

CONCORD REACTION TO THE EUROPEAN COMMISSION COMMUNICATION “A STRONGER ROLE OF THE PRIVATE SECTOR IN ACHIEVING INCLUSIVE AND SUSTAINABLE GROWTH IN DEVELOPING COUNTRIES”

13 MAY 2014

CONCORD finds that support to private sector in development should contribute to fighting poverty in all its dimensions, injustice and inequalities, promoting human rights, sustainable development and dignity for all. The EU needs to ensure that EU private companies operating on the ground do no harm, behave in a sustainable way and pay their fair share of taxes. When using private sector financing for development purposes the EU must make sure that human rights and public interest are safeguarded.

Key messages:

- EU support to and cooperation with private sector must contribute to fighting poverty and inequalities, promoting human rights, sustainable development and economic justice. Economic growth and job creation alone is not enough.
- CONCORD welcomes some positive points in the communication such as support to the informal and microfinance sectors; strengthening medium and small enterprises, empowering women entrepreneurs and workers.
- Local actors and markets in partner countries must be prioritized
- PPPs are not a solution to be applied across all development contexts
- Blending grants and loans must still prove its financial and development additionally
- Multi-stakeholder approaches and mechanisms should be established to pre-assess, monitor and evaluate private sector initiatives in a transparent way and that intended beneficiaries are centrally involved in these processes.

CONCORD finds that support to private sector in development should contribute to fighting poverty in all its dimensions, injustice and inequalities, promoting human rights, sustainable development and dignity for all - global commitments (MDGs and post-2015).

We acknowledge the fact that many issues and concerns raised by CONCORD during the consultation are reflected here and there in the communication, more particularly in relation to the guiding principles and the necessity to support the informal sector and to strengthen cooperatives, social enterprises or to promote impact financing and microfinance sector. We particularly welcome the specific paragraph on empowering women entrepreneurs and workers pushing for gender-sensitive business regulations and addressing the specific training and support needs of women entrepreneurs and female workers ensuring girls education translated into economic opportunities.

In view of the discussion on the EC communication on private sector that will take place at the May FAC meeting, we would like to share our main concerns and recommendations with regards to private sector

and development, and to the implementation of the communication.

EU support to and cooperation with private sector must contribute to fighting poverty and inequalities, promoting human rights, sustainable development and economic justice.

Human rights and the public interest must be promoted and protected in all activities undertaken with the support of ODA or involving the use of public money.

The most important role that businesses can play is to behave responsibly, the primary obligation of private companies operating on the ground should be to 'do no harm', risk-based due diligence and paying their fair share of taxes.

The communication mentions the importance of private sector to take into account internationally agreed social, environmental and fiscal standards and respect of EU and country of operation laws relevant to these standards as well as providing a set of criteria. However, the use of EU ODA and the private sector investment that it leverages should result in a clear and measurable contribution to poverty reduction. Clear indicators need to be developed to show that the interventions truly contribute to poverty reduction and meet development effectiveness principles.

The EC should ensure that "multi-stakeholder" engagement will be standard practice when EU support is being provided, and that the public interest will automatically be promoted in the delivery of services and infrastructure by the presence of CSOs, local community representatives, potential beneficiaries and other relevant public interest stakeholders.

It also has to be context specific and integrated in a long-term broader mix of development objectives and policies framed in full respect of development effectiveness principles. It includes also different approaches in fragile and conflict affected areas where instead of relying to lead firms in global value chains, the EU should recognize the resilience and abilities of people even in these most challenging settings.

The Commission is intending to encourage companies to be guided by its Corporate Social Responsibility Strategy and to comply with internationally recognised guidelines and principles such as the UN Global Compact, the UN Guiding Principles on Human Rights and Business etc. We believe however, that the voluntary nature of Corporate Social Responsibility strategies does not provide sufficiently strong assurances that public monies (EU ODA & other EU development finance) will actually promote human rights and reduce poverty.

EU and other major international donors who are promoting the engagement of the private sector in development have a responsibility to ensure that this engagement genuinely benefits the people of developing countries and particularly the most vulnerable groups. It means first of all, that the EU and MS should abide by their commitment to Policy Coherence for Development (PCD), with a particular focus on taxation, agriculture, trade and investment policies and agreements which have an impact on the policy and regulatory frameworks as well as on markets and domestic resources in partner countries.

The EU itself, other public bodies (DFIs) and private companies they partner with should all recognise and live up to the OECD Guidelines for Multi National Enterprises, the ILO conventions and standards, the Maastricht Principles on the Extraterritorial Obligations of States in the Area of Economic, Social and Cultural Rights, the FAO Voluntary Guidelines on the Responsible Governance of Tenure of Land, Fisheries and Forests in the Context of National Food Security and the UN Guiding Principles on Business and Human Rights.

Local actors and markets in partner countries must be prioritised

Support to private sector has to be differentiated taking into account the fact that private sector involves a great diversity of actors. In our view, if sustainable and inclusive development is the pursued objective, EU ODA support must concentrate on local private actors acting in their local and regional economy and markets and directly contributing to production of goods and services for local populations and the creation of employment opportunities in their communities. The needs of the domestic and regional economy and local populations have to be prioritised over exports to global markets and the development of global value chains.

The capacity of developing countries should be built and they should be empowered through the creation of local development structures and partnerships that will remain in place after the external actors - being public or private – will phase out. The emphasis of catalysing private sector engagement in development should be on the transfer of knowledge, skills and capacities by private sector companies to the local private sector and other stakeholders they engage with.

We want to underline the importance of the role of partner governments in facilitating, regulating and achieving the best possible outcomes from the engagement private companies in the development of their countries. In order to enable these governments to encourage opportunities for private sector engagement while protecting the public interest, we recommend the establishment of an inclusive policy dialogue at country level and that the EU and Member States contribute to building state and administrative capacities in the field of public policies, domestic resource mobilisation, fiscal and labour policy, regulatory frameworks etc.

As the MSME sector is still rather weak in developing countries, particularly in the rural areas and agricultural sector, where inclusive growth offers a lot of opportunities, both capacity development and access to finance are needed to help MSMEs contribute to inclusive and sustainable growth. Business Incubation and Business Acceleration services offer a range of needed services. Investing in the emergence and sustainability of a diversity of actors, in particular the smaller ones and those having a high development and poverty reduction potential such as the actors of the informal and/or social economy, actors engaged in low carbon and low resource production, women entrepreneurs, smallholder farmers and rural entrepreneurs could have the highest potential in the long-term.

PPPs are not a solution to be applied across all development contexts

The communication aims at "*mainstreaming private sector engagement across the EU's support portfolio*" and facilitating Public-Private Partnerships and multi-stakeholder alliances as an important way of catalyzing private sector engagement for development.

We hold serious concerns around the ability of PPPs to meet poverty eradication and food security goals. Past experiences indicate PPPs can be very problematic in terms of delivering positive development outcomes, strengthening domestic micro, small and medium-sized enterprises, even distribution of risk and transparency. Moreover, PPPs can amount to a more expensive and less equitable way of delivering public services and infrastructure in the longer-term. Before presenting PPPs as the default option for the provision of essential services and infrastructure, the Commission must ensure lessons are learnt from past experiences. These include prior poverty and social impact assessments and cost-benefit analysis to ensure coherence with poverty reduction targets and development priorities, an adequate regulatory framework, local ownership, transparency and active participation of all stakeholders.

Lack of accountability and transparency in PPPs acts as a risk multipliers for the poor in countries with weak governance. For example, many of these initiatives lack transparency around benefit-sharing arrangements and fail to uphold international standards around social and environmental impact. We also

have concerns around a lack of participation by civil society organizations, farmer's groups and local communities in investment activities– including the upholding of important principles like free, prior and informed consent for affected communities.

Blending grants and loans must still prove its financial and development additionality

The communication recognizes blending as an important vehicle for leveraging additional resources for development. We welcome the exploration of the use of innovative financial instruments, but we underline the importance of developing such instruments to bridge the lack of capital of the so-called missing middle and to stimulate a “base of the pyramid” approach. Using ODA to mobilise private finance and to support private sector projects through this mechanism raises several concerns in relation to financial and development additionality, alignment with partner country development objectives, insufficient transparency and accountability and unclear monitoring and evaluation. We welcome the inclusion of criteria that address the need for measurable development impact and additionality. It should be made clearer how they would be implemented and monitored when it comes to private sector windows in regional blending facilities. The Communication states that private investment in low and middle income countries, both domestic and international, has more than tripled over the past decade, and now accounts for over half the financial resources available to developing countries, dwarfing official development assistance. Given that this significant amount of private investment is already occurring, the EU's plans to use its ODA to leverage further private sector involvement in development must be done in a way that provides real financial and development “added value”. Moreover, special attention should be brought to the fact that investing public resources in PPPs or blending facilities may represent an important opportunity cost for both partner countries' budgets and EU ODA and may lead to a shift in geographic or sectoral priorities.

In relation to any process of risk analysis and impact assessment that are to be developed we recommend that mechanisms are created to allow all stakeholders who will be impacted by proposed projects or initiatives to contribute to the process. This includes all levels of recipient countries' government and administration and other stakeholders such as local development councils, local CSOs including farmers and other workers organisations, local private sector representatives, trade unions, etc.

Recommendations - The Way Forward

The EU should develop an action plan defining how it will contribute to the implementation of the UN Guiding Principles on Business and Human Rights. Among other things, the action plan should aim at developing implementation guidelines for human rights due diligence as a binding framework for business enterprises, including measures to be taken with respect to their subsidiaries, suppliers and distribution channels.

- We recommend that the European Commission considers requiring any private sector company interested in benefiting from EU development finance to sign a "Development Co-operation Framework Agreement" in advance. These framework agreements would commit individual private sector companies to adhere to the international agreements and principles mentioned in the Communication and to apply due diligence. While not legally binding, they would be stronger than a simple Memorandum of Understanding and amount to a contractual agreement. The advantage of such framework agreements is that they would clarify to a much greater extent the roles and the expectations of the private sector and the EC, and also provide a basis for accountability.
- We recommend that multi-stakeholder approaches and mechanisms are established to pre-assess, monitor and evaluate private sector initiatives and that intended beneficiaries of private

sector -delivered services or infrastructure and directly or indirectly impacted people are centrally involved in these evaluation processes.

- We also recommend that lessons be learned from successful models of development of private sector that have occurred elsewhere in the developing world and we recommend that South-South and triangular cooperation at both public and private sector levels should also be promoted in that view.
- We welcome the recognition for the multi-stakeholder dialogue at global level , and whilst recognizing the full importance of the mentioned existing mechanisms (the Policy forum for development), we propose that this effort complements and is coherent with other possible institutionalised dialogue settings, as the present outreach of the PFD is not enough to tackle such an important issue.
- We recommend a leadership role in the establishment of a multi-stakeholder dialogue at local and regional level enhancing cooperation and coordination between member states, partner countries and other stakeholders, especially in the framework of implementation, monitoring and evaluation of the proposed policies and actions.
- We encourage the EC to lead by example and use the opportunity of this framework to set the standard for responsible implementation of the political and policy aim, to involve private sector in development towards fighting poverty and inequalities, promoting human rights, sustainable development and economic justice.