GOVERNANCE REGIONAL INTEGRATION ECONOMICS AGRICULTURE TRADE

GREAT insights

Volume 1
Issue 8
October 2012

online version available at www.ecdpm.org/great

Regulars

Thematic Focus:

Private Sector for Development

European Centre for Development Policy Management
ecdpm

Thematic Focus: "Private Sector for Development"

Private sector activity matters for growth as well as its quality, sustainability and inclusiveness. This is no news; but it is at last widely recognized by the international development community, as reflected in the Busan partnership, G20 statements or the European Agenda for Change, among others.

This comes at no surprise in the current context. The financial and economic crises have taken their toll, and with tighter budgets, most donors are faced with the challenge of doing more for development with less aid. The increasing flow of (development) finances, notably from emerging economies such as China, in South-South relations has also contributed to shifting the attention beyond traditional aid instruments and modalities. In parallel, efforts to improve aid effectiveness have triggered a broader impetus on development effectiveness, with a need to foster favourable domestic conditions and an international environment conducive to balanced, sustainable, inclusive and equitable growth as a source of development and poverty alleviation. Hence the need to build on private sector potential, promoting synergy between public and private initiatives and financing that meet development objectives.

Several donors and international finance institutions have a significant track record in engaging with private sector. Yet, more effort should be done to capitalise on these experiences, better assess their development impact and share some of the insights gained for development objectives. This should also build on private sector perspectives on engaging on development, as well as developing countries' own assessment and priorities.

A first step is to recognize the diversity of experiences and approaches linking the private sector, which is by no mean a homogenous entity, and development. It is also useful to distinguish between private sector development, focused on building the private sector capacity and business environment, and private sector for development, which addresses its contribution to development objectives.

In addition, special attention must be given to various forms of private financing, which combined with or simply better coordinated with public action, can stimulate development. This is commonly referred to as innovative financing for development. In reality, it is hardly innovative in financial terms, but can be so in the framework of development cooperation. In this context, public finance is often used for its leveraging effect or as a way to mitigate risk.

In order to best capitalise on the potential synergy between public and private actions for development, it is important to properly assess the respective incentives of the parties concerned, identifying common objectives while recognising when interest diverge, and the trade offs thereof. Public engagement with the private sector must reconcile such tensions to pursue balanced and sustainable development. Efforts should thus also be made to better understand the drivers and bottlenecks to an increasing role of the private sector as a partner in development, including in terms of the environment needed for a fruitful engagement and the potential of innovative development (financing) models and instruments.

This means addressing questions such as:

(i) Is there any reason to fear a stronger focus on private sector for development? (ii) How to strike a balance between investment in social sectors and in economic sectors? (iii) What really constrains business environment reforms, and how to best promote an enabling environment that can stimulate private investments? (iv) Does working with the private sector give donors more "policy leverage" in this? (v) How can a combination of various forms and modalities of finance have greater effects? (vi) How can loans and investments be best used to leverage scarce public grant resources and catalyse additional private resources?

It is with such considerations in mind that ECDPM has joined forces with BUSINESSEUROPE, the EIB, AFD and KfW to organise a high-level panel at the European Development Days on 16 October in Brussels to address "How Can We Maximise Inclusive Growth and Development? The Pros and Cons of Private Sector Engagement and Blending Instruments", whose initial reflections are comprised in this issue of GREAT Insights. ECDPM is committed to further promoting such efforts.

San Bilal

Private Sector for Development : Distinguishing the Trees from the Forest

Bruce Byiers

Engaging the private sector for development is a hot topic in donor headquarters. But how to go about this in practice needs us to be clearer about our objectives. This article suggests some ways to break down the agenda and raises some ensuing questions.

"What the private sector really needs is...."

"Walk into a typical micro or small business in a developing country and spend a few minutes talking with the owner and it is often clear that owners are not implementing many of the business practices standard in most small businesses in developed countries. Formal records are not kept, and household and business finances are mixed together. Marketing efforts are sporadic and rudimentary. Some inventory sits on shelves for years at a time, while more popular items frequently are out of stock. Few owners have financial targets or goals that they regularly monitor and act to achieve. The picture is not much better in medium and some large firms, with few firms using quality control systems, rewarding workers with performance-based pay, or using many other practices typical in well managed firms in developed countries."[1] So begins a recent review of the impact of business training and entrepreneurship programmes in developing countries.

As the extract highlights, promoting private sector development in developing countries is not just a question of improving the business environment, increasing access to credit, or providing access to markets. Nor does providing training have unambiguously positive benefits, as the study goes on to discuss. Might greater impacts come from promoting international investment? In theory, the answer could be yes, as Foreign Direct Investment (FDI) not only has the potential to create employment and spur additional positive spillovers, but it can also improve private sector practices and performance in complying with and supplying larger, international firms and markets.

> "Promoting FDI (…) is nothing new"

But promoting FDI in the hope for positive spillovers (and minimal negative ones) is nothing new, and in the past has met with varying degrees of success. This is due, in part, to the difficulty of linking large investments with local producers who are required to regularly and consistently meet strict quality standards for demanding customers, often in Europe.

So what can we hope to achieve from greater donor engagement with private sector investment and finance that is different? Is it aimed at overcoming these challenges to private sector development or is it something different? What does greater private sector engagement mean for development policy, for developing country governments, for development partners and for different private sector actors and business models? Is this a case of putting the private sector before the social sectors? Is it pitting stakeholders against shareholders? And what does it mean in terms of development impact?

Engaging the private sector: one agenda or three?

These questions are at the centre of on-going debates on how to "engage the private sector for development". While many donors have been working with private sector firms for some time, with the EC the latest champion of such an approach as expressed last year in its Agenda for Change, the topic is attracting a widening audience. "Engaging the private sector" seems like a useful approach but how then to gauge development impacts for such a broad agenda?

It is important first of all to be clear about what we mean by "engaging the private sector". While a range of instruments are being used for engaging with the private sector, it seems useful to distinguish between private sector development (PSD), and private sector for development (PS4D). Despite the links between the two, the distinction may be useful in terms of discussing development impacts and lessons for the development policy agenda.[2]

Private sector development is a relatively "old" agenda, focusing very much on policies in domestic countries to promote investment, employment creation, firm expansion, increasing productivity and expansion into larger markets. It is mostly about donors working with developing country governments and sometimes private sector stakeholders to improve the business environment, increase access to credit, and promote greater value-addition within the developing country. This may also include promoting stronger linkages with inward investment.

At the risk of over-simplifying, the PSD agenda works broadly on the assumptions that if the policy environment were better and firms had access to credit, skills and markets, then the private sector would take off, jobs would be created and thus poverty reduced through increased incomes and a virtuous circle of demand.

The newer private sector *for* development agenda seems more about how donors can work with developed country (and to a degree emerging player) firms and finance for development purposes, of which private sector development is one element. This agenda can be further divided into private investment for development and private finance for development. The first of these is generally about how to channel public money to private projects, basically subsidising FDI to tilt the balance of commercial risk associated with investing through normal channels. Where this is also intended to promote private sector development, the assumption is that the additional donor contribution can also help overcome the private sector capacity constraints mentioned above.

Engaging private finance for development is more about how to use public finance to leverage private finance for public projects in areas such as infrastructure. Although the focus is again often on offsetting risks, either through provision of publicly financed guarantees or interest rate subsidies, it is also about tapping the experience and know-how of the private sector. The development implications are likely to differ between engaging with private sector 'investment' or 'finance'.

Some key questions: PSD

Analyses have stressed the need to take account of myriad forms of private sector activity, business models, business scale, sectors, markets, motivations and idiosyncratic risks (see box 1). These then affect how firms behave and react to different policy reforms.

There is a range of *internal constraints* to firms that cannot be ignored. Firms have very different levels of capacity for market integration locally and nationally, never mind regionally or internationally, so capacity and productivity are real underlying problems – there is evidence that management is important, although training outcomes are mixed.

Box 1: How should we look at the "private sector?"

> *Pritchett suggests breaking the private sector into;*
> *a) high-rent vs*
> *b) competitive production markets, and*
> *c) domestic vs*
> *d) export client markets.*
>
> *This leads him to characterize firms as powerbrokers (ac), rentiers (ad), workhorses (bc), and magicians (bd).3 As the attributed names suggest, firms in each of these categories operate in very different ways, according to distinct constraints and opportunities. And even within these categories, firms are likely to face varying constraints whether they relate to markets or bureaucracy.*

There is also a range of *external constraints* to firm performance. Business environment and red tape are important as are infrastructures. But the reality is that similar firms face very different conditions in regulatory terms and that while access to roads, energy, communications and water are important, the ways these markets are organized, for example in transport, may be as important, if not more, than road quality. How to address this vast diversity of challenges is a key question that needs to be addressed moving forward.

Overall, in designing reforms we need to understand the *political economy of reforms that affect the private sector.* Why do partner governments undertake certain business-related reforms but not others? Although the private sector, and agriculture in particular, are often touted as partner government priorities, why do operators complain that they are not prioritised in practice? And what can be done to ease the lives of "workhorses" when up against "powerbrokers" and "rentiers"? These are perhaps the real questions for the PSD agenda.

Key questions: Private investment for development

The big questions for engaging private sector investment for development surround the implications for donors of engaging with international firms through different instruments and how to maximize development impact. Plenty of FDI takes place without any need for public funds, and while the need for profit remains, there are increasing examples of this happening with an explicit development objective.

The questions for donors therefore relate to the opportunity cost of using aid to fund investments compared to, say, social programmes, and how to identify and measure the development impact both ex-ante and ex-post to gauge where the burden of risk ultimately lies, and where there are genuinely aligned interests. That is, to what degree are donor contributions genuinely necessary and catalytic, and how can we measure the "stakeholder value vs shareholder value"? Are there lessons to be learnt here from existing models such as Fair Trade, where development standards or criteria have been defined?

Key questions: Private finance for development

In terms of donor efforts to engage private sector finance for development, the principal interest is in the legal frameworks and mechanisms required on the ground to access such funds, the ability to bring suitable projects to market and again to be clear on who ultimately carries the financial risks. In Public Private Partnerships (PPPs), the capacity for negotiation on legal issues is often stronger in international companies, suggesting that risks may fall disproportionately on governments. On the other hand, companies may have little political leverage if sovereign governments do not uphold their side of the contract. It is also important to note the assumption here that a lack of finance is the binding constraint.

As argued elsewhere, private sector preferences for financial engagement do not always align with public priorities. In particular, the profit motive means there

private sector preferences for financial engagement do not always align with public priorities

is a tendency to engage in sectors where commercial returns are high, with the risk of producing "sector orphans."[4]

Overall, there are a number of balancing acts to be pulled off. This implies a need to learn lessons from existing instruments, by examining the major tradeoffs and how final outcomes compare with original objectives. Similarly, whether talking about PSD or PS4D, it is important to have a good understanding of the private sector perspective – are companies as enthusiastic to engage with donors? And when we talk of engaging the international private sector, could developmental aspects perhaps take advantage of industrial policy?

And ultimately, if we imagine walking into a typical micro or small business in a developing country in a few years time, what is it that we really expect to see?

Notes

1. McKenzie, D., Woodruff, C., 2012, "What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?", World Bank Policy Research Working Paper No.6202. http://econ.worldbank.org/external/default/main?pagePK=64165259&piPK=64165421&theSitePK=469382&menuPK=64166093&entityID=000158349_20120919131125
2. See ECDPM Discussion Paper No.131: www.ecdpm.org/dp131
3. Pritchett, L., 2012, Presentation, "Rethinking Development Strategies in a Shifting World: How to Mobilise the Private Sector?", OECD Conference, Paris 28 Feb 2012
4. Dalleau (2012) Unlocking private finance for Africa's infrastructure development: Tips and Traps, ECDPM GREAT Insights, May 2012

Author

Bruce Byiers is Policy Officer at ECDPM.

Joint Action to Leverage Impact in Private Sector Development

Tamsyn Barton

Serving a diverse group of private sector clients requires tailor-made approaches, integrating mutual reliance and the use of innovative financial instruments to leverage impact.

Can the private sector reduce poverty? Most people would now agree that the private sector drives innovation, and that without it, sustainable growth and employment are not possible. In this sense, the private sector plays a crucial role for economic development, without which it is hard to reduce poverty.

While in the past business people were not often seen at gatherings of the aid community, this had changed, as recognized during last year's 4th High-Level Forum on development effectiveness in Busan. More controversial is the role of grant aid in involving the private sector in the international development effort. But the EU's Agenda for Change does lay out an approach to this. For the European Investment Bank (EIB), the recent Wise Persons' Review of its lending outside the EU clearly pointed to the importance of investment in the local private sector, in particular small and medium-size enterprises (SME) as a key contribution to development.

So what does recognising the role of the private sector mean for the role of State? In fact, far from being pushed out of the picture, the State is more needed than ever. It is the State that must first provide a stable framework of policy, incentives and regulation for investment. Second, of course, the State must also ensure the delivery of many essential services, especially for the poor who might be neglected if full cost recovery is needed. Third, it must remove key barriers identified by businesses, such as the provision of infrastructure and appropriately skilled labour. In this context, EIB lending has a double, even triple role. Our finance aims to bring in private investment, help in overcoming barriers by reducing risks, and help improve the enabling environment through development of infrastructure, whether public or in the form of Public-Private Partnerships (PPP).

Might there not be a danger that the benefits of EIB support are captured by business without contributing to development, or maybe even undermining it? Indeed. This is why we use indicators to measure results and specific conditions in finance contracts, if necessary linked with concessional funds, so as to ensure a contribution to development and compliance with high social and environmental standards that the EU requires.

Sounds easy? No, in fact developing viable project proposals and providing finance to the level needed and at attractive conditions continues to be challenging. Sometimes only foreign investors have the expertise required. Yet they often believe that the risk of investing in certain developing countries is too high. It is a key role of IFIs to incentivise them to take more risk, whether by a signalling effect, or perhaps mitigation of a particular risk, for instance by providing a guarantee against expropriation. The local private sector is also often risk-averse. For instance, local banks may find safer investments than SMEs, or green technologies. They may need an incentive such as longer-term loans. For both local and foreign investors, technical assistance and financial advisory services play a crucial role. They support the preparation of business plans or enable technical review, and support partners in structuring of projects.

The private sector is not monolithic. It is made up of many different players, from micro-entrepreneurs to multi-nationals. So a broad set of financing instruments is required, for which there is more likely to be demand if they are not readily available on the local and international markets. Between 2009 and 2011, the EIB deployed direct and global loans, bank-intermediated loans, as well as direct equity and indirect equity via funds, in total € 13.9bn to the private sector outside the EU, of which € 5.4bn went to the SME sector. Overall, p rivate sector support represented more than 50% of the total portfolio in the regions outside EU. What is important is that these volumes are estimated to have leveraged at least the same amount of additional funding from the borrower's side.

The EU has set out an Agenda for Change to make the private sector do much more for development. The use of innovative financial instruments, which blend EU grants with funds from financing institutions like the EIB was seen as be a powerful tool to leverage private sector support. But scarce grant funds must not be misused. Such blending has to follow a clear-cut policy. That is, it should be targeted specifically at approaches that require additional subsidies, but at the same time it must generate revenues high enough to make grants go much further. This way, applying blending instruments, most common in the economic infrastructure and the financial sector, does not compromise on development impact but rather increases it.
Another advantage is that since blending will involve at least two financing partners, individual contributions are considered as an overall package. This often goes in tandem with an alignment of approaches and strategies, thus increasing efficiency and avoiding duplication of efforts. The Mutual-Reliance-Initiative (MRI), initiated by the AFD, KfW and EIB and based on a reciprocal recognition of procedures and joint actions, serves as an excellent example of these efforts. Such close cooperation with other financing institutions and partner governments should contribute to avoiding market-distortions and ensuring real development impact.

> This way, applying blending instruments does not compromise on development impact but rather increases it

Increased private sector development, use of blending instruments and mutual reliance amongst financing agencies all have huge potential for boosting development impact, if applied in combination with other instruments. But the devil is in the detail. A sound analysis on a case-by-case basis and a responsible choice of an adequate set of interventions will remain key to success.

Author

Ms Tamsyn Barton is Director General for Operations Outside the European Union, European Investment Bank.

Engaging the Private Sector for Development: What Role for the EU Regional Blending Facilities?

Klaus Rudischhauser

In view of massive developmental challenges it is important to make the most effective use of EU development grants. In the last years the EU Regional Blending Facilities have demonstrated the capacity to leverage substantial amounts of additional public non-grant financing for important public investments in EU partner countries. By using grants strategically, the Blending Facilities are equipped to also unlock private investments for achieving EU development objectives. While the involvement of the private sector holds great potential, a cautious and selective approach is necessary to ensure that development objectives are paramount and market distortions are avoided.

The European Union (EU) has recently started using *Blending* as one of its instruments to deliver development aid to its partner countries.[1] Together with EU Member States, the European Commission has set up seven EU Regional Blending Facilities ("the Facilities") that now cover almost all countries in the European Union's area of external cooperation[2] (see Box 1). The Facilities combine grants from the EU Budget, the European Development Fund (EDF) and additional contributions from Member States with additional non-grant resources. At the project level, grant and non-grant resources are blended to create the right financing-mix for that specific project. The basic idea is that the strategic use of a grant element can make investments with a high economic and social return financially viable. By enabling such investments the grant element achieves a leveraged development impact. Currently the Facilities mainly support public investment projects. About 92% of all grants contributions approved since 2007 went to investments promoted by a public entity.

> the strategic use of a grant element can make investments with a high economic and social return financially viable

Financing a public investment project via blending can address several issues:

1. The grant element can close financing gaps in the project that keep the investment from materialising.
2. The grant element may serve to finance additional components of the investment that improve the developmental impact of the project. Support in the form of technical assistance can speed up processes and increase the project's sustainability.
3. The grant contribution may reduce the borrowing cost for the beneficiary to ease its exposure to external debt.[3]

The grant element therefore has a *quantitative leverage* by unlocking the financing of important investments that cannot be financed by public funds from the partner country or donors. The easing and enhancing effect of the grant contribution leads to a *qualitative leverage*. Furthermore, the Facilities encourage finance institutions to seek cooperation in the preparation and financing of investment projects to improve the financial package for the beneficiary and increase the effectiveness of EU development aid.

Despite the emphasis so far on public investments, the Facilities do provide the means to catalyse also private investments. The regulatory framework of the Facilities allows using grants as innovative financial tools such as risk capital and investment guarantees. So far grant support of this type has been used to support Micro, Small and Medium Enterprises (MSME), primarily to provide access to finance. One approach is to use the grant element as a *first-loss tranche* in a structured fund and thus leverage the amount of resources that is available to achieve developmental objectives. Such funds[4] have been established in the Neighbourhood region and have already attracted additional financing and extended several thousand loans to local MSMEs. In addition, partial portfolio guarantees were provided via Public Finance Institutions to encourage local financial institutions to extend their lending to MSME.

Risk capital and investment guarantees

The European Commission is currently working to extend the use of innovative financial tools such as risk capital and investment guarantees with a view of unlocking additional private investments in other sectors, such as infrastructure. Blending could address several factors that currently hold back private investment into projects with a strong developmental impact.

A central issue in many developing countries is the high level of perceived -mainly political-risk that prevents even profitable investment projects from materialising. By sharing the risk the grant element could turn the risk adjusted return of projects positive and enable investments with a substantial social and economic return for the partner country.

Pilot projects that use the EU grant to share the risk via a first-loss approach or the provision of guarantee products are under preparation. Similar approaches are also under consideration in the context of early-stage financing for infrastructure projects and the fostering of local currency financing.

A cautious approach to private sector for development

While there are many opportunities to use grant contributions to engage the private sector for development, decisions must be made very carefully. As in all EU grant operations, it must be assured that the development aspect is absolutely paramount; regardless of the grant size compared to the overall project financing. The motivation for increasing the role of the private sector in development is to make a contribution to poverty eradication and the achievement of sustainable development; not to help private

Box 1: The EU Regional Blending Facilities – Facts and Figures

Since 2007 grant amounts of € 910 million were approved in the Facilities. These grant contributions are part of investment projects with a total volume of approx. € 30 billion, of which at least € 10 billion are financed by loans from European Public Finance Institutions. The residual amount consists of grants from other donors, loans from Regional Development Banks, the beneficiary's own resources and some private financing. The composition of financing differs from project to project, but always contains EU grant contributions and loans by European Public Finance Institutions. In the same way the grant to non-grant ratio varies: In large renewable energy projects that involve many actors, the ratio may be above 10:1, whereas in projects in the social sector it may be only 3:1.

In principle the Facilities operate on a first-come first-served basis, which means that there is no ex-ante quota for certain sectors or countries. Nonetheless, priority sectors are defined on an annual basis by the European Commission, Member States and partner countries. Currently most of the supported projects have been in the transport (37%), energy (33%) and water (16%) sector. Smaller contributions went towards the support of MSME (8%), ICT (4%) and the social sector (3%).

The Facilities are flexible entities that can provide several different types of grant support. Grants used as direct investment (33%) and interest rate subsidy (27%) decrease the investment cost for the beneficiary. Technical assistance (33%) can accelerate projects and improve the quality, efficiency as well as sustainability. Risk capital (5%) aims at crowding in additional private and public financing for development. Guarantee mechanisms and the financing of insurance premia (2%) aim at unlocking market financing for development that is held back by high risk-perception.

Blending is done in close cooperation with Public Finance Institutions. The main actors are European multi- and bilateral Public Finance Institutions. Regional Development Banks are also starting to play an important role.

Finance institutions identify projects in dialogue with the beneficiary and EU delegations. Projects are submitted by the Lead Finance Institution to the Technical Body, where proposals are subject to a peer review process among finance institutions to discuss, facilitated by the European Commission, technical aspects identify co-financing opportunities. Project proposals are then discussed in the Operational Body, which consists of Members States and is chaired by the European Commission. The Operational Body decides over the approval of the EU grant contribution. A screening process involving EU delegations, geographical and technical directorates of DG DEVCO as well as line DGs of the Commission informs the decision. The Commission ensures that economic, environmental and political aspects are taken into account as well as debt sustainability and that the additionally of the grant has been proven. The Strategic Body – with the European Commission, Member States and partner countries participating – convenes once a year and decides on the strategic orientation of the specific Regional Blending Facility.

In 2012 the Commission lead an expert group to assess the costs and benefits of an EU platform for External Cooperation and Development with a view to optimising the functioning of blending mechanisms in the external regions. Such a platform would provide guidance to the Facilities regarding coherence of their operations, standards and technical expertise. The platform would not replace the Facilities and not decide on individual projects. A report with the results of the expert group will be submitted to the European Parliament and the Council in Autumn 2012.

More information – including the specific projects – is available in the Facilities' Annual Reports, which are accessible online via http://ec.europa.eu/europeaid

firms make a profit. Grant support therefore fulfils an enabling role and it must not directly subsidise the private sector. Market inefficiencies are to be addressed and not reinforced by further distorting the market with direct subsidies. The grant shall serve to crowd-in foreign and local financing, assuring the additionally of the EU grant contribution.

Therefore identifying opportunities where the profit-seeking private sector can be encouraged to act towards achieving developmental objectives is a balancing act. To address this, blending with the engagement of the private sector must follow a project-by-project approach, in which attention is paid to the details and a number of checks are built-in. The EU Regional Blending Facilities can provide the basis for such an approach and contribute to further extending the instruments available to the EU for delivering its development aid effectively, tailored to the needs of our partner countries.

Notes

1. As laid out in the EC Communication Agenda for Change, the EU seeks to pursue a differentiated approach. The EU's partner countries are at very different stages of development and grant support must be tailored to their specific needs. In principle, blending is mainly aimed at countries that have some basic capacity to access and manage non-grant funding. Nonetheless, in certain sectors it may be used even in least developed countries, supporting innovative approaches to poverty reduction. As one of many instruments used by the European Commission to deliver its aid, blending does not replace but complement purely grant financed operations addressing severe poverty. In fact, using grants more strategically in the context of blending allows allocating a greater proportion of funds to the least developed countries.
2. 2007 – EU-Africa Infrastructure Trust Fund (ITF)
   2008 – Neighbourhood Investment Facility (NIF)
   2010 – Latin American Investment Facility (LAIF) & Investment Facility for Central Asia (IFCA)
   2012 – Asian Investment Facility (AIF), Caribbean Investment Facility (CIF), Investment Facility for the Pacific (IFP)
3. The approval process of the Facilities has a built-in check for concessionality requirements, based on IMF regulations. Usually this is already flagged in the identification phase of the project by the lead finance institution.
4. Examples are the European Fund for South-East Europe (EFSE) and the SANAD MENA fund for MSME.

Author
Klaus Rudischhauser is Deputy Director-General at the European Commission, DG Development and Cooperation – EuropeAid.

Open Source Development: Unlocking Innovation through Transatlantic Partnership

Sarah Gonzales

An agronomist funded by USAID may have kick-started the Green Revolution, but today's development revolutions in mobile banking, off-grid renewable energy and social media are hybrids born of public *and* private resources and ingenuity.

Development's greatest open secret is that despite the universally recognized value of these public-private partnerships, our ambition still outpaces the will, expertise and humility of donors and corporations to translate overlapping interests and diverse expertise into pragmatic, operational coalitions.

Transformative solutions require a fresh mindset. USAID calls it "open source development," – providing a platform to connect development's most intractable challenges with the world's brightest problem solvers. Institutionally, we have assembled a toolbox of instruments – some novel, some borrowed from fellow donors and the private sector – and we have established a Bureau of Policy, Planning and Learning and an Office of Innovation and Development Alliances where we harness science and technology, test and evaluate groundbreaking solutions and tap underutilized public and private resources.

I would like to share three modest insights that have led us to identify practical ways in which USAID, European development agencies and the European private sector can marshal our collective resources, networks, and expertise to solve global challenges confronting peace, prosperity and economic opportunity.

Partnership delivers strategic benefits for all participants

Let's embrace pragmatic alliances at the intersection of development objectives and commercial interests.

Donors and multinationals once existed in an uneasy tension, based on misperceptions and divergent interests. Today, in an era of limited development budgets, intense global competition for markets and increasingly decentralized innovation, a new understanding has emerged: it is mutually beneficial to assemble diverse coalitions based on common interests, shared responsibilities and complementary capabilities.

A decade ago, the private sector began looking to USAID to guide its corporate philanthropy and found that partnerships thrived when sustainable development outcomes and core business objectives were strategically aligned. So USAID worked with major corporations across the globe, in every sector and region of the world to shape a new model that translates corporate social *responsibility* into enlightened social *investment*.

Through Global Development Alliances, USAID and our private sector partners jointly identify impediments to growth. We co-design, co-manage and co-fund projects that help build healthy and well-trained work forces, strengthen local supply chains, provide access to new markets, and build local government capacity. Our private sector partners deliver technical skills, technologies and market-driven approaches that donors cannot offer, while USAID offers our policy influence, development expertise and decades of local experience.

Since 2001, USAID's investment of $2 billion has produced $8 billion worth of development projects, and we are proud to claim many of the United States and Europe's premier brands among our partners, including Intel, Starbucks, Chevron, Swiss Re and Unilever.

> Let's dream big...

For example, USAID and The Coca-Cola Company formed the Watershed Partners Program in 2004 based on a shared interest in clean water and conservation; the cost of productivity losses linked to unsafe water and poor sanitation amounts to two percent of GDP in developing countries, and water is a key ingredient in Coca-Cola's products. Today, we jointly manage a $10 million program in eight countries, including a garden irrigation project that uses recycled wastewater from a local bottling plant to deliver clean water to 21,000 people in Mali.

Invest in innovation and market-based solutions

Let's dream big and nurture technologies and business models that can drastically and sustainably improve development outcomes at lower cost.

Donors must become the Silicon Valley of social investment – we must identify, test and scale development solutions that promise to usher in our generation's next revolution in poverty reduction.

USAID's Development Innovation Ventures is our in-house venture capital firm. Research scientists, start-up entrepreneurs and local civil society leaders compete for grants that will fund new technologies, business models and processes or novel combinations of tried and true techniques. We look for ambitious solutions with the potential to impact tens of millions of beneficiaries within ten years.

Next, we test if the idea delivers the targeted development outcomes, and at a significantly lower cost than current best practice. We award funds incrementally and offer three stages of financing: seed financing for basic research and proof of concept, start-up funds to test at the national level and, finally, funds for transitioning to scale.

In the past year, USAID has funded field tests in Ghana of a simple balloon tamponade that stops postpartum hemorrhages at a cost of less than ten dollars per use. We also supported basic research that helped develop a portable fuel cell that operates at one-sixth the cost, weight and volume of existing battery technologies and can power a mobile clinic or a water filtration system.

These are public goods. For that reason, USAID is working to spin off its Development Innovation Ventures into a multi-stakeholder venture capital fund that can offer not only grants but also debt and equity financing. We are discussing a partnership with European donors and companies and we hope others will join this important transatlantic venture.

Talent is everywhere, but opportunity is not

Let's use our convening power and our collective resources to engage the world in the search for development solutions.

For the last half century, donors have issued calls for proposals and big contractors have dutifully implemented projects that serve a pre-defined outcome; but that model assumes donors already have the answers, and it leaves the creativity of millions of potential problem solvers untapped.

The Grand Challenges for Development initiative turns that outdated model on its head. Instead, it draws upon shared experiences to define major constraints to development, then uses its partners' collective convening power to garner widespread public interest in the search for a solution. In three separate challenges thus far – to save lives at birth, get all children reading and power agriculture through clean, off-grid energy – USAID and its partners have encouraged more than 1,500 innovators to submit proposals, with nearly half from developing countries. For example, researchers at Boston University developed a device that screens for substandard and counterfeit antibiotics, while a faith-based organization in South Sudan developed a solar-powered digital audio player that enables a local reader to impart basic literacy to children who cannot attend school.

The Grand Challenges represent true transatlantic partnerships. USAID's partners include the U.K., Sweden, Germany, the Gates Foundation and Duke Energy, and USAID is actively working to engage additional European donors and companies.

Pragmatic Alliances: Right for Europe?

It is sometimes argued that this approach is too pragmatic, too business-friendly or too "American" to work in Europe – that USAID is too optimistic in its vision of development coalitions that are public *and* private *and* transatlantic.

Public concern that corporations might "capture" public resources is valid, but some European donors have not yet found a healthy balance between cautious due diligence and skepticism, and so they let pass the skills, technologies and resources of the private sector. On the other hand, the political imperative to champion domestic companies' aspirations in emerging markets may prevent other donors from identifying the most appropriate private sector partners. In this regard, the European Commission faces a unique challenge in forming a private sector engagement strategy that respects those member states that prefer to maintain an exclusive partnership with their domestic multinationals.

Many European companies, for their part, still regard corporate philanthropy as a "cost center" apart from core business objectives; they will not seize the partnership opportunities that exist until they conclude that social investment is the path to sustainable markets and billions of new consumers.

Ultimately, it is the responsibility of both donors and businesses to establish better public-private networks within Europe. In doing so, donors need not worry that dialogue with the private sector makes them beholden to corporate interests, nor should business groups be reluctant to design and advocate for policies that serve development objectives. As such, several European actors are leading the way toward locally-appropriate partnership mechanisms that pinpoint intersecting interests, optimize diverse competencies and sidestep political sensitivities.

> It is the responsibility of both donors and businesses to establish better public-private networks within Europe

The Dutch Ministry of Foreign Affairs has repositioned itself as the catalyst for multi-stakeholder consortiums that jointly design and fund innovative projects in the fields of water sanitation and management. In so doing, the Netherlands leverages its world-renowned expertise in the water sector and offsets cuts in official development assistance, without relinquishing control over national development priorities. At the same time, Swedish SIDA has established a "business for development" unit that explicitly seeks out partnerships with companies of all nationalities, delinking development policy from commercial advocacy.

Among multinationals, GDF Suez has established a 100 million euro social investment fund to nurture promising ventures that cater to new consumers, while BASF has assembled its own alliances with civil society organizations and UN agencies to deliver its food fortification products to vulnerable populations.

The Transformative Promise of Transatlantic Partnership

There is no doubt that the challenges are great and that the public and private sector both must build the political and institutional space for these strategic alliances. But let me conclude with a snapshot that captures the potential upside:

Imagine a Kenyan farmer who grudgingly accepts a below-market price for his crops, while a mother in Haiti anxiously stockpiles cash to pay next month's school fees, and a police officer in Afghanistan grumbles when his salary does not arrive. Ten years later, the Kenyan farmer accesses real-time crop prices via mFarmer, a program jointly designed by USAID, the Gates Foundation and the European-led GSMA. The Haitian mother earns interest, accumulates savings and transfers school payments with her mobile phone using a platform developed by USAID and Citi. And the Afghan police officer enjoys a 40 percent raise since a USAID-Vodafone partnership ensured reliable and on-time delivery of his monthly salary.

This progress is all made possible by development innovations driven by transatlantic partnerships already underway. Let's be more deliberate, more pragmatic and more inclusive so that we can continue to fuel this innovation-driven revolution at the nexus of public and private interest. If this approach piques your interest, USAID encourages you to contact me in Brussels to explore avenues for cooperation.

Author
Sarah Gonzales is USAID Representative to the EU. She can be contacted at: GonzalesSG@state.gov.

Let the Private Sector be a Catalyst for Sustainable Development

Imoni Akpofure

It may come as news to some, but multilateral and bilateral development banks have increased their financing of the private sector fourfold over the last decade, boosting their annual combined investment from $10 billion to over $40 billion. This has been welcomed by most of the development community, although the debate on the balance between traditional development assistance to the public sector and donor support of the private sector continues.

At the International Finance Corporation (IFC), the largest multilateral development bank focusing on the private sector, we have been at the center of this discussion, promoting the important role of the private sector in sustainable development. In 2011 we coordinated with 30 other multilateral and bilateral development finance institutions a study on *International Finance Institutions and Development through the Private Sector* [1]. The study notably highlights the "virtuous circle" of public and private sector cooperation for development. As experts gathered in Busan, Korea for the Fourth High Level Forum on Aid Effectiveness from November 29 – December 1 2011, the private sector had a seat at the table for the first time. This could be a turning-point, where we move from aid effectiveness to development effectiveness, while recognizing the mutually supportive roles of the private and public sectors.

There is no question that governments continue to be essential for development. They provide critical services for their populations, such as health care, education, infrastructure, and social safety nets. They also create the enabling environment for the private sector by ensuring property rights and contract enforcement, security, and macro-economic stability, as well as the proper regulatory framework. Governments' role is to provide leadership for economic development and to ensure that it is shared by all segments of society. Grants, multilateral and bilateral finance, and technical assistance can help those countries that do not have adequate resources or expertise in this critical task. But governments can't do the job alone—they are only part of the recipe for development and poverty reduction.

The private sector is and must be a source of economic growth and opportunity that will allow people to improve their lives. While the public sector can create a sound basis for development and a good environment for investment, the private sector will generate the vast majority of jobs, help improve public services, and ultimately provide most of the tax revenues that the public sector needs. So where do development institutions come in? As the report points out, IFIs can play a critical role in supporting the private sector.

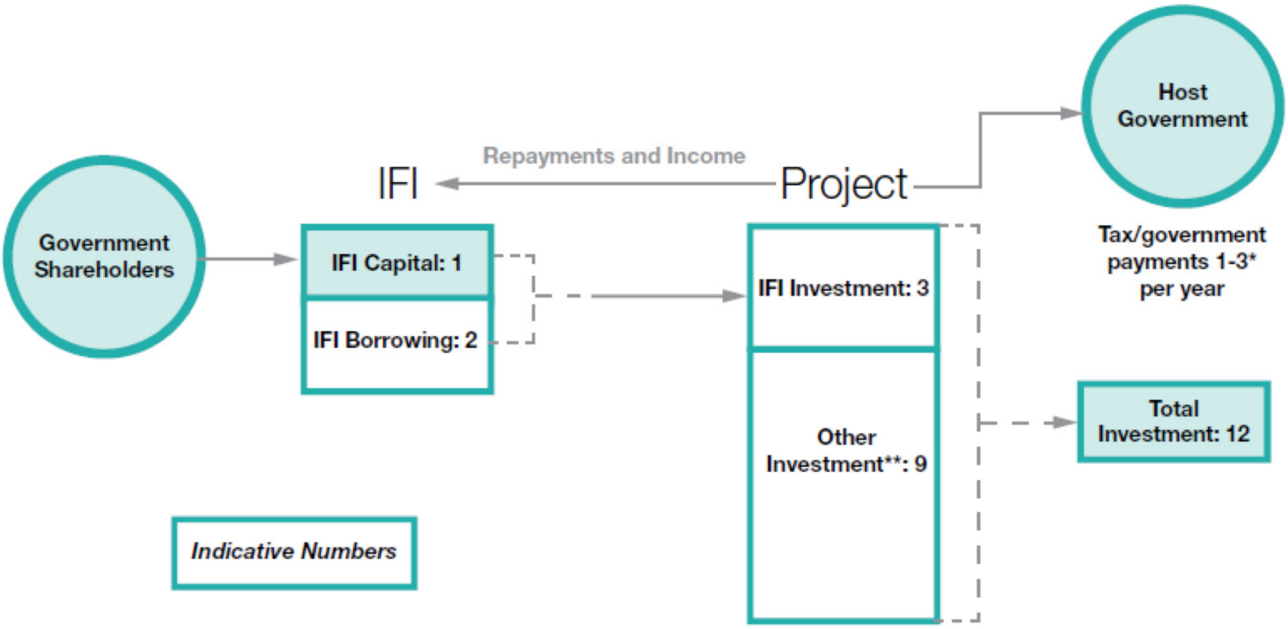
The private sector is and must be a source of economic growth and opportunity that will allow people to improve their lives.

Firms in developing countries need financing to expand their operations, as well as better infrastructure, improved business regulations, and skilled employees. Without these, they are not able to grow, especially in the more difficult environments where poor people live and work. Development institutions have experience working in these environments and are willing to provide capital where private markets may be risk averse. They provide advice to improve markets and make projects bankable and sustainable, attracting other investors by providing comfort and risk assurance. Indeed, this "additionality" is a key aspect of the IFIs' mission – if commercial players can finance projects directly, then the IFIs should not get involved, saving their resources for more challenging environments. In addition, IFIs can help make private sector development more inclusive, and promote the high environmental, social, and corporate governance standards that allow projects to be sustainable.

To name just a few examples, development institution funding has extended mobile phones to rural areas of Papua New Guinea, with all the benefits that improved communications can provide. In Senegal, public-private partnerships are putting in place the essential infrastructure for growth,

Figure 1: Synergy between the public and the private sectors

Fig. 2 How $1 of IFI Capital is leveraged with Private Capital, Returns and Taxes



* Tax payments are estimated based on payments tracked by EDFI and IFC (EDFI/Dalberg report p. 29, IFC Annual Report p. 29).
** E.g. commercial banks, owners equity.

and in India they are providing improved housing for slum dwellers. Similarly, at a crucial time in Egypt, equity investments have helped create jobs, while in Brazil, microloans and training have improved the lives of street vendors.

Of course, at a time of scarce resources, some may ask whether donor governments can afford to support *both* the private sector as well as the public sector? The answer is yes, since in large part development institutions are self-funded, using repayments from their investments to support new projects. In fact, as a result of their success, they have had limited capital needs. While substantially increasing their investments, most IFIs have not had significant capital contributions for decades. By contrast, aid to governments usually needs to be funded every year. Furthermore, since the enterprises supported by development institutions provide substantial tax revenues to their host countries, the need for development assistance to the public sector is reduced. In addition, IFI investments have a strong demonstration effect, showing others what is possible in difficult environments. For every dollar they invest in a project, they mobilize multiples thereof from other investors who might be too risk averse to step in alone.

All this is not to say that IFIs don't face substantial challenges in their mission of catalyzing sustainable private sector development in emerging markets. Most have the mandate to focus on the very poorest, most difficult countries that may not have a welcoming investment climate or adequate infrastructure, nor a stable political system. This can make finding investment partners and structuring investments difficult. While corporate social responsibility is important to many firms, their investments must be profitable, and they are loathe to risk their capital in unknown waters. Convincing them that higher risk may also bring higher return and that IFIs can help mitigate that risk is important. In addition, creative ways must be found to reach the small, job creating firms that predominate in developing countries, be it through intermediary financial institutions or through business advisory programs. These are just some of the hurdles IFIs need to overcome, but after many years of experience and sharing of best practices, they are well on their way.

In summary, supporting the private sector with judicious investment is a win-win proposition for donor governments and developing countries. A small amount of initial capital, with some well targeted advisory services, can marshal the talents and finance of private sector investors to create economic activity that ultimately is self-financing. This should not be surprising--it is one of the historic paths to development.

Notes

1. International Finance Institutions and Development through the Private Sector

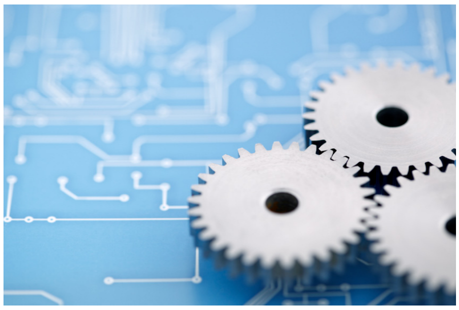
Author

Imoni Akpofure is Director for Western Europe at the International Finance Corporation (IFC).

Engaging Local Business Organizations as a Powerful Tool for Successful Public-Private Dialogue

Jakob Øster and Paida Nyamakanga

The creation of enabling environments for the private sector is perhaps the most important factor towards the ensuring of inclusive and sustainable economic growth in developing countries. Local business organizations should be used as the logical leverage for this purpose as they hold the possibility to independently represent their members and thus the entire private sector at large.



In western countries business member organizations are often some of the most powerful lobby organizations and are able to influence decision makers towards the creation of evermore enabling environments for the private sector. Such environments ultimately benefit society at large through economic growth and job-creation.

It is no secret that doing business in most developing countries, and in particular African economies, can be a troublesome affair. It is, however, a rather well kept secret that a series of relatively simple reforms would significantly contribute to the creation of more enabling environments for small and large business alike. Such environments would, in turn, lead to more a sustainable and inclusive growth path of African societies.

Organizing the private sector voice...

The key to making political decision-makers aware of these necessary reforms lies with a stronger and better organized voice of the private sector itself. It is the private sector that knows best what it needs and it is the private sector that has a responsibility to use that knowledge to improve its own operating environment for the benefit of all society.

Most companies, and especially SMEs, are not sufficiently equipped for engaging in public-private dialogue and policy advocacy. They are in need of strong and representative business organizations that can speak on their behalf. The problem, however, is that while most developing countries have business organizations, many of these lack the necessary human and financial resources as well as a sufficiently large membership base in order to effectively represent the private sector of their respective countries. Furthermore, several business organizations retain unhealthy ties with governments, thus disenabling them to be the independent voice of their members that they are supposed to.

Hence, in order to insure the creation of truly enabling environments for the private sector, which in turn leads to inclusive growth and development, there is a need to significantly strengthen the capacity of business organizations in developing countries and emerging markets throughout the world, and particularly in Africa where GDP growth is now reaching ever new heights, but is often detached from benefitting the larger populations.

...for inclusive representativeness...

Between 2001 and 2010, six of the ten fastest growing economies of the world were in Sub-Saharan Africa. In the period 2011-2015, the IMF expects that seven African countries will appear on this list and that the average African country will outperform their average Asian counterpart. Overall, Sub-Saharan Africa's economy is expected to grow by almost 6% in 2012 and George Soros recently described the continent as "one of the few bright spots on the gloomy global economic horizon".

Economic growth does not automatically spread evenly – particularly not in contexts of weak governance as is the case in many African countries. A means of ensuring a more inclusive growth is to empower business organizations to speak on behalf of all their members, including SMEs that make up the largest potential of growth and job creation in most economies – particularly in Africa.

> "Most companies, and especially SMEs, are not sufficiently equipped for engaging in public-private dialogue and policy advocacy"

Inclusive growth in Africa does not come from those multinationals that seek only to extract or speculate in resources, but from the creation of value through real products and services, be it from local or foreign companies of all sizes. From the one-man (or woman) entrepreneur to the largest of conglomerates, companies that create value for society also create inclusive growth. But these companies require a regulatory environment that caters for their needs in order to enable them to do what they do best – create value that leads to inclusive growth.

...and better governance

While an individual company might thrive in a non-transparent and poor governance environment due to corruption and nepotism, the private sector as a whole can only thrive in an environment that favors a free and open market. As illustrated through the theoretical clarity of such a classical prisoner's dilemma, the practical role of a business member organization in an African context is, at a fundamental level, to act as a guardian on behalf of the private sector as a whole and fight for a freer and more open environment for all its members. Also for this reason, it is crucial that business member organizations are wholly anchored in the private sector and their members and in no way dependent upon governments.

The creation of a truly enabling environment for the private sector can only be achieved through effective public-private dialogue between strong and representative business member organizations and political decision makers who listen and can be held accountable. Such an environment will lead the way for a growth that is both more sustainable and more inclusive. With current growth rates in many African economies are at the very top of the global leader board, both the need and momentum for supporting business member organizations in Africa is now.

Authors
Jakob Øster is Consultant at the Confederation of Danish Industries. Paida Nyamakanga is Corporate Communication Executive at Kenya Association of Manufacturers.

Is the Private Sector the Solution to the Overseas Aid Crisis?

José María Vera

For the first time in 15 years, the net volume of international development aid as a percentage of global GDP has dropped. In this context of economic and financial crisis there has been significant cuts in development aid allotments. The possibility of fulfilling international commitments to address major world problems is shrinking, while the needs of poor people are consistently growing.

In view of this situation, donor governments and bilateral and multilateral aid organizations have made a move to increase the role of the private sector. This is expressed in major international cooperation forums such as the Fourth High Level Forum on Aid Effectiveness (HLF4) that took place in Busan, South Korea, last year. However, this does not mean giving donations to the companies that are involved in cooperation; it means taking on board their contributions in know-how, adapted technology, innovation and capacity for action, as well as their ability to mobilize additional resources.

The need for evidence based policy on private sector engagement

However, although more and more traditional donors are making room for cooperation, few are able to define what their action framework should be and how it should take shape. This is particularly worrisome because it allows for activities that deviate from the goal of achieving the greatest possible impact on poverty reduction. In other words, there is a risk that profits and public relations will replace the original aim of poverty reduction. We also run the risk geographical and sectoral concentration in the most profitable areas, ignoring those that are excluded and have the most difficult contexts. It is therefore critical to create systems that will measure the impact of the private sector in advance and will give a solid evaluation of the results. In this way, we will be able to draw conclusions on which areas the private sector should play a leading role in, those in which it should be a partner and those in which it is not an effective actor.

Old wine in new bottles?

The pressure to stimulate economic growth, both in developing and advanced countries, means that donors and governments are more sensitive to two goals: creating an environment of opportunity in order to generate economic activity, and finding alternatives to public funds to have a significant impact on poverty reduction. This is a debate that resurfaces from time to time. It is also far away from reality. Over 60% of development aid funds, especially multilateral funds, are channeled through the private sector. Business is already present in development cooperation, managing and executing projects. What is it that this new phase should really expect of companies' role in cooperation?

We are familiar with examples of public support by private sector donors that is biased toward the promotion of investments and exports from donor countries. The abusive use of financial intermediaries and new financial actors and instruments, which considerably reduce operation transparency and limit responsibility, is also worrying. The same can be said of innovative capital investment mechanisms currently under scrutiny because of the global economic crisis. The use of these financial instruments must be subject to strict international regulation, very precise ex-ante evaluations of impact and a commitment not to use territories known as tax havens as a base for operations.

Beyond CSR: a new business model

Companies' essential impact on poverty will improve when they incorporate a responsible development model for their activities. At present the private sector, comprising mainly large corporations, is often responsible for negative outcomes in social, environmental and economic areas.

The Business of Business is Business. A company's prime responsibility is to maximize dividends for its shareholders. . Corporate growth and development plans are structured in such a way that the impact of their operations is taken into account only if it contributes to the goal of profitmaking. This creates a reductionist and short-term vision. It's true that without economic activity there is no possibility of economic growth, and that the private sector is responsible for 9 out of every 10 jobs in the world. But economic growth for its own sake is not sufficient to guarantee the reduction of poverty or inequality. A responsible company, as a real pillar of a future growth model, must incorporate a review of its impact throughout the whole supply and value chain as part of its base strategy and core business.

If these basic measures are not introduced, we run the risk of straying from what is most important. The point is to succeed in making real improvements in people's lives, and a real reduction of poverty and inequality – not to focus on the actors.

For the role of business in development cooperation to be effective, the goal of poverty reduction must be internalized. Companies have to adopt a complete responsibility framework for all of their actions, not only those that are linked to specific projects (CSR cannot be considered true social responsibility). They must link their interventions as much as possible to their business model, while framing them within a global vision. We are direct witnesses to the fact that companies can change the way they act and become trustworthy and effective partners in the promotion of development initiatives. When this is the case, collaboration between public actors, civil society organizations and companies can be beneficial to broader development objectives.

Donors, whether bilateral or multilateral, cannot shift public funds to finance private commercial operations. But above all, when a company is included as a participant in cooperation policy, aid efficiency criteria must be applied. The private sector has a lot to offer cooperation, but it is not "the solution". It will not cover the gaps left by some states that are reducing their aid, and we should not entrust our international aid system to private industry.

Author
José María Vera Executive is Director at Oxfam Spain.

Green Growth: The Role of the Private Sector

Alberto Lemma

The question that traditional, public policy focussed development practitioners used to ask was "does the private sector matter for development"? Looking at the data, the answer is an overwhelming yes.

Just by looking at small-and-medium sized enterprises (SMEs) we can see that they contribute to 50% of jobs and 90% of all enterprises in Africa[1] whilst private sector flows to developing countries dwarf traditional ODA flows, just in 2007 the ratio was 10:1.[2] The question has now shifted to how can the private sector positively contribute to sustainable and long-term development?

Private incentives

Contrary to popular belief, private sector participation in green growth can often occur spontaneously, rather than requiring a push from government since enterprises are able to assess the cost advantages of implementing green practices within their operations. Companies are engaging in green growth initiatives in order to improve their sustainability, decrease production costs and increase efficiency gains through better (and more sustainable) resource usage or meet international labelling criteria. Even those initiatives that are not specifically (or at least outwardly) aimed at reducing costs or improving security and efficiency, such as initiatives on green corporate social responsibility (CSR) - i.e. the provision of green services within the communities that they work in - are aimed at improving their international branding image and allow companies access to new country markets.

A large number of multinational companies have already set up sustainability guidelines to govern their operations. The standards that they set are often trickled down (or imposed) upon their supplier further down the value chain in developing countries. Such initiatives often result in more stringent environmental standards than those required by the national government in developing countries[3] but also result in higher costs for suppliers who may be excluded from the supply chain if their requirements are not met.

Enterprises are also engaging in green growth as a way to increase their production efficiency by decreasing production costs of goods or services i.e. reducing their energy usage or reducing their use of production inputs, which can be a useful triple-win tool since it helps enterprises improve their "green" image, ensure a sustainable supply of inputs (where sustainability practices are introduced within their supply chains) and reduce long-run production and service delivery costs. Enterprises that want to improve their competitiveness will naturally move towards such strategies especially where resources are expected to become scarce (either through a reduction in resources or through increased demand for them) i.e. land, water and energy.[4] Such scarcity will however also provide incentives for private enterprises to invest in green growth orientated R&D for improved resource efficiency which could result in decreased emissions and improve natural resource management in the long-term.

Small and poor isn't beautiful

Whilst information is available on high-income country multinationals and there is also a growing amount of information on middle-income country enterprises implementing such practices, there is little to no information on what initiatives, if any, low-income country based enterprises are actually implementing. In addition, the majority of these reasons for engagement in green growth are more applicable to larger companies such as multinationals or where economies of scale play a large part in the production process. These companies tend to attract the majority of media scrutiny and state attention due to their large-scale operations and global branding image which makes it an imperative for them to undertake green growth initiatives. On the other hand, smaller firms, especially in developing countries, do not have such scrutiny issues and any sustainability initiative that they undertake tends to permeate from larger companies that would require their suppliers to also adhere to the same sustainability practices that they are engaged in. Hence one of the main areas of research that needs to be taken forward is to look at the incentives for low-income country enterprises to spontaneously engage in green growth initiatives, whether the incentives are the same as those that spur high-income country enterprises and how these differ according to the size and scope of developing country companies.

Synergy with the private sector

Even though forward-looking businesses do have varied incentives to implement green growth practices, these companies often follow their own goals and agenda's and such initiatives that they enact will be for their own benefit or are often forms of self-promotion rather than tangible and coordinated efforts to ensure long-term sustainability and growth. Hence, in order to build up wider support and uptake for green growth policies within the private sector, other stakeholders such as the government, donors and civil society need to engage with businesses. A fundamental aspect of this is the need for a strong evidence base[5] on the benefits and costs of moving towards a green growth production system for both the private sector and for government, in order to motivate changes in production and spur the implementation of forward thinking green growth policy.

Triangulating and fostering engagement between the Private Sector, Civil Society and the Government helps to move green growth process towards a shared area of common interests and objectives and ensure that effectively designed green growth policy can be both an effective way to ensure that policy adoption is successful and at the same time steer private sector responses towards optimal green growth trajectories for individual countries, especially developing countries which have a head start vis-à-vis high income countries in regards to their ability to reorient industry towards greener production processes.

Notes

1. UNIDO (1999) *"SMEs in Africa Survive against all Odds"*
2. OECD (2008) *"Global Development Finance 2008"*
3. ODI, ECDPM & GDI/DIE (2012) *"European Report on Development 2012 - Confronting Scarcity: Managing Water, Energy and Land for Inclusive and Sustainable Growth"*
4. Ibid
5. http://cdkn.org/2012/03/credible-knowledge-base-is-at-the-heart-of-low-emissions-development/

Author
Alberto Lemma is Research Officer at the Overseas Development Institute (ODI).

Cooperatives and Fair Trade: A Common People-Centred Private Sector in/for Development

Cooperatives Europe and the Fair Trade Advocacy Office

This short article provides a brief introduction to Fair Trade and cooperative enterprises, their common and shared principles, and how these set them apart from other private sector actors.

Cooperative enterprises are already active as private sector actors in and for development and may hold some lessons for the current discussions on how better to work with the private sector in development.

Cooperatives Europe and the Fair Trade Advocacy Office (FTAO)

Although economic activities are their core business, cooperatives and Fair Trade organisations pay attention not only to economic, but also to social and community concerns. Both promote social responsibility; principles of democratically-controlled business; education, training, and information-sharing; and putting people at the centre of their business activities. Both movements embody action and investment at the micro, meso, and macro levels of entrepreneurial and development activities. Bringing all of these aspects to the debate around engaging the private sector in development would provide a common thread throughout all levels of activity and on both sides of the development actor spectrum – profit-driven private sector enterprises and socially-driven CSOs.

Quality versus Quantity

An understanding of the private sector that takes processes and not simply scale of business into account is crucial to appreciate the diversity behind private sector actions and investments in and for development. A more qualitative understanding of different private sector models facilitates the measurement and monitoring of development impact beyond economic or monetary conceptions of growth, further highlighting the importance of the private sector with regard to development goals.

The Fair Trade and Cooperatives movements share common principles based on shared values, advocating for a people-centred business model as an alternative way of doing business. It is our view that only a private sector which favours a people-centred business model, putting people and not capital at the core of its business, can achieve sustainable development and inclusive growth that will alleviate poverty.

The Fair Trade and cooperative business models offer just that – a qualitative, people-centred approach to entrepreneurship, which fundamentally calls for qualitative growth. These characteristics place Fair Trade and cooperative enterprises in a particularly apt position to identify innovative and sustainable roles for the private sector in development. They also prove an apt interlocutor between the structures or institutions on all sides of development partnerships: enterprises; CSOs; donors, funders, and investors; and local authorities.

Cooperatives and Fair Trade: A relationship with historic roots

Cooperative enterprises have contributed to the empowerment of producers, workers, and consumers since the late-eighteenth century, providing access to knowledge, markets, and finance. By the end of the nineteenth century, cooperatives were active in all economic sectors all over the world, supporting peoples' development. Founded in 1895 the International Cooperative Alliance (ICA) unites and represents the international cooperative movement.

In the mid-twentieth century Fair Trade was established to help disadvantaged producers in developing countries access international markets at fair prices. Many of the first Fair Trade products originated from Latin America, where the cooperative movement has been particularly successful. Fair Trade Organisations looking for democratic producer organisations, built links with pre-existing cooperatives.

The people-centred approach intrinsic to both the Fair Trade and cooperative approach to entrepreneurship continues to distinguish these entities from the more traditional private sector approach, concerned primarily with growth and profit.

Cooperatives: definition and principles

The ICA defines a cooperative as an "autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise".[1] In 2002, the International Labour Organization (ILO) published the "Recommendation on the Promotion of Cooperatives",[2] stating that "the promotion of cooperatives should be considered one of the main pillars of economic and social development", confirmed by the 2005 UN Report (A/60/138).

> An important aspect of cooperatives is adherence to a set of common values

An important aspect of cooperatives is adherence to a set of common values. These are: self-help, self-responsibility, self-determination, democracy, equality, equity, and solidarity. The seven core principles that determine the specific characteristics of cooperatives[3] are:

- Voluntary and Open Membership
- Democratic Member Control
- Member Economic Participation
- Autonomy & Independence
- Education, Training, and Information-Sharing
- Cooperation Among Cooperatives
- Concern for Community: cooperatives work for the sustainable development of their communities[4]

Fair Trade: definition and principles

The Charter of Fair Trade Principles provides a single international reference point for Fair Trade through an explanation of Fair Trade principles and the two main routes[5] to implement these. This includes the definition of Fair Trade as "a trading partnership, based on dialogue, transparency, and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to and securing the rights of, marginalised producers and workers – especially in the South".[6] The following Fair Trade principles focus on three pillars of sustainable development and ensure stakeholder interest:

- Market Access for Marginalised Producers
- Sustainable and Equitable Trading Relationships
- Capacity Building & Empowerment
- Consumer Awareness Raising and Advocacy, which provide the vital link between producers and consumers in promoting social justice
- Fair Trade as a 'Social Contract' where buyers agree to do more than is expected by the conventional market
- Continuous Improvement of the Environmental Impact of production and trade
- Adhering to Decent Working Conditions as defined in the ILO conventions
- Compliance and Impact are verified through Monitoring and Evaluation

Fair Trade and Cooperatives: People-Centred private sector for Development

The cooperative and Fair Trade business models are therefore market-based models that put people at the very core of business. Both apply a people-centred business model where profit is simply a means to serve the people, not an end in itself. Indeed, these movements constitute private sector actors with development in their genes.

The merit and import of private sector development as a process that strengthens local communities serves as a basic building block for healthy economies that function without detriment to social, cultural, and right-based considerations. At the local micro-level, the Fair Trade and cooperative movements offer myriad structures and entrepreneurial practices that marry the sometimes diverging interests of the public, private, and local sectors. But these models are not limited to the local and micro context.

The Fair Trade movement constitutes an alternative to often-monopolized regional and global trading relationships– ensuring that the inter-connectivity of globalization does not fail to protect disadvantaged groups from falling through the cracks. Indeed, any implication of the private sector with regard to development and development goals should not neglect the macro-policy issues that have a direct and often deleterious impact at the 'bottom of the pyramid'. Fair Trade and cooperatives tackle poverty alleviation and provide accessible and empowering tools to the 'new bottom billion'

Cooperatives also represent a diverse base of entrepreneurial activity – including financial institutions. Cooperative banks have proven particularly resilient to shock and financial crises, and thus may also provide innovative forms for risk-mitigation of development investments. Acting according to people-centred principles, cooperative financial institutions can act as an intermediary between, or alternative to, two frequent models: 1) models aiming to develop capital markets, and 2) models establishing policy banks to carry the brunt of risk.

Measuring quality

A purely quantitative understanding of the private sector falls short of capturing the development additionality of specific private sector actors. It is paramount to make clear that development embodies socially and human-driven goals that go beyond mere financial measurements. For this reason, people-centred entrepreneurship such as the Fair Trade and cooperative models should be implicated in conversations that develop partnership schemes. A qualitative understanding based on processes and principles helps to bridge the gap between seemingly disparate actors.

The marriage between profit-driven and socially-driven actors proves a challenging one. There is a need to mitigate risk, to channel and incentivise investments based on need rather than profitability, and to anchor the notion of growth on human and social measures. All of these aspects present challenges to identify and build points of synergy where divergent interests converge. The Fair Trade and cooperative movements can be an apt interlocutor to bridge such gaps and implement innovative actions and policies that protect the interests of all.

> It is paramount to make clear that development embodies socially and human-driven goals that go beyond mere financial measurements

How and Who & What is next?

One of the priorities of the European Commission's (EC) Agenda for Change[7] for European Union (EU) development policy is sustainable agriculture (in particular support to small holder farmers). The EC also considers the EU should promote Small and Medium Enterprises (SMEs) and cooperatives and has proposed a new package to promote trade for small operators, including "support participation of small businesses in trade schemes that secure added value for producers, including those responding to sustainability (e.g. fair, ethical or organic trade)."[8] These are areas that fall entirely within the remit of our two movements.

Yet this is only part of the overall picture. The Fair Trade and cooperative movements call on the European Union to encourage an informed public debate at the EU level on the role of the private sector in / for development, which does not only focus on private sector development and private sector finance for development (including blending instruments) but also covers how the core operations of businesses operate; how businesses are organised; and whether, when, and how the private sector can serve as a tool to achieve poverty reduction and sustainable development objectives.

Notes

1. http://www.ica.coop/coop/index.html
2. ILO 193/2002: Recommendation concerning Promotion of Cooperatives, R193.
3. http://www.ica.coop/coop/principles.html
4. http://www.ica.coop/coop/principles.html
5. Integrated supply chain route and the product certification route.
6. World Fair Trade Organisation and Fairtrade Labelling Organisations International (2009): A charter of Fair Trade principles, p. 6.
7. European Commission Communication "Increasing the impact of EU Development Policy: an Agenda for Change" COM(2011) 637 final. Brussels, 13 October 2012.
8. European Commission Communication "Trade, growth and development: Tailoring trade and investment policy for those countries most in need" COM(2012) 22 final. Brussels, 27 January 2012.

Authors

This paper was written by staff of Cooperatives Europe and the Fair Trade Advocacy Office (FTAO).

Monthly Highlights from ECDPM's Talking Points Blog

www.ecdpm-talkingpoints.org

ECDPM at the EDDs: Engaging the private sector for development, Talking Points, Bruce Byiers, September 21st 2012
Preparations for this year's European Development Days on the 16th and 17th October are now well underway. Among 4 panels in which ECDPM will participate, we are co-organizing a panel to look at "How can we maximise inclusive growth and development: The Pros and Cons of Private Sector Engagement and Blending Instruments". The idea for the panel builds on the growing interest and demand among donors, developing country governments and the private sector itself for engaging business for development ends, something we have discussed here before and in a recent discussion paper. Although there are ...

EPAs' 10th anniversary: The Never Ending Story, Talking Points, San Bilal, September 27th 2012
At the opening ceremony of the negotiations of Economic Partnership Agreements (EPAs) between the European Union (EU) and the African, Caribbean and Pacific (ACP) States the chairperson of the ACP Group arrived late, keeping hundreds of officials and diplomats, not least then EU Trade Commissioner Pascal Lamy, waiting. This was on 27 September 2002. Ten years and four EU Trade Commissioners later, the EU still seems to be waiting for many ACP countries to come along. Perhaps with few exceptions, the EPA agenda has not generated the enthusiasm for effective development partnership it was meant to ...

How big trade corridors can benefit small farmers, Talking Points, Francesco Rampa, October 5th 2012
Many trade corridors in Africa were designed in colonial times, primarily to serve extractive industries and ease the transport of goods from the interior of the country to the ports, and back. Even those corridors, which have been developed more recently – such as the Maputo corridor (connecting South African provinces, including the economically developed areas around Jo'burg and Pretoria, with Mozambique's capital), which is said to be the most efficient in terms of facilitating the transport of goods – tend to target large enterprises, while seemingly failing to benefit smallholders. If designed well, trade ...

What can bridge the divide between humanitarian aid and development?, Talking Points, Volker Hauck, September 19th 2012
To meet the challenges that natural disasters, armed conflicts and structural forms of fragility bring to countries or entire regions, more flexibility and participation in implementing the EU policy on Linking Relief Rehabilitation and Development (LRRD) is needed. "We want to be more involved and take leadership in the LRRD process and be accompanied by our partners," urged Mr. Amadou Alahouri, High Commissioner of Niger for the 3N Initiative ("Nigerians Nourish Nigerians") during a public hearing on this topic at the European Parliament on 3 September 2012 in Brussels. The Parliament held this meeting at ...

Social protection in EU development cooperation: do the tools match the vision?, Talking Points, Florian Kraetke, September 28th 2012
The EU's new development policy framework, the "Agenda for Change", does not explicitly mention social and economic inequalities. Now, the European Commission clearly acknowledges that a variety of inequalities exist in both low- and middle-income countries and elaborates its policy response. In a recently adopted Communication, the EU affirms the value of social protection for overcoming socio-economic inequalities and for promoting inclusive growth: "people's ability to participate in and benefit from wealth and job creation". Social protection is defined as a set of "policies and actions that enhance the capacity of all people, but notably ...

Monthly highlights from ECDPM's Weekly Compass Update

www.ecdpm.org/weeklycompass

"Everything that comes out of Political Economy Analysis is dynamite", Weekly Compass, Issue 120, 7 September 2012
In an interview with capacity4dev.eu, ECDPM's Jean Bossuyt, a member the European Commission's Political Economy Analysis (PEA) Team in Senegal, outlines some of the key aspects of the EC's PEA methodology. "Political Economy Analysis' purpose is to better understand where the reform processes come from, where the dynamics come from, who are the 'blocking' actors, etc.," he says. "Everything that comes out of Political Economy Analysis is dynamite, so you have to be sure that you can use it properly and politically." He considers the first important step is to ensure that the process has the full support of the EU Delegation. Secondly, the objectives of the evaluation must be clearly defined and a multi-disciplinary team, with a mix of international and local expertise, should undertake the process. "The initial PEA cannot solve all problems, but can provide a better overview of what really drives reforms and this can be used later on, in a sequenced way, to perhaps do more targeted PEAs, for instance in a sector," Bossuyt concludes.

Smart EU support to decentralization, Weekly Compass, Issue 123, 28 September 2012
The European Commission is embracing an increasingly political approach to development cooperation that recognises the crucial role of developing countries' local authorities in ensuring domestic accountability. It is preparing a document to frame EU support to decentralisation. To ensure that policy-making responds to the realities on the ground, the EC organised a four-day seminar with EU delegations' representatives, facilitated by ECDPM. The seminar report was published this week and provides importantstrategic and operational messages for the EU on how to provide smart support to decentralisation.

ECDPM at the EDDs: Confronting inequality, Weekly Compass, Issue 122, 21 September 2012
Over 70% of the world's poor live in middle income countries like China, India, Indonesia or Nigeria. As such, high socio-economic inequality is detrimental to poverty reduction, economic growth and political stability. Thus, promoting "inclusive" growth has to go hand in hand with addressing inequality. A European Think Tanks Group (ODI, DIE, ECDPM and FRIDE) panel at this year's European Development Days will debate how the EU could response to rising inequality in developing countries. On the blog on the European Think-Tanks Group's new webpage researchers from all institutes write about how public policies and private investment could target distributional issues.

Addressing the "dark side of globalisation", Weekly Compass, Issue 122, 21 September 2012
Fragile states are particularly vulnerable to the dynamics and risks involved in the process of globalisation because of their generally weak governance systems and/or low capacity. The OECD DAC's International Network on Conflict and Fragility has opened a consultation to complete its study "Think global, act global: Confronting global factors that influence conflict and fragility". It proposes nine entry points where the international community can address some of the negative global influences on conflict and fragility more effectively and coherently, such as regulation to prevent transnational organised crime and illicit markets in military goods and services.

EPA Update

Melissa Dalleau

This month, this section covers recent EPA developments that occurred over the past months in the EAC, West African, Caribbean, Pacific and SADC regions. Stay tuned for coverage of negotiations in other regions

EPA Market Access Regulation 1528/2007

European Parliament votes to extend EPA deadline to 2016, council rejects amendment

On 13 September, the European Parliament officially rendered its final decision on the proposal of the European Commission to amend the EPA Market Access Regulation 1528/2007. The latter sought to allow the EU to exclude from the remit of the regulation countries that have not taken the necessary steps to ratify and implement their EPA agreement as from 1st January 2014. The European Parliament, meeting in plenary, voted by 322 votes to 78 (with 218 abstentions), in favour of an extension of the 2014 deadline to 2016. The council's Trade Policy Committee, however, has gone along with the 2014 deadline, and effectively rejected Parliament's amendment on October 5th. The proposal should now go to second reading, in search of an agreement acceptable to all three institutions.[1]

According to EU's MP David Martin, S&D shadow rapporteur, the new timeline "is a realistic timeframe to work towards fair and development-focused EPAs with our ACP partners. No ACP country should be forced to sign an unsatisfactory agreement".[2] ACP Secretary General, Mohammed Ibn Chambas, welcomed the outcome of the vote, acknowledging that such extension would "help to facilitate a more serene environment to make balanced decisions beneficial to all parties".[3] He called on the EC to show flexibilities on the remaining outstanding and contentious issues in the negotiations, in order for deals to be struck on time.[4]

According to the new legislative proposal, if countries want to continue to benefit from EPA market access, they either have to sign and start the ratification of their existing EPA or conclude a new regional one. If none of these steps are taken, within the specified timeframe, countries will either fall under one of the schemes of the new GSP (i.e. Everything but Arms, Standard GSP or GSP Plus) or they will have no preferences (as might be the case for Botswana and Namibia).

Southern African Development Community (SADC)

SADC meetings postponed

Following the meeting of SADC and EU technical experts on Market Access (MA) in Johannesburg, on 18 and 19th of July, SADC member states have worked on refining their MA positions on agricultural products in particular. Inputs from South Africa on where concessions could be made and comfort measures sought, and from Namibia on issues of derogations for tuna and right of first refusal were eagerly awaited. Whilst some new offers have been submitted to the SADC EPA Secretariat, those now need to be consolidated at the regional level before submission to the EC. As a result, the SADC EPA was not yet ready for meaningful discussions on market access negotiations to hold the joint Senior Officials meeting that was foreseen in the first week of October.

Beyond the question of market access issues in agriculture, numerous contentious issues remain: Non Agricultural Market Access (NAMA); export taxes and (agricultural) safeguards, so-called "new issues" (good governance in tax matters, and provisions related to "sustainable development"), and the question of Geographical Indications. Despite some recent progress in Pretoria on the question of the Most Favoured Nation (MFN) clause, the issue remains unsettled.

Issues surrounding rules of origin and cumulation are also outstanding. Whilst those were to be discussed in the context of a specific technical meeting; no such gathering have occurred, with or without the EC on RoO in September.

East African Community (EAC)

Rules of Origin and Dispute Settlement/ Institutional arrangements appear more complicated than expected

EAC and EU technical experts met in Brussels from 17-21 September 2012 to discuss the Protocol and Annex II on Rules of Origin and the text on Institutional Arrangements, Dispute Settlement and Final Provisions in preparation for an eventual Senior Officials meeting.

Some progress has been made on the Protocol on Rules of Origins (RoO), now almost finalised, but few issues remained unsolved at the end of the Brussels meeting. Replacing in the definition article, "other ACP states" by "other EPA states", as currently proposed by the EU, remains problematic for the EAC side. In this respect, the EAC suggested including a *stand alone* article in the Protocol that would allow cumulation with non-EPA ACP states. The ball is now on the EU's camp on this issue.

The EAC also suggested it could submit a list of products potentially eligible for cumulation with South Africa. The EU seems to be willing to consider the proposal, but warned against the risk of trade diversion and stressed that in any case that the final agreement would depend on SADC-EU EPA negotiations. With regards to specific rules under Annex II on RoO, major disagreement remains on various chapters and products. Noticeably, also, no agreement was reached on the rules for marine fisheries, on which the EAC is still currently undertaking consultations.

On Dispute Settlement (DS), Institutional Arrangements (IA), and Final Provisions, whilst some progress was made in certain areas, there remain some outstanding technical issues that will need to be further discussed between the parties. Among those, one could cite a new EAC proposal on Interim measures that seems to suggest that such measures could be taken prior to any arbitration panel's ruling – a proposal which may be difficult to accept for the EU. Similarly, the text on rules of procedure and code of conduct of the Arbitration will require further work. Beyond those issues, the text on DS/IA seems close to completion; although one should not forget that the non-execution clause, the type of dialogue and cooperation to be handled in the framework of the EPA Consultative Committee, as well as the question of whether issues related to the financing for development cooperation should fall within the scope of the present text on DS or not, are pending issues that have been deferred to Senior Officials. Those will therefore need to be agreed upon for the text to be completely finalised.

Across-the-board, as can be inferred from the above, discussions in Brussels turned out to be more complicated than expected; more work is therefore required at the technical level before a Senior Officials' meeting is to be convened. The next EAC-EU Technical Officials negotiations session is currently foreseen from 6-9 November in Kampala, Uganda. Both parties are however expected to finalise and exchange their positions on all outstanding issues with regards to RoOs and IA/DS by the end of October, to allow for fruitful discussions in Kampala.

Beyond the issues mentioned above, it is worth recalling, that despite some substantial progress in the negotiations over the past months discussions over some of the 'traditional' contentious issues continue to hit a snag among the parties, notably when it comes to the Most Favoured Nation (MFN) clause, the new issues introduced by the EC in the negotiations (namely obligations/consequences arising from Customs Unions Agreements concluded with the EU, and the issue of good governance in the tax area), provisions related to "Trade, Environment and Sustainable Development", as well as the sensitive questions of EU domestic support and export subsidies.

West Africa

State of Play in the negotiations

Following an apparently fruitful round of negotiations on RoOs, technical experts and senior officials from West Africa and the EU met in Brussels from 17-25 April -- a meeting that was held shortly after a meeting of the Regional preparatory Task Force on the EPA development programme (EPADP). Since then, however, no joint West Africa-EU meeting seems to have occurred between the parties. A technical meeting between the parties seemed to have been planned at the beginning of the summer in Accra, Ghana to address the question of the market access offer in goods, but as *GREAT* goes to press, we have not been able to get confirmation on whether this meeting occurred or not.

It is worth recalling here that discussions on this topic seem to stall on the joint statistical basis behind the offer, the new categorization of specific tariff lines (and the analysis that underpinned the categorization), as well as the level of tariff classification that should be considered for this offer (HS6 vs HS10). As far as we know, these topics continue to be the subject of heated debates, and, although this question was the subject of further consultations in the region, it is very likely that agreement will have to come from higher political levels.[5]

On the question of the EPADP, major progress seems to have been made this year, but the question of "additionality" of funds remains unsettled and has been deferred to the political level. Similarly, the specific wording of the non-execution clause continues to remain controversial. The so-called "Turkey-clause" and the MFN clause will also require internal consultations within the region and further joint discussions.

It is also worth noting that a regional workshop on trade in services has been organised by the ECOWAS Commission, in collaboration with the UEMOA Commission and the assistance of ILEAP, from 12-14 June in Accra, Ghana. In addition to informing the different participants on the state of trade services in the region and the importance of services for regional integration in West Africa, this meeting was an opportunity to discuss the progress made by the Thematic Working Group on Services set up by the ECOWAS and UEMOA Commissions when it comes to the preparation of the EPA negotiations in services. Participants also discussed in Accra how to concretely move forward on the elaboration of the national negotiating positions of the member states for the elaboration of the offer of the region in the negotiations. In this respect, it seems that ECOWAS may recruit, through GIZ, one national consultant per member states to help with the draft list of specific commitments to be offered by West Africa in the negotiations. Consultants may work on the national offers this fall. One should here recall, that in the current negotiations, services have been temporarily excluded to focus mainly on market access in goods..

West Africa progresses on the Regional EPA Fund (FRAPE)

Following on a decision of the West African Ministerial Monitoring Committee (MMC) in Niamey in November 2006, the region plans on establishing a Regional EPA Fund (FRAPE) to finance the EPADP.

As explained in a previous EPA Update, a study on the operationalisation of the fund was carried out for ECOWAS, UEMOA and the EC by a team of consultants in summer 2007. The study made proposals concerning the specific objectives, intervention areas, beneficiaries and contributions to the fund and identified different options in terms of the institutional home of the FRAPE.

When it comes to the practical modalities of implementation of the Fund, the West African EPA negotiating sub-group, responsible for the elaboration of the legal and organizational framework for the FRAPE, communicated the results of its work to the MMC last year. The MMC then called on the ECOWAS and UEMOA Commissions to finalize the implementation of the FRAPE before October 2012. A meeting to this effect was held from 11-13 July 2012 in Dakar, Senegal, to discuss the draft Framework Document on the FRAPE (Document-cadre).

The Dakar meeting allowed to discuss the guiding principles, the financial management of the Fund, the sources of financing for that Fund as well as diverse institutional elements outlined in the Framework Document. Some of the critical recommendations made in the document concern the necessity to include and define criteria to prioritize the projects that would be financed through the Fund, as well as criteria for selecting eligible projects. It was also recommended that the functioning cycle of the FRAPE should be clearer regarding the responsibilities of the ECOWAS Bank for Investment and Development (BIDC) as 'chef de file' in the management of resources for the Fund.

In the future, both the BIDC and the West African Development Bank (BOAD – Banque Ouest Africaine de Developpement) – pillars of the FRAPE's institutional anchorage -- should also agree on the reference currency to be used for the Fund management in order to limit currency and exchange rates risks. They should also ensure that their financial procedures comply with EU requirements when it comes to procurement, accounting procedures and external and internal audits. When it comes to the beneficiaries of the FRAPE, it seems quite clear now that only the projects/programmes that have been presented in the national and regional operational plans can be considered for financing.

In this respect, the meeting was also an opportunity to discuss the way forward when it comes to the financing roundtables for the EPADP operational plans. Whilst the EU seems to be quite keen on organising right away roundtables on the national operational plans at the national level ; the region seems to favour a two-step approach where national roundtables would only be organised after the holding of a regional roundtable that would determine the overall envelope and guide the organisation of the national financing roundtables.

The Framework Document on the FRAPE should be finalise by the relevant working group in charge of this matter in the coming months and then be transmitted to the EU counterpart.

Caribbean

Joint CARIFORUM-EU Trade and Development Committee convened ahead of the forthcoming Joint Council

The 2nd meeting of the EPA CARIFORUM-EU Trade and Development Committee (TDC) – institution responsible for the implementation and efficient application of the provisions of the EPA – was held on 27 September in Trinidad and Tobago. Considered “successful” by both parties,[6] the meeting took stock of the progress achieved in implementing the EPA. It also prepared the ground for the Joint CARIFORUM-EU Council (JC), the highest EPA institution, that will be held on the 26 October in Brussels, Belgium. According to the joint press statement that was issued after the meting, the parties agreed during the TDC on a number of joint decisions to be put for adoption by the JC in October, including: the incorporation of the commitments of the Bahamas into Annex IV of the EPA, the status of permanent observer of the TDC to be granted to the Caribbean Export Development Agency,[7] as well as the establishment of membership of the Consultative Committee (institution that aims at involving the civil society in the EPA implementation process). On the latter respect, it is worth noting that the TDC followed a meeting of the CARIFORUM Directorate and representatives of CARIFORUM non-state actors in Port of Spain, Trinidad and Tobago, on 11-12 September – preliminary meeting that was precisely aimed at finalizing the CARIFORUM team for the Consultative Committee with the EU.[8]

While discussions during the TDC revolve intensively on trade in goods and trade in services, officials from the EU and the CARIFORUM sides also took the time to discuss other issues, such as the monitoring of the EPA implementation process, trade related rules, as well as development cooperation matters.[9] On the latter, CARIFORUM raised its concerns with regards to the issue of “differentiation” and argued that the changes that may be brought to the pool of resources available under the National Indicative Programmes (NIPs) may negatively impact on the capacity of the region to implement the EPA – a question that may be further discussed during the JC in October.[10]

It is worth noting that to date, only six CARIFORUM states have started to provisionally apply the agreement. The reasons why some countries have not started to make the initial tariff cuts requested under the agreement is an issue that may *de facto* end up on the TC agenda in October, as these clearly will need political directions and resolution.

Pacific

PACP-EU discussions set to resume after 3 years of no joint gatherings

As *GREAT insights* goes to press, Pacific states of the ACP group (PACP) are meeting with their EU counterparts in the framework of the joint technical working groups on EPA, in Brussels, Belgium. Aimed at addressing the remaining outstanding and contentious issues in the negotiations, these sessions are the first formal gatherings between the parties since October 2009. Among the key questions that are likely to be debated during the discussions, the question of the market access in goods, rules of origins, not least in the fisheries sector, as well as development cooperation issues, are among prime importance for the PACP[11]

These joint technical working groups should ideally be followed by a joint ministerial meeting aimed at providing further directions for the successful conclusion of the EPA.[12]

Notes

1. Don´t rush least developed countries into partnership agreements, say MEPs. Report of EP Plenary Session, European Parliament. Press Release. 13 September 2012.
2. Ibid.
3. ACP Secretariat. PRESS RELEASE: ACP Secretary General reacts to European Parliament vote on Market Access Regulation 1528/2007. Brussels, 13 September 2012.
4. Ibid.
5. EC DG Trade Press Release. EU and West Africa hold EPA negotiations in Brussels (18-20 April 2012). 2 May 2012
6. Joint Press Statement – CARIFORUM, EU Conclude “successful” meeting of EPA Trade and Development Committee. CARICOM Press Release 253/2012. 28 September 2012.
7. Ibid.
8. CARIFORUM moves to ensure Non-State Actors Participation in EPA. CARICOM Press Release N239/2012. 6th September 2012.
9. CARIFORUM gears up for key EPA Meeting. CARICOM. Press Release n252/2012. 24 September 2012. See also. Talks in T&T on EPA progress. The Trinidad Guardian Newspaper. 30 september 2012
10. Joint Press Statement – CARIFORUM, EU Conclude “successful” meeting of EPA Trade and Development Committee. CARICOM Press Release 253/2012. 28 September 2012.
11. Meeting to progress EPA negotiations gets underway in Brussels. PFIS Press Release 112/12. 2October 2012.
12. PACP Leaders urge EU to show flexibility in EPA negotiations. PIFS Press Release (106/12). 29 August 2012

GREAT *insights*

Calendar and resources

ACP-EU Trade Calendar

October

1-5 Pacific-EU Technical negotiating sessions, Brussels, Belgium
5-6 COMESA Council of Ministers, Kampala, Uganda
6-7 COMESA Business Forum, Kampala, Uganda
8-10 2nd Meeting of the ACP Inter-Regional Coordination Committee, Brussels, belgium
8-12 Central Africa- EU Technical meeting, Brussels, Belgium (TBC)
22-25 ACP Trade Senior Officials and Ministerial Trade Committee ,Brussels, Belgium
26 Joint ACP-EU Ministerial Trade Meeting, Brussels, Belgium
26 Joint CARIFORUM-EU Council meeting, Brussels. Belgium
29-31 ACP Roadmap and Action Plan on Mineral Resources Kick-Off Meeting + ACP Global Debate on Commodities, Brussels, Belgium
TBC SADC-EU EPA technical meeting on Rules of Origins (venue, TBC)
TBC ESA-EU iEPA Committee inaugural meeting, Brussels, Belgium (TBC)

November

6-9 EAC-EU joint Technical Officials negotiations session, Kampala, Uganda
27-29 24th session of the ACP-EU Joint Parliamentary Assembly, Paramaribo, Suriname
TBC SADC-EU joint Senior Officials' negotiating sessions (venue TBC)

Resources

Common or Conflicting Interests? Reflections on the Private Sector (for) Development Agenda, Bruce Byiers and Anna Rosengren, ECDPM Discussion Paper 131, July 2012

Fiscal challenges, development opportunities? 20 key questions on domestic resource mobilization, Bruce Byiers and Melissa Dalleau, ECDPM Piscussion Paper 125, October 2011

European Commission Public Consultation: Towards A Post-2015 Development Framework, Written Contribution By The European Centre For Development Policy Management, ECDPM, September 2012

What Is The Rise Of South-South Relations About? Development, Not Aid, Sanoussi Bilal, Mondiaal Nieuws Papers 70, September 2012.

The Future and the WTO: Confronting the Challenges A Collection of Short Essays, Ricardo Meléndez-Ortiz, Christophe Bellmann and Miguel Rodriguez Mendoza(eds), ICTSD Programme on Global Economic Policy and Institutions , July 2012

International Technology Diffusion in a Sustainable Energy Trade Agreement (SETA), Thomas L. Brewer, ICTSD, September 2012

Trade Law Implications of Procurement Practices in Sustainable Energy Goods and Services, Alan Herve and David Luff, ICTSD, September 2012

From Rule Takers to Rule Makers The Growing Role of Chinese in Global Governance, Scott Kennedy and Shuaihua Cheng, ICTSD, September 2012

US Farm Policy and Risk Assistance The Competing Senate and House Agriculture Committee Bills of July 2012, Carl Zulauf and David Orden, ICTSD Issue Paper 44, September 2012

Net Food-Importing Developing Countries Who They Are, and Policy Options for Global Price Volatility, Alberto Valdés and William Foster, ICTSD Issue Paper 43, September 2012

The Politics Of Social Protection: Why Are Public Works Programmes So Popular With Governments And Donors?, Anna McCord, ODI Background Note, September 2012

Political Settlements, Elite Pacts, and Governments of National Unity: A Conceptual Study, Edward Laws, Developmental Leadership Program Background Paper 10, August 2012

Donor Methods to Prioritise Investments in Agricultural Research and Development, Global Donor Platform for Rural Development, 2012

Busan In A Nutshell - What next for the Global Partnership for Effective Development Cooperation?, Farida Bena, Oxfam Briefing Note, October 2012

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Distortions to Agriculture and Economic Growth in Sub-Saharan Africa, Kym Anderson and Markus Brückner, World Bank Policy Research Working Paper 6206, September 2012

ESPA Guide To Working With Theory Of Change For Research Projects, Isabel Vogel, Research to Action, September 2012

Complex New World: Translating New Economic Thinking Into Public Policy, Tony Dolphin and David Nash (eds), Institute for Public Policy Research, September 2012

'Our Land, Our Lives' Time Out On The Global Land Rush, Kate Geary, OXFAM Briefing Note, October 2012

Meeting The Challenges Of Crisis States, James Putzel and Jonathan Di John, Crisis States Research Centre Report, 2012

GREAT Insights is published by ECDPM

Editor: Sanoussi Bilal

Editorial team:
Quentin de Roquefeuil, Melissa Dalleau, and Anna Rosengren

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

BRUSSELS OFFICE
BUREAU À BRUXELLES
Rue Archimède 5
1000 Brussels *Bruxelles*
Belgium *Belgique*
Tel +32 (0)2 237 43 10
Fax +32 (0)2 237 43 19

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