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GREAT insights

Private Sector Matters

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Exclusives:

'To set our priorities in action, the region needs the private sector' : Mr Kalilou Traoré, ECOWAS Commissioner

Dr Roberto Ridolfi, Director, DG DEVCO, European Commission

With contributions from:

Made in Africa Initiative, EUROCHAMBRES, SGS, CGDev, Eurodad, MIGA,TMEA

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.

***GREAT Insights* is published by ECDPM**
Editor:
Sanoussi Bilal
sb@ecdpm.org
Twitter: @SanBilal1
Executive editor a.i.:
Annette Powell,
apo@ecdpm.org
Design, layout and production: Claudia Backes, cba@ECDPM

HEAD OFFICE
Onze Lieve Vrouweplein 21
6211 HE Maastricht
The Netherlands
Tel +31 (0)43 350 29 00
Fax +31 (0)43 350 29 02

BRUSSELS OFFICE
Rue Archimède 5
1000 Brussels
Belgium
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

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Kidist Mulugeta – a site surveyor, at the National Cement Share Company, Ethiopia. Picture: Gavin Houtheusen/DFID

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Construction workers on site. Photo: Arne Hoel / World Bank

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Editorial

Private sector matters for development! The good news is that this is now explicitly recognised and embodied in the Sustainable Development Goals (SDGs). It is good news in two respects:

First, by including considerations beyond the important social objectives of the Millennium Development Goals (MDGs), the international development community finally explicitly embraces the challenges of engaging with economic actors, the key drivers of economic growth and structural transformation. But growth and transformation have no merit on their own. They need to be socially inclusive, equitable, environmentally and financially sustainable, so as to improve the living conditions of the population at large, and the poorest in particular.

Second, the universality principle embodied in the SDGs implies that the goals are relevant to all countries and all actors. This means they also apply to developed countries, in their domestic and international relations, and to all actors, including private sector. One consequence is that it brings the policy coherence of developed countries to the forefront of the development approach. It also calls on the business community to embrace sustainability criteria in their operations.

What does it mean in practice? Time will tell…

Public and private actors have not waited for the adoption of the SDGs to pursue sustainable development activities and engage with one another. The articles in this issue of *GREAT Insights* on Helen Hai's Chinese productive investment in Africa, and on SGS partnerships to facilitate trade in Ghana and other African countries are examples of business engagement with potentially positive development outcomes. But there are many challenges for the private sector and public actors.

Developing countries need to identify effective strategies and policies to better harness the private sector potential to foster economic transformation and industrialisation in an inclusive and sustainable way, at domestic, regional and international levels. This requires not only the establishment of a more conducive business environment and the design of appropriate policy measures, but often also a change of mindset, overcoming resistance and some lobbying pressures, as indicated in the exclusive interview of ECOWAS Commissioner for Industry and Private Sector Promotion, Kalilou Traoré.

For donors, many of which are already involved in supporting private sector for development objectives, the challenges are three-fold: learn from experiences, innovate and improve coherence; all three are intrinsically linked of course.

There are a lot of very interesting initiatives and experiences of donors' engagement with the private sector.

The article by TradeMark East Africa points to impactful experiences in supporting smallholder farmers, cooperative and business organisations. How to best replicate and scale up such initiatives, building on positive achievements and learning from problems encountered to improve them?

The European Commission is becoming very active in this regard. In an exclusive article, Roberto Ridolfi, Director at DEVCO, outlines for the first time the EU new Agriculture Financing Initiative, AgriFI, aimed at engaging the private sector in agriculture and food and nutrition security development. One of the main objectives of this new initiative is to leverage private investment in agriculture, in particular, through blending mechanisms, accompanied by business development and advisory services.

Cost and risk-sharing objectives are an important drive to leverage private finance. One of the main cited reasons for international business reluctance to invest in developing countries, and the poorer ones in particular, are the risk factors.

This puts institutions like the Multilateral Investment Guarantee Agency (MIGA) at the core of the learning-from-experiences process, but also of the innovation imperative to face rapidly increasing and evolving needs for developmental investment, as discussed in the article by MIGA Senior Risk Management Officer, Conor Healy.

It also raises some fundamental issues about the way donors seek to leverage private finance.

In their article, Theodore Talbot and Owen Barder, from the Center for Global Development in Europe, argue that donors are misled in providing mechanisms to share costs and risks with the private sector, which are inefficient in terms of incentives and development impact. Instead, they recommend that donor subsidies should be paid out conditional on the private sector success or performance in terms of measurable development impact. Their proposal raises interesting questions around the mechanisms, incentives, costs and impact of the approaches adopted to leverage private input and finance. A one-size-fits-all is certainly not going to work.

Together with Sebastian Grosse-Puppendahl, we note in our article that many public mechanisms already exists outside the development cooperation framework to support private sector along commercial lines, often in the context of an active economic diplomacy strategy. These also entail cost and risk sharing, technical advice and matchmaking and linkages services for business. How do they affect development? What is the coherence and synergy between development-oriented mechanisms and economic diplomacy ones?

The potential seems important. Focusing on export promotion and private sector development in Africa, Professor Andreas Klasen underlines in his contribution the positive development impact export credit agencies (ECA) can have. Not only do they increase access to finance in developing countries, but by abiding to global standards, as those set by the OECD and the Berne Union, they can contribute to better environmental, social and developmental impact, in particular, if embodied in a comprehensive policy framework. Hence the need for coherence in approaches.

The same principle applies to the effort to better link international business, and small and medium-sized enterprises (SMEs) in particular, with partner companies in developing countries. Philippe Adriaenssens from EUROCHAMBRES stresses the positive role on development such matchmaking can have and the useful role that donors, the EU in particular, can play in that respect; notably in supporting business intermediary organisations. But to be effective, such endeavours must be pursued in a comprehensive and coherent manner.

While important, perhaps too much expectation is put on the ability of public actors, including donors, to significantly leverage developmental private sector input and finance. This is also the view expressed by Maria José Romero from Eurodad, who usefully calls for greater scrutiny on the impact of foreign investment in development countries, and on the way donors and other public actors support and engage with private sector. If the adoption of SDGs can help the emergence of a more comprehensive and coherent global framework toward sustainable development, it is crucial that public-private sector engagement also seek to improve the international regulatory environment, notably to address illicit financial flows and tax issues, among others.

As always, we hope you will enjoy reading this issue of *GREAT Insights* and welcome your comments and contributions.

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

Follow San on Twitter: @SanBilal1

"To set our priorities in action, the region needs the private sector"

GREAT Insights' Editor Dr San Bilal talks to Mr Kalilou Traoré, ECOWAS Commissioner in charge of industry and private sector promotion

ECOWAS countries have made progress in many areas but there are still many challenges to attract more investment. To this end, the new strategy for private sector and the new strategy of industrial development were adopted to better address priorities and engage the private sector.

San Bilal: What is the regional dimension of private sector promotion? Isn't it first and foremost a national matter?

Kalilou Traoré: The Economic Community of West African States (ECOWAS) was created to achieve a politically and economically stable area favourable for development. It comprises 15 countries with over 340 million people and will have a market of over 400 million consumers in 2020. The region has recorded a steady growth of 5% of GDP on average for over a decade. While ECOWAS countries have made progress in many areas, there are still many challenges to attract more investment.

Everyone agrees that the private sector must be the engine of development. To make this possible we need to create an enabling environment for business development. The investment deficit of the private sector in our countries still depends largely on the quality of our business environment. This is an important challenge for all development stakeholders that requires a combination of efforts by member states, regional institutions, the international community and the private sector.

The main private sector development responsibility rests with the national authorities who need to create the appropriate environment and establish administrative mechanisms, fiscal, infrastructural needed.

The role of the region may be at three levels:

- to give the private sector a larger market for business development;
- to assist Member States by pooling efforts through cooperation, harmonisation and implementation of joint projects; and
- to establish integrator mechanisms and projects.

As a regional organisation, ECOWAS is supporting its Member States through regional programmes and expertise on improving the business climate and attracting more investment. The regional actions have the advantage of pooling efforts, reducing costs, sharing experiences and giving greater visibility and predictability for investors. The Region focuses on the development of a strong and dynamic private industrial sector, allowing local industrial transformation, taking into account the comparative advantages, to meet the needs of the growing regional market and to integrate into global value chains with transformed products.

Business people keep complaining about the overly bureaucratic and lengthy procedures for doing business in West Africa, far beyond African good performers such as Mauritius and Rwanda. What can you do about it?

The gap between policy statements and the business environment in many African countries is striking. Despite several programmes implemented at national and regional level, we must recognise that there are still many challenges. The causes of under development are many and this requires us to continuously improve the logic and quality of our approach in setting priorities. This exercise led us to develop a new strategy for private sector development, endorsed by the Council of Ministers of ECOWAS, which revolves around five axes:

- business environment
- regional market
- competitiveness
- SME development strategy
- private sector financing

The strategy also sets priority areas with particular focus in the field of agribusiness, digital economy, trade, public buildings and works, finance and crafts. The role of this strategy is to harmonise policies and pool efforts, building on positive experiences and developing capacity building projects for countries.

Particular emphasis will be placed on SMEs strategy with the promotion of intelligent local content principles while promoting market opening. SMEs constitute over 80% of regional companies involved but less than 15% in the regional GDP. To remedy this situation, the Commission has launched a study to establish a regional SME support policy. This policy will focus on capacity building, development of entrepreneurship, access to finance, access to national and regional markets etc. This programme will engage governments, financial institutions and development partners. Its review by the member States began in April.

What has been ECOWAS achievement so far and what are your priorities?

The integration efforts in the region have led to a fivefold increase in the volume of regional trade between 2003 and 2013. This is significant even if intra-ECOWAS trade still represents less than 15% of total trade by ECOWAS countries, dominated by massive oil exports, mining products and agriculture. The region GDP reached

US$675 bn in December 2013, following a decade of steady average growth of 5%, and is expected to grow by 7.1% in 2015. Among the Common Market achievements we can mention the Free trade area since 2000, the Customs Union since 2015, the regional competition policy, a regional monetary cooperation programme for the single currency, several sectoral policies, several projects interconnection of transport networks, energy and telecommunications, and now a new regional private sector development strategy and a new regional industrial strategy. We also have some key on-going programmes to build and strengthen the regional market (see Box).

On-going projects to build and strengthen the regional market include:

a) The programme to improve the business climate and investment
This programme, implemented by IFC aims to the increase in investment flows, the increased cost savings of compliance to streamline procedures for entry and admission of investments, the reduction of fiscal incentive costs, the improved investor perceptions, and the improvement of the transaction costs.
This programme accompanies the development of an ECOWAS investment code and policy.

b) The programme of integration of regional financial markets
This programme, supported by the Board of the capital markets of the region WACMIC (West Arica Capital Market Integration Council), has for its objective the integration of financial markets within the ECOWAS region.

c) The establishment of the regional guarantee mechanism
This project, highly anticipated by financial institutions, is intended to facilitate the financing of major public and private projects covering lower cost political and commercial risks for investors in the region.

d) The regional payment system
The goal of this programme, adopted by governors of Central Banks in the region, is to reduce the time and costs of financial transactions and promote regional trade.

e) Public-private partnerships (PPPs)
The objective of this programme is to strengthen the practice of DPI for states and for regional projects through the sharing of experiences, harmonization of legislation, capacity building.

f) The ECOWAS Quality programme
The main activities include: the harmonisation of regional standards and strengthening of national standards bodies; the establishment of regional accreditation system; the establishment of a regional product certification system; the establishment of a regional metrology and calibration system; and strengthening of institutions and conformity assessment services.

What are the main challenges you have encountered so far? And how do you plan to overcome them?
ECOWAS countries have made progress in many areas: democracy, governance, security, trade, infrastructure investment etc. But most countries are still in the lower rankings in the Doing Business reports of the World Bank. We know, through experience, that improving the Business Climate is a long way process of work because it requires significant changes in the habits and skills capacities. But most of all, many are afraid of change, even the necessary ones, which often face established public or private interests. Even if reforms are made, the implementation may take a long time because of low capacity and lack of willingness to change. The reasons for this are numerous. Key challenges include weak capacity and capabilities of Member States to make the necessary reforms and to implement EU rules to improve the business climate. All that still weighs heavily on the performance of the regional market, the flow of investments, competitiveness and the development of local entrepreneurship. This situation challenges us to double efforts and refine our approach on concrete targets. Therefore, in addition to cross-cutting actions to strengthen the business environment, we will develop the sectoral approach on high-potential sector.

West Africa is pursuing its integration process and opening up to foreign companies. Does it mean that the ECOWAS market is doomed to be dominated by few Nigerian and Ivorian companies, and some large multinationals, European and Chinese companies? What about private sector development from other countries in the region?
The development of the economy requires massive investments that are unfortunately lacking in our region. The gap for financing of the economy in our region amounts between US$40 to 50 billion per year. We are currently implementing several programmes that aim at attracting investment from abroad as well as from within the region. Consequently, the private sector, including large multinational corporations at regional and national levels have an important role to play. We encourage all ECOWAS Member States to include the regional dimension in their development strategies including investment and trade. We therefore appreciate the efforts and commitment of the countries strongest economies in the region, like Nigeria, Ghana and Côte d'Ivoire, to engage in that direction because it is the entire region that benefits. The integration process is designed so that each country derives maximum benefit. This will be achieved if all countries have an ambitious regional expansion strategy, based on their comparative advantages. We will support Member States to achieve this trend with our sectoral approach to bring together countries that share specific sectoral benefits.

How do you concretely associate the private sector in your industrialisation plan for West Africa?
Dialogue with the private sector is essential at both national and regional levels to set priorities of our action. We have several programmes to strengthen the partnership with the private sector. We support the establishment and operation of regional organisations such as the Federation of Chamber of Commerce, the Federation of employers' organisations, the Federation

of Women Business, NEPAD Business Group, sectoral associations in the field of industry, banking, insurance, pharmaceuticals etc.

Concerning our industry strategy, the Region adopted in 2010 a common industrial policy developed to strengthen regional cooperation in the industrialisation process. The objectives of this policy are:

- Diversify and expand the base of regional industrial production gradually increasing the local raw material processing rate from 15-20% to an average of 30% by 2030.
- Gradually increase the industrial sector contribution to regional GDP from a current average of 6-7% to over 20% by 2030.
- Gradually increase the intra-community trade in West Africa less than 12% to 40% by 2030, with a 50% share of regional trade in industrial products.
- Gradually increase the volume of exports of industrial products in West Africa to the global market from 0.1% to 1% by 2030.

The revised implementation strategy of this policy has two main parts. A cross section which focuses on cross-cutting issues of industrialisation and a sectoral section that focuses on priority sectors.

The cross section has four axes:

- Strengthening of national policy, uniform, and regional cooperation
- Promotion of opportunities and market access
- Supporting industrial competitiveness
- Mobilising resources

The sectoral part will target four key areas:

- Agribusiness and food industries
- Pharmaceutical industry
- Building materials industry
- Industries automotive assembly and machinery

Although the region has significant comparative advantages in many industrial production sectors, these sectors are struggling to develop. Each sectoral plan will establish a regional framework with a political commitment by Member States, the availability of technical expertise and involvement of financial institutions.

Although the agro-industry sector is the main regional manufactory, we cannot limit the ambitions of the Region to this sector. We intend to benefit from the strong growth in demand for manufactured goods in other sectors at regional and international level. We plan to organise the first edition of the ECOWAS industry forum in July 2016, which will be an opportunity to bring to also bring together all private sector actors, financial partners and external technical experts concerned by the regional industrial development.

Lafarge plant in Benin. Photo: jbdodane/Flickr/CC

Engaging with business for agricultural growth: opportunities and risks

by Roberto Ridolfi

This article briefly presents how the European Union intends to engage the private sector in agriculture and food and nutrition security development in the coming years, in particular with its new Agriculture Financing Initiative, AgriFI.

A challenge…

In May 2014, the European Commission adopted a Communication titled "A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries". This clear policy orientation resulted from the evidence that the private sector had a key role to play in fostering development.

In developing countries, 90% of jobs are provided by the private sector. Decent jobs creation is obviously the best and probably unique way to eradicate poverty, the private sector is thus an essential partner in the fight against poverty.

In the field of agriculture and food security, the challenge is to be able to feed 9 billion people by 2050, provide jobs, get producers out of poverty, and ensure sustainable use of natural resources. This implies a very significant increase of agriculture production which will not be met without massive private sector investment.

It is for this reason that one of the main development challenges is to find the most effective way to boost responsible private sector investment. The renewed interest of the private sector to invest in food systems which emerged after the food prices crisis of 2007-2008 is an opportunity that must be seized.

It is my view that we should team up with the private sector. The resulting partnerships with the private sector must be fully in line with the objective of poverty eradication, which remains the overarching goal of our public development policy. This is a duty, vis-à-vis both European citizens as tax payers and the populations of the partner countries.

The EU response…

Policies and public investments play a critical role in enabling, facilitating and guiding private sector development. The support the European Union (EU) has been providing to governments and institutions will continue. The dialogue on policies is actually a key driver, not only for building an enabling environment for private sector investment and in fine sustained growth, but also to ensure a fair distribution of growth benefits, the promotion of environmentally friendly practices and the enforcement of internationally recognised social rights. Complementing this classical development approach, and in order to effectively contribute to foster private sector investment in food systems development, the EU is designing a specific Agriculture Financing Initiative: AgriFI.

Why AgriFI?

Increased investment in rural areas is notably essential to achieve development for the 75% of the poor living in rural areas. Beyond public financing additional investment is needed to enhance the development impact of the interventions and achieve impact at scale. To achieve inclusive and sustainable agricultural growth, increased investment in smallholder agriculture and agribusiness medium, small and micro enterprises (MSMEs) is required. As already mentioned, investment in agriculture in developing countries is growing, but initiatives to support the investment capacity of small producers and rural MSMEs remain largely insufficient. This is not only due to the inherent risks in agricultural production (weather and environmental conditions, quantity and quality of produce, market prices), but also to higher risks associated with smallholder production (limited technological and innovative capacities, market failures inefficiencies and distortions, limited access to financial services and markets), as well as the high cost of doing business in small rural markets.

What is AgriFI?

AgriFI is a new EU-initiative addressing the aforementioned situation aiming to improve the capacity to bear risk using public money in order to encourage project promoters and attract private finance to viable investments which would not have materialised otherwise. AgriFI is therefore about addressing market failures. It aims at financing those actions that have a clear development impact on those that would otherwise not be reached. This includes smallholders with limited market orientation, vulnerable groups, women and youth, farmers and entrepreneurs.

The key feature of AgriFI is that the provision of EU support will mobilise additional public and private investment, in particular through the provision of risk capital, guarantees or other risk-sharing mechanisms. EU support will contribute to "de-risking" the investment and therefore to close a financing gap.

Arusha Blooms in Tanzania, where green beans are processed and prepared for export to European markets. Photo: Fintrac Inc.

AgriFI responds to the lack of financing mechanisms adapted to farmers and agri-entrepreneurs, particularly smallholders and agribusiness MSMEs.

How does AgriFI work?

AgriFI is an initiative under which we envisage that various programmes will be implemented, funded from the different EU financial instruments and sources, notably through the existing EU blending mechanisms which allow combining grants from EU funding and loans from Development Financial Institutions.

AgriFI relies upon 3 pillars:

1. investment,
2. business development and advisory services to farmers and agri-entrepreneurs; and
3. a robust monitoring framework based on value chain analysis for better accountability and decision making.

EU support to investments will be governed by a set of guiding principles and criteria, as reflected in the Commission Communication on the private sector. All investments will have to demonstrate that they are economically viable and inclusive, as well as environmentally and socially sustainable. Business development and advisory services are needed to set-up bankable projects based on innovative business and risk management plans, as well as to provide capacity building to strengthen the participation of smallholders and MSME agribusinesses in the value chains. We believe that local partners and organisations will have a major role to play in this.

AgriFI intents fostering the development of sustainable value chains and food systems to achieve food security and improve nutrition through: i) linking commercial-oriented smallholder farmer to markets; ii) creating decent jobs with a specific attention to women and youth; and iii) improving access to nutritious foods at affordable prices. This food systems approach will facilitate broader interventions along the value chain, in particular on food safety and quality standards, both for domestic and export markets.

Managing the risk and ensuring accountability…

In order to inform the decision making process and monitor the evaluation of actions involving close cooperation with private sector stakeholders, a framework based on value chain analysis will allow to inform specific criteria related to the 3 pillars of development: economic, environmental and social. It is EU's intention to analyse every investment according to its contribution to:

i) economic growth,
ii) inclusiveness e.g. fair distribution of additional added value,
iii) environment preservation or improvement (carbon footprint, water footprint, pollutions); and
iv) respect of social standards (notably concerning decent job, gender inequalities, land tenure rights respect and protection).

All projects should therefore be in line with the Voluntary Guidelines on the Governance of the Tenure of Land (VGGT) and the Principles for Responsible Investment in Agriculture and Food Systems (PRAI), internationally agreed under the auspices of the Committee on World Food Security (CFS).

The way ahead: post 2015 agenda…

We believe that this AgriFI initiative is fully in line with the on-going discussions on the role of private sector in the context of the Post-2015 agenda. Partnership is among the essential elements for delivering on Sustainable Development Goals (SDGs). Coordinated public and private sector investment in food value chains and food systems is a critical element to achieve Sustainable Development Goal 2 on "ending hunger, achieving food security and improved nutrition and promoting sustainable agriculture" and Goal 8 on "inclusive and sustainable economic growth, full and productive employment and decent work for all".

The EU intends to be at the forefront to contribute to this accomplishment.

About the author

Dr Roberto Ridolfi is Director of the European Commission for Sustainable Growth and Development at DG for International Cooperation and Development.

Key messages

- Financing the Sustainable Development Goals requires a step-level shift in financing for development, from "billions to trillions."
- The search for ways to leverage private sector know-how and capital has prompted donors and other public sector actors to rely on contracts that make deals more attractive by reducing risk (like credit guarantees) or increasing rewards (like subsidies).
- We argue that these are blunt instruments that shift costs and risks from the private sector to the public sector, and propose that subsidies that pay out conditional on performance can deliver dramatically better development impact at the same expected cost.
- Paying for success enhances incentives for investors to choose and manage projects effectively, promotes more contestable markets while reducing the costs of optimism bias, builds public support by paying for success rather than failure, and reduces the need for policymakers to try (and too often fail) to pick winners.

financial returns from investing are too low, given the risks, even if social returns are very high. This means that many socially-valuable projects are in the situation of the yellow star in the stylised Figure 1: investors are not compelled to take them on because they could earn the same return at lower risk or higher returns for the same level of risk.

Continuing with the theme of energy access, we can imagine the positive effects on economic growth and human development that arise from access to reliable, affordable electricity. Nearly 60% of African health clinics, for example, do not have fridges with regular electricity access, breaking the cold chains that keep vaccines safe and effective, and as Aleem Walji of the World Bank pithily put it, "Today, countries like Uganda are still 90% unserved by electricity. Can you imagine not having power in 90% of any country and still trying to grow the economy?" (Walji, 2015).

However, we can also easily imagine that building electricity connections to many of these communities is not a compelling proposition for many private firms because the fees they could earn from poor communities are unlikely to offset the capital expenditure. Though specifics vary by terrain, one often-cited estimate is that extending grid infrastructure to a community 15 km out of range costs US$150,000 (Greenstone, 2014).

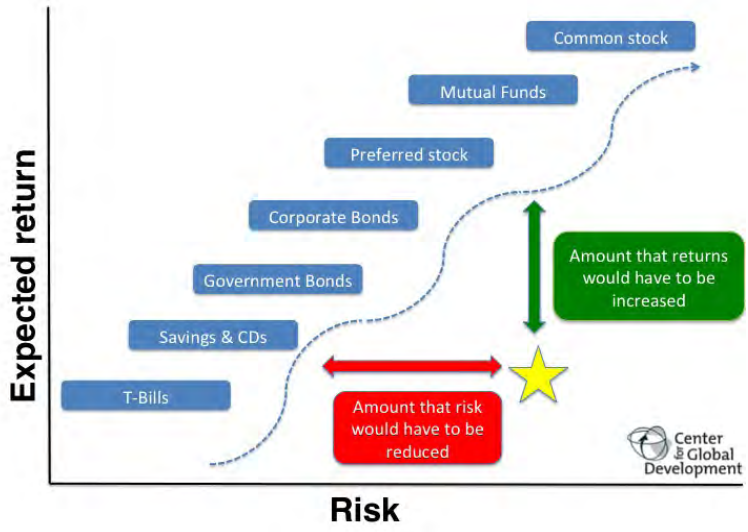
In response, the public sector can create incentives to catalyse private involvement by using taxpayers' financing to either reduce risk (moving the yellow star to the left) or increase returns (moving the yellow star up in Figure 1). The long and growing list of financial instruments that donors are now using boil down to three ways of achieving this:

- *Guarantees and insurance* that reduce risk by promising to repay some or all a project's value to a lender or the implementing firm if the project fails.
- *Subsidies*, including concessional finance, that raise the investor's expected returns by lowering a project's costs.
- Raising returns by *paying for success,* for example using contracts such as Advance Market Commitments, Development Impact Bonds, prizes, vouchers, purchase guarantees and various kinds of payment by results or output based aid.

A guarantee helps a private firm access debt financing. Let's say a Kenyan solar energy provider wants to borrow US$3 million to expand its operations but cannot borrow from a bank because the loan appears too risky. A donor could step in and backstop some or all of the loan – if the solar energy firm defaults, the bank will be repaid up to the value of the guarantee. (We include various kinds of insurance, such as political risk insurance in this category because they also reduce risk to the investor at a cost to the public sector).

Similarly, a subsidy raises the returns to the investor, typically by lowering costs, for example by taking an equity stake in a firm but accepting a lower return on equity than other investors. A low-interest loan is therefore also a subsidy, since it transfers value from the public sector to the private sector by accepting lower repayment rate or longer repayment term (or both).

Figure 1: Risk-return profile



Paying for success

An alternative approach to subsidising inputs or reducing risk is to provide a subsidy that is linked to specific, measurable, transparent, mutually-agreed and variable measures of a firm's success or performance. This moves the yellow star in Figure 2 upwards by increasing the returns, rather than by reducing the costs. Put differently, paying for success distributes a subsidy conditional on the performance of the private investor; subsidies and guarantees distribute this subsidy irrespective of the investor's success or failure.

For example, the Advance Market Commitment (AMC) and Social Impact Bonds (SIBs) or Development Impact

Bonds (DIBs) are mechanisms to distribute subsidies in such a way as to pay for success: in the case of the former, for meeting vaccine development targets of cost, quantity and quality and in the case of the latter, for a broad range of outcomes that can be agreed between funding agencies and implementers and which can be transparently measured.

As of late 2014, an AMC has catalysed development of a cost-effective vaccine against pneumococcal infections that is now available in 50 countries, a DIB is being used to increase access to education for girls in Rajasthan, and a SIB is being used to combat recidivism in the UK (CGD, 2013).

This highlights the point that while contracts to pay for success may initially appear to be uniquely suited for projects in which outcomes can be neatly conceptualised as measurable units (for example, kilowatt hours of electricity produced or number of phone lines serviced), in reality agencies can write effective contracts for a large range of social and economic projects.

Paying for success carries the same cost

How might this kind of contract work in the context of a real, socially valuable investment? In December 2013, the Overseas Private Investment Corporation (OPIC) announced a US$10 million concessional loan to Bridge International Academies, an innovative start-up based in Kenya whose mission is to dramatically lower the costs of education for poor people. OPIC's loan is meant to enable Bridge to build 237 new schools over the next decade that will eventually enrol 300,000 additional pupils.

We use the details of this loan and Bridge's expansion - together with plausible assumptions where the data are not publicly available - to show that paying for success, providing a guarantee, or, as OPIC opted to do, subsidising inputs can all be implemented for the same price (Barder and Talbot, 2015). The idea is simple: since we can calculate the financial value of a cheap loan to Bridge, we can offer to distribute this value on a per-student basis. However, paying for success keeps the delivery risk where it belongs - on the implementer - rather than offsetting it to the public sector before the first student is even enrolled.

The general principle underlying paying for success is that donors reward outcomes, rather than inputs. This approach can be applied to any financing structure, translating blunt instruments that insulate firms from risk or pay out regardless of performance into focused instruments that keep firms' shoulders to the wheel and ensure that public funds are not wasted.

Paying for success delivers dramatically different results

Set out more broadly, there are 7 reasons why instruments that pay for success have better long-run effects than guarantees that cost the same amount. Linking the pay-outs to success could:

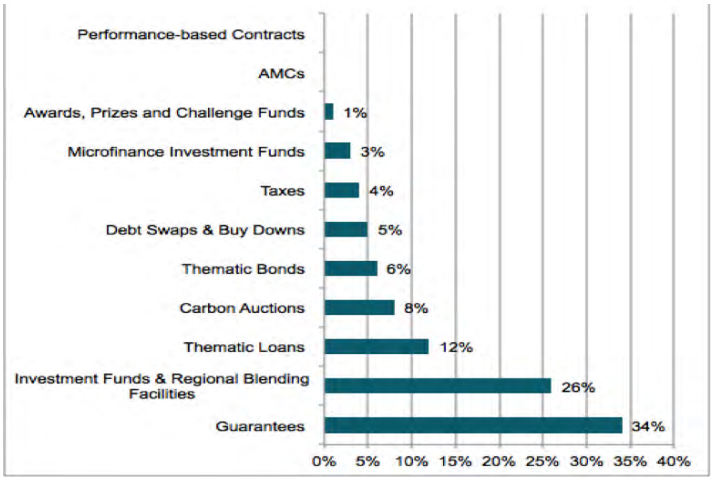
- *Improve performance management*: Managing innovation requires "failing fast" (that is, identifying and exiting unsuccessful approaches) and "failing forward" (that is, learning from mistakes). Generally, investors need to face appropriate incentives to ensure that the project succeeds.
- *Reduce moral hazard:* The more investors are insulated from the risk of a project, the less time and effort they will invest in careful due diligence before they invest, so firms will take on higher risk projects.
- *Improve targeting:* The authorities may want to target a subsidy on investments with the largest gap between private and social returns – for example, focusing on the most socially valuable products or the most disadvantaged communities. Mechanisms to pay for success can be tailored to target the subsidy on precisely these outcomes, whereas guarantees and input subsidies are a far blunter instrument.
- *Promote contestability and reduce corruption:* One of the disadvantages of many public subsidy mechanisms is that they require the donor or government to pick a winner in advance, potentially choking off competition or increasing the returns to corruption. But if the authorities pay for success rather than reducing risk, they can more easily create a more contestable market because the subsidy can be offered to whoever produces the positive outcomes.
- *Avoid the costs of optimism bias:* It is easy for authorities and firms to develop a shared, sincere but ultimately misplaced optimism about a project, resulting in good-faith decisions to support projects that ultimately fail. If the authorities instead support such projects by paying for success, then taxpayers will not have to bear the costs if policymakers turn out to have been too optimistic.
- *Build public support:* When a loan guarantee incurs a budgetary cost – inevitably, some do – it will be because a project or programme has failed. When a contract to pay for success generates a payment, it will be because a project has succeeded.
- *Reduce monitoring and evaluation costs:* Lending to a private firm or providing them with input subsidies requires a lot of costly oversight to ensure that the funds are properly used. Contracts to pay for success, in contrast, refocus the burden of monitoring on results, which can both increase the number of eligible firms and reduce the costs of monitoring.

The road from Addis: the missing middle in innovative finance

Of course, choosing to pay for success does not automatically generate all these potential benefits: public agencies need to carefully consider which outcomes to contract on, how those outcomes are measured, and the extent to which contracting on those outcomes could distort implementers' incentives. But in general, this approach can avoid the moral hazard and other unintended distortions inherent in guarantees and subsidies.

Given that their expected costs are the same and their benefits in aligning the interests of the public and private sectors, how well are donors, Development Finance Institutions (DFIs) and their multilateral cousins, the International Financial Institutions (IFIs) using conditional subsidy tools? An overview of US$75 billion of innovative financing instruments (Abraaj Group,

Figure 2. Distribution of >$75 billion of innovitave financing instruments



Source: Abraaj Group (2015), CGD analysis.

2015) shows that donors, DFIs and IFIs have come instead to rely heavily on instruments like guarantees, that create incentives purely by shifting costs from private firms to the public sector.

Guarantees alone account for fully a third (34%) of this financing landscape. When we exclude financing that seems more likely to pay out only conditional on private firms delivering services or products we want to incentivise (like challenge funds), the share of innovative financing that is spent as an unconditional subsidy to the private sector rises to 93%. This is another kind of financing gap – the missing middle of innovative financing instruments that are not being deployed by donors, DFIs or IFIs.

From Addis to New York and beyond

Development actors urgently need to work alongside private sector partners to deliver social returns. However, the market failure facing most of the potential projects is that social returns go unrealised because private returns are too low to attract investment given their risk. Policymakers should therefore make much more use of instruments that create incentives for investors by paying for success, through contracts that raise returns based on specific, transparently measured, and mutually agreed outcomes, or contracts that combine some level of guarantees with such rewards for performance. Failing to do this means relying on blunter instruments that shift costs from firms to taxpayers, either because development actors believe they understand the risks better than the private sector or because they are more used to them. These contracts that do not focus private firms' energies on the development outcomes we care about. Continuing to rely on them risks undermining support for development spending and worse, could far reduce the impact and leverage of that spending in tackling destitution and deprivation amongst the world's poor.

This article draws on and excerpts our longer working paper on paying for success in theory and practice, Guarantees, Subsidies, or Paying for Success? Choosing the Right Instrument to Catalyze Private Investment in Developing Countries, available at www.cgdev.org.

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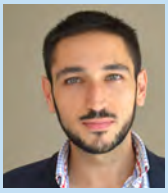
About the authors



Theodore Talbot is a Senior Policy Analyst and Owen Barder is the Director for Europe and a Senior Fellow at the Center for Global Development in Europe. The Center for Global Development in Europe is a think-and-do tank that works to reduce poverty in developing countries by improving the policies of industrialised countries and global institutions. We do world-class research and develop politically-savvy policy ideas. CGD Europe is a UK-registered charity.

How to involve the private sector in development cooperation

by Philippe Adriaenssens

As businesses hold an important key to tackling poverty, development cooperation initiatives designed by donors need to be implemented with the private sector, by the private sector and for the private sector.

An employee of Bidco Africa Ltd. ferries cooking oil out of the manufacturing plant warehouse for loading and shipping to the thousands of supermarkets across Kenya. Photo: Bidco Africa Ltd./Flickr/CC

The growing policy consensus on the role for the private sector in development has not yet led to a large roll-out of concrete mechanisms and projects. Experiments such as the European Business and Technology Centre (EBTC) in India deliver promising results but need to be accompanied by wider measures to make the regulatory environment of developing countries more conducive to business.

Why should the private sector be involved in development cooperation?

Not all development actors and researchers would firmly underwrite the idea that the private sector needs to be involved in development cooperation. However, it is evident that a country's economy can grow sustainably in the long run only when its Gross Domestic Product (GDP) rises. If more companies produce added value goods and services, they can make profit from the sales thus hiring more local staff. People with a stable income pay more taxes and are likely to increase their consumption which in turn stimulates additional production and service delivery. When the private sector develops, creates a surplus and embraces innovation, it increases the number of citizens in employment, outside of the civil service and public sector financed programmes.

This is not rocket science and yet, for decades, development policy researchers and aid practitioners

have shunned mixing development and commercial objectives. This recalcitrance stems mostly from ideological considerations, to keep the realm of development cooperation ring-fenced from other policies or political influence. It also arises from fear – sometimes justified – that multinational corporations distort the local economy whilst their profits do not trickle down and are instead slushed away to the country of origin. Such thinking has only fuelled aid critics who point out that large parts of Africa have not witnessed decent growth figures for decades and hence claim that development projects are often just a drop in the ocean.

Intensive engagement with the private sector has been a critical missing link and could contribute to making development cooperation initiatives more relevant and impactful.

Moreover, development cooperation policies could even deliver tangible results by encouraging European companies, in particular small and medium-sized enterprises (SME) which represent 98% of all companies in the European Union (EU), to internationalise, trade more actively beyond the EU's borders and become operational in developing economies. Their interaction with local companies gradually builds up the private sector by integrating these companies into global value chains in order to create access to valuable new technologies as well as international demand.

Growing policy consensus on the role of the private sector

Recently, both the EU and the United Nations (UN) are finally moving to redress the situation and recognise ever more explicitly the role and contribution of the private sector.

At UN-level, the Sustainable Development Goals (SDGs) contain plenty of references to the importance of the private sector which is poised to play a pivotal role in the overarching post-2015 development framework.

Point 14 of the introduction puts forward that the implementation of the SDGs will depend among others on the active engagement of the private sector whilst goal 8.3 elaborates on supporting entrepreneurship and growth of micro, small and medium-sized enterprises (MSMEs).

In addition, EU policy documents have over the past years increasingly put the involvement of the business community in the limelight. The 2011 'Agenda for Change' was a milestone as it underlines that economic growth needs an enabling business environment and a competitive local private sector that is equipped to harness the opportunities offered by globally integrated markets. More recently, in the 2014 Communication on 'A stronger role of the private sector in achieving inclusive and sustainable growth in developing countries', the EU goes on to recognise that "European companies can contribute to enterprise development in partner countries by integrating local micro, small and medium-sized enterprises into their supply chains, especially in the agriculture and agro-food sectors, as well as through transfer of technology including eco-innovations or renewable energy solutions." The EU also intends to "co-finance market-based schemes for MSMEs to access business support services from local providers including business intermediary organisations."

A growing policy consensus on the benefits of private sector development and engagement is clearly emerging. However, it is not yet crystal-clear what can be done concretely to translate theory into practice. The question still remains HOW exactly the EU should develop new ways of engagement to leverage private sector activity and resources for achieving development goals and WHICH types of funding and projects should be developed to catalyse new partnerships that are relevant for businesses.

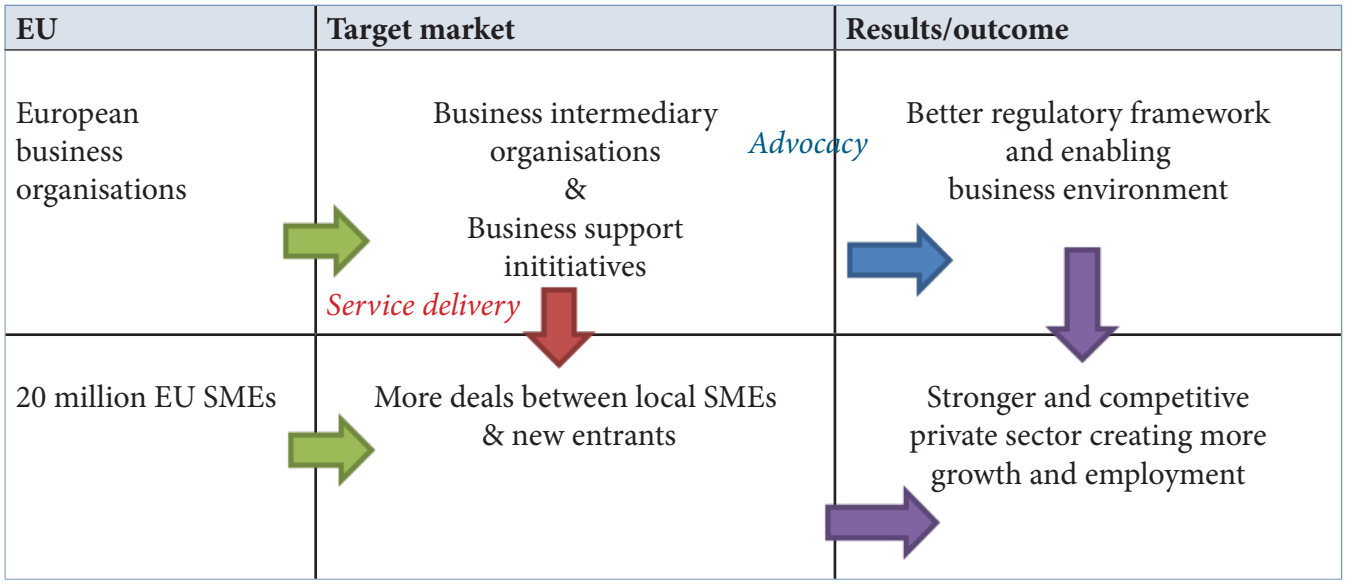
A concrete experiment: EBTC in India

One specific EU project which interweaves commercial and development objectives in an ingenious cocktail is the 'European Business and Technology Centre' (EBTC, www.ebtc.eu) in India. With EU co-financing, a consortium led by EUROCHAMBRES, the Association of European Chambers of Commerce and Industry, started in 2008 to equip 4 offices across India with 20 staff who serve European cleantech SMEs to enter the Indian market. Whilst the project's overall objective is to combat climate change, the EBTC has connected European SMEs with Indian companies, local authorities and investors so as to facilitate the conclusion of commercial agreements and technology transfer. India is in need of European expertise to contribute to cleaning up its polluted rivers, installing renewable energies to electrify rural areas and making its cities less congested.

The project operates under a win-win philosophy because the successful joint exploitation of business opportunities leads on both sides to growth and employment. This potential would remain untapped if EU companies stayed home and did not receive support to penetrate the Indian market, which currently occupies a dismal 142nd place on the Ease of Doing Business ranking of the World Bank.

The Centre has brought to India hundreds of European SMEs, some of which installed LED street lights in factories and spread devices to monitor the quality of water in real-time. The EBTC staff also facilitated the market exploration of SMEs bringing closed sanitation solutions and waste processing technologies. EBTC organised dedicated matchmaking activities, such as the setting up of European pavilions at trade fairs, where these EU companies can showcase their expertise and connect with Indian local authorities, companies and investors in order to conclude business deals. After the setting up of successful pilot projects and when there is mutual interest, there is ample scope for scaling up since these type of joint ventures stimulate job creation and profit on both sides.

Rather than shying away from models that are enabling commercial activities in the development sector, researchers and practitioners should consider that the profit made by European SMEs is an important Key Performance Indicator (KPI) for creating impact and long-term sustainability. Profitable deals hint towards the fulfilment of local communities' needs and are thus an excellent yardstick for the benefits to the population. No development project can match the efficiency gains, economies of scale and long-term results which companies bring to the table when they detect a business case that is aligned to the local needs and interests. The EBTC in India was followed by several like-minded support initiatives in other Asian countries (EU SME Centre in China, EABC in Thailand, EIBN in Indonesia, etc.) and can be replicated in other developing and emerging economies, including Africa.



Creating a better enabling environment for business

Aside from focusing on increasing the cooperation between companies to create international value chains, development policies and projects should also aim at working with business intermediary organisations, both in Europe as well as in developing markets, to improve the business climate and create a better enabling environment for business to thrive in.

A complex web of tariff and non-tariff barriers along with a rising use of localisation policies in developing economies constitute a real obstacle for local as well as foreign SMEs.

Adverse legal framework conditions range from lengthy procedures to establish a business to weak protection of Intellectual Property Rights (IPR), complicated and ever-changing taxation rules, lengthy procedures to obtain proof of origin and different administrative, technical or environmental standards that are difficult to comply with. In a 2014 Position Paper on 'Strengthening the Role of the Private Sector', EUROCHAMBRES stressed the priority for development policies to aim at shaping, in developing countries, a regulatory framework that is conducive to entrepreneurial activity, from a fiscal, financial, economic and administrative point of view.

Through assisting SMEs on the ground, business intermediary organisations as well as business support initiatives, such as the EBTC, generate relevant insights that are extremely valuable for EU Delegations as well as local and national authorities. By organising conferences and targeted meetings, writing position papers or delivering reports on existing market obstacles, their intelligence can feed into Free Trade Agreement negotiations and other bilateral government-to-government dialogues. Policy-makers in the host government are often eager to hear from the hands-on experience from the business community which measures they can take to enable more growth and employment.

Strengthen business support organisations and initiatives

It is the private sector which creates the jobs, goods and services that the world's most vulnerable people need to be lifted out of poverty. As businesses hold an important key to tackling poverty, development cooperation initiatives designed by donors need to be implemented with the private sector, by the private sector and for the private sector. In the table above the red arrow shows how business intermediary organisations and business support initiatives deliver services to the local SMEs and new entrants from Europe whilst the blue arrow represents the advocacy efforts. The purple arrows lead to the long-term impact. The green arrows demonstrate the engagement of the European private sector, both business organisations and SMEs, with the aim of contributing to and developing the local private sector.

Business intermediary organisations and concrete business support initiatives find their raison d'être in helping to navigate companies through complex environments but also in reporting the barriers to the responsible public sector bodies, both in the EU and in the target country. They help implement concrete services and activities for enterprises, while, on the other hand, they collect through their activities relevant economic intelligence on the basis of which they can structure their advocacy work. Fostering lasting linkages between European and local enterprises as well as business organisations and building up the capacities of these organisations is a far more effective and sustainable mechanism than any other intervention from donors, which is by definition limited to the duration of the project or the funding.

EUROCHAMBRES recommends the European Commission and other donors to focus on the further strengthening of business intermediary organisations in partner countries endowing those with the expertise, skills and networks from Europe to support the matchmaking of SMEs and advocate for more efficient and open markets. In the event that such intermediary organisations are weak, non-existent or simply not having a pan-European reach, development cooperation interventions should serve to pool resources and design new initiatives, as in the case of the EBTC in India.

About the author

Philippe Adriaenssens is Advisor, International Affairs at Eurochambres
www.eurochambres.eu

International private finance for development: risky business?

by María José Romero

Policy debates on development finance have been dominated by how to 'leverage' international private capital flows for development projects, even though existing mechanisms do not have a great track record.

The landscape of development finance has changed substantially over the past decade. Private finance has replaced aid at the centre of global and national development initiatives, for both governments and international bodies. This was evident in the run-up to the Third International Conference on Financing for Development, which took place 13-16 July 2015 in Addis Ababa. Private finance initiatives will continue to feature prominently in discussions around the soon to be agreed Sustainable Development Goals. This reflects both the growing need to mobilise all types of resources to lift people out of poverty, as well as growing pressure among donors to link their commercial interests with development policy. While domestic private financial resources are far larger and, most would argue, more important for investment in developing countries, much attention has instead focused on international private finance.

Looking at the full picture: risks and rewards of private finance

Foreign private capital flows can help foster sustainable economic growth. They have the capacity to create decent jobs, facilitate technology transfer and generate domestic resources through taxation. But these flows also carry significant risks and must be carefully managed. As Eurodad's recent report "*Financing for development: Key challenges for policy makers*" shows, the contribution of these flows to sustainable development deserves a detailed analysis.

The employment impacts of foreign investment can vary greatly. Extractive industries, which dominate foreign capital flows to many developing countries, employ relatively few people despite large investments. According to a recent ECDPM presentation, extractives account for 60–90% of Foreign Direct Investment (FDI) to low-income countries, yet generate only 1–2% of total employment. The resource extraction sector can also have huge social, environmental and human right impacts, and may increase macroeconomic problems. For example, economies that become dependent on a small number of commodities are highly vulnerable to changes in commodity prices. In addition, developing countries are earning far less in tax than they could do, in part because of special tax deals that multinational companies negotiate before they invest. Foreign investors often put pressure on national governments to introduce favourable conditions including tax exemptions and lighter labour, social and environmental regulations, which can have damaging impacts both directly and through creating an unfair playing field with national private sector actors, particularly small and medium-sized enterprises. For example, based on extrapolating from a study of 16 countries, a research report by ActionAid International estimates that "over $138 billion is likely given away by governments every year, just in statutory corporate income tax exemptions". Unfortunately, policy debates on development finance have been dominated by how to 'leverage' international private capital flows to developing countries, even though existing mechanisms do not have a great track record. For example, a recent study for the European Parliament, which Eurodad co-authored, detailed the limitations of efforts to incentivise and subsidise private capital flows to developing countries. These included:

- Difficulties in designing programmes that work for medium, small and micro enterprises in low-income countries
- Little success in generating 'additional' private sector investment, with external evaluations showing that many publicly backed investments replace or supplant pure private sector investments
- Unproven performance in leveraging private investment in developing countries
- Low developing country ownership over the institutions and programmes of development finance institutions
- Significant problems in providing adequate transparency and accountability
- Increasing debt risks, and very expensive financing

Therefore, the critical issue is the quality and the development contribution of private flows, which matters just as much, if not more, than their quantity.

Promoting controversial tools?

Public-private Partnerships (PPPs) also featured prominently in the Financing for Development agenda and will continue to be ubiquitous in discussions

Unilever Côte d'Ivoire.
Photo: Abdallahh/Flickr/CC

around the post-2015 development agenda. PPPs are agreements through which private financiers essentially replace governments as providers and funders of traditional public services such as schools, hospitals, water, roads and electricity. In the past decade, their use in developing countries has increased substantially; currently European institutions, donor governments and financial institutions, such as the European Commission, the United Kingdom, the World Bank and the European Investment Bank, are promoting multiple initiatives to provide advice and finance to PPP projects. Proponents of PPPs would argue that enabling the participation of the private sector has the capacity to deliver high-quality investment in infrastructure and reduce the need for the state to raise funds upfront, thus increasing the chances of getting more investment for much-needed public services. Yet, as Eurodad's recent report "*What lies beneath?*" demonstrates, PPPs are problematic:

- PPPs are usually the most expensive method of delivering development projects. For instance, a 2015 review by the UK's National Audit Office finds that the cost of financing a PPP project can be twice as expensive for the public purse as if the government had borrowed from private banks or issued bonds directly
- PPPs can pose a huge risk to the public sector. Such was the case for the Queen Mamohato Memorial hospital in Lesotho, one of the poorest countries in the world Although the World Bank reports some satisfactory results, the reality is that the hospital swallows up more than half of the country's health budget, while giving a return of 25% to the private sector provider. This has diverted much-needed public funds from rural hospitals, where three-quarters of the population live. The government remains locked into this agreement until 2027
- PPPs are typically very complex to negotiate and implement and are all too often renegotiated, which entails important costs for the public sector. According to IMF staff, 55% of all PPPs get renegotiated, on average every two years, and an increase in tariffs occurred in 62% of all renegotiations
- The impact of PPPs on development outcomes are mixed and vary greatly across sectors. PPPs often build user-fee funded services, which eventually exclude the poor from access
- PPPs suffer from low transparency and limited public scrutiny, which undermines democratic accountability and offers greater opportunities for corruption.

The way forward

After a long preparatory process, the Financing for Development agenda was agreed in mid-July. It includes the means of implementation for the Sustainable Development Goals. Much of the debate was dominated by how to 'leverage' more international private capital flows to developing countries using public institutions and public financing or guarantees, even though strong guidelines for financial, social and environmental accountability of private finance were missing.

As a result, key issues were transferred to the follow up of the Addis Ababa conference. Then, it would be better to focus attention on measures that are needed to help developing countries reduce risks and manage foreign investment to maximise its development potential; including removing obstacles found in trade and investment agreements that prevent developing countries from managing private capital flows to reduce risks, and embracing a new international initiative on responsible financing standards with strong implementation mechanisms.

About the author

María José Romero is Eurodad's Policy and Advocacy Manager.

Public support to business: combining commercial and development approaches?

by San Bilal and Sebastian Grosse-Puppendahl

With the increased recognition of the private sector's role in development, public actors should actively seek to combine their approaches to business support. Under the universality principle of the SDGs, they should strive to increase the coherence and synergy of their business support instruments that pursue commercially-oriented economic diplomacy objectives, with those that have development objectives.

Private sector key for development

The private sector has always been a key actor in economic and social development. Rising productivity and structural changes require investment, job creation and technological upgrading, all of which ultimately depend on private sector involvement. But it is the interaction with the public sector and the society at large, in terms of norms and values, institutional and regulatory environment, as well as policies, that shape development outcomes. Some private sector activities might lead to development outcomes, while others might have negative consequences such as the degradation of the environment, labour and social conditions. How best to harness the potential benefits from the private sector in terms of inclusive and sustainable development is the challenge.

One dimension to foster sustainable transformative processes in developing countries, is by facilitating domestic and foreign direct investments (FDI), as well as trade flows. The international community, and increasingly donors, have played an important role to that end, including in supporting the establishment of conducive policies and private sector support measures to foster inclusive and sustainable development outcomes.

Donors increasing engagement with private sector

Developing countries seem more than ever determined to achieve sustainable development based on internally driven processes and initiatives. While developing countries increasingly promote inwards investment and global value-chain integration as strategies to create more and better jobs, partner countries increasingly aim to work with businesses to achieve development objectives, thereby operating at the 'other end' of the value chain. These external actors have developed a range of policies and instruments to better leverage profit-making activities for development outcomes, including by engaging with international business and often firms from their own country.

Donors are in particular increasingly using public official development assistance (ODA) to leverage private sector finance (PPPs, catalytic mechanisms, private to private), as well as engaged in partnerships with private sector activity for development through encouraging productive investment (see Table for an illustration of different partnerships).

Drawing on the useful categorisation of the programmes and instruments donors use to engage the private sector for development provided by the Donor Committee for Enterprise Development (DCED), we can identify three major forms of collaboration between donors and the private sector:

1. cost-sharing or financial support for private investments in developing countries, including through (matching) grants, loans (guarantees), equity;
2. technical advice to businesses (either directly through programme staff or via grant support); and
3. matchmaking services that link companies with donor-funded programmes, implementing partners or more advanced business partners in developed countries

The Flowergate Factory in Nigeria is entirely dedicated to the production of MAGGI. Photo: Nestlé/Flickr/CC

Economic diplomacy and business promotion

At the same time, and often absent in the development discourse, developed country governments also promote internationalisation and outwards investment as part of their own industrial, trade and investment policies, for their own economic benefit. Though not explicitly aimed at development objectives, and while building on the growing interest of companies in developing countries and emerging economies' markets, these approaches also impact on development outcomes in third countries and could therefore become more development-friendly. Approaches adopted also include the same three categories identified above for development cooperation, i.e. (1) cost-sharing or financial support for private investments, (2) technical advice and (3) matchmaking and linkages services. Instruments used aim at facilitating trade finance, risk mitigation instruments, export promotion, including, for instance, promoting the internationalisation of small and medium-sized enterprises (SMEs).

Some of the instruments used entail references to social and environmental sustainability (as highlighted in the case of export credit agencies by Prof. Andreas Klasen in his article in this issue of *GREAT Insights*). But surprisingly, there is little reference, among developed countries policy actors, of the potential conflict of interest and lack of coherence, or on the contrary potential synergy between development-driven and commercially-driven public support strategies and instruments.

These dynamics put developed country instruments and policies for engaging with the private sector at the centre of development outcomes. Comparing development and commercially-oriented sets of instruments, they entail some similar features and challenges for governments in engaging with the private sector and therefore learning opportunities, including across different ministries, departments and institutions. This is particularly relevant in the current context of growing economic diplomacy towards not only emerging countries, but also other developing countries.

Institutional setting and dynamics

A growing number of donor governments are explicitly linking trade, development and foreign affairs institutionally by putting the development ministry under the responsibility of the Ministry of Foreign Affairs (e.g. Australia, Canada and the Netherlands) and more explicitly combining their trade and development strategies (e.g. Finland, The Netherlands, the UK). Some other developed countries keep a clearer institutional demarcation between the institutions in charge of their economic diplomacy and those in charge of development cooperation, including toward the private sector (e.g. the European Commission, France, Germany).

While the institutional design reflects some political preferences in explicitly combining or not economic diplomacy and development policy, the impact in practice is unclear, and merits to be further investigated. Does foreign policy and economy diplomacy interests capture development cooperation? Or does policy coherence for development increases as a result of the potential synergy between them? Some countries, likeThe Netherlands, explicitly advocate for policy coherence, claiming to be able to positively combine development efforts with self-interest motives, in particular from their own domestic business.

Finding synergy

While donors increasingly support the private sector, use private sector finance and engage with their activities to achieve development objectives, lines between development cooperation and economic diplomacy are becoming increasingly blurred. In the case of both development and commercially-oriented instruments, the underlying reason for public and private actors to engage with each other relates to sharing costs, risks and resources. Modalities seem increasingly similar. Differences are clearly found in the stated objectives. But development-oriented approaches increasingly recognise the need for partnership with the private sector to be financially and commercially sustainable. And commercially-oriented approaches to public-private cooperation, often designed along economic diplomacy objectives, slowly but also increasingly recognise the need for environmental and social sustainability. Challenges and opportunities to improve existing instruments are also very similar for both approaches.

In fact both development and commercially-oriented approaches should promote financial and developmental sustainability. This is not to say that both approaches are intrinsically the same and should be merged as one. Indeed, aid should not serve to subsidise business interests, and its focus should remain on core development objectives. Aid should also not be captured by political or strategic

Table: Overview of public partnerships with private sector

	1. Partnerships for private investment	2.Partnerships to leverage private finance
Partnership models:	Donor-led models, coalition models, business-led models, business-CSO models, CSO-led models	Private-public Partnerships (PPPs), catalytic mechanisms, private to private
Partnership instruments/ financing mechanisms:	Donor-led (challenge funds, innovation funds, match-making facilities), multi-stakeholder partnerships (Global Alliance for Improved Nutrition (GAIN), Sustainable Trade Initiative (IDH), Grow Africa)	Blending, output-based aid (OBA), official support for private flows, front-loading of ODA, development impact bonds, currency swaps, financial guarantees function, investment loans, syndicated loans, financial intermediary loans, concessional loans, direct equities, private equity funds
Challenges:	Additionality, donor attribution, project-level attribution, result and impact measurement, agent selection, countries in special situations, success and survival of a private enterprise, local markets and regulatory challenges, market distances	Risk sharing, financial incentives outweigh development principles, additionality, finance concentration to certain sectors and countries, information asymmetries, crowding-out private finance, debt-risk for developing countries, results-measurement, monitoring and evaluation

Source: Bilal et al (2014), De-coding Public-Private Partnerships for Development. ECDPM Discussion Paper 161.

interests around economic diplomacy. Civil society organisations are right to be concerned and play a useful watchdog role in that respect. The key challenge, however, is to build stronger synergy between a development-oriented approach and a commercial one, across the board of public-private cooperation, identify better complementarity, while defining clear roles for each type of instruments.

This requires addressing some critical questions. For instance, are instruments for promoting business 'engagement in development' simply a version of commercial instruments but more targeted at poorer developing countries? ECDPM findings in its upcoming study suggest that a majority of business support instruments with a commercial objective are targeting Asian countries while many of the development instruments focus in particular on the African continent. But the underlying reasons - sharing risks, costs and resources - are very similar in both sets of instruments.

Toward greater coherence under the SDGs?

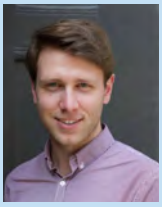
In a world of growing interest and indeed reliance on private sector activities and finance to promote development and increasing alignment of objectives, the similarities and potential synergies between both the objectives and the means of instruments for public-private cooperation point to the potential opportunity of combining funds currently channelled through commercially-oriented public instruments to more development-related investments.

The adoption of the Sustainable Development Goals (SDGs) in September, with a universality principle, offer an ideal opportunity for public actors, including beyond the narrow development community, to work towards greater coherence and synergy between the set of approaches and instruments they use to engage with the private sector, better combining commercial and sustainable development objectives across the board.

This article draws on the insights from a forthcoming ECDPM study, financed by DFID, that maps out the key instruments used by developed countries public authorities to support private sector, both for development and for commercial purposes.

About the authors

Dr San Bilal is the Head of the Economic Transformation and Trade Programme at the European Centre for Development Policy Management (ECDPM) and editor of *GREAT Insights*.



Sebastian Grosse-Puppendahl is Policy Officer at ECDPM. Contact Sebastian Grosse-Puppendahl: sgp@ecdpm.org or Twitter: @SebGroPup.

New study on African Regional Integration aims to identify its potential for development

PERIA (Political Economy of Regional Integration in Africa), that will be published by ECDPM in October 2015, is an in-depth analysis of some of the political and economic dynamics of regional integration in Africa. It aims to examine the drivers and obstacles behind the paths chosen by the champions in Africa for regional cooperation and integration: the African Union and five Regional Economic Communities (RECs), COMESA, EAC, ECOWAS, and IGAD and SADC. The role played by international development partners to support this process is also taken into account.

It is obvious that Africa's development challenges, like trade or peace and security, can only be addressed through cross-country or regional cooperation. Yet while the case for regional cooperation and integration seems a no-brainer, putting regional integration into practice is still a challenge.

The study highlights the ever increasing agendas for regional cooperation and integration in Africa, which have raised two key concerns. The first one is about the gap between aspirations and policy commitments of regional organisations and the degree of actual implementation. The second concern is about the lack of attention and opportunities for solving development problems through regional cooperation. All regional dynamics are complex political processes involving multiple stakeholders, with different interests, resources and expectations or beliefs as to how their interests are best served. So, an understanding of what is technically feasible needs to be complemented with insights into the politically feasible.

The ultimate purpose of this new study is to contribute to understand better the potential and political feasibility of regional reforms, actions and programmes in Africa in a particular regional context, in order to help identify opportunities for effective support.

This study is carried out by ECDPM in partnership with the IDL group on behalf of the Swedish Embassy in Nairobi.

For more information on PERIA, please visit: http://www.ecdpm.org/peria

Export promotion and private sector development in Africa

by Andreas Klasen

Export credit agencies play an important role in providing access to capital. Traditionally mostly supporting public African buyers, there is a growing number of transactions with private businesses. But to support private sector development, a comprehensive policy framework is crucial.

The port at Tema, Ghana. Photo: Jonathan Ernst/World Bank/Flickr/CC

Africa is experiencing unprecedented economic growth, exceeding the global average in past years with the expectation to further accelerate. Thousands of African companies create jobs by developing the potential of many different sectors. It is African businesses that train and use local talent and a growing number of small and medium-sized enterprises (SMEs) in Africa act in a sustainable manner by considerably using natural resources. There is a fundamental change of Africans' thinking in recent years: The future of economic growth, particularly in sub-Saharan Africa, is closely associated with the private sector. Governments outside and on the continent understand the crucial role of private companies in generating more business.

Entrepreneurship and economic growth

Entrepreneurship is a key driver for prosperity and economic growth. Increasing the market value of goods and services creates jobs, and balanced economic development diminishes poverty and boosts state revenues. While multinational companies are often global leaders only in selected industries, innovative small and medium-sized enterprises are an important success factor in both industrialised and developing economies. SMEs often represent the vast majority of businesses and produce substantial taxable turnover. Producing modern technologies such as renewable energies, electrical engineering or precision engineered components, SMEs are main drivers for successful economies. In many countries, innovative small and medium-sized companies engaged in the export economy have a higher growth rate or are even at the heart of the social market economy's growth model.

In a globalised world, entrepreneurship is also driven by foreign trade activity. Opening up to trade impacts long-run growth through several channels, in particular, by affecting the return to capital accumulation, and through its effects on the incentive to innovate as well as the institutional framework. Models that analyse the interaction between international trade and economic growth show that a small open economy can sustain extensive periods of growth with capital accumulation only. What matters is the effect of trade on market size, competition and knowledge spillovers. In addition, trade liberalisation often goes hand in hand with the adoption of external commitments. Many countries have prospered by establishing competitive export industries, and GDP growth helped to generate economic resources needed to improve people's living conditions such as access to healthcare, education and housing.

International trade and government support

International trade is strongly connected with a well-developed and functioning financial environment. The dynamic growth of world trade over the past decades was only made possible by a rapid expansion in trade finance. The latter is crucial for trading partners in order to bridge the time lag between export order and payment for goods and services produced. Factors such as transaction volume and credit period can considerably increase costs of financing or even make it difficult to obtain funding at all. Disruptions in trade finance lead to a severe decline in companies' output on a micro level as well as a contraction in trade on a macro level. Companies willing to export therefore often need credit insurance to access credit facilities and manage their receivables risk. This applies, in particular, for large transactions with longer maturities. Typically, risks arise from non-payment for political or commercial reasons. Political causes of loss can be the lack of hard currency in the buyer's country or, for example, wars, civil unrest or a payment moratorium imposed by a government. Commercial risks include payment defaults by the customer or insolvency leading to temporarily uncollectible receivables or full write-offs.

Export transactions with risky markets can often only be realised on the basis of governmental support. Government export credit agencies (ECAs) are regarded as an insurer of last resort and only step into the breach when private insurers do not offer sufficient cover. They are official or quasi-official branches of their governments and as such form an integral part of

national governments' industry, trade promotion and foreign aid strategies. There is a causal link between export credits and merchandise. ECAs pursue their aims by providing export credit insurance facilities of privately financed transactions through direct lending or pure cover support. Collectively, ECAs account for the world's largest source of government financing for private sector industries.

Risk insurance and development outcomes

The ECAs' impact is mainly associated with the promotion of national exports, and the general objective is to stimulate growth through foreign trade. The underlying export credit is usually commercially motivated and has no explicit objective of promoting economic development and welfare in host economies. However, by mitigating risks for investors and enabling production and large infrastructure or energy projects, these flows play an important role in providing access to capital in developing countries. Export credit agencies are therefore also meant to give importers in emerging markets access to finance in situations and on terms not available in private markets. A large portion of exports from industrialised to emerging and developing countries is insured. For example, in 2014 developing and emerging economies accounted for approximately 84% of all insured transactions in Germany.
Non-governmental organisations have mentioned potential adverse effects of export credit insurance on developing countries, for example due to negative environmental impacts and human rights infringements associated with commercial activities supported by ECAs. In answer to this criticism, multilateral organisations like the Organisation for Economic Co-operation and Development (OECD) and the Berne Union have been immensely beneficial. Agreements such as the 'OECD Consensus' and the 'Common Approaches' guarantee minimum standards for a sustainable application of officially supported export credits. Today, environmental, social and developmental impacts play an important role for the decision whether an export transaction is eligible. There are three major success factors of the OECD export credit work: Transparency, comprehensive rules and an ongoing evolution of the rules. These comprehensive rules include minimum advanced payments and maximum credit periods, also to ensure adequate financial debt for developing countries.

Successfully driving private sector development in Africa

There are two examples for effectively combining private sector development and government support through export credit agencies. Traditionally supporting mostly public buyers in African economies, there now is a growing number of insured transactions with private buyers, in particular in sub-Saharan Africa. Exporters and importers benefit from export credit insurance as ECAs are able to relieve balance sheets by transferring risk, effectively open African markets and provide acceptable finance conditions for local companies. In many cases, African businesses are able to place orders only because of export credit insurance, as exporters from many different industries are able to manage potential bad debt losses. This again supports economic diversification, being at the heart of many African economies for decades.

ECAs are also important for private sector development because of another fundamental challenge for Africa: Energy supply and climate finance. African companies suffer from the lack of access to reliable electricity supply. They regularly experience power shortages and service interruptions resulting in lost sales or damaged equipment. On the other hand, Africa is becoming the 'go-to destination' for renewable energy solutions. The private sector occupies a substantial portion of the renewable energy finance space and ECAs (often together with international financial institutions) fill existing gaps. As part of the UN's Energy for All (SE4All) initiative, several ECAs support renewable energy projects in Africa with specific reference to climate finance. This applies, for example, to the US or Danish export credit insurance programmes, but also for the multilateral African export credit agency ATI. Supported with a grant from the European Investment Bank, ATI enhances its underwriting capabilities for renewable energy transactions in order to boost private sector investment.

Comprehensive policy framework

To further and successfully support private sector development in Africa by the use of export promotion instruments, a comprehensive policy framework is crucial. Different institutional setups for development support show different levels of resilience and effectiveness in coping with the economic conditions they are exposed to. However, there is strong evidence that managing the interplay of three fundamental building blocks – public policy, key and critical success factors as well as institutions, is the key to crafting sustainable and responsive economies. Together with my colleague Henning Meyer from the London School of Economics (LSE), I have labelled this approach to the development of such a supportive economic environment in a Global Policy special issue on economic policy, governance and institutions a 'strategic econsystem'. The aim is to create a strategic fit, ensuring an effective alignment or specific objectives with internal and external factors influencing their chances of realisation.

In the context of this comprehensive policy framework for private sector development in Africa and officially supported export credits, this includes the following aspects: For highly industrialised countries, export plays a significant role in the national economy and innovative and integrated government financing instruments have to successfully support the competitiveness of national companies in the global economy. In addition, the objective of ECAs must be to give importers in developing countries access to finance. Using commercially motivated export credits insured by ECAs and governed by global standards ensures coherence between job impact and environmental as well as social protection. Financing and supporting foreign trade with private businesses in Africa occupies a pivotal role, impacting from new product development and job creation in developed countries through economic growth and human development in African countries. ■

About the author

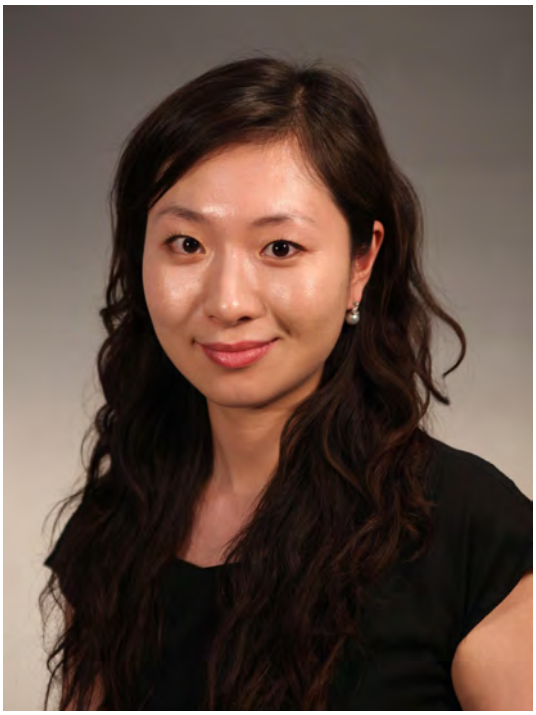
Andreas Klasen is Professor of International Business at Offenburg University. As a Partner with ATRx, he also advises governments on trade policy and economic development.

How Africa can succeed Asia, according to Helen Hai

Africa can replace Asia as the world's factory floor. Having established one of Africa's biggest shoe factories, businesswoman Helen Hai knows how.
(This interview was conducted by Anver Versi, former Editor, *African Business* and first published in *African Business,* June 2015 Special Report WEF Africa)

I first met Helen Hai earlier this year during a conference in Accra organised by the African Centre for Economic Transformation (ACET) and Ghana's National Development Planning Commission. Ghana had just launched its own Economic Transformation Agenda, and ACET had invited four other African countries to share their experiences, as well as Hai, to discuss the prospects of accelerating Africa's industrialisation. In some circles, Hai is talked about with a sense of awe. In Ethiopia, she set up one of the biggest shoe manufacturing plants in sub Saharan Africa before helping establish a garment export factory in Rwanda all in record time. In Accra, when the youthful, petite and bubbly woman was introduced to me as Helen Hai, I was a little taken aback. Given her achievements, I had expected someone more formidable looking who would be able to immediately win the respect of all those around them. But I needn't have worried. Hai shook hands vigorously, found something amusing to say to everybody and, like an excited schoolgirl on her first visit to a foreign country, asked countless questions about everything; in no time at all, she had won over everyone an essential quality in any business leader.

Helen Hai is the CEO of the Made in Africa Initiative and is an adviser to the governments of Ethiopia, Rwanda and Senegal for investment promotion and industrialisation. She is a senior advisor on South-South cooperation for the International Finance Corporation (IFC) and works closely with the UK's Department for International Development (DfID), World Bank, Gates Foundation, Tony Blair Africa Governance Initiative and other multilateral players. She has a BA in actuarial science and MSc in actuarial managment from City University in London and EMBA from INSEAD and Tsinghua University. She is also a UN Industrial Development Organization (UNIDO) Goodwill Ambassador. She was elected as one of the Young Global Leaders (YGL) 2015 by WEF this year.



On the Tigers' tail

Manufacturing for export is the basis on which Asia's economic transformation has been built. But the question for African countries is whether, coming so late to the field, they can hold their own in this same cutthroat environment. Helen Hai certainly thinks they can. In fact, she believes that Africa can become the next "factory floor" of the world and has shown how it can be done. "I came to Ethiopia in October 2011 as vice president and general manager of the Huajian shoe factory," she says. "Three months after first putting my feet on Ethiopian soil, we were ready to export to the demanding and high income market in the US. Six months later, I had doubled Ethiopia's export revenue in the shoes sector. By month 12, I had hired 2,000 local workers; by month 24, I had hired 3,500 local workers." The unlikely experiment turned out well. So well, in fact, that Huajian is planning an additional investment of $2bn. This will take the workforce to over 30,000, turning the enterprise into one of the single biggest manufacturing outfits in the Global South. Success breeds success. Following Huajian's debut, Ethiopia's export processing zones (EPZs), which had been languishing and largely ignored by international investors for years, sprang to life. All 22 units of the Bole Lamin EPZ, built by the government in 2013, were snapped up by manufacturers from, among other

Huajian shoe factory in the Eastern Industrial Zone in Ethiopia. Photo: Unido

places, India, Bangladesh, Turkey, Korea and China, In just a few short years, Ethiopia's basic manufacturing sector was starting to transform into a serious global player. It may still be in the minor leagues when compared to the mega volumes being churned out by the Asian Tigers, but it is on the up. Furthermore, as Hai points out, many Asian countries were much smaller in production terms at a comparative stage to Ethiopia two or three decades ago. And she believes that what is happening in Ethiopia can be replicated in many other African countries. To prove her point, she persuaded a young Chinese textiles manufacturer. Candy Ma, who had already invested in Kenya, to set up shop in landlocked Rwanda. C&H Garments (Candy & Helen) is in a new government built factory and is training some 200 workers. Ma expects to export around 30,000 Tshirts a month. "Her plan is to expand 10 times, to 2,000 workers in one year," says Helen. "And she will do it" Hai has also been in talks with the governments of Senegal and Ghana on setting up similar export based light manufacturing outfits. For African governments, faced with a steadily rising population of unemployed young people, such labour intensive industries could be the answer to their prayers. The added advantage is that they provide the much needed causeways to the industrial future that Africa's rapid urbanisation demands. They introduce new skills and technologies, managerial talents, open up new markets and bring in foreign exchange. These factories, as they have done for the Asian Tigers, could well be the wellsprings for substantial wealth generation as well as poverty alleviation.

The window of opportunity

More and more countries are waking up to these possibilities, though the pace of change is still slow and few countries seem to want to take the initiative like Ethiopia did. "People ask me why you chose Ethiopia," says Hai. "I say, we did not choose Ethiopia, Ethiopia chose us." She recounts that when the late Prime Minister of Ethiopia, Meles Zenawi, called on Justin Lin, former chief economist at the World Bank, to ask his advice on how to rapidly create more jobs and raise income levels, Lin advised him to invite a Chinese manufacturer to set up in Ethiopia. "He took the advice," says Hai, "and that is why we came. What is more, he and his ministers were always ready, day or night, to fix problems and smooth out the way. Doing business in Africa is always difficult, but when you get the kind of support we did from the very top, everything is possible." Senegal's Prime Minister, Mahammed Dionne and Rwanda's President Paul Kagame followed suit and, like Zenawi, invited industrialists to start operations in their countries and took personal responsibility to make sure that obstacles were removed. "Without this kind of visionary and dedicated leadership, you cannot move an inch," says Hai. "With it, the world is yours." She says that the reason Africa could well succeed Asia as the next global manufacturing centre is because it has a large pool of young, underemployed, low cost labour, is closer to the main high income markets, and enjoys duty free access to most of those markets. Labour costs, which tend to constitute around 25% of the overall costs of items like shoes and textiles, have been rising in Asia and, in particular, China. Hai says that despite serious shortcomings in Africa efficiency levels are relatively low, infrastructure is in bad shape, logistics are some of the most expensive in the world, and bureaucracy can be stifling the figures still add up. Manufacturers can make better margins in Africa than anywhere else. For the continent then, the window of opportunity to make the great leap forward into an industrial future is now open. But Hai warns, "it won't remain open forever." ■

A public-private single window initiative

By Philippe Isler and Lieske van Santen

Public-private close cooperation is key to facilitate trade. The public-private joint venture for a single window solution in Ghana illustrates some of the benefits, as well as challenges, from such partnerships.

Don't accept the status quo!

This was a lifesaving motto for a committed group of Ghanaian customs officials, shippers, SGS staffers and other progressive 'trade activists' involved in a groundbreaking public private company. Against the odds, within a period of 2 years, the customs clearance process in Ghana turned from one of the most tedious, burdensome, paper heavy and dysfunctional processes into the diamond of the African trade industry. The name of the company? Ghana Community Network, or GCNet for short.

Supply chains and trade processes are fraught with complications, obstacles and regular unplanned challenges which need to be addressed in order to enable the timely and undamaged delivery of goods to the final consignee. This is especially true in emerging markets where infrastructure is often weaker and volumes are often running well above anticipated projections. The strain on the infrastructure and processes often result in significant delays which equate to huge amounts of wasted resources.

The objective for GCNet? To implement a single window solution for Ghana that would overcome the above described burdens. In April 2003 at the Accra International Airport the system went live and it was operational at all the seaports and land borders before year-end. Ghana Customs, supported by the Ministry of Trade and the local private sector were the key delivery partners and the solution was designed around their needs.

What GCNet delivered, some numbers

Results in Ghana were staggering. Thanks to the integration of accurate, consistent and real-time statistics, tracking figures show that by 2005, clearance time was reduced by a factor of 5 and import duty collections increased by 30%. Within 9 months of operation, 97% of the trade was processed through GCNet. Paperwork went down from photocopying 9 copies of bulky manifests to 2. From a previous 12 copies of a Customs declaration, the current system only requires 1. Other efficiency measures and the shedding of redundant processes resulted in the reduction of the steps in the clearance: from 12 officers to 3, to be exact. Files were processed as and when they arrived, instead of being handled and delayed in batches. Let's take a few steps back to understand how Ghana had such results.

From days to hours .. queues no longer. Photo: SGS

A shake, a stir, a public-private single window

In the late 1990s, the Governments and Institutions Division at SGS faced a dilemma. Revenue had gone down significantly because of a rapid disappearing of Pre-Shipment Inspection which had been a significant business for the company. It prompted a massive turnaround to reinvent our services to Governments and Institutions. Simultaneously, there was an emerging discovery of how new development in Information Technology could radically improve the trade environment. It was grand talk about the reduction of clearance times, about making processes more efficient and transparent, and about securing the revenues Governments are entitled to. The basic formation of the single window concept was born.

When the Ghanaian Government approached us in early 1999 asking whether SGS could help improve the trading environment, we jumped at the opportunity to provide support. Three factors helped:

1. SGS is a large company and we were in a fortunate position to provide upfront finance;
2. we develop our business with a long term interest in mind;

Single window in Africa: SGS experience

Single Window is often considered as the "holy grail" in terms of trade facilitation, a solution which will both secure and accelerate the supply chain. The concept is simple – deploy an IT solution which will diminish documentation and thus replace paper documents by electronic data. Single Window interfaces with existing systems and exchanges data along predefined business rules. It has been adopted in all economies and all geographies, but interestingly, emerging countries have been more progressive in implementing Single Windows. One can say they have been able to yield the most significant benefit by leapfrogging technology. In particular, African countries have been at the forefront of this development and in some cases have been able to deliver astonishing results.

The GCNet model has been replicated in both Madagascar and Mozambique. We found that the implementation became easier as a result of the accumulation of experience. Also, technology had advanced at great strides. But, as expectations increased so did the complexity of both hard and software, none the least because of increased sensitivity to disruptions and the need for a continuous online network. At times it feels like tolerance for technical problems is inversely proportional to the quality of the delivery. Furthermore, as common sense predicts, Single Window solutions cannot be bought off-the-shelf. Whilst significant efforts go into harmonisation, the environment is still subject to many exceptions and all minds need to be geared to customise and improvise along the way.

The solutions implemented with the Governments of Ghana, Mozambique and Madagascar continue to contribute to the development of the country. Piggybacking on the implemented infrastructure, expansion into other domains has become reality such as inland revenue management and E-Government.

We strongly believe that the most effective way of assessing what PPPs can deliver is to analyse the impact. How is such a system transforming the trading environment? How reliable is the solution? How is this solution affecting the development of the people in-country?

3. the company could wait a number of years before the initial investment is covered and a return on investment starts to flow in.

But it wasn't an easy ride. It required patience, tenacity and convincing power. It was completely against the general perception that such a project was technically possible to deliver. Joint road shows around the country were organized to raise momentum, create buy-in and work on the belief that yes, a single window for Ghana can actually be pulled off.

Why is this relevant?

We ask you to think about this example in the context of the recent Aid for Trade developments. How can this success be replicable? Where would it be replicable? How can we, as a collective force of forward looking donor Governments and private sector players, accelerate the implementation of such Public-private Partnership (PPP) models? How can we making sure that solutions are made to deliver concrete and lasting value to the societies they are established to serve in the first place?

Back to Ghana in 2000

After three years of discussions and roadshows, the joint venture GCNet was established in April 2003. What did that mean? Land borders needed infrastructure, telephone lines had to be extended, power generators had to be installed, training had to be provided to 4000 users, sensitisation programmes needed to be established for a period of 12 months and all processes had to be fully reviewed and realigned. Geographically speaking: 2 seaports, 1 airport and 3 land border points had to be connected and synchronised. Shippers, Forwarders, Clearing Agents, commercial banks, and other stakeholders interests' had to be aligned, priorities evaluated, and agreements as well as disagreements, ironed out.

A public-private joint venture: made to last

This was the start of the Public Private Partnership model: a joint venture model where both sectors invest. The business model is based on user-fees. The 'client' - the importer of goods to Ghana - pays a fee per transaction and in return received a far better quality service in terms of clearance time and paper handling. In effect, the operational savings for the operator were far larger than the fee per transaction being paid.

As the common shareholding model, all shareholders - Ghana Customs, SGS, the Shippers Council and the commercial banks – received their proportion of the company dividend. The Government benefited from increase in revenue through import duties, dividend distribution and corporate tax payment by GCNet.

It is a financially sustainable model where upfront investment costs are fully covered and where continuous reinvestment takes place to upgrade and update the system, train new people, employ more engineers and IT specialists. Importantly, in approach and implementation, the model ensures a rapid and quality driven deployment.

So where did the donors come into play?

All partners had committed to an equity contribution to become shareholders of the company. When the Government raised the concern that it did not have the funds to do this, an appeal was made to the World Bank. Thankfully, the World Bank committed to finance the 20% equity stake of the Government, representing a value of US$ 1.2 million. Why? They were convinced about the long term value that their contribution could make. Both in terms of improving the trade and economic environment, as well as in terms of employment and capacity building and training that was involved. In addition, the anticipated future spin-off effects of the single window were, in hindsight, rightfully valued. The fact that it was a well governed public private effort made it a solid and attractive proposition.

It's all about sustainability - And no, it's not easy

So why are still many countries deprived of such win-win solutions? To support continuous discussion in donor and beneficiary country trade policy realms, here are some of the blunt challenges we faced as a company that resulted from practical experience:

- Extremely weak infrastructure – power reliability, network coverage, even physical infrastructure. Despite extensive experience in developing countries and a strong interest in SGS to 'make it possible', when implementing such a large scale PPP it remains a serious consideration of anticipated costs and potential risks that may withhold a company to take on the challenge.
- Implementing software costs are incredibly difficult to estimate and whilst every effort is put into defining the Terms of Reference, end cost can be underestimated by over 40%. This creates pressure when working on a fixed budget.
- Skills. GCNet was hungry for computer literate experts such as network and IT specialists, call centre staff and technical and operational support. There weren't many available and great effort was directed to fill the gaps with flexible, on-the-job training and mentoring.

'As it was'. Photo: SGS

- 600 customs officials operating across 440 terminals and 1500 Front-End users such as declarants, shipping agents and banks had to be trained to use the system, understand its key functions and know how to detect and handle fraud.
- At times we had to fight the belief that failure is actually an option.

These challenges require dedicated commitment and effort from all partners. Donors could also help in addressing skill shortage and training as well as infrastructure development.

To finish with... continuing the discussion

What can policymakers do with this experience? We look forward to learning from those in charge of drafting legislation and welcome thoughts this article provokes. Speaking of the role of the private sector in development, at times, we cannot make a sustainable solution happen without public finance. This can be money to kick-start a project, to derisk investment, or to help get other private players to invest as well. There can be various models applicable to various situations. However, the make or break factor is clear: it needs to be in full support of the implementing country with their front-men and women in charge. Now solutions like GCNet open a host of additional improvements that are in Government's reach to finance and implement. In Ghana, a large World Bank project aimed at computerising both the Tax division of the Ghana Revenue Authority and the operations of the Registrar General to help the Government further progress towards E-Government has already yielded significant results. This is but one of a number of public-private success stories that have made a real change in the status quo that is here to stay. How far are we from taking these solutions and approaches to mainstream? A quick reality check and a few basic facts shows us both how much there is to do and that we need to keep pushing. First, there is a decline in aid flows to low income countries, as monitored by the OECD. Second, there is still a wide opportunity gap to close when it comes to domestic resource mobilisation. The International Monetary Fund estimates average tax per GDP ratio is 35% in OECD countries versus 15% in developing countries. Third, the implementation of the Sustainable Development Goals adopted at the UN Summit in September this year seem to pose a real financial challenge. Estimations are difficult but World Bank research has given a large figure of US$2-3 trillion per year in incremental investments required. To break that figure down, 'just' eliminating infrastructure bottlenecks in sub-Saharan Africa requires US$93 billion per year. How we are going to finance this and with what creative public-private constructions is a matter for all of us.

We recognise that for some Governments it is a bold step on the path of no return. They deserve all our support; in skills, finances and recognition and that they welcome the opportunity to embark on a trajectory that improves their governance processes and that brings benefit to their citizens in the long term. There is still much work to do, and we look forward to delivering our contribution. ■

About the authors

Philippe Isler is Vice-President Monitoring Solutions, SGS

Lieske van Santen is Global Business Development Manager NGOs and Institutions, Government and Institutions Services, SGS

The Higher Returns of Development: MIGA's catalytic role

By Conor Healy

The returns on investing in developing economies are high, but perceived risks are inhibiting many from entering these markets, to the loss of both countries and investors. The Multilateral Investment Guarantee Agency (MIGA) can assist.

The private sector is recognised as a critical driver of economic growth, contributing to poverty reduction and higher living standards across the globe. It is responsible for around 90 per cent of employment in the developing world, providing critical goods and services, ensuring the efficient flow of capital, and delivering the largest portion of tax revenues.

Despite the continuing importance of official development assistance (ODA) and other public sector funds, the Multilateral Investment Guarantee Agency (MIGA) sees huge opportunities for private finance and investment to take an ever increasing role, particularly with higher growth rates and yields in many developing economies compared with their more established counterparts. For example, in the case of Africa's infrastructure development, ODA has declined, while private investment has surged to over 50 per cent of external financing. Here, as elsewhere Public-private Partnerships (PPPs) are increasingly mainstream and tested.

In particularly fragile states, involvement of the private sector—especially foreign companies—can help reduce the risk of conflict recurrence by providing increased economic opportunities, helping to jumpstart domestic economies and integrate them into the global economy. Indeed, the private sector offers the opportunity for a virtuous circle within the fragile context—creating new opportunities to escape political and economic deadlock.

Yet, the agenda of the July's Addis Ababa Conference on Financing for Development explicitly recognized that, despite improvements in their investment climates, many developing countries have not attracted sufficient private investment to diversify their economies. It stressed that an enabling environment must be paired with an appropriate regulatory framework, development of local markets, and incentives to align private investment with public goals. It also drew attention to how, despite some progress, these risks—as well as the perceptions of these risks—have inhibited private investment to well below potential or optimal levels. Hence the need to harness the energy, capital, and expertise that the private sector is providing.

What about risk?

In 2013 the Economist Intelligence Unit conducted a survey of multinational investors that assessed their risk perceptions in the short and medium term. It found that breach of contract and regulatory risks top respondents' political risk concerns — based on

National Cement Share Company, Ethiopia. Photo: Gavin Houtheusen/DFID

actual experience as well as perception (see Figure 1). Additionally, it found that investors continued to rank political risk as a key obstacle to investing in developing countries. While concerns about the risks of instability and expropriation persist, there is also huge opportunity in these markets. Key constraints remain the availability of prepared projects, intermediation services, and risk guarantees, especially by multilateral banks. A critical factor in infrastructure is also the disconnect that often exists between the pay-off to the private investor/financier and the outlay. Uncertainty about political and commercial risk in these environments contributes to an often dramatic mismatch between the preparedness to lend and the need.

Investors use a variety of approaches to mitigate political risk. Some include using phased investment, local partnerships, engagement with the host government and local communities, and political risk insurance (PRI). There is a continued increase in the use of PRI —from private providers as well as export credit agencies and multilateral institutions — as a risk-mitigation tool.

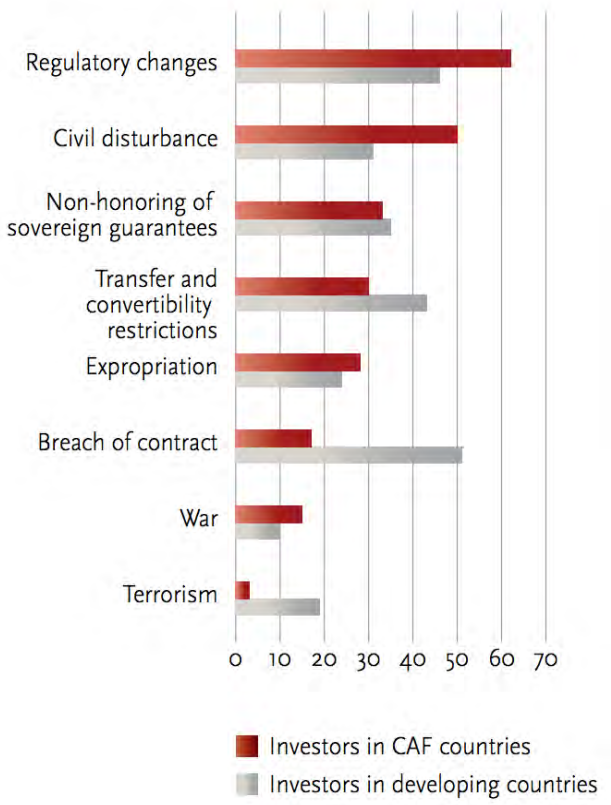
Countries receiving private investments also face risks, including a lack of symmetry in negotiating power, signing contracts with reputational risks if they need to be renegotiated later, social dislocation in project areas, environmental degradation, increased corruption, undermining of democratic politics, and loss of economic value through transfer pricing and tax avoidance.

MIGA's catalytic role

MIGA is central to the World Bank Group's role in catalysing private sector finance for development. MIGA does not provide credit directly – rather, it is focused on providing investment guarantees and credit enhancement to foreign private investors and lenders. This 'crowding in' of private sector finance in support of projects with high development impact is the Agency's core mandate.

MIGA provides PRI and credit enhancement for projects in a broad range of sectors in its developing member countries around the world. It covers a variety of cross-border investments including debt and equity. Under its PRI suite, MIGA covers four traditional risks: transfer restriction, expropriation, war and civil disturbance, and breach of contract. Under its non-honouring of financial obligations (NHFO) product line, MIGA can also cover commercial bank financing and capital markets transactions for public sector projects. NHFO protects a lender against losses resulting from a failure to make a payment when due under an unconditional and irrevocable financial payment obligation or guarantee. One advantage that MIGA has over private-sector PRI providers is its ability to extend long tenors —in some cases up to 20 years. This means MIGA's cover can generally match the term of project loans, even for large infrastructure investments. As a result, MIGA insurance is increasingly seen by governments as an effective way to enhance PPPs or quasi-PPPs. Additional benefits accrue to host countries because MIGA ensures that projects are aligned with their development strategy and meet high environmental and social standards as a condition of coverage. MIGA also seeks approval from the host country to cover any investment. These measures help the investor's position with the host country government should a dispute arise.

Figure 1. Political risks of most concern to foreign investors (Percent of respondents)



Source: MIGA-EIU Political Risk Survey 2010 and MIGA-EIU CAF Investors Survey.
Note: Percentages add up to more than 100 because of multiple selections.

In addition to helping countries attract project finance for strategic infrastructure deals, MIGA offers other instruments that can help mobilize capital. For example, MIGA is able to provide coverage for private equity funds under a master contract of guarantee that reserves capacity and provides up-front pricing for a specific period. The fund managers may use this contract to raise funds from institutional investors that are interested in taking commercial risks (and returns) associated with the investments but are concerned about political risks. MIGA has used this master contract model with

several private equity funds that invest in sub-Saharan Africa.

MIGA's status as a member of the World Bank Group significantly strengthens its ability to resolve potential disputes between investors and host countries, and is an important asset in the insurance marketplace. Since its inception 27 years ago MIGA has issued more than US$36 billion in guarantees for nearly 800 projects in over 100 countries—with an incredibly low claims ratio.

Looking ahead

MIGA's overarching ambition is to continually adapt to the ever-growing need for investments into developing markets, cater to the needs of new investor types, and complement and enhance the products being offered by existing PRI providers. The agency aims to optimize the opportunities presented by its expanded product line and its broader client base - including equity investors, lenders such as banks, and capital market investors - and carry on its work in infrastructure, power, transportation, finance, manufacturing, and agriculture. Top priorities will continue to be supporting investment into the lowest-income countries and fragile and conflict-affected states where the need is greatest.

For example, in Côte d'Ivoire MIGA stepped in very quickly after the country's civil conflict with project guarantees underpinning some US$2 billion dollars in foreign direct investment. The projects included the Henri Konan Bedié toll bridge in Abidjan, the introduction of combined cycle technology to the Azito thermal power plant, and the construction and operation of an offshore oil and gas facility. The support for investors in the immediate post-conflict moment was essential for ensuring a smooth transition back to democracy, as well as for assuring investors that they could take advantage of the high investment potential after years of underinvestment in the country. Greater stability and very high growth levels have subsequently only borne out this support.

MIGA's evolution over the next few years is likely to reflect and drive developments within the PRI market more generally. Examples of recent developments include:

- MIGA's credit enhancement products can now cover private loans for a public project. This is the case for the Cambambe hydropower plant in Angola that will increase the country's power capacity by 30 per cent. In this case, MIGA's US$512 million guarantee improved the tenor and the terms of the financing.
- MIGA will look at public money (bilateral or multilateral) as a risk mitigator rather than a principal provider of funds. Governments are more motivated to resolve disputes when there are public funds involved. In addition, they are inclined to identify and deal more systematically with environmental, social, and integrity risks when public money is involved.

The agency has also begun working with pension funds and is actively seeking out new ways to look to institutional investors to get capital where it is needed. This is the new horizon in financing for development.

MIGA will continue to offer new products, increase its volume, and enter challenging markets in support of investors into developing economies. It will work alongside its World Bank Group partners, other bilateral and multilateral institutions, and private reinsurers to maximize the leverage of its product and underpin investments so critically important for development.

Strong growth in the PRI market is indicative of the benefits investors see in this type of risk mitigant as they increase their presence in markets that historically they may have considered more marginal, but whose high growth rates and potential now make it ever harder for them to ignore. MIGA already plays a unique role within the PRI space, and its product and position will allow it to expand further supporting private investment, as well as the valuable development impact that can come with it.

About the author

Conor Healy, Senior Risk Management Officer, Multilateral Investment Guarantee Agency (MIGA).

Business development through smallholder farmers in East Africa

By TradeMark East Africa (TMEA)

The teamwork involved in growing East Africa's economies - from the government, to TMEA, to the private sector, to the producers, such as smallholder farmers - is vital for achieving their poverty reduction objectives. For Faustini, Jane and Japhet, it is already showing results: as their business competitiveness and incomes increase so too does their drive to continue the process.

A Rwandan woman picks coffee beans. Photo: Borlaug Institute

Enriching Rwandan smallholder farmers as coffee export markets expand

Faustini a father of 6, is a coffee farmer in Rwanda. He has been growing coffee for 20 years. He started with 200 trees he inherited from his father who was a traditional coffee smallholder. In 2005, at a time when a coffee drinking culture was rapidly expanding across the globe, the Musassa Coffee Co-operative was formed in Ruli District - located in Rwanda's verdant hills, a slow and steep 2-hour drive from Kigali. The establishment of the cooperative represented a promise of access to markets and this encouraged Faustine to take coffee growing more seriously. He increased his trees to 1700 and over time hired extra help of 5 workers.

Musassa Coffee Co-operative represents 2,000 smallholder coffee farmers, 60% of them women. The farmers take their beans to designated collection points in the district from where they are delivered to the washing station, for washing, drying and grading. Almost all Rwandan coffee is exported in the green (unroasted) state because the buyers prefer to roast it themselves, sometimes blending it with other coffee types from various origins.

"My life improved very well," he says, "before we had so many problems related to production and management of coffee trees. The co-op came with solutions in form of efficient supply chain and now we are making more money."

Faustini has done well over the 11 years he has been part of the Musassa co-operative. While his father lived in a house made of mud, Faustini's is brick and has electricity. His 6 children are in full time education, and sometimes help on the farm when not in school.

Rwanda's strategy

Faustini's new-found prosperity may be proof that Rwanda's plan to achieve middle-income status and a knowledge-based economy by 2020, is on track. Rwanda's Economic Development and Poverty Reduction Strategy sets out the roadmap, in which the private sector takes the driving seat, assisted by the government as it reduces constraints to the growth of investment.

As part of its export strategy, Rwanda's coffee sector has prioritised value addition activities such as roasting, grinding and packaging, launching the Rwandan Farmers Coffee Co-operative (RFCC) in March this year. With support from the National Agricultural Export Board and the Clinton Hunter Initiative, the RFCC invested in a state of the art processing machine that stores roasting 'profiles', ensuring consistent coffee in flavour, colour and texture.

In addition, the RFCC has created its own up market coffee brand - Gorilla's Coffee - using coffee from farmers like Faustini who can meet specific criteria. Financially it makes sense in that a container of processed, packaged coffee is worth 12 times the cost of a container of green coffee. The next step is to find a market. "Our sole aim is to retain as much value from the coffee chain as possible in Rwanda and for farmer coffee growers," explains Eric Rukwaya the sales and marketing manager at RFCC.

TMEA's support

TradeMark East Africa (TMEA), working in Rwanda since 2011, supports Rwanda's goals with expert advice and funding that facilitates trade, especially across borders. It is assisting with access to markets by seconding market linkages specialists who work with the Rwanda Development Board to match products with markets. Already they have found a niche market for Gorilla's Coffee in Uganda, with a regular monthly order worth nearly US$2,000.

Setting standards and increasing Rwanda's export market are just some of TMEA's interventions in Rwanda. "Our interventions speak to each other," says TMEA Rwanda Country Director, Hannington Namara. "We need to make sure that the interventions we put in place have users. They're the ones that will create the jobs, grow economies and reduce the trade deficit that countries in East Africa suffer to connect to the world."

A pineapple farmer in the Ntungamo district of Uganda. Photo by Neil Palmer (CIAT)

Increasing business competitiveness in Uganda: pineapples' story

In 1999, Jane Nazziwa moved from the capital city of Uganda, Kampala, to a small island 40km away, located amid the papyrus channels of Lake Victoria and accessible only by boat. Jane went there to look after her brother's 7 young children who were AIDS orphans. Her brother had been a farmer on Bussi Island, growing crops on 7 acres of land.

Arriving on Bussi, Jane knew nothing about farming and spent the first couple of years learning on the job. Then, thanks to a programme run by Jali Organic Development Company (Jali), a company processing organic pineapples for export, Jane learnt that by cooperating with other farmers, she could use economies of scale and the power of bulk selling, to increase her income.

Jali is run by businessman Ephraim Muanga. Knowing that Uganda's pineapples were renowned for their sweetness, he committed to buying pineapples from Bussi Island smallholders. The only problem was getting the pineapples to the market. Taking them by canoe to the mainland was a time consuming process and, because he was buying in bulk, not practical.

Getting farmers to the market

Muanga connected with NOGAMU (National Organic Agricultural Movement of Uganda), an umbrella organisation of farmers, processors, exporters and others, with over a million smallholders in its network. NOGAMU's main objective is to link growers with buyers. In doing so, it offers research and extension services, helps farmers to get appropriate export certification and advocates an enabling environment for farmers. NOGAMU also promotes organic agriculture, a sector currently worth about US$44 million annually to Uganda and still growing.

NOGAMU helped the local farmers on Bussi to convert their farms to organic cultivation and then assisted them in getting export certification suitable for Japan, the USA and Europe.

Meanwhile, NOGAMU introduced Jali to buyers from Japan who wanted to import dried pineapple slices for domestic use. Realising that dried pineapple slices were much lighter and easier to ship, Muanga built a small processing plant where pineapples are peeled, sliced, dried and packed, ready to export.

Chariton Namuwoza is NOGAMU's project manager. He explained that the organisation is helping farmers to be competitive by using economies of scale. There are currently 7 small dried fruit businesses, incorporating 5,000 smallholders (60% of them female), which NOGAMU has organised into common bulking arrangements. "Farmers that are organised," he said, "have the benefit of attracting a serious buyer. If farmers are guaranteed a market with a fair price it is very easy to bring farmers and the market together."

Support from TMEA Challenge Fund

The certification process, however, is expensive and so NOGAMU applied to the TradeMark East Africa Challenge Fund (TRAC) which was set up to promote innovative ideas to improve trade and to advocate for policy change to create a better farming environment. NOGAMU was one of 4 successful recipients of the first TRAC grants, which are issued in 5 instalments only after specific milestones have been reached. The benefits to the farmers are already apparent.

Jane is one of Jali's best suppliers and now employs 5 people to work on her farm. Since converting to organic farming and selling her produce to Jali, her life has changed for the better. She has rebuilt her brother's old mud brick house with cement and has added rooms and a new roof. She is also able to educate those children still at school, including her own.

Adapting to market: replacing coffee with avocados in Tanzania

While Jane was learning how to be a farmer on Bussi Island, 1,000km to the south, near Moshi in northern Tanzania, Japhet Kileo of Samaki Maini village, father of 3 children and carer for 5 others, was growing coffee on his smallholding but with diseased crops and a depressed coffee price, Japhet found it tough. Eventually he realised that his coffee crop was worthless and he stopped growing it, leaving him with an empty 1.5 acre plot.

Then Japhet heard about Africado, a company cultivating avocados for export. He attended a talk given by James Parsons, a local farmer and CEO of Africado, where he learnt about the benefits of growing avocado trees: they are relatively easy to grow, produce an annual crop (with careful cultivation, sometimes 2 crops per year), attract few pests, last about 25 years and being trees, are good for the environment.

Parsons promised to show the farmers how to plant their trees and through his field officers he would follow up on the growing process. He also committed to buying the avocados from the smallholders, which he would wash, dry, sort and pack for onward transport to the markets. Japhet was convinced of the benefits and in 2010 he bought 100 avocado tree seedlings from Africado at a subsidised price and planted them in his shamba (smallholding).

Like NOGAMU, Africado is a recipient of TRAC funding, some of which contributed to the cost of the avocado packhouse where the fruit is processed for export. Parsons is also committed to getting all 1,950 smallholders currently in the scheme (he is aiming for 3,000 eventually), certified under Global Gap, an organisation that sets voluntary standards for the certification of agricultural products around the globe. It is a laborious, time consuming and expensive process but until farmers are certified they will not be able to export their produce.

Profits ploughed back

Japhet sold his first crop of 199kgs of avocados to Africado in 2013. He expects the crop to be even bigger this year, maybe up to 300kgs, if the weather is favourable. With the income he has bought more seedlings (he now has 165 trees, though the majority of farmers have less than 60) and paid for his children to attend school.

According to Duncan Page, Africado's Development Manager, the company plans to eventually outsource 2,000 tonnes of avocados per year. "Under the worst scenario," he explained, "we will get 1,000 tonnes per year. That alone will bring about US$300,000 into the community."

Allan Ngugi of TradeMark East Africa noted that the benefits from both Jali and Africado trickle down to the farmers who grow the fruit. "The businesses cannot be profitable unless the fruit is edible on arrival at the market," he said. "The impact is not just financial but the projects have a social impact in the communities in which they are implemented. The quality of the fruit improves and there are many lessons learned going in to the second phase of the TRAC Fund grant projects."

Japhet Kileo is a happy man. "My life has improved," he said. "I am earning money which pays for the children's school costs and I have a better diet, because avocados are nutritious. I don't need pesticides and I use natural manure as fertilizer. Coffee is expensive to grow," he concluded. "Avocados are much cheaper." ■

This article is a compilation of TMEA Impact Stories Enriching Rwandan smallholder farmers as export markets expand, August 2015; and TMEA impact Stories Increasing business competitiveness through smallholder farmers in East Africa, August 2014.

Author

TradeMark East Africa (TMEA) is funded by a range of development agencies with the aim of growing prosperity in East Africa through trade. It works closely with East African Community (EAC) institutions, national governments, the private sector and civil society organisations.

TRADE MARK EAST AFRICA
Growing Prosperity Through Trade

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.

From Universality to European reality?

Talking Points, Sebastian Grosse-Puppendahl, 29 July 2015

The principle of 'Universality' in the post-2015 development agenda implies that all countries need to contribute to and achieve the Sustainable Development Goals (SDGs). The goals to be agreed this September at the UN General Assembly will apply to everyone.

From one grain to another: the rise of rice in West Africa

Talking Points, Carmen Torres, 22 July 2015

Last month I flew from Europe to green Abidjan via arid Ouagadougou for the Borderless Alliance annual Conference 2015. Through the plane window I could see the most real and convinving evidence of regional disparities and complementarities amongst West African countries. It strengthened my conviction that, if agricultural development and food security are to be achieved in West Africa, the under-tapped potential for regional collaboration and integration has to be unlocked.

FFD3 – a steady start to a rocky road ahead?

Talking Points, James Mackie, 17 July 2015

If the degree of consensus achieved in the Third Financing for Development Conference (FFD3) process is anything to go by, the omens look good for the post-2015 agenda and the agreements that need to be achieved for a new set of UN Sustainable Development Goals.

Improving the business climate in developing countries: a realistic goal or another holy grail?

Talking Points, Paul Engel and Bruce Byiers, 15 July 2015

This blog was originally posted by Platform OiO (Ondernemen in Ontwikkelingslanden), a digital platform that provides information about doing business in new markets to Dutch entrepreneurs. The Dutch policy in support of private sector development in developing countries puts the private sector where it ought to be: at the Centre. But it also demands that businesses take responsibility beyond their own development.

The Weekly Compass

Want to know the direction in which development cooperation is sailing? Stay informed of all the latest news on EU-Africa and EU-ACP development cooperation with the ECDPM Weekly Compass (WECO)

Weekly Compass Special | What you might have missed over the summer

Weekly Compass, 4 September 2015

In this issue, we include ECDPM articles, videos, podcasts and media coverage you might have missed in July. High on the agenda of course is migration and we feature a blog by ECDPM's Anna Knoll and Asmita Parshotam which looks at the EU's approach to 'root causes' of the current unprecedented levels of migration from Africa and the Middle East.
In July we also saw the Third International Financing for Development Conference in Addis Ababa, Ethiopia. James Mackie was there and shares his thoughts on the next steps between 'FFD3' and the upcoming summits and conference on development, trade and climate change.
Other issues included look at the future of the ACP Group, implementation of the Sustainable Development Goals, and food security.

The EU's response to migration | Universality | New videos

Weekly Compass, 31 July 2015

Migration - Ask the right questions, get the right answers
The EU aims to make concerted efforts to address the situation of migrants arriving at its borders. While it has ambitions for 'comprehensive' action and pursues various policy avenues, the comprehensiveness of action is constrained by how the debate is framed. An example is the focus on root causes of migration, which has done little to foster a balanced and comprehensive view of what is a very complex issue. ECDPM's Anna Knoll and Asmita Parshotam argue that rather than framing migration as an issue that needs to be addressed 'out there' through development aid, EU leaders should also look more 'at home' to which policies can be reformed to support and create sustainable livelihoods in its neighborhood and beyond – including for current and potential future migrants.

ACP-EU relations after 2020 | The Sahel | A European global strategy

Weekly Compass, 24 July 2015

The Cotonou Partnership Agreement between the African, Caribbean and Pacific (ACP) Group of States and the European Union, expires in February 2020. The European Commission and the European External Action Service hosted a series of roundtable discussions with experts, including ECDPM, this year to prepare for a public consultation and eventual EU negotiating mandate on the future of the partnership beyond 2020. This report summarises the discussions held on: i) what kind of partnership do we want?; ii) the future framework for international cooperation and development policy; iii) means of implementation; iv) stakeholders and institutions; v) regional integration and trade; vi) global challenges; and vii) demographic developments. There was consensus that a future agreement should take into account factors such as: i) the changes that have taken place in global geopolitics; ii) new emerging challenges and regional dynamics; iii) the heterogeneity of the partners; iv) the Cotonou acquis; v) shared universal values; vi) EU specific and mutual ACP-EU interests and vii) the flexibility needed to deal with changing circumstances.

Our reaction to FFD3 | Alexander De Croo | Private sector in ACP-EU relations

Weekly Compass, 17 July 2015

If the degree of consensus achieved in the process for the Third Financing for Development Conference (FFD3) is anything to go by, the omens look good for the post-2015 agenda and the agreements that need to be achieved for a new set of UN Sustainable Development Goals. This was just the first hurdle to cross out of three international fora in 2015, but all things considered it went reasonably well. This bodes well for the UN General Assembly in September. But December's COP21 Climate Summit in Paris is another matter, writes James Mackie in our latest Talking Points blog. Mackie was in Addis Ababa this week with our Press Officer Emily Barker, to discuss with many of the 7,000 delegates the importance of implementing clear policies to use finance effectively for development. He spoke at a side event on 'ODA and Fragile Environments: The shift of Development Finance and Assistance in the Post-2015 Agenda' and was interviewed by several African media organisations, including the Addis Standard and Addis Fortune.

Latest ECDPM publications

Byiers, B., Bessems, J. 2015. Costs if you do, costs if you don't: Promoting responsible business and reporting - challenges for policy makers. (Discussion Paper 175). Maastricht: ECDPM.

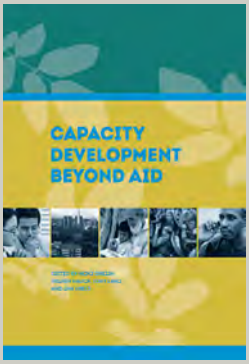
The growing interest from developing country governments, donors and businesses in linking business and development raises questions about how host and home country governments can encourage and/or ensure responsible business practices of international firms.
While the business case for responsible voluntary CSR reporting is growing and voluntary mechanisms can have legal effect through soft law, these often lack effective enforcement mechanisms for lagging firms whose incentives for responsible business is weaker.
Incentivising responsible firm behaviour and reporting therefore relies on finding a balance between the scope of activities for reporting, an appropriate regulatory mix, effective enforcement mechanisms and the related costs. The potential costs and benefits of mandatory reporting vary widely across firms depending on size, value-chain complexity, sector characteristics and proximity to consumers. Any mandatory reporting must be adapted to these while converging with existing voluntary schemes to avoid overload.

ECDPM contribution to the EU consultation: "Towards a new European Neighbourhood Policy"'. European Centre for Development Policy Management (ECDPM). Maastricht. July 2015.

Drawing on previous research and analysis, this contribution by the European Centre for Development Policy Management (ECDPM) is in reply to the official consultation on the European Neighbourhood Policy (ENP), launched by High Representative for Foreign Affairs and Security Policy/Vice-President of the Commission Federica Mogherini and Commissioner for European Neighbourhood Policy and Enlargement Negotiations Johannes Hahn at a press conference on March 4th 2015.
This contribution chiefly concerns North Africa, the Mediterranean and the Middle East.

Odén, B., Wohlgemuth, L. 2015. European aid and development policies in a changing world: Some personal reflections. (Briefing Note 76). Maastricht: ECDPM.

The global economic balance is moving from the members of the OECD towards the East and the South.
The economic crisis in many European countries and the lack of joint European policies to tackle developments in growing economic countries weakens the European position.
By 2030, the South will be responsible for 70% of global consumption and 80% of the global middle class, of which two thirds is expected to live in Asia.
Disparities in income and wealth are expected to grow further in the fast-growing economies and form a serious threat to stability.



Ed. Greijn, H., Hauck, V., Land, A., Ubels, J. 2015. Capacity Development Beyond Aid. Published by SNV Netherlands Development Organisation and ECDPM.

With only six months left, the 2015 UN Climate Change Conference in Paris (COP21) is fast approaching. Despite promising progress in recent years, the negotiations of a new agreement to keep the dangers of climate change at bay still face many technical and political hurdles, and are plagued with divisions among countries. Europe has remained at the forefront of these negotiations and has helped to their progress. A changing global context, however, and the EU's own limitations have diminished its leadership. Yet, the EU's willingness to adopt a more flexible approach to emissions cuts, show that the EU can perhaps still play a big role at COP21. The Africa Group, with its sheer size and improving coordination, has become an increasingly influential actor in the negotiations.

Next issue of *GREAT Insights:*
Regional Integration Dynamics in Africa (PERIA)
October/November 2015, Volume 4, Issue 6

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