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A new development era? The private sector moves to the centre

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Executive summary

The last few years have witnessed the emergence of a loose but potent assemblage of ideas that have all but supplanted the recent "aid effectiveness" agenda. "Development effectiveness", to use a term that became popular at the 2011 Busan High Level Forum on Aid Effectiveness, recentres economic growth as the principal engine of international development and foregrounds the private sector as the central driver of this growth. The concerns of good governance, social welfare and poverty reduction are not going to disappear, but their place in the sequencing and focus of many development actors and institutions is changing. Intertwined with this process is the rearticulation of foreign aid (official development assistance) as a catalyst for development, and the growing use of "blended" public and private finances to support investment and growth. If this growing trend in international development thinking and practice is to have genuine development outcomes, then (1) private-sector-led policies and programmes must actively engage with win-lose scenarios and not just assume win-win scenarios; and (2) the quality and not just quantity of economic growth must be supported by the articulation of clear and credible principles, institutional structures, and appropriate metrics and incentive mechanisms, and not simply aspirational statements.

Introduction

The benefits and opportunities that can accompany economic growth are indisputable: across the world, most poorer people desire and/or need more jobs, higher incomes, financial inclusion, and access to affordable and appropriate goods and services. Economic growth is a necessary, if not sufficient, condition for this to happen, and the private sector is unquestionably a particularly important actor in the provision of many of these elements of a dignified life, while also being an essential component of a healthy polity and society.

The private sector has, of course, always played a role in development thinking and practice: from its inception, the post-1945 development industry has worked with and through private-sector firms. This relationship is not new, then, but in the last few years it has grown significantly (Bracking, 2009). Perhaps more importantly, the "narrative" about the relationship between the private sector and development has shifted in qualitatively significant ways (Eurodad, 2013).

This report sets out a critical assessment of these trends and patterns. While attempting to address a spectrum of issues and viewpoints, it will present two cardinal arguments. Both centre on a strong critique of the uncritical and normative assumptions that are circulating in many institutions and policy/operational documents about the private sector, economic growth and international development.

1. As bilateral and multilateral development institutions seek to integrate the private sector more formally into international development programmes and agendas, their starting point must be to acknowledge and build in responsiveness to the inherent tensions and conflicts among different stakeholders – governments; consumers; citizens; rich and poor; multinational corporations (MNCs) and micro, small and medium-sized enterprises (MSMEs); the formal and informal sectors; small and large farmers; and so on – rather than just assume largely shared interests and outcomes (Blowfield & Dolan, 2014). Alignment and mutual benefit are evidently both desirable and achievable in some contexts, but when conflicting interests cannot be

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avoided, compromises and trade-offs must be acknowledged and expected in development processes rather than glossed over or ignored. At present, too much official discussion is couched in simplistic assertions of win-win scenarios and mutually beneficial "partnerships", with insufficient attention to win-lose scenarios.

2. The "connective tissue" between economic growth and development must be actively probed and assessed, and not assumed to be automatic, linear or simple. In promoting the agency of the private sector in development policy and practice, organisations must ask critical questions about the nature of both the private sector and economic growth, focusing on such issues as where and for whom they create winners and losers, and with what implications for poverty reduction, (in)equality, ecological sustainability, climate sensitivity, gender and ethnic relations, partially capitalist societies and cultures, and so on. In other words, what sort of private sector activity leads to what sort of growth? Astonishingly, some current debate appears to regressively collapse and conflate "economic growth" and "development". More insidiously, where more considered statements are made about supporting inclusive growth – as is very often the case – all too often they are not supported by clearly articulated visions and principles, sufficient incentives, effective institutional structures, appropriate regulatory or oversight mechanisms, or acceptable levels of monitoring and accountability. This leaves the connection between growth and development in the realm of warm words and high-sounding aspirations.

The principle upon which both of these arguments rest is that all "development" necessitates political and not just "technical" choices: for example, in terms of winners and losers in particular projects (e.g. road or dam building, the spread of agribusiness, the formalisation of tenure, privatisation programmes, etc.); the appropriate balance of responsibilities between the public and private sectors (e.g. who should provide basic services; how the costs and benefits of public-private partnerships (PPPs) are distributed); or how the private sector is embedded in the economy (e.g. rates of corporation tax, whether there should be a minimum wage, the legality of trades unions, etc.). Stiglitz (2014) points out that in the U.S., 95% of the gains of the post-2008 "recovery" have gone to the top 1% of wealthy individuals, with extremely deleterious results for the economy, human development, and social and political stability. It should not need to be said that economic growth does not automatically produce just or sustainable development. The current turn to a new narrative of economic growth, in which the private sector will play a defining role, must actively and honestly engage with this reality, i.e. with both political and technical choices that need to be made about the nature and shape of economic growth.

To deploy a British idiom, this isn't rocket science. Indeed, to insist that private-sector-led development will not always produce win-win outcomes and that economic growth does not equate to "development" seems rather insulting to the intelligence of most readers. Unfortunately, a review of the existing literature reveals that these axioms are too often not understood, ignored or suppressed in various official development institutions and forums when it comes to the emerging private sector-development (PSD) relationship.

Recentring economic growth

International development constitutes a complex mosaic of highly diverse actors, modalities, interests and values. While generalisations are possible, it should go without saying that at no point have the dominant norms or governance regimes of different periods been fully recognised, adopted or honoured by all international development actors; and all are shaped by contingent circumstances, context, and complex interests and agendas. With this in mind, the following offers the briefest possible chronology of post-1945 development eras.

As a very simple schematic, during the 1950s-70s the cold war and colonial/post-colonial geopolitics dominated the allocation and agendas of foreign aid. The principal cold war actors and their satellites provided various forms of development cooperation to solicit and maintain diplomatic solidarities; to support economic growth; and in some cases to subvert movements, parties and nations seen as hostile. The dominant development ideology was couched in capitalist and socialist versions of modernisation theory, which envisaged the full-scale transformation of economies and societies towards the urban, industrial, scientific models provided by the West and the Soviet Union. The state, to different extents and in different ways, was understood to play a central role in planning, financing, and executing economic growth and modernisation strategies.

The 1980s-90s witnessed the emergence and consolidation of a second broad development era, one that both reflected and helped produce neoliberal globalisation. Over the 1980s the Soviet Union and its allies had retreated from international development as a foreign policy tool, and by the 1990s they were repositioned as recipients rather than drivers of international development. Together with Africa, Asia, the Caribbean, South America and the Pacific region, they were subject to the structural transformations associated with the Washington Consensus. State-led development was now anathema, and a triumphant and powerful coterie of Western and "international" development actors imposed deregulation, privatisation and economic restructuring across the world. Getting markets "right" was the formal objective of these policies, with the stated expectation that this would liberate individuals, communities and nations to flourish. National political and economic elites often supported and invariably profited from these transformations, playing a role in successfully and less successfully transmitting them into domestic economic and social "reforms".

By the mid-/late 1990s internal and external critiques of the Washington Consensus led to some blunting of the hard edges of market fundamentalism. Functioning institutions were belatedly recognised to make up the essential fabric of healthy markets, allowing pared-down states to be reconfigured as partners and providers of the public goods required for successful economies. In the late 1990s/early new millennium a set of circumstances, actors and trends started to converge around the concept of "aid effectiveness", launching a new phase of neoliberal global development (Hulme & Fukuda-Parr, 2009). Driven by the United Nations (UN) in particular, but also the Organisation for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC) and their key individual member states, and with the support and activism of celebrities, civil society organisations (CSOs) and (some) publics, the aid effectiveness agenda aimed, in theory, to finally make aid work for the poor. The central analytic was poverty reduction, which differentiated it from past eras, in which poverty reduction was (expected to be) a residual outcome of economic growth. While more aid was one feature of this paradigm, the conceptual centre of the last 10-15 years of international development thinking has concerned the quality of foreign aid and international development efforts. Key principles included country ownership, alignment (between donors and recipients), harmonisation (between donors), results-based management and mutual accountability. Sectoral preferences inclined towards good governance (the "soft wiring" of development) and human development (health, education, gender, financial inclusion, etc.), and allocations proportionately drifted away from agriculture, energy and infrastructure. The development mosaic became more pluralised, with recipient countries, South-South donors and development partners, CSOs, independent foundations, faith-based organisations, the private sector, and arguably ordinary people (primarily through the medium of remittances) increasingly able to exert their presence in development dialogue and policy directions.

In late 2011 Korea hosted the Fourth High Level Forum on Aid Effectiveness in the coastal city of Busan. This was scheduled to be the next landmark in the evolution of the aid effectiveness agenda, following meetings in Rome (2003), Paris (2005) and Accra (2008) to assess, consolidate, and progress aid effectiveness principles and operational practices. Instead, however, the meeting sounded the muted but effective death knell of the aid effectiveness agenda. With the exception of certain "recipient" states and civil society actors (in other words, the weakest actors in this diverse assemblage) who sought to keep it on the table, the term was dropped in favour of the new buzz word "development effectiveness" (Mawdsley et al., 2014). There is no agreed consensus – or indeed attempt to formally define – what this might mean, but it appears primarily to refer to a recentring of economic growth as the central analytic of international development. While "growth" had always been a goal of the aid effectiveness regime, there was a sense that it had been rather eclipsed by the direct focus on poverty reduction. "Development effectiveness" thus restores economic growth to the central role it has occupied through most of the post-1945 development era(s), while poverty reduction returns to a position of following rather than leading economic growth.

Intertwined with this emerging agenda has been the reconceptualisation of official development assistance (ODA) ("foreign aid"), which has been increasingly positioned as a catalyst to wider development flows and processes rather than in and of itself funding development interventions (Kharas et al., 2011). Other forms of "development financing" are expanding (see below), many of which offer considerably higher direct returns and benefits to donors. Attention to good governance and social well-being will persist, but it was clear that the majority of the powerful actors at Busan – notably multilaterals, Northern and Southern bilaterals, and the private sector – were in favour of a shift towards the "productive" sectors, especially transport infrastructure, energy generation and transmission, agricultural and extractive modernisation, and private-sector(-led) development. Before turning in more detail to the latter, the final question for this section is, what prompted this shift?

As noted above, a confluence of events, individuals and institutional agendas converged in the late 1990s to create a "policy window" through which the aid effectiveness agenda emerged and consolidated in the early new millennium. The stability and coherence of this (or any other) "development paradigm" should not be overstated, but the "aid effectiveness agenda" had leadership, institutional traction, a set of formal (if soft) targets and apparent support from a broadening spectrum of development actors. A number of factors contributed to its evaporation. Firstly, the aid effectiveness agenda seemed to be stalling: targets were not being met, it was proving to be expensive and a number of donors in particular fell short of their commitments. Secondly, the rapid rise of the BRICS and other dynamic Southern and Gulf economies had a profound impact. Western governments and their private sectors faced a growing and alarmingly effective set of competitors for markets, resources, investment opportunities, trade and diplomatic allegiances. In combination with the 2008 financial crisis (see below), this has certainly acted as one motivation to pursue greater economic self-interest through development policies and spending. Recently, for example, Justine Greening, the secretary of state for Britain's Department for International Development (DFID) stated that "The Chinese government has invested [in Africa] and its time that the British government makes sure that we're helping British business have that advantage [too]" (MacLean, 2013).

Meanwhile, development professionals were waking up to the popularity and often success of South-South development cooperation approaches, which tend to eschew good governance and policy conditionalities, engage with social development, but focus above all on stimulating and

supporting economic growth and modernisation (Mawdsley, 2012). In addition, the "rise of the South" gave increasing weight to those who questioned the legitimacy of the OECD-DAC-led aid effectiveness agenda. Finally, the global financial crisis that started in 2008 led to a contraction in ODA budgets for most "traditional donors", and a decline in public and political support.

By the time of the 2011 Busan High Level Forum, these and other factors had shaped a space in which the new set of narratives about "development effectiveness" emerged, while a genuine assessment of the shortcomings and – indeed – successes of aid effectiveness were quietly smothered. The global development community had moved on, as it so often does, without a critical backward glance to embrace the next era, the next round of "trust us, we know what we're doing". At the centre of this new narrative is the private sector – as Kindornay (2012) describes it, the next "donor darling".

Definitions

There is no single definition of the private sector. Here we follow Di Bella et al. (2013), who limit private sector actors to those who have profit seeking as their core mission and strategy. They can provide goods, services and/or commercialisation, and include MNCs, MSMEs, financial institutions and intermediaries, cooperatives, individual entrepreneurs, small and large farmers, and so on, across the formal and informal spectrum. This definition excludes independent foundations, business associations, non-governmental organisations (NGOs) and other CSOs. However defined, the "private sector" evidently constitutes a huge array of actors that occupy vastly different spaces and scales around the world, and which, aside from their shared profit orientation, are profoundly differently embedded in different economies, labour regimes, tax and regulatory environments, value systems and so on. While this reality necessarily inflects any analysis with considerable complications, it should not be a contentious observation, or one that is easily overlooked. Oddly – and very problematically – many analysts identify just such an inattention to private-sector diversity within the burgeoning initiatives under way, which is discussed in more detail below.

The North-South Institute has produced a series of insightful and well-researched papers on the private sector and development.[2] For greater analytical clarity, they propose the following distinction:

1. *The private sector in development*. This refers to the role that private-sector actors play as a result of their regular business and functioning that impacts on the general conditions of the economy and society. This includes their roles in job creation and losses, labour conditions, the provision of goods and services, their contributions to the tax base, their impacts on the environment, and so on. Corporate social responsibility initiatives, voluntary agreements on labour and environmental standards, and so on, are among the ways of improving the private sector's role in development.

2. *Private sector development*. This refers to the intentional promotion of the private sector by development institutions and initiatives. It might include providing investment, or encouraging a "business-friendly" environment in recipient states.

3. *The private sector for development*. This refers to active partnership with the private sector to achieve development goals. Here, private-sector firms are more formally enrolled by official international development actors to become agents of "development" in a way than extends beyond their regular presence and functioning. Di Bella et al. (2013) categorise this spectrum of these more active partnership modalities as follows:

- the involvement of private-sector representatives in high-level policy dialogue;
- knowledge sharing with other development actors;
- technical cooperation;
- capacity development;
- providing grants and donations to development causes (i.e. no repayment requirements); and
- providing development finance (i.e. loans, equity financing, insurance and other forms of repayment financing).

Different parts of the development architecture offer a different blend of possible interactions: the international finance institutions will differ from, for example, a UN agency, international NGO or bilateral development agency. Naturally, too, the nature of a particular firm will also shape its interests and capacities in partnering in particular ways. Di Bella et al. (2013) very usefully map this spectrum of possible private sector-development relationships. As we will see in the next section, it is this third association – the private sector for development – that has become the object of debate and many current initiatives.

Tracking the growth of the private sector -development relationship

The private sector has always been an object of and partner in "development" (Bracking, 2009). Most recently, for example, the "aid effectiveness" paradigm actively sought to work with and through the private sector to improve development outcomes (Nelson, 1996, 2011). This took the form of encouraging and facilitating a series of voluntary agreements (e.g. the UN Global Compact, launched in 2010), creating certification schemes (such as the Kimberley Process and Equator Principles), financing the private sector in lower- and middle-income countries (e.g. through the World Bank's International Development

2 Available at <http://www.nsi-ins.ca/private-sector-partnerships-for-development/>.

Association, or DFID's Commonwealth Development Corporation, both of which date back decades), and inviting representatives from the private sector to join global and national development policy forums and dialogues. At Busan, for example, major private sector companies – extractives, consultancies, biotech companies, pharmaceuticals and so on – were a significant presence.

What has been different and distinctive over the last few years is the acceleration of interest in and by the private sector in international development; the growing formation of more active partnerships, in which private-sector actors are invited not just to be the targets or vehicles of development, but its agents; and a context within which economic growth strategies are becoming more prominent. A report by the CSO Partnership for Development Effectiveness demonstrates falling ODA figures, in which a higher allocation is going to infrastructure and the "productive" sectors rather social infrastructure, and "Aid for Trade" is becoming the largest single component of OECD-DAC donors' combined ODA. The share of loans is growing at the expense of grants, and many donors are channelling an increasing proportion of their ODA budgets through private firms, notably the financial sector (CDPE, 2013). A few examples give a flavour of the quantitative and qualitative expansion of the relationship. At the policy dialogue level, this includes:

- the Business Call to Action programme, launched at the UN in 2008, and headquartered at the UN Development Programme;
- the "Bilateral Donors Statement in Support of Private Sector Partnerships for Development" released at the 2010 UN Millennial Summit;
- the UN Partnership Facility, launched in 2012, which, together with other actors, seeks to partner with private-sector organisations to raise funds for UN activities, but also to bring the private sector into the heart of UN policy discussions;
- the establishment of the Istanbul International Centre for Private Sector in Development in 2011. Its aims are (1) advocacy and public-private dialogue on the role of the private sector in development; (2) research, knowledge development and management to promote state-of-the-art private-sector activities and good practices; and (3) the capacity development and training of various stakeholders; and
- the specific representation of the "private sector" on the Steering Group of the post-Busan Global Partnership for Effective Development Cooperation. Kindornay and Reilly-King (2013) note that trade unions have nowhere near the same voice, being included with "civil society" and thus grouped with a much wider range of actors.

One particularly interesting area is the growth of development finance institutions (DFIs) (Kwakkenbos, 2012) that organise their investment facilities and capital as "blended mechanisms", often bringing together donor grants and loans (ODA) and investment guarantees with private resources from the corporate and financial sectors (Reality of Aid, 2012). Many have existed for some time – decades in some cases – while others are more recent creations. The overall trend, though, is a substantial growth in their funding, their visibility and their potency in the international development architecture. The Reality of Aid Coordinating Committee (Reality of Aid, 2012: 12) calculates that globally, the scale of DFI operations has rapidly expanded from about $40 billion in 2010 to an estimated $100 billion in 2015. Many tend to work through financial intermediaries (FIs) such as private equity funds, sovereign wealth funds and hedge funds. Examples include:

- The Belgian Investment Company for Developing Countries (BIO): this has been subject to strong critical scrutiny and appears to represent a good example of many concerning aspects about current DFIs (Van der Poel, 2012). Detavernier et al. (2012) report that donor investment in private-sector development has grown sharply in Belgium, from €44.6 million in 2008 to €123.6 million in 2011, almost all of it soaked up by the BIO. These and other authors strongly criticise the organisation for, among other things, its unequivocal focus on financial returns and limited development/ poverty reduction outcomes.
- Eight "loan and grant-blending facilities" have been established by the European Commission since 2007, including the Infrastructure Trust Fund and the Latin American Investment Facility (Sandell & Hernández, 2012). The European Union (EU) is a particularly active exponent of blended financial instruments as channels of development financing (Griffiths et al., 2014).

These constitute perhaps one of the most interesting and important elements of the broader phenomenon. Ideally, in circumstances of very considerable investment shortfalls, they provide sorely needed capital to firms and local and national governments that otherwise struggle to raise sufficient finance. In poorer countries especially, where risks and startup costs may be higher, the increasing number and rapidly growing capitalisation of DFIs might well constitute a positive direction or trend in international development. However, they are also one of the most controversial dimensions of the growing turn to PSD, as we will see later in this report.

PPPs are one particularly attractive modality for many donors, government partners and firms, and limited evidence suggests that ODA budgets are funding an increasing number of such partnerships. A full assessment of the strengths and weaknesses of PPPs in principle is not possible here, but specific case studies do suggest caution from a developmental impact (but not necessarily profitability) point of view. Tanglao's (2012) detailed deconstruction of Metro Manila's Rail Transit system privatisation under a PPP reveals that ensuring investor confidence in the scheme's rate of return was given priority over other considerations (such as the affordability of ticket prices). Private-sector initiatives have to return a profit, of course, but in this case public money (ODA) that is intended to have

"development" outcomes was used to leverage higher rates of profit for investors in the PPP, while poorer Filipinos paid the cost.

Many bilateral development agencies are issuing extremely optimistic and positive assessments of the multiple ways in which inserting the private sector into the heart of international development can lead to effective development outcomes. Most, if not all, are now adjusting their internal structures to create new economic growth and/or private-sector sections, new and/or changing budget lines towards private-sector initiatives, and new mission statements and operational principles. Subsequently different development agencies differ in their assumptions about the appropriate role for the private sector in development, and in the balance between their own and/or partner country private-sector actors, target sectors, target firms (e.g. MSMEs/MNCs), and so on. A study by Kindornay and Reilly-King (2013) of OECD-DAC bilaterals demonstrates the universal turn to the private sector and the considerable spectrum of approaches taken – at least in terms of official policy – but with less certainty about practices. A detailed analysis by Reality of Aid (2012) provides a large number of country studies that capture the shared and diverse dimensions of how different actors – from both the North and South – are integrating the private sector into their official development policies. For example:

- Canada has been a leading exponent of the shift to PSD, with 2012 a pivotal year, when it released a new Private Sector Strategy (Reilly-King, 2012). Reilly-King (2012) observes that the Canadian International Development Agency's (CIDA) private-sector engagement is not new, but in the last few years it has become "a defining force" in Canada's development profile and strategies. This is closely intertwined with a renewed focus on ("sustainable") economic growth as a key CIDA mandate. Like a large number of other analysts, Reilly-King (2012) expresses concerns about many assumptions and omissions in this strategy. He notes, for example, that whereas in 2003 CIDA's private-sector policy included a commitment to decent jobs, support for the local private sector in partner countries, and sustainable livelihoods, current initiatives are far more explicit about Canada's national economic interests and its own domestic private sector.
- Australia has launched a new Private Sector Development Strategy and is one of the OECD-DAC donors that has most comprehensively reoriented its international development structures, budgets, and mission statement towards an economic growth model of development, allied to the clear and explicit pursuit of national self-interest (Parfitt et al., 2012).

Finally, this is, of course, not a one-way street. Many private-sector firms, some of which have long-established relationships with the international development sector and others that are newly interested in these emerging spaces of partnership are actively pursuing the options open to them (Lucci, 2012). Active partnerships with the international development industry can help them shape global and national regulatory environments in ways that suit their interests, access financing, create competitive distinction through building "green" or "ethical" reputations, build better relations with suppliers, and increase and expand access to customer bases (Di Bella et al., 2013), notably at the "base of pyramid" and in emerging and frontier markets. Priorities and possibilities depend on their locations, products, size and so on. Different companies will have different capacities and interests in engaging in policy dialogue, knowledge sharing, technical cooperation, capacity development, providing grants and donations, or supplying loans and other forms of financing – to use the categories set out by Di Bella et al. (2013). McKinsey, Unilever and PricewaterhouseCoopers are prominent examples of large MNCs responding actively to these emerging opportunities, but in theory, of course, this might stretch all the way to a tomato trader in Accra's central market or a Vietnamese fish-processing firm.

What does the private sector for development achieve?

The key claims (which of course are not uncontested) for the private sector as an emerging development partner are:

- The private sector is leaner, more competitive, more efficient and thus more effective.
- It is more innovative, and is thus more likely to find sustainable development solutions.
- It has an energy and dynamism that are lacking in large development bureaucracies.
- It has a strong knowledge of and responsiveness to its customer base, including the "base of the pyramid".
- It can provide substantial additional finances.

As well as these "active" roles the private sector might play, the aim is to encourage positive outcomes in core functioning, such as corporate social responsibility and voluntary compliance with national and international charters, certification schemes and standards, and so on.

This emerging narrative about the value and centrality of the private sector is framed by a larger reappraisal of aid and development:

- The old model of ODA has too many failures, is expensive, and is increasingly unpopular with donors, publics, and – indeed – some recipients.
- Investment, production and trade are essential components of economic growth, which is in turn essential for development.

To domestic audiences especially, politicians and business leaders are clear about this new approach:

- "Traditional" donors can and should support their own private-sector enterprises, as well as those in partner

countries, in what are win-win relations for poorer and richer countries: it is proper and possible to "do good by doing well".
- Working with the private sector will ensure greater value for money and development effectiveness.

Many of the current discussions, policies and programmes actively voice a set of qualifications that should ensure the pursuit of inclusive growth, i.e. that they should:

- support MSMEs, i.e. the "missing middle" of economic profiles in many poorer countries, which have very high potential for local employment;
- support women entrepreneurs, given the bigger hurdles they may face in raising capital and their capacities to build businesses, and given assumptions about the knock-on benefits of greater female empowerment;
- support the private sector of partner countries and not just that of donor countries;
- reduce the use of financial intermediary organisations (e.g. hedge funds, private equity schemes, etc.) domiciled in tax havens; and
- promote an agenda of decent jobs and environmental sustainability in private-sector functioning.

As we will see, however, at present there is considerable suspicion that these desirable qualifications are voiced, but not structurally embedded in policies and programmes.

Assessing the role of the private sector for development

These recent trends and initiatives have been subject to a variety of reviews. Some are internal (e.g. from the World Bank's Independent Evaluation Group and Britain's Independent Commission for Aid Impact), some come from "friendly critics" (e.g. the North-South Institute and Eurodad) and some come more committed critics (e.g. the Bretton Woods Project), and they obviously represent a variety of standpoints and priorities. The following concerns and criticisms emerge from this literature:

- *Weak policy statements/vision documents*. Di Bella et al. (2013) and many other analysts provide compelling evidence of the limited public articulation by donors of their private-sector policies, goals and underlying assumptions. Without a clear statement of purpose, and a detailed and credible discussion of the links among the private sector, economic growth and development, it is less likely that these emerging partnerships will work effectively and genuinely in the interests of development.

- *The gap between those declarations that do exist and practices* (Kindornay & Reilly-King 2013). At present, although a large number of development agencies state the importance of supporting "inclusive growth" (through MSMEs, partner country private sectors, and so on), the evidence appears to suggest that it is the more powerful countries, especially middle-income countries, and large companies that are doing best out of these expanding activities. Interestingly (and relevant to the following point), current OECD-DAC data coding does not discriminate between more or less progressive forms of PSD, undermining monitoring and target setting.

- *Lack of transparency and accountability*. Currently, many emerging initiatives do not have sufficient monitoring and accountability mechanisms built into them, while even if they do, a critical information deficit means that external scrutiny is severely hampered. One reason for this is that the private sector and the growing private sector for development instruments, policies and programmes do not fall under development laws in many countries (e.g. Mexico, Belgium, etc.). On top of this, commercial confidentiality is often invoked to limit scrutiny. For example, a Eurodad (2013) report on EU blended finance refers to the amount of information available on the EU's new development investment facilities as "scandalous".

- *An official or tacit focus on donor private sectors at the expense of the domestic private sector of recipient/partner countries*. Even those donors who explicitly commit to support recipient-country private-sector development and partnerships seem to show a tendency to favour national firms. Other donors very actively assert their intent to support their own private sectors in their development activities (e.g. Australia, the Netherlands, Canada, etc.).

- *Insufficient conceptualisation of or evidence for positive "additionality"*: i.e. whether or not private-sector partnerships have enhanced the scale, scope or speed of development; brought about change in long-term business strategies; or achieved results that would or would not have happened anyway (Heinrich, 2013). This raises the question of whether public funds are being effectively deployed.

- *Too much emphasis on safe returns and business as usual, and not enough on the development outcomes*. The planned or unplanned outcome of institutional structures and incentives that reward economic return rather than development metrics means that decision-makers (public and private) are more likely to end up in less risky and more profitable places, partnerships and sectors, which constitutes a questionable use of public money.

- *DFIs and FIs that make use of tax havens and heavily compensate their managers and shareholders with public money.*

- *The dangers of shifting from grants to loans for low-income and middle-income country firms and governments*, leading to potentially unmanageable debt, as well as greater exposure to exogenous shocks and speculative capital flows (Kwakkenbos, 2012). A report

by Jubilee details the dramatic rise in private-sector debt in low-income countries and sovereign debt for a number of middle-income countries in particular (Jones, 2012).

- *Lack of formal grievance procedures for those who are negatively affected by PSD-led projects and programmes* in a context in which national governments and civil society structures may be relatively weak in terms of their ability to hold the private sector to account (Masagão-Abong et al., 2012).

- *Limited country ownership/policy space and*, related to this, the weak or absent alignment with any of the principles of aid effectiveness. Sandell and Hernández (2012), for example, observe that the governance structures of many DFIs have little if any representation for recipient/partner governments embedded in their various financial instruments.

There are, of course, better and worse examples. More positive examples include Germany, which is one of the few donors to explicitly recognise that choices about the role of the private sector in the economy and society are shaped by ideology and do not just constitute the "right" policies. Germany has also published a framework for various forms of partnership that is more detailed than many (Hauschild, 2012). Sweden will not fund private-sector intrusion into basic social services, which it maintains is the responsibility of a state towards its citizens. The Netherlands has an official commitment to a multi-stakeholder vision for its PSD strategies, which should actively include trades unions and civil society representation, as well as a regulatory framework that commits itself to the principles of "decent work" (Reality of Aid, 2012). This is not to say that these donors are not also subject to many of the same criticisms that are made more widely, but elements of their PSD programmes do appear to have more in the way of safeguards and some degree of critical reflection.

Conclusions

There is a case to be made that some of these problems are just the product of "early days", given rapidly expanding private-sector programmes and instruments set in a qualitatively new "narrative". Some development agencies and institutions that have been oriented towards poverty reduction, social development and aid effectiveness for the last 10-15 years are now having to retune their systems, structures and personnel to work much more actively with corporations, banks, stock markets, hedge funds and so on. This is certainly a part of the problem, and would suggest that time and experience will be one factor in the tightening up of problem areas.

However, a number of rather more fundamental problems can also be identified. At the broadest resolution, radical critics would argue that hegemonic neoliberal ideologies – in which a particular version of an untrammelled private sector is sovereign – will not and cannot achieve just economies or societies. The last four decades have been characterised by slow and uneven poverty reduction and universally widening inequality. The "development effectiveness" agenda only deepens these trends and patterns. Essentially, Walmart-style capitalism is vastly more dominant than, say, John Lewis-style capitalism,[3] to the benefit of the very rich, and the detriment of most workers, consumers and citizens. At its most brutal, public and private sectors are combining to drive a process of "accumulation by dispossession" in the form of land grabs, resource extraction, speculative capital flows, vulture investments, short-term shareholder value maximisation strategies and so on.

Moving to more specific, and arguably "pragmatic" diagnoses of the problems accompanying PSD, many of the analysts and commentators referenced above provide an excellent set of recommendations to help move the private sector for development closer to achieving its stated goals. These include ensuring the greater transparency and accountability of all actors; adhering to the aid effectiveness principles; and ensuring a strong focus on lower-income countries, their domestic private sectors and MSMEs in particular. In order to ensure additionality and development impacts, donors must orient these programmes toward riskier places and sectors and not simply end up as business-as-usual investors (or, worse, crowding out local growth and investment). Some of this is about insisting on more clear and credible donor statements and policies, and some is about ensuring that they have the structural mechanisms and incentives to promote development objectives (see "Recommendations", below).

However, we can observe an ominous set of contexts in which these reforms are being called for. The financial crisis, in some countries worsened by the Eurozone crisis; the growing sense of competition for energy, water and food resources; and the rise of powerful Southern economies are all shaping donor agendas and choices. National economic interest is becoming an explicit priority for many – which it has always been, of course, but which is now being more actively harnessed through PSD. Self-interest can be entirely compatible with broader development progress – it does not necessarily undermine mutual benefit. Moreover, there is absolutely no doubt about the desirability and, indeed, the inevitability of a strong role for the private sector in international development efforts that must be taken as read. The issue is what sort of private sector, in what sort of relationship with the state, and with what outcomes for the nature of economic growth and, ultimately, for the well-being of the poor and vulnerable. If these questions are not asked rigorously and robustly, even uncomfortably, then PSD efforts will at best be compro-

3 John Lewis is a profitable, high-quality, British-based company in which all employees are partners. Although it is by no means criticism free, it is one example of a private-sector venture that distributes its profits more evenly among its workers.

mised, certainly be damaging to particular groups and places, and may ultimately undermine rather than contribute to development.

Recommendations

A number of recommendations are noted just above. The underlying principles for all of these are as follows:

1. The Norwegian government should issue an umabiguous and detailed set of principles guiding its partnerships with the private sector for development. These principles must recognise that "development" is inherently a realm of trade-offs and both contested and shared interests among different stakeholders. Win-win outcomes are possible and desirable, but win-lose outcomes must be acknowledged and addressed explicitly.

2. In order to translate these principles into development outcomes, the Norwegian government should ensure that legal frameworks, transparency and accountability mechanisms, and development personnel and institutions are "fit for purpose": in other words, that they are able to ensure that growing private-sector-led development works towards development goals. While economic growth is a key foundation, the focus must be decent work, reducing poverty and inequality, sustainable growth, and so on. Specific partnerships and programmes should be subject to institutional and personal incentives and regulatory structures that measure and reward development achievements rather than growth achievements alone.

3. In order to contribute to a healthy and functioning private sector in partner countries, Norwegian policies and programmes should ensure the involvement of the active voice of the full spectrum of stakeholders both domestically and abroad, including trades unions, consumer organisations, CSOs, and so on, as well as business councils and networks for MSMEs and the informal sector. International organisations, notably the International Labour Organisation, can play a key role in this regard.

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