this line and use this opportunity not only to come to Ethiopia but to the whole of Africa. Of course, when they think about Africa, Ethiopia is at the forefront. It is a gateway. We are in many ways regional stabilisers, not only in peacekeeping but also in infrastructure. In this regard, we have the responsibility to develop industrial parks and to show a road to other African countries also, to scale it up with other African countries.

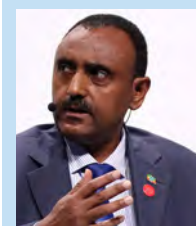
### Ethiopia is committed to development

This is a clear demonstration that Ethiopia is conducive for business. Ethiopia is committed to economic development. We are not alone; the international community is also behind us. Ethiopia is one of the few countries which almost reached the MDGs. The SDGs are also in line with our ambitious targets. In fact, our own goals are even

more ambitious than the SDGs. We are working on industrialisation with the United Nations Industrial Development Organization (UNIDO) through these integrated agro-industrial parks, and I am sure the other sectoral ministers in the country are also working on the other goals and have started implementation of their master plans. Among European countries, the Dutch are the leading investors in the floriculture industry, and now they want also to go into food and vegetables. We are calling all EU countries to follow the good example of the Netherlands and we hope that the European Union will work closely with us to promote investment and to address the issues of jobs, poverty, migration, etc. What we are demanding here is not aid but to achieve this on the base of economic development. We have resources, we have the market, we have labour and we have the energy. Therefore, it’s good for the investors to come and to visit and invest in Ethiopia.

This is in short what is going on in Ethiopia. The most important event here is the Investment Forum on 5-7 October. Investors are welcome. They can get in contact with the Ministry of Industry of the Federal Democratic Republic of Ethiopia for further information and with the embassies, and with UNIDO. ■

### About the author



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# SDGs changing the way we engage with the private sector

by Grete Faremo

UNOPS can help lead the way towards smart collective solutions on infrastructure and investment for sustainable development.

When the world came together last year and adopted the Sustainable Development Goals (SDGs), it put into action a roadmap to achieving a better world by 2030. The SDGs are a comprehensive checklist for development – think of them as a blueprint for our children's future. They issue a call to action for schools and education, for well-functioning health systems, for access to sustainable energy, food security, water and sanitation, along with goals for good governance and justice for all the world's people.

## 'Smart infrastructure'

Building new infrastructure is one of the most important pre-requisites for achieving the SDGs by 2030. Infrastructure is also key to our world's increasingly complex humanitarian agenda. Future housing should be resilient to earthquakes and natural disasters. Roads should withstand the floods that come with climate change. Urbanisation must not lead to increased road transportation. Area-planning must be considered through the lens of sustainability. The way to do this is by planning and implementing infrastructure investments through a holistic systems thinking.

This means changing national infrastructure plans from wish lists of individual projects to considering how the individual projects would influence and be dependent on each other so that they are done in the right order and adapted to a realistic scale. Of course, resilience planning – making sure structures can withstand large environmental shocks – must also be built into all of our infrastructure work around the world. This 'smart infrastructure' will save tremendous amounts of money in preventing waste or the need to rebuild after disasters. Yet to get there will require trillions of dollars of investment over the coming 15 years.

The needs for 2030 are simply too great for a single stream of funding, such as government funding or national private sector funding. Traditional development aid is not predicted to increase much from its present level of around US\$150 billion a year and will at best provide a fraction of these needs. So, what can we do?

## Smart finance

While public revenue is gradually growing in developing countries and will play an increasing role in paying for needed infrastructure, the large untapped potential for infrastructure funding lies with the private sector. Pension funds and other large investors have already adopted bold goals for high-sustainability investments, with potentially billions of dollars earmarked for investments in developing countries. However,

private sector capital is reluctant to invest in low and middle-income countries where the risks are seen as too high.

Finding private sector capital for development projects that aim at providing basic services to the poor – and therefore may offer a limited return – is particularly challenging. This is where smart solutions are needed. We can counter the risk in several ways: by pooling funding from several private investors into social impact investment funds, the risk is spread. By using aid as loss guarantees rather than using it to pay for infrastructure, aid money can go much further and leverage many times as much funding from the private sector. And the UN can also play an important role in reducing risk. Through its integrity, its values and its considerable experience from working in challenging economic and political environments, the UN can reassure investors and lower some of the risks a purely private sector project would be vulnerable to. Brought together, the pooling of funds, the smart use of aid money, and UN expertise can bring risks down to acceptable levels and allow private sector projects to go ahead in countries and sectors where they so far have not been attempted.

The organisation I lead, United Nations Office for Project Services (UNOPS), is currently looking at ways to lower obstacles and risks so that private investment vehicles can invest in these massive infrastructure needs. We still have a long way to go before we see significant private sector investment in sustainable development in lower-income countries. Different parties need to come together to work collaboratively – host governments, aid donors, institutional investors and entrepreneurs. Yet, if we want a cleaner and more just world for future generations, private investment in development operations – paired with public funds and strong public planning – is the only way to get there. UNOPS will help lead the way. ■

## About the author



Grete Faremo is Under-Secretary-General and Executive Director of the United Nations Office for Project Services (UNOPS).

# Promoting private sector development by development partners

by Kaori Miyamoto and Emilio Chiofalo

Development partners are increasingly promoting private sector development, especially by supporting the private sector directly. In doing so, it is necessary to ensure that financing private companies delivers the development outcomes expected.

## Approaches to private sector development

Development partners are increasingly promoting private sector development (PSD) in their development co-operation programmes. They recognise the importance of the private sector in contributing to income generation, production of goods and services – including for the poor – and tax revenues that could be spent by the government for the provision of social services such as health and education. Here, PSD can be defined “as development co-operation that addresses policies and institutions, market functioning and enterprise resources in order to improve the investment climate and the productivity capacity of the local private sector—particularly of Small and Medium-sized Enterprises (SMEs)—in developing countries”. In practice, development partners promote PSD in the following ways:

- Improving public policy and institutions through technical assistance and capacity building for policy-making or institutional reforms in order to upgrade the investment climate and industrial and agricultural policies.
- Strengthening market functioning by ensuring the provision of market services for local companies: i.e. expanding access to finance through financial intermediaries; engaging business support organisations, developing appropriate economic infrastructure; and reinforcing commercial linkages.

- Bolstering enterprise resources, predominantly SMEs by reinforcing their productive and managerial capacity, including by providing vocational training and direct financial assistance for agricultural and industrial development.

## Measuring Official Development Finance for PSD

The multisectoral nature of PSD and the wide variety of approaches that development partners adopt make it difficult to grasp the scope of PSD and financial resources allocated to this area. For this reason, comprehensive quantitative analyses of Official Development Finance (ODF) to PSD have been scarce (where ODF consists of Official Development Assistance, which is concessional, and developmental Other Official Flows, which are non-concessional). To overcome this issue, OECD has recently developed an analytical framework to measure development co-operation for PSD around three main components: investment climate, physical infrastructure and productive capacity. Physical infrastructure is captured on its own because of its significant total funding and as projects can contribute to both the investment climate and productive capacity. In fact, productive capacity is impaired without adequate infrastructure as companies need power, water, transport and communications to produce goods and services, receive inputs, distribute outputs and communicate with suppliers and clients. Furthermore, in such an investment climate, companies are not willing and/or able to invest in new or current business activities.

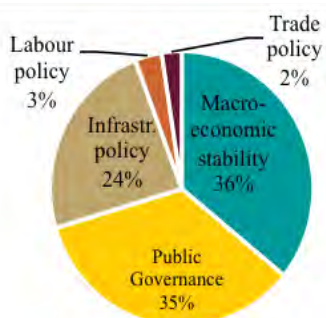
Based on this analytical framework, ODF to areas related to PSD amounted to US\$105 billion in 2013, of which 57% was concessional financing and 43% was non-concessional. In terms of distribution among the three PSD components, similar shares of ODF were spent on the investment climate, physical infrastructure and productive capacity. Comparing multilaterals and bilaterals, the former allocated proportionally more to physical infrastructure, while the latter allocated significantly more to enterprise resources, including agricultural and industrial development and vocational training. Within the investment climate, policy-based lending and technical co-operation for macro-economic stability and public governance received the largest amounts of ODF, as illustrated in Figure 1. As for productive capacity, support for financial services, particularly to commercial banks that on-lend to SMEs and investments in equity funds, were relatively high, as shown in Figure 2.



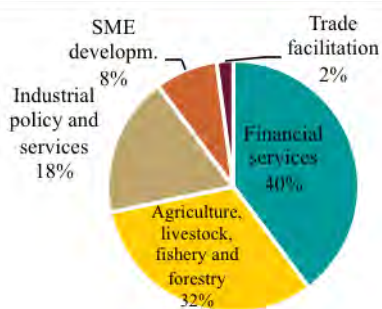
Mrs. Malika Qanih, Owner of Sun Pharma, Kabul, Afghanistan.  
Photo: Assistance in Building Afghanistan by Developing Enterprises (ABADE) Program/Steve Dorst, flickr.com

From a demand-side perspective, the top 15 recipients of ODF related to PSD were mostly large middle income emerging economies, such as Turkey, India, Vietnam, Egypt and China, and a few low income countries such as Myanmar, Tanzania, Kenya and Afghanistan. Many of these countries received significant amounts of support to physical infrastructure as well as financial services within productive capacity. To note, the share of support to financial services increases with the income level of the recipient country, possibly due to more developed financial markets and financial institutions in higher income groups. Conversely, the share of support to agriculture decreases with the income level, possibly due to the lower dependency on agriculture in higher income groups. Another finding is that high levels of budget support for macro-economic stability are provided to the lower income groups, particularly in Africa, possibly due to their poorer macroeconomic environment and quality of governance.

**Figure 1: Sectoral distribution of ODF for investment climate, 2013**



**Figure 2: Sectoral distribution of ODF for the productive capacity 2013**



Source: OECD Creditor Reporting System.

### Rationale for direct support to the private sector

Given the high financing needs of developing countries to achieve the Sustainable Development Goals (SDGs), estimated at US\$2.5 trillion per year, and the relatively small scale of ODF's contribution to it, development partners are increasingly trying to use ODF to leverage private

investment by supporting international and local firms. This is done through advisory services and provision of financial instruments such as equity, debt, and guarantees to crowd in the private sector in countries with commercial and political risks that would not have happened without the support of development partners. For instance, Multilateral Development Banks state that for every US\$1 that they extend directly to the private sector, US\$2-5 of additional private sector investment is mobilised (AfDB et al. 2015:2).

In addition, development partners provide financial assistance to governments and national development banks to on-lend to private companies, which can also mobilise considerable resources. For example, a study shows that US\$1.4 billion financing from the Clean Technology Fund to the public sector has mobilised about US\$5 billion of private co-finance (CTF 2013). Other approaches include project preparation facilities to design well-structured bankable projects and project facilitation platforms to match the interest of public and private financiers in supporting joint projects. Furthermore, foreign and local companies can also contribute to development beyond providing financial resources through: (i) a demonstration effect on the viability of business models with positive environmental and social impact; (ii) creating direct, indirect and induced jobs; (iii) triggering knowledge and technological spill over effects; and (iv) fostering backward and forward linkages in value chains and clusters. Therefore, by collaborating with the private sector, development partners are hoping to increase the efficiency and impact of development co-operation. This aspect has been acknowledged in the Bilateral Development Partners' Statement in Support of Private Sector Partnerships for Development in 2010, where development partners committed to enter into partnerships with companies of various sizes that would focus not only on profits, but also on social and environmental impact. The importance of partnerships has been stressed more recently in the SDGs, which called for enhancing "multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology and financial resources to support the achievement of SDGs" (see SDG 17.16).

### Challenges in direct support to the private sector

While direct support to companies and financial institutions has the potential to contribute to sustainable development, there are several issues that need to be addressed. First, as directly financing or subsidising private companies holds the risk of market distortion if carried out on a massive scale, efforts should be made to provide resources to companies that are able to offer value for money. Second, as private companies aim for profit, it will be important to select projects that demonstrate financial feasibility while maximising contributions to economic, environmental and social progress. This means that careful project selection needs to be ensured. As Kindornay and Reilly-King (2013:31) pointed out, donors need to set funding criteria that are beyond years incorporated and audited financial statements to include corporate track records in terms of positive social, development, economic and environmental impacts.

Furthermore, attention is needed to increase accountability of the supported private companies by monitoring results to ensure that project outcomes have been achieved and other social, environmental and development dimensions have not been compromised. In addition, it is necessary to strengthen

ex-post evaluation of project impact and sustainability and learn from experience on how to improve provision of financial support to companies.

Overall, challenges in project selection and monitoring point to wider transparency issues related to private sector projects. In fact, supporting the private sector and their commercial activities quite often entails levels of confidentiality that reduce the information flow related to the projects, although some development finance institutions (DFIs) are more transparent than others. Issues of transparency can be even more challenging as an increasingly common practice of certain DFIs is to support financial intermediaries, such as commercial banks and private equity funds, in turn investing in other projects (Geary, 2015). While this practice has the advantage of directing financing to investment vehicles with robust experience and to reduce market distortion, obtaining information on the impact of the project is even harder as the chain of intermediation is extended (Miyamoto and Chiofalo, 2015).

Finally, many bilateral development partners state in PSD strategies or related policy documents that PSD should benefit both companies in developing countries and their own domestic companies. This includes supporting companies from development partner countries both directly with grants, loans, equity and guarantees and indirectly through tied aid. For this reason, it is important to ensure that PSD strategies of bilateral development partners prioritise development objectives over trade promotion of domestic companies. In particular, general principles of aid effectiveness agreed in Paris and Busan, notably to respect the ownership and priorities of the partner countries, should be adequately considered.

### The work of OECD DAC on PSD

The OECD Development Assistance Committee (DAC) has become increasingly active in refining data and carrying out analysis and dialogue on development co-operation for PSD. This includes ongoing activities such as: the modernisation of the statistical reporting system to measure the amounts of development partners provided to and mobilised from the private sector; improving transparency and reporting on additionality; better capture of resource flows to developing countries beyond aid, such as foreign direct investment (FDI), export credits, remittances and so on; peer learning on private sector engagement; and research on blended finance, social impact investment, and investments in fragile states.

Furthermore, the DAC and the OECD Investment Committee are jointly working on understanding the synergies between development co-operation and PSD within the Advisory Group for Investment and Development (AGID). Currently, the discussions within AGID include understanding the role of development partners in using the Policy Framework for Investment – a checklist for investment climate reforms – as a reference for development co-operation. Proposals for future work include delivering granular analysis on support to informal businesses, SMEs, responsible business models, corporate social responsibility (CSR), gender issues, and Small Island Developing States (SIDS), as well as addressing issues such as additionality, market distortion, and untying aid. Moreover, there is strong interest in generating lessons, recommendations, or key principles of PSD support in a user-friendly format in order to enhance their contribution to the 2030 Agenda. ■

*This article draws on the draft OECD paper Development co-operation for private sector development: Analytical Framework and Measuring Official Development Finance, 25 August 2016, which is expected to be finalised and published towards the end of 2016.*

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### About the authors



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# Mobilising private capital for sustainable development

by Anja Koenig and Edward Jackson

For there to be any possibility of achieving the ambitious SDGs by 2030, as much as US\$2.5 trillion in private financing for related physical and social infrastructure alone is required per annum in emerging countries. How can development agencies and philanthropic funders effectively mobilise private capital for both financial returns and development impact?



*Catalysing private capital for investment in infrastructure: Investment in Grameenphone in Bangladesh is helping farmers price products, improving access to banking services, and keeping families in touch. Photo: Asian Development Bank, flickr.com.*

## Why mobilising private capital for development makes sense

Public and philanthropic donors increasingly engage with private investors in order to make their own limited financial resources go further and to increase the pool of funding available for development. But there are other reasons for growing interest by donors in working more closely with the private sector: they recognise the importance of private sector activity and finance as key drivers of growth and knowledge transfer in emerging countries. Compared to traditional grant funding, some donors also expect the private sector's involvement to have a positive effect on the financial discipline of jointly funded projects, as donors hope to recycle their money and earn a financial return that can be reinvested in other development projects.

On the other hand, private investors are interested in investing in emerging countries, attracted by high potential returns, portfolio diversification and exploration of new markets. However, they need help in overcoming a number of barriers. First, private investors are reluctant to invest in high

impact funds, projects, and ventures in emerging markets because of perceived and actual high risk and low returns. Investment opportunities with the highest impact are also often small and segmented, increasing transaction costs and reducing attractiveness for large institutional investors, especially. Further, most developing and emerging countries lack the market infrastructure and regulatory framework that are needed to attract and direct private investment for development. In addition, each investor has their specific risk-return profile, asset allocation and investment strategy, and exit requirements, all of which determine how and where their capital is ultimately deployed.

## How private capital for development can be mobilised

There is no "one-size-fits-all" approach to mobilising and deploying private capital for sustainable development. In development finance, market-priced co-financing, matching facilities, and seed funding for pooled investment vehicles have been applied for some time in order to aggregate



investment opportunities and to improve private sector financing in emerging markets.

Development finance institutions (DFIs), both bilateral and multilateral, and, more recently, pioneering philanthropic organisations, increasingly employ blended finance strategies that strategically use concessional finance or guarantees to mitigate risk, enhance potential returns and thus unlock private investment for development. A study by OECD and the World Economic Forum identified more than 70 blended finance funds and vehicles accounting for US\$25.4 billion in assets.

Important tools in blended finance are structured funds, which typically divide the overall risk into different tranches, including a first-loss tranche, to make a fund investment opportunity viable. Furthermore, most structured funds mitigate capacity and sector risks using technical assistance facilities, financed by grant funding and user contributions for capacity building, project preparation, research or impact assessments. In that way, structured funds have the ability to meet the risk-return profiles of a variety of investors, such as development finance institutions, foundations, pension funds or banks.

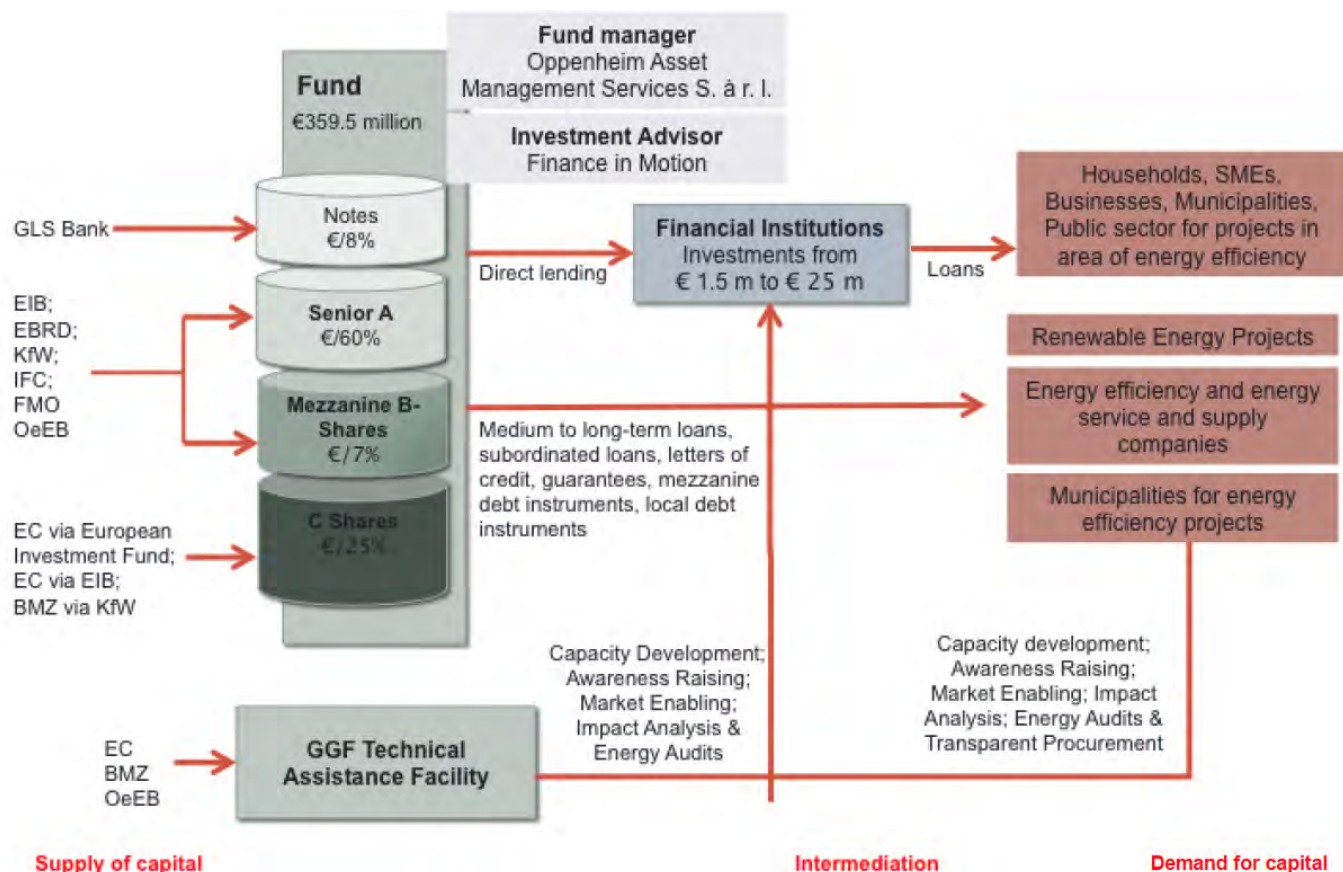
Figure 1 shows an example of such a structured fund: the *Green for Growth Fund South East Europe*, initiated and supported by the German government and the German Development Bank KfW. Other structured funds using a similar blended approach include the *European Fund for South East Europe* also led by German development institutions (€1 billion), the *Essential Capital Consortium Fund* managed by Deutsche Bank and supported with a credit enhancement by the Swedish development agency Sida (US\$50 million), the *African Agricultural Capital Fund* with

subordinated finance from various American foundations (US\$25 million), and the Global Climate Partnership Fund, enhanced by Danida and the German Ministry of Environment via KfW (US\$300 million).

Result-based financing mechanisms offer other means of mobilising private capital for development impact, by linking investors' financial returns to agreed-upon and measurable impact. Examples here include development impact bonds (DIBs), and their most recent variations, Social Impact Incentives piloted by Roots of Impact with the support of the Inter-American Development Bank and the Swiss Development Agency, or the *Social Success Notes* developed by Yunus Social Business and supported by the Rockefeller Foundation. These and similar results-based instruments stimulate innovation and encourage providers of private capital to invest in impact-delivery organisations or provision of goods and services that would otherwise not be attractive to private investors that seek at least a minimum return. However, while a variety of pilot projects are now being implemented, these mechanisms are labour-intensive to design and implement, and have yet to reach scale in an emerging country context. Other financial tools that DFIs and governments worldwide have used are diaspora, infrastructure, and green bonds as a means to raise funds for developmental investments.

Public and philanthropic donors can also use a number of supporting instruments to mitigate risk, enhance revenue potential and prepare the ground for developmental private investment. In the past, for example, they provided support to the acceleration and investment readiness of early stage entrepreneurs, provided capacity building to local

Figure 1. Typical structured fund (Green for Growth Fund)



Source: A. Koenig and E.T Jackson, 2016.

financing institutions, strengthened the standardisation of impact measurement, helped build the capacity of new fund managers, commissioned research and data collection, and supported project preparation facilities. Public-sector donors, in particular, can leverage their roles as neutral brokers and trusted public entities by facilitating policy dialogue with host governments and providing technical assistance on policy reforms. Individual donors can also capitalise on their DFI's investment experience in emerging countries. In one notable example, the Danish DFI IFU, working with the aid agency Danida, raised €175 million from four Danish pension funds for deployment in climate related investments in emerging countries without needing to resort to any concessional finance.

### Some emerging trends and lessons

A review of past experiences and close observation of the development of the impact investing field point to several trends and lessons:

- *New investors:* Currently, only a tiny, but increasing, fraction of global assets under management is targeted at investments that advance sustainable development. However, a growing number of new prospective investors especially in the Global North but also in the Global South, are exploring opportunities to invest for both financial returns and impact in emerging countries. These include foundations or family offices divesting from fossil fuels and looking for reinvestment targets, faith-based organisations encouraged by the Vatican's strong interest in impact investing, corporate and institutional investors seeking new market opportunities and diversification of risks, and individual citizens engaging through crowdfunding platforms and retail products offered by pioneering financial-service providers.
- *Increased dialogue and matchmaking:* At the global level, there is a wider variety of dialogue platforms and matching mechanisms than ever before aiming at facilitating cross-sectoral exchanges of experience, collaboration, co-investments and innovative finance. This includes recent facilities such as the Canada-based *Convergence platform* or the *Global Innovation Lab for Climate Finance*, as well as industry associations, like the *European Venture Philanthropy Association* and the *Global Impact Investing Network*, that increasingly facilitate interaction between the development finance community and existing as well as prospective impact investors. The *Organisation for Economic Cooperation and Development* (OECD) has recommended the use of public funds to establish additional platforms in developing countries to facilitate knowledge exchange among key actors. It has been argued, however, that more skilled brokers and dealmakers - with both investment and developmental experience who are able to support matchmaking between investors and investees and to create and structure transactions - are needed.
- *Financial performance:* Recent research on the financial performance of blended finance funds and vehicles indicates that such investment can yield competitive market returns, at least for some investor categories and where development agencies ideally bear some or all of the preparation and administrative costs. Questions remain with regard to the eligibility of concessional development finance and more specifically on the definition, measurement and reporting in international development assistance statistics on funds leveraged, rather than on public funds committed, under the new TOSSD (Total Official Support for Sustainable Development) framework recently published for consultation by OECD.
- *Market infrastructure:* In the Global South, market infrastructure on the ground is developing quickly in some regional hubs, such as Kenya, India or Brazil, but is still inadequate in most countries. More has to be done to strengthen the pipelines of investible deals, to scale pre-investment services as well as to support affordable, high-quality impact investment education and enhance cross-sectoral leadership skills amongst all market players. A larger number of bigger, locally owned impact funds, as well as the talents of local fund managers, must be nurtured. The role of the public and philanthropic sectors in supporting the development of such market infrastructure is essential, as is the development by governments of conducive regulatory frameworks for private capital mobilisation, in both the Global North and Global South.
- *Impact:* In co-financing and blended finance structures, the alignment of impact expectations among different kinds of investors is particularly important. However, measurement and evidence for impact, as well as comparability across sectors and geographies, remains challenging. This is due to the diversity of measurement approaches in use, methodological challenges, the lack of transparency influenced by the confidentiality concerns of the private sector, lack of voice of the intended beneficiaries of the investment, as well as the costs of impact measurement.
- *Additionality:* The challenges in structuring blended finance vehicles remain significant as well. These include, first, identifying those projects where blending should be applied and determining the kind and extent of concessionality that is needed and, second, ensuring that the concessional element can be phased out in a reasonable time period, limiting any market distortions and wastage of public resources and promoting financial sustainability in the long term. In this context, some observers have criticised the lack of evidence regarding the additionality of public donor interventions, that is, credible evidence that, without donor intervention, the private investors would not have engaged at all, or would only have engaged much later, and that the intervention

involving private investors significantly increased the development impact of an investment. Indeed, proponents of blended finance vehicles must achieve a fine balance in ensuring accountability for public resources and realising development impact in return for providing concessions to the private sector and respecting the confidentiality needs of private partners.

- *High risk-high impact:* Important gaps remain in mobilising private capital for high risk–high impact investment strategies, that is, investments that target fragile and low-income countries, for businesses that serve the base of the pyramid or for innovative entrepreneurs that seek early stage funding. While there are more examples such as the Impact Fund of the UK’s Department for International Development, the Global Innovation Fund, and the ACP-Impact Financing Envelope managed by the European Investment Bank, they are still insufficient.

### The imperative of the Global Goals

While these and other trends and lessons are promising, the over-arching question facing practitioners and policymakers in this space is how rapidly such funds and mechanisms can now be scaled up to meet the implementation requirements of the 17 ambitious Sustainable Development Goals (SDGs). In particular, is there the political will for Northern donors and DFIs to exponentially scale structured, blended financing mechanisms? Or, if such political will is not there, what kind of a coalition will it take to build it? Much more is known now about how to mobilise and deploy private capital for sustainable development and that is an important advance. The imperative going forward is to ensure that the *quantum* of such capital is proportionate to the challenges we all face, that it is translated into SDG-compatible investments and that these investments make a meaningful difference to our common future. ■

*This article draws on research for a recent study: Koenig, A. and E.T. Jackson, Private Capital for Sustainable Development: Concepts, Issues and Options for Engagement in Impact Investing and Innovative Finance, Danida Evaluation Department, Denmark’s Ministry of Foreign Affairs, Copenhagen, 2016 [http://um.dk/en/danida-en/results/eval/Eval\\_reports/publicationdisplaypage/?publicationID=E15693B2-6449-4AB1-A33A-BC8BE0067D42](http://um.dk/en/danida-en/results/eval/Eval_reports/publicationdisplaypage/?publicationID=E15693B2-6449-4AB1-A33A-BC8BE0067D42)*

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# Supporting private sector with development funds: Putting the cart before the horse?

by Paola Simonetti

This article highlights some of the most controversial issues relating to the role of private sector in development as recipient of development assistance resources. The analysis revolves around the effective use of aid funds, according to the development effectiveness principles and commitments of 'country ownership', 'accountability' and 'development results'.

## The paradigm around business in development

The role of private sector in development is currently one of the most debated issues in international cooperation. It is inscribed in a wider context where financial resources for official development assistance (ODA) are shrinking, development cooperation is evolving beyond the traditional 'aid' concept, and the actors/entities that can be key players in development are growing. Fortunately, development is seen more and more as a holistic process that should be supported by integrated global policies (such as trade, investments, etc.), bringing about improvements in terms of both economic and social progress, the latter being based on the full respect of human rights.

The pivotal role of business in development discourse is based on the equation between economic growth and sustainable development, (voluntary) corporate social responsibility (CSR), enabling business environment provided by states, and finally public-private dialogues (private sector involved in policy making). The role of business has also been recognised in the United Nations 2030 Agenda for achieving Sustainable Development Goals.

Amongst the various consequences of this paradigm, growing percentages of traditional ODA - public resources - are being destined to support private sector initiatives in developing countries. This brings about serious concerns in terms of accountability, ownership, and, last but not least, development results (see also the article in this issue by K. Miyamoto and E. Chiofalo).

How can it be ensured that businesses really contribute to developmental processes in the countries where they operate? How can responsibility of their actions be granted against development impacts? How can they be kept accountable for spending public money? These seem quite immediate questions. However, they remain to be answered.

Some attempts in this direction have been made but they are still mostly inadequate, such as the Global Partnership for Effective Development Cooperation (GPEDC) indicator on "engagement and contribution of the private sector to development" which is focusing exclusively on the quality of public-private sector dialogue. Obviously this is not sufficient to capture the overall 'developmental' impact of private sector.

**Table 1. DFIs performance on development effectiveness**

DFI	Ownership		Development results		Mutual accountability	
	Mandate & eligibility	Participation government & social partners	Standard on worker's rights and OFC	Monitoring	Transparency	Complaint mechanism
Bio (Belgium)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
CDC Group (UK)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
Cofides (Spain)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
DEG (Germany)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
FMO (Netherlands)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
Norfund (Norway)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
OPIC (US)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
Proparco (France)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance
Swedfund (Sweden)	poor performance	poor performance	poor performance	poor performance	poor performance	poor performance

■ poor performance ■ average performance or some good features ■ good performance

Source: TUDCN-CPDE (2016), *The development effectiveness of supporting the private sector with ODA funds*, p. 4: [http://www.ituc-csi.org/IMG/pdf/tudcn-dfi\\_study\\_web\\_en.pdf](http://www.ituc-csi.org/IMG/pdf/tudcn-dfi_study_web_en.pdf)

## The role of DFIs

In recent years, donors have increasingly promoted a new form of engagement: the use of aid to 'leverage' the private sector investments for development. The overarching concept is that small amounts of aid can be used to reduce the risk of or remove financial barriers to private sector investments in developing countries, thus mobilising additional funding. Because leveraging combines aid grants with other forms of finance, it is also known as 'blending'.

Unlike other forms of aid flows traditionally managed by aid agencies, leveraging or blending instruments generally involve more specialised financial institutions. The natural choice of donors has been to rely on development finance institutions (DFIs) to manage aid funds and blend them with other public and private finance.

However, DFIs do not seem to 'deliver' when it comes to adhering to the fundamental commitments enshrined in the development effectiveness agenda, in particular country ownership, accountability, and development results. The average performance of a sample of DFIs is summarised in Table 1.



*Supply chain water management: community processing centre in Jardín, Colombia, co-funded by Nespresso, enables coffee farmers to mill and dry coffee more efficiently. Photo: Nestlé, flickr.com.*

### **ODA undermines country ownership in Colombia and Peru**

Case studies from TUDCN-CPDE research provide a useful illustration of how donors use development aid to further the interests of their national companies rather than to target the needs of the poor. This can be seen in the case of Spanish investments in Cartagena (Colombia), in a water supply programme run by a contractor jointly owned by the local municipality and a Spanish-based company. While the number of households with access to water has increased, from 75% to 90% between 2007 and 2013, so too did the price of water, with monthly rates reaching up to 20% of the minimum wage. Each month, 19,000 inhabitants of Cartagena, many of whom are employed in the informal economy and cannot afford the elevated prices, lose access to water due to the non-payment of their bills.

In Peru, Canada subsidises CSR policies of some of Canada's largest mining companies. While the project ostensibly aims to develop the agricultural and forestry sectors within mining communities, its greatest focus is on improving the image of the extractive industry in communities affected by social and industrial conflicts resulting from mining operations.

A general bias towards donors' economic interests and business is assessed within DFIs' mandates and practices. When it comes to eligibility criteria, the profitability of the projects (less risky situations) is a key requirement across the board. There are only a few DFIs that include mechanisms ensuring investments are directed to micro, small, and medium enterprises (MSMEs), focusing on generating employment or targeting investments to challenged countries or circumstances. Moreover, DFIs' policies do not include any requirements on participatory approaches - i.e. consulting with national governments in developing countries - and there is no provision either to include social partners (employers and workers' representatives) in the decision-making processes.

### **Poor labour standards in Malawi and Haiti**

The Shire Barrage upgrade in Liwonde, Malawi, is part of a project funded through a blend of grants and a concessional loan from the World Bank. The project is supervised by a consortium of European companies. Research based on interviews with workers on the project site and government officials demonstrated weak implementation of work standards and limited development outcomes of the upgrade. Although the World Bank's International Finance Corporation (IFC) performance standard 2 on labour and working conditions requires workers to be informed about their rights and benefits, none of the workers interviewed were aware of basic labour regulations, and only 23% knew about the existence of a trade union. No on-site monitoring visits were made either by the project funders or the national authorities despite this being foreseen by Malawi labour legislation. These shortcomings represent a clear lack of enforcement of World Bank standards by private sector partners who should have ensured follow-up on these issues given the national context. Furthermore, the project appeared to be using mainly unskilled workers with virtually no training, while skilled jobs have been awarded to foreign experts. As a result, the transfer of skills to local actors has been almost non-existent.

In Haiti, the Inter-American Development Bank (IADB) and USAID supported the construction of a special economic zone, the Parc Industriel de Caracol, providing infrastructure for a major textile company. Out of the 6,500 jobs created, an overwhelming majority is under appalling conditions. Approximately 87% of the workers fail to reach the daily minimum wage, as they are paid based on production; there have been reports of irregularities with regards to social security contributions and medical leave as well as threats and failure to pay severances.

These examples show that there is still huge concern around the capacity of business, including DFIs, to promote

decent work in development countries. This is mainly due to a lack of an inclusive approach, which should always foresee the participation of social partners in all phases of the programme. Labour representation can contribute to strengthen accountability of business, both within DFIs in donor countries (none of the DFIs in the sample are required to have trade unions in their board) and in developing countries where initiatives are implemented.

### Lack of data prevents accountability in El Salvador and Zambia

Case studies in El Salvador and Zambia on programmes to identify and support SMEs, and scaling up lending, proved how impossible it is to obtain information allowing for a thorough assessment of how the funds were being used. No information was available either to assess their impact on the beneficiaries, or detailed information on the specific amounts committed by any of the partners, the specific companies supported, project activities or results.

Without any information on the final beneficiaries or the performance of the project, project stakeholders, including the national government, cannot hold project partners or intermediaries to account. These two studies are therefore clear examples of cases in which accountability only runs upwards.

These case studies show that DFIs cannot generally guarantee a minimum level of public accountability when using aid funds or other public resources. Project information disclosed by DFIs is very scarce, there is no access to old project files after one or two years and only two DFIs make project evaluations accessible. As a matter of fact, only three DFIs of those analysed have created independent mechanisms to deal with project complaints.

### Recommendations for a credible approach

Current evidence shows that the 'paradigm' of the role of private sector in development still needs to be unfolded. This will require political will by both public and private entities. While business is needed to foster economic growth, this alone cannot be sufficient to ensure sustainable development, based on rights and democratic governance. In order to achieve this goal, in line with the 2030 Agenda framework, the following elements need to be explored and reinforced:

- Adopting assessment criteria and indicators of private sector interventions in development, shaped against the development effectiveness agenda commitments, such as democratic ownership, accountability and development results;
- Increasing responsibility of donor governments in shaping policies and approaches of DFIs which are currently ill-equipped to manage aid flows in line with development effectiveness commitments;

- Recognising and promoting social dialogue (among employers and workers' representative organisations) in planning and implementing private sector initiatives in development. Social dialogue is fundamental to promote decent work and improve socio-economic conditions overall, also granting accountability of business - as opposed to purely voluntary approaches - to achieve ownership of development policies. ■

*This article is adapted from the TUDCN-CPDE publications: The development effectiveness of supporting the private sector with ODA funds (2016): [http://www.ituc-csi.org/IMG/pdf/tudcn-dfi\\_study\\_web\\_en.pdf](http://www.ituc-csi.org/IMG/pdf/tudcn-dfi_study_web_en.pdf); and Business Accountability FOR Development: Mapping business liability mechanisms and donor engagement with private sector in development (2015): [http://www.ituc-csi.org/IMG/pdf/tudcn\\_business\\_accountability\\_for\\_development\\_final\\_en.pdf](http://www.ituc-csi.org/IMG/pdf/tudcn_business_accountability_for_development_final_en.pdf)*



### About the author



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# Diaspora contribution to achieving the Sustainable Development Goals

by Chinedu Madichie

The role played by diaspora in the development, poverty reduction, reconstruction and growth of countries of origin has enabled tremendous change in local communities. Yet diaspora are side-lined development agents. Diaspora expertise and contributions must be better leveraged to deliver on the 2030 Agenda.

The Sustainable Development Goals (SDGs) and the 2030 Agenda for Sustainable Development have provided new opportunities for (African) diaspora involvement, following the partly missed targets of the Millennium Development Goals (MDGs) that preceded them. The SDGs, particularly the targets – ensuring safe, orderly, and regular migration; limiting exploitation and abuse of migrants; reducing the costs of recruitment and remittances; and improving data – place diaspora engagement at the core of the development process. Indeed, while target 1 of the SDG is focused on ending poverty, one of the means to that end is the subject of diaspora remittances as suggested by the indicators proposed for assessing this target. Similarly, target 4 is focused on ensuring healthy lives and specifically increasing the proportion of diaspora with equal access to health services in the destination country. It is also noteworthy that target 8a positions fair labour for diasporas as an equally important foundation for the sustainable development agenda through the creation of decent work opportunities. And target 12 stipulates improving data with a view to establishing diaspora networks to facilitate the circulation of knowledge, ideas and technology which is fundamental in capacity building.

Paradoxically, while the diasporas are important actors in economic development, they are still mainly considered shortcuts to leveraging financing – especially remittances

– channelling funds for sustained development in Africa – in a sub-optimal manner. This attitude underplays alternative platforms of innovative contributions of the diaspora. A parochial focus of such financial contributions poses risks of failure and ultimately jeopardises the 2030 Agenda.

We posit, therefore, that the impact of diaspora on the 2030 Agenda should be multidimensional and multifaceted, requiring an in-depth consideration by African governments and other stakeholders in four areas:

- diaspora remittances, trade and investment;
- capacity building (transfer of skills, knowledge and technology);
- advocacy and involvement in development policy making and implementation process; and
- definition of migration policies.

## Remittances, trade and investment

Diaspora remittances and financial contributions are well mobilised through various instruments including, but not limited to, bonds, securitised remittances, and special banking arrangements. The World Bank and other development partners have revealed that remittances by African diaspora surged by 3.4% to US\$35.2 billion, in 2015. However, this amount doesn't directly translate to development due to many challenges such as the very high costs involved in money transfer, the technical complexity and alternative innovative

platforms – going beyond funds for the day-to-day needs of families. A larger, more consolidated option channelled towards productive investments fostering entrepreneurial rather than dependency culture is needed.

Some of the potential challenges with these initiatives include navigating the technical complexity and innovative vehicles of mobilising diaspora remittances. While multilateral agencies (e.g. the World Bank and the International Monetary Fund, etc.) may be best placed to provide direct advice on technical questions, we advocate that the expertise of the diaspora and African financial institutions like the African Institute for Remittances can be honed for better results. Furthermore, although remittances provide benefits at several levels, many diasporas have a preference for alternative forms of investment in their countries of origin – setting up businesses being only one of these. The involvement of diaspora in trade and investment provides the much needed boost for investor confidence in growing economies.

## Capacity building

Capacity building is another area where technology and skills transfers and modern management practices can make a contribution. Examples abound where diaspora have galvanised public private partnerships (PPPs) in sectors where such expertise is not locally available. This conduit in knowledge



*A money exchanger counts Somali shilling notes on the streets of the Somali capital Mogadishu. Millions of people in the Horn of Africa nation Somalia rely on money sent from their relatives and friends abroad in the form of remittances in order to survive. Photo: AU/UN IST/STUART PRICE, flickr.com.*

and skills transfers has proved effective especially during the Ebola epidemic when UK-based Sierra Leonean health workers (through the organisation they established –TOSHPA – to support transfer of equipment, knowledge and skills) volunteered by working with public health England and the NHS to provide cultural awareness training for anyone travelling to Sierra Leone.

Another example is BethAri Limited, a management consultancy with diaspora expertise working in partnership with the Nigerian National Agency for Food and Drug Administration and Control (NAFDAC), on the training and skills development for pharmaceutical regulatory practices in Nigeria and West Africa.

It is our view that the aforestated cases can be built upon in a more significant manner so as to make the SDG targets a reality by placing the diaspora engagement at the core of the development process - especially targets 1, 4, 8 on the one hand; as well as targets 12 and 13 on the other hand (citing the need to create a global enabling environment and catalyse long-term finance; and develop a new global partnership for inclusive development, respectively).

### Advocacy and development policy engagement

The nation-building process also relies on social and political dialogue, advocacy and awareness, and stability for sustainable development. African governments have recognised the need to engage diaspora by providing an enabling environment for potential contributions of the latter. This includes creating economic and social linkages, accelerating structural reforms and providing incentives. It has also been established that country ownership of diaspora strategies and strong ties with the diaspora, underlined by a shared vision, helps commit the diaspora and government to act synergistically. A typical example of this exemplary

vision of diaspora engagement by the Nigerian government was the establishment of Nigerians in Diaspora Organisation (NIDO) worldwide, where office space is provided at embassies to facilitate such initiatives. Many other countries like Senegal, Rwanda, Kenya, Ethiopia, to mention but a few, have initiated framework to engage with the diaspora. For instance, every year, in the framework of the Rwandan Diaspora Policy, the Government of Rwanda organises “Rwanda Day”, an event that brings together Rwandan diaspora from around the world to engage them in the nation’s socio-economic transformation.

### Migration

Migration is often viewed negatively by home, transit, and destination countries: in Africa as a brain drain and in destination countries as a burden on available resources. This has resulted in the inadequate attention migration and migrants contribute to sustainable development – especially from the purview of international students. It is for this reason that the African Diaspora Network in Europe (ADNE) advocates for the voice of diaspora to be included in development policy planning both in Africa and in Europe. It is the opinion of ADNE that well managed migration policies would bring about an optimal use of diaspora contribution to development considering the huge demographics of migrants in the world. Examples of such policies include easier access to legal status in destination countries, enabling dual-citizenship (as some African countries discourage this), and reducing bureaucratic procedures and administrative hurdles, including improved capacity and efficiency of consular networks and support to mention a few. It is our submission that where these are holistically considered, it would improve the prospect of generating decent work opportunities for diaspora thus accelerating the whole sustainable development agenda.

### Diaspora as development partners

We advocate that the African diaspora should be considered not just as sources of finance for development, but also as development partners. While the diaspora may have the capacity and patriotic mind-set to contribute to national development, concerted efforts must be made by all stakeholders to develop policy objectives that could facilitate diaspora mobilisation.

However, capacity gaps still remain as far as the diaspora are concerned – poor policy choices, lack of clearly defined objectives, poor implementation plans, as well as weak and inaccurate data on the diaspora being just a few. Accurate data and statistics are important elements in developing a national diaspora engagement strategy and we at ADNE are poised to build an African Diaspora Skills Database (ADSD) in order to fully understand the socio-economic and demographic characteristics of the diaspora, their attitudes, and possible areas of interest for collaboration. This database would also promote the optimal use of African diaspora expertise in their home countries. ■

### About the author



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# SMEs' competitiveness for sustainable value chains

by Marion Jansen

SMEs represent the missing link to inclusive development. On average less productive than large firms, they pay lower wages and offer less favourable labour conditions. Addressing the 'productivity gap' is crucial for inclusive growth. Trade can play a role in this.

Small and medium-sized enterprises (SMEs) represent the backbone of economies worldwide. In South East Asia they are estimated to account for 98% of all enterprises and to employ 66% of the labour force. In Latin America and the Caribbean (LAC) region, SMEs account for 99% of firms and 67% of employment. While few pan-African SME statistics are available, SMEs in Africa are known to dominate the means of production to a greater extent than in other regions. For example, in Ghana, SMEs represent 92% of Ghanaian businesses and contribute about 70% of GDP.

Definitions of what constitutes an SME differ across countries and statistics are not always comparable across countries. Based on the above, it is nevertheless fair to say that SMEs represent on average over 95% of all firms and that they employ around two thirds of the labour force. SMEs therefore clearly matter for economic activity and for the living and working conditions of millions of people.

## SMEs' productivity gap

Unfortunately SMEs are not always well positioned to offer high wages and good working conditions. SMEs are significantly less productive than large firms and this limits their possibilities to pass on gains to their workers. The existence of this productivity gap between large and small firms is well known. It is less well known that productivity differences between small and large firms are much more pronounced in developing countries than in industrialised ones.

Evidence collected by the OECD and UN-ECLAC reveals that the productivity of a small firm in Germany is on average around 70% of the productivity of a large firm in the same country. Figures in other European countries are similar. In Brazil, on the other hand, small firm productivity is only 30% of the productivity of large firms. In India, enterprises with more than 200 employees have been found to be ten times more productive than enterprises with five to 49 employees.

Productivity differences between small and large firms find their reflection in wage differences with wages paid in SMEs being significantly lower than those paid in large firms. As a consequence, SMEs tend to employ a larger share of the vulnerable sections of the workforce, namely less experienced and less educated workers belonging to poorer households.

## SMEs and the SDGs

SMEs therefore tend to provide a living to those households that are targeted by efforts to meet the Sustainable Development Goals (SDGs). Increasing SME productivity is therefore likely to contribute greatly to meeting the SDGs as it would have two direct effects: it would contribute to GDP growth because of increased SME productivity, and it would lead to higher wages in the low-wage segment of the economy, with positive distributional effects.

This latter effect points to the inclusiveness of the growth potential generated by SME productivity increases. Those effects are likely to go beyond the immediate income effect on poor households. Higher wages for female employees are, for instance, likely to have knock on effects on the wider economy as women in developing countries are known to have a higher propensity than men to invest in their families and in the community at large, leading to positive externalities for the country as a whole.

## Opportunities for SMEs going global

Globalisation and modern technologies offer new opportunities for SMEs in this context. SMEs that export are more productive than non-exporting SMEs and therefore have the capacity to pay higher wages. Research by the Edinburgh Group has found internationally active SMEs to demonstrate higher employment growth: 7% growth for exporters and 3% for non-exporters. Recent country studies for China and Tunisia commissioned by the International Trade Centre (ITC) have drawn similar conclusions. Internationally active SMEs contribute to more jobs and better jobs.

One of the winners of the 2015 Nairobi Trade and Business Forum Awards was the female owner of an IT company based in a least-developed country (LDC). She spoke proudly of her achievements and of the number of jobs her enterprise created. And she also emphasised that she had understood early on that 'going global' was the best option for a female entrepreneur in her country to succeed.

SMEs going global at an early stage of their existence is an increasingly common phenomenon. While we are used to seeing small firms grow into international business as they become larger, open markets and information and

communication technologies are conducive to the emergence of new types of SMEs that are very different from their historical counterparts. This is the case for so-called 'born-globals' – SMEs that sell, or intend to sell, to a global client base from the start. A large firm level survey by DHL found that 24% of all SMEs in Brazil, the Russian Federation, India, China and Mexico and 13% of SMEs in G7 countries are born global.

Notwithstanding the born-global phenomenon, going global while small is in general not easy and not all 'born-globals' stand the test of time. International trade has been and continues to be dominated by large firms with exporting firms being larger, both in terms of number of employees and turnover. There is evidence that in some markets, concentration and market power is high and on the increase, notably in certain agricultural activities that are crucial for developing countries.

**SMEs' ability to connect, compete and adjust**

It is the International Trade Centre's mandate to support SMEs in their efforts to internationalise. A thorough understanding of drivers of SMEs' international competitiveness is a pre-condition for success in this endeavour.

At ITC we take the view that in order to be successful in international markets, both as importers and as exporters, SMEs have to be able to connect, compete and change. In a modern, interconnected, fast-changing world, access to information and the ability to interpret and use that information is crucial. This is what we refer to as the ability to connect. Market-relevant information has to be used to design and

generate an offer that can compete in targeted markets at any given moment in time. This is what we refer to as firms' ability to compete. And last but not least, SMEs have to be able to adjust to changes in markets or – even better – pre-empt changes in markets. Adjustment can require investment in financial or human resources or in innovation. This is what we refer to as firms' ability to change.

**Drivers of SME competitiveness**

Drivers of SME competitiveness can be found at three layers of the economy: at the macro-economic and national policy environment, in firms' immediate business environment and at the firm-level itself. The importance of national policies is emphasised in well-known competitiveness reports produced by institutions like the World Economic Forum or the World Bank and refers notably to aspects like countries' trade or financial policies. The immediate business environment refers to firms' relationship with and access to peers, suppliers and consumers. It also refers to their access to platforms, such as e-commerce platforms, e-pay platforms, information platforms or infrastructure hubs. Last but not least, firm level capability itself will be crucial for firms' success. For this, managers' ability is key, which explains the popularity of business schools across the globe.

By organising approximately 40 indicators around the three pillars and layers of SME competitiveness just described, it is possible to generate a picture of SME competitiveness that reflects fairly closely the stylised facts known about SME productivity. SMEs are found to be less competitive than large firms and the gap between SME competitiveness



*Uzbekistan bakery assisted by an Asian Development Bank supported \$50 million microcredit project. Photo: ADB, flickr.com.*

and large firm competitiveness is found to be significantly bigger in developing countries than in developed countries. The advantage of looking at indicators that determine competitiveness - rather than productivity figures themselves – is that it makes it possible to identify what drives competitiveness gaps and thus to provide information that is crucial for policy makers and trade and investment support institutions wanting to support SME internationalisation.

Based on this approach, *SME Competitiveness Outlook 2015* highlighted that weaknesses in connectivity are the main driver explaining competitiveness gaps between small and large companies in LDCs. Landlocked developing countries are known for having a physical connectivity challenge with roads and ports. They also turn out to have a virtual challenge as e-connectivity rates are among the lowest in the world.

### Standards and regulations

*SME Competitiveness Outlook 2016* will focus on another aspect affecting SME competitiveness: their ability to comply with standards and regulations. Standards and regulations are an integral part of international trade and of international value chains. They play an important role in making international value chains more efficient. They also play a crucial role in ensuring the social and environmental sustainability of international value chains, an issue at the heart of numerous global policy debates, including at the G20 level.

Smaller firms find it harder to cover fixed costs to comply with standards and regulations. This is particularly a problem in developing countries. Because of size and productivity differences, the same requirement represents a bigger obstacle to a developing country small firm than to a small firm in an industrialised country.

Research conducted by ITC with the European University Institute (EUI) using data from ITC's Standards Map reveals that lead firms in International Value Chains (IVCs) can play a role in overcoming such obstacles. The research finds that when standards are set by for-profit organisations (firms), producers and other stakeholders (such as buyers in the supply chain) are more likely to share implementation and certification costs. This evidence suggests that when lead firms set standards, they are more likely to help defray some of the compliance costs that would otherwise have been entirely borne by suppliers.

Accessing IVCs, however, is easier said than done. Only the most productive players can successfully integrate into such chains. Lead firms have an incentive to look for the most suitable suppliers before entering into commercial relationships with them. Being competitive is therefore a 'must' for SMEs in sustainable value chains. ■

For more on the issues discussed in this article see: International Trade Centre. 2016. *SME Competitiveness Outlook 2016: Meeting the standard for trade*. Geneva: ITC.



### About the author



Dr Marion Jansen is the Chief Economist of the International Trade Centre (ITC).

# Working with partners to upscale sustainable agriculture

by Herbert Lust

To translate corporate decisions into sustainable production processes, we need new tools for measuring what Earth gives us and how we value it. We need innovations in how we measure the impact of our choices on what we consume, in how we conduct business and how we structure policy.

The Paris Climate Agreement gave us reason to celebrate. Never before have so many countries, corporations and NGOs come together with such urgency to address a shared challenge. The Sustainable Development Goals (SDGs) are intertwined with the Climate Agreement. Just reducing greenhouse gas emissions doesn't solve such global challenges as inequality, poverty, and insecurity. But Paris was a moment of activation and connectivity. The Climate Agreement is the opening for delivering on SDG target 13 "Take urgent action to combat climate change and its impacts" but indirectly also for delivering on a set of other SDG targets.

More specifically, the fight against climate change is an underlying condition for the attainment of the SDGs. Climate change affects clean drinking water and thus good health, it destroys decent work opportunities, it damages life below water and life on land, and through enhanced competition over scarce resources, it can even create or exacerbate conflicts. And – as we all know – developing countries will suffer disproportionately more from climate change. People need nature to create livelihoods and improve their well-being. Nature is necessary to achieve the Sustainable Development Goals.

At the same time, nature itself is also crucial in order to combat climate change, as halting tropical deforestation can provide 30% of the mitigation efforts needed to limit warming to 1.5° and provides additional benefits for adapting to climate change. We need to take an integrated approach to sustainable development including the fight against climate change and the protection of nature. Only then do we stand a chance to address the challenges of communities, indigenous peoples, companies and nations.

## Engaging with the private sector

Engagement with the private sector is essential to support the implementation of both the SDGs and the Paris Agreement. Corporate decisions and activities ultimately determine the management of natural resources. The private sector has a key role to play to ensure that the production of agricultural commodities is sustainable and in this way supports the Paris Climate Agreement and the SDGs.

And indeed many corporations have made highly commendable commitments. However, the reality is that a corporate decision or commitment does not necessarily make a difference in farmer or conservation practices in the field, particularly in developing countries.

## Fostering conservation practices

Making that impact in the field is our focus at Conservation International (CI). Our mission is to ensure that our single, spectacular and abundant Earth can continue to provide for us all. And the way we see our role is to spark innovation.

In order to translate corporate decisions into reality, we need new tools for measuring what Earth gives us and how we value it. We need innovations in how we measure the impact of our choices on what we consume. We need innovations in how we conduct business and how we structure policy. What we do at CI is try to generate these kinds of breakthroughs, demonstrate that they work and scale them up through partnerships to create planet-sized change.

## Data system for resilience

A perfect example is Vital Signs, the partnership Conservation International created with the Gates Foundation to measure the contribution that nature makes to the production of food. As is well known, Gates is driven to increase food production and the quality of life for hundreds of millions of poor farmers in sub-Saharan Africa. Our question to them was, how can a farmer, usually a woman with one acre of land, produce food if there is no water, infertile soil and no pollinators?

The data system Vital Signs generates near real-time data and diagnostic tools at every scale (household, plot, landscape, nation, globe). CI has implemented this data collection in five countries in east Africa (Ghana, Tanzania, Uganda, Rwanda and Ethiopia), with plans to roll out to more than ten countries across Africa in the next years.

This data helps identify interventions that will increase the resilience of agricultural production to climate variability and shocks. It will provide farmers and decision-makers across the globe with better data on agriculture, ecosystems and livelihoods to help them achieve agricultural development that is sustainable for people and nature. Threads that are being



Soil water conservation method, Mount Kenya region. Photo: Neil Palmer (CIAT), flickr.com.

measured include climate forcing, biodiversity, water, soil health, food security, poverty, health, sustainable agricultural intensification, resilience and others.

### Improving the sustainability of production processes

In order to upscale these demonstration projects informed by science, we are working with the private sector and with governments that need to create a demand for sustainable agriculture commodities.

To focus on commodities, the coming years are critical to ensure the long-term sustainability of the palm oil, coffee, soy and cocoa sector as climate change impacts intensify and world demand for coffee, palm oil and cocoa continues to grow.

Currently, agriculture is causing 80% of global deforestation. Knowing that our forests are the world's lungs providing clean air for us to breathe, we need to find ways to supply markets in a more efficient way on already degraded areas without causing more deforestation.

For palm oil, the most widely used vegetable oil, improvements in production practices have started but in some cases tropical rainforest is still being chopped down to make space for palm oil plantations, while soils are suffering from damaging pesticides. At the same time, rights of local communities are not always respected.

In the coffee sector, warming temperatures, drought and changing weather patterns are affecting coffee production. Other factors also compound this stress: market volatility has significantly lowered prices paid to farmers, aging coffee trees are declining in productivity and the next generation of coffee farmers is seeking economic alternatives for their livelihoods.

However, the threat of climate change has sparked innovation and creativity in all sectors: people from numerous industries, universities, communities, and cultures are applying

their hearts, minds and spirits to come up with new, integrated solutions to sustainable agriculture production.

The newly developed concept of the landscape approach for example aims at integrating conservation with development. While the most valuable areas of nature are strictly protected, producer companies need to work together with local communities and governments to improve governance, and use sustainable production practices. Other parts of the solution to sustainable production range from technical assistance and farmer finance to certification.

In parallel to these efforts on the production side, consumer companies around the world have to assume the responsibility of creating demand for sustainably produced and certified coffee or palm oil.

By 2050, the planet will need to feed more than 9 billion people. In the same time frame demand for water, food and energy is set to double. People need nature to thrive. CI's mission is to ensure that our single, spectacular and abundant Earth can continue to provide for us all. ■

### About the author



Herbert Lust is Vice-President and Managing Director Europe of Conservation International (CI) Europe.

# Women and entrepreneurship in Africa

by Rose Sakala

Women entrepreneurship has the potential to transform Africa, reducing poverty and foster sustainable development. The author's experience is that this requires active reforms and support mechanisms to overcome numerous hurdles and unleash this potential.

Entrepreneurship was once considered a man's domain, but the tide has shifted: for example, more than 9 million US firms are now owned by women, employing nearly 8 million people and generating US\$1.5 trillion in sales according to 2015 data from the National Association of Women Business Owners. Yet, women entrepreneurs often struggle with less access to funding for start-ups, although they are often able to do more with less.

Experts report that women in Africa contribute 70% of food production. They also account for nearly half of all farm labour, and 80-90% of food processing, storage and transport, as well as hoeing and weeding.

One major problem is that women do not own property, required as guarantee to access the sources of financing (loans) to start or invest in a business. Traditionally, women are denied inheritance and property in the name of male family members: husbands, brothers, so that owners of the property in the family are fathers-in-law, husbands or brothers.

## Current evidence

Such considerations are part of my everyday life as a young woman in Malawi. Locally, this is so evident in the Malawian setting where very few women have access to land or property. The

majority of the women still do not have access to properties. Working with *Save the Children* (SC) has taught me a lot on the challenges women are facing. Most of these women targeted by SC are teenage mothers or in their twenties. Most of them tell you that they got pregnant not because it was a choice but they wanted to earn a living and in the course of this, had unprotected sex. Men refuse to pay women if they ask to use protection. The wage they risk their lives for is less than one dollar. Then there is another category of women who were either pushed into marriage or got married at a very young age. In Malawi, one out of every three girls gets pregnant before the age of 18; out of 60% of the girls who complete primary school, only 30% make it to secondary school. The question is: where does the remaining 70% of the girls go?

Most of them are marginalised, they are in extreme poverty, having more than three children and some are already married. Most times you see them malnourished, anaemic and prone to HIV and other sexually transmitted diseases.

This explains why 70% of the girls who eventually turn into women are illiterate in Malawi. This makes it difficult for them to know how to successfully operate their business. Most of them lack skills in business management,

finance management, record keeping, making profits, gross margin analysis, breakeven yield and price, marketing and negotiating skills and information regarding markets where they could sell their goods. Because of this knowledge gap, women continue to do small business and still operate at losses.

When women get married, 70% of them are responsible for farming. Once the harvest is ready women are not the decision makers regarding whether to sell or not, where to sell or at what price, and worse still, how to use the money. This is done by men (their husbands) who were generally not even responsible for farming. This on its own is a big hindrance for women to grow economically and be independent.

## Success story

Working with *Save the Children*, I was sent to be an Economic Development Facilitator at Neno district in Malawi in a project aimed at *Improving Economic Opportunities for Women and Children in Malawi* (INEW). The project has reached about 4,500 beneficiaries. Their main target has been to address the problems stated above - we have trained and educated the women in business and finance management, record keeping, profits/gross margin analysis, breakeven yield and price, marketing and negotiating skills and information



Sewing bags of rice seed shut in Hara, Malawi. Photo: Swathi Sridharan (ICRISAT), flickr.com.

regarding at which markets to sell their goods. Then we helped them to regroup and encouraged the village savings and loan component. Now they are able to borrow on their own at a fair interest rate of about 20%, based on what they have agreed as a group, and are able to start a business and re-invest in it. We have seen how they have been able to even build houses for themselves, roof with iron sheets, cement their floors, send their children to school and cover all the expenses. They have also marketed their own products, for example pigeon peas, and were able to set a price and not be a price taker as was always the case in the past.

In scaling up investments for women, we need to help women learn the skills in managing a business just like SC has done. We need to help women develop business initiatives and have access to loans (for instance through de-risking). This is what we did with the Luanar Students Entrepreneurship Lead Initiative (LUSELI), which aims at identifying youths that have potential business ideas contributing to food security, economic growth and reducing malnutrition, and help finance such

business initiatives. LUSELI can be merged with Commercial Agriculture Support Services (CASS), which targets young commercial farmers and has impacted over 5,000 individuals in Malawi. The interest rate is at 43% in Malawi. By acting as a guarantor to women loans, we are taking the 23% risk premium rate so that women and graduates can get a loan at 20%. We need to help women have access to land for production and security. This can be done by lobbying with chiefs, husbands and other people in charge of land. Marketing and negotiation skills, access to markets and information regarding exchange rates will have to be key factors in making sure that women's business can scale up. Value addition and processing will help them earn more money than selling just a raw product.

We will also need to promote other forms of business like partnerships rather than sole proprietorships, which is mostly preferred by many people who want to start a business or are already in business. ■

*Listen to Rose Sakala interviewed by ECDPM and at the European Development Day 2016 panel and Young Leader. For further reading, see UNDP (2016), Africa Human Development Report 2016: Advancing Gender Equality and Women's Empowerment in Africa, and Hunt, A. and E. Samman (2016), Women's economic empowerment - Navigating enablers and constraints, ODI.*

### About the author



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She is the 2015 winner of the Future African Leaders Awards (FALA) as well as a recipient of the Woman of Distinction Awards 2016, and was invited to participate as a Young Leader to the European Development Days 2016 in Brussels.

# Sustainability principles for public-private partnerships

by Sebastian Grosse-Puppendahl

Because of the diversity of partnerships, it is difficult to identify sustainability criteria that can be universally applied across the range of PPPs, contributing to the challenge of monitoring and enforcement of such criteria. Donor approaches to PPPs should also take account of political realities to allow adaptation to interests and incentives.

There is growing recognition that global challenges are interconnected and complex, therefore requiring multi-stakeholder alliances between all sectors of society. The size of task at hand combined with increasing pressure on public budgets for development cooperation call for using scarce public resources to more effectively leverage private resources that together can help achieve the 2030 Agenda for Sustainable Development. Almost all donors engage with businesses in one form or another as part of their development strategies to trigger inclusive economic growth, decent job creation and better governance, all fundamental factors for sustainable development. The aim to support and engage with the private sector can increasingly also be seen in the institutional setup of public entities (e.g. ministries, development agencies, development finance institutions).

While generating private returns for financial viability is an imperative requirement, a 'successful' partnership must generate public returns in terms of wider social, political and environmental benefits for society. The challenge for partnerships is therefore to smartly combine these commercial and development imperatives. This relates also to the question of where to invest and in what kind of activities, as developmental needs are more acute in

poor, and often fragile countries, while investment returns and low levels of risk are to be found in more developed and stable markets. Hence it is not surprising that 60% of public-private partnerships' (PPPs) investments are targeted to upper-middle income countries, and when in lower income countries, these are often in more developed regions.

Beyond where investments take place, the way that investment takes place is also fundamental in shaping development outcomes. A burgeoning array of development principles governing private sector engagement in development reflects a degree of convergence on what is appropriate private sector behaviour. However, many challenges remain in ensuring compliance and enforcement. This means that donors must find a balance between legally binding regulations and softer measures aimed at incentivising enterprises into compliance. While it might be easier to get private firms to sign up to voluntary principles, they may be less effective than mandatory principles.

## Three PPPs - agriculture, healthcare and textile

In a recent study for the Belgian NGO 11.11.11, ECDPM and KU Leuven took a closer look at some of the main sets of criteria or principles applied to make private sector engagement more

'developmental' and sustainable. To do so, the study also looked at three prominent examples of PPPs to identify lessons learnt across diverse sectors and actors: i) a private sector driver in the agriculture sector for SAGCOT, ii) public health sector in the Lesotho case, and iii) a civil society-led cooperation on textiles in the case of the Better Factories Cambodia programme. The purposes and objectives for each of the cases therefore also differ, from leveraging private investments, to provision of health care as a public good, to addressing and influencing manufacturing practices.

## SAGCOT - Southern Agricultural Growth Corridor of Tanzania

The SAGCOT investment blueprint's massive scale, in terms of finance and geographical area, reveals important lessons for other PPP frameworks and similar future partnerships. The World Economic Forum's (WEF) flagship project is a mainly business-driven partnership, which determines and influences the power dynamics among the different stakeholders in the PPP. By taking a holistic and regional approach, SAGCOT tries to address various gaps and issues, such as engaging local farmers, raising overall agricultural productivity, thus contributing to broader economic transformation and decreasing (rural) poverty, increasing





Rice sowing, Tanzania. Photo: Erik Cleves Kristensen, flickr.com.

job creation, and improving regional coordination towards food security and market development.

To do so, objectives and principles have been put in place to achieve both fair and inclusive Agricultural Green Growth. However, this raises the question of whether the policy, as laid out in the Greenprint strategy for instance, has sufficiently been put into practice. There are concerns about the environmental and social objectives, which are at least controversial or seemingly at risk. This calls for closer monitoring, independent assessments and review structures.

While emphasising the importance of partnership itself, the sustainable development principles fail to take into account the issue of financial sustainability and demand for such investments, which is a prerequisite for successfully achieving the SAGCOT objectives, as realised investments have remained below expectations. Conflicting interests between national and local elites as well as the overall business environment constraints are potentially negative factors for PPPs to develop. Land conflicts, land

management and land use in the past do have direct impact on the SAGCOT PPP rather than foreign direct investment (FDI), as it can lead to tensions between involved stakeholders.

### Healthcare in Lesotho

A PPP solution to replace Lesotho's main hospital, the 'Queen Mamohato' offered a comprehensive solution that made capital expenditures affordable in the short-term. While the predictability of expenditures would contribute to government budget stability, there were several other promising benefits: the cost neutrality for the patients; the transfer of risk to the private sector for construction delays or cost overruns during construction; the transfer of significant operational risk for a complex healthcare operation; the opportunities it offered for Basotho-owned businesses and local economic empowerment.

However, it has also faced a number of challenges, including escalating costs and payment delays; significant cultural change for nurses, physicians, and staff with regard to the implementation of a strict time and attendance system; negative media reaction during the

start-up; challenges for physician recruitment due to comparatively low salaries; and delays in establishing PPP units in the government and strengthening the government's contract management capabilities. Whereas some of these are relatively manageable challenges, the PPP's affordability throughout the entire term of the contract is a more pressing and fundamental challenge, with increasing costs beyond what was considered as feasible for the government of Lesotho and no clear solution on the way.

In hindsight, the case also demonstrates that the actual implementation of any provisions remains uncertain and depends strongly on the capacity of the public partner involved to enforce them as well as to stand its ground during unavoidable renegotiations of the contract. The power dynamics between the public and the private partners, but also within a private consortium seem to be an underestimated factor in the outcome of any PPP.

### Better Factories Cambodia

The Better Factories Cambodia programme (BFC) represents a third type of PPP, and one which is much less known and studied than its counterpart PPPs in infrastructure and service delivery, focussing on labour standards governance. It is a large-scale multi-donor programme managed by the International Labour Organization (ILO) with the aim to monitor garment and footwear factories, organise training for the management and workers, and provide guidance and advice on factory improvements. The programme has both a promotional function (export promotion) and a monitoring function (labour conditions).

The BFC is largely judged a success because the different actors in the PPP have sufficient incentives to participate and take the system seriously with factories increasingly wary of reputation risks. The factories in the BFC programme also receive human resources management support and are audited in areas that also affect product quality. From the perspective of the Cambodian government, there are strong indications that the factories that comply with the BFC monitoring protocols are more competitive, especially in an international market

which has become more sensitive to images of sweatshops, child labour, etc. Research strongly suggests that improvements in working conditions in the BFC factories have gone hand in hand with productivity improvements.

However, as in many developing countries, more than a lack of labour laws and policies it is the enforcement of laws that is problematic. The main criticisms of the BFC scheme have therefore been around declining real wages, outside the control of the programme; opacity around monitoring due to a lack of transparency in the system; enforcement problems when factories do not comply and subcontracting to factories, which are not part of the BFC scheme but produce for and deliver to BFC monitored factories.

### Key insights

These cases illustrate some major insights. First, balance of power and capacity tend to condition development outcomes of partnerships. The Lesotho healthcare's key factor determining the course of the PPP is the capacity of the public partner to adequately negotiate, renegotiate, manage and monitor the deal throughout its entire contract term. Similar conclusions emerge from the controversies over land-titling and the power balance among different actors in the SAGCOT, where large agribusinesses may outplay smallholder farmers.

In the case of Better Factories Cambodia, developmental effects on the most important industrial sector of Cambodia (garment sector) in terms of improved working conditions could be identified. But a question remains: whether the enforcement cost is not largely pushed onto the suppliers, with buyers remaining reluctant to take the full cost of a garment that is produced under fair conditions. The BFC process

is also designed in such a way that it guarantees international brands secrecy about the interactions with their suppliers.

The analysis reflects a wide and widening definition of PPPs, and there are major difficulties in finding data on these. Hence, two basic questions need to be addressed when evaluating a PPP: 1) is the PPP the best tool to address the identified needs in a specific context, in comparison to the alternative options?; and 2) does the PPP deliver what it promised to deliver? To answer these, a better understanding of the PPPs' costs and benefits is required. This calls for greater transparency, while the underlying PPPs' design must take into account the likely power imbalances of private sector actors negotiating with public ones in institutionally weak environments.

The two concerns raised most frequently regarding development PPPs are additionality and transparency. The first concern is about defining, ensuring and measuring the additional impact that is being achieved due to the public finance component. The latter relates to the availability of reliable information on the negotiation, the design, the implementation and the results of PPPs.

The different cases illustrate that the diversity of types of partnerships make it very difficult to come up with useful criteria that can commonly be applied across various PPPs, while monitoring and enforcement of such criteria remain key challenges. It also seems that there are unforeseeable developments and factors, such as the conflict of interests, that may affect the development outcome but are beyond the reach and impact of sustainability criteria. Hence, donors can take a carrot and stick approach to supporting such PPPs but must also take account of political realities to allow adaptation to interests and incentives. ■

*This article highlights some of the insights of the study: Byiers, B., Große-Puppenthal, S., Huyse, H., Rosengren, A. and S. Vaes. 2016. Principles for public-private partnerships - towards sustainability? Lessons from SAGCOT, health care in Lesotho, and Better Factories Cambodia. (Discussion Paper 194). Maastricht: ECDPM and KU Leuven. <http://ecdpm.org/dp194>*

### About the author



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# A territorial approach to multi-stakeholder partnerships

by Alfonso Medinilla and Karim Karaki

If multi-stakeholder partnerships and especially CSO-business partnerships are such an appealing way to engage the private sector in development, donor agencies need to rethink the way they promote and support them to realise their full (developmental and sustainable) potential.

## Partnerships: stuck between dream and reality

In a context where the Official Development Assistance (ODA) to developing countries is in decline, while the development community's ambitions (2030 Agenda) are on the rise, the need for governments, private sector, and civil society organisations to come together and act collectively has never been more pressing. And so today, donor agencies and development partners are supporting and promoting multi-stakeholder partnerships as a key tool for "*mobiliz[ing] and shar[ing] knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries*" (UN SDG 17.16).

This commitment has been translated into a number of policies, strategies and programmes that integrate or are dedicated to, partnerships and in particular private sector engagement for development policies. The quest for green and inclusive growth also sparked much developmental optimism over the potentially transformative role of the private sector in developing countries. Partnerships and coalitions between civil society and businesses also tick all of the boxes of what is fashionable and promising. Who doesn't want to find the next collaborative start-up that will bring business and social development at the same time?

The reality for the development community, however, as is often the case, is more sobering - many of such multi-

stakeholder partnerships have resulted in disappointing development impacts, in part because of the challenges linked to their complex nature.

ECDPM research on the process and governance of these partnerships in the mining and dairy sectors reveals that investing in cooperation between civil society organisations (CSOs) and business is not a neutral game, and that donor agencies that seek to do so face major challenges if their aim is to make multi-stakeholder partnerships a transformational tool for the 2030 Agenda.

## Partnerships, more than just a buzzword

Partnerships. It's one of those intrinsically positive words. It implies people working together, building bridges, breaking down barriers, so everything we tend to really like in development. In reality, there are endless variations of what a multi-actor partnership can look like. They vary in terms of mission; activities; interests and governance. This affects the type of partnership we are talking about, whether they are *Base of the Pyramid* (BoP)/commercially-oriented, social investment partnerships, or philanthropic investment partnerships. None of this is set in stone, as some initially socially driven partnerships aim to become commercial, while others begin from a commercial standpoint but try to be more inclusive. A one-size-fits-all approach to partnerships that ignores the differences between types and levels of partnership is therefore unlikely to generate the expected developmental outcomes.

As in any collaboration between two or more entities, the way power relationships play out affects the effectiveness and capacity of such a collaboration to deliver on its developmental objectives. CSO-business partnerships are certainly no exception. A closer look reveals that businesses tend to be the dominant partner in the relationship, which can make it very difficult to build a critical level of trust, or a balanced participation of CSOs and communities in the design, decision-making process, management and evaluation of the partnership. This complex reality of multi-stakeholder partnerships often contrasts with the common understanding in the development community of partnerships as simply another developmental tool or approach.

The key to supporting and brokering more effective multi-stakeholder cooperation therefore may lie in a change in mentality on the why, what and how of these partnerships. This goes beyond the need to take into account the diverse typology of partnership constructions or the need to counteract problematic power imbalances. It involves trying to establish a stronger link between a partnership operation and the inclusive development process at local level.



Palm oil plantation, Ghana. Photo: Alfonso Medinilla, ECDPM.

### A territorial approach to CSO-business partnerships

ECDPM looks at partnerships for development; partnerships that from various angles (commercial, BoP, social, etc.) seek to transform communities and catalyse development. These partnerships do not exist in a vacuum. In fact, our analysis of CSO-business cooperation in the mining and dairy sectors suggests that the transformational potential and inclusive development outcomes often depend on the level of embeddedness of a partnership approach, in a sector, in the local and national economy and in society.

Engaging with a CSO-business partnership, be it by providing funding, or actively brokering the setting up of a partnership initiative, can fundamentally alter power relations in a given area, even more so when the partnership involves a sector with a large economic social or environmental footprint such as mining or large-scale agriculture. It makes little sense therefore to look at a partnership initiative as a simple business-case or worse, an isolated funding proposal.

Multi-stakeholder cooperation and particularly CSO-business coalitions also have most potential when they feature in a larger - territorial - vision of local development, one that takes into account the socio-economic foundations of an area, and most of all the political economy of business and politics; who holds power over what, and how settlements are made. An integrated territorial approach to (local) development is therefore crucial not only to judge the feasibility of a certain partnership or approach, but also to break free from the traditional sectorial silo-approach of international cooperation and look at all angles of inclusive development.

Any form of scaling up for example will require engaging both the private and public sector; and any profound change in the socio-economic buildup of an area - such as the adoption or expansion of a new economic activity - requires the consent and support of a wide range of players. As an approach, CSO-business partnerships can offer major opportunities for economic transformation at the local level. As a modality however, seen through the eyes of the development community, support to CSO-business partnerships is often too isolated from societal and political realities in which they operate. A purely sectoral or project approach is in most cases unfit to deal with the complexity and risks that come with financing and supporting these partnerships.

### Development partners: a key actor

Development partners and donors are well placed to broker and support these initiatives, however, doing so requires taking a different approach: taking off the 'development investor' glasses and thinking more as a development strategist. In practice this means widening the perspective and actively and creatively building the conditions that would make a partnership really work. In some cases this means working around a certain partnership, with (local) authorities, or even brokering new alliances and coalitions (in and with civil society) to enable a more balanced cooperation with existing private sector.

Looking beyond the business-case also requires adapting the donor architecture for working with private sector and civil society. Historically, the private sector and civil society have spoken different languages, and bringing the two together can be challenging. CSO-business cooperation, when moving towards an integrated territorial approach, can however provide an operational opportunity to bridge the disciplines of governance support, private sector development, sectoral support (e.g. rural development) and the political engagement of donors in a country around a common and integrated strategy.

Making this shift puts strategy firmly before funding, and may be difficult to digest for some task managers who are often under significant pressure to show a coherent sectoral

or thematic portfolio. Over-reliance on competitive procedures such as calls for proposals can also make it difficult for development partners to take up the more proactive role that is asked of them and use their means in more strategic ways. A first important step, however, remains taking these multi-stakeholder partnerships out of their isolation as a funding priority or simply a sustainability check for private sector development and viewing them as a potential operational component of an integrated local development approach.

While multi-stakeholder partnerships and especially CSO-business partnerships are such an appealing way to engage the private sector in development, donor agencies need to rethink the way they promote and support them to realise their full (developmental and sustainable) potential. To make CSO-business partnerships more than a buzzword will need more of a focus on the role of donors in partnerships, analysing their drivers and opportunities, and drawing insights that will come to nourish future recommendations for policy-makers and link better policy to practice. ■

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Other relevant ECDPM publications available at: <http://ecdpm.org/topics/business-development/>

### About the authors



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# Africa's growing tech hubs and smart cities

by Yaw Owusu

As Africa's youthful population become more innovation-savvy and the race to develop Africa's technology infrastructure heats up, we look at how tech hubs and smart cities will impact the development of African innovations and the evolution of the region's economy.

During Mark Zuckerberg's (Facebook CEO) two-day trip to Africa last month to acquaint himself with the rising technology entrepreneurship and the evolving innovation ecosystem on the continent, he visited, among others, the Lagos-based CcHub and Andela, a development centre for technology professionals in which he and his wife, through the Chan Zuckerberg Initiative (CZI), recently invested. Other investors in Andela, which trains and deploys programmers and software developers across Africa, include GV (formerly Google Ventures), Spark Capital (Boston), Learn Capital (San Francisco) and the Omidyar Network (San Francisco).

Africa's information technology industry has been flexing its muscles - with fiber optic technology, smart applications and innovation hubs steadily beginning to take centre stage, as the drivers of Africa's economy gradually shift from natural resources toward human capital and innovation. A successful shift!

## From ihubs (and co-working spaces) to smart cities

The number of technology hubs in Africa has increased by more than 100% within a year as demand for technology infrastructure continues to outpace supply of high tech workspace, incubation services, etc. on the continent. By the end of the second quarter of 2016, Africa had 314 technology hubs and incubation centres (in 93 cities in 42 countries), according to the GSMA's Ecosystem Accelerator, a programme that facilitates partnerships between mobile service operators and developers in Africa and Asia.

The growing number of tech hubs across Africa highlights the demand for modern technology parks (smart cities) that helped power the tech industry in India, South Korea, China and other emerging markets in the last 30 years. Only South Africa, out of 48 Sub-Saharan African countries, is home to 'an international standard' technology park - Pretoria's Innovation Hub, a high tech campus, featuring major brand technology companies and dynamic startups.

The relative success of Africa's tech hubs has made a strong case for scaling up these mini tech hubs, highlighting the need for technology parks and smart cities. Governments and private groups in every major African economy plan to

build technology parks to address the expanding demand for high tech work space, startup incubation, data centre and other tech and business services.

## Link to growing economy

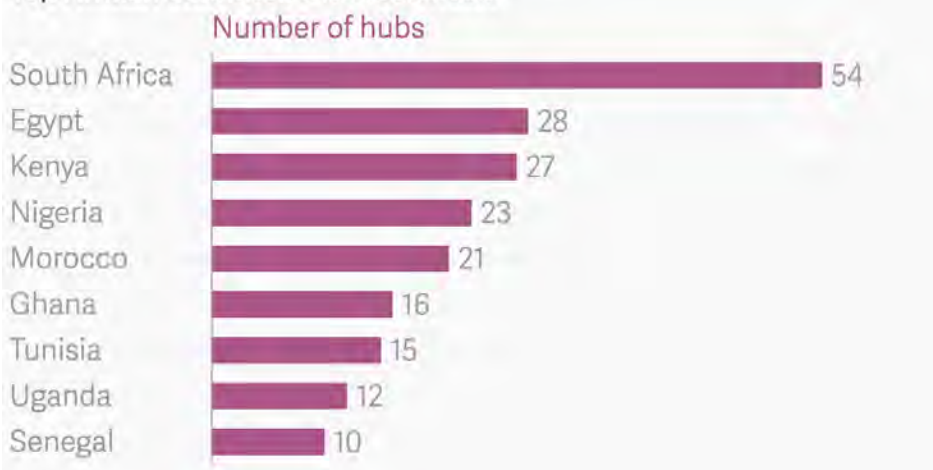
There's going to be an explosive growth in co-working spaces and smart communities across Africa in the coming decades as the youth population increases (Africa's population of one billion will double by 2050 according to the United Nations), income levels continue to grow, more young Africans acquire higher education and become more tech-savvy and entrepreneurial-minded.

Up to 13% of the tech hubs in Africa have established partnerships with mobile operators, particularly Orange (France), MTN (South Africa) and Vodafone (UK). Increasingly, mobile network operators in Africa seek to innovate more aggressively in order to support long-term revenue and profit growth.

With increased investments in fiber optic technology and rapid growth of broadband bandwidth, big data, among others, ICT has directly contributed 7% to Africa's GDP in the last six years, higher than the global average. There are now over 50 cities in Africa with a population of more than one million each (source: McKinsey). Africa's consumer spending in 2020 is projected to top US\$1.4 trillion whilst about 50% of Africans will be living in cities across the continent in 2030. This calls for development of smarter cities and more efficient capture and use of big data and new innovations in the region. Smart city innovations would facilitate the following:

- *Transportation:* Mapping mobile phone signals at peak commuting times to better analyse movement of people, enabling city planners to make smarter transportation decisions. This may help address the substantial working hours that are lost due to heavy traffic jams, putting a strain on city and national economies.
- *Revenue collection:* Digital payment systems create opportunities to use big data technologies to boost city revenues from parking fees, garbage collection, water and other utilities. Big data may help identify

## Top African countries with tech hubs



Source: Atlas Data: GSMA ecosystem accelerator.

## Total mobile revenue and growth in Africa



Source: Atlas Data: GSMA ecosystem intelligence.

underpayment, which account for many African cities losing up to 50% of their potential revenues.

- **Energy:** Smart metering and grid technologies for optimising energy infrastructure and minimising electricity losses.
- **Health:** Identifying and weeding out counterfeit medication from the African market using mPedigree, an innovation, pioneered in Ghana. Up to 30% of medications sold in Africa, according to estimates, are counterfeit. Hewlett Packard has partnered with the mPedigree Network and major pharmaceutical firms to deploy the application, currently in use in Africa and Asia.
- **Startup incubation:** Technology parks, incubation centres and smart use of big data in South Africa, Ghana, Nigeria, Kenya, etc. have spawned innovation and competition that is projected to lead to more African inventions such as mPesa, Esoko, mPedigree, etc.

The link between big data, new innovations and the development of smart cities and its role in improving delivery of services and quality of life in Africa is gradually taking shape. Increased data access has direct impact on the type and nature of jobs demanded and produced in Africa. The demand for innovation and tech-based jobs, such as programming, software development and management of technology has been increasing. A report published by the World Bank, the Africa Union and the AfDB pointed out that the information technology industry is projected to be worth US\$150 billion by the end of 2016.

## Challenges facing Africa's digital economy

The development of Africa's digital economy is hampered by many factors:

- **Education and skills development:** In sub-Saharan Africa, 40% of primary school graduates enrol in high schools, whilst only 7% of the high schoolers receive university and other post-secondary education. About 70% of African firms surveyed by Ernst & Young are recruiting to support planned growth yet "vacancies are taking longer to fill and employee turnover is high."
- **Access to power:** In the last five years, many African governments - especially Nigeria, Ghana, Senegal, and Kenya - have reformed the power sector to streamline government-led power generation operations, encourage private investment, and expand access to electricity, which ranges from Chad (4%) to Nigeria (45%), Ghana (72%) and South Africa (85%). Still, persistent power outages on the continent hurt the productivity and profitability of tech firms, especially those that depend heavily on power, such as data centres.
- **Broadband connectivity:** Fiber optic cables which have landed in all coastal countries around the continent are yet to be deployed in much of the interior of the continent, beyond 200 miles from the coast. Accordingly, many parts of even the most wired countries, such as Morocco, Kenya, and Ghana, remain unconnected or experience poor quality broadband internet service.
- **Access to capital:** African private investors and developers continue to struggle in accessing finance



Upcoming Ghana cyber city with a project value of US\$200 million owned by Gateway Innovations and other private investors. Photo provided by author.

from angel investors, venture capital (VC) firms and especially from local and international commercial banks. The best funded investors and VCs are from North America, Europe, China and Japan, many of whom are risk averse about opportunities in Africa.

- **Government's role and public private partnerships:** Though many African political leaders publicly demonstrate commitment to developing the ICT sector in partnership with private investors and developers, real investment in the sector by the respective governments has been less than impressive, whilst there remains little or no public private partnerships in many countries on the continent.

Despite these challenges, international bandwidth and data networks are increasingly becoming more affordable and available in Africa and more people have access to smart phones, PCs, laptops and other data-enabled devices. Analysts from Informa Telecoms & Media, forecast that the number of smart phone connections in Africa will increase from approximately 79 million in the fourth quarter of 2012 to 412 million by 2018.

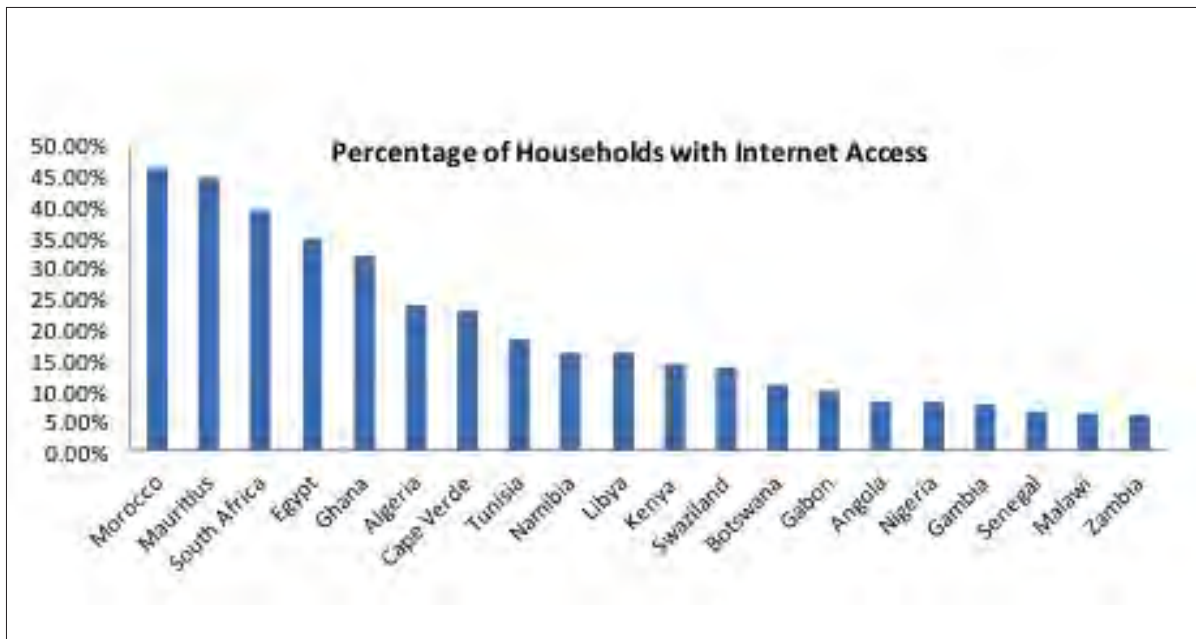
### Promoting and sustaining Africa's smart communities

The success and sustainability of African innovation hubs, technology parks and smart cities depend, to a great extent, on the following:

- **Founders Act:** The cost of a technology park/smart city typically ranges from US\$200 million to US\$10 billion. Due to the capital intensive-nature of the business, initiators, especially those driving private ventures,

must be prepared to sacrifice time, income, personal convenience, etc. in order to get the project off the ground in the shortest possible time.

- **Government's role:** Due to the high price tag for developing tech parks, it is easier for governments to drive such ventures as sole owner or majority shareholder. Yet even in privately-funded parks, governments may provide land at affordable costs and/or designate finished projects as free zone entity. The certification of a technology park as a free-zone enclave by government typically offers tax incentives to tenant firms for up to ten years, enabling the project to compete with regional and international tech parks/smart cities.
- **Business environment:** The more favourable a business environment, the more successful a technology park will be as a commercial entity. In addition to the ease with which a business can be started in a country, local and international investors pay attention to tax laws, access to capital, dealing with construction permits, registering property, protecting minority and/or foreign investors, enforcing contracts, resolving insolvency, etc.
- **Partnership with industry leaders:** In 2013 and 2015, IBM opened research laboratories in Kenya and South Africa respectively. The IBM Africa Labs, located at the Catholic University of Eastern Africa, Nairobi and at the Wits University in Johannesburg, seek to develop and deploy smart applications to address inefficiencies in public procurement, energy management, financial



Source: WEF Global ICT Report 2015.

inclusion, traffic congestion, etc. in Kenya. In South Africa, the collaboration will focus on advancing cloud computing, Big Data and mobile technologies to power South Africa's urbanisation, boost smart mining and facilitate innovative healthcare. IBM, Microsoft, and Samsung, among others, have demonstrated interest in playing principal roles in development of technology parks across Africa.

- *Angel investors, VCs and DFIs:* In 2012, the AfDB, in partnership with the governments of Spain and Denmark, launched the African Guarantee Fund (AGF). The AGF seeks to facilitate access to capital by African private investors, many of whom face hurdles raising capital from commercial banks, angel investors, venture capital firms and development finance institutions for big ticket businesses. Ghana Cyber City (GCC), one of only two privately-funded ventures among the upcoming technology parks in Africa (the other is the Silicon Park Africa), experienced a tough period raising capital until AGF came along with a commitment to guarantee up to 75% of the capital GCC raises that requires a financial security.
- *Media:* African and global media have a role to play in correctly reporting the substantial progress that has been made in the information technology industry on the continent. The world needs to know about Africa's home-grown inventions as well as the emerging innovation hubs, technology parks and smart cities that are impacting the quality of day-to-day life and changing the way business is conducted on the continent. ■

### About the author



Yaw Owusu is the Managing Director of Gateway Innovations, a private Ghanaian investor/tech group that seeks to develop high impact technology parks in Africa, starting with the Ghana Cyber City.



# Fast-tracking connectivity solutions through public-private partnerships in Africa

by Christine Leurquin

Over the last ten years connectivity in Africa has increased, but the level of accessibility remains very imbalanced. Good coverage is provided by fibre optics along coastal areas but there is limited coverage in the centre of the continent. Add to this the relatively slow deployment of 3G mobile services, the lack of infrastructure in some areas, and the strict regulations around public-private partnerships (PPPs) and it is clear there is still more work to do.



WiFi in Yanfolila, Mali. Photo Geekcorps volunteer, flickr.com.

## Fast-tracking connectivity

As it stands, entire communities in Africa are missing out on the huge range of developmental benefits connectivity can bring. Around 400 million Africans live outside the user reach of fibre connectivity and, according to ITU (the United Nations specialised agency for information and communication), 80% still live without a mobile broadband connection. In order to be sustainable, Africa must look at its economy, society and environment; there is no question that connectivity has a part to play in all three.

However, how this digital divide can be bridged remains unclear. One technology which has huge potential to connect the unconnected, though, is satellite technology, which offers advantages such as reach, reliability and short deployment time. Additional technology innovations, for example Wi-Fi hot

spots, can also be used in conjunction with satellite, boosting connectivity across Africa even further.

As a world-leading satellite operator, SES has already started to bring these benefits to the African continent. In addition to the ten satellites we have over Africa, we have also deployed SATMED healthcare programmes in Benin, Niger and Sierra Leone, and trained local engineers in precise antenna dish installation across Africa as part of the Elevate programme. This culminates in an overall investment of almost €3 billion – all of which are dedicated to providing broadband connectivity to unconnected and disconnected communities.

However, additional and faster changes in connecting the population would be possible if investments in Africa were made easier and if digitalisation of Africa became a priority.

## Reducing red tape

In regards to the necessary steps to be taken in order to make the process easier, we believe one of the main areas to look at as a priority is public-private partnerships (PPPs). These are essential to ensure that public funding allows for truly inclusive societies. The critical lack of public funds allocated for the mass diffusion of connectivity to schools or hospitals, for example, means that sound PPPs do not have the power to create and accelerate opportunities in the markets in order to fast-track Africa's development path and ensure that business and social development objectives are met. In addition, under current regulations, PPPs are often delayed or even abolished altogether.

In order to avoid this happening in the future and ensure the sustainable development goals (SDGs) are met, regulatory fees for private investors should be decreased or even exempted in case of public services – with education and health being two critical examples – and the public sector itself should commit to larger investments over longer periods of time. Private investments have already been made in Africa to bridge the digital divide, and what the private sector requires now is entrepreneurship and common PPPP (People, Public, Private Partnership) projects to deploy new initiatives. Time is of the essence and these initiatives need to be fast-tracked to slow down the massive migration of young people



Cyber cafe, Dschang, Cameroon. Photo: flickr.com.

who don't believe they have a future at home. We need to create jobs for them and help them develop their own tools and solutions to the world's economic challenges.

The lack of transparency and limited opportunities private investors often face when submitting proposals to public authorities in Africa are other areas where we need to see change. In order to speed up the SDGs and further promote PPPs, decisions at international and local levels need to become faster and more transparent. On average, we currently witness a two- to three-year delay between the submission of a private sector proposal to the public governments and the signature of a contract. We would therefore strongly recommend a substantial investment in measures to develop a business-friendly environment for the private sector by offering more transparent, stable and harmonised regulatory conditions, fast-track public funding and the abolishing of two-year waits for contracts.

Finally, clearer, more specific deadlines should be set, in a similar way to the European Broadband Connectivity for All programmes.

### **Aim: 100% connectivity**

In order for the SDGs to be met it is extremely important that connectivity is delivered to all and is recognised. If it is not, and rural areas and villages remain without the support to get connected, the issues that exist today will remain in 2020.

While people in Africa are keen to seize the opportunities offered by ICT and satellite technology, for this to happen a sustainable and accessible ecosystem has to become available for all. The only way that this can be achieved is through the right policies, the right financing instruments and transparent PPPs.

With this approach, the ITU objective of connecting 60% of the population with broadband connectivity by 2030 is achievable. In fact, with a combination of all technologies, including satellite, we could even contemplate 100%. ■

### **About the author**



Christine Leurquin is Vice President of Institutional Relations and Communications at SES Techcom services.

# Talking Points

Our blogs aim to deepen the dialogue on policy issues, and get to the heart of the matter in an honest and concise way.



## Who will implement the EU Global Strategy for Foreign and Security Policy?

*Talking Points, Damien Helly, 30 September 2016*

In the first of a series of three blog posts ahead of the publication of the implementation plan of the EU's Global Strategy on Foreign and Security Policy, ECDPM's Damien Helly argues that the EU has far too many diplomats doing the same things and that their human resources could, and should, be managed in a much more rational way.



## Empowering women in Africa: The only way to achieve food security

*Talking Points, Carmen Torres and Hanne Knaepen, 9 September 2016*

Girls and young women represent a crucial invisible labour force in the developing world, as Carmen Torres explains in her recent article for the Girls Rights Gazette. They play a key role as producers of food, managers of natural resources, income earners, and main caregivers of their families and communities. Nevertheless, gender-based discrimination denies rural women and girls equitable access to land, information and productive resources, opportunities for formal employment, equal access to education and health care, as well as the power of decision-making.



## Is the African Union's financial independence a possibility?

*Talking Points, Luckystar Miyandazi, 24 August 2016*

As a continental organisation, the African Union (AU) is in a constant struggle to cope with the multifaceted social, economic and political problems that have become particularly worrisome over the last two decades. Consequently, resolving this has great resource implications. Yet, the quest to find alternative, adequate, stable, and predictable funding for a fully functioning AU has been discussed severally at various experts and ministerial meetings, but with no formal decisions being made.



## European Development Days 2016: Focus on implementation of the Sustainable Development Goals

*Talking Points, Melissa Julian, 21 July 2016*

Last month, over 6,000 international development experts, including UN Secretary General Ban Ki Moon, attended the European Development Days (EDDs), Europe's leading forum on development and international cooperation. Their discussions focussed on the implementation of the '2030 Agenda for Sustainable Development', making it one of the very first major conferences dedicated to the issue.

# Latest ECDPM publications



Martens, D., Orbie, J., Putte, L. Van den, Williams, Y. 2016. Civil society meetings in EU trade agreements: Recommendations and lessons for EPAs. (Briefing Note 93). Maastricht: ECDPM.

*The conclusion, signing and ratification process of three new Economic Partnership Agreements (EPAs) between the European Union (EU) and the Southern African Development Community (SADC), the Eastern African Community (EAC) and the Economic Community of West African States (ECOWAS), has reopened the debate on EPAs, including in the European Parliament.*



Bilal, S., Ramdoo, I. 2016. Sustainability and human rights in EPAs: A comparative analysis between the Caribbean and African EPAs. (Discussion Paper 198). Maastricht: ECDPM.

*The adoption of the 2030 Agenda for Sustainable Development at the United Nations (UN) in New York in September 2015 and of the Paris Agreement in December 2015 has put the sustainability and climate change ambitions and concerns at centre stage of the international agenda. International trade is recognised as an important means of implementation to achieve the sustainable development goals (SDGs) and specific targets. For a long time, the European Union (EU) has been committed to the promotion of human rights and sustainability, including in its international relations, and has been a strong advocate of the SDGs.*



Bossuyt, J., Keijzer, N., Laporte, G., Medinilla, A., Tollenaere, M. De. 2016. Exploring scenarios for the future of ACP-EU cooperation: An analytical tool for informed choices. Maastricht: ECDPM.

*The debate on the future of the ACP-EU partnership is gaining prominence as key actors reflect on past experiences with the Cotonou Agreement (CPA) and explore options for a future arrangement beyond 2020. It is a complex review process considering the drastic changes in international relations as well as in the European Union and the ACP countries and regions. Furthermore, several institutional and political factors may constrain an open, well informed and result-oriented discussion.*



Humphrey, E. 2016. How will Brexit affect the Caribbean? Overview and indicative recommendations. (Discussion Paper 199). Maastricht: ECDPM.

*On 23 June 2016, in a referendum on whether Britain should maintain its EU membership, 52% of British voters opted to leave the Union. The vote to exit the EU (Brexit) has given rise to political and economic uncertainty in the UK and raised concerns among its international partners.*

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