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Belgian Policy Research Group on Financing for Development.

MOBILISING PRIVATE RESOURCES FOR DEVELOPMENT

Agendas, actors and instruments

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Preface

BeFinD is a consortium of four Belgian research centres at three different universities. It performs policy-oriented research related to the Financing for Development Agenda (2014-2017). The research is done on behalf of the Belgian Federal Public Service Foreign affairs, Foreign Trade and Development Cooperation, and hosted by the Flemish Inter-university Council (VLIR-UOS). The University of Namur (CRED), the University of Antwerp (IOB), and the University of Leuven (HIVA & GGS) are jointly coordinating research activities in 4 main areas: local resources for development, mobilising private resources for development, ODA and its relationship with other development-relevant funding flows, and global public goods. The research is oriented towards informing policies and practices of Belgian bilateral and multilateral development cooperation actors regarding the emerging landscape of development finance. HIVA-KU Leuven is contributing to the research activities on the redistributive potential of social protection, the role of the private sector in development, illegal financial flows, and global public goods. Our research on mobilising private resources for development, on which this paper reports, is designed to lay the foundation for further in-depth follow-up research by the other members of the BeFinD consortium, CRED and IOB in particular.

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List of abbreviations

BDS	Business development services
BIO	Belgian Investment Company for Developing Countries
BoP	Bottom of the Pyramid
BTC /CTB	Belgian Development Agency
CSO	Civil society organisation
CSR	Corporate social responsibility
DAC	Development Assistance Committee
DFI	Development finance institution
DGD	Directorate General Development Cooperation
DRIVE	Developmentally Relevant Infrastructure Investment Vehicle
EBRD	European Bank for Reconstruction and Development
EDF	European Development Fund
EU	European Union
FAO	Food and Agriculture Organisation
FDI	Foreign direct investment
FD	Financing for Development
FTE	Full time equivalent
GAIN	Global Alliance for Improved Nutrition
GCF	Green Climate Fund
HIPC	Highly Indebted Poor Countries
HLF	High Level Forum
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFI	International finance institution
INGO	International non-governmental organisation
LDC	Least Developed country
MDR	Multilateral debt relief
MIGA	Multilateral Investment Guarantee Agency
(M)SMEs	(Micro,) small and medium sized enterprises
NGO	Non-governmental organisation
OECD	Organisation for Economic Co-operation and Development
ORET	Ontwikkelingsrelevante Exporttransactie
ORIO	Ontwikkelingsrelevante infrastructuurontwikkeling
PPP	Public private partnership
PS4D	Private sector for development
PSD	Private sector development
PSE	Private sector engagement
SAP	Structural adjustment program
TCX	The Currency Exchange Fund

Summary

Introduction

This study maps and reflects 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.

It first provides an overview of the broader policy framework on Financing for Development and its different sub-agendas (chapter 2), as well as of the different types of instruments that can be used at the operational level (chapter 3). It then maps the current Belgian policy and practice regarding mobilising private resources for development (chapter 4), and it discusses how three other donors - United Kingdom, Switzerland and The Netherlands - have approached the issue (chapter 5).

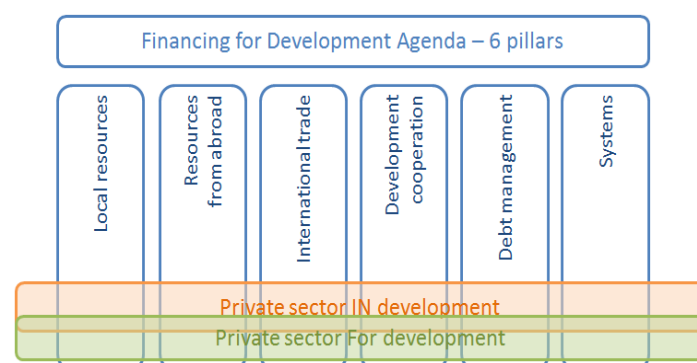
The provided information and analysis is based on literature review, document analysis and semi-structured expert interviews conducted in the first half of 2015. Some of the components that this exploratory study touches on will be investigated more in-depth in follow-up research by other members of the BeFinD consortium. .

Key concepts & international debates

Mobilising private resources, Financing for Development, private sector development, private sector for development, private sector engagement, innovative instruments... a considerable amount of conceptual overlap and confusion continues to hinder reflections and debate on the role of the private sector in development cooperation. This study uses

the distinction between private sector development (PSD) and private sector for development (PS4D) or private sector engagement to clarify the scope of the mobilising private resources agenda. The former (PSD) groups all activities carried out by governments and development organisations with the aim of developing a vibrant private sector in developing countries, whereas the latter (PS4D) covers initiatives or activities that involve or engage private sector actors in development in ways that go beyond their regular business practices. However, the distinction is not always clear-cut, with PS4D sometimes having PSD goals. Elements of both can be found in each of the six pillars of the Monterey Financing for Development agenda (figure 1).

Figure 0 Mobilising private resources: agendas



It follows that the agenda of mobilising private resources for development is very broad, covering PSD and PS4D activities intervening at the local, the international or the systemic level, in a variety of domains (trade, development, debt), of operational as well as policy nature and interacting with different types of resource flows. It is

important to stress that the 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

‘Mobilising’ suggest that the private resources are available, but that they somehow are not being used, or at least not for development, due to specific obstacles or a lack of incentives. Different development actors may have different means to address these obstacles and to ‘mobilise’ these resources. This study looked at official donors’ attempts to influence the private sector contribution to development, in particular their PS4D efforts.

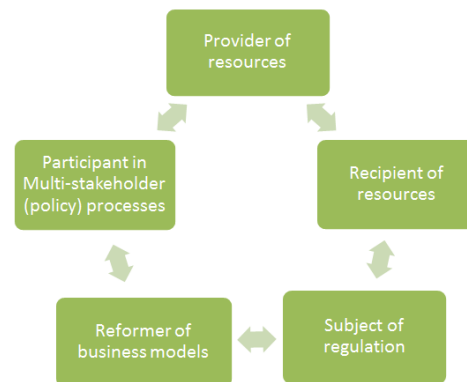
Grouped according to the type of obstacle donors attempt to tackle, the mapping distinguishes between:

- *Instruments acting against risk* - aimed at reducing the risks that hold private actors back from committing their resources to development. This can include different types of insurance, credit guarantee mechanisms, currency swaps, safe corridors, etc.
- *Instruments addressing lack of finance* - aimed at lifting financial constraints in order to leverage a bigger amount of additional private resources. This can include the provisions of grants, loans, equity and venture capital through different approaches such as challenge funds, impact investing, public-private partnerships, frontloading of ODA, output-based aid etc.
- *Instruments addressing lack of information, expertise or connections* - intervene through knowledge sharing, capacity building or networking initiatives in order to capacitate private actors in a non-material. This can include matchmaking initiatives, export promotion, capacity building of private actors, involving them in policy dialogue etc.

- *Instruments addressing loss of profits or competitiveness* – aimed at levelling the playing field for private actors that engage in development. This can include standard setting, labelling and certification initiatives, regulating, piloting and building proof of concept for innovative business models, etc.

What type of private sector actors is the instrument aimed at? What type of resources does it attempt to activate? What is the positive development impact it hopes to achieve? What role is the private sector playing (see figure 2)? The study shows that the insight in the different (types of) instruments used to mobilise private resources benefits from a systematic consideration of these questions.

Figure 2 Roles of private sector in development



A look across the board also reveals some cross-cutting issues. Firstly, there is too little reflection and awareness on the different and very specific roles that private and public finance can each play in development. That they can be used interchangeably with a similar impact is a very controversial and unproven assumption. Yet, in the use of public funds to leverage private resources the opportunity cost is often not taken into account. Secondly, quite some instruments to mobilize private resources for development are grafted on or make use of commercial financial services and products. Yet, not all

donors who employ such instruments have the expertise for a thorough monitoring and evaluation, and the lack of transparency and ethical behaviour in the financial sector has raised the question whether it is an appropriate and legitimate actor to manage public funds. Thirdly, blending is a key practice in the efforts to mobilize private resources for development. Blending refers to the practice of combining public development funds (in the form of grants, technical assistance or interest indemnification) with loans from public or private lenders. Yet here too several concerns are raised, in particular regarding the lack of transparency and accountability in blending facilities, the negative impact on country-ownership of projects financed through blended resources, the lack of proof for the actual leveraging effect and the additionality of the private resources, and a lack of evidence for the actual development impact of blending mechanisms.

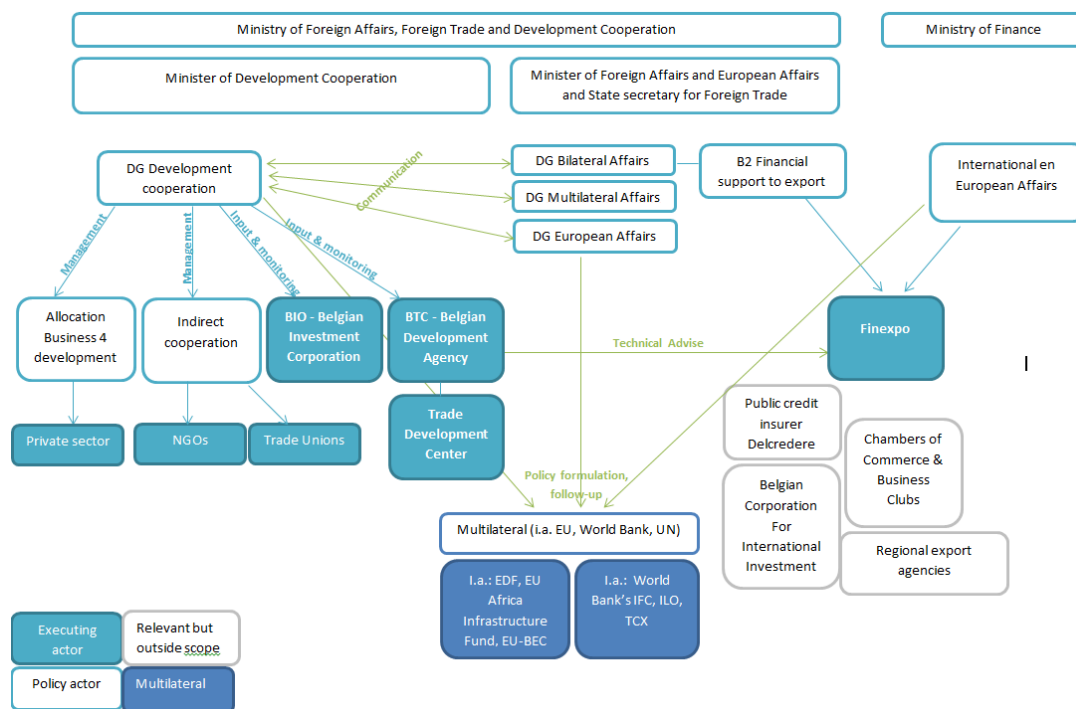
Belgian development cooperation and the private sector agenda

Except in relation to private sector development (PSD), the screened policy documents do not provide general guidelines on interactions of development actors with the private sector nor discuss the Belgian position on engaging the private sector for development (PS4D).

The screening did allow identifying a set of actors that due to the nature of their mandate interact, directly or indirectly, with the private sector in a development context – with some actors within and some outside the scope of Belgian development cooperation (see figure 3). These include a.o. Directorate General Development Cooperation (DGD), several European and multilateral institutions and programmes supported by the Belgian development cooperation, NGOs supported through the allocation ‘Entrepreneurship for Development’, some NGA’s receiving programme support, the bilateral cooperation executed by BTC, its Trade Development Centre (TDC), the Belgian Investment Company for Developing Countries (BIO), and Finexpo.

The discussion of their respective mandates, activities and instruments used reveals that Belgian development actors are doing PSD with an occasional touch of PS4D. The emerging map of the relevant actors and the interactions between them also raises some questions on the current institutional set-up for PS4D. The mandates and activities of relevant actors (e.g. BIO, BTC, Finexpo) are not developed with complementarity regarding PS4D in mind. This may undermine the possibility to engage the most appropriate actor and use the most appropriate instruments in a specific context.

Figure 3 Belgian actors in private sector for development



Donor strategies: key dividing lines

Insights from Dutch, British and Swiss policy and practice regarding PS4D provide a comparative perspective.

The context of the policy (re)formulations on PS4D differed significantly in the three countries, depending on historical, budgetary and political factors. This had an impact on the forces and rationale driving the reconsideration of the role of the private sector, which in turns created different windows of opportunity regarding for example institutional reform or reprioritizing development cooperation.

The institutional set-ups for interaction between development cooperation and private sector differ, with UK for example building in-house expertise and the Netherlands outsourcing to a specialized

agencies and its development bank. However, looking at the institutional changes across the three different donors, one common feature emerges: as the private sector gains importance on the development agenda, the institutional capacity for private sector engagement and economic cooperation is increased. This seems to have been a crucial factor in allowing these donors to develop a stronger position and practice on PS4D.

In their efforts to strengthen the links between the private sector and development cooperation, all three donors have made specific thematic and operational choices. : Which private sector to target? What types of instruments to use? What place for LDCs and MICs in this development agenda? Their experiences illustrate the many choices that have to be made and the difficulties that can rise when operationalizing them in a way that protects and ensures their development relevance.

Introduction

With development actors putting the final touches to an ambitious post-2015 agenda for development, the need for a way to finance development is high on the global policy agenda. In 2012 the finance gap of reaching the Millennium Development Goals by 2015 was calculated to be USD 120 billion a year. The future development agenda envisions encompassing all sustainable development needs. With a bigger agenda, the finance gap will be many times bigger as well¹ (Griffiths, Martin, Pereira, & Strawson, 2014; OECD, 2014).

The current composition of financing sources for development does not seem up for the challenge. At the national level domestic resources are the largest source of development finance and within that category domestic government spending easily outranks domestic private investment – at least for most countries. However, although growing rapidly, public expenditure in many countries remains by far insufficient and the difficulties to scale up domestic resource mobilisation are huge. At the international level, Official Development Assistance (ODA) has been dwarfed by other (private) international resources flows² over the past decade. Although it remains the largest flow to the least developed countries (LDC) and the countries with the lowest domestic resources, its relative importance declines. For ODA too, the prospects of scaling up are meagre. Globally, public finance is currently insufficient to meet all the development needs (Griffiths *et al.*, 2014). Consequently eyes have turned towards other financial flows, and in particular to the private sector.

Although interesting evolutions in the thinking on and practice of doing business are taking place, the dominant reality is that private sector actors lack incentives to engage with the development agenda. In response, development actors are looking for ways to mobilize private resources by using ODA as a catalyst (Griffiths *et al.*, 2014). How do development actors attempt to mobilize private sector resources for sustainable development, and what are the main issues they have to deal with when doing so?

This paper approaches this question from a policy as well as an operational perspective. It provides an overview of the broader policy framework on Financing for Development and its different sub-agendas (chapter 2), as well as of the different types of instruments that can be used at the operational level (chapter 3). It maps the current Belgian policy and practice regarding mobilising private resources for development (chapter 4), and it discusses how three other donors - United Kingdom, Switzerland and The Netherlands - have approached the issue of mobilising private resources (chapter 5).

¹ What does the implementation of such a sustainable development framework cost? There have not been any systematic assessments of post-2015 development financing needs. However, the UNTF Working Group on Sustainable Development Financing's report (2013) has compiled a range of best available sector estimates (UNTF Working Group on Sustainable Development Financing, 2013).

² International resource flows to developing countries have grown, with key components being foreign direct investments, lending and remittances.

1 | Research rationale

1.1 Research scope

‘Financing for Development’,³ ‘private sector in development’, ‘private sector for development’, ‘private sector development’ and ‘innovative instruments’: several research needs regarding these different yet related concepts competed with each other to determine the scope of this study. The study takes into account the broader context, set by the Financing for Development agenda and the debate on the role of the private sector in development cooperation. A mapping of the current Belgian development activities related to the private sector, wherein private sector development takes a lead role, is a crucial component in its design. Its focus however is on the subject of mobilising private resources for development.⁴

Deconstructing the phrase ‘mobilising private resources for development’ reveals some avenues to further narrow the scope. It necessitates a clear conceptualisation of what ‘for development’ actually means, what ‘private’ actors and what ‘resources’ are referred to, and what it means to ‘mobilise’ them. In some analyses the ‘private sector’ encompasses all non-state actors including private foundations, civil society organisations and private solidarity initiatives. This study, however, concentrates on the for-profit private sector, referring to all organisations that have a core strategy and mission to engage in profit-seeking activities through the production of goods, provisions of services and/or commercialization. Taking into account that businesses can opt for different balances between financial profits and social benefits, this includes financial institutions, micro, small and medium-sized enterprises, farmer cooperatives, large corporations, and social enterprises, operating in both the formal and informal economy. The private ‘resources’ are interpreted in a broad sense: they can be material as well as non-material and include i.a. finance, expertise, investments, standard setting capacity, tax contributions, networks, data, and image. The term ‘for development’ holds a crucial qualification, namely that the resources are being used in a way that pushed the private sector actor to go beyond its business-as-usual impact on development and aim for an explicitly pro-development impact. ‘Mobilising’ insinuates that the resources are available, but that they somehow are not being used, or at least not for development, due to specific obstacles or a lack of incentives. Different actors may have different means to address these obstacles and to ‘mobilise’ these resources, but this study takes the perspective of official donors and looks at their attempts to influence the private sector contribution to development. **To sum up, this study maps and reflects 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.**

1.2 Research questions

Several research questions have been put forward to deliver on this research ambition step-by-step:
(i) What do the concepts or agendas of ‘Financing for Development’, ‘private sector in

3 The ‘Financing for Development’ agenda was launched at the Monterrey Conference in 2002. It has since shaped the conception of the means of implementation of the MDGs.

4 This study is conducted in response to the 2014 call for policy support for Belgian policy makers on the topic of Financing for Development (FFD), which was taken up by BeFinD. The other three themes addressed in other work packages of the policy research center BeFinD are: mobilizing local resources for development, interpreting the term ODA and global public goods.

development’, ‘private sector for development’ and ‘mobilising private resources for development’ entail and how do they relate to each other?; (ii) Which mechanisms/instruments to mobilise private sector resources for development currently exist?; (iii) What are recent developments in the way selected donors of the Organisation for Economic Co-operation and Development (OECD-DAC) mobilise private sector resources?; (iv) Which roles for private sector in development cooperation are and which are not called upon (in policy and practice) by Belgian development actors? What mechanisms are used to do so, and by which actors? What is known about their opportunities and risks? How does the Belgian policy and practice compare with other OECD/DAC donor activities?

1.3 Research approach and methodology

Data-collection was done through literature review, document analysis and semi-structured expert interviews. Core academic and policy-oriented publications were reviewed, including on the role of the private sector in development cooperation, on the recent evolutions in multilateral and bilateral donor policies on this matter, on the progress in related international policy processes and on specific instruments or strategies.

A preliminary analysis of the collected information led to the selection of four OECD-DAC donors United Kingdom (UK), the Netherlands, the European Union (EU) and Switzerland as cases. The main reasons for this selection were the leading role of the UK, the Netherlands and the EU in this debate, and the comparability of Switzerland as a donor with Belgium. This selection was therefore envisioned, firstly, to deliver information on possible strategies and mechanisms from the British, Dutch and European experience. Secondly, to gain a better insight in how European policy and practice in this matter defines the broader context in which Belgian actors operate. Thirdly, to also touch on the issues of a small donor that is actively trying to position itself in this debate, such as Switzerland. An analysis of the publicly available and relevant policy documents as well as expert-interviews with development officials of all selected donors were used for data collection per donor. During data analysis, the information on the UK, the Netherlands and Switzerland was clustered around three main topics: the rationale and recent policy choices underlying the relationship between development cooperation and the private sector, the institutional map of development actors involved in the interaction with the private sector, and specific approaches or instruments employed.

An important tool in the analysis was the typology of roles for the private sector in development cooperation, developed by HIVA-KU Leuven in related research for the Flemish Government. This typology was based on several other existing typologies, all with their own strengths and limitations, and on insights collected through interviews and exploratory field work in South Africa in 2014. In this study it has been used to push the mapping of different types of instruments beyond the usual suspects, and to track the different roles for private sector in development cooperation that Belgian development actors call upon.

Like with any study there are important limitations to take into consideration. First and most importantly, this study covers a lot of ground: it situates and dissects the broad debate on mobilizing private resources, it sets out to draw a map of the currently used instruments, and it analyses the actors and approaches that Belgium and other donors are putting into play. Such a broad scope in combination with limitations in time and resources also means this study sketches the broad outline of these different components but does not offer exhaustive information on each of them. Secondly, data collection through interviews has been limited to one or two respondents per case, which arguably is insufficient to ensure a complete picture of what the donor is or is not

doing on private sector. However, the respondents have been selected with care and were in all cases officials at the core of the private sector related activities of the donor. Finally, the EU has been included during data collection but mapping European development actors involved with the private sector and their practices, as well as gaining clear insight in the policy process behind these practices proved to be too ambitious for the time frame of this study. Information on EU tools has been taken into consideration in the chapters discussing the broader framework and the instruments in play, but the EU is not a fully-fledged case study.

2 | Key concepts & international debates

2.1 Financing for Development from Monterrey to Addis Ababa

With its Monterrey Conference in 2002 and the subsequent launch of a process to ensure financing for the development agenda, the United Nations (UN) have assumed a bigger role in shaping the financial and economic dimension of global development. The Monterrey Consensus identified six ‘pillars’ that could provide the foundation for the sustainable financing of the global development agenda: (i) local resources, (ii) resources from abroad, (iii) international trade, (iv) development cooperation, (v) debt management and (vi) systems. It also introduced six corresponding ‘leading actions’: (i) mobilising domestic financial resources for development, (ii) mobilising international resources for development, such as foreign direct investments and other private flows, (iii) using international trade as an engine for development, (iv) increasing international financial and technical cooperation for development (v) managing external debt, and (vi) addressing systemic issues: enhancing coherence and consistency of the international monetary, financial and trading systems in support of development (Cortés Saenz, 2014; United Nations, 2003).

More than a decade later the Financing for Development (FfD) agenda is in the run-up to its third major conference, planned for July 2015 in Addis Ababa. To ensure the implementation of the post-2015 development agenda, the third UN Conference on Financing for Development will aim to agree on a comprehensive and holistic financing strategy.⁵ On the agenda are i.a. the issues of unsustainable debt, tax competition and tax avoidance, declining ODA commitments, the reform of international finance institutions, and the role of private finance. In parallel, development ministers of the OECD-DAC discuss on how to modernise the definition of ODA for it to remain a relevant instrument in the post-2015 era. An important issue in this debate is how to reconcile the current definition and measurement of ODA with the trend of using ODA as a catalyst and lever to mobilise more private resources. The decisions taken in these policy processes will surely effect the future framework for mobilising private resources (Eurodad, 2014; ICESDF, 2014; Open Working Group, 2014).

2.2 Private sector IN/FOR development

Cutting across the FfD agenda is the ongoing debate on the role of the private sector in development cooperation. The private sector is since long considered as an important force in economic growth and, by extension, in development. Consequently it is the object of the private sector development agenda: a strong, well-developed private sector will drive development in developing countries. However, current views on the role of the private sector transcend this and consider private sector actors more and more as powerful development agents that could and should be directly involved in addressing current development challenges (Byiers & Rosengren, 2012, p. 9). The private sector is thus assigned growing importance as a fully-fledged actor in the pursuit of global development.

⁵ It will be followed soon after by the Post-2015 Summit and the Climate Change Conference, and thus features in a row of three major international events where the big issue at stake is how to achieve funding for specific goals.

Development actors, and increasingly the private sector itself, are experimenting with building bridges between business and global development, and aspire to scale-up these efforts in the future (Di Bella *et al.* 2013; Kindornay and Reilly-King 2013; European Commission 2014). At the same time however the debate on how to ensure the compatibility of a business rationale with development objectives, and on the legitimacy, efficiency and effectiveness of the private sector as a development actor is still ongoing. A clear distinction between different concepts is useful to navigate this debate.

'Private sector *in* development' generally refers to private sector activities that are part of regular core business operations and that affect development outcomes and economic growth through positive impact such as job creation, provision of goods and services and taxation, and negative impact such as environmental degradation and poor labour practices (Di Bella, Grant, Kindornay, & Tissot, 2013b). An approach to improve the development impact of the private sector' business as usual is private sector development.

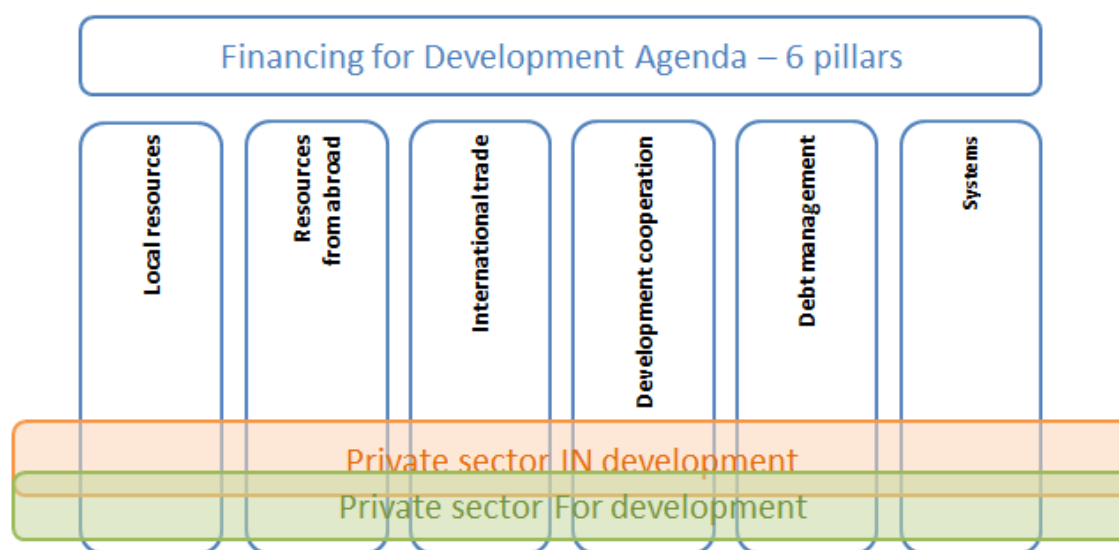
'Private sector development (PSD)' groups all activities carried out by governments and development organisations with the aim of developing a vibrant private sector. In particular since the 1980s, when the multilaterals' development thinking moved away from the central role of the state and put forward a private economic development model, bilateral donors have implemented programs aimed at private sector development (Schulpen & Gibbon, 2002). According to the OECD (OECD, 2007, p. 21), the logic behind PSD is simple: 'poverty reduction is the main objective of development cooperation and a target of development policies: Economic growth is essential for development, and growth is best achieved through the private sector, which in turn needs to be adequately promoted.'

'Private sector *for* development (PS4D)' covers initiatives or activities that involve or engage the private sector in development in ways that go beyond their regular business practices. It is about finding ways to tap into businesses' resources – e.g. their expertise, networks, data, and financial, technical and innovation capacity – and use them in the pursuit of development goals (Di Bella *et al.*, 2013b).

Different terms, such as PS4D or private sector engagement (PSE) are used to describe approaches that target the private sector in this way. Byiers and Rosengren (2012) use the distinction between the established PSD agenda (see 2.1.2) and the more recent PS4D agenda to highlight the different currents in the debate on the role of business in development cooperation. In their interpretation, the PS4D agenda⁶ is about donors working *with* private firms and finance (most often based in developed or emerging countries) for development purposes. This may include public-private partnerships, facilitating cross-sector partnerships, using the private sector as implementer of aid programmes, mobilising private sector finance, expertise and management capacity for development purposes, corporate social responsibility, social entrepreneurship, etc. However, the distinction is not always clear-cut, with PS4D sometimes having PSD goals (Byiers & Rosengren, 2012).

⁶ Within the PS4D agenda, Byiers (2012) makes an additional subdivision, between 'private investment' and 'private finance' for development. According to Byiers, the first is about channelling public money to private projects with a development component, assuming that the donor contribution to the private project will help to overcome existing private sector constraints and facilitate the project. The second is about using public money to leverage private funds for public projects, for example in the area of infrastructure. Again the donor contribution helps offsetting risks, liberating private funds but also mobilizing other private sector resources such as experience and knowhow.

Figure 2.1 Main concepts & agenda's



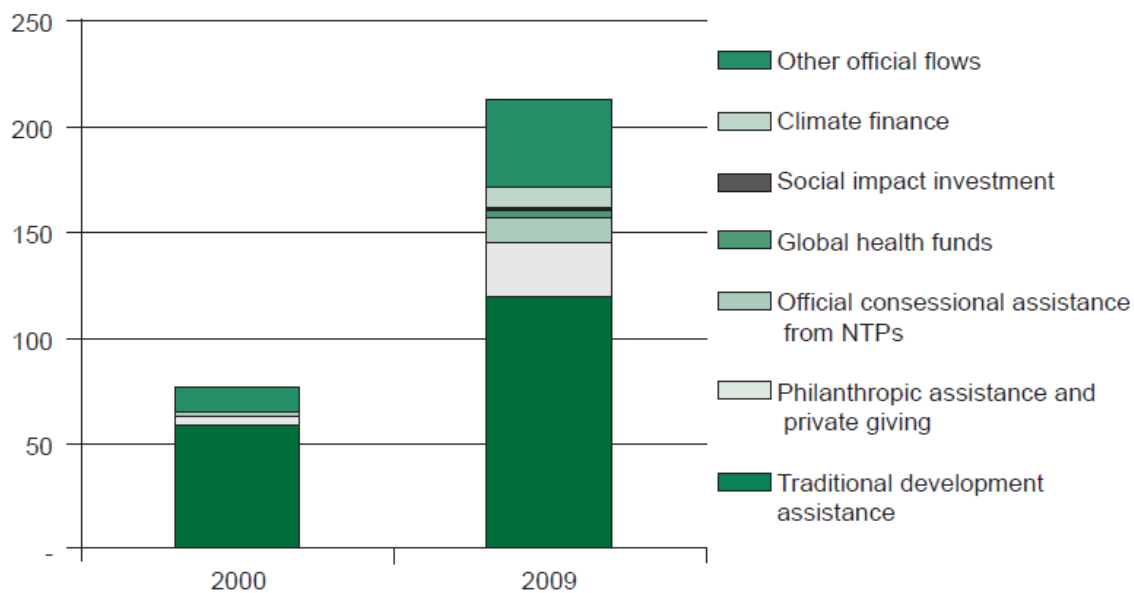
As figure 1.1 visualizes, PSD and PS4D cut across the FfD agenda. This is because in all 6 pillars one can envision possibilities to improve private sector's development impact, as well as to scale-up private sector's engagement for development. On top of that PSD and PS4D can overlap, with one being used to promote the other. For example, looking at ways to mobilize local resources for development, PSD can contribute to job creation which could increase the domestic tax base and thus tax revenues, while PS4D could be about pushing local companies to invest part of their profits in social goals (e.g. education). Looking at resources from abroad, PSD could aim to facilitate foreign direct investments to developing countries, while PS4D could aim to mobilise international private finance and expertise to tackle a specific development challenge, such as malnutrition (e.g. GAIN). It is important to recognize the overlap and interplay between these different agenda's and domains: it is not evident and sometimes misleading to fit certain approaches or initiatives in one and only one box.

2.3 Mobilising private resources

Efforts to strengthen the role of private sector in development through private sector development or part of the quest to 'mobilise private resources' but as the addition 'for sustainable development' implies, the key ingredient is engaging private sector for development (PS4D).

Compared to other financial flows to developing countries, the relative importance of ODA has decreased rapidly, despite an increase in absolute terms and an all-time high in 2013. Together, public and private resources from developing countries themselves accounted for 84% of total available development finance in 2010. On the other hand, public international finance – grants, concessional and non-concessional funding from the development assistance community – amounted to approximately 2% (OECD, 2014). FDI, ODA and the finance raised and managed by non-governmental organisations, may have played an important role for many years, but other more recent sources of finance are now providing important and complementary financial and technical support.

Figure 2.2 Trends in development assistance flows



* NTPs stands for non-traditional providers

Source (Greenhill, Prizzon, & Rogerson, 2013; House of Commons, 2014)

Greenhill et.al. point out trends in non-traditional development assistance (see figure 2.2.), with the growing role of climate finance, social impact investment, other financial flows, philanthropy and private giving clearly showing. In its latest development report, OECD also explores other more recent sources of finance that are now providing important and complementary financial and technical support that can be harnessed for development. These include South-South co-operation; institutional investors, such as pension funds; developing countries’ own revenues raised through taxation; funds raised by philanthropic foundations; and remittances sent home by migrants working overseas. The OECD also stresses that each of these sources of finance has distinctive attributes and motivations that determine their suitability for different purposes (OECD, 2014).

Amongst these different sources of finance that need to complement ODA is the private sector.

Within the attempts to mobilise private sector resources, ‘innovative financing mechanisms’ have been introduced as an important tool. Again defining this concept presents a challenge, as there is no universally agreed definition and the use of the term has changed over time. Helpful is the European Commission’s distinction between innovative funding sources and innovative financing mechanisms. The first refers to new sources of development financing that could complement official development assistance (ODA) in a stable and predictable way (e.g. airline ticket tax, financial transaction tax). The latter refers to funds and instruments that are designed and

Other more recent sources are providing important and complementary financial and technical support that can be harnessed for development. (...) The overall sense is of a new, exciting but complex landscape, whose contours are still to be fully fleshed out. Our challenge now - and the challenge of the international community as a whole - is to explore their possibilities and harness them creatively to the full. (OECD, 2014, p. 10).

run by donors to have a leveraging or catalysing effect by providing part of the total requisite funding as ODA (e.g. through using loans, equity investment, mezzanine finance or guarantees) in order to attract additional funding, notably from private companies, to invest in projects and initiatives in developing countries with explicit development impact objectives. Beyond financial leverage and risk sharing, the private sector can add value by providing its expertise and technical

know-how thus realising efficiency gains and long-term growth (SDC traverse, 2014). It is important to note a crucial difference between these two definitions: the first considers innovative financing initiatives as ways to raise additional *public* finance for development objectives, the latter includes mechanisms to use public finance to incentivise or leverage *private* finance (Griffiths *et al.*, 2014). However, it is important to stress that the agenda for mobilising private resources is about more than just finance: it is about tapping into all possible private resources.

3 | Overview of instruments to mobilise private resources

3.1 Analytic tools

The objective of this chapter is to gain better insight in the many instruments that donors have put into play to mobilize private resources for sustainable development. However, it does not offer an exhaustive list of descriptions of all instruments used to mobilize private resource. In development practice these instruments are used in many different ways, in varying combinations and are often reinvented to target a different type of actor, achieve a new objective. Consequently tools or frameworks to understand and typify the different instruments seem more helpful than a static list. This section discusses two analytic tools. The first is a further dissection of the phrase ‘mobilizing private resources for development’, that can be used to typify the different instruments by their objectives and target actor. The second is a typology of the different roles that private sector actors can play in development cooperation.⁷ It allows for a better understanding of the different roles private sector actors are or can play in the interactions between them and official donors.

3.1.1 Dissection of mobilizing private resources for development

Demarcating the scope of this study already led to a first deconstruction of the ‘mobilizing private resources for development’ agenda (see section 1.1). A further exploration of its different components helps to better understand the diversity of the instruments it encompasses.

The ‘private sector’ seems to be the core component in this phrase but often this term is an unhelpful simplification of a very diverse group of actors, as it can include a multinational corporation as well as sole social entrepreneur and many types of private sector actors in between. Even when focusing on ‘for-profit’ private sector, is still covers a variety of actors that differ in the size of their organizations, the scale of their activities, the geographical scope of their operations, their country of origin/establishment (e.g. partner or donor country), their business model and corporate philosophy (e.g. looking for maximal profit or maximal social/societal value) and their place in the formal or the informal sector. It is important to recognize that in their attempts to mobilize private resources, donors can target a wide variety of private sector actors (see table 3.1).

A similar exercise can be done for ‘resources’. Policy documents as well academic publications stress the diversity of resources that private sector actors have at their disposal - resources that they may or may not commit in a way that maximizes the positive development impact. Although some analyses specify that these include ‘financial and in-kind’ or ‘material and non-material’ resources, the different types of resources are often not identified and named explicitly. Investigating different instruments and their specific goals does however give a good idea of the main types of resources targeted (see table 3.1). Again it seems important to recognize the diversity of resources in play, especially when assuming that instruments should ideally be tailored to the specific type of resources they aim to mobilize.

⁷ This typology has been developed in the framework of the study ‘The role of the private sector in development cooperation’ conducted for the Flemish research centre on Foreign Policy, International Entrepreneurship and Development cooperation in 2014.

‘Why do these resources need to be mobilized?’ seems to be the next logical question. Apparently, the resources are available, but due to specific obstacles they are not employed, or at least not in the desired way. Arguably a good instrument should be tailored to the type of obstacle it is supposed to address, but again a clear overview of such obstacles seems to be missing. Taking note of the logic and the objectives of the different instruments this study came across, a (non-exhaustive) list of obstacles that are being addressed was compiled (see table 3.1)

One more component needs to be clarified: ‘for development’. The different concept definitions (see section 2.2) already gave a first broad indication of what ‘for development’ could mean. In practice a ‘pro-development impact’ can mean many different things. It seems to be important to identify what the specific intended development impact of an instrument actually is. Although some popular development outputs or outcomes have been listed as an illustration, understanding the intended impact is an exercise that needs to be done for each individual instrument. The concept outline of an instrument may for example state the aim of creating decent jobs whereas in practice the focus is on job creation - without a clear operationalization for ensuring that the jobs are decent. The concept outline may also focus a specific aspect of the instrument - such as SME development – whereas looking at the actual implementation may reveal that private sector is also involved in other roles (such as for example sponsor, or mentor).

Table 3.1 Dissection of ‘mobilising private resources for development’

MOBILISING Aimed at tackling what obstacles?	PRIVATE SECTOR Aiming at which private sector actors?	RESOURCES What types resources can be activated?	FOR DEVELOPMENT To realize what positive development impact?
<ul style="list-style-type: none"> • risk • lack of finance • lack of information • lack of expertise • lack of capacity • lack of standards • lack of peer pressure • lack of policy support • obstructive environment • lack of connections/network • ... 	<ul style="list-style-type: none"> • MNCs • Large cooperations • SMEs • micro-enterprises • social enterprises • inclusive businesses • cooperatives (often farmers' cooperatives) • informal sector and formal sector • in donor country and partner country • ... 	<ul style="list-style-type: none"> • finance • investment • capital goods • expertise • (distribution) networks • data • R&D capacity • shared value • image, reputation • standard setting • political influence • tax base • ... 	<ul style="list-style-type: none"> • better access to basic services • better infrastructure • production of BoP goods and services • R&D on global development and health challenges • more decent jobs • inclusive production chains • increased public revenues • an enabling environment for entrepreneurs • addressing environmental challenges • ...

* R&D stands for research and development; BoP stands for Bottom of the Pyramid; SME stands for small and medium sized enterprises, MNC stands for multinational corporations.

Instruments to mobilize private sector resources can be simple as well as complex: in some cases they target one obstacle for a specific private actor in order to mobilize a specific type of resource, in other cases they want to tackle multiple obstacles for multiple actors at the same time in order to mobilize different types of resources. Anyhow, the typology of roles that private actors can play in development cooperation (discussed in the next section) helps to further dissect different instruments and how they are used.

3.1.2 Typology for private sector roles in development

A second analytic framework - complementary to and in some ways overlapping with the first one - is the typology for private sector roles in development. This typology (see table 3.2) identifies and characterizes ten different roles that a private sector actor can play in development activities:

- A first set of two roles points out that the private sector can be a resource provider in development activities, by contributing in a material (finance, in-kind) or non-material (expertise, network, data) way.
- Next, the typology identifies four ways in which the private sector can be a beneficiary in development activities. It can benefit from the donor efforts to improve the business climate, from capacity building, knowledge sharing, information provision or networking initiatives, from financial support by other development actors and from implementation contracts for specific development activities.
- Also, private sector can be the target of actors who want to influence business practices to become less harmful or more development oriented. Government can hope to influence through regulation whereas NGOs can use public campaigns or other lobby and advocacy tools.
- Private sector actors can engage in reforming or reinventing the way they do business. The typology distinguishes between reformers, who change their business practices to align it more with development goals, and developers/implementers who invent entirely new business models and/or implement them.
- Finally private sector can also be an active participant in different policy processes, such as consultation, policy dialogues, or multi-stakeholder initiatives. This can take place at different levels, from the local to the global.

Table 3.2 Roles of private sector in development cooperation

	Role of the private sector actor	Examples (not exhaustive)
1	Resource provider - finance Private sector invests financial resources.	<ul style="list-style-type: none"> Corporate philanthropy, e.g. Bill & Melinda Gates Foundation, Philips Foundation, local companies sponsoring start-up competition. Businesses investing in/managing investment funds with development objective. Impact investing.
2	Resource provider - expertise and other strategic resources Private sector invests its expertise, network, data, research capacity ... in activities with particular development relevance undertaken by or in partnership with other companies, government agencies, or NGOs.	<ul style="list-style-type: none"> Established SMEs coach start-up SMEs. Established entrepreneurs/managers share expertise with peers. Bottom of the pyramid product development. Frugal innovation technologies. Allow consumer data or network to be used in development initiatives.
3	Beneficiary - enabling environment The private sector is the beneficiary of efforts to create an enabling business environment.	<ul style="list-style-type: none"> Improving the business climate to stimulate business and investment. Removing red tape obstructing SME development. Infrastructure development needed for take-off of growth sectors.
4	Beneficiary - capacity development, information provision & knowledge sharing The private sector is the beneficiary of capacity development, information provision and/or knowledge sharing initiatives that aim to increase private capacity to contribute to developmental goals.	<ul style="list-style-type: none"> Capacity development of Business Development Services (e.g. chambers of commerce). Building business capacity on development challenges and possibilities to address them. Donor agencies/embassies investing in information provision on business opportunities in developing countries.
5	Beneficiary - financial support The private sector is the beneficiary of financial support that aims to catalyse private sector activity or investment with particular development impact.	<ul style="list-style-type: none"> Donor capitalization of Development Finance Institutions (DFIs). DFIs supporting SMEs with activities in developing countries. Challenge fund to support innovation or job creation. Donors providing credit guarantees to catalyse high risk private investments with potential development benefits.
6	Beneficiary – of contracts for implementing aid projects & programmes The private sector is involved in the execution of development activities, in the role of subcontractor.	<ul style="list-style-type: none"> Participation of consultancy groups & companies in development cooperation tenders (e.g. in social sectors such as education & health). Tied aid.
7	Target – of regulation, lobby or advocacy The private sector is pushed by global governance institutions, governments or civil society organisations to change business practices.	<ul style="list-style-type: none"> Public campaign by international NGO condemning business practices of a multinational. Government using regulation to foster responsible fiscal business practices.
8	Reformer – adapting existing business models through Corporate Social Responsibility, Corporate Social Accountability or Stakeholder Value Maximization The private sector adapts its own business model to increase its positive development impact and sustainability.	<ul style="list-style-type: none"> Make product value chain more sustainable & inclusive. Offering product transparency. Invest in third party certification of social & environmental commitments.
9	Developer/implementer – implementing new, social, inclusive or solidarity economy initiatives and business models The private sector develops and implements a new (inclusive, social, solidary) business model or initiative with particular development relevance.	<ul style="list-style-type: none"> Social entrepreneurs developing a profitable sustainable business model that prioritizes both social as well as economic added value. Businesses aiming to include vulnerable groups in their supply chain.
10	Participant – in policy dialogue & multi-stakeholder initiatives on development-related issues The private sector takes part in development related policy dialogue or multi-stakeholder initiatives that aim to influence business and development policy and practice.	<ul style="list-style-type: none"> Participation in policy dialogue on post-2015 Sustainable Development Goals framework. Join forces with other development actors (e.g. NGO) to lobby for policy reforms regarding social or ecological issues. Participation in tripartite negotiations & multi-stakeholder initiatives on decent work. Extractive Industries Transparency Initiative (EITI). United Nations Global Compact.

The role-based typology looks at the private sector’s role in development cooperation from a donor perspective. It covers both PSD and PS4D approaches.

3.2 Mapping instruments

A selection of key publications (Bilal *et al.*, 2014; Di Bella, Grant, Kindornay, & Tissot, 2013a; Di Bella *et al.*, 2013b; Humphrey, Spratt, Thorpe, & Spencer, 2014; Kindornay, Higgins, & Olender, 2013; Kindornay & Reilly-King, 2013) in combination with the information gathered through the interviews offers material to use these frameworks for a more detailed identification and illustration of the different groups of instruments. As pointed out earlier, the focus lies on instruments aimed at mobilizing private resources for development (PS4D) and not on private sector development instruments.

A first group **of instruments is acting against risk**. The assumption is that private actors are not committing their resources because the risks are too high. Development actors can deploy instruments that attempt to reduce those risks, often by (at least partially) carrying the risks themselves. Private sector actors are beneficiary of such instruments, but with the explicit expectation that this catalyses private resources, and thus that private sector in turn becomes a provider of resources, or takes on a reformer/developer role.

Examples:

- Instruments that fit in this category are the different types of **insurance** that development actors can provide to enable or encourage private investment in developing countries. This may include political risk insurance, catastrophe or weather insurance. Such insurance can be provided through national public credit insurers as well as through multilateral agencies such as, for example, the Multilateral Investment Guarantee Agency (MIGA).
- In the same line are (partial) **credit guarantee mechanisms**, where a borrower of private finance can sell (parts of) the risk to a development bank that will step in in case of default. Development actors provide such guarantees for example to (M)SMEs active in developing countries that otherwise do not get access to credit.
- Another example in this category are the **'safe corridors'**, where governments enable the transfer of resources to developing countries by monitoring money transfers to ensure that they are not diverted to the wrong recipients or causes. This has been the case in the UK, where the government decided to intervene through the establishment of safe corridors in order to convince commercial banks such as Barclays to continue their money transfer services to Somalia. Remittances are an important buffer resource for many Somali, but banks considered closing their operations because the transfers were at risk of being used for money laundering and terrorism funding.
- **Currency swaps** also fit this category. A currency swap involves two parties that exchange a notional principal with one another in order to gain exposure to a desired currency. Following the initial notional exchange, periodic cash flows are exchanged in the appropriate currency. Currency swaps can improve the access to local currency financing and thus leverage foreign investments by reducing the risk of currency mismatches. At the moment, currency swaps are only available for a few currencies and thus several development partners have initiated projects directed towards the development of new markets for long-term finance in local currencies. One example is the TCX, a fund created by donors, development banks and international banks, that provides investors in emerging markets with exchange rate and currency risk management instrument and strategies (Bilal *et al.*, 2014)

A second and important group of instruments aims to **address a lack of finance**. The assumption is that private sector actors are not using their resources because they lack the financial capacity to do so. However, this does not necessarily mean that these instruments only attempt to mobilize non-financial resources (such as productive investment, or expertise or R&D). On the contrary, in current practice quite some instruments address financial constraints in the hopes of leveraging a

much bigger amount of additional financial support. Consequently, the most common role for private sector in these instruments is as beneficiary of financial support, although with the clear expectation that this will enable the private actor to become a provider of resources or a reformer/developer of more development-oriented business models. At the same time, the toolkit to address a lack of finance is often used in private sector development (PSD), where private sector is considered as a beneficiary that in return should mostly do what responsible private sector does: create decent jobs, produce relevant goods or services and pay taxes. This set of instruments uses grants, loans, equity, guarantees or a combination of those to unlock private resources.

Examples:

- Development actors can offer direct **grants** to enterprises to enable a project or specific activities with expected development outcomes. This can be done for example through **challenge funds** that award public grants (or loans) through competitive selection to a private project with development potential. Specific types of challenge funds include innovation funds that enable innovative solutions to address specific development challenges (e.g. develop a solution for lack of access to drinking water), or an enterprise challenge fund that supports private sector development.
- Development actors, and especially development finance institutions, can also be involved in providing **direct loans⁸, quasi-equity⁹ or equity** to enterprises that want to boost specific activities with a pro-development dimension. This can happen in a direct way as well indirectly through funds. Such funds can have very different objectives, composition, governance structure and transparency practices that determine their potential to address development challenges. Private equity funds, for example, are managed by a private actor and often don't offer participating development banks many levers to influence the investment decisions.
- A **venture capital** fund aims to direct investments to start-up and small and medium-size enterprises with promising potential. Without the involvement of development actors, such an investment fund may focus solely on seeking private equity stakes in high-risk/high-return opportunities. Development actors may get involved to influence the investment policy and make such funds more development-oriented.
- Promoting **socially responsible investments** is also on the table. This type of investments seeks to maximize both financial return and social good, by avoiding harmful-side effects of financial products or investments and by favouring investments that promote community development.
- A step up from socially responsible investments is **impact investing**. It aims to generate specific beneficial social or environmental effects in addition to financial gain. Impact investing can be considered as part of socially responsible investing, but the latter is more aimed at avoiding harm, whereas impact investing actively seeks to make a positive impact. Development actors can get involved directly and act as impact investors, or they can play a facilitating role by preparing interesting impact investment opportunities for private impact investors. Providing finance for a market study, a feasibility study, project development or 'proof of concept' are examples of this.
- **Public private partnerships** can also be considered here (although they are in fact so diverse that they fit in many categories). PPPs were initially rather narrowly defined, with the key components being a public service, a private executioner, and the public and private partner pooling investment and sharing risks. The term PPP now stretches a variety of cross-sector collaborations that differ depending on the types of actors involved, the role division, the objective, and the operational modalities. Existing classifications distinguish, for example,

8 Different types of loans can be used, e.g. investment loans (to support a pre-defined project, and with matching funding by the private firm), syndicated loans (where a group of actors provides a loan to a single borrower and share the risk), financial intermediary loans (from a development bank to a financial intermediary such as a private bank).

9 Quasi-equity fills the gap between debt and equity. It is usually structured as investments where the financial return is calculated as a percentage of the investee's future revenue streams. Often the return is capped (to a maximum amount) or limited in time. Quasi-equity provides a more equal sharing of risk and reward between investor and investee.

between partnerships aimed at engaging with private sector activities for development purposes and those using ODA to leverage private sector finance (Bilal *et al.* 2014). Another distinction is made between partnerships aspiring to increase the development impact of the core business activity of the private partner, and those that contribute to the private provision of public goods (Heinrich 2013). In sum PPPs today can fit in types of instruments depending on their specific set-up.

- Another way to trigger private involvement in development related activities is through **output-based aid**. This refers to strategies that link the delivery of public services in developing countries to targeted performance-related subsidies. The service provider will receive subsidies to replace costs associated with providing the service to people, such as user fees. Individual agents will verify that the service is being delivered and based on the performance of the service-provider, a subsidy will be granted.
- **Development impact bonds** (inspired by social impact bonds) would also be a form of output-based aid, but in this case the private sector would fund and implement a public development programme and be remunerated depending in the outcome of the programme.
- **Frontloading of ODA** can also fit in this category (and arguably also in the previous category), because it involves development actors making legally binding long term ODA commitments to a specific cause or initiative in order to convince relevant private actors of their continued support. By doing so they tackle the risk of changing political agendas and engagements and the abandonment of initiatives that only deliver on longer term. Additionally, binding ODA pledges can be converted into immediate financial resources by securitizing part of future ODA budgets. This allows development finance to be increased in the medium term at the expense of the budget in the longer term. This has been applied by the International Finance Facility for Immunisation (IFFIm), initiated in 2006 to accelerate the availability of funds for immunization. The resources generated have been used to support immunization programmes through the GAVI Alliance (UN DESA, 2012).

Private actors may also refrain from committing specific resources to development because they **lack the necessary information, expertise or connections** to do so. To remedy such limitations development actors can intervene through knowledge sharing, capacity building or networking initiatives. Private actors are then considered as the beneficiaries of these initiatives, but with the expectation that this will enable them to play the role of provider of resources or of reformer or developer of business models.

Examples:

- Some **export and investment promotion** programs may fit in this category. Such programs are aimed at the private sector in the donor country. They often include the provision of information on business opportunities in developing countries, the organizations of networking events or scoping missions, the provision of assistance on doing business in developing countries or assistance in determining the feasibility of certain business ideas. However, it is sometimes hard to determine to what extent such programs are government support for the internationalization of the own private sector and to what extent they also have a real development dimension.
- A common tool in this toolbox is **match-making**. Quite some development actors manage match-making facilities that aim to link donor country business to partner country business. The main goal can be to connect possible business partners, but some matchmaking initiatives are about business to business (B2B) technical assistance, with entrepreneurs from developed countries providing expertise to capacity constraint enterprises in developing countries.
- Attempts to connect different private actors can take a very practical form, with development actors funding the development and implementation of a tool to address the problem. For

example subsidizing the creation of **IT solutions** to link companies across boundaries could fit the picture.

- Development actors may also decide to provide **capacity building** to private actors on how to act in a more development relevant manner. Assisting a company to analyse its value chain and make it more inclusive, for example. Or working with companies on how they can minimize their ecological footprint. Or training commercial banks on how they can provide financial services to MSMEs. In some cases such support can also be offered through challenge funds.
- Going beyond knowledge transfer, development actors can invest in **piloting** certain activities to provide ‘proof of concept’ and demonstrate that the activity is feasible and profitable.
- Development actors may also invest in **strategic partnerships** with donor-based MNCs, large companies or organizations representing business, in order to keep open communication lines (to negotiate with business on how to create more synergies between their activities and development objectives).
- A step up from strategic partnerships is the active engagement of private sector actors in **policy dialogue** on different topics and levels. The lack of knowledge is one obstacle addressed by instruments that help to acquaint private sector actors and agendas with development actors and agendas, and vice versa. Such initiatives may also aim to feed a sense of ownership of development policy amongst private sector actors. They can take many different shapes and sizes, from consultative fora to participatory policy development

Development actors can also attempt to encourage private sector actors to adapt their business model in order to improve the development impact and sustainability, or to develop and implement radically new business models or initiatives with particular development relevance. Examples are inclusive business models, social enterprises or initiatives in solidarity economy. On top of a lack of finance and a lack of knowledge, capacity or connections, the fear for **loss of profits or loss of competitiveness** may hinder this. Different instruments can be put into play to make such efforts more interesting for business. This can be done by providing access to finance, or through capacity building and networking schemes (see above) but also by making the reorientation or reinvention of business practices more rewarding. On the other side of this coin are the instruments that can be used to force private actors to respect certain standards or engage in initiatives.

Examples:

- Supporting **standard setting** initiatives (e.g. codes of conduct, sector standards), **labelling** and/or (third party) **certification** schemes can be a way to influence or ‘discipline’ company behaviour. Such schemes can provide guidance for companies that want to produce or operate in a more development-oriented way and, more importantly, they can make efforts in this regard more visible. This allows companies to take credit for their efforts and where possible use them as a competitive advantage. Such initiatives can be private sector-led or multi-stakeholder, and development actors can be involved in different degrees.
- Development actors can also decide to use all the different instruments discussed above to **support a specific type of business**, for example by providing access to finance to social enterprises. Or to limit their cooperation with enterprises whose business practices are not conform specific criteria (e.g. regarding labour conditions, environmental impact, tax contributions).
- When approaching private sector actors more as a ‘target’, (governmental) development actors can put in place **regulation** that forces all private actors to respect certain standards or objectives, thus providing a level playing field for all private actors involved. (Civil society) development actors can do **lobby and advocacy**, or organize public campaigns that ‘name and shame’ enterprises with harmful practices, thus giving them incentives to change their practices.

- **Piloting** specific business models that can be sustainable or even profitable while at the same time realizing a positive development impact (e.g. benefits for the poor or disadvantaged groups, tackling a development challenge) can also be used by development actors to provide proof-of-concept for innovative development-oriented business models. Development actors can also provide **direct support** for business innovation thus tackling the financial as well often capacity constraints.

3.3 Emerging issues

This overview of types of instruments does not offer any appreciations of the different instruments in play. A discussion on the merits and risks of each of them is outside the scope of this study. However, there are several cross-cutting issues regarding the instruments that development actors currently use to mobilize private resources.

3.3.1 Public and private finance are not interchangeable

The quest to mobilize private resources for development is gaining traction. It is clear that many UN and OECD member states are considering the private sector as a crucial source of financial means to implement development policies (e.g. the sustainable development goals). Indeed, there is a strong case for increasing the role of the private sector in development, but despite the wide variety of roles private sector could play and despite the wide variety of resources private sector has at its disposal, efforts are currently strongly focused on mobilizing private financial resources.

At the same time there is very little reflection on how public resources may have a different role to play than private resources and vice versa. This suggests the assumption that the two are interchangeable. Griffith *et al.* (2014) point out that this is a controversial assumption unsupported by analyses of current public and private finance flows. They point out that public finance acts more predictably and plays an important role in protecting and providing public goods. International private finance on the other hand tends to bypass lower income countries and focus on higher income countries, where more profitable and less risky opportunities exist. For the same reason private finance only has limited potential to support MSMEs in developing countries. This is a big issue as the private sector in developing countries is exactly dominated by MSMEs, mostly in the informal sector, and their main difficulty is access to private finance. Also, because private finance is for-profit, it will require additional public support (regulation or catalytic investment) to deal with some of development constraints. The main point is that private finance is not guided by the same interests and principles as public finance and consequently will not act the same way. Yet, the question on how to ensure that public interest and development objectives are safeguarded when public funds are used to mobilize private finance receives little attention.

3.3.2 Financialisation of aid

As the examples above show, quite some instruments to mobilize private resources for development are grafted on or make use of financial services and products. This raises concerns on several fronts. Firstly, the crisis of 2008 has made it painfully clear that the financial sector needs to be better regulated in order to avoid malpractice, irresponsible risk-taking and speculation on basic foodstuffs. Although some steps have been taken, the current regulatory framework is not sufficient. This begs the question how coherent it is to channel public development funds through commercial financial services and products. It seems fair to wonder whether the impact of thoroughly regulating the financial system to put it more at service of public interest should not be the priority, rather than adapting public developing funds to fit the current financial system ('FfD -

Financialization issues CSO briefing,' 2015). Secondly, policy development on and monitoring and evaluation of the public development funds spent through this toolkit of financial services and products also implies a specific expertise that traditional development actors may not have in-house.

3.3.3 Blending

A mechanism that in fact embodies the two previous issues is blending. Blending refers to the practice of combining public development funds (in the form of grants, technical assistance or interest indemnification) with loans from public or private lenders. Combining grants with loans is established practice for most development banks, but the current involvement of private lenders and the rising popularity of this practice are new. The term blending now refers more to the use of public funds to trigger additional private involvement (compared to a previous emphasis on combining grants and loans). End of 2014 the European Council endorsed conclusions that place a heavy focus on 'blending' as a tool of development cooperation. Other donors are following suit. Donors can manage or participate in facilities that offer a combination of ODA-based grants and (commercial) loans to make private projects more attractive to private investors and mobilize additional private capital. Despite its rise to common practice in development cooperation, blending is controversial.

A key argument for blending is that the allocation of ODA will leverage additional private finance and thus trigger a scale-up of the involvement of private financiers. However, there are some important concerns regarding blending. Firstly, so far there seems to be no reliable evidence to show that blending mechanisms are actually applied in line with and contributing to development objectives. Secondly, existing lending facilities have no appropriate mechanisms to involve developing countries' stakeholders, which risks undermining country ownership. Thirdly, the activities of blending facilities lack transparency and accountability, and insufficient information is made available to the public (Griffiths, 2012; Romero, 2013).

In addition, current blending practices struggle to prove their leveraging effect of additional private finance. Additionality involves considerations about the extent to which public money is used to achieve development outcomes that otherwise would not have happened. This can be further divided in 'financial or input additionality' and 'development additionality'. Financial additionality would then refer to an investment that a private sector partner would not have made without donor support (Heinrich 2013, p.14). Development additionality would refer to the development outcomes that could not have been achieved without working in partnership. Heinrich (2013, p. 14) suggests that the latter can be conceptualized in two ways. The first is the extent to which donor support has enhanced the scope, scale, and speed of a project or brought about changes in long-term business strategies—what she refers to as behavioural additionality. The second is output or outcome additionality, which refers to the results achieved by a partnership that could only have been achieved with donor support (Heinrich 2013, p.14; see also Kindornay and Reilly-King 2013, 33). Donors differ in the attention they pay to additionality conditions, and often provide only limited information on how they understand, assess and enforce the additionality of private sector related development activities. Development actors tend to focus on demanding additional development impact in a broad sense, such as contributions to economic growth and the improvement of living standards. Few development actors focus on financial additionality (where a specific investment or contribution of the private sector actor would not have happened with the involvement of the development actor). Even if requirements of additionality are strong, the question remains how to evaluate and monitor additionality, as it involves comparing the actual situation with the counterfactual.

This is illustrated by the conclusions of an evaluation of EU blending in the period 2007-2013. The EU Court of Auditors concluded that ‘the need for a grant to enable the loan to be contracted was demonstrated for only half of the projects examined’. It adds that ‘there were indications that the investments would also have been made without the grant’. The report also claims that ‘(...) the Commission’s review of grant applications was based on incomplete information and has not focused enough on the added value of grants’. With such conclusions, the Court in fact stated that the EU, the biggest proponent and user of blending in development cooperation, has failed to ensure the additionality of the private resources mobilized by public funds. Yet, additionality is a considered a crucial requirement to guard that development relevance of the public funds used in blending.

4 | Belgian development cooperation¹⁰ and the private sector agenda

4.1 Policy framework

Currently, a combination of policy documents sets the framework for the Belgian Development Cooperation and its relation to the private sector. Key documents include the Law concerning the Belgian Development Cooperation of 19 March 2013, the Law concerning the Belgian Investment Company for Developing Countries (BIO) of 20 January 2014, the Law concerning the Belgian Development Agency (BTC) of 20 January 2014 and the Strategy Note on the Local Private Sector (2014). In these documents there is no explicit recognition of the conceptual distinction between private sector in development and private sector development on the one hand, and private sector for development and engaging the private sector on the other hand (see section 2.2). A screening of their content shows that these documents all convey a strong focus on private sector development and hold little to no references to engaging the private sector for development. Also considered as relevant are the Strategy Note on the Belgian Development Cooperation in the Middle Income Countries (2013), the Strategy Note on Fragile Situations (2013), the Strategy Note on Trade for Aid, and the Strategy Note for the Agricultural Sector (2010). Any references to the private sector in these documents are, again, related to private sector development.

Except in relation to private sector development, the screened policy documents do not provide guidelines on interactions of development actors with the private sector nor discuss the Belgian position on engaging the private sector for development. This is an interesting observation in its own right. There is no doubt that the private sector, in different shapes and sizes, is an important player in, i.a., the agricultural sector, the health sector or the educational sector in many developing countries. Consequently, development actors active in these domains unavoidably interact with the private sector. The policy framework clearly emphasize objectives such as fair, inclusive and sustainable economic growth, decent work, human rights, or the fight against corruption, but does not give clear indications on what such objectives and principles mean for interactions with business.

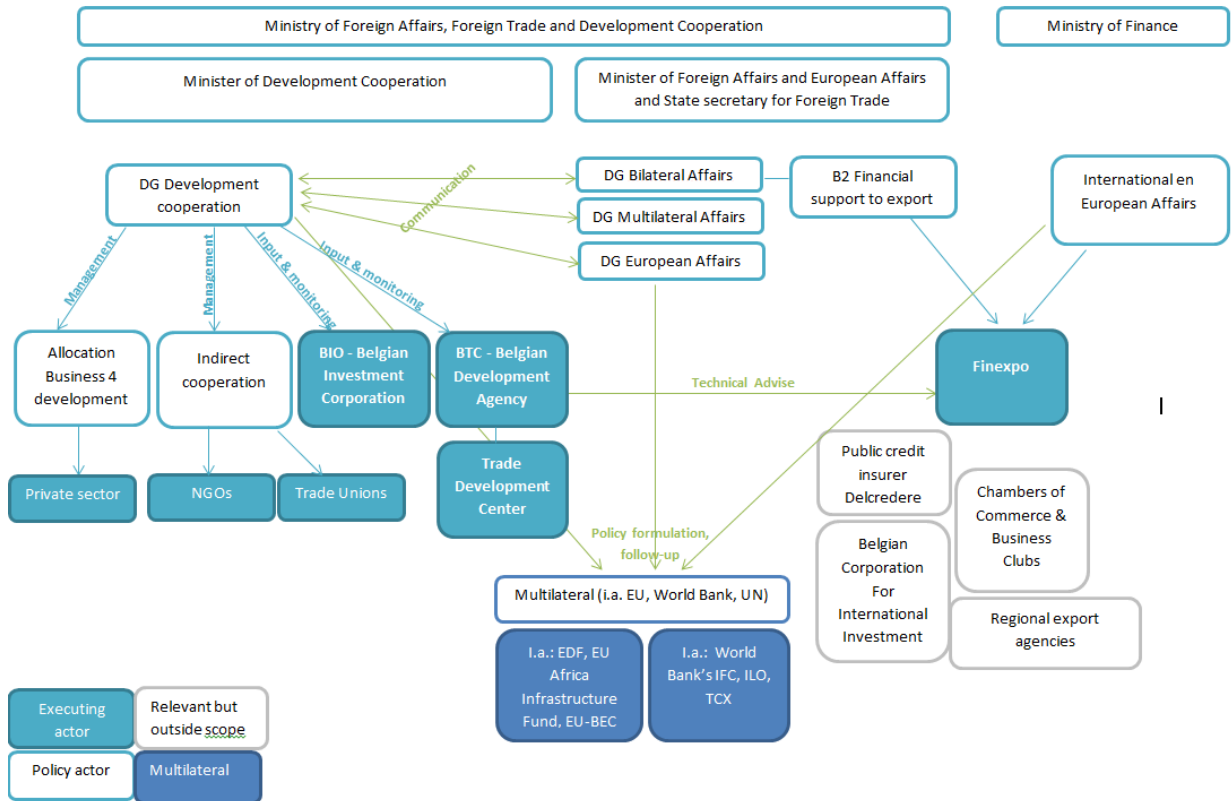
4.2 Actors, institutional set-up & instruments

The Strategy Note on the Local Private Sector (2014) stipulates that the Belgian development cooperation, in pursuit of its strategy to support local private sector in developing countries, can appeal to several actors that ‘have specialized in support to the private sector’ (The Belgian Development Cooperation, 2014, p. 13). These are: the Belgian Investment Company for Developing Countries (BIO), the bilateral cooperation executed by BTC, its Trade Development Centre (IDC), and some NGOs. It also identifies additional actors that ‘due to the nature of their mandate are, directly or indirectly, involved in the development of local private sector’: Finexpo, Credendo/Delcredere, regions and communities and the Federal Public Service of Finance (The Belgian Development Cooperation, 2014, p. 17). Other policy documents and interviews with

¹⁰ Obviously the role of the private sector in development is an issue that cuts across different policy domains, not in the least those of foreign affairs, foreign trade and finance. An exhaustive screening of policy documents in all the relevant domains was outside the scope of this study, but the following sections do take into account some of the relevant actors or developments in these domains.

different Belgian development officials help to complete the picture of actors that somehow play a bridging role between development cooperation and private sector and contribute to clarifying the different roles of and connections between the actors that have direct relations with the private sector within a broader development objective. The overall picture has been visualized in an actor map (see figure 4.1).

Figure 4.1 Belgian actors involved in private sector in development



The figure above includes the different actors that have been identified as relevant (in policy documents or expert interviews) in existing interactions between official development cooperation and private sector. It is not limited to actors inside the competence of Development Cooperation, but the focus is on actors that (can) play a role in direct and indirect bilateral cooperation. As a consequence only key multilateral actors have been included. The map distinguishes between policy actors and executive actors¹¹ with the latter being highlighted (cfr. the filled boxes). The map also indicates the type of relation actors have with each other: in some cases policy actors directly manage an executive actor, whereas in other cases the latter operate more independently. Some actors maintain open communication lines, whereas others do not. As the maps shows, Belgian development cooperation counts a rather limited number of actors that have activities related to the private sector. The following section discusses the lead actors in more detail.

The table below (table 4.1) illustrates the type of activities and the scale of the respective budgets that some actors (in the competence of Development Cooperation) deploy in their interaction with the private sector.

¹¹ The executive actors have the most direct interaction with the private sector and private sector engagement is also an explicit part of their mandate, whereas policy actors are more involved in policy making and follow-up of policy implementation. Obviously the two can overlap.

Table 4.1 Overview of actors and budgets

Actor	Type of activities	Budget	Budget period
Trade Development Centre (TDC)	- Improve access to markets - Awareness raising - Capacity building	13,000,000	2014-2017
Belgian Investment Corporation (BIO)	- Capacity building - Improve access to finance	210,000,000 + 10,000,000	2014-2018
Allocation 'Entrepreneurship for Development' (support to NGOs Agricord and Ex-change)	- Capacity building through peer-to-peer approach	6,000,000	2015-2017
NGAs	- Different activities (from capacity building to lobby and advocacy) depending on the actor and the program	Programmafinanciering	2014-2016

4.2.1 Directorate General Development Cooperation

The central actor at the policy level is de Directorate General Development Cooperation (DGD), situated in the Ministry of Foreign Affairs, Foreign Trade and Development Cooperation. DGD delegates the implementation of the development policy to several other actors: the Belgian Development Agency (BTC), the Belgian Investment Company (BIO), different non-governmental actors (such as NGOs and trade unions) and several multilateral institutions.

DGD coordinates several **thematic platforms** - e.g. on agriculture, food security or health - that bring together different stakeholders. Although the role of the private sector in these domains is at times subject of discussion, it is not a standing item on the agenda of these platforms. The strategy note on the private sector announced the establishment of such a platform on 'entrepreneurship for development' in which representatives of public, private, and non-governmental organizations as well as advisory councils and representatives of the private sector could participate. However, until now the platform has not been launched.

Within DGD, the **Direction Inclusive Growth (D2.2)** is the sole department that has inclusive growth and the private sector in developing countries as focal points. Its tasks are to maintain necessary in-house expertise on the topic, to provide input to and monitor the activities of BTC and BIO (see below) and to manage the partnerships on the budget 'entrepreneurship for development'. The latter supports initiatives that build the capacity of organisations of entrepreneurs and of micro, small, and medium sized enterprises (MSMEs) in partner countries of the Belgian development cooperation. Currently Ex-Change, an NGO that acts as a matchmaker between Belgian experts and capacity challenged enterprises in developing countries, and Agricord, a network of non-governmental organisations for development cooperation in the rural sector receive support. Additionally D2.2 advises DGD on other partnerships with non-governmental actors, it participates in relevant international policy discussions and maintains communication with other departments. Its involvement in international policy discussion on mobilizing private resources for development is illustrated by its participation in the EU Blending Committee (EU-BEC). It maintains basic contacts with the Directorates Bilateral Affairs (DGB) and European Affairs (DGE), which both have competences related to the role of private sector in international cooperation: the latter is involved in the follow-up of the aid for trade agenda at the European level, whereas the first is responsible for Belgian economic diplomacy. Direction D2.2 has a capacity of 1,5 FTE to do these tasks.

DGD also steers the indirect development cooperation, through partnership programs with **non-governmental actors**, such as trade unions and NGOs.

Some of the Belgian **multilateral development cooperation** also has a clear private sector linkage. Belgium is shareholder to the World Bank and with 15.4% of the total DGD budget in 2013 the World Bank is (budget wise) the most important multilateral partner of Belgian development cooperation.¹² Besides debt relief operations of the HIPC and the MDR, the Belgian mandatory contributions to the World Bank also finance the International Development Association (IDA) and are used for capital increases of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC). All three IDA, IBRD and especially IFC have a private sector development agenda.¹³ In fact the IFC's prime goal is private sector development in developing countries, through the provision of loans and advice and the participation in equity. Or, as their website states: "IFC blends investment with advice and resource mobilization to help the private sector advance development". Belgian support to other multilateral organization, such as for example the International Labour Organisation (ILO), and UN agencies as IFAD (International Fund for Agricultural Development) and FAO can also have a strong private sector component, for example when looking into increasing agricultural production or impacting on labour conditions, but is arguably less oriented at mobilizing private (financial) resources for development.

On the European level the European Development Fund (EDF) is a relevant channel to take into account when considering private sector engagement in development cooperation. The EDF is financed by direct contributions from EU Member States and is the main instrument for European development cooperation with the African, Caribbean and Pacific (ACP) states. The EDF makes use of grants, venture capital and loans to the private sector to promote economic, social and human development and regional cooperation. One of the funding windows of the EDF is the EU Energy Facility. It aims to foster sustainable access to energy and can use co-financing with private players to do so. Also related is the Belgian participation in the EU Africa Infrastructure Fund, established by the EDF. Since its contribution of 1 million EUR in 2008, Belgium remains involved in the management of the portfolio. Currently an important attention point on the EU-level is the Belgian participation in the EU Platform for Blending and External Cooperation (EU-BEC). This priority is in line with the strong emphasis on blending as the EU's main instrument to mobilise private sector resources for development (Interview Reis Condé, January 2015). Currently the focus in the EU-BEC platform lies on policy development on blending, with the securing the underlying objective of poverty reduction and with the governance of the EU blending facilities high on the agenda.

Finally, also on the radar should be the fervently searched after synergy between the agendas of climate change mitigation and adaptation on the one hand and private sector engagement on the other. Many instruments that fund climate change mitigation and adaptation in developing countries¹⁴ attempt to leverage additional private finance or to facilitate private development and

¹² Because of the gradual decrease of the voluntary Belgian contributions to the World Bank, currently only one additional program is financed on the budget of development cooperation: Global Partnership for Education (GPE).

¹³ IDA is the institution that provides guarantees, advice, concessional loans and grants to LICs. Although a less prominently part of its core mission, private sector development is also firmly on its agenda. The IDA complements the IBRD, the original self-sustaining lending arm of the World Bank. The IBRD provides loans and advice to middle-income and credit-worthy poor countries. IFC, a member of the World Bank Group, is the largest global development institution focused exclusively on the private sector in developing countries. It finances and provides advice for private sector ventures and projects in developing countries in partnership with

¹⁴ The DGD mainly contributes to the Global Environment Facility's climate funds, the Least Developed Countries Fund and the Special Climate Change Fund. In 2013, a contribution was also made to a special adaptation programme for small farmers organised by the International Fund for Agricultural Development (IFAD).

implementation of projects contributing to low-carbon development. For example the Green Climate Fund, to which the federal government contributed 50 million Euro from the budget for development cooperation, also has a Private Sector Facility. A full account of the relevant resources flows and policy instruments mobilizing them is beyond the scope of this paper. However, in the framework of BeFinD HIVA also conducts research on climate related development flows.

4.2.2 Belgian Development Agency (BTC/CTB) and its Trade Development Centre (TDC)

A key implementing actor is the Belgian Development Agency (BTC/CTB). BTC was established in 1999 and is responsible for the execution of the direct, bilateral cooperation. Its establishment, mandate and management are stipulated in the law of 21 December 1998, subsequently revised in 2002, 2004 and 2014¹⁵. Originally it had a relatively broad mandate with regard to its interaction with the private sector covered a.o. by its competence of implementing ‘financial cooperation’ with Belgian partner countries, which included participation in venture capital of development banks and private enterprises (Law of 21 December 1998, Art 2, 17° and Art. 5, § 2, 3°; Parl.St. Kamer 2000-2001, nr. 1349/1, p. 31). However, with the establishment of the Belgian development bank, BIO Invest, (see below) in 2001, the mandate of BTC regarding the private sector has been revised (Parl.St. Kamer 2000-2001, nr. 1349/1, p. 31).

Both in 2001 and 2013 when the laws on BIO¹⁶ were on the drafting table, Belgian policy makers were asked by the Council of State to clarify the difference between the two public corporations (BTC and BIO) that both have a mandate to work with the private sector in developing countries¹⁷. In response, the law of 3 November 2001 establishing BIO differentiated the mandates of BTC and BIO more clearly by emphasizing that BIO’s support to the private sector would be in line with market conditions and would be profit-seeking. BTC’s activities did not need to be market conform and would not be aimed at financial return. It was added that BTC’s support to the private sector in developing countries would entail “more specifically technical assistance and knowledge transfer” whereas it previously also covered participations in venture capital and BTC was restricted from deploying activities that fall within the scope of BIO (Parl.St. Kamer 2000-2001, nr. 1349/1, p. 31; Parl. St. Kamer 2013-2014, nr.3062/01, pp.8-9). With the revision of the law on BIO in 2013, BIO was given de mandate to provide grants for technical assistance and feasibility studies. This equalled the provision of financial support below market conditions and the deployment of activities that would not be profitable and would present as expenses on the Belgian budget. The issue of duplication between BIO and BTC was raised again, but debated by limiting BIOs support to only those companies that are either already in BIO’s portfolio or that are prospective beneficiaries, and by specifying that the support of maximum 100,000 EUR should be matched by the beneficiary (Law of 20 January 2014). In summary, the legal framework attempts to provide a strict task division between BTC and BIO, which is also embedded in the type of budget both organisations receive¹⁸.

15 21 DECEMBER 1998. - *Wet tot oprichting van de “Belgische Technische Coöperatie” in de vorm van een vennootschap van publiek recht.*, 1998

16

17 More specifically, the Council of State did not understand the interest of “making two public corporations with competences regarding development cooperation each other’s competitor (...)” (Parl.St. Kamer 2000-2001, nr. 1349/1, p. 23, my translation). For more information consult the Advices of the Council of State 31.222/4 and 53.964/2/V attached to the respective bills: *Wetsontwerp tot oprichting van de Belgische Investeringsmaatschappij voor Ontwikkelingslanden*, 2001, pp. 21–26, *Wetsontwerp tot wijziging van de wet van 3 november 2001 tot oprichting van de Belgische Investeringsmaatschappij voor Ontwikkelingslanden en tot wijziging van de wet van 21 december 1998 tot oprichting van de “Belgische Technische Coöperatie” in de vorm van een vennootschap van publiek recht*, 2013, pp. 26–39. {

18 More specifically, BIO functions with a budget with economic code 8, which means it does not present as expenses for the Belgian state. BTC on the other hand, works on a budget ‘code 5’, which does feature as expense on the development cooperation budget. In case certain activities of BIO would not be profitable, they would fall with this category too, and would therefore weigh on the development cooperation budget.

However, a question to be raised is whether, in its current practice, BTC makes full use of its legal mandate to work on and with the private sector. The role of the BTC as the main implementer of the government development cooperation and of its Trade Development Centre (see further) in supporting private sector development through technical assistance and knowledge transfer are well established. The current legal framework (the law of 21 December 1998 on the establishment of BTC revised in 2014) stipulates at least four additional points: Firstly, BTC is also¹⁹ authorised to conduct programs for financial cooperation, debt management and trade promotion (Art.5, §2, 3° and Art.6, §1, 5°). Secondly, BTC is allowed to close agreements with different types of institutions or organisations, including private ones, for the provision of subsidies if these organisations are not profit-seeking (Art.8). Thirdly, BTC is allowed to participate in private initiatives if they do not fall within the mandate of BIO (Art. 9). Fourthly, the minister can ask BTC to take on additional tasks on top of what has been stipulated in the ongoing contract (Art. 6). The current mandates and descriptions of tasks of BIO and BTC suggest that BTC, and only BTC, is authorised to do non-profitable investments in the local private sector. This could be an interesting option to explore, because BIO's obligation to remain profitable, limits its possibilities to support financial intermediaries and investment funds that target micro- and small enterprises, because of the overhead costs and the high risks. If requested, BTC could in theory participate in (indirect) financing of microenterprises.

At the moment however BTCs activities remain focused on governmental development cooperation, supporting private sector development and promotion of sustainable trade. Most of the tasks regarding the private sector have been clustered in a specialised program: the **Trade for Development Centre (TDC)**. According to the current 2014-2017 agreement, the specific objective of the TDC is to improve the access to markets for (organisations of) producers based in one of the partner countries, and to promote sustainable trade. It will in particular do so by building the capacity of (organisations of) MSMEs. To achieve this it provides financial and technical assistance to MSMEs in developing countries and it mounts awareness raising campaigns on sustainable trade targeting Belgian public, companies and policy makers. It will also support DGD as well as the geographical desks within BTC, on their approaches to or interactions with the private sector in partner countries.

Although the TDC is BTC's specialised unit on private sector for development, other activities of BTC also have linkages with private sector. BTC contributes to TradeMark East Africa, a not-for-profit company that supports the growth of trade - both regional and international - in East Africa. TradeMark East Africa (TMEA) is focused on ensuring gains from trade result in tangible gains for East Africans. BTC also contributes to the EAC Partnership Fund, a basket fund mechanism with annual contributions from the development partners that is used to support projects and programmes that are geared towards regional integration. BTC provided technical support and expertise to the Vietnamese government for setting up a Green Growth Strategy Facility (GGS Facility), aimed at supporting green growth in Vietnam.

4.2.3 The Belgian Investment Company, BIO Invest

Second heavy weight is the Belgian Investment Company, BIO. BIO was established in 2001 with a start capital of 4,957,873 EUR, of which 50% of the shares were in the hands of the Belgian state and 50% in the hands of the Belgian Cooperation International Investment (BMI). However, in view of the limited prospect for synergies between BMI's and BIO's investment approaches, BMI

¹⁹ Next to the implementation of programs and projects of the governmental cooperation, and of actions to support the local private sector in partner countries through technical assistance and knowledge transfer.

withdrew. End of 2013 the Belgian state became sole owner of BIO, of which the total capital at that moment amounted to 600 million EUR (bio, 2014; Federale Overheidsdienst Buitenlandse Zaken, 2014). Combined with a CSO campaign questioning the role of BIO (Van de Poel, 2011), this set the scene for an important reform. It was aimed at improving the development relevance of BIOs activities as well as their complementarity with the other activities of the Belgian development cooperation, and in particular those of BTC .

BIOs main goal is to support private sector development in developing countries, with the underlying objective of creating sustainable employment that is in line with the fundamental social rights as stipulated by the International Labour Organisation. Its original mandate upon establishment in 2001 was to invest in the development of companies seated in developing countries in pursuit of the economic and social progress in those countries (law of 3 November 2001 on BIO, Art.3, §1). The reform in 2014 rephrased and focused the mandate, directing BIO to investments in the development of micro, small and medium-sized enterprises and enterprises in the social economy in developing countries while ensuring sufficient return on investment. BIO is also asked to invest in energy projects and projects contributing to climate change mitigation in developing countries, and in basic service providers in developing countries (law of 20 January 2014, Art.4). To do so, BIO can use medium and long term loans, participation in equity, guarantees, and hybrid financial instruments.

However, there are some important conditions. First of all, the investments need to be profitable. Following the recent reform, BIO is supervised by the Institute of National Accounts and has to report on its portfolio several times a year (in theory this is now monthly instead of yearly). This also means that it has to account for the profitability of its individual investments (and no longer of its average portfolio). Secondly, all investments have to be untied. Thirdly, each intervention needs to be in line with criteria regarding environment, social rights, labour conditions and additionality.

BIOs current activities follow 4 main tracks: indirect finance to micro and small enterprises by supporting financial institutions that target MSEs, participation in investment funds that invest in equity of SMEs, financing basic infrastructure, and directly providing finance to medium sized enterprises (mostly loans). The question is raised that the current requirement for profitability pushes BIO to be risk averse: if an investment does not meet the profitability requirements it would unexpectedly fall on the development cooperation budget.

4.2.4 Finexpo

FINEXPO was created by Royal Decree of 30 May 1974 ‘to reinforce the Belgian instruments for financial support to export’. FINEXPO is an inter-ministerial advisory committee managed by the Directorate Financial Support to Export (B2) within the Federal Service Foreign Affairs, Foreign Trade and Development Cooperation, and by the Administration for International and European Financial Affairs of the Federal Public Service for Finance. Its mission is to support the export of Belgian capital goods and related services to developing countries ‘taking into account these countries’ developing needs and the need for economic, environmental and social sustainability’ (Federal Public Service of Finance, 2013, p. 4).

Finexpo offers Belgian companies who wish to export to developing countries the opportunity to apply for State to State loans, grants, interest indemnification (with grant), interest indemnification (without grant) and interest stabilization. Of these 5 instruments, 4 could be registered as ODA (except interest stabilization). All should be considered as ‘tied aid’ except for the provision of state to state loans to Least Developed Countries and Heavily Indebted Poor Countries (HIPC) that, in

line with OECD agreements, has to be untied. The untied support to HIPC is limited to projects in the sectors of rural electrification, public transport, water, dredging, health, education and R&D. Finexpo's intervention options thus depend on the type of country the export is targeting, but otherwise Finexpo's geographical scope is not restricted (it can operate in all non-European countries). For both the tied and the untied component, only non-commercially viable projects are eligible. In some ways these instruments have a blending component, as they combine loan with grants. However, the current use of the term blending emphasizes the strategic use of the grant element to leverage additional finance as a complement to development funds. When combining grants and loans, Finexpo does not necessarily aim for this multiplier effect (the project has to be non-commercially viable) (Federale Overheidsdienst Financiën, 2013; Federal Public Service of Finance, 2013).

In 2010 an external evaluation of Finexpo's ODA related instruments revealed that the absence of a broad policy framework was not compensated by an internal strategy. Finexpo was operating without clear guidelines to evaluate the trade- and development relevance of project proposals, and the development relevance of specific projects was not cross-checked with the development strategies of the countries involved. Finexpo mostly relied on the advice of embassies and World Bank. Another important critique was that unsustainability of Finexpo's support: the trade relations that were made possible by Finexpo's support did not allow Belgian companies to permanently penetrate the market and continue without Finexpo support. Another important remark of the evaluators was that Finexpo's support in fact benefited a limited number of companies: over a period of 10 years, 38 companies benefited from Finexpo support, with 52% of the total budget attributed to just 5 companies.

Table 4.2 Main Belgian development actors: who uses what instruments to target which private sector?

Actor	Key instruments/approaches	Target
DGD	Currently managing relations with development actors who work directly on/with private sector	Belgian development actors
	Financing activities regarding private sector development by Agricord and Ex-change	Belgian stakeholders in private sector related development cooperation
	Considering a private sector stakeholder platform but limited capacity is an obstacle	Belgian stakeholders in private sector related development cooperation
	Policy development on blending at EU level (EU-BEC)	EU blending facilities
	Contributing to European and multilateral development institutions with private sector development and private sector engagement activities.	-
BTC	Technical assistance Grants	
TDC	Capacity building Assistance to get certification Market studies Matchmaking	(Organisations of) small producers
	Awareness raising	Belgian private sector Government actors Broad public
BIO	Medium and long term financing in the form of: Loans Participation in equity Guarantees Non-reimbursable subsidies for technical assistance	Regional or local intermediary structures (microfinance institutions, commercial banks, non-bank financial institutions, and investment companies and funds) that support MSMEs and microfinance institutions MSMEs and large companies with a local foothold in LDCs and MICs
	Medium and long term funding in the form of: Loans Equity Quasi-equity Guarantees	Private infrastructure projects, energy project, climate mitigation projects, basic service providers
Finexpo	State to state loans (tied) Grants Interest indemnification (with or without grant)	Belgian exporters Importers in developing countries Banks involved in the deals
	State to state loans (untied)	HIPCs
NGA	Private sector development Esp. capacity building	local SMEs and smallholder farmers
	Awareness raising Capacity building on development impact and sustainability of business practices Watchdog business practices Lobby and advocacy	Belgian private sector, government, broader public

4.3 Analysis

Belgian development actors are doing PSD with an occasional touch of PS4D. The existing policy framework, the mandates of the different development actors, and the general and specific objectives of different instruments show a clear focus on private sector development, in policy and practice. However, in some instances development actors are engaging the private sector for development. A first example is DGD's support to NGOs that match Belgian entrepreneurs with

capacity constrained SMEs in development countries (on the budget ‘entrepreneurship for development’). Here the Belgian private sector is approached as provider of expertise, while the local private sector is the beneficiary of capacity building. A second example of PS4D are all instances where Belgian development actors are investing in funds that also aim to attract private financiers, such as the EU African Infrastructure Fund, or TradeMark East Africa. The grant support by donor agencies is used to make the fund more attracting to private funders. When these funds are used for PSD, the private sector in developing countries acts as the beneficiary of financial support, often in combination with capacity building and sometimes in combination with efforts to build a more enabling environment. The international private sector acts in such instances as providers of finance. A third example, is TDC’s awareness raising on sustainable development, where the Belgian private sector is considered a target (that can be pushed to change its procurement practices), and where Belgian and local private sector are also approached as reformers, by looking for ways to introduce fairer and more sustainable products to the market. However, across the board the mapping revealed few instances where private sector is approached in the role of reformer, developer or participant in policy dialogue.

A second set of observations is related to the institutional set-up and how it allows for a good alignment of the current work on private sector amongst different actors. Firstly, the current practice²⁰ limits BTC’s reach to partner countries only, to a maximum of three sectors in each country, and to grants and technical assistance as key tools. At the same time Finexpo can operate in much more developing countries and sectors, and it can provide loans. The question is whether this task division allows the most appropriate actor to intervene with the most appropriate tool. The example of the BTC grant to the Moroccan government for a water conservation scheme, while Finexpo provides an untied loan to Niger for the improvement of access to drinking water suggests otherwise. One could argue that a grant would be more suited in a HIPC country, while a loan could also work in Morocco.

A similar issue may hinder an ideal specialization of BTC and BIO. When in 2014 the management contracts of the two institutions were due, the drafting happened separately from each other. No joint sessions were held to ensure complementarity and avoid duplication. This demonstrates the limited awareness of the need to consider each actor as a part of a bigger institutional landscape. Its current mandate pushes BIO to ensure a considerable return on investment. This may force BIO toward more risk adverse investment behaviour, avoiding direct involvement and investments in the more risky micro- and small enterprises. In theory BTC could bridge this gap, as contrary to BIO it can spend money without needing a return on investment, but its current contract doesn’t give it a strong mandate to go beyond grants and technical assistance and do investments. Charging BTC with the task to participate in specialized funds that target the risky segment of micro- and small entrepreneurs, if necessary supported by BIO’s expertise, could help Belgian development cooperation reach a group that is now hard to target.

²⁰ Although the provisions in the law of 21 December 1998 revised in 2014 suggest room for manoeuvre in this regard, in particular in view of article 6 that offers the possibility to extend the management contract between BTC and the Belgian State to include additional tasks.

5 | Donor strategies: key dividing lines

5.1 Three donors in the spotlight

To provide a comparative perspective, the study looks into the policies and practices on mobilizing private resources for development of three OECD-DAC donors: The United Kingdom (UK), the Netherlands, and Switzerland. This selection was based on the literature review that indicated that both the UK and the Netherlands were frontrunners with regard to mobilizing private resources for development. In the past 5 years they have both made strong policy statements and implemented new policies and instruments to strengthen the ties with the private sector. However, the rationale and context of this policy demarche in both countries seems to be very different. Switzerland was selected as a case because of its comparability with Belgium, it also being a relatively small donor (total ODA in 2013 3.2 billion USD) and in the process of developing its development policy and practices with regard to the role of the private sector in development. The EU has also been touched on in this study because of its strong stake in blending.

The collected information reveals that there are some common issues that these donors had (or have) to deal with when tackling the debate on private sector for development, and that their responses differ. Firstly, the forces and rationale driving a reconsideration of the role of the private sector in the development cooperation vary. How does this affect the direction of future policy? Secondly, the institutional set-ups for interaction between development cooperation and private sector differ. How does this determine the possibilities and constraints for policy formulation on private sector for development? Thirdly, specific thematic and operational choices are made. What issues have come up in the implementation of these different choices? This section describes how these issues have so far played out in The Netherlands, the United Kingdom, and Switzerland.

5.2 Issue 1: driving forces and rationale

5.2.1 The Netherlands

The development of its private sector component has been a dominant feature of the Dutch development cooperation of the past 5 years. In 2010 a critical report by the Dutch Scientific Council to the Government (WRR) recommended a.o. that Dutch development aid should focus more on economic growth instead of on investment in education and health. Together with the push for austerity measures and changes in the government, this set the scene for a heated political as well as public debate on development cooperation (Spitz, Muskens, & van Ewijk, 2013). What followed were two rounds of deep budget cuts (in 2010 and again in 2012) and a fundamental review of the privileged partners in official development cooperation. The extensive financing of Dutch development NGOs was radically cut, and more money was earmarked for cooperation with the private sector (Zijlstra, 2010).

This shift in Dutch development cooperation was not a sterile budgetary one: it was accompanied by a fundamental reformulation of the underlying rationale of development cooperation. The Netherlands defined economic growth in developing countries as well as the promotion of Dutch

commercial interests as the main objectives of its development cooperation. The Dutch government stresses national interest, the need for a win-win and the success of the Dutch companies abroad as guiding principles of its development cooperation and embraced the alignment of development cooperation with foreign trade and national commercial interests (Government of the Netherlands, n.d.; Ploumen, 2013). Taking into account the whole history of Dutch development cooperation, this policy shift is less deviant than may seem at first sight: from the 70s onwards human rights and the struggle against global inequality gained importance in the Dutch development policy, but in fact commercial interests have been leitmotif in Dutch development cooperation since its beginning, more so than geo-political interests (Spitz *et al.*, 2013). Still, the past five years can be considered as tumultuous for development cooperation: for the first time since the 70s did the ODA budget fall below the 0.7%, while simultaneously economic self-interest has moved to the forefront of development policy discourse.

This stance of the Dutch development cooperation does not match well with the international efforts to untie aid. In its 2011 peer review, the OECD-DAC made the recommendation that development objectives should not be ‘confused with the promotion of Dutch commercial interests’ (OECD, 2011). At the same time, the policy shift illustrates a growing consensus that the current ODA definition is outdated. Although the Netherlands has untied its ODA beyond the requirements of the OECD-DAC recommendation regarding tied aid, this position is now being reconsidered. This is illustrated by the strong opposition of current Minister for Foreign Trade and Development Cooperation, Liliane Ploumen, against a motion to confirm the Dutch abstinence of tied aid: ‘I have to advise against this motion on tied aid. Combining aid and trade demands new solutions that fit with this new era’. The House of Representatives, including most left-wing parties, voted against the motion (Brouwers, 2014).

5.2.2 The United Kingdom

The British Department for International Development (DFID) has always worked with and on the private sector, but initially in a fragmented and ad hoc manner. Throughout the first decade of this millennium this tradition was scaled up gradually with UK’s lead participation in the Private Infrastructure Development Group (PIDG), a participation in several global funds working with private sector and several ‘business alliances’ to foster corporate social responsibility and inclusive business. However, as of 2010 the private sector really shifted to the top of the British development agenda (Interview DfID, January 2015). Unlike the case of the Netherlands, this demarche did not happen in the context of a heated public debate, or in the context of ODA budget cuts. On the contrary, committed to meeting the target of 0.7% of gross national income (GNI) to development cooperation annually, the UK government ‘ring-fenced’ aid spending from any cuts. In contrast to a real-terms reduction in total public expenditure of 11.5% between 2010-11 and 2014-15, development aid expenditures increased by 40%. It is in this context of a budget increase that DfID’s mandate and institutional structure to work with and on the private sector have been strengthened. Similar to the Dutch case, the development agenda was clearly broadened from working on private sector development, to working with the private sector. Interestingly, in the case of the UK the promotion of national interest and strengthening the position of British entrepreneurs abroad didn’t and still doesn’t feature prominently in the policy discourse. Instead, developing the local private sector and engaging the business community in development are at the core. The UK too has untied its ODA beyond the requirements of the OECD-DAC recommendation regarding tied aid. Tied aid is illegal in the UK by virtue of the International Development Act, which came into force on 17 June 2002. Since creating opportunities for UK businesses wasn’t the angle of the policy shift, this has not been challenged, although DFID does

do efforts to make UK SMEs aware of procurement opportunities in developing countries (Interview DfID, January 2015).

5.2.3 Switzerland

Reflection and policy development on the role of the private sector in Swiss development cooperation built progressively since 2009. Although Swiss economic growth has been dampened by the financial crisis and the high Swiss franc delays its recovery, Swiss economy is doing relatively well. This, and the 2011 decision to proceed towards an ODA/GNI ratio of 0.5% by 2015 show that the rise of the private sector in development policy is not so much inspired by a context of austerity measures and an ODA budget under pressure. Instead, a 2006 independent evaluation of SDC's partnership approach, the follow-up of the 2009 OECD peer review, profound institutional reforms in the development cooperation structures between 2009 and 2012, and the formulation of the first single comprehensive strategy for development cooperation in 2012 have been the main factors that enabled and stimulated the ongoing policy shift. A priority objective of the 2013-2016 Message on Development Cooperation is to develop more strategic partnerships with the private sector. The latest OECD peer review commends the progress made in this domain but also encourages the operationalization of this objective, through the development of the right tools and instruments for effective partnerships with the private sector. Particular attention should be paid on the catalytic use of ODA to attract other forms of development finance. Both Swiss development agencies - SDC and SECO - are in the process of doing so, drawing on their existing experience in working with the private sector as well as on academic input and stakeholder dialogues. Like UK and the Netherlands, Switzerland untied its aid beyond the requirements of the OECD-DAC recommendation. In 2012 its untied aid stood at 96%. However, SDC officials do feel an increased demand to develop the links between development cooperation and Swiss companies. SECO also does not shy away from working with Swiss private sector. Its direct partnerships with Swiss firms are mainly at partner-country level and aimed at increasing the export capacities of local firms for sustainable trade. It also uses matching funds to mobilize the expertise of Swiss SMEs (SECO, 2013).

5.2.4 The European Union

The rise of the private sector in European development policy is illustrated by the increased focus on private sector in subsequent policy reforms: The 2011 Agenda for Change made inclusive and sustainable growth a main priority and put innovative financing and blending on the agenda. The 2013 evaluation of the EU's private sector development (PSD) activities led to the strong reconfirmation of the EU's role as important donor in this area.²¹ The 2014 EU Commission Communication on 'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries' put the private sector at the forefront of international development in EU partner countries and proposed 12 actions to address the role of the private sector in development (European Commission, 2014). The Council Conclusions of December 2014 confirmed this position and further explored ways of working with the private sector in order to harness its expertise and resources for inclusive and sustainable development (Council of the European Union, 2014). This policy build-up illustrates how the private sector related development work of the EU has expanded to different fields: private sector development, private sector engagement, private sector resource mobilization, with blending being one of the eye catchers in the EU toolkit. Member states have committed to this expanding private sector agenda but the policy shift is not welcomed uniformly. NGOs as well as research institutes have voiced their

²¹ The commission has spent about €350m (£284m) a year supporting private sector development over the past decade.

concern. They point out the high risk of profit-making motives outweighing poverty reduction objectives when using public resources or ‘leverage’ private finance. They are also worried about the commission decision to identify social services as an opportunity for private sector engagement (Eurodad, 2014a; Eurodad & CRBM, 2011).

5.2.5 Convergence and divergence

In several OECD-DAC donor countries private sector is rising on the development policy agenda. This is not just the case in the UK, The Netherlands, Switzerland or the EU. Across the board donors stress the crucial role of private sector in global sustainable development, and many of them are exploring the implications for development cooperation policy. However, the context in which these policy (re)formulations can differ dramatically, depending on historical, budgetary and political factors and the windows of opportunity they create.

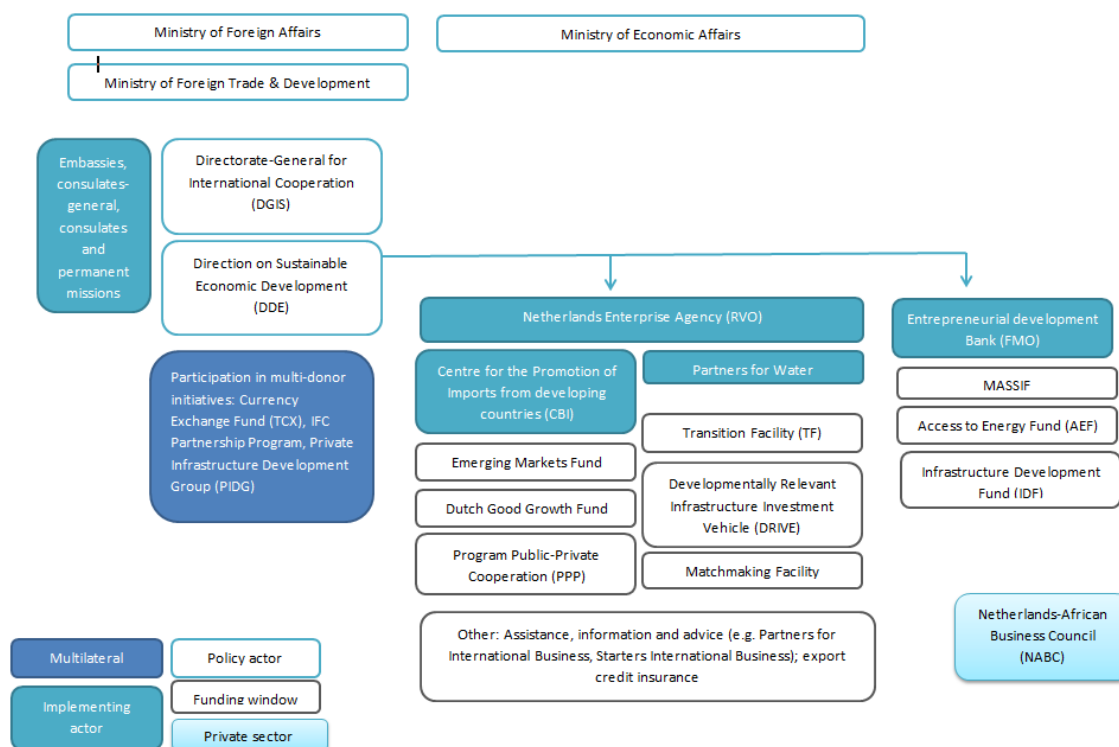
5.3 Institutional set-up

5.3.1 The Netherlands

Total ODA budget (estimate for 2015): 3.7 billion euro; **Budget for ‘sustainable trade and investment’** (estimate for 2015): 523,7 million euro of which 267,9 million euro is ODA; **Main executing actors:** Netherlands Development Finance Company (FMO), Netherlands Enterprise Agency (RVO) and Embassies (Ministerie Buitenlandse Zaken, 2014).

The gravitation of Dutch development policy towards win-win and economic self-interest has also had repercussions for the institution set-up in development cooperation. Since 2012 foreign trade and development cooperation fall within the competence of one and the same cabinet-level post (Minister of Foreign Trade and Development Cooperation), imbedded in the Ministry for Foreign Affairs. The Directorate-General for International Cooperation (DGIS) is responsible for development cooperation policy, its coordination, implementation, and funding. It has a separate Department on Sustainable Economic Development (DDE) that seeks to promote sustainable economic growth and improve income and employment opportunities in the partner countries. Next to its work on improving an enabling business climate, it also uses trade and investment instruments to stimulate business. This work is mainly outsourced to two organizations: the Netherlands Development Finance Company (FMO) and Netherlands Enterprise Agency (RVO). Between them the two organizations cover a wide range of facilities that appeal to the role of the private sector in development cooperation.

Figure 5.1 Overview of main Dutch actors and funds involved in PSD and PSE



* The filled boxes show the implementing actors.

FMO, the Dutch development bank, finances businesses, projects and financial institutions in developing and emerging markets, with the aim of supporting sustainable private sector development. FMO’s strong profile allows us to invest in higher risk markets, either with our own capital or on behalf of the Dutch Government. FMO manages several funds for the Dutch Government, which they invest in higher-risk projects. These government funds cover the financial risks that FMO is not able to tolerate alone, and allows FMO to support projects with a high risk profile that promise substantial development impact. MASSIF funds financial institutions that can stimulate the development of micro-, small- and medium-sized enterprises (MSMEs) in developing countries. Access to Energy Fund (AEF) funds private sector projects that aim to create sustainable access to energy services. The Infrastructure Development Fund provides long-term financing for infrastructure projects in low-income countries.

Netherlands Enterprise Agency (RVO) is part of the Ministry of Economic Affairs. The organisation has been in existence since 2014²² and encourages entrepreneurs in sustainable, agrarian, innovative and international business. It helps with grants, finding business partners, know-how and compliance with laws and regulations. Not all of its substructures or programs feature in the figure X, Amongst its programs and substructures: the Matchmaking Facility (MMF) to assist private businesses in emerging markets to establish links with Dutch companies to establish business relationships; the Centre for the Promotion of Imports from Developing Countries (CBI) that aims to contribute to the economic independence of developing countries by helping them sell their products and services in the European Union; the Transition Facility which helps Dutch SMEs to establish trade relations with Vietnam, South Africa and Colombia (transition countries); and the Dutch Good Growth Fund (DGGF).

22 RVO came into existence after a merger between NL Agency and the Dienst Regelingen.

With the DGGF, operational since only July 2014, the Ministry of Foreign Affairs aims to support Dutch and local businesses in emerging markets and developing countries. It will do so by providing export and investment financing through 3 tracks: (1) financing investments in Dutch SMEs in emerging markets and developing countries; (2) financing local SMEs in emerging markets and developing countries, via intermediary funds; (3) financing/insuring exports that are relevant for development from Dutch SMEs to emerging markets and developing countries. The support is given as loans and/or guarantees and not grants. Applicants have to argue activities the development relevance of their activities, measured in local employment creation, improvement of the local productive capacity and knowledge transfer. They also have to prove that they respect social and ecological sustainability dimensions.

Important to note is the role of The Netherlands-African Business Council (NABC), a network organization established in 1946 that aims to promote and position the Dutch private sector in Africa. What in 2007 was an organization with one director, one intern and around 80 member companies is now an influential platform manned by a team of almost 25 persons, and representing almost 400 Dutch member companies (and an increasing number of African companies). It has developed sectorial platforms, covering many different sectors, and is setting up a network of offices in Africa. NABC is organizes trade missions, conferences, seminars and business clubs for networking, and advice concerning business opportunities, investments or regulations in Africa. It also manages six strategic programs in different industrial sectors, consisting of Dutch companies, knowledge institutes and the Dutch government. These sectors are the ports, the dairy, water, poultry and vegetable sector.

The above described mix of government departments, non-governmental organizations, facilities, funds and programs can be simplified by the distinction between actors and tools: The whole of facilities, funds and programs has been coined the 'business toolkit' (cf. 'Bedrijfsleveninstrumentarium'). It can be broken down in two types of instruments: (1) the instruments for private sector development in developing countries and (2) trade- and investment instruments for (Dutch) companies that want to do business in developing countries (Rijksoverheid, 2014). The idea is that, in order to link trade to development cooperation, Dutch embassies in low- and middle income countries as well as (Dutch) companies can make an appeal to this elaborate package of instruments. In this the role of the embassies should not be underestimated. RVO and FMO are the main implementing agents, with DDE managing the participating in multi-donor initiatives. With all of the above and more, the Dutch institutional capacity to engage with the private sector in a development context seems extremely well-developed. However, this also presents challenges with regard to duplication and complementarity. This is demonstrated by the DGGF, of which the execution of the first two tracks (financing Dutch and local SMEs) in fact falls easily within the institutional capacity and expertise of FMO. Instead the DGGF instead been established within RVO,²³ a decision that was not supported by all.

²³ RVO acts as a coordinating front office of DGGF. The execution of tracks 2 and 3 are done by PWC/Triple Jump and Atradius Dutch State Business respectively.

5.3.2 United Kingdom

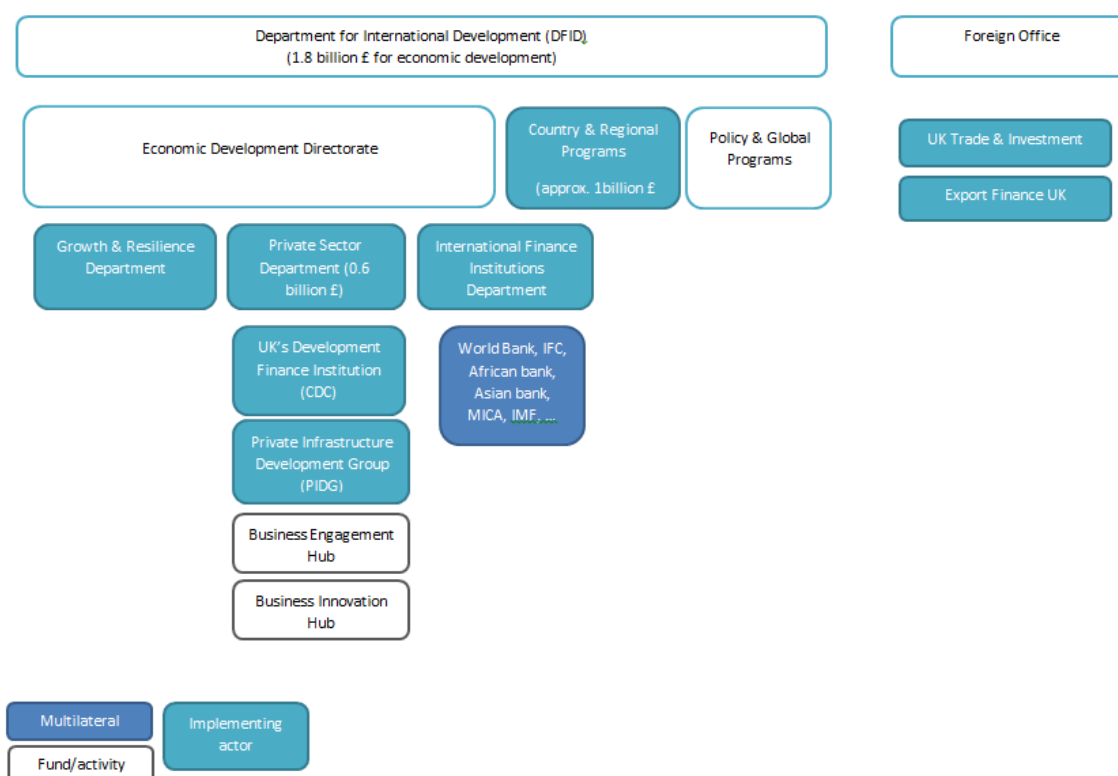
Total ODA budget (estimated for 2015/2016): 16,98 billion Euro (cfr.12,2 billion £); **Budget for 'economic development':** 2,5 billion Euro (cfr.1.8 billion £); **Main executing actors & instruments:** country and regional offices, private sector department, CDC, PIDG (UK AID Network, 2014; Interview DFID 2014).

It is my intention to recast DFID as a government department that understands the private sector (...)', said Secretary of State for International Development, Andrew Mitchell, on 12 October 2010 (DFID, 2012). His words resonated one year later, in the DfID strategy on how to put the private sector centre stage in its activities: 'Our new approach to working with the private sector is about us doing more with and for private enterprise, extending this work in new areas, and doing it better. We want private sector thinking to become as much part of DFID's DNA as our work with charities and governments' (DFID & UKaid, 2011, p. 2). That same year DfID launched its Private Sector Department to help raise the level, extent and effectiveness of its engagement with the private sector (DfID, 2011, p. 1).

In 2013 UK Secretary of State for International Development, Justine Greening, decided to further ramp up DfID's work on economic growth. DfID already had a substantial economic development portfolio, with around a fifth of its spending focused on this area. The budget for economic development stood at approximately 974 million Euro (cf. 700 million £) for the fiscal year 2014/2015. In 2015 DFID is scaling up financial and staff resources further. It has committed to spend 2,5 billion Euro (£1.8 billion) of its budget on economic development by 2015/16, more than doubling the amount spent in 2012/13. That is on top of indirect funding through core contributions to multilateral organisations. DFID has also doubled its number of private sector development advisers over the past two years and recruited a new Director General for Economic Development in June 2014 to help drive forward policy thinking and influencing, and manage our growing investments.

Institutionally, the economic development portfolio is delivered through several actors: bilateral programmes, support to and engagement with multilateral development banks and other partners, and increasingly through working directly with businesses (see Figure 5.2).

Figure 5.2 Overview of main UK development actors involved in PSD and PSE



* The filled boxes show the main implementing actors

Three big structures within DfID channel work on and with the private sector: the Country and Regional Programs, the Economic Development Directorate and the Policy and Global Departments. The Economic Development Directorate,²⁴ and more specifically its Private Sector Department (PSD) supports engagement with business across the organisation, sets out the general private sector strategy and manages DFID's shareholding in the CDC Group - the UK's development finance institution - and the Private Infrastructure Development Group (PIDG). CDC and PIDG mobilise private sector investment in developing countries. In addition, PSD manages several programmes that stimulate financial and capital markets and promote responsible business practices. Two additional tools in its private sector toolbox are the Business Innovation Hub and the Business Engagement Hub. PSD works with a budget of 0.6 billion £ and a staff of 40 (up from 10 at the start in 2010). There are approximately an additional 60 private sector advisors across the DfID network.

With a budget of roughly 1 billion £, the Country and Regional Programs spend the majority of the funds dedicated to economic development. Guided by the overall private sector strategy set out by the PSD, country and regional offices can further develop the private sector strategy and adapt it to the local context. In India this work also includes the management of a portfolio of investment of about 50 million X a year to mobilise private investment with development outcomes. Although not supporting local businesses directly, DfID takes a rather direct route by participating in local funds that invest in local companies (Interview DfID, January 2015).

²⁴ The Economic Development Directorate promotes better coherence across all DFID's economic development activities, and will also address other related strategic priorities for DFID such as girls and women, the golden thread, governance for economic development, climate change, the particular needs of fragile and conflict-affected states, and more effective multilateral delivery (DfID, 2014).

Other actors are the International Finance Institutions Department (IFID) within EDD covering all the work with multilateral organisations: the World Bank, IFC, MICO, African Bank, Asian bank, ... and the Growth & Resilience Department, which is responsible for climate finance and has several investment instruments with links to the private sector.

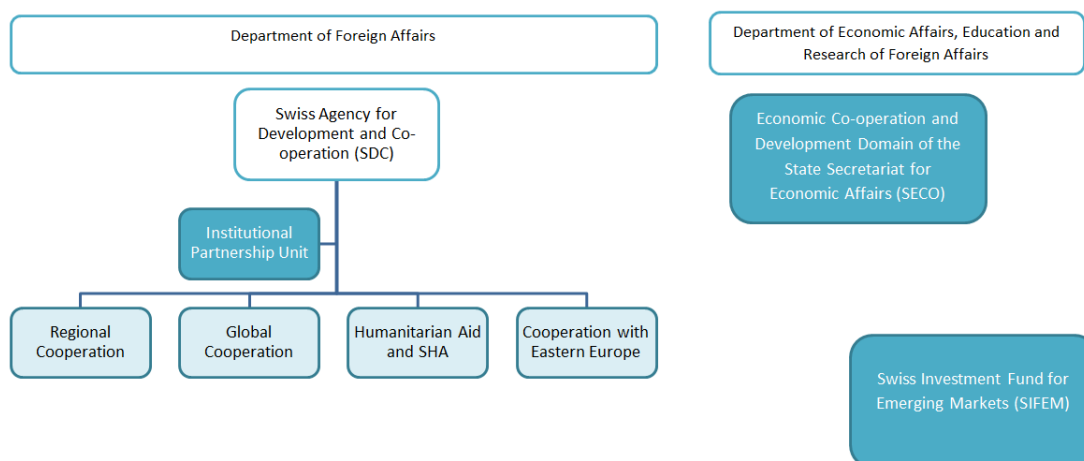
Zooming out, other governmental actors that can be involved in mobilizing private resources for development are Export Finance UK, UK Trade & Investment that focuses on working with UK businesses and the Foreign Office.

5.3.3 Switzerland

Total ODA volume 2013: CHF 2962.8 million; **Main Actors:** Swiss Agency for Development and Co-operation (SDC): ODA 2013, CHF 2907.6 and Economic Cooperation and Development Domain of the State Secretariat for Economic Affairs (SECO): ODA 2013, CHF 332.2 Million

In the Swiss case the institutional set-up also plays an important role with regard to its approach towards the private sector. This is because Swiss development cooperation is implemented by two agencies: Swiss Agency for Development and Co-operation (SDC), which is a federal office within the Department of Foreign Affairs, and the Economic Co-operation and Development Domain of the State Secretariat for Economic Affairs (SECO), which is a federal office within the Department of Economic Affairs, Education and Research. Together SDC and SECO deliver about 70% of Swiss ODA, of which SDC had in 2013 a share of about 85% and SECO of 15%. Both agencies had their specific mandate grounded in the Federal Act on international development cooperation and humanitarian aid of 1976. In practice there has been a division of labour, with SDC mostly partnered with CSOs, while SECO was more engaged with the private sector.

Figure 5.3 Overview of main Swiss development actors involved in PSD and PSE



* The filled boxed show the implementing actors.

To increase its development partnerships with the private sector, SDC has recently formulated its own policy and criteria for engaging in partnerships. It has also established an Institutional Partnerships Division (IP) to promote and manage partnerships and the institutional dialogue of SDC with different types of Swiss organisations. Its mandate comprises the negotiation and monitoring of SDC's programme contributions to Swiss NGOs as well as reflecting with private sector organizations on how to establish partnerships between SDC and private enterprises in line

with the development objective. With an operational budget to work with NGOs, and no operational budget to work with the private sector, the partnership focus remains on CSOs. However, with this unit SDC now has a formal anchor to engage with private sector. The IP also consults the operational units within SDC on how to engage with the private sector. The operational units have budgets to spend, but there is no specific budget line dedicated to public private development partnerships.

There is a clear increase in operational activities that involve the private sector, although in a decentralized way and depending strongly on the culture and priorities within different departments. In particular in the Global Cooperation Department and its global programs aiming at mitigating global risks with regard to climate change, water, food security and migration but also in the Employment and Income Division of the Regional Cooperation the private sector has been an actor 'incontournable' for quite some time, which also means more experience has been built on how 'to deal' with the private sector. In other domains this is less the case and the hesitation to work with the private sector and the lack of expertise to do so are bigger. All in all, the engagement with the private sector increases in all departments. This trend is due to the fact that 2013-2016 Message on Development Cooperation puts increased emphasis on private sector development in general. In 2013, SDC also published its position towards partnerships with the private sector (DDC, 2013). It defines partnerships as alliances with mutual obligations that can contribute to achieving its development objectives (SDC, 2013b). The policy has a clear and sound rationale, and stipulates criteria on the basis of which SDC can decide to partner or not to partner with certain private companies. Those include criteria regarding human rights, labour rights, environment and governance. It also points out the principles to found a partnership on, such as additionality and transparency.

Traditionally, SECO is responsible for private sector development in developing countries due to its thematic competence and expertise. SECO is a federal office within the Federal Department of Economic Affairs, Education and Research (EAER). It has one domain dealing with Economic Cooperation and Development (SECO/WE) with the mandate of supporting the economic integration of developing countries into the world economy, for which it gets an ODA budget. Its four main areas of intervention are supporting private sector development and entrepreneurship, trade, infrastructure and strengthening economic and financial policies. It actively partners with the private sector to better achieve its development objectives. SECO has also clarified its approach towards partnering with the private sector, and includes similar principles as SDC. However, it is less explicit about the criteria it uses to select private partners (SECO, 2013). It is interesting to situate this mandate within the overall mandate of SECO. Its overall aim is to ensure sustainable economic growth by putting in place the necessary regulatory and economic policy conditions. Its role is mostly on the domestic front, where SECO fosters social peace and employment by providing an interface between business, social partners and government. SECO also facilitates access to all markets for Swiss goods and services and investment and is active in the formulating of efficient, fair and transparent rules for the world economy.

Another important actor leveraging private sector flows is the Swiss Investment Fund for Emerging Markets (SIFEM). SIFEM, the Swiss Development Finance Institution was set up in 2005 as a privately maintained stock company in order to manage the investment portfolio of SECO. In 2011, SIFEM has been transferred into the full proprietorship of the Swiss Confederation, and the entire investment portfolio of SECO is being assigned to SIFEM. The Board of SIFEM has been selected by the Swiss Government, but the portfolio management of SIFEM is outsourced to a management company called Obviam. Unlike the conventional instruments of development cooperation, investments made by SIFEM generate earnings. Most projects are co-financed with

other European development finance institutions and regional or international development banks. In addition, wherever possible, SIFEM mobilizes capital from local and international private investors for its projects. SIFEM states to be committed to invest according to international best practice Environmental, Social and Governance (ESG) standards in order to contribute to sustainable development in its target markets. It too has developed a policy document that explains through which criteria it pursues responsible investment (SIFEM, n.d.).

5.3.4 Convergence and divergence

Looking at the institutional changes across the three different donors, one common feature emerges: as the private sector gains importance on the development agenda, the institutional capacity for private sector engagement and economic cooperation is increased. This is the case for the UK, with the establishment and the subsequent growth of its private sector department. It is the case for The Netherlands, with the institutional concentration of a big part of the private sector toolkit under Netherlands Enterprise Agency (RVO) and the establishment of the DGGF within the realm of RVO. Finally, it is also the case in Switzerland, where the institutional set-up already provided for an actor specialised in economic development cooperation (SECO), while the other implementing agency (SDC) is now steadily developing its position on, expertise in and experience with private sector. Increased capacity may be a common trait, but it has been done in different ways: The UK built in-house expertise within its development cooperation agency, at headquarters as well as in country and regional offices. The Netherlands mostly outsourced, tapping into the capacity of the Netherlands Enterprise Agency and its development bank FMO. Switzerland combines both, adding some capacity within SDC while at the same time maintaining a strong SECO and outsourcing the management of its DFI to a private company.

5.4 Policy choices

5.4.1 The Netherlands

The eye catcher in the current Dutch development policy is the win-win principle. Economic growth leading to poverty reduction in partner countries is one side of the coin, a clear benefit for Dutch companies and Dutch commercial interests the other. The underlying idea is that a clear focus is indispensable for an effective and efficient development policy, and that development cooperation should in that case focus on those domains where The Netherlands have a comparative advantage and can offer added value. Consequently, the development policy focus is in line with the economic policy. Through a participatory policy dialogue, The Netherlands selected 9 top sectors²⁵, sectors in which the Dutch private sector excels at a global level. Foreign affairs, foreign trade and development cooperation policy are at least partly geared towards strengthening those top sectors. This is shown by the choice for the productive sectors water and food security as 2 out of 4 ‘spear heads’ of the Dutch development cooperation²⁶, an explicit attempt to remain aligned with the Dutch top sectors.

On all four axes development cooperation attempts to improve the investment climate and increase its cooperation with the private sector, through up-scaling, more public-private partnerships, the deployment and use of an elaborate business ‘toolkit’ and regular strategic consultation with private sector (Knapen, 2011). Looking from a role-perspective most of the instruments in this business

²⁵ Er zijn 9 topsectoren: Tuinbouw en uitgangsmaterialen; Agri & Food; Water; Life sciences & Health; Chemie; High tech; Energie; Logistiek; Creatieve industrie.

²⁶ The other two being: sexual and reproductive health and rights; and law and order.

toolkit approach the Dutch private sector as a beneficiary of financial support, or beneficiaries of capacity building, network initiatives and efforts to improve the overall business climate. More than in the other cases, private sector has participated and still participates in the policy dialogue on development policy.

With its strong focus and specialization, the policy framework may not always fit with what is needed most and working best in specific partner countries. A case in point is the Dutch cooperation with South Africa, where a transition phase from aid to trade is almost coming to its end. During this transition, the longstanding and successful cooperation in the educational sector has been phased out, as closing the skills gap was considered a South African responsibility that could not be solved in a sustainable manner through development cooperation. However, considering the main challenge for South Africa today, many analysts nominate the enormous skills gap as the main obstacle for a strong private sector and a decrease in inequality, and thus one of the crucial levers to address some of South Africa's biggest remaining development challenges.

Matching the new development agenda with the needs in low income and fragile states also proves to be challenging. The IOB evaluation of the Dutch PSD noticed the large portion of resources going to middle and high income countries. For middle income countries, this was 60% of the total PSD means between 2006 and 2011 (Ministerie Buitenlandse Zaken (IOB), 2014). It is clear that this presents a challenge for the Dutch business toolkit, as it is demand driven. With no applications for support of activities or partnerships in fragile states, no support can be contributed. Especially the combination of an increase of activities in low income countries or fragile states on the one hand and the increase of Dutch SMEs involvement in development on the other hand proves to be challenging. The current tools can provide credit for willing entrepreneurs but they don't address the huge risks for doing business in these countries, and SMEs are often not ready to take that type of risk. Also, the investment in project development itself is often an obstacle for SMEs, although different tools in the toolkit have been adapted to become more accessible in that regard (e.g. ORIO will be replaced by DRIVE where project development is included in the support offered). However, the possibilities to actively stimulate and mobilize Dutch companies to invest in fragile states are limited, because several of the business tools remain strictly untied. Some tools, such as the DGGF, do have a limited budget for technical assistance that can be tapped into to put extra effort in facilitation those entrepreneurs that do target fragile states. At the moment, no benchmark for support to business in fragile states is used (Interview RVO, January 2015).

5.4.2 United Kingdom

Important and influential is DfID's continued focus on poor people in poor countries, and especially in fragile or failed countries²⁷. For the fiscal year of 2015-2016 DfID's overall budget will increase by 7.8% - i.e. £809m. Of this sum, over 95% - i.e. £10.3bn - will be in the form of ODA in 2015/16. More than 30% will go to fragile and conflict-affected countries. The argumentation behind, is the concentration of a high number of poor in less and less low-income countries (LICs) and fragile or failed states, although the majority of the poor may currently live in middle-income countries (MICs). Offering limited prospects for breaking out of the poverty trap, fragile or failed states are considered a logic focal point for development cooperation (Interview DfID, January 2015). However, especially for economic development and working on and with the private sector, it is also considered to be the most challenging context. A DfID research on private sector actors

²⁷ Currently 21 of the 28 DfID partner countries are considered as 'fragile', but DfID uses a much broader definition than the World Bank. E.g. Kenya is also considered as a fragile country.

interested to invest in these countries revealed that for most businesses the risks are too high, with the exception of the extractive industry.

At the operational level, the focus on LICs and especially fragile or failed states is demonstrated by the newly introduced ‘development grid’ system, a measurement system that plots out the development relevance of the investments of CDC, with the aim of pushing credit and other activities to the harder places and the more development relevant sectors. CDCs overall portfolio has to be situated in the top-right quadrant, where the challenges are high and the relevance big. CDC also has a specialized frontier investment team to push the boundaries (Interview DfID, January 2015). Another instrument specifically targeting fragile states is the political risk insurance. This instrument has been in use for only a few years, but already had to deal with a major setback when all investments in the pipeline for Iraq fell through after the arrival of ISIS.

In line with the observation that British commercial interests don’t feature prominently in the current policy discourse, activities aimed at UK business are mostly aimed at mobilizing their resources and aligning their activities with development objectives. DfID does maintain informal relations with most British multinationals, a few financial sector players and with the extractive business, as these are the companies that have a network in DfID’s partner countries. More formally it also has strategic partnerships with a number of big companies (e.g. Unilever), that do not involve financial support but are mostly about exchange of expertise and networks. In role-terms DfID seems to approach the UK private sector mostly as a provider of resources or as reformers. DfID also has a program to facilitate SME access to developing country business opportunities and inform them about development cooperation procurement. However, all of its programs and instruments are open to non-UK companies. An overview of the whole of UK’s development activities regarding private sector suggest a dual focus: on the one hand a number of instruments aim to tackle the obstacles hindering local private sector and in particular SMEs, on the other hand the biggest instruments aim to leverage international private finance.

5.4.3 Switzerland

In the case of the SDC, the current work with the private sector is dispersed and decentralized, with different departments experiment with different approaches. For example, the water department has quite developed and direct relationships with the providers, the food security department so far focuses on relations with ‘their’ private sector namely the smallholder farmers, and the immigration department is exploring how to engage with private sector to solve some issues in the field of remittances. Without a clear oversight of who is doing what and with how much money involved, it is difficult to identify where the emphasis lies. It also shows that the SDC has yet to develop specific tools and instruments that reflect the range of partnerships it ambitions to have with private companies.

A first step has been taken with the organization of a stakeholder dialogue with private sector to map private sector expectations towards development cooperation. Private sector actors indicated that the first priority should be to create an enabling environment. Secondly, and unexpectedly, they wanted development cooperation to assist them in reorienting their core business towards development impact, more so than to provide financial support. This corresponded to what the 2013 OECD peer review observed: that Swiss private sector representatives are eager to go beyond the traditional relationship of contracting the private sector to deliver development projects and programmes to engage in strategic partnerships that contribute to sustainable development (OECD-DAC, 2013).

Considering the roles private sector can play in development cooperation, Swiss development officials point out that, to some extent, all roles are touched on by the Swiss development activities. However, some more than others: With its work on knowledge exchange, technology exchange and domestic resource management and generation, SECO engages with the private sector in the role of beneficiary as well as provider of resources (roles 1-4) but it is currently developing its strategies that appeal more to the private sector as a reformer or a developer, and it is increasing its support to the role of private sector as a participant in policy dialogue.

At SDC a similar trend is visible, with a clear goal of developing especially the relations in which the private sector takes the role of reformer, developer or participant in policy dialogue. One area in which this is being pursued is the financial sector. The financial sector is considered as an important source of expertise and resources to be tapped into. Financial sector development is consequently one of the 3 main axes of SDC's employment and income strategy, and it is involving the sector actively in this domain. In its current work, the SDC does not so much see the private sector as a beneficiary of assistance, expect for the small holder or its role as an incubator and match maker between Swiss businesses who want to become active in developing countries.

5.4.4 Convergence and divergence

Donors who embark on deepening the links between the private sector and development cooperation face quite some policy choices. Arguably 'the private sector' does not exist. It refers to a very diverse group of private sector players. What private sector actors to work with is one of the choices donors have to make. What types of instruments to implement and what type of role to play in the relation with the private sector is another. The examples discussed illustrate how these choices can differ. Whereas The Netherlands aim to engage the Dutch private sector, the UK has very little policy or instruments in place that target the British private sector. Switzerland combines two approaches: SECO does have a clear mandate to engage and support Swiss private sector. SDC has few tools to pull the Swiss private sector into development cooperation but has chosen a strategic approach by building its relationship with the Swiss financial sector.

UK and to some extent The Netherlands have clear ambitions to deepen their activity and impact in least developing countries and fragile states. However, both donors find it extremely challenging to work in this context with private sector. The need for a stable, regional 'hub' as an operating base is difficult to reconcile with the policy decision to phase out development cooperation with middle income countries. Also, private sector actors that are willing and able to operate in LDCs and fragile state are often extractive industry or MNCs, and may not fall within the ideal scope of the PS4D policy.

6 | Conclusions & future research

A considerable amount of conceptual confusion continues to hinder reflections and debate on the role of the private sector in development cooperation. The exercise of defining the different concepts and determining how they fit within the different interlinked policy agendas resembles a 3D puzzle more so than a set of Russian petrushkas: the different concepts and agenda's do not fit neatly one in the other but form a complex and dynamic body with lots of overlap but also crucial differences and particularities. This complex picture also shows how broad the 'mobilizing private resources for development' agenda actually is.

Deconstructing the meaning of 'mobilizing private resources for development' reveals how the different instruments used to achieve it, can be characterized by the main obstacle they aim to tackle as well as by the type of resource they attempt to mobilize, or the type of private actor they target. The typology of roles stimulates reflection on what role for the private sector actors each instrument implies. A general overview of the different groups of instruments based on these frameworks indicates that the instruments addressing risk and a lack of finance are gaining traction. It also reveals how instruments are usually based on an assumption of reciprocity: private sector may benefit from an initial investment of public development funds but is expected to commit additional resources in return. However, this assumption of additionality and a leveraging effect is not always confirmed when looking at the actual practice.

Exploring how different donors are engaging with the mobilizing private resources agenda and instruments also reveals some interesting common issues. One observation is that the institutional set-up inevitably has a considerable impact on the (possibilities to implement) policy decisions regarding private sector's role in development cooperation. UK, The Netherlands and Switzerland have substantial institutional capacity to work on private sector in development. Belgium does have some actors that have a relevant mandate and that may have the necessary expertise, but in comparison its institutional capacity is rather limited and may also be hindered by mandates that do not always enable the use of the most appropriate instruments in a specific context.

This study, conducted in the framework of BeFinD, has taken an exploratory approach in order to lay the ground work for follow-up research on the Financing for Development Agenda by other members of the consortium. Several specific components touched on in this study will be investigated more in-depth (by IOB and especially by CRED) between now and end of 2017.

- APPENDICES -

appendix 1 Overview interviews

As part of the data collection, semi-structured interviews have been conducted. A list of interviewees is provided below.

Table a1.1 Interviews

Name	Function	Date interview	
REIS CONDE Jaime	Head of Unit - Multi-country programmes EuropeAid (DG DEVCO), Directorate C, Sustainable Growth and Development, Financial Instruments	15/01/2015 in Brussels	EU
EGLI Patrick	Deputy Head Division Global Institutions Federal Department of Foreign Affairs FDFA, Swiss Agency for Development and Cooperation SDC	19/01/2015 in Bern	SW
RIES Andrea	Analysis and Policy Division & in charge of OECD-DAC Desk Federal Department of Foreign Affairs FDFA, Swiss Agency for Development and Cooperation SDC	19/01/2015 in Bern	SW
DIJKSTERHUIS Robert	Afdelingsmanager Internationale Samenwerking / Boardmember International Programmes RVO.nl	15/01/2015 in Den Haag	NL
DAVIES Rob	Head of the Private Sector Policy Team and Lead on DFID's new capital investments, Department for International Development's (DFID)	19/01/2015 in London	UK
THOMPSON Chris	Economist, Private Sector Department, Department for International Development's (DFID)	19/01/2015 in London	UK
VERLÉ Paul	Head of Expertise Department, BTC/CTB	14/01/2015 in Brussels	BE
DRICOT Yves	Directorate General Development Cooperation (DGD), Thematic Direction D2, Director i.o.	15/01/2015 in Brussels	BE
VERMAERKE Pieter	Directorate General Development Cooperation (DGD), the Direction Inclusive Growth (D2.2)	11/02/2015 (phone)	BE
JULLIEN Gaëlle	Directorate General Development Cooperation (DGD), the Direction Inclusive Growth (D2.2)	23 & 25/02/2015 (phone)	BE

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