

# CHAPTER 8

## DEEPENING PRIVATE SECTOR ENGAGEMENT IN AID FOR TRADE

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and Development

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**Abstract:** This chapter looks at the engagement of the private sector in aid for trade and in particular the role donor agencies have played in promoting this through supporting an enabling environment for the private sector and addressing market failures in terms of information asymmetries and access to finance. After discussing the various models of public-private co-operation, the chapter concludes that engagement of the private sector in development offers opportunities but also challenges in terms of expectations, costs and benefits and time frames.

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Developing countries have many advantages such as access to raw materials, low absolute labour costs and growing domestic demand. The business environment is generally improving, with many countries registering progress in measures such as the Cost of Doing Business Index and the Logistics Performance Index (AfDB/OECD, 2014). Nevertheless,





The Austrian Development Agency provides know-how, contacts, business intelligence and up to EUR 200 000 in project finance for eligible companies. Germany has established the develoPPP.de programme to foster the involvement of the private sector at the point where business opportunities and development policy initiatives intersect. Through this programme, the German government provides financial support up to EUR 200 000 for projects e.g. providing vocational training, promoting climate-friendly technologies or improving social standards at production facilities and, if required, technical support to companies that invest in developing and emerging countries.

In the lead-up to the Fourth High-Level Forum in Busan in 2011, there was a growing focus on the role of the private sector and its contribution to the development process (the Paris Declaration [2005] and Accra Agenda for Action [2008] make limited reference to the private sector's role in development, focusing on all development actors working in more inclusive partnerships so that all efforts have greater impact on reducing poverty). The Busan Partnership agreement recognises the central role of the private sector, as well as the benefits of development finance modalities such as PPPs in advancing innovation, creating wealth, income and jobs, mobilising domestic resources, and, in turn, contributing to poverty reduction. The private sector is now an active constituency of the Global Partnership for Effective Development Co-operation. The importance of engaging with the private sector is also a priority for partner countries, where almost 60% considers the private sector as pivotal.

From the perspective of donor agencies, collaboration with the private sector goes far beyond simply securing additional funding. Attracting FDI is important for developing countries because it has the potential to bring a package of benefits, including managerial and technical skills, intra-firm finance, technology spillovers and access to new markets. The private sector also has advantages over the public sector in terms of moving quickly and being adaptable. The benefits of skilled management in organising and training a local labour force, in setting standards for safety and health, in paying taxes to the local government and in raising the technological threshold of local industrial and service sectors contributes far more to the development of the local economy than the direct impact of the investment itself. In particular, the case stories (see the table below) highlight the importance of the private sector in satisfying international standards as a way to join GVCs and consequently spur growth.

#### STANDARDS AS KEYS TO GLOBAL VALUE CHAINS: RESULTS AT A GLANCE

Madagascar	After complying with European regulations on food safety, Madagascar increased export and improved relations between exporters and importers. (CS 45)
Egypt	Once Egyptian food companies obtained the certificates needed to export Halal products to Malaysia, their presence in the Asian country increased by 30%. (CS 61)
Peru	After the US Food and Drug Administration granted Pan sacha inchi oil the Generally Recognized as Safe status, sales forecasts increased sevenfold (CS 56).
Ethiopia	The expansion and upgrading ... according to international standards ... of the Addis Ababa airport

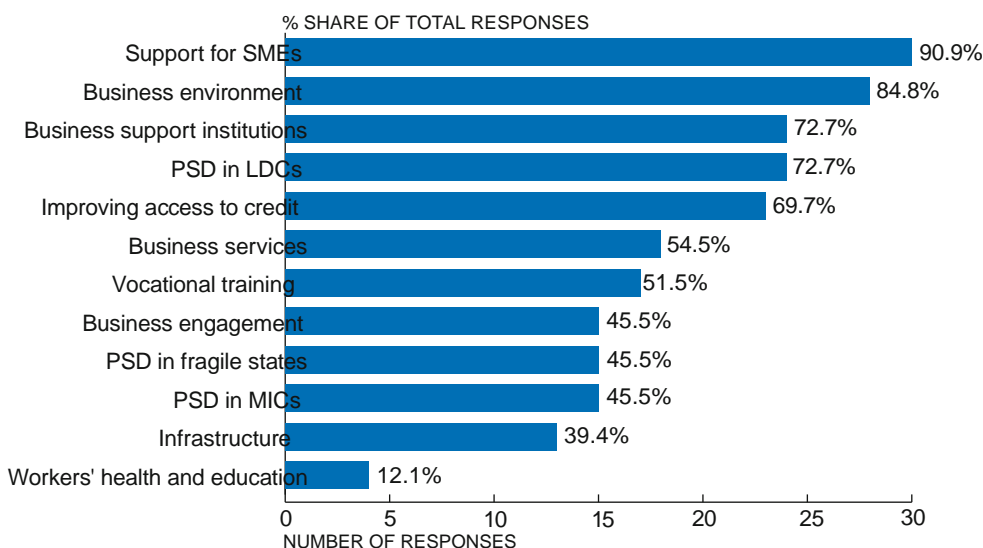
to standards compliance and trained and educated workers. They bring skills, ideas and ways of operating in the marketplace. Collaborative private sector ventures and value chain investments (for example, Danone and Walmart) are growing in number and impact, charting an innovative way forward for business involvement in development (OECD, 2011; World Bank, 2011).

In addition to economic development, the everyday operations of private sector firms can contribute to social objectives. For example, existing distribution systems of breweries have been used to deliver fertilisers to farmers and to disseminate condoms and information on HIV/AIDS (Davies, 2011). Coca-Cola is extending its distribution network and transporting medical supplies in Cola Life packing on its trucks (Greening, 2014). Most large corporations also pursue CSR and responsible business conduct, which can positively contribute to development. The UN Global Compact and the OECD Guidelines for Multinational Enterprises are two of the foremost voluntary initiatives that promote corporate



For many years the World Bank group has been actively supporting the private sector all over the developing world. A distinguishing feature of the Trade and Competitiveness Global Practice in the World Bank Group is its ability to engage

Figure 8.2 Key focus areas of donor support for PSD



Note: 33 respondents ... multiple responses were allowed.

Source: OECD/WTO Aid for trade monitoring exercise 2015. <sup>1</sup>

<sup>2</sup> <http://dx.doi.org/10.1787/888933241547>

SME development is a core focus of donor support: more than 90% of survey respondents noted that their private sector development programme was focused on supporting the development of the SME sector (see Figure 8.2). Furthermore, SMEs are often beneficiaries of other activities receiving widespread donor support ... such as strengthening the capacity of business or trade institutions, improving market information and business services and enhancing access to credit.

Efforts to address the gaps and maximise the employment opportunities of people living at the bottom of the pyramid are expanding quickly. Several donors are focusing on the high win-win potential of promoting poor producers, entrepreneurs and consumers in supporting private sector development, and they have developed specialised institutional expertise in this type of initiative. UNDP's private sector strategy includes specific actions to promote bottom-of-the-pyramid business development, including advocacy to encourage the private sector to develop inclusive business models for poor markets, providing innovative finance and grants to stimulate sustainable private investments in pro-poor enterprise development, facilitating the integration of poor producers/other market actors in key value chains and economic sectors and improving the policy and institutional infrastructure for inclusive market development. UNDP's approach directly includes the poor on the demand side as clients and customers and on the supply side as employees, producers and business owners at various points along value chains.

### AID FOR BUILDING PRODUCTIVE CAPACITIES

Reflecting the increasing priority that donors attach to private sector development, aid dedicated to building productive capacity (BPC) ... resources targeted at agriculture, industry, the financial sector and business services ... more than doubled over the period 2003-12 from USD 10.7 billion to USD 21.5 billion (see Figure 8.3). While the BPC share of sector-allocable ODA has increased to approximately 14%, this is small relative to the priority attached to the private sector in the 1970s and the 80s, when routinely 30-40% of ODA was committed to private sector activities. The recent resurgence in support for the private sector has been driven by aid targeting agriculture, fisheries and forestry, which received almost 60% of total ODA targeted at building productive capacity. Many donors are keen to support small farmers ... possibly the largest segment of the private sector in the developing world ... who play a key role in rural economies by providing jobs, income and food security. For example, with financial support from Australia, the Indonesian

government's Agriculture, Forestry and Community Development Program has reached more than 21 000 households, enlarged cultivated areas, increased agricultural yields, raised the value of production and increased the profitability of farming enterprises (case story 51). And as a result of the Canadian government's Enhancing Arab Capacity for Trade (EnACT) programme, the number of halal-certified companies has more than doubled from 21 to 52, and the presence of the Egyptian food-processing sector in the Malaysian market has increased by 30% (case story 61).

Figure 8.3 ODA Committed to Building Productive Capacity (BPC)

Source: OECD DAC Creditor Reporting System.

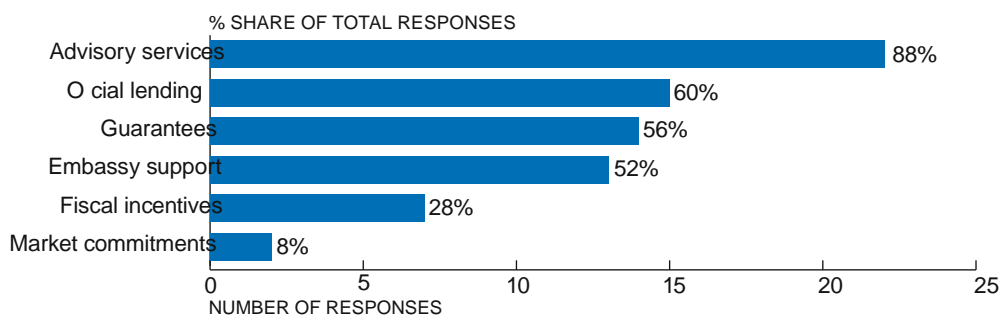
The share of sector-allocable ODA for agriculture fell from about 25% in the 1970s to a low of 5.8% in 2004. In light of the food crisis in 2007-08, however, donors have responded by increasing their support for the agricultural sector (OECD, 2010): in 2012 the corresponding share for support to agriculture had risen to close to 9%. A recurring feature of aid projects in agriculture is an emphasis on rural poverty and food security. For example, in one of the largest projects reported recently, the World Bank committed USD 1 billion in loans to India for agricultural development through a national rural livelihoods project. The United States government provided support to Afghanistan for improvements in technology and management practices to increase organisational and market efficiency to promote resilience in production and livelihood systems. The EU is addressing food security with USD 139 million for the poor and vulnerable in fragile circumstances in countries such as Afghanistan, the Democratic Republic of the Congo, Haiti, Liberia, Madagascar, the Democratic People's Republic of Korea, Pakistan and Sudan. Following implementation of the Gambian government's programme to improve mango production, productivity and sales in rural zones increased, and 250 farmers' eiculture has increased by 140%.

In Papua New Guinea, an ambitious micro-banking programme has significantly expanded rural access to banking through 15 000 ATMs, EFTPOS machines, agents and mobile phone payments services: more than 500 000 people can now carry out rapid and secure financial transactions for both personal and professional purposes (case story 52). In addition to credit, a healthy business and investment environment requires trade and business associations, legal and

A partnership that is industry-led and targets transformations across global supply chains ... what the Donor Committee for Enterprise Development (DCED) defines as the coalition model, reaching a broad number of beneficiaries and engaging with key economic actors within the supply chain ... is considered to be ideally suited for mainstreaming market transformation. However, a key challenge to this approach is ensuring that the coalition initiatives involve a sufficient number of key players within the value chain willing to change their core business practices in ways that result in transformational change. Donor-funded global initiatives of this nature face challenges when transformation is required in developed countries. Both the donor-led and the coalition models have clear funding strategies that are based on harnessing private sector funding and innovations. In most donor-led projects, private sector operators are providing up to 50% of the funding. Some coalition models use fees and match-making schemes to secure private sector contributions.

In practice, aid for the private sector encompasses many types of activities. The most common area of work among

Figure 8.4 Types of support provided by donors to encourage donor company investment



Note: 25 respondents ... multiple responses were allowed.  
 Source: OECD/WTO Aid for trade monitoring exercise 2015

Many of the European donors have established DFIs. As an example, the Finnish Fund for Industrial Co-operation Ltd. (Finnfund) is a Finnish DFI that provides long-term risk capital for private projects in developing countries. Apart from co-investing with Finnish companies, Finnfund can finance ventures that use Finnish technology, co-operate with Finnish partners on a long-term basis or generate major environmental or social benefits. The Dutch Good Growth Fund supports small- and medium-sized Dutch businesses and entrepreneurs.



policies, for example, arguing that they were shaped mostly by the nature and interests of the private sector in donor



## CONCLUSIONS

The private sector plays a pivotal role in economic development, generating jobs, growth, technology diffusion and incomes. It is the motor for expanding trade opportunities, which augment the production frontiers of national businesses, generate foreign exchange reserves, and facilitate entry in GVCs. The donor community has been a strong advocate of private sector development, working to improve the enabling environment for business through policy development and reform, technology transfer and business facilitation and development initiatives. Donors have also provided direct support for establishing or enlarging businesses ... through twinning arrangements, joint ventures, PPPs and concessional loans and grants. And they have played a supportive role in developing financial markets, supporting productive activities of those living at the bottom of the pyramid and encouraging responsible business conduct by multilateral enterprises.



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