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Beyond aid in private sector engagement

A mapping of the opportunities and challenges of development and commercially-oriented public support to private sector engagement

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ECDPM – LINKING POLICY AND PRACTICE IN INTERNATIONAL COOPERATION
ECDPM – ENTRE POLITIQUES ET PRATIQUE DANS LA COOPÉRATION INTERNATIONALE

Beyond aid in private sector engagement

A mapping of the opportunities and challenges of development and commercially-oriented public support to private sector engagement

Sebastian Große-Puppendahl, Bruce Byiers and San Bilal

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Key messages

A mapping of public policy instruments to promote private sector trade and investment outside the EU for both development and commercial purposes identifies some of the key opportunities, challenges and synergies for using these instruments in a coherent way to promote sustainable development outcomes.

Development and commercially-oriented public instruments to engage the private sector abroad take similar forms that can be roughly categorised as 1) matchmaking services, 2) financial support and, 3) technical support, with an increasing use of loans, equity investments and guarantees – rather than grants or soft loans only.

The similarities between the objectives and means of instruments point to the potential opportunity for synergies and greater coherence between public instruments with commercially-oriented and development-related objectives, and activities that are more inclusive and to the benefit of the poor.

Dedicated efforts are needed for 1) a more coherent application of sustainability criteria to the instruments, 2) better evaluation and learning opportunities of existing instruments, and 3) increasing transparency through better access to data and achieved impact and results.

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The views expressed in this study are those of the authors only and should not be attributed to any other person or institution.

Acronyms

ACET	African Centre for Economic Transformation
ACP	African, Caribbean and the Pacific Group of States
AECF	African Enterprise Challenge Fund
AEF	Access to Energy Fund
AFD	Agence Française de Développement
ASCM	Agreement on Subsidies and Countervailing Measures
ASEAN	The Association of Southeast Asian Nations
ASEM	Asia-Europe Meeting
BCtA	Business Call to Action
BE	Danida Business Explorer
BMZ	Federal Ministry for Economic Cooperation and Development
BoP	Bottom of the Pyramid
BPD	Business Project Development
BPS	Business Partnership Support
CIDA	Canadian International Development Agency
CMDFs	Centrally-managed donor funds
CMS	Compliance management system
COFACE	Compagnie Française d'Assurance pour le Commerce Extérieur
COSME	EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (SMEs)
CPDE	CSOs Partnership for Development Effectiveness
CSO	Civil Society Organisation
CSR	Corporate Social Responsibility
DAC	OECD Development Assistance Committee
Danida	Danish International Development Agency
DBF	Danida Business Finance
DBP	Danida Business Partnerships
DCED	Donor Committee for Enterprise Development
DCI	Development Cooperation Instrument
DEG	Deutsche Investitions- und Entwicklungsgesellschaft
DFAT	Australia’s Department of Foreign Affairs and Trade
DFID	UK Department for International Development
DFIs	Development Finance Institutions
DG DEVCO	EC Directorate-General for International Cooperation and Development
DG GROW	EC Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
DGGF	Dutch Good Growth Fund
EABF	EU-Africa Business For a
EASME	Executive Agency for Small and Medium-sized Enterprises
EC	European Commission
ECAs	Export Credit Agencies
ECDPM	European Centre for Development Policy Management
EDF	European Development Fund
EEN	Europe Enterprise Network
EFG	Equity Facility for Growth
EIB	European Investment Bank
EIF	European Investment Fund

EKF	Eksport Kredit Fonden (Denmark's Export Credit Agency)
ENPI	European Neighbourhood Partnership Instrument
ERD	European Report on Development
ESCP	European Strategic Cluster Partnerships
ESIF	European Structural and Investment Fund
EU	European Union
Eurodad	European Network on Debt and Development
EZ scouts	Development cooperation scouts (BMZ)
FDI	Foreign Direct Investment
FDOV	Facility for Sustainable Entrepreneurship and Food Security
FMO	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Dutch development bank)
FTEs	First-time exporters
GDP	Gross domestic product
GIF	Global Innovation Fund
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
HR/VP	High Representative of the Union for Foreign Affairs and Security Policy/Vice-President of the European Commission
ICAI	Independent Commission for Aid Impact
ICI	Industrialised Countries Instrument
IDF	Dutch Infrastructure Development Fund
IDH	Dutch Sustainable Trade Initiative
IFC	International Finance Corporation
IFIs	International Finance Institutions
IFU	Danida Investment Fund for Development Countries
ILO	International Labour Organisation
IOB	Dutch Policy and Operations Evaluation Department
IPA	EU Instrument for Pre-accession Assistance
ITUC	International Trade Union Confederation
IZ	Industrialised Zones
KfW	Kreditanstalt für Wiederaufbau (German government-owned development bank)
LEG	Loans, equity investments and guarantees
LGF	Loan guarantee facility
M4G	Missions for Growth
MADB	EC Market Access Database
MASSIF	a fund managed by FMO on behalf of the Netherlands Ministry of Foreign Affairs
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MFA	Ministry of Foreign Affairs
MIGA	Multilateral Investment Guarantee Agency
MMF	Matchmaking facility
MS	Member states
NGO	Non-governmental organisation
OBA	Output based aid
ODA	Official Development Assistance
OECD	Organisation for Economic Cooperation and Development
ORIO	The Facility for Infrastructure Development
PCSD	Policy Coherence for Sustainable Development

PPDPs	Public-private development partnerships
PPPs	Public-private partnerships
PS4D	Private Sector for Development
PSD	Private Sector Development
RVO	Netherlands Enterprise Agency
SAM	EC State Aid Modernisation
SBA	Small Business Act
SDC	Swiss Agency for Development and Cooperation
SDGs	Sustainable Development Goals
SIDA	Swedish International Development Agency
SMEs	Small- and medium-sized enterprises
SRI	Socially responsible investment
UN	United Nations
UK	United Kingdom
UKTI	UK Trade and Investment Council
UNCTAD	United Nations Conference on Trade and Development
UNDP	UN Development Programme
UNECA	UN Economic Commission for Africa
USAID	United States Agency for International Development
WTO	World Trade Organization

Terminology

Additionality

"The net positive difference expected to result from a donor-business partnership. The extent to which activities (and associated results) are larger in scale, at a higher quality, take place quicker, take place at a different location, or take place at all as a result of a donor intervention".[1] One can make the distinction between *behavioural* additionality (at greater speed and/or at larger scale), *output additionality* (better quality equipment and/or better-quality advisory services), and *development additionality* (increased focus on achieving wider changes in the sector/market and/or higher impacts on local populations/smallholder farmers) (DCED, 2013).

Commercially-oriented instruments

For the purpose of this report, these are instruments the government, ministries, export promotion agencies, international finance institutions or commercial banks set up to support commercial and internationalisation activities by the private sector. Their principle goal is therefore to promote investments and/or products by European businesses abroad and secure access to third markets (in ways that may nonetheless contribute to development).

Development instruments

For the purpose of this report, these are instruments the government, ministries, development agencies or development finance institutions set up to engage the private sector for development objectives. This can either mean to leverage private finance or to use private sector investment or activities for development. The motivation and objectives behind these instruments are to foster development and improve the living conditions of the poor.

Donors/donor countries

The term donor in this study is used for countries that provide aid or matching grants to third countries and/or to instruments to engage the private sector. In this report it mainly refers to European countries, their governments or a development ministry/agency.

Economic or commercial diplomacy

In this paper the terms commercial and economic diplomacy are used interchangeably. Economic diplomacy is defined as a "set of activities (...) related to cross border economic activities (export, import, investment, lending, aid, migration) pursued by state and non-state actors in the real world" while consisting of three elements (van Bergeijk and Moons, 2009): i) using political influence and relationships; ii) using economic assets and relationships; and iii) using multilateral negotiations in the framework of supranational organisations and institutions such as the World Trade Organization (WTO), the Organisation for Economic Cooperation and Development (OECD) and the European Union (EU).

[1] DCED, 2014; Based on Scottish Enterprise (2008): Additionality & Economic Impact Assessment Guidance Note: A Summary Guide to Assessing the Additional Benefit, or Additionality, of an Economic Development Project or Programme, p.22.

Internationalisation

In this study internationalisation describes the process of supporting European businesses to access third markets through investments and/or commercial activities abroad, such as exports. This aims at getting and securing market access beyond the EU borders for European countries that want to benefit from the economic growth happening outside Europe.

Executive Summary

While developing countries increasingly promote inwards investments and global value chain integration as strategies to achieve sustainable development as well as to create more and better jobs, partner countries at the 'other end of the value chain' increasingly aim to work with businesses to achieve development objectives. To do so these external actors have developed a range of policies and instruments to engage with (international) business and firms from their own country for development outcomes.

At the same time, industrialised country governments support the internationalisation of their own domestic companies, promoting outwards investments and trade as part of their own industrial policy for their own economic benefit. Though not explicitly aimed at development objectives, and while building on the growing interest of companies in developing country and emerging economies' markets, these approaches also impact on development outcomes in third countries and therefore need to be examined as being potentially development-friendly.

These dynamics put developed country instruments and policies for engaging with the private sector at the centre of development outcomes. They particularly raise questions about the potential synergies between the development and commercially-oriented public approaches to engaging the private sector, where the latter might be put to greater development use. Comparing both sets of instruments also highlights similar challenges faced and therefore learning opportunities across different Ministries or departments. This is particularly relevant in the current context of growing economic diplomacy, as an increasing number of donor governments are linking more explicitly their commercial and economic interests when dealing with developing countries, together with development objectives. Some are arguably also seeking greater coherence by explicitly linking trade, development and foreign affairs institutionally, putting the development agenda under the responsibility of the Ministry of Foreign Affairs (MFA).

This paper maps out the key instruments used by donor country governments to engage the private sector, both for development and for commercial purposes. By categorising different types of public support to the private sector, it looks at the potential opportunities and challenges for using these for development, and the potential synergies between developmental and commercial approaches. The categories used for both sets of instruments – development and commercially-oriented ones – are the following:

1. **Matchmaking services** that link companies with donor-funded programmes, implementing partners or more advanced business partners in developed countries;
2. **Cost-sharing or financial support** for private investments in developing countries;
3. **Technical support** to businesses. While some instruments cover more than one category, these provide the framework for this mapping.

The question this mapping study addresses is as follows: *What are the opportunities, challenges and synergies between development-oriented and commercially-oriented public instruments for working with the private sector to support economic transformation and development more broadly?* While these two categories of instruments are not mutually exclusive and objectives and modalities may be blurred and ambiguous, public instruments that begin from developmental objectives are referred to here as 'development instruments'. For our purposes, 'commercially-oriented' instruments are those public instruments aimed at promoting investments and/or products by European businesses abroad and securing access to third markets, also referred to as *internationalisation* of business. Drawing lines between these two sets of instruments is sometimes not easy.

The unique contribution of this paper is to link existing studies on donor instruments to engage the private sector with the role internationalisation instruments play in economic development. A key question when looking at the two broad sets of public instruments is the degree to which they complement one another. Are donor instruments for promoting business 'engagement in development' simply a version of commercially-oriented public instruments but more targeted at developing countries? This may also help balance fears of private sector capture of the development agenda with opportunities for the development sector to benefit from economic diplomacy.

The paper comes to the following main conclusions: the underlying reason for public and private actors to engage with each other is sharing costs, risks and resources. Challenges and opportunities to improve existing public instruments are also similar for both and relate to results and impact measurement, access to data and information for the public, targeted and eligible companies, potential market distortion and issues of sustainability closely connected with the respect for social, human and environmental rights.

Differences between commercial and development-oriented public instruments are found to relate to the nature of the social expected returns expected over and above the private returns from business support, and the related criteria attached to access the instruments. While development-oriented instruments have the primary obligation to demonstrate the added value to contribute to achieving sustainable development, more commercially-oriented ones are rather required to do the opposite: proving that there is no harm done to the environment because of their activities as well as that human, social and/or workers' rights are not abused. Adhering to and seriously implementing sustainability principles into public support instruments and business practices, remains a continued challenge for both sets. Further, the discussion presented here suggests that a majority of business support instruments with a commercial objective are targeting Asian countries while many of the development instruments focus in particular on the African continent.

Further comparisons are presented in Table 1, highlighting similarities, differences and some potential opportunities.

Following the discussion of both sets of instruments, there are several opportunities, which could first of all make existing instruments better and new public support mechanisms could more structurally benefit from past experiences:

- **Policy makers could build on the common challenge to demonstrate better results measurement by means of sharing lessons and approaches on how to produce more and better quality, publicly available data.** This data needs to inform about objectives, progress, outcomes and impact. By doing so it will be facilitated to assess the issue of additionality and attribution.
- **Criteria and principles of sustainability are applied in both cases but with different levels of stringency.** If more coherently applied to *all* public support instruments to the private sector, these could substantially improve the effect of support mechanisms on developing countries. Despite differing objectives between both sets of instruments criteria applied to development-oriented instruments could inform commercial ones and *vice versa*.
- **Development-conducive commercially-oriented public instruments could not only reduce harm but also more explicitly aim to promote development outcomes** (e.g. through reform of export credit agencies – ECAs)**.** Important lessons can also be learnt from the management of some

of the commercially-oriented public instruments for those in charge of development instruments in the ministries and agencies, for instance in terms of fund and particularly returnable capital management.

More actively promoting sustainability and development concerns in commercially-oriented public instruments could lead to greater coherence of public support to the internationalisation of business and larger economic and development impact**.** It could also partially address the concern that the development agenda risks being captured by private sector interests. This change in mind-set and quest for synergies between what are similar instruments is increasingly important in the current climate of rising economic diplomacy and universal development challenges as entailed in the 2030 Agenda for Sustainable Development.

Table 1: Similar challenges, differences and opportunities across instruments

Similar challenges	Differences	Opportunities
Financial: • Accountability to taxpayers • Financial know-how and capabilities of relevant staff	• Objectives and motivations to work together • Underlying criteria to access finance • Geographical focus	Better data publicly available and accessible to inform about objectives, progress, outcomes and impact Shared criteria and principles of sustainability More coherent application of development principles across instruments
Transparency: • Results and development impact measurement • Data availability and access for public	• Level of concern with "Tied aid" • Pressure to show additionality/attribution of results • Scaling-up from small-scale pilots • Pressure to disburse development funds	Harnessing opportunities to better learn from each other's sustainability criteria
Practical: • Targeting the 'right' companies • Distortionary/driving biz out the market • Instruments design as private sector is diverse	• Sustainability → doing no harm to development (social, human & environmental rights) • Limited positive impact on development	Reform of ECAs away from reducing harm to contributing to development Greater synergy/coherence in policies Greater institutional synergies of private sector support in one ministry

1. Introduction

Developing countries are more than ever determined to achieve sustainable development based on their own policies and initiatives. This is evidenced by the numerous strategies, reports and policy dialogues around economic transformation and industrialisation at the national, regional and continental level, as embodied in the *Agenda 2063* of the African Union.[2] While these increasingly promote inwards investment and global value-chain integration as strategies to create more and better jobs, at the 'other end' of the value chain partner countries increasingly aim to work with businesses to achieve development objectives (European Council, 2014; EC, 2014a; OECD, 2014; DFID, 2014; Barder and Talbot, 2015). These external actors have developed a range of policies and instruments to engage with international business and firms from their own country for development outcomes.

Although often ignored in the development discourse, developed country governments also promote internationalisation and outwards investment as part of their own industrial and commercial policy to promote their own economic interests. Though not explicitly aimed at development objectives, and while building on the growing interest of companies in developing country and emerging economies' markets, these approaches also impact on development outcomes in third countries and might therefore be made development-friendly.

The need for all to pursue sustainability and development outcomes has now been embodied in the universal principles of the *2030 Agenda for Sustainable Development* adopted at the United Nations in September 2015 in New York. This calls in particular for greater policy coherence towards sustainable development, so that the pursuit of economic interests should not be delinked from sustainability and development objectives.

These dynamics put developed country instruments and policies for engaging with the private sector at the centre of development outcomes. They particularly raise questions about the potential synergies between the development and commercially-oriented public approaches to engaging the private sector, where the latter might be put to greater development use (Bilal and Große-Puppendahl, 2015). Comparing both sets of instruments may highlight similar challenges faced and therefore learning opportunities across different Ministries or departments. This is particularly relevant in the current context of growing economic diplomacy. A growing number of donor governments are linking trade, development and foreign affairs institutionally, including by putting the development agenda under the responsibility of the Ministry of Foreign Affairs (MFA), as in the case of Australia, Canada and the Netherlands, for example. The 2008 financial crisis has created additional pressure in donor country economies for development support to also promote domestic interests.

This paper maps out the key instruments used by donor country governments to engage the private sector, both for development and for commercial purposes. Categorising different types of support, including both financial and non-financial means of working with firms, it looks at the potential opportunities and challenges for using these for development, and the potential synergies between developmental and commercial approaches. By looking at the overlaps in these approaches and some specific donor-country examples, the paper aims to outline where further policy dialogue and research might be useful.

[2] See http://agenda2063.au.int/ and for example: UNECA Economic Report on Africa 2013, 2014 and 2015; the AfDB/OECD/UNDP African Economic Outlook 2013 and 2014 and a range of regional and national economic development strategies.

In categorising development-oriented instruments, the paper follows those provided by the Donor Committee on Enterprise Development (DCED, 2015). These are namely: i) *cost-sharing* or financial support for private investments in developing countries, ii) *technical advice* to businesses, and iii) *matchmaking* services that link companies with donor-funded programmes, implementing partners or more advanced business partners in developed countries. While some instruments cover more than one category, these provide the framework for this mapping.

The study addresses the following question: *What are the opportunities, challenges and potential synergies between development-oriented and commercially-oriented public instruments for working with the private sector for economic development?* While these two categories of public instruments are not mutually exclusive and objectives and modalities may at times be blurred and ambiguous, public instruments that emerge from developmental objectives are referred to here as 'development instruments'. For our purposes, 'commercially-oriented' instruments are those public instruments aimed at promoting investments and/or products by European businesses abroad and securing access to third markets. Drawing lines between these two sets of instruments is sometimes not easy.

The unique contribution of this paper is to link existing studies on donor instruments to engage the private sector with the role internationalisation instruments play in economic development. Establishing the links and potential synergies between the two areas and categories of public instruments is key for policy-makers given the growing interest and reliance on economic diplomacy. This may also help balance fears of private sector capture of the development agenda with opportunities for the development sector to benefit from economic diplomacy.

The paper's main findings are as follows: The underlying reason for public and private actors to engage with each other is sharing costs, risks and resources with an aim to achieve some social benefit over and above private returns. This relates to the issue of social *versus* private returns in business support. Challenges and opportunities to improve existing instruments are very similar for both, while the main differences lie in the targeted countries, the instruments' objectives as well as at times in the criteria attached to them. Donors are increasingly open, verbally and in policy documents, about promoting domestic business interests in developing countries. Similar challenges relate to results and impact measurement, access to data and information for the public, targeted and eligible companies, potential market distortion and issues of sustainability closely connected with the respect for social, human and environmental rights

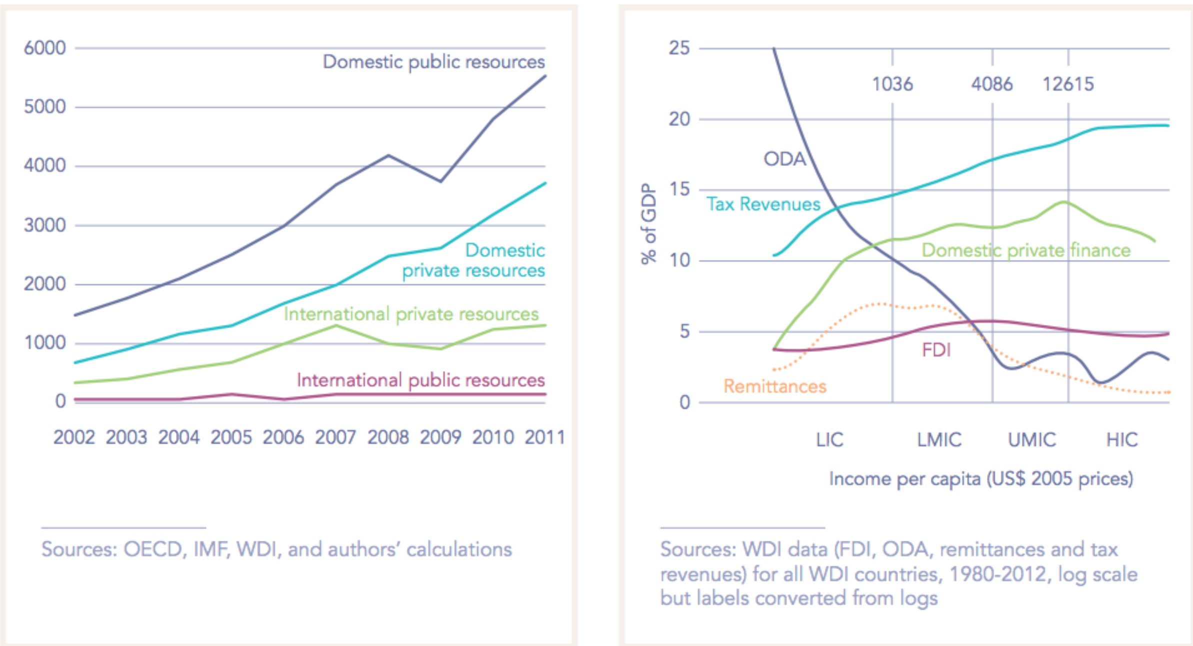
The implications are as follows: it seems there is an increasing appetite to become more coherent in the public approach to support the private sector by finding synergies between public instruments. More publicly available and access to better data could further inform about objectives, progress, outcomes and impact of support programmes to design them more effectively and with greater benefits for development. In this respect a more coherent application of criteria and principles of sustainability across instruments can make them more development-friendly. Away from the 'doing no harm' principle to actively respecting or even promoting human, social and environmental rights can be good for both development and business interests. It needs to be ensured however that private sector interests do not capture development cooperation entirely and that synergies and coherence are increased; lessons from various public instruments progress, achievements and challenges should be shared and better captured in designing more effective approaches to support private sector engagement.

2. Background

The important role of the private sector in economic and social development is nothing new. With or without donor aid, economic development takes place through rising productivity and structural change that requires investment, job creation and technological upgrading (McMillan et al., 2014; Rodrik, 2013; ACET, 2014; de Vries et al., 2013; Page, 2012). While country experiences vary, these processes have been taking place in developing countries, including in Africa, through both domestic and foreign direct investment.

At the same time, the context of development finance is changing, with the importance of aid in decline and increasing relevance of other sources, such as private finance or domestic resources, as shown below in Figure 1 (ERD, 2015). External financial flows to Africa have quadrupled since 2000 and in 2015 “they are expected to be equal to 7.2% of the continent’s GDP (EY, 2015). More generally, “developing countries and transition economies constitute half of the top 20 ranked by FDI inflows” while “FDI outflows from developing countries reached a record level” (UNCTAD, 2014). Africa alone - despite a continental 8.4% fall in FDI projects compared to 2013 - has experienced a capital investment into the continent that surged to US$128 billion, a 136% increase vs. 2013 and FDI created 188,400 new African jobs (68%) (EY, 2015). Even though low-income countries still rely on official development assistance (ODA), the changing importance of different sources of finance invites policy-makers to also reconsider the tools being used.

Figure 1: Trends in finance ($ bn, 2011 prices) (left) & Financial flows (% GDP) by income level (right)



Source: ERD (2015).

The way in which trade is taking place is also changing, offering a different context for promoting private sector development and investment. The rise of global value chains and production networks alter the potential for engaging in world trade, in some ways making value-chain *participation* easier, but at the same time potentially lowering the possibilities for *moving up* the value chain ladder (e.g. Baldwin, 2011). This is accompanied by the declining importance of the multilateral trading system and increasing relevance of mega-regional and bilateral trade agreements (e.g. Hoekman, 2014; Ramdoo, 2014).

While Ministries and departments of industry have long been promoting internationalisation of their own private sector through similar instruments, what is newer is the development policy focus from donors on economic growth, the role of business and the potential for working through business to achieve development outcomes. This also means creating opportunities for the private sector to conduct business that would not happen without donor support and at the same time making business conduct more responsible.

By way of example, the European Commission states that *"Development cannot be achieved by public sector initiatives alone. The private sector, as an engine of economic growth, plays a key role in any nation's drive to eradicate poverty and foster an inclusive society. Economic growth generates wealth and thus is an important precondition in order to improve income and employment prospects in developing countries"* (EuropeAid on PSD).[3] The 4th High Level Forum on Aid Effectiveness in Busan in 2011 was also indicative in emphasising the importance of investing in private sector development. This was also in response to the global financial crisis and the pressure for many donors to cut down their ODA spending. But it also reflects a shift of paradigm, or at least of emphasis, where combined with social objectives, business forces are recognised as a key driver for the necessary economic transformation and growth that must underlie a sustainable and inclusive development agenda. Donors increasingly express their interest and willingness to work with their domestic private sector to engage in development initiatives in ODA listed countries abroad.

This section provides some of the context for both of these developments before we discuss the analytical framework used to categorise the various instruments in later sections.

2.1. Engaging the private sector for the development agenda

Broad motivations, objectives and categorisations

As investment needs and development ambitions rise, the public sector alone is increasingly seen as unlikely to be able to deliver. It therefore needs support by all actors, and in particular businesses, to not only invest on a sufficient scale but to manage and implement projects in an efficient and sustainable manner.

There is therefore a growing agenda in industrialised countries around engaging the private sector for development that also involves public and private actors partnering to achieve development objectives. However, having the right instruments in place is only a first step that needs to be followed by the right public policies that "can create appropriate incentives for private investment in developing countries" (Barder and Talbot, 2015; Küblböck and Staritz, 2015). Interests to engage should therefore overlap or complement each other so that both the private and the public sector have a potential benefit from cooperating together. Mostly, the underlying common denominator is "sharing responsibilities, costs and/or risks with regard to a specific investment that has both commercial and development benefits" (DCED, 2015).

Development agencies have particular motivations and incentives to engage with the private sector.[4] "An ITUC study found that the private sector is a main priority in 19 out of 23 donor development strategies examined" (Oxfam et al., 2015). The private sector is the most important provider of jobs and income, as it is providing nine out of ten jobs in developing countries (IFC, 2013), while this at the same time has three important implications according to the World Bank's World Development Report 2013: "Jobs boost living

3 https://ec.europa.eu/europeaid/sectors/economic-growth/private-sector-development/policy_en
4 More reasons why donors engage with business can be found in Smith (2013).

standards, raise productivity, and foster social cohesion". Businesses are also considered to provide efficient and new technologies the public sector could benefit from as well as potentially represent new ways of providing goods and services to improve livelihoods.

This is reflected in political statements. The Dutch government in their development cooperation policy 'A World to Gain' "call for a new aid, trade and investment agenda" while stating "we fight extreme poverty out of solidarity with people. We encourage trade and investment mainly in our own interests. Where aid and trade meet, we will act out of both solidarity and enlightened self-interest".[5] Justine Greening, international development secretary of the UK DFID, clearly expressed that "those who think private sector investment is part of the problem" are wrong, while DFID seeking "to promote British investment in Africa to drive economic growth and create jobs" as she set out her development policy priorities in February 2013.[6] The European Commission's private sector communication similarly calls for "strengthening the role of the private sector in achieving inclusive and sustainable growth" and "to help the private sector achieve positive development results as part of its core business strategies".[7]

Donors also mobilise businesses to make development more effective, which in the long run could ensure that the economic exchange between European firms and developing countries remains open. Further, donors recognise the benefits of businesses operating in market competition hence developing valuable resources, such as "management expertise and processes to improve operational efficiency" (Lemma and Ellis, 2014). Additionally, "the business community inevitably plays a role in national and local governance and has a political significance that donors may seek to influence or promote as an alternative or independent voice in national debate" (ibid.)

On the other side, the private sector has two main interests in engaging with traditional development actors. It is either seeking support to access new markets in foreign countries or it is seeking for ways to mitigate the risk of new investments and/or doing business abroad (DCED, 2013). Doing business abroad means facing a different regulatory, political and economic environment that in theory can seriously harm commercial efforts and viability. At the same time it may also seek for ways to conduct business more responsibly in order to lower costs or even to get a social licence to operate, "as the social licence requires any business to ensure its activities respect the rights of all of those in any community" (Morrison, 2014).[8] However, in the first place businesses try to seek (new) ways to grow and increase profits rather than putting development objectives first. Despite that, "companies themselves [value] brand and corporate reputation as a key business asset and risk management device, and also increasingly [recognise] the inherent social impact of their business operations" (Smith, 2013).

The private sector is not a new development actor but its importance and relevance are growing. The majority of donors consider the private sector as a development priority in their strategies while seeking new ways for aid to leverage the private sector finance and investment activities.

Scale of support

The scale of aid channelled to engaging the private sector is difficult to say due to the wide range of different national and multilateral channels and instruments (Kindornay and Reilly-King, 2013). There is also a "lack of accurate and comparable data (that) impedes a good understanding of the scale and the

5 http://www.government.nl/issues/development-cooperation/documents-and-publications/reports/2013/04/30/a-world-to-gain.html
6 http://www.theguardian.com/global-development/2013/feb/07/justine-greenign-dfid-investment-africa-economic-growth
7 EC COM (2014) 263 final. http://ec.europa.eu/transparency/regdoc/rep/1/2014/EN/1-2014-263-EN-F1-1.Pdf
8 For more information, see Byiers and Bessems (2015).

modalities of the implementation on the ground" (Vaes & Huyse, 2015b). While EU member states have their own national instruments in place to engage with their own and foreign private sector, the EU also has its own resources that go into private sector development. "OECD/DAC figures indicate that ODA channelled through PPPs rose from 234 $ million in 2007 to 903 $ million in 2010" (Vaes and Huyse, 2015b). In 2010, EURODAD estimated "that around €7.27 billion of public finance was invested in private companies operating in the world's poorest countries by the IFC, the European Investment Bank, and six European bilaterals" (Kindornay and Reilly-King, 2013). Oxfam et al. (2015) report that "according to the International Finance Corporation (IFC), there has been a ten-fold growth of financial commitments to the private sector with public money between the early 1990s and 2010" and that "by 2015, the amount flowing to the private sector is expected to exceed USD 100 billion – which is equivalent to almost two thirds of ODA".

From 2004 to 2010, the European Commission on behalf of the EU allocated €2.4 billion of ODA to private sector related programmes for development.[9] This direct support was provided through geographic (e.g. EDF, DCI, ENPI)[10] and thematic instruments (such as non state actors, migration, food security). The European Investment Bank (EIB) Group also provides financial support to European SMEs and medium-sized corporates (midcaps)[11], which in 2014 alone amounted to "the tune of €25.5 billion, with a further EUR 2.6 billion benefitting SMEs around the globe".[12] Part of EIB financial support outside the EU, such as the ACP Investment Facility, comes from the EDF, so "EU Member States' budgetary funds", that are then matched with EIB's own resources (EIB, 2015). In 2014 for instance, the EIB disbursed €689 million for 16 private sector projects in the ACP, representing 75% of the lending volume.[13] Most of these projects aimed at "supporting SMEs and microfinance initiatives, developing regional financial markets and engaging in PPPs". ''In comparison, the current scale of "Other Official Flows", so those covering non-concessional bilateral and multinational sovereign loans, export credits and direct investment by agencies like the US Overseas Private Investment Corporation, were estimated to be $27 billion in 2013 (the net figure was $7.0 billion)" (Kenny, 2015).

The member states of the European Union engage their own private sector in different ways and with a different amount of financial support attached to this. There is also a difference in targeting and positioning the own private sector meaning that it can be seen as a means to achieve development and as a development target, as outlined before. This however is reflected in the institutional set-up and hence its policies and priorities.

Key issues in the literature

Using ODA to engage the private sector for development offers potential opportunities but at the same time involves risk and challenges, examined in more depth below and in chapter 4. Since it is often difficult for ministries and development agencies to *measure* the impact of their support programmes, it is simultaneously challenging to *attribute* and impact to their interventions. This then relates to the question of *additionality*: what could have been achieved without donor involvement? Other challenges relate to firm *eligibility criteria*, data availability and the *form of financial support* chosen, with some being easier to handle than others. These are discussed in turn below.

9 https://ec.europa.eu/europeaid/sectors/economic-growth/private-sector-development/funding_en
10 European Development Fund (in the African, Caribbean and Pacific countries), the Development Cooperation Instrument (in Latin America, Asia and South Africa), the European Neighbourhood & Partnership Instrument (in the neighbouring regions).
11 EIB definition: medium-sized corporates with 250-3000 employees http://www.eib.org/products/helpingyouinnovate/index.htm
12 http://www.eib.org/projects/priorities/sme/index.htm
13 http://www.eib.org/attachments/country/eib_in_acp_2014_results_and_outlook_en.pdf

Criteria and available data to demonstrate impact and measure results: efforts to measure impact suffer from an evidence gap in terms of available data, monitoring and reporting practices and measurement frameworks in place. Despite admirable efforts by the likes of the DCED to develop a standard for results measurement, frameworks often lack coherent criteria and indicators and are further weakened by not being able to clearly attribute development outcomes to the existence of mechanisms and programmes. Further, different factors can be measured to demonstrate impact and results, ranging from operational successes (applications made by businesses, funds disbursed and/or costs of running the programme), to development outcomes (number of created jobs and poor people reached or income changes) and market or partnership effects (funds contributed by the private sector, commercial viability of projects or environmental impacts) (Lemma and Ellis, 2014). Depending on which factors are being analysed, programmes and mechanisms are likely to be considered less or more effective and/or successful. It is therefore key to look at means to maximise the partnership impact by e.g. better management support to the private sector or better "sequencing partnership activities to address both business and donor needs" (DCED, 2013).

To illustrate, while the creation of new jobs and employment is one of the fundamental objectives of many donor mechanisms and programmes, it is often very difficult to measure and prove. An independent evaluation of the Danida Business to Business (B2B) Programme 2006-2011 concluded that the "effect on job creation and sustainable growth in developing countries has not been sufficient", which points to the challenge of proving impact and attribution. Subsequently, its successor, the Danida Business Partnerships Facility, was put on hold in November 2014.[14]

Additionality: a major concern when using public money in multi-stakeholder partnerships is the need to prove that it is additional to what the private sector would have done anyway. Additionality, as commonly referred to, therefore takes an important role in results measurement, as donors need to demonstrate that development impact has been achieved. This analysis can happen, ex-ante and ex-post. Ex-ante assessments of financial or input additionality, however, are often assumptions rather than facts, as it can be challenged while or after support is provided, affecting its credibility. Ex-post assessments are looking at developmental effects and impact of business activity that could only be achieved with donor support, thus facing the challenge of attribution mentioned above. It therefore puts a much greater emphasis on examining whether donor support is actually replacing private finance or investment. (DCED, 2014; Bilal et al., 2014; Lemma and Ellis, 2014). DCED (2013) distinguishes between the following types:

- **behavioural**: thanks to the public support projects can be implemented at a larger scale and at a greater speed
- **output**: thanks to public support businesses can rely on better quality equipment or could afford better-quality advisory services
- **development**: thanks to public support there has been an increased focus on achieving wider sectoral or market change and/or higher impacts on local populations could be achieved

Firm eligibility criteria: A further related aspect of donor programmes and mechanisms is the criteria of eligibility for companies and businesses to join the initiatives. While some target international companies, others are also open to developing country companies. Firms need to be able to show a 'clean bill of health', and prove their suitability to receive public monies. More practically, the size of business also matters, as "smaller grants tend to be as expensive to manage as larger grants" (DCED, 2015), leading to the question of the scale of grant funding to be made available. This also relates to implementation capacities of larger versus smaller businesses and the aim of achieving larger-scale or systemic

[14] http://um.dk/en/danida-en/activities/business/partnerships/

development impacts. However, according to Lemma and Ellis (2014), "rigorous evidence on the relative effectiveness of engagement with larger or smaller companies is not available":

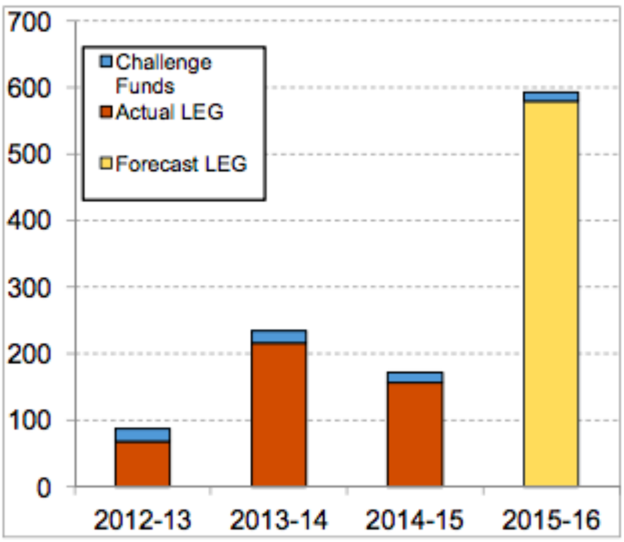
- internal capacities, "in terms of staff and resources, to engage with donors (write proposals, host due diligence visits, carry out monitoring and evaluation etc.)"
- ability "to make required co-investments from company resources"
- "reduced transaction costs from the donor when dealing with a smaller number of large companies compared with a larger number of small companies"

At the same time the advantage of local context knowledge of local firms and the risks of working with them, such as due diligence or financial robustness, need to be taken into account (Lemma and Ellis, 2014). It is also challenging to identify those businesses "which want to invest in developing countries in such a way as to maximise benefits for the poor" (ICAI, 2015).

Forms of support: There are many questions regarding the effectiveness of different forms of financial support. There is an increasing use of returnable capital, so loans, equity investments and guarantees (LEG), used in a complementary manner with (matching-) grants. DFID alone has increased its allocations to LEG from £68 million in 2012-13 to £157 million in 2014-15 (ICAI, 2015); see Figure 2 below. Findings however suggest, "administering grants is much easier and cheaper than loan, equity or quasi-equity financial instruments" (Brain, Gulrajani & Mitchell, 2014).

There is also a question whether to favour partnership funds and facilities over other private sector development approaches. While the former "relies on the ideas, knowledge and investments of individual business", an alternative could be "designing country- and market-specific development programmes, which make flexible use of a range of tools with different actors" (DCED, 2015). Barder and Talbot (2015) argue that any form of providing (credit) guarantees or subsidies is not as good for development purposes as increasing the returns to the private sector by "linking payments to specific, measurable, and agreed milestones or outputs". This will guarantee that "contracts are less distortionary and produce better results for a lower expected cost than other incentive programmes" (Barder and Talbot, 2015; see Section 4.3 for a discussion).

Figure 2: DFID expenditure through LEG and challenge funds in £ millions



(Source: ICAI, 2015)

Who is leading whom and how? This question somehow underpins a lot of the discussion on private sector engagement, effectiveness and impact – is funding being used to attract private firms to address publicly defined development challenges, or are public funds being used to help address private sector challenges to being 'more developmental'? Addressing this question suggests a need to find "greater convergence of incentives, actions and understanding of the reality of what is and can be achieved on the ground by multi-stakeholder partnerships" (Bilal et al., 2014). Hence, there is a private sector perspective that may be very different from the donor's and both have to face a third perspective, a policy and operational one that determines the effectiveness of incentives and structures for the private sector to contribute to sustainable development objectives.

Looking at these challenges at the same time offers possibilities to turn those into opportunities by developing better and clearer guidelines or criteria that ensure that both impact and results can be more easily measured. This would in turn allow for better support programmes, as lessons learnt or even failures could be taken into consideration for the design of future programmes based on better data availability.

While the above challenges are commonly cited for instruments and approaches to engaging the private sector for development, the following section discusses some of the broad issues around more commercially-focused instruments in order to identify some initial commonalities.

2.2. Commercial instruments

Economic diplomacy (re)emerging

Aside from their development concerns, industrialised countries have long promoted their own commercial interests, implicitly or explicitly, as expressed through trade agreement negotiations, for example. While this aspect of donor country behaviour has often been kept at arm's length from development activities, that divide is shrinking. Now, the promotion of national business interests abroad is increasing, as "nine out of the 23 donor policies examined contain explicit references to supporting domestic business abroad and facilitating their investments and trade in developing countries" (CPDE et al., 2015). The growing recourse to engaging the private sector for development takes into account that private sector activity does have an impact on the economic situation of developing countries, but this is also influenced by the way commercial diplomacy is conducted.

EU member states are therefore increasingly relying on the power of their own national export credit agencies or investment insurance agencies (commonly referred to as ECAs) to promote business abroad through government backed loans, guarantees, credits and insurance. While the structures, institutional arrangements and terms of cover provided by ECAs differ from one EU member state to another - "ECAs can be part of a ministry, an independent governmental agency or a private company acting on behalf of the government" – they always promote remain accountable to their governments financing them (Fritz et al., 2014) and are reported to be one of the largest sources of public finance to foreign corporate investment in industrial projects in developing countries.[15] After the global economic and financial crisis, governments introduced large financial stimulus packages that should support financial markets, spur economic growth and thereby guarantee the maintenance of jobs and income. The financial investments also included measures for the ECAs to further support the economic recovery by means of promoting trade, "providing liquidity and restore lending", as critical enablers for economic growth (Klasen, 2012).

[15] See for example, ECAWatch – www.ec-watch.org/node/1

As there is only a low number of EU SMEs doing business activities beyond Europe and many challenges when export and investing abroad, there are calls for developing a comprehensive strategy on European Economic Diplomacy (e.g. EUROCHAMBRES, 2015).[16] Hence, the EU is able to combine political with economic objectives by strengthening cooperation in both fields. This is part of the internal reflections among Commission and EEAS staff regarding economic diplomacy and blending political and economic cooperation to achieve various objectives in a more coordinated and commercially-driven manner (informal talks with staff from DG Grow).

Scale of support through commercial instruments

Internationalisation is considered one of the EU industrial policy tools "to provide support services to SMEs in order to make it easier for them to do international business with priority third country markets".[17] The amounts of financial support going into these support services differ according to source and definition, but there are a number of instruments and programmes that have committed different degrees of investments.

The EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises (COSME), managed by the Executive Agency for Small and Medium-sized Enterprises (EASME)[18] on behalf of the European Commission, has a planned budget of €2.3 billion between 2014 and 2020, only slightly less than what was spent on private sector development from 2004 to 2010.[19] COSME aims to support European SMEs[20] by improving access to finance (financial instruments), access to markets, supporting entrepreneurs, and improving conditions for competitiveness. €1.3 billion of the overall planned budget are "to fund financial instruments that facilitate access to loans and equity finance for SMEs where market gaps have been identified" which will then further "mobilise up to €25 billion in financing from financial intermediaries via leverage effects".[21] Those financial instruments, the Loan Guarantee Facility (LGF) and the Equity Facility for Growth (EFG), are managed by the European Investment Fund (EIF)[22], a specialist provider of risk finance for European SMEs, in cooperation with various EU countries' financial intermediaries.

The EU's Horizon 2020's SME Instrument, also managed by the EASME, is "provided with about €3 billion in funding over the period 2014-2020" so that it "helps high-potential SMEs to develop ground-breaking innovative ideas for products, services or processes that are ready to face global market competition".[23]

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16 For the EU, the combination of these two purposes is perhaps best illustrated by the Joint Communication on 'The EU and ASEAN: a partnership with a strategic purpose'. Adopted by the High Representative of the European Union for Foreign Affairs and Security Policy, HR/VP Mogherini, and the European Commission in May 2015, this points to an increased focus on 'Boosting trade, investment and business' (Section 2) amongst others with regions/countries beyond the EU, such as the Association of South East Asian Nations (ASEAN).JOIN(2015) 22 final. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=JOIN:2015:22:FIN&from=EN

17 http://ec.europa.eu/DocsRoom/documents/9126/attachments/1/translations/en/renditions/native

18 http://ec.europa.eu/easme/en/about-easme

19 http://ec.europa.eu/growth/smes/cosme/index_en.htm

20 Applicant organisations must be legal entities. They can be fully or partly public or private bodies; private bodies must be properly constituted and registered under national law. The call is open to SMEs and other legal entities. SMEs may participate alone or in a consortium.

21 http://ec.europa.eu/growth/access-to-finance/cosme-financial-instruments/index_en.htm

22 The EIF was established in 1992 in order to promote economic recovery in Europe and it became part of the EIB Group in 2000, when the EIB became the majority shareholder of the EIF. Its shareholders are i) theEIB (63.7%), ii)_the European Union, represented by the European Commission (24.3%), and iii) Financial institutions from European Union Member States, and Turkey (12.0%). As a shareholder (63.7%) of the European Investment Fund (EIF), the EIB indirectly provides "guarantees and credit enhancement to catalyse SME lending across the EU".http://www.eif.org/what_we_do/guarantees/index.htm. The EIF distinguishes between two product categories: i) Credit Enhancement/Securitisation (Guarantees for securitised SME financing instruments) & ii) Guarantees/counter-guarantees for portfolios of micro-credits, SME loans or leases (Management of European Commission initiatives).

23 http://ec.europa.eu/programmes/horizon2020/en/h2020-section/sme-instrument

While "the dedicated SME instrument supports close-to-market activities, with the aim to give a strong boost to breakthrough innovation", COSME has a more comprehensive approach with support for access to finance and markets, entrepreneurs and improving business conditions. COSME is additionally the implementation programme of the "Small Business Act (SBA) which reflects the Commission's political will to recognise the central role of SMEs in the EU economy" (COSME leaflet).[24]

Similarly, numerous EU member states have ECAs that provide significant amounts of finance to the private sector to promote exports and trade. In 2013 alone, 21 EU member states had export credit programmes[25] in place that "were managed by a total of 29 different agencies and government departments" (EC, 2015). The biggest European "pure cover" export credit schemes in the same year came from Germany (€87.7 billion), France (€61.2 billion), Sweden (€34.9 billion), Italy (€21.6 billion), the UK (€20.6 billion on 31 March 2014), Finland (€11 billion), the Netherlands (€9.4 billion), and Spain (€8.5 billion). According to 2014 estimates, official export credit extended by the G7 alone soared from US$35 billion in 2007 to US$64 billion in 2009, and has remained around those levels since (The Economist, 2014). The same article cites estimates that China may be financing close to US$111 billion of export credits - also part of the increase their use in Europe and indeed potentially part of the drive to engage the private sector for development.

Key issues in the literature

While export credit and investment insurance do not explicitly aim at promoting development, there is nonetheless debate about its role and development impact, not least in increasing debt problems in developing countries (Wiertsema, 2008). Eurodad assessed the debts owed by developing countries to four European countries and found that almost 80 percent of poor countries' debts to other governments come from export credits and not from development loans (Brynildsen, 2011). This is because guarantees that have been provided by ECAs can turn into financial liabilities for developing countries, while there is little or no evidence that they have contributed to equitable and sustainable development. By means of a sovereign counter guarantee from the developing country government, which is "an official declaration that the host government will assume responsibility for defaulting private sector transactions", ECAs are able "to turn business risks of private companies of industrialised countries into public sector debt of developing country governments" (Wiertsema, 2008). Developing countries' governments agree to such a sovereign counter guarantee because they fear the possible damage to trade and investment relations with industrialised countries in case of default of private sector transactions. In broader terms, export credit is seen as a mercantilist form of policy, which led developed countries to sign the so-called "OECD arrangement" in 1978 to agree to maximum loan maturities, commercially-based interest rates and minimum risk premiums for insurance. It was also agreed that when one signatory strikes a financing deal, it notifies the others, giving them the opportunity to match the terms.

A key concern around export credit is therefore the fact that where private banks are unwilling to assume risks, export credit agencies simply pass these on to taxpayers (The Economist, 2014). ECA Watch, a network of non-governmental organisations and bodies campaigning for ECA reform, further lists a number of issues that contribute to an "enormous part in the harmful impacts of corporate globalization" while acknowledging that "ECAs are collectively among the largest sources of public financial support for foreign corporate involvement in industrial projects in the developing world".[26] According to ECA Watch, "ECAs are i) undercutting progress, violating laws, ii) fuelling a race to the bottom, iii) operating with little transparency and contempt for affected communities, iv) associated with corruption, v) causing crushing debt, vi)

24 http://ec.europa.eu/growth/smes/cosme/index_en.htm
25 According to Regulation (EU) No 1233/2011.
26 http://www.eca-watch.org/node/1

involved in arms transfers and human rights abuses, vii) increasing risks they were designed to protect against, viii) assuming no responsibility, and ix) isolating themselves".[27] These challenges therefore raise the question of how ECAs can be substantially reformed, as Klasen and Bannert (2015) argue in their ebook 'The Future of Foreign Trade Support: Setting Global Standards for Export Credit and Political Risk Insurance', to avoid harmful impacts on developing countries (summarised in Klasen, 2015).

While the above challenges are to be avoided in attempting to support development processes, many of the other challenges of export credit provision are similar to those faced in engaging the private sector for development. From the Eurodad report, these include the fact that "standards [to minimise harm of investments] are weak and lack key measures that are crucial to avoid harmful development and environment impacts" (Brynildsen, 2011). Further, monitoring and reporting mechanisms are said to be insufficient while governments and private actors reportedly fear that "strong guidelines protecting the environment, human rights and equitable development may harm business by creating a comparative advantage for those ECAs from countries that do not adhere to such guidelines" (Brynildsen, 2011). Again, these challenges are very similar to those currently being faced in discussions of supporting the private sector for development.

The following section looks further at the common and distinct challenges in achieving development outcomes through development-oriented and commercially-focused public instruments.

3. Analytical approach

The broad range of instruments available implies a wide range of possibilities for categorising these. This section summarises some of the key studies and categories used across studies to arrive at appropriate categories to be used across instruments in this study.

A first useful distinction can be made between the following two broad categories (Byiers and Rosengren, 2012):

1. **private sector development (PSD)** which "focuses on developing country domestic economies and helping governments to design and implement policies to encourage economic transformation through investment, productivity growth, business expansion and employment", and
2. **engaging the private sector for development (PS4D)**: "donor engagement with international business activities and finance to achieve development objectives", which can further be subdivided into (Bilal et al, 2014; Byiers and Rosengren, 2012):
    a. **Private sector finance for development**: using public official development assistance (ODA) to leverage private sector finance (PPPs, catalytic mechanisms, private to private), and
    b. **Private sector investment for development**: partnerships engaging with private sector activity for development through encouraging productive investment.

Table 2 gives an overview of the different types of models and instruments used within the two PS4D categories and its associated challenges.

[27] http://www.eca-watch.org/node/1#Undercutting%20progress,%20violating%20laws…

Table 2: Overview of partnership models, instruments and challenges

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

Source: Bilal et al. (2014)

Development-oriented partnerships for development differ in their various characteristics and set-ups and can be categorised as presented in Table 3, drawing on DCED (2013), Bilal et al. (2014), and Kindornay, Higgins and Olender (2013). This distinguishes between 'structured donor-led models', 'semi-or non-structured donor-led models at regional or country level', 'other non-structured models', and public-private or multi-stakeholder coalitions, illustrating some of the different stated objectives, characteristics and examples that exist.

Table 3: *Development-oriented* instruments to engage private investment for development

Mechanisms	Objectives	Characteristics	Examples
Structured donor-led models	providing grant support to specific business investments with clearly defined, detailed guidelines and procedures for awarding financial support to a specific business or joint venture	a sub-category of matching grant programmes: challenge funds (national or regional level) many variations: centrally-funded vs. co-funded at the global vs. country level	Multi-donor funded Africa Enterprise Challenge Fund; Austrian Business Partnerships Programme, Australian Enterprise Challenge Fund, Canadian Investment Cooperation Programme, BMZ DeveloPPP.de or Africa Facility, DANIDA Business Partnerships programmes, FinnPartnership, NL PPP Facility for Sustainable Entrepreneurship and Food Security, NL PSI, Norwegian Matchmaking Facility, SIDA Business for Development: Innovations against Poverty (or other challenge funds), DFID Business Innovation Facility examples of linking up companies with implementing partners: AusAID Business for Millennium Development Initiative, NL Matchmaking Facility, multi-donor funded Business Call to Action (BC2A)
Semi or non-structured donor-led	Semi-structured: businesses' cost sharing of donor	**semi-structured** provide only broader guidelines and frameworks for donor partnerships	SDC PPPs, SIDA PPPs, GIZ's Cooperation Arrangements or 'integrated partnerships', USAID's

models at regional or country level	projects or donor co-funding of business projects that contribute to a donor's country strategy	with individual companies **non-structured** are on an ad-hoc basis initiated by donors outside broader frameworks where public and private interests overlap	Global Development Alliance
Other non-structured models	initiated on an ad-hoc basis but driven by companies or NGOs, while donor involvement is flexible and driven by specific demands	**company-led models** → initiatives that are set-up and driven by companies to enhance both the commercial viability of their business and create benefits for poor communities **business collaboration with non-profit organisations**: 1) joint (business-NGO alliance) → NGOs may receive support for various components of the project from a bilateral donor 2) or NGO-led projects → creation of a viable social enterprise or for-profit company	company-led: The Cadbury and Kraft Cocoa partnership with UNDP in Ghana business collaboration with non-profit organisations: Coffee exporters from Honduras (CARE's PROMEXPORT project 2001-2008) NGO-led: MCC Ten Thousand Villages project (Kindornay, Higgins and Olender, 2013)
Public-private or multi-stakeholder coalitions	based on the idea of matching and leveraging private sector funds	consist of a larger number of public and private actors that co-fund, co-implement and often co-design an initiative aimed at the development of whole sectors, defined markets or value chains	NL IDH, Better Cotton Initiative, African Cashew Initiative, Cocoa Livelihoods Programme

Another interesting categorisation is grouping the PS4D instruments to mobilise private resources according to what type of constraints donors try to address (Vaes and Huyse, 2015a): a) instruments acting against risk, b) instruments addressing lack of finance, c) instruments addressing lack of information, expertise or connections, and d) instruments addressing loss of profits or competitiveness.

A broad literature review suggests there are many studies covering the instruments, programmes initiatives as well as forms of partnerships of how industrialised countries engage with local and international private sector. Annex I provides an overview of the most important and relevant ones along with the objectives of the paper and the main focus and findings: Table A1 covers development-oriented instruments and Table A2 the commercially-focused ones.

Finally, the Donor Committee for Enterprise Development (DCED)[28] provides a useful categorisation of the programmes and instruments that donors use to engage the private sector for development (DCED, 2015). These increasingly "involve sharing responsibilities, costs and/or risks with regard to a specific investment that has both commercial and development benefits" (DCED, 2015). Although all considered public-private development partnerships (PPDPs), they differ in their forms across agencies and actors involved. The three major forms of collaboration are:

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

[28] http://www.enterprise-development.org/page/partnershipmechanisms#DCEDPartnershipMechanisms

The remainder of this paper uses these three categories to analyse the potential opportunities, challenges and synergies of the range of different development and commercially oriented instruments in use for working with the private sector. It is considered unique in the sense that those categories can serve to capture both development-oriented and commercially-focused public support instruments.

4. Development-oriented instruments

While any distinction between 'developmental' and 'commercial' instruments is somewhat superficial, this section focuses on instruments designed in the 'development mindset', often using ODA, by development agencies. Those designed primarily to promote domestic commercial interests by Ministries of Trade and Industry are discussed in the next section.

A central element in promoting economic development through private sector engagement is the sharing of costs, risks and other resources. By doing so donors wish to encourage private investments to not only stimulate local economies but create real benefits for the poor through better access to jobs and income as well as goods and services. Some of the instruments also focus on increasing company competitiveness through the transfer of technology and know-how. Other instruments put greater emphasis on pro-poor business models while particularly looking at the social impact of investments and business practices. An underlying factor however is the requirement that the company should also have a commercial interest in the project so that donors grant support to avoid projects that are not viable and therefore wasting public resources.
Therefore, public intervention to crowd in private investments is justified by the combination of private and social returns triggered through such investment. This is because "the private sector is uniquely well-placed to provide the capital, innovation and skills to deliver both social and private returns", which are necessary conditions for increasing income and prosperity (Barder and Talbot, 2015).

An important role is played here by development finance institutions (DFIs), such as national development banks and multilateral development banks (MDBs), the World Bank, the African Development Bank (AfDB) or the European Investment Bank (EIB), to provide access to funding and enable investments. Further, both national finance institutions of the G20 - called D20 because of its development or public mandate - and MDBs work closely together to foster economic growth, create more and better jobs and enhance productivity and competitiveness, as "the need to crowd-in private investors was acknowledged as top priority, due to the high financing needs" at the 2014 second informal meeting of the Heads of the D20 and MDBs in Rome.[29]

Interesting examples of where multilateral finance institutions try to fill the funding gap - because financial institutions cannot satisfy a company's needs - are the US$50 million World Bank Women Entrepreneurship Development Project for Ethiopia[30] in cooperation with DFID and the Canadian International Development Agency (CIDA), and the US$250 million Competitiveness and Job Creation Project for Ethiopia.[31] The latter aims at contributing "to job creation by attracting investments and improving competitiveness of enterprises in the targeted industrial zones (IZ) and their linked domestic enterprises". As research suggests (World Bank, 2015), both projects want to contribute to positive change

29 http://www.eib.org/infocentre/press/releases/all/2014/2014-156-d20-and-multilateral-development-banksjoin-forces-to-support-economic-growth-create-jobs-and-improve-productivity.htm?lang=en
30 http://www.worldbank.org/projects/P122764/women-entrepreneurship-development-project?lang=en
31 http://www.worldbank.org/projects/P143302/competitiveness-job-creation-proj?lang=en

"by linking SMEs with larger enterprises in the industrial zones and contributing to the creation of a "private sector ecosystem" around the industrial zones".[32]

4.1. Different donor approaches

Countries, such as the Netherlands, Germany, Denmark, Sweden and Finland, as well as the UK, the US, Japan and many others, have taken proactive steps in not only focussing on the private sector in their development agendas but to also support "domestic business expansion in developing countries" (Hearle, 2014). Often this takes the form of grants, loans and equity investments in combination with technical assistance while at the same time fostering dialogue between the different parties involved: the state, domestic private sector and business in developing countries. The focus in many cases lies on countries where donors have developed over time long-standing relationships and trade relations (ibid.).

Donors differ in their institutional set up. While some such as the Netherlands and Finland operate their development agenda from within the Ministry of Foreign Affairs (MFA), others such as Germany, Denmark, the UK and Sweden, have a stand-alone development ministry/agency. Table 4 presents an overview of a selection of donor country key policies and initiatives.

Table 4: Donor country profiles and key initiatives

	Development policy/private sector strategy	***Government agency***	***Development bank and/or finance***	***Initiatives***
The Netherlands	**A World to Gain:** A New Agenda for Aid, Trade and Investment **Aim**: synergise trade & development policy **3 types of relationships**: aid, transitional and trade relationships	**MFA's NL Enterprise Agency**: FDOV, Ghana Wash Window, MMF, ORIO, PSI **New modules:** i) information provision and advice ii) financial instruments (DGGF) iii) assistance and support to groups of companies & research institutions	**Entrepreneurial Development Bank**: support sustainable private sector growth in developing & emerging markets by investing in 'ambitious' companies (MASSIF, IDF, AEF, FOM OS, CD, FMO-Fairview Africa Fund, SNS-FMO SME Finance Fund)	**IDH Sustainable Trade Initiative**: €125 million (2011-2015) to match fund private investments in sustainable market transformation in 18 commodity sectors
Germany	**Coalition agreement** & **The German Government's 14th Development Policy Report** "...Foreign trade & development cooperation must build upon each other & be integrated in a seamless fashion"	**BMZ:** Federal Ministry for Economic Cooperation and Development & **GIZ:** Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH	**KfW's Deutsche Investitions- und Entwicklungs-gesellschaft mbH (DEG)**: promotes financial sector and local capital markets development, especially for SMEs e.g. DEG's Up-scaling	- Service point for the private sector - Development Cooperation Scouts (EZ-Scouts) - CSR initiatives (BoP sector dialogues) - Partnerships with German industries - DeveloPPPde - climate partnerships
Demark	**"The Right to a Better Life:**	**DANIDA**: DANIDA Business[33]	**Investment Fund for Developing**	**Eksport Kredit Fonden (EKF)** →

[32] http://www.worldbank.org/en/country/ethiopia/publication/ethiopia-small-medium-business-finance-addressing-missing-middle-challenge

	Strategy for Denmark's Development Cooperation" & 'Opportunity Africa': (foreign policy, development cooperation, trade & investments) in support of inclusive & green growth in Africa	(partnerships facility) → facilitates investments & partnerships between Danish & local companies, to fight poverty & building an inclusive & green economy (BPD, DBF, DBP)	**Countries (IFU)**: provides advisory services and risk capital to Danish companies wanting to set up operations in developing countries (Arab Investment, Fund, Danish Climate Investment Fund)	**Denmark's ECA** helping raise financing & by insuring companies & banks against the potential financial & political risks of trading **GoGlobal Group** (trade council, DANIDA, IFU, EKF)
Sweden	**"Global Challenges- Our Responsibility: Communication on Sweden's policy for global development"**: emphasis on the role of the private sector as an engine for growth and development but Swedish principle of non-tied aid remains valid	**Sida (Swedish International Development Cooperation):** promotes private sector development through projects at the macro level (supporting ministries), meso level (developing chambers of commerce), and micro level (training small-scale farmers)	**Swedfund (MFA):** co-financing sound investments in the private sector & finance provision **portfolio**: equity, loans and funds **Swedpartnership:** financial support for Swedish SMEs to invest in equipment & knowledge transfer	**SIDA Business for Development programme:** PPDP, Challenge Funds (Innovations against poverty, AECF, making all voices count, Emprender paz, Powering agriculture, Seed alliance), drivers of change, Innovative Finance, Land related investments in Africa
Finland	**'Finland's Development Policy Programme: Government Decision-on-Principle 16 February 2012'** → recognition of the importance of private investments in developing countries, FDI and migrants' remittances	**Team Finland** (MFA, Ministry of Employment and the Economy, Ministry of Education and Culture) promotes Finland's external economic relations and country brand, the internationalisation of Finnish companies as well as foreign investment directed at Finland	**FinnFund**: LT investment loans & risk capital for private projects in developing countries (40% of the portfolio is in Africa) **instruments:** equity investments or LT investment loans, with subordinated loans or other mezzanine financing, guarantees **FinnPartnership** BPS facility, matchmaking, advisory services	**Finnvera Concessional Credits** → to support the economic and social development of developing countries with the assistance of the know-how and technology offered by businesses: interest subsidy (Finnvera receives buyer credit guarantee: Finland's ECA)

Source: Adapted from Hearle (2014).

In addition, the UK Department for International Development (DFID) increasingly relies on engaging business to achieve development objectives, as laid down in their "Operational plan 2011-2016 - Private Sector Department" (DFID, 2014a). While relying on "new and innovative approaches" DFID wants to work with new partners, including "businesses who are increasingly major development players". Its fourth pillar explicitly states "engaging with businesses to maximise the development footprint of their investments" pointing to the PSD lead role in DFID's approach. By designing and scaling up Centrally Managed Programmes (CMPs) DFID's aims at primarily working with its priority countries "with a particular focus on catalysing investment and promoting business engagement to deliver economic development outcomes"

[33] Following an independent evaluation, Danida's Business Partnerships Programme has been suspended in 2014 because "the effect on job creation and sustainable growth in developing countries has not been sufficient" (Source: http://um.dk/en/danida-en/activities/business/partnerships/)

(DFID, 2014a). A recent evaluation of DFID's work with business with an overall assessment of amber-red pointed to some of the difficulties though, such as showing impact and "the level of strategic oversight DFID has over business engagement activities" (ICAI, 2015). While DFID "has expanded its capacity to deliver programmes and to test new approaches", the Independent Commission for Aid Impact (ICAI) found "that there is scope for significant potential" (ICAI, 2015). Calling for "detailed operational plans with a clear focus on poverty reduction" will help DFID to live up to its high level ambition, as ICAI notes. In its response[34], DFID "partially accepts" four of the five recommendations, while rejecting only the fifth one related to evaluations of its engagement with business.

The following three sections look at the different forms of support with a focus on development, where objectives and opportunities but also the challenges involved differ according to scope and form of mechanisms in place: i) matchmaking services and brokering links; ii) cost-sharing mechanisms, so financial support to business operations in the form of loans (e.g. loan guarantees, impact investments), grants (e.g. matching grants, challenge funds) and equity finance; and iii) technical advice including technical assistance, knowledge sharing, policy dialogue and/or advocacy.

4.2. Match-making instruments

Matchmaking services provided by various countries aim at helping the own national private sector to identify business partners or implementing organisations before the actual investment takes place. This can lead to the development of new businesses in developing countries and at the same time brokering links between developing country businesses with companies from donor countries for joint projects and investments.

There are a number of examples for these activities, such as the multi-donor funded Business Call to Action (BCtA) and Global Innovation Fund (GIF) as well as the BMZ DeveloPPP.de programme, FinnPartnership, or the Dutch Matching Facility. Often however these instruments are not only focussing on brokering links and providing matchmaking services but at the same time they offer financial support (GIF, DeveloPPP.de, FinnPartnership) and/or technical advice (BCtA, DeveloPPP.de, FinnPartnership).

The BCtA for instance hosted by UNDP - funded by DFAT, DFID, SIDA, USAID, UN Global Compact, the Clinton Global Initiative and the Dutch MFA - is a global leadership platform where 104 companies have made "commitments to improve the lives and livelihoods of millions through commercially-viable business ventures that engage low-income people as consumers, producers, suppliers, and distributors of goods and services". Companies can therefore benefit from both getting connected with suitable implementing partners or donor organisations for funding and from a platform that offers "opportunities to share expertise, knowledge, and best practices for market-based approaches to development".[35] Eligible business can be from any country and need to propose initiatives that are supporting development goals while simultaneously being a profitable and sustainable part of the core business strategy. By doing so, "BCtA member initiatives include pledges to provide access to financial services for more than 57 million people, promote improved health outcomes for 50 million people, and enhance access to energy for 89 million low-income households"[36], which can have a significant development impact through the engagement of the private sector.

[34] https://www.gov.uk/government/publications/dfid-management-response-to-the-icai-recommendations-on-business-in-development
[35] http://www.businesscalltoaction.org/about/
[36] http://www.businesscalltoaction.org/about/

Another example is the Dutch Matchmaking Facility that aims at linking donor countries' businesses with companies from developing countries. This aims both stimulating joint investments and through Dutch Diplomatic Missions and Netherlands Business Support Offices - in cooperation with the Netherlands Enterprise Agency (RVO) providing "useful business leads and contacts".[37] Doing joint investments however requires that the developing country business is located in a Dutch partner country, where also the investment needs to take place.

Challenges

While the Finnpartnership's evaluation notes that "a passive IT based matchmaking services does not provide for an efficient matchmaking process when it is operated as a separate stand-alone tool", the evaluation of the NORAD matchmaking programme certifies "a greater degree of success" because the programme was able "to mobilise around 600 Norwegian SMEs to explore business cooperation and investment opportunities in the target countries" (Lemma and Ellis, 2014). The latter however also admits that it should be "stronger in creating leverage from funds and allow for scaling up", if it wants to have a real impact on poverty beyond local communities, because matchmaking and application-based support programmes are complementing each other, as a promising first step.

4.3. Cost-sharing/financial support instruments

Financial support instruments to support the private sector can vary in their form (returnable vs. grant finance) and objectives. While aid normally takes the form of (matching-) grants or challenge funds, forms of returnable capital are loans, equity investments and guarantees (LEG). "Development agencies and bilateral and multilateral development finance institutions have been exploring a range of ways to leverage private finance for development by sharing the risk and reducing any costs involved" to help build the confidence of potential investors that would otherwise consider certain investments as too risky or too costly (Barder and Talbot, 2015; OECD, 2014: 136). There are different forms of leveraging private finance for development that public agencies and development finance institutions use. This is important because private investments can boost economic development and access for the poor to public services. According to the OECD, loan guarantees issued by donors and multilateral finance agencies were able to bring in €15.3 billion of private investments between 2009 and 2011 (OECD, 2014).

While pooling mechanisms try to pool various types of finance, both public and private, so that larger volumes of capital and/or longer term loans are available to be invested, guarantee schemes "reduce risk by promising to repay some or all a project's value to a lender or the implementing firm if the project fails" thus can attract further private investments (Barder and Talbot, 2015). Similarly, public investors can reduce the risk through equity and mezzanine finance. By investing in risk capital they can unlock additional finance in addition to the public investment. It needs to be stressed however that financial instruments alone are not enough as complementary policies are required to support those by providing the right business environment: "sound regulatory and legislative frameworks, reliable payment mechanisms, clear underlying tariffs and transparent bidding processes – for public and private investment" (ERD, 2015; Barder and Talbot, 2015; OECD, 2014).

(Matching-) grants and challenge funds

By providing grants or challenge funds, donor countries want to support early stage activities that without support would not have been realised. The aim is to finance market research, feasibility studies, prototype development and testing, partner identification and visits, supply chain and distribution network

[37] http://www.government.nl/issues/development-cooperation/development-cooperation-matchmaking-facility

development and trailing, and/or the purchase of capital goods. Forms of those grant financed programmes differ and can be distinguish between centrally-funded and national-/regional-level challenge funds. Centrally-funded mechanisms are further divided into tied mechanisms, open only to domestic companies, such as FinnPartnership or (the now suspended) Danida business partnerships programme, and untied programmes, which are "open for applications from domestic as well as European or even developing country companies" such as the BMZ DeveloPPP.de programme (DCED, 2013). Other distinctions are made between semi-/non-structured mechanisms (SIDA PPPDP, USAID GDA), multi-stakeholder initiatives (NL IDH), and company-led programmes, such the Cadbury and Kraft Cocoa partnerships with UNDP in Ghana (Lemma and Ellis, 2014). Useful summaries and overviews of examples of grant financed programmes and mechanisms to engage with the private sector are available in various studies and reports, also referred to in Table B above (DCED, 2013, 2014, 2015; Lemma and Ellis, 2014; Brain et al., 2014; Bilal et al., 2014; Hearle, 2014; and Kindornay, Higgins and Olender, 2013).

As an example for multi-stakeholder initiatives, IDH, the Dutch sustainable trade initiative, aims at brokering links between various actors, companies, CSOs/NGOs, governmental organisations and other stakeholders. By providing financial support (grants) but also knowledge sharing and technical assistance, it wants to accelerate and scale up sustainable trade through impact oriented multi-stakeholder coalitions. These should support efforts to contribute to achieving the MDGs, particularly goals one (poverty reduction), seven (environmental safeguarding) and eight (fair and transparent trade). "With a €155 million co-funding grant from the Dutch, Swiss and Danish Governments, IDH runs public-private, pre-competitive market transformation programs in 18 sectors"[38] but companies must provide 50% of co-funding of any IDH investment.

Challenge funds, such as DFID's Financial Education Fund (2009-2017: £2.5 million) or SIDA's Innovations Against Poverty (2010-2015: £3.9 million), aim at allocating and disbursing funds as efficiently and fairly as possible. In the past, challenge funds have supported various areas while donors, particularly the Department for International Development (DFID), but also Australia's Department of Foreign Affairs and Trade (DFAT) and the Swedish International Development Agency (SIDA), spent more than £852 million on them. While some focus on a particular geographic area, such as the Africa Enterprise Challenge Fund (AECF), others specifically aim at one or selected sectors, such as DFID's Girls Education Challenge, running from 2012 to 2016 with £355 million (Brain et al., 2014).

The £125 million AECF[39], launched in 2008 running until 2017, provides match funding grants and interest free loans on a competitive basis to businesses from any country that want to carry out innovative but commercially viable projects in Africa. It works on a risk-sharing basis to achieve developmental impact for Africa's rural poor, in different sectors such as agriculture, financial services, renewable energy and technology. Funded by DFID US$99 million (47 percent), SIDA US$39 million (19 percent), DFAT US$32 million (15 percent), the Royal Netherlands Embassy US$25 million (12 percent), and Danida US$12 million (6 percent), its support lies between US$250,000 and US$1.5 million for so-called eight 'windows', which are either specific countries (e.g. South Sudan, Zimbabwe, post-conflict countries) or sectors (e.g. agribusiness and renewable energy), where projects need to be implemented in (DCED, 2015). Since its launch it has initiated 16 competitions for new and innovative business ideas and 179 projects were selected for funding in 23 countries with a majority of them in East Africa with 49 percent of projects, followed by Southern Africa (26 percent), West Africa (11 percent), the Horn of Africa (9 percent), and Central Africa (3 percent). A majority of projects were agribusiness ones (69 percent) but recently other sectors, renewable energy and climate change, gained prominence.

[38] http://www.idhsustainabletrade.com/what-we-do
[39] http://www.aecfafrica.org/about-aecf/portfolio

Challenges

As is the case for many of the donor-led initiatives, particularly for challenge funds "it is increasingly important that agencies can demonstrate the additionality of their support" (DCED, 2014). This however is often a very complicated undertaking since "assessment criteria are often limited or vague" and often internal guidelines regarding additionality in project appraisals are missing. Moreover, agencies increasingly experience pressures to disburse funds while struggling with striking the right "balance between additionality criteria and other requirements and objectives of the collaboration", such as choosing a small firm and clear additionality over a large firm with the potential of a larger scale, higher co-investment *but* more difficulty to prove additionality.

A recent Annual Review of the Zimbabwe window however notes that recent applications to the fund were of less quality and size, suggesting that "that the first two rounds of funding had already selected most of the larger and more straightforward projects eligible in Zimbabwe and compatible with the AECF-Zimbabwe" (Brain et al., 2014). A further challenge is the way impact evaluations are executed, often not taking into account "basic evaluation requirements such as an assessment of additionality, attribution or impacts (whether positive or negative) beyond the funded project" while it needs to be recognised that poorly designed funds can seriously harm local economies (Brain et al., 2014). This is further reflected by the ICAI (2015), who state that they are not "confident that DFID's support is additional to what businesses would have done anyway, especially in the case of challenge funds" pointing to a fundamental challenge common to many forms of support though less in relation to LEG, as "LEG investments are generally additional" though concern exists "about DFID's strategic oversight of its LEG portfolio", the latter discussed in more detail in the following section.

Loans and loan guarantees

Within the category of cost-sharing instruments, many donors complement grant financing with other forms of returnable capital, such as loans and equity finance with the aim to achieve development impact while generating less than a market rate of return. Examples are the Global Innovation Fund (GIF) or the Dutch Good Growth Fund (DGGF).

The GIF, a non-profit fund headquartered in London, "offers grants, loans (including convertible debt), and equity investments ranging from USD $50,000 to $15 million" to invest in social innovation that are aimed to improve the living conditions and opportunities for people in developing countries.[40] Supported by DFID, the United States Agency for International Development (USAID), the Omidyar Network, SIDA and DFAT, "to date, these partners have pledged over USD $200 million over the next five years".[41] Its set up is flexible being open to supporting all kinds of innovations as well as the types and scale of support provided (DCED, 2015). Innovations must however have the potential to be beneficial to the poor at a large scale. It further provides support in matching applicants with follow-on funders while providing technical assistance.

The €750 million DGGF "supports Dutch SMEs and entrepreneurs in emerging markets and developing countries, by offering a source of financing for development-relevant local investments and exports" contributing to sustainable economic development.[42] Applying to 68 countries in emerging markets and developing countries from 1 July 2014 onwards, activities contributing to local job creation, local production capacity improvement, and knowledge transfer are supported. It targets three groups:

40 http://globalinnovation.fund/types-financing
41 http://globalinnovation.fund/about-us
42 http://www.government.nl/issues/development-cooperation/doing-business-in-developing-countries/dutch-good-growth-fund-business-for-development

I. Finance for local SMEs for direct, innovative investments that involve a substantial element of risk in LICs and LMICs (managed by a consortium of PwC and Triple Jump).
II. Dutch companies that want to engage with business in LICs and LMICs can apply for up to €10 million in the form of "guarantees and direct co-financing with a repayment obligation, such as loans and equity investments in projects".
III. Dutch firms that want to export to one of the 68 countries. Here, "Dutch SMEs and their finance providers can obtain insurance coverage from Atradius Dutch State Business, for an amount up to €15 million (at a break-even premium), to cover the payment risk associated with the export of capital goods".

Infrastructure investments in particular require large volumes and projects are often risky and long term oriented, which can hold private investors back. Here *blended loans with grant finance*, *syndicated loans* provided by a group of lenders and/or *securitisation*, the process of pooling different assets, can help to overcome the low-return nature of infrastructure projects, reduce their risks and attract new sources of financing. Various MDBs, the EU and other DFIs, such as the EIB, AFD and KfW, increasingly rely on blended finance mechanisms. The EU for instance was able to "to support more than 200 investments in economic and social infrastructure as well as private sector development" in the last seven years by means of seven EU regional blending facilities with €1.6 billion in EU grants.[43] This unlocked an estimated volume of €40 billion of investments in EU partner countries (OECD, 2014).

Syndicated loans are a good means to reduce risk, where the 'syndicate', normally consisting of a development finance institution and a commercial bank or institutional investor, provides a loan, thereby "spreading the borrowing across lenders who would not have been able to provide the same loan amount and/or terms on their own" (OECD, 2014). A third option is the process of pooling assets, called *securitisation*. Here loans for instance are repackaged into marketable securities that aim at providing additional finance to borrowers that are not able to access more finance in another way. Once the pooled assets are sold, they do not appear anymore on the balance sheets; by making them tradable securities, other investors might feel attracted. Especially Islamic finance increasingly relies on securitisation issuing "asset-backed securities in a form called 'sukuk'".[44]

A further way of mobilising finance is by transferring or mitigating risk that private investors would otherwise consider as too high or not willing to take. These *guarantee schemes* are an insurance against the risk non non-payment, thus, enabling the flow of investments into developing countries and sectors with a high risk for private investors. Particularly, the World Bank's International Finance Corporation (IFC) issues guarantees "used on both bond and loan instruments and for both local and foreign currency cross-border transactions" (OECD, 2014). Doing so it tries to achieve a win-win situation through on the one hand providing access to funding and on the other to develop local capital markets. The potential of using guarantee schemes still remains largely untapped though (Mirabile et al., 2013).

While there is broad discussion on the role of ODA to be played in the next years, Pierre Jacquet argues that "risk mitigation is at the core of a modernised, reinvented role for ODA" using it therefore to provide "insurance, guarantees, risk-sharing instruments, debt instruments with 'countercyclical provisions' to

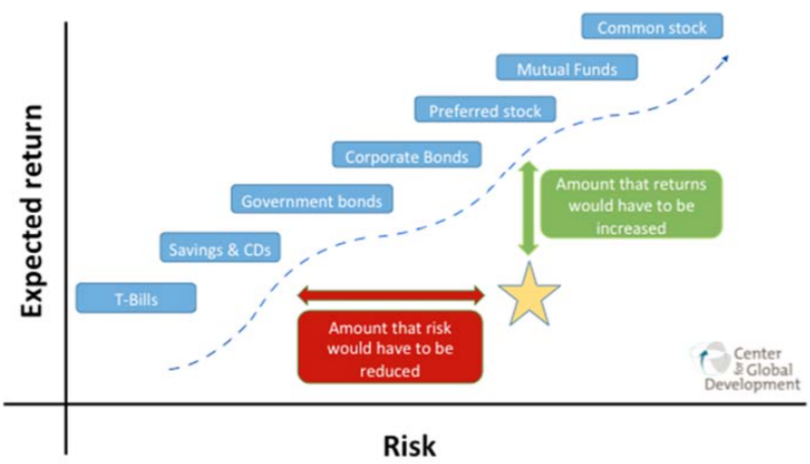
[43] European Commission, DG DEVCO, Blending operations 2007-2013. https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending/blending-operations-2007-2013_en

[44] ''Sukuk comply with sharia requirements of risk-taking and sharing of profit and losses (value and income depend on the performance of the underlying assets), and thus have the potential to attract Islamic investors, who are a growing source of financing for many developing countries. For example, in 2009 the Central Bank of Kenya issued its first infrastructure bond for a total amount of USD 222.8 million, of which nearly USD 12 million was a sukuk tranche (MIFC, 2013)." (OECD, 2014)

smooth various external shocks" (OECD, 2014). A particular challenge however for development agencies, according to Jacquet, is to develop the right capacities to be able to identify possible market failures and do a proper risk and moral hazard management.

Yet, debate exists on whether guarantees are the best means to attract private investments, as one could argue that other possibilities might be better than "paying to protect investors from risks" (Barder and Talbot, 2015; OECD, 2014). Barder and Talbot raise the point that if social returns (infrastructure and economic development) exceed private returns through private investments, it might be better to boost returns rather than to mitigate the risk, as illustrated in Figure 3 (see also Talbot and Barder, 2015 for a summary). That suggests that another option would be input subsidies on the cost of capital so that a project's expected rate of return would be raised by "lowering the financial burden of debt" (Barder and Talbot, 2015). To do so one could rely on the use of development impact bonds (DIBs) or advance market commitment (AMCs) for instance by guaranteeing public payment for private success (Barder and Talbot, 2015).

Figure 3: The risk-return relationship: for the public sector to induce private investment, it must increase the return or reduce the risk of projects below the frontier



Source: Barder and Talbot (2015).

Through vertical and horizontal spillovers private investments could yield significant social benefits that would simultaneously have demonstration effects attracting other private investors. By rewarding the private sector for success it is easier to effectively attract private investments while at the same time incentivising to do well rather than covering the costs in the case of failure. This reduces at the same time the risk of moral hazard. Another challenge is the issue of governments picking winner by deciding who gets a guarantee or not without knowing which issued guarantee might have the greatest social benefits. Boosting returns on the other hand is open to everyone and it leaves it to the market to determine which firm will receive public funds as reward for its achieved performance and development impact.

But there are circumstances where reducing the risk rather than paying for success might be preferable. This is the case for loan guarantees that "enable the authorities to commit to reduce investment risks that they control or reduce the risks of failure to a greater extent than their cost" (Barder and Talbot, 2015). Also interest rate subsidies, so lowering the cost of capital, may pay off, if specific project outcomes are difficult to measure. Otherwise, as Barder and Talbot argue, paying for success obtains greater incentives for private investors to invest, so "linking payments to specific, measurable, and agreed milestones or outputs". The argument by Barder and Talbot is appealing but it is more suitable for some operations than others, and should not be applicable across the board. As recognised earlier by Barder (2013), there are indeed cases where it is better to reduce risk than increasing return, for instance when the private sector misperceived the true commercial risk of an investment. In that case governments or international bodies are better able to identify or mitigate risks, such as political instability or sovereign default. Collier (2013) points to the mainly political riskiness of African infrastructure projects that could be mitigated through i) commitment technologies, such as political risk insurance provided by agencies, such as the World Bank's (Multilateral Investment Guarantee Agency) MIGA, ii) re-bundling of risk, and/or iii) re-bundling of individual infrastructure projects (e.g. into a fund holding them together). Direct reward might also be complex or inappropriate in a number of private sector operations, making addressing risk the more effective option.

An interesting opportunity of linking commercial with development objectives is using impact investing for development for instance (Simon and Barmeier, 2010). This aims at "seeking to address problems through market-based, for-profit models that provide both a social benefit and the positive financial return necessary to generate a self-sustaining revenue stream and achieve scale". A defining feature thereof is the objective of achieving a non-financial impact and being held accountable for delivering on it. However, "impact investments can exist only where commercial investment is limited or unavailable" because "otherwise there would be no need for the impact investor" (Simon and Barmeier, 2010). This points to the issue of the level of market development (and prevailing market failures), as well as to the issue of perceived *versus* actual risk for commercial investors in developing countries.

Equity finance

Investment in risk capital, such as equity, preferred equity or junior loans, often appears to be too risky for the private sector. However, it "is key for new or expanding private companies to start a business, provide a stable long-term funding basis and protect creditors who ground part of their lending decision on the availability of significant equity" and hence the public sector shares this risk to tackle the shortage of funding (OECD, 2014). Development cooperation agencies typically focus on the most risky tranche providing first loss guarantees while DFIs invest in the mezzanine tranche, which is "often a more expensive financing source for a company than senior debt because in the event of default, the mezzanine financing is only repaid after all senior obligations have been satisfied" (OECD, 2014). By doing so, public investors hope to attract additional private investments in the form of senior loan and asset-backed lending. Financial support to partner business in the form of equity finance is also provided by the AECF and the DGGF that are discussed in more detail under the sections of challenge funds and loans/loan guarantees.

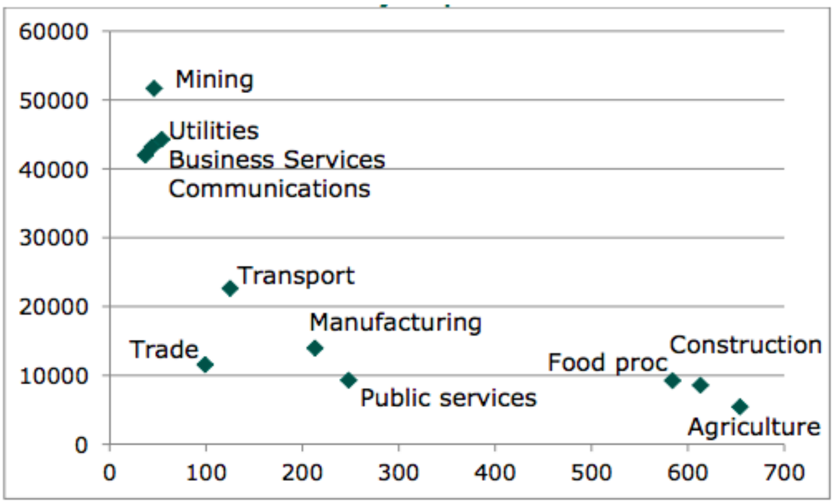
Challenges

"Evaluations of the impact of DFIs find that their investments do make a positive contribution to employment and productivity, both directly and indirectly. There also seem to be positive links between DFI investments and economic growth. There is also some limited evidence on the positive impacts of DFIs on financial deepening – however the evidence is limited and qualitative in nature, hence generalisations cannot be made." (Lemma, 2015)

Achieving and demonstrating development impact is a common challenge to all of the financial support and cost-sharing instruments and particular relevant also for development finance institutions. Development impact measurement and indicators used differ between DFIs, which makes it difficult to make comparisons between them (Lemma, 2015). A further limitation is the small number of concrete development impacts that are reported. Normally figures provided relate to "employment effects (...), government revenue impacts, consumer reach (...) and in some cases environmental, social and governance (ESG) outcomes and private sector development effects" (Lemma, 2015). Reported positive impacts are often difficult to read, since DFI successes are sometimes very subjective and suffer from insufficient or publicly unavailable data, as Lemma points to (2015), which makes a good assessment of the extent of the impacts difficult.

Jouanjean, Massa and te Velde (2013) look at the impact of DFIs on structural transformation rather than on job creation (IFC, 2013) or effects of DFIs more generally (Lemma, 2015; Massa, 2011; te Velde, 2011) but they find that there are "a number of static/direct and dynamic/indirect effects". These are "additional to domestic investment" as well as having "a direct effect on productivity through changing the composition, and hence the economic structure of an economy" (Jouanjean et al., 2013). Dynamic and indirect effects take the form of job creation "through forward and backward linkages" as well as spillover effects that can be triggered through technical change by setting "economic, social and environmental performance standards, have representatives on company boards, direct fund managers, provide technical assistance and act as a port of knowledge through which investee companies can adopt new product and process innovation" (Jouanjean et al. 2013).
An interesting challenge is finding the right balance between value-addition per job and number of jobs created (Figure 4). Jouanjean and te Velde (2013) further find that there is "a significant effect of DFIs on labour productivity" increasing it by "by at least 3% in 21 low- and middle-income countries".

Figure 4: Trade-off between value addition per job and number of jobs per investment



Note: Jobs include direct and indirect effects based on input-output models. Value addition (US$) per job (vertical axis) and number of jobs per US$ million investment (horizontal axis).
Source: Jouanjean, Massa and te Velde, 2013.

Lemma and Ellis (2014) base their observations on the review of a number of **evaluations of centrally-managed donor funds (CMDFs),** noting however that most of them "have shown that the programmes have had positive effects". They do nevertheless note challenges related to CMDFs, such as "the issue of high administration and management costs and limited staff capacity", hence the criticism of "being an inefficient use of aid money". The Finnpartnership's evaluation for instance notes "burdensome administration costs reducing the amount of disbursed grants, stating that costs are relatively high if compared to actual monetary support provided by the programme". It simultaneously criticises the "lack of capacity amongst donor staff to engage effectively with business" due to staff shortage and the lack of permanent staff, which has led to high junior FinnPartnership staff turnaround, though this observation can be found more broadly beyond the FinnPartnership. Another challenge can be the fragmentation of programmes across many countries and sectors, as "the small average support sums combined with fragmentation reduces the administrative effectiveness of the programme", which also negatively impacts measuring the effectiveness, as recognised in the Finnpartnership's evaluation.

Kindornay, Higgins and Olender (2013) point to a number of **lessons learnt and opportunities as well as challenges** related to private sector partnerships for development. IDH for instance has shown that it is key to have the right private sector individuals, as in the beginning CSR people were sent to represent the business rather than those responsible for the sourcing. Related to this are differing motivations between the actors involved and the challenge of speaking the same language. There is a need to better understand not only different motivations but also each other to enhance impact and build trust. SIDA experiences point to a “cultural mismatch” between business people and those working in the broader field of development cooperation. Partnership implementation entails also the danger of crowding-out private investments, as public donors might have a particular interest in a sector, as experienced in the IDH cashew programme, thus “there may be a need for greater coordination among donors and coalitions engaged in the same sector”. But at the same time they also note a few opportunities. If planning of such initiatives takes into account the proper understanding of risks associated with them, impact can be increased. Further, initiatives, such as IDH, characterised by multiple stakeholders involved, are able to bring different types of knowledge and inputs together, which can positively influence the programme structure and diffuse accountability potentially leading to better project outcomes based on “a vested interest in succeeding by all stakeholders”.

The Review of the Sustainable Trade Initiative IDH 2008-2013 found that “the outcomes and impacts for primary producers of standards and certification are likely to be positive, albeit rather modest” (IOB, 2014). It however states that “efforts will not be sufficient to accomplish IDH’s goal of sustainable market transformation” and that besides moving “into broader areas of work ‘beyond certification’”, IDH should ensure not to lose focus. Particularly the fourth finding is crucial to public support to private sector, as IOB finds that by engaging more with individual companies, questions arise “about the appropriateness of public support and puts ‘additionality’ at risk”.

With regard to the DGGF, an ActionAid, Both ENDS and SOMO report raises the question of tied aid while pointing to “substantial risks that should be covered by proper safeguards and accountability mechanisms”. As the DGGF promotes the own Dutch “private sector to invest in developing countries, the Netherlands is one of the first countries in Europe to abandon international agreements on untying aid” (ActionAid et al., 2013). It further argues that, “as Atradius DSB does not have a development mandate”, it should not be the responsible actor to manage development funds, since export financing under the DGGF has no development goal. “Stimulating export via Dutch SMEs to low and middle-income countries is rarely development relevant in the current practice of Atradius DSB”, as the report finds. It continues by pointing to the issue that “a large part of bilateral debts of built up by developing countries results from damage covered by export credit insurance”, and debt cancellation financed by the Dutch development budget means “a negative development impact regarding export credit insurance” (ActionAid et al., 2013).

A particular challenge for impact investing is its scalability as well as its ability to serve long-term sustainable development. It needs to be recognised however that there is little data available to do a proper assessment. It is also different from socially responsible investment (SRI), which “refers to investments across a range of industries that do not damage societies or the environment, and social entrepreneurship, which “refers to the creation of new approaches to attack social problems” (Simon and Barmeier, 2010). The latter two are rather seeking for grant capital instead of investments and are often not-for-profit. However, with respect to the social impact objective in impact investing, it is not clear what as a sufficient social impact qualifies.

4.4. Technical support

Industrialised countries and particularly European donors support their own and developing countries' businesses by providing technical advice, support, advisory services, knowledge sharing and advocacy/policy dialogue with the aim of promoting development elsewhere. This often goes hand in hand with financial support, often in the form of grants and/or matchmaking services.

While in the majority of cases the emphasis is put on the grant support or matchmaking element of the mechanism, providing technical support is considered as an accompanying service to improve results and sustainability. Already discussed in the matchmaking section above, the BCtA additionally provides technical support through its Secretariat at UNDP or other partners in developing initiatives. The 2012-2017 running Enterprise Innovation Challenge Fund's main window provides matching grants to the Caribbean private sector, so that they can carry out innovative projects that give economic opportunities to local communities thus increasing the region's competitiveness. Its second window, Support to Clustering Initiatives, however provides technical support to business clusters in implementing those projects.

Particularly the BMZ funded mechanisms concentrate on collaboration through providing technical advice while the grant support component consists of "cost-sharing through advisory support rather than cash grants" (DCED, 2015). The develoPPP.de programme, which targets companies that invest in development partnerships in developing and emerging countries, provides financial and professional support. While BMZ pays up to a maximum of €200,000, 50 percent of the overall costs must at least be covered the business. Public partners, such as DEG, GIZ or sequa gGmbH "then provide support in planning and implementing the company's involvement at the local level" (BMZ, 2014). Projects however are only eligible, if certain criteria are met, such as among others a company's and project's financial viability, at least 25 percent of a company's shares must be held by companies registered in the EU or by EU citizens, compatibility with BMZ policy goals, and projects must aim at enhancing living conditions of socially disadvantaged groups. By relying on these technical support services companies can overcome "weak infrastructure, cultural barriers and a lack of local experts" (BMZ, 2014). The ideas that pooling public and private resources creates local development benefits in terms of job creation, ensuring incomes and transferring technical know-how as well as technologies. It needs to be stressed however that although international and also German companies have committed to conduct business in a responsible manner, it needs to be monitored and evaluated whether working conditions and environmental, social and quality standards are safeguarded.

FinnPartnership, the Finnish Business Partnership Programme is another example for providing all three services (matchmaking, grant support and technical support), promoting business partnerships between Finnish firms and ODA-recipient countries. Its technical support component takes the form of planning, financial and technical advice during both planning and implementation phases of projects and mentoring services. Companies can receive up to €200,000 of grant support during a period of three years. On behalf of the Finnish MFA "Finnfund is responsible for the management and implementation of the Business Partnership Programme".[45]

Training interventions are another form of technical support/advice to develop business skills needed to "help micro and small businesses survive, grow and create employment" (Titley and Anderson-McDonald, 2015). Although billions are spent on training (micro-) entrepreneurs and micro credits, money is having little impact as only very few entrepreneurs are able to develop their businesses to become SMEs (IPA, 2015). This points to a number of challenges and "evaluations from 4 continents suggests that, while

[45] http://www.finnpartnership.fi/www/en/finnpartnership/index.php

microcredit has some benefits, it has not led to the transformative improvements in business performance and poverty reduction widely expected" (ibid.), as "business skills won't benefit everyone", if interventions are not targeted enough. Research suggests that impact could be bigger "by screening micro and small entrepreneurs on growth potential, channelling resources to help those business owners who have the motivation and potential to grow" (Titley and Anderson-McDonald, 2015).

4.5. Sustainability criteria and principles

Many of the aforementioned instruments do have strict criteria and/or principles in place that have to be fulfilled so that the private sector is able to qualify for support programmes or partnership mechanisms the public sector has put in place. Several global and international guidelines and principles are aiming at enterprises ensuring social and environmental sustainability in their business conduct. Among them is the UN Global Compact, a corporate sustainability initiative that calls for companies voluntarily "to align strategies and operations with (ten) universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals".[46] Similarly, the UN Guiding Principles on Business and Human Rights, unanimously endorsed by the United Nations Human Rights Council in 2011, are a set of guidelines that should avoid "human rights abuses committed in business operations".[47] Also the OECD has developed "non-binding principles and standards for responsible business conduct in a global context consistent with applicable laws and internationally recognised standards, called OECD Guidelines for Multinational Enterprises. The OECD Guidelines' fourth chapter, Human Rights, "draws upon the United Nations Framework for Business and Human Rights 'Protect, Respect and Remedy' and is in line with the (UN) Guiding Principles for its Implementation".[48]

The European Commission published criteria and principles for supporting and engaging with private sector actors in their Communication, 'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries' (see Box 1). The criteria however are quite broad and do not only aim at achieving social and environmental sustainability but also broader challenges related to impact measurement, additionality or demonstration effects.

Additionally, a group of European NGOs and CSOs have released a 'A principled approach to public-private finance' "to assist governments to apply best practice, international standards and learning more systematically to help ensure best outcomes for sustainable development" (CAFOD et al. 2014).[49] The key principles they identified are summarised in Box 2.

46 UN Global Compact website: https://www.unglobalcompact.org/what-is-gc
47 Business & Human Rights Resource Centre: http://business-humanrights.org/en/pdf-the-un-guiding-principles-on-business-and-human-rights-an-introduction
48 OECD Guidelines for Multinational Enterprises, 2011: http://www.oecd.org/daf/inv/mne/48004323.pdf
49 https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/dp-delivering-sustainable-development-public-private-100415-en.pdf

Box 1: EC Criteria and principles for engaging the private sector for development

Criteria for supporting private sector actors	Principles for engagement with the private sector
1. measureable development impact	1. focus on employment creation and poverty reduction
2. additionality	2. take a firm-level differentiated approach
3. market neutrality	3. create market-based opportunities
4. shared interest & co-financing	4. follow clear criteria for support
5. demonstration effect	5. allow for local contexts and fragile situations
6. social, environmental and fiscal standards	6. put strong emphasis on results
	7. observe policy coherence in areas affecting the private sector in developing countries

Source: Byiers, 2014.

Box 2: CAFOD Partnerships and project principles for sustainable development

Sustainable development principles	Partnership and project principles	Principles
Inclusive and sustainable economic development	Build on development effectiveness development principles and SDGs Share risk and minimise debt	Pay a fair share of tax Build thriving domestic markets Create decent jobs for all
Poverty alleviation and social development	Show additionality and value for money	Avoid land grabs Develop inclusive communities Close the gender gap
Equitable environmental sustainability	Ensure transparency, accountability and participation Ensure good corporate governance	Do not destroy natural resources Control pollution Mitigate and adapt to climate change

At the national level, various EU countries have either developed their own sustainability criteria or, the majority of them, are referring to already existing ones, some of them mentioned above, when collaborating with and/or supporting the private sector. Table 5 highlights some of them for a number of countries.[50]

[50] This is not an exhaustive list but rather exemplary for sustainability criteria in place throughout selected EU member states.

Table 5: Country-level criteria and principles

Country (Ministry/Agency)	**Own sustainability criteria/principles**	**Reference made to already existing frameworks**
Denmark (DANIDA)	local development needs with a focus on contributing to sustainable growth, employment & responsible business	national work environment regulations and UN Global Compact, the UN guiding principles, ILO's decent Work Agenda, the OECD Guidelines and ISO 26000[51]
Finland (MFA/Team Finland)	Social & Environmental Impact Assessment Criteria → principles of developmental effects & compliance with internationally accepted social and environmental standards	International Financial Corporation's (IFC) Performance Standards on Social & Environmental Sustainability (also see EHS Guidelines)
Germany (BMZ)	Social & Environmental Standards, develoPPP.de criteria, Good work worldwide[52]	UN Global Compact, ILO Declaration on Fundamental Principles and Rights at Work, OECD Guidelines and UN Guiding Principles
Netherlands (Minbuza)	DGGF criteria[53] (development contribution to local economy, companies need to meet guidelines for CSR, financial sustainability and additionality) IDH International CSR[54]	OECD Guidelines and UN Guiding Principles (referred to in 'A World to Gain' and in the IDH's CSR strategy) CPR standards, the IFC performance standards and ILO Declaration on Fundamental Principles and Rights at Work (referred to by the DGGF)
Sweden (SIDA)	SIDA Guidelines for Sustainability, Ten key principles & criteria in working with business	Rio +20 Outcome, UN Sustainable Development Knowledge Platform, OECD Guidelines, ILO Framework, ISO 26000, UN Guiding Principles, Practitioner's Hub for Inclusive Business
UK (DFID)	Partnership Principles (MDGs, human rights, good governance, transparency and accountability to citizens)[55]	reference to "international obligations"

4.6. Summary

As highlighted in this section, there are a wide range of donor programmes to engage the private sector for development that can be categorised as principally focusing on connecting firms through match-making, providing financial support and/or providing technical support. While the shared logic for these instruments is principally related to overcoming the risk associated with investment in third countries, whether market-related or financial, donors attempt to overcome their own exposure to the risks of engaging with business by employing eligibility criteria to ensure 'good practices' and contributions to sustainable development outcomes. Challenges include "the need to recognize that different partnerships yield different results and

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[51] DANIDA Business Partnerships programme suspended since 10 November 2014 but still on-going partnerships must comply with the guidelines: http://um.dk/en/~/media/UM/English-site/Documents/Danida/Activities/Business/DB%20Partnerships/Toolbox/8%20-%20DBP%20GENERAL%20CONDITIONS%20-%20May%202013.pdf

[52] http://www.bmz.de/en/publications/type_of_publication/information_flyer/information_brochures/Materialie241_lieferketten.pdf

[53] http://english.dggf.nl/file/download/33030652

[54] http://www.idhsustainabletrade.com/how-we-work

[55] DFID Guidance Note - The Partnership Principles, March 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358341/how-to-partnership-principles-march2014a.pdf

the value of multi-stakeholder partnerships as well as manage risk while supporting innovation" (Kindornay and Higgins (2013).

The following section maps various commercially-oriented public instruments that have different objectives, rationales and criteria attached to them. It seeks answers to questions such as how different they are in practice, what objectives do they have and what common characteristics do they share in comparison with development-instruments to engage the private sector. Additionally, it considers the criteria and principles that apply to them, potentially one of the concrete differences between the two sets of instruments.

5. Commercially-oriented public instruments

We use the term 'commercially-oriented instruments' here to refer to mechanisms where development cooperation is not their primary focus but rather commercial interest. With these instruments, governments try to promote their own private sector within the EU and beyond by providing companies with support to internationalise and promote foreign trade. Internationalisation beyond Europe at the same time promises European businesses - "over 30 million jobs in Europe are export focused" - to get a share of worldwide growth, of which 90 percent is said to be taking place outside Europe (DG Grow, 2015).

5.1. Commercial instrument objectives

When governments support European businesses, this is done with the aim of creating more favourable export conditions, easier access to foreign markets and better market information. The rationale for companies to engage with such public support programmes lies in the potential to explore new markets or increase the sustainability of already existing business activities in terms of sustainable sourcing or supply chains as well as trade patterns. As a common feature with development cooperation instruments, the private sector is keen on sharing costs, risks and other resources.

There are several more concrete objectives that companies pursue under the umbrella of commercially-oriented public instruments. First of all, companies aim to access initial funding for business activities that might be more risky and which they could normally not afford to conduct. This relates to business interests in foreign direct investment, the objectives of which Dunning (1993) categorises as: market seeking, resource seeking and efficiency seeking. While these are not uniquely defined categories, support must help firms overcome the specifically related challenges, depending on their objective. In general terms it can be useful for companies to use their government's existing structures and networks to operate abroad.

The following two subsections look into some of the policies at the EU and member states levels to provide the policy context, in which commercially-oriented public instruments are used.

5.2. The EU policy context

The EU's recent interest in internationalisation (DG Grow, 2015) and a changing role for the private sector (European Council, 2014; EC, 2014a; Byiers et al., 2014) is closely connected to the issue of productivity and the need for European firms to maintain and improve their competitiveness and key drivers of growth, such as innovation. As research suggests, there is "a strong positive association between internationalisation, innovation, and productivity" (Altomonte et al., 2013). At the same time it proposes “that policymakers should coordinate, if not integrate, innovation and internationalisation policies in order to boost productivity and growth”.[56]

The 2008-2012 EU-funded project ‘European firms in a global economy: Internal policies for external competitiveness’ (EFIGE)[57] for instance found that external competition could decrease trade opportunities if European industry does not make proper use of foreign markets. Hence an EU internally driven strive for competitiveness and innovation to compete in the global arena cannot be separated from the importance to European firms of internationalising in terms of exporting goods or setting up factories abroad. Doing so ultimately affects the investment or export destination countries. Therefore a major implication will be to do that in a manner, which at least does no harm but ideally also creates positive externalities and development in countries beyond Europe.

As expressed in its Europe 2020 strategy, the EU aims to foster growth and jobs while strengthening its industrial base that should be competitive and diversified and offer well-paid jobs, as laid down in the 2014 industrial policy related communication ‘For a European Industrial Renaissance’ (EC, 2014b). Among others it names “promoting access to critical inputs in order to encourage investment” and “facilitating the integration of EU firms in global value chains” as two priorities showing the importance of access to (output) markets beyond the EU.[58] This communication builds upon previous ones from 2012 (‘A Stronger European Industry for Growth and Economic Recovery’) and 2010 (‘An Integrated Industrial Policy for the Globalisation Era’), which both put great emphasis on boosting investments and trade to improve European businesses’ competitiveness and industrial growth. All three policy documents recognise the importance of “supporting the internationalisation of EU enterprise and industrial goods and services” led by the Directorate-General for Internal Markets, Industry, Entrepreneurship and SMEs (DG GROW).[59]

DG GROW has developed a number of support programmes managed by the Executive Agency for Small and Medium-sized Enterprises (EASME). Support programmes include the COSME programme (the programme for the Competitiveness of Enterprises and SMEs), the Enterprise Europe Network (EEN) and the Horizon 2020 SME Instrument. These aim “to promote innovation and entrepreneurship” by providing European companies, particularly SMEs, with possibilities to internationalise, so trade with and invest in foreign countries. Thereby DG GROW ensures a level playing field for EU businesses supporting them in, for example, cooperating with foreign governments (Brazil, China, India, Japan, Russia and the US) “to achieve a greater convergence of the rules affecting global business, reducing barriers and costs and making it easier for European companies, especially small and medium-sized enterprises (SMEs), to do business on an international scale”.[60] It also supports cooperation with regions (the Mediterranean and Eastern neighbours) and international bodies, such as ASEAN and ASEM, in relation to entrepreneurship and policy space. A number of other initiatives exist to support the internationalisation of EU businesses, for example the SME Internationalisation portal, ‘Missions for Growth’, which are strongly related to commercial diplomacy, and the Enterprise Europe Network.

As currently only 13 percent of Europe’s SMEs are estimated to be exporting beyond EU borders while high levels of economic growth are taking place outside the European Union[61], there is thought to be huge internationalisation potential for European SMEs (DG GROW, 2015; DG Trade, 2010). The EU has therefore adopted policies specifically aimed at SMEs, such as the ‘Small Business Act’ (SBA) of 2008

[56] http://www.bruegel.org/nc/blog/detail/article/1284-internationalisation-and-innovation-of-firms/
[57] http://www.efige.org/
[58] http://ec.europa.eu/growth/industry/policy/renaissance/index_en.htm
[59] DG Grow website: EU Industrial Policy http://ec.europa.eu/growth/industry/policy/eu/index_en.htm
[60] DG Growth website: EU Industrial Policy - International affairs
[61] http://ec.europa.eu/growth/industry/international-aspects/index_en.htm#level_playing_field

(EC, 2008) with a SBA review[62] in 2011 to track the implementation of the SBA. "It aims to improve the approach to entrepreneurship in Europe, simplify the regulatory and policy environment for SMEs, and remove the remaining barriers to their development." The SBA review further tries to integrate the SBA into the broader Europe 2020 strategy, of which "six of the seven Europe 2020 Flagship Initiatives will help SMEs achieve sustainable growth"[63]. The SBA is applicable to all European companies with less than 250 employees, which together amount to 99 percent of all European businesses. Besides its priorities of promoting entrepreneurship, a lower regulatory burden and access to finance, the SBA aims to promote access to markets and internationalisation. The SBA Review finds that despite measures implemented by the Commission and EU member states between 2008 and 2010, more needs to be done to "face competition, access foreign markets, and find new business partners abroad".

In addition to the SBA and SBA Review, the EU further stresses the role of SMEs in the 2011 Commission communication[64] 'Small business, big world - a new partnership to help SMEs seize global opportunities'. This aims to establish "a more coherent and effective EU strategy for supporting SMEs in international markets, to propose better ways of offering them relevant information and assistance in their attempts to penetrate new markets and search for the right partners, and thus to make better use of existing resources". It also aims to provide SMEs with better and more easily accessible information on how to expand their business outside Europe, so that European SMEs' economic activities beyond Europe are an essential element of fostering the EU's overall competitiveness and growth. It sets out six fields of action, i) Strengthening and mapping the existing supply of support services, ii) Creating a single virtual gateway to information for SMEs, iii) Making support schemes at EU level more consistent, iv) Promoting clusters and networks for SME internationalisation, v) Rationalising new activities in priority markets, and vi) Leveraging existing EU external policies, indicating how the EC wants to play its role with regard to coordination and governance of SME activities outside the EU to trigger dynamism within the European economy.

State aid rules

The EU *de-minimis* rules[65] on state subsidies has been adopted as a "revised regulation on small aid amounts that fall outside the scope of EU state aid control because they are deemed to have no impact on competition and trade in the internal market". Hence, measures in line with the criteria set out in the regulation are not considered "state aid" and therefore do not need an EC approval before implementation. It exempts aid amounts of up to €200,000 per undertaking over a three year period. The treatment of small aid measure will be further simplified because "companies undergoing financial difficulties are no longer excluded from the scope of the regulation and will therefore be allowed to receive de minimis aid" (EC, IP-13-1293). It covers measures that have "no potential effect on trade and competition". As part of the Commission's State Aid Modernisation (SAM) strategy[66], the Commission further adopted new guidelines[67] on risk financing in 2014 that extend the possibilities for member states to grant aid and broadens the range of financial instruments available. The rationale for this is that "certain SMEs and midcaps, in particular innovative and growth-oriented SMEs in their early development stages, have difficulties to get funding, independently of the quality of their business potential" (EC, IP-14-21). The guidelines also feature a "mandatory participation of private investors tailored to the development stage and riskiness of the company" as to ensure that aid measures attract private funding rather than serves as a substitute.

62 European Commission. COM(2011) 78 final. http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0078&from=EN
63 DG Growth webpage: SBA
64 European Commission. COM(2011) 702 final http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011DC0702&from=EN
65 http://europa.eu/rapid/press-release_IP-13-1293_en.htm
66 "aims at fostering growth in the Single Market by encouraging more effective aid measures and focusing the Commission's scrutiny on cases with the biggest impact on competition (see IP/12/458)"
67 http://europa.eu/rapid/press-release_IP-14-21_en.htm

Cross-institutional approaches

A major challenge to EU approaches to promoting outwards EU investment is the issue of institutional fragmentation when dealing with innovation as an EU policy in relation to trade as well as export promotion. While DG GROW is responsible for innovation policy, trade facilitation is the responsibility of DG Trade and export promotion is conducted at member state level with only little involvement of EU institutions because DG Trade's mandate for the promotion of exports is "rather unclear".[68] Table 6 provides an overview of recent European Commission communications and policies that aim at supporting European businesses to foster their productivity, growth and development in Europe and beyond with the different focuses and institutional responsibilities.

The EC's DG Grow published a 'work-in-progress' overview[69] of EU instruments available to European firms for internationalisation.[70] Its 'cross-Commission' nature with several directorates-general involved shows the increasing relevance of internationalisation for various fields of work of the EC: foreign, industry, trade, investment, innovation, regional and development assistance policies. It provides information on support programmes that exist to assist the private sector in the internationalisation efforts: 1) the COSME programme, 2) the Industrialised Countries Instrument (ICI), 3) its amendment to extend its eligibility to non-ACP developing countries (ICI+), 4) the Partnership Instrument (PI), 5) the European Neighbourhood Instrument (ENI), 6) the Instrument for pre-accession assistance (IPAII), 7) EU Development Policy including the Development Cooperation Instrument (DCI) and the European Development Fund (EDF), both managed by DG DEVCO, 8) Horizon 2020, 9) the Structural and Investment Funds (ESIF), 10) other actions, such as the Export Helpdesk, and 11) the European Investment Bank (EIB).

Table 6: Key EC communications on how the EU supports European firms and their growth

Year	*Scale/scope*	*Title*	*Who*
2010	Domestic/ EU level	Europe 2020 **Goal**: dealing both with short-term challenges linked to the crisis and the need for structural reforms through growth-enhancing measures needed to make Europe's economy fit for the future.	EC
2010	Domestic/ EU level	An integrated industrial policy for the globalisation era **Goal**: to boost growth and jobs by maintaining and supporting a strong, diversified and competitive industrial base in Europe offering well-paid jobs while becoming more resource efficient	DG ENTR[71]
2012	Domestic/ EU level	A stronger European industry for growth and economic recovery **Goal**: to favour a recovery of industrial investments and a reversal of manufacturing's share in EU GDP	DG ENTR
2014	Domestic/ EU level	For a European industrial renaissance **Goal**: to recognise the central importance of industry for creating jobs and growth, and of mainstreaming industry-related competitiveness concerns across all policy areas	DG ENTR
2015	Domestic/ EU level	**A deeper and fairer Single Market -** Upgrading the Single Market: more opportunities for people and business **Goal:** to boost investment, improve competitiveness and access to finance, ensure a well-functioning internal market for energy, reap the	DG GROW

68 http://www.bruegel.org/nc/blog/detail/article/1284-internationalisation-and-innovation-of-firms/

69 Various Directorates-General of the European Commission have contributed to the overview: GROW, FPI, DEVCO, NEAR, REGIO, RTD and TRADE. http://ec.europa.eu/DocsRoom/documents/9334/attachments/1/translations/en/renditions/native

70 This overview can be found on the EU SME Internationalisation Portal https://webgate.ec.europa.eu/smeip/

71 Formerly DG Enterprise and Industry (ENTR) (http://ec.europa.eu/enterprise/index_en.htm archived on 02/02/2015), now Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG Grow)

		opportunities of the digital single market, promote and facilitate labour mobility whilst preventing abuse of the rules.	
2008	Expanding outside the EU	Small business act **Goal**: to improve the overall approach to entrepreneurship, permanently anchor the 'Think Small First' principle in policy making from regulation to public service, and to promote SMEs' growth by helping them tackle the remaining problems which hamper their development	DG ENTR
2011	Expanding outside the EU	Small business act review **Goal**: sets out new actions to respond to challenges resulting from the economic crisis	DG ENTR
2011	Expanding outside the EU	Small business, big world - a new partnership to help SMEs seize global opportunities **Goal**: to provide SMEs with easily accessible and adequate information on how to expand their business outside the EU, improve the coherence of the activities and fill the gaps in the existing services	DG ENTR
		In comparison the EC's communication with a development focus:	
2014	Private sector for development	A stronger role of the private sector in achieving inclusive and sustainable development **Goal**: new strategic framework to ensure that private sector operations in developing countries have a positive impact on society – and particularly women, young people and the poor	DG DEVCO

Additionally, it provides a useful overview of instruments available per region/country (global, Asia, North/South America, pre-accession countries, Africa, Southern Mediterranean, and the eastern neighbourhood), but distinguishing between direct (support to business internationalisation) and indirect support (support for better framework conditions, business environment and information). While direct support instruments fall under this paper's categories of matchmaking services and financial support, indirect support instruments fall more under technical support. Sections 5.4 to 5.6 will look more closely into some of these instruments available to businesses and particularly SMEs.

5.3. Member state internationalisation policies

While there are a number of policy documents and EC communications that set the policy context for business internationalisation at the EU level, EU member states similarly have their own national business/economic development strategies to support own enterprises in their efforts to internationalise.

The UK Trade & Investment (UKTI) department strategy, 'Britain open for business: Growth through international trade and investment', sets out plans to provide practical support to exporters and inward investors over the next five years (UKTI, 2011). This aims at encouraging more SMEs to export by linking them "to trade finance, credit insurance and venture capital".

Germany Trade and Invest, the economic development agency of Germany, for example, promotes foreign trade and investment by providing "information about the world's markets" while its comprehensive information service provides SMEs with "a competent and reliable foundation on which to take the right decisions about how to access these markets".[72] At the same time, it promotes Germany to potential investors and operates the 'iXPOS Foreign trade internet portal' on behalf of the Federal Ministry for

[72] BMWi, Institutions that Promote Foreign Trade and Investment. Germany Trade and Invest: http://www.bmwi.de/EN/Topics/Foreign-trade/institutions-that-promote-foreign-trade-and-investment.html

Economic Affairs and Energy (BMWi) that "ensures transparency in the great diversity of German foreign trade promotion and combines information from more than 70 institutions, organizations and networks".

RVO.nl, the Netherlands Enterprise Agency, aims to improve business opportunities for Dutch entrepreneurs by providing support "with funding, international business partners, knowledge, and regulations".[73] While it supports entrepreneurs in sustainable, agrarian, and innovative business, it particularly aims at promoting international business in emerging markets and developing countries, with support commissioned by the Dutch ministry of Foreign Affairs. It provides information about international markets, governments, trade, and industry so that Dutch enterprises can overcome the challenge of not having the right network but ambitions to expand their businesses.

Similarly, Business Sweden, the Swedish Trade & Investment Council, supports Swedish companies to internationalise and export by providing "strategic guidance and practical support" (but) also to attract foreign investments to Sweden, which brings competence, capital and innovation to Swedish companies".[74] Business Sweden is owned by the Swedish government and the industry, represented by the Ministry for Foreign Affairs and the Swedish Foreign Trade Association, respectively.
The 2012 established 'Team Finland' similarly promotes "the internationalisation of Finnish enterprises, investments in Finland and the 'Finland' brand" by providing information on the opportunities and risks involved in various countries.[75] It further supports Finnish companies through advice and training, financing, networks including business partners and contacts abroad, and visibility through the chance to participate in trade missions and events. It is steered by the Government and the Steering Group for External Economic Relations is chaired by the Finnish Prime Minister, who defines the policy lines for the network's activities.

All of these aforementioned EU Member State initiatives combine elements of financial support, matchmaking services, technical advice as well as information sharing in order to support domestic countries in their ambition to expand, internationalise and foster trade. Often an important reason for companies to seek support is the issue of sharing resources, costs and particularly risk. The latter will be discussed in the following section,

5.4. Match-making instruments

Matchmaking services and brokering links are a means to connect European businesses to other firms in Europe but more importantly for this study, also beyond, with a particular focus on emerging economies and developing countries. A number of EU programmes and initiatives exist that promote the internationalisation of EU enterprises in general and business cooperation in particular.

The EC's DG Grow-led and EASME-managed **COSME programme** provides **matchmaking services** - through its Enterprise Europe Network (EEN), Internationalisation of Clusters, the SME Internationalisation Portal or the Missions for Growth (M4G). These services are combined with assistance to SMEs to **access finance** (the Equity Facility for Growth (EFG) and the Loan Guarantee Facility (LGF)), and to receive **technical and advisory support** (the Intellectual Property Rights (IPR) Helpdesks targeting China, ASEAN and Mercosur countries), discussed in the following sections. An example of a recent COSME agreement is the April 2015 €900 million loan guarantee for French SMEs signed by the EIF, Banque Populaire and the Federation Nationale des SOCAMA (SOCAMA), providing SOCAMA with a counter-

73 http://english.rvo.nl/topics/international
74 Business Sweden: http://www.business-sweden.se/en/about-us/About-Business-Sweden/
75 http://services.team.finland.fi/home

guarantee. It is expect to benefit 30,000 companies in total.[76] Some of the programme's initiatives provide support in one, two or all three categories.

The **European Enterprise Network**, running from 2015 to 2021 with a budget of €49 million per year for EU member states and COSME participating countries, is set up as a one-stop shop helping SMEs to develop their business abroad, including Africa, by providing "services to develop trans-national (EU-wide) and international (beyond the EU) commercial cooperation between SMEs" (DG GROW, 2015). Another important aspect of it is the business cooperation service, the support for SMEs to find suitable business partners. At the same time it offers support to become more innovative as well as services for the transfer of technology, knowledge and research cooperation. Supporting European businesses in global markets offers wide opportunities, since businesses that internationalise their activities "through exports, foreign partnerships, investments and cross-border clustering are more likely to create new jobs and enjoy growth, enhanced competitiveness and long-term sustainability".[77] In line with the Europe 2020 strategy, internationalisation is therefore considered as a key priority for the EU because the internationalisation of SMEs has created around "80% of all new jobs over the past five years and SMEs employ more than 90 million in Europe"[78].

In a similar line, the **SME Internationalisation Portal** provides information for SMEs on hundreds of service providers at all levels - regional, member states and EU - to help SMEs to internationalise. Additionally, "it contains information about relevant programmes in 25 priority third country markets", so that entrepreneurs and SMEs find it easier to conduct information/facts-based business abroad (DG GROW, 2015).

The €19 million **Cluster Internationalisation Programme** for SMEs goes further in promoting 'European Strategic Cluster Partnerships' (ESCP) to foster world-class clusters in all COSME participating countries between 2014 and 2020. Besides supporting European SMEs in global competition, it organises "cluster matchmaking events with clusters from third countries to promote policy dialogues on international cluster cooperation with strategic global partners with a view to facilitate the integration of European SMEs in global value chains" (DG GROW, 2015).

Missions for Growth (M4G) is another approach used for European businesses to accompany the DG Grow Commissioner on visits to third countries to participate in meetings, such as i) with line Ministers to allow businesses "to articulate their concerns on market access and business environment factors", ii) have briefing meetings to acquire information on doing business in a third country, iii) have B2B meetings with businesses from a third country, and/or iv) visits to industrial sites or economic hubs to explore concrete investment and business cooperation opportunities. Normally, these business delegations are attended by on average 60 companies - large ones, SMEs and national/European business associations - with a particular industrial sector focus per mission.[79]

Also under the **EU Horizon 2020 programme** for research and innovation running from 2014-2020 with a budget of almost 80 billion, European businesses can internationalise by partnering with non-European firms and other actors to conduct joint activities related to research and innovation. This could be "accessing facilities, data or services but also integration of technology supply chain" amongst others (DG GROW, 2015).

[76] First COSME agreement in France signed: EUR 900m for French SMEs. Published on: 13/04/2015. http://ec.europa.eu/growth/tools-databases/newsroom/cf/itemdetail.cfm?item_id=8219
[77] http://www.brusselsnetwork.be/eu-news-m/1210-supporting-european-businesses-in-global-markets.html
[78] http://www.brusselsnetwork.be/eu-news-m/1210-supporting-european-businesses-in-global-markets.html
[79] http://ec.europa.eu/growth/industry/international-aspects/missions-for-growth/index_en.htm

To link up business organisations and political communities from both the EU and Africa, the Commission - DG GROW in cooperation with DG DEVCO – has organised **EU Africa Business Fora (EABF)**, to discuss challenges and solutions to develop constructive business cooperation in the future. Since 2006 these Fora also provide space to improve bilateral relations and thereby trigger potentials for development outcomes. While the last one took place during the EU-Africa Summit in April 2014, EU delegations have set up EABF in Ethiopia and Ghana and are planning to do so in Tanzania and Uganda.

At the same time, though being a development finance institution and thus with a development mandate, the **EIB** offers several tools for SMEs and Midcaps to access funding to support their internationalisation activities within and beyond Europe. By providing loans, trade finance guarantees and equity finance SMEs and midcaps are able to export and invest in third countries aiming to combine commercial and development objectives.

Challenges

The challenges of implementing the different commercially-oriented match-making public instruments are not widely shared, making it difficult to assess the success or failure of such initiatives. From discussions with stakeholders, it appears that, compared to more development-oriented instruments, there is less focus on measuring results/impact and attribution. The challenges identified seem mainly to relate to selecting the right companies with the potential to follow-up on business opportunities.

5.5. Financial support instruments

Access to finance is regularly cited as a key constraint to European businesses, particularly SMEs and midcaps, to conduct business operations outside the EU. As discussed already in the previous section(s), conventional commercial banks are sometimes not able to provide funding on pure commercial terms, hence the need for international finance institutions (IFIs) and other lenders, such as export credit agencies, to step in and provide capital.

Under its COSME programme has financial instruments in place - managed by the European Investment Fund (EIF) that offer funding to SMEs. With “a budget of over EUR 1.3 billion to fund these financial instruments” the COSME programme aims “to mobilise up to EUR 25 billion in financing from financial intermediaries via leverage effects”.[80] Within this, the COSME **Equity Facility for Growth (EFG)** is used by the EIF to invest in selected venture capital and private equity funds, which act as financial intermediaries. Funding is particularly provided during SMEs’ expansion and growth stages. “It is expected that some 500 firms will receive equity financing through the programme, with overall investment reaching up to EUR 4 billion.”[81]

The EIF furthers uses the **COSME Loan Guarantee Facility (LGF)** to provide guarantees and counter guarantees to financial intermediaries - guarantee institutions, banks and leasing companies - so that they in turn can provide loans to SMEs. Thus, risk sharing allows those financial intermediaries to finance a broader range of SMEs and broaden the transaction types. “It is expected that up to 330 000 SMEs will receive loans backed by COSME guarantees, with the total value of lending reaching up to EUR 21

[80] http://ec.europa.eu/growth/access-to-finance/cosme-financial-instruments/index_en.htm
[81] http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/cosme_efg/index.htm

billion".[82] For both financial instruments, only "SMEs, established and operating in one or more EU Member States and COSME Associated Countries[83]" can benefit from these instruments.[84]

The **Horizon 2020 SME Instrument** offers businesses up to €2.5 million in funding taking place in three phases and combined with business-coaching "with the aim of transforming disruptive ideas into concrete, innovative solutions with a European and global impact" (EASME Horizon 2020 SME Instrument[85]). While the first two phases provide funding (€50,000 for the first six months and between €0.5 million and €2.5 million in the next one or two years), the second phase is managed in cooperation with the EEN providing additional support and networking opportunities.
Trade finance is largely provided by private banks through the extension of Commercial Letters of Credit, although this is changing rapidly in the wake of the global financial crisis. In Bangladesh, for instance, exporters of ready-made garments, especially SMEs, are starting to bypass the banking system by developing and negotiating trade directly on 'Open Account' terms with their trading counterparts (Bangladesh CI), and DFIs and MDBs are creating Special Purpose Vehicles to support private-sector development by pooling private and public funds. LICs continue to have very limited access to trade finance and rely on AfT finance to build trade-related capacity (ERD, 2015).

Export Credit Agencies

Beyond the provision of finance through these instruments, a specific form of finance for internationalisation is through export credit agencies and Investment Insurance Agencies (ECAs), such as the World Bank Group's Multilateral Investment Guarantee Agency (MIGA). These are designed to facilitate doing business abroad and to promote the domestic export industry through the provision of trade finance for non-marketable risks. Government-backed medium and long-term export credits, guarantees and insurance to private corporations are used to cover transactions with, and large-scale industrial or infrastructure projects in, developing countries, which otherwise bear to high political or commercial risks.[86] Normally, ECAs are governmental or quasi-governmental agencies, such as France's COFACE, Germany's Euler Hermes, the Netherlands' Atradius, and the UK Export Credits Guarantee Department (ECGD), but they can also be private companies insuring on behalf of the government.

The UK Export Credits Guarantee Department (ECGD) supports small and medium sized enterprises by providing "credit guarantee or insurance to protect you against non-payment or other financial issues".[87] The Dutch ECA, Atradius, similarly provides trade credit insurance, surety and collections services so that companies are protected "from payment risks associated with selling products and services on credit".[88] In Germany, Euler Hermes performs a similar role by providing trade credit insurance against commercial and political risks to improve access to funding for business that want to expand their trade activities beyond national borders.[89] Depicting their importance, ECAs are collectively the largest source of government financing for private sector industries: "together with investment and private credit insurers, they have

82 http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm
83 Third countries' participation in the COSME programme, see here: Enlargement countries (Turkey, Serbia, Montenegro, the Former Yugoslav Republic of Macedonia, Albania, Bosnia and Herzegovina), Eastern neighborhood countries (Ukraine, Georgia, Armenia, Moldova, Azerbaijan, Belarus), Southern neighborhood countries (Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestine, Tunisia), and EFTA countries (Iceland, Norway, Liechtenstein, Switzerland)
84 http://www.eif.org/what_we_do/equity/single_eu_equity_instrument/cosme_efg/index.htm
85 http://ec.europa.eu/easme/en/horizons-2020-sme-instrument
86 For more information here http://www.europarl.europa.eu/RegData/bibliotheque/briefing/2013/130583/LDM_BRI(2013)130583_REV1_EN.pdf and here http://epthinktank.eu/2013/06/30/member-states-export-credit-agencies/
87 https://www.gov.uk/government/collections/exporting-find-out-if-we-can-help
88 http://global.atradius.com/corporate/aboutus/credentials.html
89 http://www.eulerhermes.com/products-solutions/credit-insurance/Pages/default.aspx

covered more than GBP 1.2 trillion of global trade in 2011, a record amount of more than 10 per cent of international trade" (Klasen, 2012).

There are two main international disciplines governing export credits (Sohn et al., 2005). One is the Agreement on Subsidies and Countervailing Measures (ASCM), managed by WTO. The other is the 1978 OECD arrangement[90], a voluntary agreement on officially supported export credits regulating ECA activities in order to decrease the risk of trade distortion and export subsidies. Support to companies may be provided in different forms: i) export credit guarantee or insurance (pure cover), ii) official financing support (direct credit/financing and refinancing or interest rate support), or iii) any combination of the above. By the time the agreement has been adopted, subsidised loans for exports have often been perceived as a form of mercantilism. Signatories[91] therefore agree "to maximum loan maturities, commercially-based interest rates and minimum risk premiums for insurance". There is however a growing share of export finance that is not covered by the OECD arrangement (The Economist, 2014). This is because either OECD countries are using instruments not covered by the arrangement, such as floating-rate loans linked to Libor, or the increasing amount of lending happening outside of the OECD, particularly China.

At the European level, Regulation 1233/2011, on the "Application of certain guidelines in the field of officially supported export credits", requires EU member states – and thus their respective ECAs to "comply with the Union's general provisions on external action [Article 21], such as consolidating democracy, respect for human rights and policy coherence for development, and the fight against climate change, when establishing, developing and implementing their national export credit systems and when carrying out their supervision of officially supported export credit activities".[92] The regulation thereby urges member states to "report to the European Commission who in turn report to the Parliament on the extent of ECA compliance", which is considered as an important first step towards increasing transparency and accountability of ECA activities abroad.

Challenges

"Because ECAs use public funds to reduce risks to private investors, they are obligated at some level to play a supportive role in financing sustainable development" (Sohn et al., 2005). Debate exists whether those subsidies are justified as a compensation for a market failure, leading to calls for the reform or even elimination of ECAs (Sohn et al., 2005). Reforms that "ECAs can undertake autonomously" however are constrained by the legal framework - ASCM and the OECD Arrangement - in which they operate (Sohn et al., 2005). The same research suggests that public resources that ECAs use to promote exports have had only limited positive impact on development, which support the legitimate question of "whether ECA reform can increase those agencies' contribution to sustainable development, and whether reform is preferable to the elimination of official export credit supports" (Sohn et al., 2005).

A major argument supporting the existence of export credits is that "any high-minded country that refuses to subsidise exports simply surrenders sales, jobs and income to countries with no such qualms". A major challenge is the fact that resources used to provide the support are raised through distortionary taxes or borrowing that in turn raise interest rates and potentially crowd out private investment. An option to improve the current practice of export credits would be to extend the OECD arrangement to, first of all, cover more types of lending and second extend its scope by more countries signing up to the agreement, as OECD membership is not a prerequisite (The Economist, 2014). But "the Arrangement is criticized as being

90 http://www.oecd.org/tad/xcred/arrangement.htm
91 The Participants to the Arrangement are: Australia, Canada, the European Union, Japan, Korea (Republic of), New Zealand, Norway, Switzerland and the United States. http://www.oecd.org/tad/xcred/arrangement.htm
92 http://www.fern.org/campaign/trade-and-investment/export-credit-agencies

technically complex, thoroughly unfriendly for an outsider, and managed and steered in isolation by a group of experts that only care for their own opinions" though "the Arrangement represents a continuing effort to avoid an export credit race among participants, and in that sense it has thoroughly fulfilled its aim" (Fernández-Martos, 2015).

Research is also critical about the role of ECAs in developing countries, as "export credit guarantees are at the root of most developing country debt owed to European governments" (Brynildsen, 2011). It is argued that "85% of bilateral debt cancelled between 2005 and 2009 were debts resulting from export credit guarantees" suggesting that high amounts of financial aid were transferred to ECAs. They are therefore considered by some to purely benefit rich country businesses while having negative impacts on both a country's development and environment, hence not considering whether useful to the host country at all (Brynildsen, 2011).

ECA reform could consist of two sets of recommendations to increase their development impact. The first would decrease negative impacts on development, based on the 'do no harm' principle, and the second set would increase positive effects on development, the 'do good' reforms (Sohn et al., 2005), as displayed in the following box:

Box 3: A reform agenda for ECAs

'Do no harm' recommendations	***'Do good' recommendations***
● Upward harmonisation of environmental and social standards for all ECAs ● Increased transparency in ECA lending practices ● Creation of grievance/recourse mechanisms at ECAs that have not yet established such procedures or structures ● Adoption by ECAs of a comprehensive agreement on sustainable debt management to better support "Highly Indebted Poor Countries" ● Adoption by national governments of legislation to implement measures to combat bribery and corruption in projects that receive ECA support ● Increased monitoring of the development impact of ECA portfolios	● Invitations to developing countries with significant exports to join negotiations on export credit disciplines ● Amendments to the OECD Arrangement in the form of special sector arrangements, longer terms, increased coverage of local costs, more flexible repayment profiles, and greater flexibility on use of development aid ● Local currency financing ● Bundling of small-scale projects to reduce costs and risk profiles ● Sharing of risks with private financial institutions ● Portfolio balancing of developing-country risks with less risky emerging-market investments ● Monitoring and management of sector exposures

Source: Sohn et al., 2005.

In a recent publication on 'The Future of Foreign Trade Support: Setting Global Standards for Export Credit and Political Risk Insurance', 38 contributions from academics, business and civil society leaders discuss some of the challenges of ECAs by looking at their history, recent developments and their current situation.[93] The fact that "China, Russia or other fast developing countries have now joined the list of top exporting nations" and have set up their own national ECAs means that new guidelines need to be adopted to ensure "ethical trading behaviour" that takes into account human rights and the environment (Klasen and Bannert, 2015). Hence there is broad debate among many stakeholders that argue for rules and regulations at the global level which go beyond the existing legal frameworks of the OECD and WTO, "to maintain a minimum level playing field between the various countries and a pledge of safe growth for everyone" (Laurent, 2015).

[93] Guest edited by Andreas Klasen (Professor of International Business at Offenburg University and Honorary Fellow in the Global Policy Institute at Durham University) as well as Fiona Bannert (Senior Consultant at PwC's Economics & Policy Practice).

Other contributors argue that increased transparency and regular reporting on “sustainability standards, including the compliance management system (CMS)” as well as on “competition and conflict areas related to the application of these standards” are crucial for ECAs to perform their role “as drivers of sustainable development and the reduction of structural deficiencies in global export financing” (von Hauenschild, 2015). ActionAid et al. (2013) come to a similar conclusion by finding that “in the field of transparency and due diligence, Atradius DSB (like other ECAs) performs far below the accepted level of development institutions”. Von Hauenschild (2015) further argues that besides export promotion, ECAs could by continuing to develop standards “assist in improving lasting social structures, environment, human rights and good state governance to the benefit of world trade”.

Since, one could argue that ECAs operate because of their social return, there is a legitimate question of whether they actually do benefit the economy or not. Research suggests that despite an increase of exports of a country after ECA creation, “the positive effect does not last in a longer period of time” while the positive effect is mainly because of direct export credit schemes recognising that “export guarantee is insignificant in increasing exports” (Young In, 2014).

Further, it is important to recognise that the characteristics of firms are very diverse (e.g. large MNCs vs. SMEs), thus the needs of potential exporters can be very different too. As Küblböck and Staritz (2015) rightly point to, “there is no “one” homogenous private sector but different firms with distinct interests”. Flexibility is therefore key for successful government assistance, whatever form (export credits or trade support in more general) it takes, so it must be “reflecting the heterogeneous nature of firms” (Harris and Cher Li, 2005). In addition, the right incentives for firms have to be in place “to adjust to globalisation” and hence “policies that help firms to acquire those characteristics (i.e., absorptive capacity and dynamic capabilities) that lead to higher productivity, and thus the ability to overcome sunk entry costs in international markets” (Harris and Cher Li, 2005). This in turn “benefits aggregate productivity through a reallocation of resources to higher productivity exporters” (Harris and Cher Li, 2005).

5.6. Technical support

Technical assistance and support, advisory services, knowledge sharing as well as policy dialogue are essential support mechanisms for European businesses helping them to conduct business operations in foreign countries. This relates to accessing relevant information, such as country-specific characteristics and legal requirements and standards, to better trained and informed business managers but also to the more general business environment factors. Partner companies in third countries, particular in emerging economies and developing countries, “with the facilitation of donors, can exert leverage on governments to address business environment constraints”, so that doing business is easier and ideally incentivised. This is of course strongly connected to financial support tools, as risk mitigation and access to funding are equally important means for business to flourish.

The EASME’s Horizon 2020 SME Instrument, an impact oriented tool to identify SMEs for grant support and discussed in more detail under the financial support Section 5.5, also offers business innovation coaching for up to 15 days.[94] Besides equipping SMEs with the ability to cope with “challenges such as developing their strategy and organisation”, coaching will provide SMEs with necessary skills to identify their respective markets as well as improve skills to attract finance. “The coaching approach under the SME Instrument is built on a philosophy of ‘sense and solve’”, which means to better understand a company’s context and empowers the management “for handling similar challenges in the future on their own”.[95]

[94] EASME SME Instrument Coaching: http://ec.europa.eu/easme/en/coaching-under-sme-instrument
[95] http://ec.europa.eu/easme/en/coaching-under-sme-instrument

DG Trade led tools, such as the **Market Access Database (MADB)** or the **Export Helpdesk**, are additional tools EU companies can i) use to export on a well-informed basis regarding "customs duties, import formalities, non-tariff barriers in non-EU countries" as well as ii) get information from on EU's import conditions for any type of product. Independent evaluations of the MADB revealed the usefulness of its services to European companies to improve access to global markets.

At the national level, the UKTI international trade services for exporters "provide expert international trade advice and practical support to UK-based companies who want to grow their business overseas".[96] Support packages as well as other support services in the form of digital and online support are provided to first-time exporters (FTEs) and other businesses.[97] According to UKTI's monitoring and evaluation evidence[98], the Performance and Impact Monitoring Surveys (PIMS) reported for support delivered October 2013 – September 2014 "estimated total benefits of £49.7 billion measured in terms of additional (overseas) sales attributed by UKTI trade clients to the support provided" (UKTI, 2015). Hence, evidence based on surveys also suggests that UKTI services do make a difference for the national economy in terms of generating additional income, as there are 23,280 out of 54,190 assisted businesses "expecting substantial growth" and 11,430 businesses "that are new to exporting". For those that "benefit from increased overseas sales", 71 percent of "assisted businesses (are) reporting significant business benefit".

5.7. Sustainability criteria in commercially-oriented public instruments

Similarly to the criteria and principles of sustainability for development-oriented instruments, instruments with a commercial objective also have fulfilment criteria. For the export credit community, in the past these mainly focussed on environmental and social due diligence (Apelman and Olming, 2015) but they "do not capture the risks and opportunities in the business community" today. The United Nations Guiding Principles for Business and Human Rights are applied by "some ECAs" and, according to Apelman and Olming (2015), the "clear distinction between business and government responsibility (...) is particularly helpful and useful for ECAs given their dual role as state bodies, designed to support and interact with the business community in a global context". They argue however that the existing sustainability standards should be "complemented with a more in-depth and tailored analysis" to address risks. They further underline the importance of greater "policy coherence between trade and export finance and other policies on for example human rights, climate change and corruption", so that international agreements can play out their full benefits.

To take an example, the German ECA, Euler Hermes has adopted the UN Global Compact and the OECD Guidelines for Multinational Enterprises.[99] It further has its own Corporate Social Responsibility (CSR) guidelines in place with a focus on health and well-being, financial literacy, environmental protection, and equality and diversity.[100] Atradius Dutch State Business requires exporters to declare to have "taken note of the OECD guidelines for multinational enterprises and will use best efforts to adopt them".[101] The French

96 https://www.gov.uk/government/collections/uk-trade-and-investment-services-for-exporters
97 "UKTI policy is not to increase exports/internationalisation per se, or to increase the number of exporters/internationalising firms, but rather focuses on the market failure argument so allowing more firms to overcome barriers to entry associated with 'failures'. In that sense the policy doe seem to be about promoting internationalisation." (Harris and Cher Li, 2005)
98 https://www.gov.uk/government/publications/technical-note-uktis-monitoring-and-evaluation-evidence/technical-note-uktis-monitoring-and-evaluation-evidence
99 http://www.eulerhermes.com/mediacenter/Lists/mediacenter-documents/CSR-extract-Euler-Hermes-2014-Registration-Document.pdf
100 http://www.eulerhermes.com/group/social-responsibility/Pages/default.aspx
101 http://www.atradiusdutchstatebusiness.nl/dsben/overheidsregelingen/exportkredietverzekering/index.html

ECA, COFACE, joined the UN Global Compact in 2013, thus, "committed to supporting the ten principles of that pact within its sphere of influence, which relate to the environment and sustainable development".[102] The UK Export Finance, operating name of the Export Credits Guarantee Department (ECGD), aims to ensure that projects are "in alignment with international ESHR standards, typically the International Financial Corporation (IFC) Performance Standards on Environmental and Social Sustainability".[103]

As "the leading global organisation for the export credit and investment insurance industry" with 79 members the so-called Berne Union - including ATRADIUS The Netherlands, COFACE France, Euler Hermes Germany, UK Export Finance and MIGA - facilitates "cross-border trade by supporting international acceptance of sound principles in export credits and foreign investment", and provides its members the opportunity "for professional exchanges".[104] It also acknowledges the "opportunities to promote behaviours and practices that contribute to sustainable growth in global economic exchanges" for the benefits of customers, stakeholders and projects but also for the countries where transactions and projects are located. The Berne Union's value statement shows the "commitment to operate in a professional manner that is financially responsible, respectful of the environment and which demonstrates high ethical values" while its members "share" the Guiding Principles[105], such as being "sensitive about environmental issues and take such issues into account in the conduct of our business", which are however not legally binding obligations.

The regulation that established the COSME programme also states that "the principles of transparency and equal gender opportunity should be taken into account in all relevant initiatives and actions" under this programme" while at the same time ensuring the "respect for human rights and fundamental freedoms for all citizens".[106] Within the EU it also promotes "the development of sustainable products, services, technologies and processes, as well as resource- and energy-efficiency and corporate social responsibility". The COSME financial instruments - LGF and EFG - mainly require financial capacity and operational capabilities but also impact in terms of volume and geographical reach. SMEs additionally can only receive support, if they are not "carrying out activities breaching ethical principles or focus on one or more EIF restricted sectors".[107] These sectors are i) illegal economic activities, ii) tobacco and distilled alcoholic beverages, iii) production of and trade in weapons and ammunition, iv) casinos, and v) IT sector restrictions.

Taking the aforementioned criteria into account, commercially-oriented public instruments also appear to include sustainability principles but seem to be following a slightly more voluntary approach rather than being firm criteria to access support. It also seems that those criteria are more directed towards environmental and human rights rather than principles to address developmental and social concerns, such as more and better jobs, inclusive and transformative change, and raising rights and voices of the poor by increasing their opportunity to have a say on the community, local, regional and national level. Obviously in practice those borderlines between environmental and human rights, on the one hand, and development and social concerns, on the other, are often blurred and achieving progress in one or the other area, such as environment, directly and indirectly affects other areas, such as developmental issues. However, the distinction also raises the question of whether commercially-oriented public support instruments can become more sustainable and yield greater benefits for development.

102 http://www.coface.com/News-Publications/Publications/Registration-document-2014
103 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/436270/10417-TSO-UKEF_-Annual_Report_and_Accounts_2014-15-ACCESSIBLE07__2_.pdf
104 http://www.berneunion.org/about-the-berne-union/
105 http://www.berneunion.org/about-the-berne-union/our-principles/
106 http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013R1287&from=EN
107 http://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm

6. Conclusions

This paper provides a mapping of public policy instruments being used to promote trade and investment outside the EU for both development and commercial purposes. In doing so, it aims to identify some of the key opportunities and challenges for using these instruments in a coherent way to promote sustainable and development outcomes. This is especially relevant in the context of the recently agreed 2030 Agenda for Sustainable Development, that requires all countries to be coherent in their policy design in general, while relying on synergies across instruments and areas of cooperation in pursuing sustainable development goals increasingly in partnership with the private sector. Policy coherence for sustainable development (PCSD) implies supporting efforts in one area by actions in another, further underlining the need to find greater coherence and synergy between approaches and instruments used to engage with the private sector. The principle of universality, enshrined in the 2030 Agenda, also puts additional onus on all countries to integrate sustainability dimensions in all their activities, including in their economic diplomacy objectives.

Table 7 summarises the principal commercial and development-oriented instruments used by the public sector to support private actors, as reviewed in this paper, according to the three main categories of match-making, financial support and technical support. In doing so, it highlights the similarities in objective across the instruments as well as their challenges, underlining that differences between the two sets relate largely to questions of degree.

Table 7: Key development-oriented and commercial public instruments to engage with and/or support the private sector[108]

	Development-oriented	**Commercial**
Matchmaking Services	BCtA, GIF, Finnpartnership, NL MF	COSME, SME Internationalisation Portal, Clusters, Your Europe
Objectives	Help companies identify business partners, development of new businesses in developing countries, linking developing country businesses with donor companies	SME competitiveness and assistance to (small) businesses to access new markets through contact facilitation
Challenges	Impact and results measurement, transparency, market distortion	Market distortion, geographical focus of instruments
Financial support	DFIs, AECF, GIF, DeveloPPP.de, IDH/DGGF, Danida BE	ECAs, COSME, H2020 SME, other national trade and export promotion agencies, DFIs/IFIs, such as EIB
Objectives	Encouraging outwards investment to achieve development results by sharing costs, risks and resources; support of early stage activities, encouraging private investments that benefit local economies and the poor, support of pro-poor business models, achieving development impact while	Facilitation of doing business abroad, trade facilitation and export promotion by covering trade and investment transactions which bear commercial, financial or political risk, risk mitigation; accessing initial funding for strategic exploration of new markets or products, principles and guidelines for sustainability

108 Challenges and objectives can be overlapping across both sets of instruments and their different types.

	generating less than a market rate of return	
Challenges	Additionality and results attribution, market distortion, tied aid, impact and results measurement, targeted/eligible companies, management of returnable capital, geographical focus	ECAs effects on debt creation, respect for social, human and environmental rights, management skills/capabilities; heterogeneity of the private sector.
Technical assistance	BCtA, DeveloPPP.de, Finnpartnership	Export helpdesk, H2020 SME, EU MS' support programmes
Objectives	Technology transfer and know-how to achieve sustainable (economic) development, pro-poor design of company's business models, improving financial management, innovation to tackle a specific development problem, enhancing local business competitiveness	Promoting knowledge or technology used by more advanced partner businesses in donor countries, harnessing the development expertise of donors in specific sectors
Challenges	Identifying eligible companies, market distortion, identifying and measuring impact	(Development) Impact measurement

Potential Synergies

The **underlying rationale** for publicly financing private investment and trade is to address market failures, including those related to risk perceptions, by lowering investment risks or the costs to investments. The same rationale therefore underlies the more recent developmental agenda as that underpinning the older agenda on promoting domestic commercial interests.

A key question when looking at the two broad sets of instruments is the degree to which they complement one another. Are instruments for promoting business 'engagement in development' simply a version of commercially-focused instruments, but more targeted at developing countries? The discussion presented here suggests that a majority of commercially-oriented public support to business target Asian countries while many of the development-oriented instruments focus in particular on the African continent. While primary objectives may differ, the underlying reasons - sharing risks, costs and resources - are very similar in both sets of instruments. The development impact should however be of prime importance in the case of development-oriented instruments.

In a world of growing interest and indeed reliance on private sector flows to promote development and increasing alignment of objectives, the similarities and potential synergies between both the *objectives* and the *means* of instruments point to the potential opportunity of combining funds currently channelled through commercially-oriented public instruments to more development-related investments and activities that are more inclusive and to the benefit of poor people.

Similar challenges

While there may be synergies and potential opportunities for combining commercial and developmental approaches to engaging the private sector in developing countries, there are many similarities in challenges faced across different types of instruments.

At a **conceptual level,** both commercial and developmental instruments are under closed scrutiny for being potentially distortionary and risking driving other businesses out of the market. This closely relates to the challenge of being able to identify those businesses that are commercially and financially viable to avoid support that is not sustainable, regardless of developmental or commercial objectives. Certain forms of support also require financial expertise to avoid mismanagement or high administrational costs. This holds particularly true for instruments based on returnable capital, as this is more difficult to manage compared to grant capital for instance.

Criticisms are also levelled at the fact that public money is channelled to firms with weak mechanisms for ensuring corporate social and environmental responsibility despite attached sustainability criteria and principles. These are at times binding commitments but there is often no or only a weak monitoring or follow-up framework in place that ensure adherence to them. Instead, as critics argue, scarce public money should better be channelled to projects and programmes with high social returns, which are unlikely to be (significantly) financed by private sector, as in the case of improved health, access to education or social services. The private sector should be more financially sustainable, able to generate its own resources rather than relying on taxpayers money to conduct its business.

Another major challenge is the limited availability of data and analysis on the effectiveness of public support and partnering with the private sector. This however means that it will be increasingly important to start taking stock of existing experiences to be able to boost development impact. This also relates to information on results and additionality assessments. Here the DCED standard for Results Measurement could be a useful starting point.[109]

Looking at the different types of instruments, challenges for match-making instruments are identifying the right companies as well as being fit for purpose for the variety and diversity of companies it tries to address. Another major challenge is the occurrence of market risks that are very diverse and highly dependent on context and time in the project lifecycle. Hence, matchmaking instruments need to take these into consideration to avoid market risks that put the provided support under pressure or make it even pointless.

Financial support instruments are also criticised for distorting market forces, increasing state (subsidy) dependency and in the case of sovereign lending increasing debt levels in developing countries. The question of 'additionality' (i.e. additional impact generated by the public support) is always present. But in the case of development instruments, it becomes of paramount importance. This relates to the issues of results measurement as well as demonstration effects of impact and success with regard to sustainable development in more general and the respect for human, social and environmental concerns in particular. Another major challenge for financial support instruments concerns results attribution, as sometimes outcomes or achievements cannot easily be ascribed to the public support element, an issue closely connected to the issue of additionality. Similar challenges are faced for technical support.

While similar challenges exist for development and commercially-oriented public support, there are nonetheless some clear distinctions as well. Development-oriented instruments have the primary obligation to demonstrate their contribution to achieving sustainable development, whereas more commercially-oriented instruments are often rather required to do the opposite: proving that there is no harm done to the environment because of their activities as well as that human, social and/or workers' rights are not abused. Further, the discussion on sustainability criteria has highlighted that there is a different focus for both sets of instruments - commercially-oriented ones tend to focus on environmental and human rights criteria,

[109] http://www.enterprise-development.org/page/measuring-and-reporting-results

development instruments rather on jobs creation, inclusive growth and social concerns. Adhering to and seriously implementing these principles into public support instruments and business practices, however, remains a continued challenge for both sets of public instruments.

Identifying challenges as well opportunities in all public support to private sector offers clear windows for change, to find greater synergies between development and commercial objectives and instruments and make public support to the private sector more coherent.

Opportunities

Several opportunities could be seized to improve existing instruments and improve their coherence. New public support mechanisms could more structurally benefit from past experiences. This relates to better results measurement by means of more and better quality data made publicly available and accessible. This data needs to inform about objectives, progress, outcomes and impact. By doing so it will be facilitated to assess the issue of additionality and attribution. It requires however that ministries and public agencies that provide public support are willing to disclose information about where and how public money is spent.

A second opportunity occurs with respect to criteria and principles of sustainability, which, if more coherently applied to all public support instruments, could substantially improve the effect of support mechanisms on developing countries. Despite differing objectives between both sets of instruments, criteria applied to development-oriented instruments could inform commercial ones and vice versa. Doing so could make commercial instruments more development-friendly, increasing their impact on sustainability objectives, while those with a clear development objective could be made more appealing to private sector with greater development impact. While the criteria - besides the primary objectives - seem to make a difference between both sets of instruments, they are simultaneously an opportunity to achieve greater coherence and synergy between the approaches of supporting or engaging with the private sector.

Third, recognition of the need to reform export credit agencies may offer opportunities to better link these instruments not only to reducing harm, but further to more proactively promoting development outcomes. At the same time there are important lessons to be learnt from the management of some of the commercially-oriented instruments for those in charge of development instruments in the ministries and agencies in terms of fund management for instance. If internal financial capacities and capabilities can be enhanced, there is a clear opportunity for being better able to administer returnable capital - loans, guarantees and equity - rather than only grant funds.

A possible step to improve coherence towards engaging the private sector for development could therefore be to focus on better coordinating approaches, explicitly linking trade, economic, development and foreign policy objectives. This should be done with the sustainability objectives as key universal guiding principles. Great attention should be paid to avoid the capture of the development agenda by vested economic interests. This implies addressing questions such as: do economic diplomacy interests capture development cooperation? Are funds primarily aiming at achieving development objectives misused by supporting the domestic private sector? Clearly, opportunities for greater synergies and complementarity for sustainable development can be identified, including by fostering greater policy coherence for (sustainable) development.

This requires dedicated effort towards i) a more coherent application of sustainability criteria to the instruments, ii) better evaluation and learning opportunities of existing instruments and across both sets, and iii) increasing transparency through better access to data and achieved impact and results. The latter could then inform existing ones as well as help to develop new mechanisms to support the private sector for sustainable development.

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Annex I: Overview of the literature

Table A1: Overview of the literature on development-oriented instruments

Author(s)	***Objectives/Observations***	***Main focus/key findings***
Barder and Talbot (2015) *Guarantees, Subsidies, or Paying for Success? Choosing the Right Instrument to Catalyze Private Investment in Developing Countries*	- Looking at productive ways to 'crowd in' private sector involvement and capital to tackle international development challenges	→ Distinguishing between three types of instruments: 1) Guarantees 2) Subsidies 3) Raising returns by paying for success → using either instrument shifts downside risk from private firms to taxpayers, so better paying for success than: - lowering investments risks through guarantees - or costs of inputs through subsidies
Vaes and Huyse (2015b) *Private Sector in Development Cooperation - Mapping international debates, donor policies, and Flemish development cooperation*	- contextualised overview of the recent developments in the international debate on the role of the private sector in development	→ The shifting views on the role of private sector in development are visible in current development discourse, but insight in the scale and the modalities of the implementation on the ground remains limited. → The extent to which donors have explicit, detailed and publicly articulated policies on the role of the private sector varies, as do the underlying rationale or stated eligibility and additionality requirements. → The typology reveals that private sector can be a resource provider as well as a beneficiary of development resources, a target of regulation or campaigns as well as a participant in policy development, and can play an active role in adapting business practices or reinventing business – all of which will have an impact on development.
DCED (2015) *Private Sector Partnerships to promote economic development - An overview of donor funds and facilities*	- overview of major business partnership programmes, including economic or private sector development among their objectives (26 funds and facilities of 15 donor agencies) - overview of key characteristics of partnership programmes	All partnership programmes share the fundamental objectives of encouraging private investments that will stimulate local economies and ultimately benefit poor populations, including through access to better jobs, incomes, good or services → **forms of donor support**: 1) cost-sharing or financial support for private investments in developing countries 2) technical advice to businesses 3) matchmaking services that link companies with donor-funded programmes, implementing partners or more advanced business partners in developed countries
Vaes and Huyse (2015a) Mobilising Private Resources for Development - Agendas, actors and instruments	- mapping and reflecting on different approaches and instruments that official donors use to tap into or activate the for-profit private sector's variety of resources for the pursuit of development goals - agenda for mobilising private resources is about more than just finance: it is about tapping into all possible private resources	Overview of instruments to mobilise private resources grouped by type of obstacle donors attempt to tackle: 1) instruments acting against risk (insurance, credit guarantee mechanisms, currency swaps, safe corridors, etc.) 2) instruments addressing lack of finance (provision of grants, loans, equity and venture capital through different approaches, such as challenge funds, impact investing, PPPs, frontloading of ODA, output-based aid, etc.) 3) instruments addressing lack of information, expertise or connections (intervene through knowledge sharing, capacity building or networking initiatives by matchmaking initiatives, export promotion, capacity building for private actors, policy dialogue, etc.)

		4) instruments addressing loss of profits or competitiveness (standard setting, labelling, and certification initiatives, regulating, piloting and building proof of concept for innovative business models, etc.)
OECD (2014) *Using financial instruments to mobilise private investment for development*	- describes a range of financial instruments increasingly used by public development finance providers to mobilise resources for investment in developing countries	→ focuses on the functioning of: 1) pooling mechanisms 2) guarantees 3) and equity investments, and their potential to mobilise private investment
Bilal et al. (2014) *De-coding Public-private partnerships for development*	- aims to stimulate discussion on partnerships between public and private actors for achieving and financing sustainable development post-2015	→ **partnerships are divided into two broad categories**: 1. partnerships for private investments, where international development partners engage with (international) private sector activities for development purposes, and 2. partnerships to leverage private finance, where the focus is on using ODA to leverage private sector finance.
Hearle (2014) *Understanding EU and European bilateral donor approaches to working with and through business with ODA*	- mapping of current support activities provided by the Netherlands, Germany, Denmark, Sweden and Finland to firms classified as ODA - mapping of different themes providing support to business in the five countries - mapping of institutional arrangements for delivering these schemes - developing a profile of ODA treatment for countries and schemes reviewed	→ structured on a country-by-country basis → description of recent development cooperation policies and attitudes → a list of schemes of business support → presentation of an organisational map illustrating the institutional arrangement for delivering these schemes → data on budget lines to private sector development and ODA expenditure
Lemma and Ellis (2014) *Centrally managed donor funds and facilities to promote business engagement*	- review of 20 centrally managed bilateral donor funds for business engagement - focus on facilities that provide grant, technical assistance, information, training, publicity, 'reputational capital' and similar support - not including instruments that offer financial instruments (e.g. debt, equity investments)	**objectives**: promotion of general business competitiveness, more targeted inclusive business or CSR models or both → some European facilities have a specific focus on linking domestic companies with business opportunities in developing countries **three main types of assistance**: grant (matching) funds, technical assistance, and partnership brokering → other issues discussed: target company scale, levels of management decentralisation, integration with wider market interventions
di Bella, Grant, Kindornay and Tissot (2013) *Mapping Private Sector Engagements in Development Cooperation*	- mapping of how development cooperation actors across the international aid architecture seek to engage the private sector for development - greater clarity on key concepts relating to the role of the private sector in development - report distinguishes between private sector development, private sector in development, and private sector engagements for development	→ **private sector development**: activities carried out by governments, financial institutions, and development organisations to create an enabling environment for business to flourish, including channelling resources to SMEs → **private sector in development**: roles of and activities carried out by the private sector as part of its regular core business operations that affect development outcomes and economic growth → **Private sector engagements for development**: instances when engagement with the private sector goes beyond the traditional impacts of the private sector in development, such as economic growth, job

		creation, and provision of good and services
Callan and Davies (2013) *When business meets aid: analysing public-private partnerships for international development*	- proposal of a new framework for thinking about practical engagement between business and development agencies **5 cross-cutting issues**: - lack of evidence base on impact and cost-effectiveness - relationships between public & private actors need "brokers" mediating - agent selection - interest in and commitment to PPPs fickle at both sides - scope for consolidation of efforts	→ distinction between partnerships that i) increase the development impact of core business activity, and those that ii) contribute to the private provision of public goods 1. the next generation of enterprise challenge funds should be designed on the basis of a broad evaluation of their predecessors and explicit consideration of a set of issues that we identify 2. more effective brokerage arrangements, and some flagships, will be needed in order to expand public-private partnerships for service delivery 3. a comprehensive review of product development partnerships should be undertaken which, among other things, compares them to market-based alternatives
Miller (2013) *What practical approaches/frameworks are there for effectively delivering subsidy to private sector entities for development purposes?*	- to contribute to a practical guidance document for DFID on how to effectively deliver subsidies for development purposes - outline the case for donor support for the private sector, with a description of the areas at which interventions can be made and a summary of the major market failures that donors seek to address in delivering such subsidies	→ case for donor support for the private sector, with a description of the areas at which interventions can be made → summary of the major market failures that donors seek to address in delivering such subsidies → identification of a typology of approaches to delivering subsidies → description of a framework for identifying the appropriate instrument and format of subsidy
DCED (2013) *Donor Partnerships with business for private sector development: what we can learn from experience?*	- to structure partnerships and point to results and 'what works' in practice	→ focus on key issues, such as assessing additionality, measuring partnership results, and achieving better outcomes based on past experiences → partnership means sharing costs, risks and other resources in ventures with both commercial and development benefits → models of partnerships: 1) structured donor mechanisms providing grant support to specific business investments 2) public-private or multi-stakeholder coalitions 3) semi- or non-structured donor-led models 4) other non-structured models (company-led, business-NGO)
Kindornay and Higgins with Olender (2013) *Models for Trade-Related Private Sector Partnerships for Development*	- better understanding of how partnerships with the private sector can be used to support and improve sustainable economic growth outcomes through trade - examination of what different actors are doing in the field of trade-related private partnerships - study of 30 examples of trade-related private sector partnerships	models of trade-related private sector partnerships → 'hybrid development model' (brings together economic, social and environmental considerations and makes business sense for private sector partners) - poverty reduction is just one goal among many - other goals include, for example, commercial viability, securing and diversifying sourcing and environmental sustainability 1) donor-led models (15) 2) coalition models (6) 3) company-led models (5) 4) business-NGO alliance models (3) 5) NGO-led model (1)
Kindornay and Reilly-	- mapping and exploratory	→ Scope and logic of donor strategies on growth

King (2013) *Investing in the business of development - bilateral donor approaches to engaging the private sector*	assessment of bilateral donor strategies on the private sector and economic growth - to identify emerging themes in donor policies around growth and the private sector by comparing and contrasting different elements of donors' strategies	and the private sector → engaging the private sector implementation considerations important take-away: while donors may more or less agree that economic growth is integral to development and that the private sector has a key role to play in growth, the similarities end there
Byiers and Rosengren (2012) *Common or Conflicting Interests? Reflections on the Private Sector (for) Development Agenda*	- overview of recent commitments relating to the private sector and the questions these raise, going beyond the rhetoric to thinking about the practical implications of such engagement	→ useful to distinguish between: 1) "private sector development" 2) engaging the "private sector for development" i) engaging with private sector activity for development through encouraging productive investment ii) using public official development assistance (ODA) to leverage private sector finance.
United Nations Global Compact, Bertelsmann Stiftung and UNDP (2011) *Partners in Development - How donors can better engage the private sector for development in LDCs*	- to explore how donors can effectively support public-private collaboration efforts in order to attract sustainable investments and foster development in LDCs - the paper takes stock of existing donor programs aimed at engaging the private sector in development activities, identifies shortcomings and promising approaches, and offers recommendations on how donor programs can attract more public-private collaborations into LDC environments	→ **variety of approaches in implementing public-private collaboration have emerged over the last decade**: 1. one-to-one approach 2. multi-stakeholder initiatives 3. platforms for achieving global development goals → **private sector contributions**: 1. Provision of expertise, funds, and other resources 2. Purchase and sale of goods and services 3. Implementation of projects, and bringing them to scale 4. Advice to governments and organisations on creating a business friendly environment → **donor programs for public-private collaboration with four types of support**: 1. funding 2. advice and brokerage 3. implementation support 4. policy dialogue and enabling environments
DCED (2010, last updated 2012) *Partnerships and inclusive business - an overview of current work of DCED member agencies*	- to take stock of current public-private development partnership (PPDP) programmes of DCED member and other key agencies relevant to private sector and economic development - overview of multi-donor PPP initiatives vs. individual donor agency PPP mechanisms	PPP mechanisms: 1) mechanisms that help business in finding business partners in development countries or implementing partners for development projects 2) funding mechanisms that provide financial support to companies' investments in development countries 3) programmes that offer technical support to companies 4) public-private initiatives that promote knowledge sharing, policy dialogue or advocacy 5) programmes through which businesses can directly contribute to bi- or multilateral development projects

Table A2. Overview of studies on the internationalisation of businesses and SMEs in particular:

Author(s)	***Aim***	***Main focus/key findings***
DG GROW (2015) Overview of EU Instruments contributing to the internationalisation of European Enterprises	- to clarify the situation and better inform European businesses to collect factual information on the EU instruments contributing to the internationalisation of European Enterprises	→ Access to markets outside the EU is an area of great importance for European industry and SMEs alike and is one of the pillars of the new industrial Renaissance strategy that was endorsed by the European Council in March 2014 → Over 30 million jobs in Europe are export focused and it is estimated that this year **90% of growth will come from outside the EU**
Fritz, Raza, Schuler and Schweiger (2014) *Export Promotion or Development Policy? A Comparative Analysis of Soft Loan Policies in Austria, Denmark, Germany and the Netherlands*	- to assess the relevance of soft loans as an instrument of development policy and finance, respectively, by means of a comparative analysis of soft loan programs of four OECD donor countries	→ soft loans have been an integral part of external and development finance policies → programs show considerable differences in almost all of the dimensions analyzed → three general conclusions on the characteristics of the field of soft loan financing can be derived: 1) the pronounced institutional heterogeneity surrounding the various instruments 2) the hybrid nature of the programs 3) the rather conventional understanding of development in which they are grounded
ECSIP (European Competitiveness and Sustainable Industrial Policy) Consortium (2013) *Study on Support Services for SMEs in International Business*	- Collect the material for a new portal to be developed for EU SMEs seeking support services for internationalisation - Assist with identifying gaps and overlaps in existing support services - to assess the scope and availability of support services for EU SMEs, both inside and in 25 countries outside Europe	→ there is an abundance of support services for SMEs in all countries covered by this mapping exercise → 1,156 support services, which included 734 in the EU-27 and 422 in the 25 third countries → complete range of services for international activities is covered by the member states, including exporting, importing, technical cooperation, setting up a subcontract, and foreign direct investment → Most services have multiple characteristics, mainly non-financial support services
EIM Business & Policy Research with Centre for Strategy & Evaluation Services (CSES) and the European Network for Social and Economic Research (ENSR) (2011) *Opportunities for the Internationalisation of European SMEs*	- focuses on the opportunities for EU SMEs in markets outside the EU and the role of business support for such companies when accessing these markets - looks in particular at the support provided to SMEs in relation to seven key target markets: Brazil, Russia, India, China (BRIC), Japan, South Korea and Ukraine - main objectives of the study are to analyse the market potential for SMEs in the 12 third country markets, and to examine options to better connect European SMEs to these markets	→ important strategic role for the European Commission, particularly with regard to coordination at a European level which could deliver additional value and promote greater efficiency → An existing EU SME Centre could provide the necessary co-ordination by acting as a hub in the target country linking all support service organisations and acting as a more effective counterpart to the measures 'back home' → The range of activities of the EU SME Centre could include: - Direct services - Common services - Liaison with Enterprise Europe Network partners - Co-ordination: acting as the counterpart of co-ordinating bodies at a national level in the EU - Signposting - Efficiency gains: Identifying areas where co-operation between European agencies and authorities can increase the effectiveness of all of them.

About ECDPM

ECDPM was established in 1986 as an independent foundation to improve European cooperation with the group of African, Caribbean and Pacific countries (ACP). Its main goal today is to broker effective partnerships between the European Union and the developing world, especially Africa. ECDPM promotes inclusive forms of development and cooperates with public and private sector organisations to better manage international relations. It also supports the reform of policies and institutions in both Europe and the developing world. One of ECDPM's key strengths is its extensive network of relations in developing countries, including emerging economies. Among its partners are multilateral institutions, international centres of excellence and a broad range of state and non-state organisations.

Thematic priorities

ECDPM organises its work around four themes:

- Reconciling values and interests in the external action of the EU and other international players
- Promoting economic governance and trade for inclusive and sustainable growth
- Supporting societal dynamics of change related to democracy and governance in developing countries, particularly Africa
- Addressing food security as a global public good through information and support to regional integration, markets and agriculture

Approach

ECDPM is a "think and do tank". It links policies and practice using a mix of roles and methods. ECDPM organises and facilitates policy dialogues, provides tailor-made analysis and advice, participates in South-North networks and does policy-oriented research with partners from the South.

ECDPM also assists with the implementation of policies and has a strong track record in evaluating policy impact. ECDPM's activities are largely designed to support institutions in the developing world to define their own agendas. ECDPM brings a frank and independent perspective to its activities, entering partnerships with an open mind and a clear focus on results.

For more information please visit www.ecdpm.org

ECDPM Discussion Papers

ECDPM Discussion Papers present initial findings of work-in-progress at the Centre to facilitate meaningful and substantive exchange on key policy questions. The aim is to stimulate broader reflection and informed debate on EU external action, with a focus on relations with countries in the South.

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