WORKSHOP

COMMITTEE ON DEVELOPMENT (DEVE) and
POLICY DEPARTMENT OF DG EXPO

THURSDAY 05.03.2015

ALTIERO SPINELLI BUILDING - BRUSSELS

10.00-12.30 ROOM: **5G2**

2015
European Year
for Development

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The role of the private sector in fostering sustainable development

Chaired by **Nirj DEVA,**
DEVE Committee Vice-Chair

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Policy Department of DG EXPO and the Committee on Development (DEVE)

WORKSHOP

The role of the private sector in fostering sustainable development

Thursday, 05 March 2015
Brussels, Altiero Spinelli Building, Room 5G2
10.00-12.30

PROGRAMME

10.00-10.15 Welcome and introductory remarks by

- **Nirj Deva,** MEP, Rapporteur on the role of the private sector in fostering sustainable development
- **Peter Fanconi**, CEO, BlueOrchard

10.15-11.15 Partnership models to support the private sector in developing countries

Speakers:

- What is the EU's added value in supporting the private sector for development? – **Bruce Byiers**, Policy Officer on Trade and Economic Transformation, ECDPM

- Notes on the Design, Implementation and Evaluation of Private Sector Development Support Instruments – **Derk Bienen**, Managing Partner, BKP Development and Adjunct Associate Professor, Addis Ababa University

- The Netherlands' experience in partnership models to support the private sector in developing countries – **Jeroen Roodenburg**, Ambassador Private Sector and Development Cooperation, Netherlands Ministry of Foreign Affairs

Questions and answers

11.15-12.15 **Principles of engagement for the private sector**

Speakers:

- Regulatory Policy Space for Private Sector Development and Decent Jobs, and Private Sector Development – **Mark Langan**, Senior Lecturer, Leeds Beckett University

- How can the EU ensure that its private sector partners meet the principles and criteria necessary for promoting inclusive and sustainable development? – **Pedro Eikelenboom**, Senior Advisor Partnerships, IDH, Sustainable Trade Initiative

- Creating shared value: how the private sector can contribute to development – **Markus Scholz**, Center for Corporate Governance and Business Ethics, FHWien University of Applied Sciences

Questions and answers

12.15-12.30 **Concluding remarks**

- **Nirj Deva**, MEP

EXPERTS BRIEFINGS

1. Presentation by Dr Bruce Byiers, Policy Officer on Trade and Economic Transformation, ECDPM, Belgium

WHAT IS THE EU'S ADDED VALUE IN SUPPORTING THE PRIVATE SECTOR? HOW CAN THIS BE COMPLEMENTARY TO THE ACTIONS ALREADY CARRIED OUT AND PARTNERSHIPS ESTABLISHED BY MEMBER STATES?

ABSTRACT

The EU's potential value added in supporting the private sector for development relates to its economic scale and business potential as an economic actor, its role as the main provider of development cooperation assistance in the world, and its network of institutions that might be used to support these towards the creation of more and better jobs.

Although there are examples where EU Institutions are supporting both the developing country private sector and EU businesses in investing in developing countries, these need to be better linked and coordinated for the EU to reach its full potential value-added.

While the EU has the potential to become a major player in promoting the role of the private sector in fostering sustainable development, working more with the private sector ultimately requires a change in instruments and approach, but perhaps more fundamentally, a different mindset about development.

EXECUTIVE SUMMARY

The EU's potential value added in supporting the private sector for development relates to its economic scale and business potential as an economic actor, its role as the main provider of development cooperation assistance in the world, and its network of institutions that might be used to support these towards the creation of more and better jobs.

The European Commission (EC) spent €2.4 billion on support to private sector development over the period 2004-2010, an average €350 million per year (EC, 2013) and given recent policy commitments in the Agenda for Change and an EC Communication from 2014 this is set to rise for the 2014-2020period. However, recommendations of an evaluation of the EC's support to private sector development proposed that the EU should focus its efforts on where its value added lies.

In order to address the question of the EU's potential value added in supporting the private sector for development, this note starts by defining the question in terms of ambiguities relating to supporting the private sector, distinctions between the EU, its institutions and services and Member States, as well as how to define value added.

Although there are examples where EU Institutions are supporting both the developing country private sector and EU businesses in investing in developing countries, these need to be better linked and coordinated for the EU to reach its full potential value-added.

Challenges in turning the potential value added into real added value include gauging the "additionality" of public funds and an understanding of what drives the development impact of investments, as well as addressing the question of levels of interest in engaging with the EU both from the private sector itself as well as from EU Member States and partner countries.

While the EU has the potential to become a major player in promoting the role of the private sector in fostering sustainable development, working more with the private sector ultimately requires a change in instruments and approach, but perhaps more fundamentally, a different mindset about development.

INTRODUCTION

The European Commission spent €2.4 billion on support to private sector development over the period 2004-2010, an average €350 million per year (EC, 2013) and given recent policy commitments this is set to rise for the 2014-2020 period. The 2006 European Consensus on Development and the EU's Development Policy, the "Agenda for Change" (EC, 2011), make a strong case for working more closely and in partnership with private companies, leveraging private sector activity and resources to deliver public goods, while continuing to promote local private sector development.[1] The Communication on "A stronger role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries" (EC, 2014) further makes this case, providing principles and guidelines on how to work with the private sector.

Despite the scale of financing, the EC's own commissioned evaluation of its support to private sector development found it hard to conclude what actually worked, particularly in terms of creating jobs (Byiers and Krätke, 2014b). In its recommendations, the evaluation proposed that the EU should focus its efforts on where its value added lies. This was identified as "financial weight, its trade mandate, its capacity to transfer EU good practices, its capacity to use a variety of support mechanisms and modalities, its continued presence and focus on poverty reduction, and the fact that it was perceived as less tied to specific economic or political interests", as well as underutilised "political leverage and the capacity to coordinate EU players and build synergies with other institutions" (EC, 2013).[2]

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[1] The European Consensus is the Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ%3AC%3A2006%3A046%3A0001%3A0019%3AEN%3APDF

[2] However, the same evaluation also points out that "Commission representatives did not have a clear and shared conception of what the Commission's value added was or should have been with respect to PSD support, or at any rate that they saw this as very dependent on the specific context."

This short note seeks to address this question of what the EU's added value is in supporting the private sector, particular in relation to Member States. Focusing primarily on Africa, it is organised as follows: Section 2 breaks down the question into its various components; Section 3 then discusses some potential areas of EU value-added while Section 4 points to some of the key challenges.

DEFINING THE QUESTION

Although the proposed question seems straightforward, it contains numerous ambiguities that add to the challenge of working to support the private sector.

Supporting whose private sector?

The first ambiguity relates to supporting the 'private sector'. This is a broad term, covering a heterogeneous mix of smallholder farmers, informal traders, manufacturing employees, multinational companies and everything in between, based both in Europe or in developing countries.

Given the breadth of the term, it is **useful to distinguish between 'private sector development', and 'engaging the private sector for development'**:[3]

1. ***Private sector development*** is essentially about the policies and support required to **promote *local* private sector companies in developing countries**, through access to finance, support to improve the business environment, promoting entrepreneurship, among others.
2. ***Engaging the private sector for development*** is about **engaging with firms, including international firms, to achieve development objectives through investment or private finance**. While this *may* include promoting local private sector development in developing countries, it can also refer to working with the private sector to address broader development problems, for example in the social sector.
3. Within the latter approach, donor models can operate in pursuit of ***private objectives***, where public money is used to help businesses become 'more developmental' e.g. through working with multinational firms to promote more sustainable supply-chains; or in pursuit of ***public objectives***, where donors set the objective to be achieved, and firms are charged with coming up with solutions e.g. through challenge funds to find solutions to youth education.[4]

Defining the EU's value added 'in supporting the private sector for development' implies recognising these distinctions. Indeed the EU's potential value added may differ across these different categories and approaches.

The EU, or its institutions?

Within the EU, there are also important distinctions to be made. While the EU includes member states, it also includes the EU private sector and other actors, while the *EU Institutions and Services* include the European External Action Service (EEAS), the European Commission and its various Directorate Generals, many of which work in some way with the private sector in Europe or abroad

[3] Common or conflicting interests: http://www.ecdpm.org/dp131
[4] See Bilal et al. (2014)

and therefore play a role in defining where the EU's value added lies in supporting the private sector and sustainable development. These include: DG DEVCO, DG Enterprise, DG Agriculture and Rural Development, but also the EEAS through its responsibilities for EU Delegations and overseeing trade relations, not to mention the European Investment Bank (EIB) that provides access to finance and particularly supports small and medium-sized enterprises (SMEs) and medium-sized corporates, as the engine of Europe's economy[5], or the European Bank for Reconstruction and Development (EBRD).

In terms of EU's value added in supporting the private sector for development, it is also important to clarify what these EU Institutions and Services' added value is in comparison to EU Member States, many of whom already have Private Sector Development Strategies and Public-Private Partnership Agencies, and some which are more explicit about their commercial intent and interests in working with their private sector than the EC Communication is (Byiers et al, 2014). While trade and investment are EU competencies, European private sector operates from their home EU Member State. There is therefore an important distinction to be made between what the EU Institutions and Services can do within private sector development and the role of Member State private sectors (companies)

The source of funding for private sector support is another key consideration. Funding from the EU budget or other EU funds (such as the European Development Fund) provides important leverage for EU action, in parallel to funding mechanisms and instruments at the EU Member States level.

Defining value added

The EU's value added is also a tricky concept to define. In a narrow sense, value added depends on the objective set and an ability to identify and measure this.

Value added in relation to 'sustainable development' also offers numerous ambiguities with much resting on the vision one takes of the private sector's role in development in the first place. From one perspective, development cannot take place without private sector investment and employment creation, regardless of the source of investment. But a more sceptical perspective sees the private sector as a potential exploiter of people and the environment and therefore a force to be regulated if it is to contribute to sustainable development. These different interpretations are a challenge for defining the EU's value added in this area.

The **following section focuses on what are arguably the potential areas of value added of the EU and its Institutions *vis-a-vis* member states already engaging with the private sector for sustainable development.**

POTENTIAL VALUE ADDED VS MEMBER STATES

There are three main areas where the EU has potential value added in working both with and for the private sector in development. In general terms, these relate to i) the size of the EU economy and therefore the pool of businesses that offer trade and investment potential, ii) the importance of the European Commission as a donor but also in playing a coordinating and

[5] http://www.eib.org/projects/priorities/sme/index.htm "SMEs account for 99% of businesses in the EU and employ two thirds of the active working population. In 2013 alone, some 21.6 million SMEs in the non-financial business sector employed 88.8 million people and generated almost 60% of the EU's value added – an impressive EUR 3.7tr."

networking role, and iii) the wide range of EU institutions at its disposal that might be leveraged for effective engagement with the private sector for development.

Scale: Big economy, lots of business

The EU as a key trade bloc

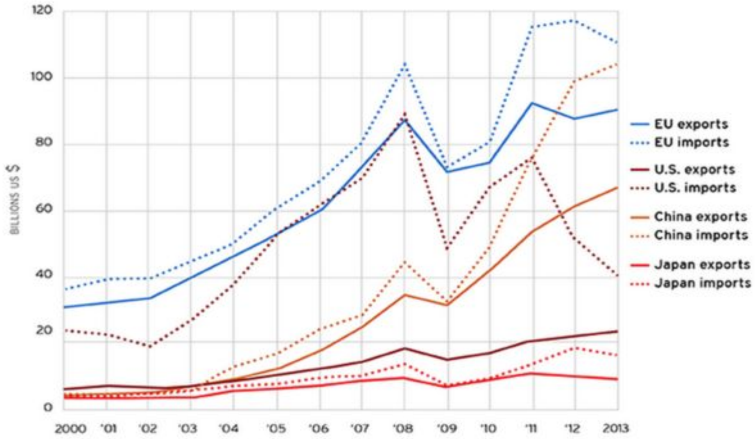
An important aspect of the potential value added of the EU, taken as the overall union of economies and their businesses, relates to its collective economic scale. This means that the EU bloc is the main trading partner in sub-Saharan Africa, even taking account of Chinese inroads in serving import markets (See Figure 1). Trade policy is an exclusive competence for the EU, meaning that the EU rather than individual Member States is responsible for commercial policy and trade agreements with non-EU countries. The EU has long recognised that trade can boost the economic growth and productive capacities of developing countries. The EU provides trade preference for developing countries through its general system of preferences (GSP), including duty free and quota free access to LDC exports to the EU market under the Everything-But-Arms initiative. The EU has also concluded a number of free trade agreements with developing countries, most recently with several African regions and countries in the form of Economic Partnership Agreements (EPAs). But improving market access is not sufficient. It is only a mean to foster greater business relations and exchanges. So, encouraging business-to-business relations, as well as supporting productive capacity and capacity to trade in developing countries, has been a priority for the EU, who is the main provider of Aid for Trade in the world.

While the EU can set the framework to open and facilitate trade, as well as provide major support, the relationships among trading partners take place at national levels. The role of EU member states is thus also key in fostering business relationships, as well as supporting private sectors initiatives. In this context, coherence between and among EU-wide initiatives and those undertaken by EU Member States should be a priority. EU institutions are best placed to facilitate such coherence.

The importance of EU as a key trade bloc also presents some challenges for developing countries, who may become vulnerable to external shocks to the EU market as well as EU's trade agreements with other countries and regions. An example in question is the potential impact that the EU-US Transatlantic Trade and Investment Partnership (TTIP) might have on developing countries trading with Europe. Some argue that developing countries might experience dramatic losses of market shares as their exports to Europe may be displaced by competition from the United States.[6]

[6] See Ramdoo (2014) and Schmieg (2015).

Figure 1 - Sub-Saharan Africa's Exports to and Imports from Major Partners

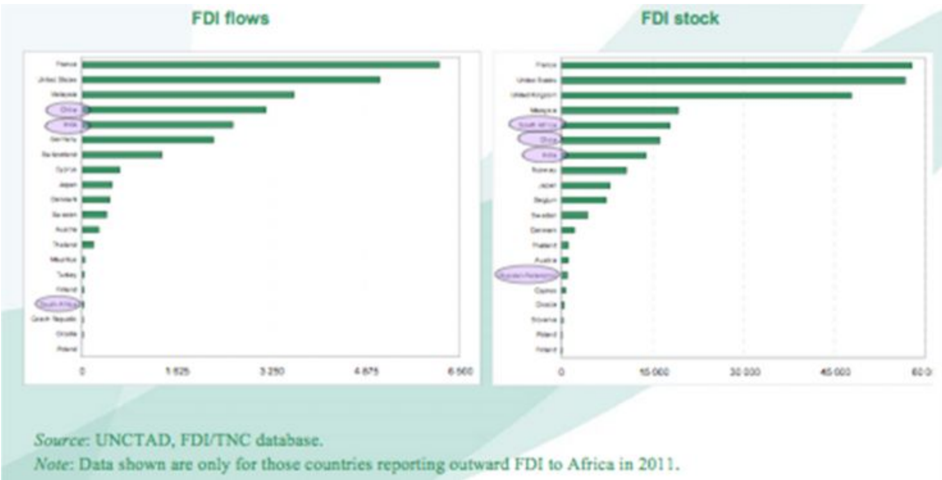


Source: Brookings[7]

EU as a large investor

Beyond trade, the EU also remains a key investor in Africa, both in terms of FDI stocks and in flows (Figure 2). In a special survey by the African Economic Outlook, it was shown that the EU was the single largest FDI partner for ten out of eleven African countries[8] (selected for their comparable data), accounting for 55% of total FDI inflows in 2000-04, shrinking to a still dominating 44% in 2005-10. This means that the EU private sector is already very much present and providing jobs and business linkages that contribute to development on the African continent and around the developing world, with rising private sector interest in Africa and other developing countries as frontier markets likely to continue.

Figure 2 - FDI Stocks and Flows (US$ millions) 2011



[7] http://www.brookings.edu/blogs/africa-in-focus/posts/2014/07/24-deeping-trade-commercial-ties

[8] Morocco, Republic of Congo (Brazzaville), Djibouti, Gabon, Tanzania, Mauritius, Malawi, Nigeria, Rwanda and Uganda.

Business networks and win-wins?

Business networks can also play an important role in linking EU and developing country firms, boosting EU trade and investment opportunities and creating decent jobs. Such networks are already present in various economic sectors and EU member states, with an increasing focus on supporting inter-firm collaboration with developing country partner firms. Business networks can provide support for networking, matchmaking, training, recruitment, joint purchase, export and internationalisation support as well as lobbying activities, while evidence suggests that there is value generated for the business networks' members (ECORYS, 2014).

The European Business Organisations Worldwide Network groups together European Chambers of Commerce (EuroChambres) and EU businesses associations around the world[9]. Most of these EuroChambres have a clear objective to defend and promote common European economic interests towards local authorities and to create EU visibility, often with a focus on encouraging business relations between the EU and third countries and on promoting entrepreneurship[10].

Although on a limited scale, these networks have been supported by EC finance. For example, DG DEVCO's 2014 call for the establishment of a Coordination Platform for SME Internationalisation towards Asia[11] to strengthen the coordination and cooperation between EU-financed initiatives in Asia and other EU service providers in the region is an interesting example of EU institutional collaboration with EU business networks. Other examples of EU co-funded programmes include the European Business Technology Centre[12] which provides support for EU 'clean-tech' companies and researchers on market entry to India, the EU SME Centre[13] which helps SMEs get ready to do business in China, and the MERCOSUR Intellectual Property Rights SME Helpdesk[14] which facilitates the expansion of European SMEs already established or looking to start working in MERCOSUR and Chile. It is clear however that such initiatives focus mainly on Asian and Latin American markets and few examples are yet to be found in Africa. During last year's Africa-EU Business Forum though the African Union Commission Chairperson Nkosazana Dlamini-Zuma stressed that for the EU Africa has turned from a development challenge of the 21st century into a development opportunity based on a mutual partnership. It was able to identify cooperation areas that "will significantly contribute to better leveraging the participation of the private sector in development". [15]

EU Institutional strength

Building on existing EU-institutional tools

The potential value added of the EU in supporting the private sector for development also relates to the EU competencies, institutions and the instruments behind it. While development is an area of 'parallel competency' in the EU, thus blurring where the EU's value added might lie, the EC has competency for trade negotiations and trade policy, thereby offering potential tools to

[9] Having begun with 8 member countries/chapters in 2001, by 2014 this has expanded to 25 member countries around the world. See http://www.ebowwn.com/

[10] http://www.eurochambres.be/

[11] https://www.devex.com/projects/tenders/coordination-platform-for-the-internationalisation-of-the-eu-business-community-in-the-asia-region-gpn/151656

[12] www.ebtc.eu

[13] www.eusmecentre.org.cn

[14] www.mercosur-iprhelpdesk.eu

[15] 5th EU-Africa Business Forum, Joint Business Declaration at the 4th EU-Africa Summit, Brussels, 2st April 2014. http://euafrica-businessforum.eu/images/docs/declaration.pdf

engage with firms from across the EU. As with tools aimed at the internal market, this might be used to offer the opportunity for a 'level playing field' across European firms aiming to enter external markets while ensuring sustainable development impacts. This is particularly beneficial for the smaller EU member states which do not have large aid programmes or diplomatic reach in many developing countries, nor external investment promotion services, let alone private sector engagement instruments.

Beyond the EU's Overseas Development Assistance instruments[16], EU institutions such as the EC's DG Enterprise have numerous tools that might also be used for more developmental purposes. Often these tools focus particularly on SMEs that "in the EU represent 99% of businesses, and are a key driver for economic growth, innovation, employment and social integration".[17] The SME Internationalisation portal[18] for instance looks at ways to be of practical help to European companies that wish to do business abroad. In addition there are a number of other programmes that focus on boosting competitiveness, on helping European businesses to get access to support and information and on fostering public-private partnerships to leverage private sector finance for development. By linking with DG DEVCO and the EUDs – links between the different Commission DGs and/or with EEAS that for most of the programmes do not yet exist – these existing tools may offer important opportunities for working with the private sector for sustainable development.

Also under DG Enterprise, the Enterprise Europe Network[19] is specialised on SMEs and making the most of their business opportunities within and outside the EU. This is a good example of where action on the European rather than national level can have major advantages in terms of information, opportunities and networks available. By "helping them to access market information, overcome legal obstacles and identify potential business partners across Europe" European businesses can rely on several services to increase their competitiveness. Similarly, the €2.3bn EU programme for the Competitiveness of Enterprises and SMEs (COSME)[20] aims at i) having access to finance, ii) access to markets, iii) supporting entrepreneurs, and iv) creating more favourable conditions for business creation and growth, operating between 2014 and 2020.[21] Another information portal where SMEs can get practical advice and information on current policy developments, is the European Small Business Portal[22] that also provides information and support on where to get access to finance as well as identifying potential business partners in Europe and elsewhere.

These various portals and networks set up by European programmes are suitable ways to not only share knowledge and experience but to also pool national and/or regional knowledge. By making this accessible and allowing for scaled and customised capacity building, there is also the potential for making government and stakeholder action more coordinated around this agenda.[23]

From a development point of view, there is also an increasing focus on the potential of Public-Private Partnerships (PPPs) and the opportunity to leverage private sector finance for

[16] e.g. the European Development Fund (EDF), Development COoperation Instrument (DC)I and European Neighbourhood Instrument (ENI)
[17] http://ec.europa.eu/enterprise/policies/sme/index_en.htm
[18] https://webgate.ec.europa.eu/smeip/
[19] http://ec.europa.eu/enterprise/policies/sme/market-access/enterprise-europe-network/index_en.htm
[20] http://ec.europa.eu/enterprise/initiatives/cosme/index_en.htm
[21] COSME as well as other EU programmes are managed by the Executive Agency for Small and Medium-sized Enterprises (EASME) that was set-up by the European Commission.
[22] http://ec.europa.eu/small-business/most-of-market/international-business-outside-europe/index_en.htm
[23] IDB. 2014. Going Global - Promoting the Internationalization of Small and Mid-Size Enterprises in Latin America and the Caribbean. http://publications.iadb.org/bitstream/handle/11319/6793/Going%20Global.pdf?sequence=1

development. DG Agriculture is reportedly engaging with DG DEVCO on linking EU agribusiness firms with counterparts in developing countries. The EU however has not yet created an own PPPs agency, "nor has it created a documentation centre or observatory, although debate among EU institutions on the topic has run for a decade or more".[24] Therefore, if action so far at the European level is not sufficient, a good way forward is to further build upon work and initiatives that have been undertaken at member state level. The EU's added value in embarking on PPP projects is its ability to more likely leverage larger amounts of investments by the private sector vis-à-vis member states' efforts. "In 2013, the European Commission launched eight contractual PPPs" which aimed at leveraging €6 billion of investments under the umbrella of Horizon 2020[25]. By making use of its legislative power the EC further tried to increase the use of PPPs through elaborating a framework of rules for PPPs, also applicable for those created by Member States.[26]

A wide network of EU Delegations

The EU's wide network of delegations (EUDs) offers a potential strategic asset for grouping EU support to and engagement with the private sector in developing countries. These might be used to coordinate Member State support for private sector for development activities on the ground in partner countries and can also potentially serve as a single point of contact for developing country partners to approach the full range of EU member states and businesses.[27] The EEAS has 139 EU delegations and offices around the world (of which 49 are in Africa) and represents the EU in 163 countries and international institutions.

In the field of economic and investment diplomacy, EUDs have been shown to create a collaborative trend amongst national European investors and business representatives.[28] The added value of EUDs is connected to the image given by the EUD, where sometimes it is seen as an important, strong and biased political actor, an agency at the service of Member States, yet alternatively it can also be seen as a more neutral and reliable partner in comparison to some of them.[29]

The EUDs might potentially play a role as one-stop-shops for European private sector (for) development needs, supporting platforms and business networks to encourage sustainable investment and employment creation. Interesting examples are emerging of projects undertaken through EU Delegations, often using small, more flexible EU financial instruments to distinctly link European business interests with development objectives. This is includes a 2014 call for proposals to establish a European Chamber of Commerce in Myanmar, and the establishment of an EU Business Forum in Ethiopia in 2012.[30] The EU Business Forum in Ethiopia allows European business to network with local authorities and aims to complement the Ethiopian government's Growth and Transformation Plan which includes foreign investment as a priority.[31]

[24] EPRS, 2015.
[25] EPRS, 2015.
[26] "Under EU law, if national public bodies decide to create a PPP, and thus involve third parties in public contracts or concessions, then the EU rules for public procurement and concessions must be complied with." (http://www.europarl.europa.eu/RegData/etudes/BRIE/2015/545722/EPRS_BRI(2015)545722_REV1_EN.pdf)
[27] See Helly et al. (2014) and Byiers et al. (2014).
[28] Examples mentioned in Helly et al. (2014) include Nigeria, Ethiopia and South Africa.
[29] Helly et al. (2014)
[30] EU Business Forum Ethiopia http://www.eubfe.eu/
[31] http://capacity4dev.ec.europa.eu/article/joint-programming-what-where-how

While the network of European Chambers of Commerce already exists (discussed above)[32], EUDs might play an important role in mainstreaming private sector engagement for development across their portfolios. This might include promoting the developmental impact of EuroChambre support more broadly as well as engaging the private sector in other activities of the EUDs. Yet member states with well-established national chambers of commerce could be understandably reluctant to give up any privileged position that this may allow their members.

EUDs can also play an important coordinating role in the Joint Programming of EU Member States development responses in partner countries. This ambitious programming modality of the EU's collective development aid has been launched in the middle of an enduring economic and financial crisis and aims to provide benefits in terms of better coordination between EU institutions and MS' development aid, thus reducing duplication and fragmentation of aid and increasing its effectiveness. The commitment to working better together in joint programming is an old one, but there has been renewed urgency and some progress in recent years. Given the amount of EU member-states now championing private sector for development as a priority for their ODA is distinct danger of duplication and multiple initiatives. The joint programming initiative is being implemented in a number of countries[33] in the 2014-2020 Multiannual Financial Framework and will potentially provide insight into the opportunities and challenges for synchronising programming cycles and division of labour of the EU's collective interventions in PSD. This initiative holds the potential for increased EU visibility and influence, but also faces challenges for EUDs to implement it in their specific contexts and to ensure participation and interest of the stakeholders which go beyond EU member states to also national authorities, civil society and also the private sector.

Using the EU's political and financial weight

Finally, a key point made in the EC Communication on engaging the private sector is that the EU can use its political and financial weight in its favour. Given that the EC's support for private sector development has averaged EUR 350 million per year, combined with development assistance and private investment from Member States, this makes the EU a key player in support local private sector development in partner countries. Programming of EU development aid for the period 2014-2020 has furthermore aimed to translate the Agenda for Change into practice; ensuring inclusiveness of the process (including bringing in the private sector) and sector concentration giving priority to the sectors referred to in the Agenda for Change (including health education and jobs, sustainable agriculture, energy, productive business environments and other relevant sectors for PSD)[34]. While the current availability of data on implementation of the programmed funds is yet to show the size of specific contributions, early analysis has shown that employment and private sector development are particularly recurrent in Latin America and the Eastern and Southern Neighbourhood (Herrero et al. 2013).

The Private Sector Communication mentions that the Commission will, through EU Delegations, encourage inclusive public-private policy dialogue by supporting the functioning of existing or new dialogue mechanisms and by targeted capacity building of private sector representatives. The Commission also intends to play an economic diplomacy role to try to increase

[32] For example in Nepal, Vietnam, Indonesia, and the Philippines, see European Business Organisations Worldwide Network http://www.ebowwn.com/.

[33] Joint programming was launched in early 2012 in a first generation of five countries - Ethiopia, Ghana, Guatemala, Laos and Rwanda - and further assessments of the potential for joint programming might lead to the exercise being carried out in over forty countries.

[34] Herrero et al. (2013)

willingness among partner governments and local authorities to engage in policy and political dialogue on private sector development. This strategy will clearly have to interact on the ground with African and other developing countries' own economic and industrial policies.[35] While political dialogue accompanies all EC interventions, the promotion of EU business will not necessarily always contribute to domestic policy objectives, and in some cases may even undermine these. Therefore, using the EU's political weight in promoting private sector engagement for development must carefully take into account alignment with economic development strategy.

FROM POTENTIAL TO REAL VALUE ADDED?

While the EU has numerous potential areas of value added in engaging the private sector for sustainable development, there are nonetheless challenges in turning this into reality. While some of these relate to capacity to operate across institutions and to more ideological questions about the use of public funds for private benefits, a key question relates to the level of demand for this approach, from the private sector, from EU Member States, but perhaps most importantly, from developing country partner countries.

EU Institutions: Between 'win-win' and 'capture'?

The potential value added of the EU relies to an important extent on the EU institutions engaging differently with the private sector, both in Europe and abroad. While the EC's Private Sector Communication (EC, 2014) follows growing Member State engagement with the private sector for development, and while the EU's own domestic agenda is increasingly about growth and jobs, critics state that the EC cannot and should not be contributing to private sector profit and doubt its capacity to achieve development outcomes while avoiding the pitfalls of abuse, exploitation and social or environmental harm (Byiers and Krätke, 2014b). While these risks are present in many areas of public policy and finance, the political pressure on EU Member States to show results and value for money during an economic crisis highlights the political importance of working with the private sector to create benefits at home and abroad.

This implies the need to be able to better gauge "additionality" of public funds and an understanding of what drives the development impact of the investments in the first place. EU Member States that have been engaging with the private sector for considerably longer are also still grappling with this challenge, raising important challenges and questions about subsidy and tied aid.

The potential risks also underline the need for better reporting and monitoring of private sector activity. This is highlighted in the European Council conclusions on the Private Sector Communication, for a revised CSR policy, and relates to on-going discussions at the EU and Member State levels on firm-level reporting on social and environmental sustainability and corporate justice.[36]

EU institutional linkages & capabilities to work with the private sector

Addressing the above challenge will also require new capabilities among EU staff and their institutions. While EUDs play a key role in undertaking many of the activities formulated in the EC Communication on private sector, increasing dialogue as well as implementing and financing partnerships with firms and investors in developing countries will require skilled and dedicated staff accustomed to working with the private sector. The private sector engagement agenda is not yet

[35] Byiers et al. (2014)

[36] See EU Council Conclusions on a stronger role of the private sector in development cooperation: An action oriented perspective: http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/146174.pdf

integrated into the working modalities of most EU delegations.[37] Furthermore, few delegations have the necessary skills and staff - many do not have a trade section or a qualified attaché responsible for trade and commercial affairs.[38] Beyond this, knowledge of policy coherence for development in the specific areas of private sector development would have to be improved, all come at a time when EU Delegations are struggling to cope with the many existing demands placed upon them from multiple stakeholders.

There are also questions about the degree to which the different EU Institutions can manage to collaborate on this agenda. The potential for building on existing instruments at DG Enterprise supposes willingness to work together and find terms of complementarity. The EIB is currently used for most EC blending of grants and loans, many of which aim at promoting private sector development but the EIB strategy for the ACP is strikingly different from the Communication, offering a clear business and investment proposition with a strong focus on infrastructure and the financial sector and emphasis on investment in climate action as a cross-cutting goal [39]. The EC Communication on private sector does not mention the EIB strategy or other related policies at EU level, which could be seen to raise questions about the coherence of the EU's strategies.

Is there business interest?

While the logic of engaging the private sector for development is gaining ground, there are questions about the level of interest of firms in engaging with the EU on their agenda and their terms. This is relevant for both developing country firms and EU firms, where anecdotally the requirements for accessing EU funding often require quite different attributes, bureaucracy and time-scales to those habitually used by firms. One question arising is therefore whether developing country firms can better access EU companies and market opportunities by engaging with EU institutions rather than directly approaching EU businesses? Engagement by developing country firms with EU institutions therefore only pays off for development, if the foreign firms would be denied doing business otherwise, so leaving out the EU institution in the process of getting market access. This clearly also relates back to the EU institutional capacity to engage with firms in a way that allows flexibility while remaining targeted and non-bureaucratic. A lot then hinges on the transaction costs to companies of working with the EU.

From an EU private sector perspective, it is not clear which firms are those that are on the verge of investment in Africa. Ideally, a linked up approach to promoting development and outwards investment would allow the EU institutions to identify firms that are simply awaiting the right conditions to invest and be able to provide the finance and support to overcome the associated risks. According to the 2014 Africa attractiveness survey though "a dramatic improvement in the continent's perceived attractiveness" could be revealed and there seems to be a "shift of investment from extractive to consumer-facing sectors", such as technology, media and telecommunication (20% of total FDI into Africa) as well as retail and consumer products (17%) or financial services (15%).[40]

[37] Byiers et al. (2014).
[38] Although positive examples do exist, e.g. in the case of the EU Delegation in Kampala (see Byiers et al. 2014).
[39] EIB 2014
[40] Ernst & Young Africa attractiveness survey 2014. http://www.ey.com/ZA/en/Issues/Business-environment/EY-africa-attractiveness-survey-2014

Is there EU member state interest?

As well as private sector interest, the EU's value added in working with the private sector for development also assumes member state interest. But the rising importance of economic diplomacy and overlapping trade, investment and development agendas mean that many Member States are specifically looking at ways to link internationalisation of their own firms and are essentially in competition with one another. This raises the question: "is there really an EU private sector?" Without a collective EU private sector, the value added of the EU is somewhat diminished, despite the potential benefits it might bring discussed above.

This also raises issues of duplication. As the above discussion highlighted, the potential role for the EU relates to its potential for coordination and pooling of EU interests and capacities in a way that complements rather than duplicating what Member States are already doing.

Ownership

Finally, while economic development and investment are considered basic requirements to improve livelihoods, the value added of the EU in working with the private sector relies on there being a desire to receive EU investments. While this might be assumed, the EC's Communication nonetheless remains relatively apolitical, with little reference to ownership or engaging with local government PSD and economic transformation strategies. Economic reform and development processes are inherently political, implying that the EU's role will necessarily also be political.

CLOSING REMARKS

Economic transformation, better jobs and rising income opportunities are increasingly high on the agendas of developing countries. Developed and developing country businesses therefore clearly have a strong role to play in investing and providing jobs, while donors may be able to catalyse such investment through support to the broader business environment, the approach that has taken place until recently, or by working directly with firms.

While the EU has a wealth of potential investors, is a key trader and investor in developing countries and has the institutions to potentially get the maximum development potential out of engaging the private sector, there are nonetheless numerous challenges. These relate to the EU institutional operating mechanisms as well as deeper questions of whether and how EU public money including both ODA and non ODA resources should engage with firms from its Member States, how to best tailor engagement to promote effective development impact and how to avoid capture by vested business interests that could undermine ultimate development objectives.

While interest in working with the private sector is already a positive step, to fully realising the potential EU value added will require overcoming some of the identified challenges. The following table summarises the key challenges as outlined in this note and proposes possible solutions or recommendations to address them:

Key challenges	*Possible solutions/recommendations*
1. EU institutional operating mechanisms → issues of institutional linkages and capabilities, additionality, internal capacities and coordination	➢ The EU should establish coordination mechanisms to facilitate inter-institutional coherence and cooperation
2. Business interest → by both EU businesses and developing country firms	➢ The EU should focus on a facilitating role, based on key development principles, and building on domestic initiatives within the EU and developing countries
3. EU member states' interest → national objectives vs. EU private sector & the risk of duplication of existing MS actions	➢ The EU should favour coordination and exchanges of information (on opportunities, practices, modalities, monitoring), and contribute to set commonly agreed guiding principles (and possible operational framework)
4. Ownership → desire to receive EU investments?	➢ The EU engagement should build on domestic initiatives and facilitate political engagement to foster a better pro-development business environment.

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NOTES ON THE DESIGN, IMPLEMENTATION AND EVALUATION OF PRIVATE SECTOR DEVELOPMENT SUPPORT INSTRUMENTS

ABSTRACT

Starting from a critical analysis of the European Commission's 2014 Communication *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries* this briefing note develops general recommendations for the design, implementation and evaluation of private sector development support by the European Union. It argues that essential ingredients for successful support are (a) clarity and specificity of key concepts such as 'the private sector' and its 'role'; (b) the avoidance of 'overloading' programmes with too many objectives; (c) the importance, at the programme design stage, of a careful analysis of what the binding constraints are in a particular country and sector; and (d) the necessity of designing monitoring and evaluation systems at the design stage. In substantive terms, the importance of creating scalable firms that will enable the economy to diversify is highlighted. Conversely, general recommendations on the appropriate modality, type, level and tools of private sector development support cannot be made, as these will depend on the specific context of a support programme.

EXECUTIVE SUMMARY

Starting from a **critical analysis of the European Commission's 2014 Communication** *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries* this **briefing note aims to identify** a number of **key rules for the design of private sector support programmes in developing countries**. The main arguments can be summarised as follows:

1. **Private sector development requires clarity of concepts used** in order to develop effective tools and instruments. The briefing note distinguishes **three different understandings of the 'role of the private sector' as used in the Communication**, and then **concentrates on** private sector development in the narrow sense, i.e. the **traditional support *for* the private sector in developing countries**.
2. **Private sector development should aim at increasing the number of formally organized firms** capable of absorbing technology, providing technical on-the-job training to workers, participating in global value chains, and gaining independent access to export markets.
3. **The recognition that the private sector is diverse needs to be reflected in the design of support**. Rather than devising comprehensive 'private sector development programmes', **support should focus on clearly identified private sector actors (homogeneous sub-sets of the private sector**). This means that different programmes might be implemented simultaneously, which highlights the **importance of coherence and complementarity** among them.

4. **Any programme should have clear and specific objectives, and should not be overloaded with too many diverse objectives** — in particular, the notion of 'inclusive and sustainable growth' actually constitutes a triangle of three potentially conflicting objectives.
5. As a result of the complexity of the private sector and the existence of various high-level objectives, the **importance of thorough diagnostics and design of private sector development programmes** cannot be overstated. These need to determine which objectives should be pursued, which target groups be addressed, and how the resulting support should look like in terms of modality, level, tools and instruments.
6. Impact evaluation and results management in general need to be conceived as being part and parcel of any private sector development programme and hence need to be considered at each stage, from diagnostics to completion.

INTRODUCTION*

The European Union is one of the world's leading donors. It has long recognised the importance of a functioning private sector for economic and social development in partner countries, and accordingly has included private sector development support as one of the core components in its development cooperation programmes globally.

In recent years, **the conceptual basis and environment for private sector development support have both been changing substantially**[41]. First, the strong emphasis placed during past decades on building 'endowments' (institutions, rule of law, investment climate, cultural dispositions, property and trade laws) for private sector operations has been questioned because of the 'surprising frequency of spontaneous growth episodes in "poorly" endowed economies; [and the] sharp disparities in regional development within national economies subject to the same general rules'[42]. Second, there has been a convergence of formerly separate strands of aid, trade and private sector support, under the Aid for Trade (AfT) agenda, especially with regard to the AfT interventions focused on removing supply side constraints and building productive capacity. Third, new donors have entered the game, and private capital flows to developing countries have assumed a leading role in shaping economic development. Indeed, net foreign direct investments (FDI) from OECD DAC countries alone have surpassed official development assistance (ODA) flows every year since 2005[43], and by definition these FDI flows are targeting the private sector in developing countries.

In response to these developments, the European Commission has revised its approach to private sector development, as well as its view of the role of the private sector in development at a more general scale. This is reflected, most recently, in the 2014 Communication on *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*[44].

The **purpose of this briefing is to analyse the extent to which the Communication constitutes useful guidance for the practice of private sector development, and more generally, to identify the 'key success factors' for the design, implementation and evaluation of private sector development programmes**. In particular, the briefing discusses whether the Communication (1) is

* The author is grateful for comments provided by Dan Ciuriak and Timothée Picarello.

[41] For a more extensive discussion of these issues, see Bienen and Ciuriak (2014).

[42] World Bank, New Industrial and Innovation Policy: Overview, http://go.worldbank.org/BVKEUGB840.

[43] OECD **Total flows by donor (DAC1) database,** http://www.oecd.org/dac/stats/.

[44] Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries, COM(2014) 263 final, 13 May 2014; hereafter referred to as 'the Communication'.

conceptually clear and specific, (2) defines clear objectives and lines of action, and (3) provides guidance on the modalities and tools to be used. The Communication indeed addresses all of these issues, at varying levels of detail.

THE MEANINGS OF THE 'ROLE OF THE PRIVATE SECTOR'

Without a clear understanding of what we mean when we talk of the 'role of the private sector' in achieving inclusive and sustainable growth in developing countries, it is impossible to derive clear directions for action. The **Communication's use of the term comprises a number of conceptually different things**. First, the 'private sector' as referred to in the Communication comprises both the private sector in the EU and the private sector in developing countries, although their roles in fostering development are quite different. Second, the Communication conceives the private sector in developing countries both as the target or object of EU development cooperation and as a subject of EU development cooperation, i.e. as a partner of the EU in programmes aiming at achieving inclusive and sustainable growth. Again, lines of action will be substantially different depending on the understanding of the private sector as object or subject of support.

Taking these two distinctions as the basis, a simple 2x2 matrix of different meanings of the private sector's role in development can be constructed. This is done in Table 1, which also provides examples of how each concept of the private sector is addressed in the Communication. Of the four potential meanings, the Communication comprises three; only the private sector in the EU as a target of assistance is not addressed[45] (top right in the table). Conversely, the private sector in partner countries as the target of support is addressed in the Communication through a variety of actions (primarily in section 2.2) (bottom right); this is the classic concept of 'private sector development', which aims at fostering the performance, or enhancing the conditions for the operation of, the private sector. Finally, the Communication explores stronger cooperation with the private sector both in the EU and in partner countries (mostly addressed in sections 2.3 to 3) (top and bottom left, respectively).

Table 1: Conceptual matrix of the 'private sector' in development cooperation

	Private sector as subject/partner	Private sector as object/target
Private sector in EU	'**Dialogue and joint action with the private sector'**: – 'Blending' – Investment partnerships, particularly in sustainable energy, sustainable agriculture and agribusiness, infrastructure and green sectors – Framework for dialogue	**Not addressed in Communication** (not part of EU development assistance)
Private sector in developing countries	**'Companies' own engagement for development'**: – Fostering 'inclusive business';	**'Private sector development'**: – Macro-level: policy design/ business environment;

[45] This falls under other policies supporting SMEs, innovation and research, specific sectors and industries, etc., within the European Union, and within the Commission would be under the primary responsibility of the Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs (DG GROW).

	– Public-Private Partnerships (PPPs); – Public-private policy dialogue.	– Meso-level: support to institutions; – Micro-level: Support to micro, small and medium-sized enterprises (MSME).

Without any doubt there is a virtuous circle between successful support to the private sector and its role in promoting development: if the private sector in a developing country is strengthened, it can and will take a more active and prominent role in the further economic development of the country, i.e. it will increasingly transform its role from being a target of development assistance to a partner in development. However, the two roles are completely different and require different principles, criteria for engagement and approaches.

The Communication fails to make these distinctions clear; in turn, this makes it difficult — if not impossible — to define clear lines of actions that flow obviously and robustly from the conceptual framework. Indeed, many of the actions listed in section 2 of the Communication do not logically flow from the previous analysis but appear to be somewhat ad hoc. Also, the lack of conceptual clarity might be the reason for the vague nature of the tools and modalities put forward in section 3 of the Communication.

The **remainder of this note concentrates on private sector development in the narrow sense, i.e. the traditional support *for* the private sector**, which arguably stands at the beginning of the virtuous circle described above. There are at least two reasons why such a focus is justified.

First, in many developing countries, the capacity of the local private sector continues to be weak – in particular, there is a glaring shortfall in the number of formally organized firms capable of absorbing technology, providing technical on-the-job training to workers, participating in global value chains, and gaining independent access to export markets. The same paucity of formal firms also expresses itself in another way: diversification has been weak. Since at least the early 2000s, increasing attention has been paid to two characteristics of economic development: the explosive diversification of economic activity that comes with it[46], and the resulting evolution of dense eco-systems of private firms interacting as competitors, partners, suppliers, and customers.[47]

Second, the conceptual developments briefly mentioned above have had consequences for the design of private sector support, for example: which level and type of support — at the policy level (macro), support to institutions (meso), or to firms (micro level); support aiming at the private sector at large (horizontal) or sector-specific (vertical) — is most appropriate, and under which conditions? Who should be the beneficiary of support — the formal or informal sector, micro, small or medium-

[46] A highly influential article by Imbs and Wacziarg (2003) documented that, at the earlier stages of development, diversification dominates, and increased specialization according to comparative advantage appears only at the most advanced stage of development. As Ricardo Hausmann (2013) observes: 'The Netherlands, Chile, and Cameroon have a similar population size, but the Netherlands is twice as rich as Chile, which is 10 times richer than Cameroon. Looking at their exports shows that the Netherlands is three times more diversified than Chile, which is three times more diversified than Cameroon.'

[47] Hausmann et al. (2o13) emphasize the social accumulation of knowledge that underpins this diversification: 'The social accumulation of productive knowledge has not been a universal phenomenon. It has taken place in some parts of the world, but not in others. Where it has happened, it has underpinned an incredible increase in living standards. Where it has not, living standards resemble those of centuries past. The enormous income gaps between rich and poor nations are an expression of the vast differences in productive knowledge amassed by different nations. These differences are expressed in the diversity and sophistication of the things that each of them makes.' Since, in a private sector economy, the repository of productive knowledge is the formally organised firm, the lack of social accumulation of knowledge is mirrored in the lack of firms in low-income countries.

sized enterprises, or institutions? Which modality of support is preferable — project or budget support? And, last but by no means least, what should be the objective of private sector development and by extension which are the most important metrics for evaluating success of programmes?

OBJECTIVES OF PRIVATE SECTOR DEVELOPMENT PROGRAMMES AND LINES OF ACTION

At the highest level, the objective of private sector development support is well defined in the Communication: to contribute to 'inclusive and sustainable growth'. However, **the triangle between inclusiveness, sustainability and (economic) growth is not without conflicts, and these will typically appear in the context of designing specific programmes**. For example, focus on developing the extractive sector in a particular country might spur economic growth but at the expense of inclusiveness and sustainability. The Communication fails to acknowledge this tension and thus does not provide any guidance on the prioritisation of the three corners of the triangle, which constitutes an important shortcoming for the purpose of designing private sector support programmes.[48] It is therefore suggested that **different private sector support programmes, aiming at different beneficiaries or target groups, should be conceived, each prioritising different objectives**. At the same time, when different programmes are considered in aggregation, **it needs to be ensured that they are complementary and coherent**[49].

What does this mean in practice? At the start of implementing more focused private sector development programmes is the recognition that there is no unitary 'private sector' in developing countries (nor elsewhere), as is well recognised in the Communication:

> 'The private sector is highly diverse, ranging from enterprising individuals to large multinational corporations and financial institutions; from enterprises creating shareholder value to people-centred social businesses, cooperatives and workers and employers organisations. They may operate at a local, national, regional or international level, in rural or urban areas, in the formal or informal sector and in very different country contexts. Each of these private sector actors requires different conditions and incentives to contribute to development, entailing differentiated approaches to their support and engagement for development' (p. 4)

Indeed, if the private sector is diverse, the **notion of a unitary 'private sector development programme' or 'support to MSMEs' becomes simplistic**. For the design of meaningful support programmes, with clear objectives, sufficiently homogeneous fractions within the private sector need to be identified. For example, in most developing countries, the private sector comprises a (very) small number of large firms and a very large number of (mostly informal) micro enterprises, and few small and medium-sized formal enterprises. Also, both the constraints faced by and the contributions to sustainable development that can be expected from micro-enterprises on the one hand and small or medium-sized on the other are vastly different. Under such circumstances, **entirely different support mechanisms for micro-enterprises and for SMEs will be the appropriate response, and these two support mechanisms might have different objectives**: the focus of the micro-enterprise

[48] More generally, the European Court of Auditors has observed that the 'objectives mentioned in high level policy documents and legal texts establishing the financing instruments are prepared in a political context and, while they should provide a basis, are often not focused enough to be useful at implementing level' (2014, para. 39).

[49] An alternative approach would be to only consider private sector support programmes which, at least to a certain extent, contribute to each of the three dimensions of inclusive and sustainable growth. This might, however, lead to overloaded programmes with a lack of focus.

programme might be on inclusiveness (achievement of decent incomes, working conditions, etc.), while the focus of the SME programmes might be on business growth[50].

Likewise, **support to formal enterprises is fundamentally different from support to the informal sector, pursues different objectives, and even follows different principles**[51]. This needs to be recognised, emphasized, and carefully articulated in support programmes. Arguably, and as recognised in the Communication, the most important transition that private sector development support can contribute to in developing countries is the transition from informal to formal organization of firms (see section 4.1 below for a further discussion). This is indispensable for technology acquisition and scaling up of production.

To summarise the argument made so far: **the main suggestion is to concentrate on a specific objective for a specific programme with specific (homogeneous) target group**. Which objectives, which target groups, and how the resulting support should look like depends on the specific context, and need to be identified on a case-by-case basis. This highlights the importance of the tools and instruments to be used for private sector development, and especially how programmes are designed.

TOOLS AND INSTRUMENTS FOR PRIVATE SECTOR DEVELOPMENT

Programme Design

The Communication calls for 'improving the quality of country and sector diagnostics for prioritisation of reforms' (p. 6). This is certainly a move in the right direction — but the call should be more general for improving the quality of diagnostics for private sector support at *all* levels, not only at the macro level. For example, the economic literature identifies numerous potential factors that create a 'glass ceiling' which inhibits the graduation of informal firms to formal status. These can include inter alia tax structures (a problem of tax design); the risk of expropriation of successful firms by opportunistic confiscatory taxation (a problem of governance); inadequate support from other private sector firms (including a lack of financing from under-developed local banking systems with inadequate systems for collateral and risk assessment); or predatory behaviour of well-connected individuals (a problem of institutions and competition-safeguarding measures). As the spectrum of issues is wide, **a careful analysis of what the binding constraints are in a particular country and sector is required to identify and design an appropriate support programme** for private sector formalization and diversification.

Since development assistance programmes, like other public policies, need to be justified and show that they present value for money, *any* programme design should be based on a careful and comprehensive ex ante diagnosis of the context of the planned programme, leading to the formulation of clear and specific objectives, and a sound, measurable and complete results framework. All the instruments for this are in place. However, as we have described elsewhere (Bienen/Ciuriak, 2014: 15f) in practice '**there often has been a certain "automatism" in the EU process, which means that projects, once initially identified, are hard to stop** even when their added value to the beneficiary country becomes questionable.' In addition, **often private sector development support uses a template approach**: what has been implemented elsewhere is copied in another country, with or without some adaptation to the specific condition prevailing in

[50] Similarly, sector-specific programmes might have sustainability as their main objective.

[51] For example, among the criteria for providing private sector actors is that these adhere to social, environmental and fiscal standards (Communication, p. 5). Strictly speaking, this would rule out any support to the informal sector whose definition precisely is the non-adherence to social, labour, environmental or fiscal standards.

the country in question. In other words, the diagnosis and design phase tend not to be as independent and thorough as would be required for the design of support programmes that are truly based on the specific situation of the private sector (or a sub-group of the private sector) in the partner country. What is needed, in sum, is a stronger focus of 'evidence based' programme design.

As a result of the foregoing, it is difficult to make universally applicable recommendations on what constitutes good practice for private sector development support, apart from the general call for careful, case-specific ex ante diagnosis and programme design avoiding a template approach, and an enhanced preparedness to 'stop things' during and at the end of the programme design. The following sections nevertheless discuss some salient issues that any programme designer has to address.

The Level at which Support is provided

The Communication confirms that the Commission will continue to support the private sector in partner countries at all levels: at the macro level (business environment and horizontal private sector policies); at the meso level (sector policies, supply of business support services and finance); and at the micro level, i.e. support to enterprises. This approach is comprehensive but provides little guidance for the design of a specific support programme: Should it, for example, provide direct assistance to enterprises? Should it support the chambers of commerce? Or should it support the Government in implementing reforms of business registration?

The Communication indicates that the **Commission is promoting, in general, a stronger role of micro-level support — it refers to the 'stepping up' of support to enterprises. This is in line with the global trends in development thinking**. For roughly the past three decades, in the wake of the Washington Consensus, private sector development focused on horizontal business environment issues[52]. However, following (1) the successes of some developing countries pursuing active vertical policies, (2) the global revival of industrial policy (see Ciuriak, 2013), there has been the recognition that **good horizontal policies are a necessary but by no means sufficient condition for a striving private sector, and that they therefore need to be complemented by sector-specific and even firm-specific support measures**. The Communication is fully in line with this reasoning and also addresses important pitfalls that need to be avoided when supporting enterprises, such as potential market distortion, moral hazard or crowding out.

To summarise, **when designing a private sector support programme, all levels need to be considered, and the relative weight given to each of them in the programme will depend both on the context and the objectives of the programme** — as well as the support being provided by other donors. Notably, some donors over the years have developed particular expertise in certain types of support, such as the World Bank in business environment issues, and **there would thus a priori be no reason why EU private sector support should put a particular emphasis on the macro level**, if that is already being addressed by another donor. This highlights the **importance of effective donor coordination in particular at the programming stage**.

Modalities

In terms of the aid modality, is budget support superior to direct interventions? The Communication appears to reserve a limited role for budget support in the context of private sector development. It states that

[52] To be fair, one should mention that private sector development programmes of the European Union have always been balanced and included firm-level support, as is evidenced by, e.g., the various Industrial Modernisation Programmes, the EBAS Programme, and many others.

> 'the Commission will continue to seek synergies between budget support and direct interventions for achieving private sector development objectives. Budget support, and the associated policy dialogue, can usefully underpin business environment reforms in partner countries by promoting the stability of macroeconomic frameworks, sound public financial management, transparency and oversight of the budget. Furthermore, specific reform contracts and results indicators focusing on private sector development can help achieve business environment reforms' (p. 15).

Indeed, such **a careful and limited approach to budget support in the context of private sector development appears sensible**. The experience with the increased use of budget support as an aid modality in recent years, which responded to a call for more ownership of aid by partner countries, has resulted in some disappointments, such as several widely published cases of corruption and the slow progress of support. The problem stems from capacity limitations: in addition to transparency and efficiency of recipients' public finance management, budget support for private sector development requires substantial capacities of partner countries in private sector development policy design and formulation. As has been argued above, even for the EU it has been difficult to formulate evidence based and contextualised private sector support schemes; the same argument would apply, at a different level of magnitude to the formulation of private sector support under budget support schemes. Therefore, **in most developing countries direct interventions appear to be the modality of choice for private sector support, for the time being**.

Related to this, does it matter what type of funding is used for private sector support? The Communication highlights the good experience with, and intention to expand blending (p. 2 and *passim*). Nevertheless, **although the increased use of blending and multi-donor/basket funds is commendable as it is a sign of increased donor coordination, what is important for private sector development support programmes is not *who* provides the support or funding, but *what* is done**. Unfortunately, despite the increased use of blending and similar financing instruments, and much talk of donor coordination and additionality, **on the ground private sector development programmes often continue to be implemented in parallel, with clear competition (and resulting duplication) between donors** — including between the EU and Member States. Although it would be naïve to expect that this is likely to be changed, at the same time it is necessary to remind donors of the open agenda for coordination, including of private sector development support programmes. As mentioned above, **effective donor coordination in particular at the programming stage, including joint programming, is important**.

Impact Evaluation

Although the Communication highlights the importance of results management it provides no guidance for how such results management should be incorporated in private sector development support. In terms of systems, the Donor Committee for Enterprise Development (DCED), of which the European Commission is a member, has developed a standard for measuring results (Table 2), which provides helpful guidance and might be considered into EuropeAid's results oriented management framework as part of the current reforms.[53]

[53] See the Reply of the Commission to the European Court of Auditors' report (2014, pp. 33ff.).

Table 2: The DCED Standard for Measuring Results – Overview of main steps

1. Articulating the Results Chain
2. Defining indicators of change
3. Measuring changes in indicators
4. Estimating attributable changes
5. Capturing wider changes in the system or market
6. Tracking programme costs
7. Reporting results
8. Managing the system for results measurement

Source: DCED (2014: 1)

From a practitioner's point of view, a number of issues would seem to be particularly important if results management and impact evaluation are to provide meaningful guidance for the design and implementation of private sector support programmes: First, the **need for clear and specific objectives** has already been stressed above (section 3).[54] Second, **the results framework should be developed simultaneously with the programme design**. All too often, the definition of indicators, baselines and targets is postponed, which typically prevents a thorough evaluation of impact.

Third, **the results framework should be constrained to measuring only attributable changes**. A common problem of most programmes even loosely related to private sector development is the default definition of an overall objective of 'poverty reduction'. While this might be in line with the overall policy objective, it is most of the time an inappropriate choice for a results framework, since the level of contribution of the vast majority of private sector development programmes (except the most comprehensive ones) to poverty reduction will be very limited — even 'economic growth' (see section 3 above), which contributes to poverty reduction, is an objective high up in the results chain and might be inappropriate to be reflected in a logical framework matrix which is confined to three objective levels (results, specific objectives and overall objectives). So, in general terms, what type of indicator for impact evaluation would be appropriate? Above, we have mentioned the importance of creating scalable firms, be it through the removal of constraints or disincentives for informal sector firms to become formal, through focused support to specific sectors with growth potential, or through other support measures. In line with, evaluating impact of private sector development support would benefit from a clearer focus on measuring issues aiming at the evolution of vibrant local eco-systems of firms, such as the growth in the number of formally organized firms, the expansion of local supply webs utilizing formal SMEs, expansion of the number of tariff lines under which local economies are producing and exporting, and so forth.

In sum, **impact evaluation and results management in general need to be conceived as being part and parcel of any private sector development programme and hence need to be considered at each stage, from diagnostics to completion**.

[54] It has also been discussed in detail by the European Court of Auditors (2014, paras. 39-42).

CONCLUSION AND RECOMMENDATIONS

This briefing note has aimed at identifying a number of key issues for the European Union in relation to the design of private sector support programmes in developing countries. It has done so based on a critical analysis of the European Commission's 2014 Communication *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries.* The main recommendations can be summarised as follows:

1. Any private sector development programme should have **clear and specific objectives**, and should not be overloaded with too many diverse objectives — in particular, the notion of 'inclusive and sustainable growth' actually constitutes a triangle of three potentially conflicting objectives. It is recommended that **different private sector support programmes should be designed**, each prioritising different objectives.
2. **The recognition that the private sector is diverse needs to be reflected in the design of support**. Rather than devising comprehensive 'private sector development programmes' or 'MSME support', **assistance programmes should focus on clearly identified private sector actors (homogeneous sub-sets of the private sector)**. For example, different support mechanisms for micro-enterprises and for SMEs will normally be appropriate. Likewise, support to formal enterprises is fundamentally different from support to the informal sector, pursues different objectives, and even follows different principles.
3. As a consequence of the foregoing, different private sector support programmes might be implemented simultaneously. Therefore, **complementarity, coherence and coordination** of different private sector support programmes needs to be ensured, both among various programmes of the EU and between EU programmes and those of other donors. This requires both a clear oversight function by the implementing EU bodies and functioning donor coordination mechanisms. **Effective donor coordination in particular at the programming stage, including joint programming, is important**
4. In general, the EU will continue to **support the private sector in partner countries at all levels**: at the macro level (business environment and horizontal private sector policies); at the meso level (sector policies, supply of business support services and finance); and at the micro level (support to enterprises). A potential stronger role of micro-level support in the EU portfolio is in line with the global trends in development thinking, where the business environment is conducive to private sector activity.
5. With regard to **aid modalities**, a careful and limited approach to budget support in the context of private sector development, as described in the Communication, appears sensible. In most developing countries, inter alia because of capacity constraints, direct interventions appear to be the modality of choice for private sector support, for the time being.
6. As a result of the complexity of the private sector, the existence of various high-level objectives, and the donor landscape, the **importance of thorough diagnostics and design** of private sector development programmes cannot be overstated. These need to determine, for each programme, which objectives should be pursued, which target groups be addressed, and how the resulting support should look like in terms of modality, level, tools and instruments.
7. Careful diagnostics and design should be coupled with the **avoidance of any 'automatism' in the programming process.** At key stages during the programme design phase open-ended reviews of a proposed programme should be undertaken, and the process be stopped if the added value of the programme to the beneficiary country becomes questionable.

8. More than is currently the case in practice, **impact evaluation and results management should be conceived as an integrated part of any private sector development programme**. This requires, inter alia: that **clear and specific objectives** are defined, along with corresponding measurable indicators; that the complete **results framework is developed simultaneously with the programme design**, not ex post during programme implementation; and that **the results framework is constrained to measuring only changes that can be attributed to the programme**. In this context, the (almost default) definition of an overall objective of 'poverty reduction' should be avoided. More appropriate objectives and indicators could be ones related to increases in the number of formal firms capable of absorbing technology, providing technical on-the-job training to workers, participating in global value chains, and gaining independent access to export markets.

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REGULATORY POLICY SPACE FOR PRIVATE SECTOR DEVELOPMENT AND DECENT JOBS, AND PRIVATE SECTOR ENGAGEMENT

ABSTRACT

Regulatory policy space is vital for private sector development and decent jobs in developing countries. As a first step, governments must uphold the rule of law, protect private property, and enable efficient business registration alongside transparent taxation. However, developing countries must also put in place regulations to prioritise strategic business sectors, and to protect workers' livelihoods. In particular, governments must provide a robust import tariff regime that allows nascent manufacturing and agro-processing industries to prosper. They must also provide safeguards against import flooding that would destabilise domestic industries and threaten local jobs. Governments must also embed regulatory frameworks that enhance decent work, in particular, by enshrining social dialogue and trade union representation. Regulations must also be put in place to minimise tax evasion and to maximise domestic revenue mobilisation as part of Financing for Development (FfD). This can support efforts for private sector development, and stabilise 'fragile' states. Additionally, governments must encourage the private sector to engage in the development process. This can come about, in particular, through formation of multi-stakeholder associations that align their members to pro-poor codes of conduct. If budget support is to continue, it must respect regulatory policy space and assist progressive forms of regulatory intervention.

EXECUTIVE SUMMARY

This briefing examines **regulatory policy space for private sector development and decent jobs** in developing countries. It acknowledges that **good governance and state stability are crucial factors** in ensuring that such a regulatory environment can be brought to fruition.

It first examines how **import tariffs play a vital role** in providing government revenues and enabling nascent industries to grow within developing countries, prior to integration into global trade systems. The provision of a robust import tariff system guards against excess inflows of foreign goods and facilitates the prioritisation of **industrialisation and job creation** in successful **agro-processing and manufacturing** sectors in emerging economies. For this reason, developing country governments also require emergency safeguards against excess import flows where they occur.

The briefing then assesses how private sector development strategies can better align with **decent work**. It illustrates how regulatory practices can support **social dialogue and trade union representation**. It also highlights **private sector engagement** for decent work, namely through **Private Standards Initiatives**.

It thereafter considers the significance of regulations in **maximising domestic resource mobilisation** and minimising **tax evasion** in developing countries. This is important not only in terms of enhancing government revenues for development programmes, but also for ensuring that 'fragile' states are able to build more effective and stable governance institutions.

Finally, the briefing highlights **lessons for EU budget support to developing countries**. It underscores that budget support and policy dialogue must not be used to discourage developing countries from pursuing vital regulatory policy space. Moreover, if the EU continues to favour budget support aid modalities, then pro-poor interventions might include support for domestic resource mobilisation and for the creation of **credible private sector associations**.

INTRODUCTION: REGULATORY SPACE FOR PRO-POOR GROWTH

The European Commission's (2014: 2) Communication on 'A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries' acknowledges that 'having a decent job is widely recognised as the best way out of poverty'. In order to create **decent livelihoods**, however, developing countries require the **policy space** to create regulatory frameworks conducive to pro-poor private sector development. This must go beyond the basic provision of private property rights, rule of law, and efficient business registration to encompass more **robust policies for socially responsible growth,** and job creation. Specifically, developing countries require the regulatory policy space to create robust **tariff regimes,** to support **decent work,** to maximise **domestic resource mobilisation**, and to effect such frameworks without risk of aid suspension. This must be done in the context of good governance and state stability.

Nevertheless, **policy space** for pro-poor job creation **has decreased** since the implementation of **Washington Consensus** policies in developing countries. Ha-Joon Chang (2005: 2) explains that 'the current phase of shrinkage in policy space started in the 1980s, when the World Bank and the IMF massively expanded their "programme"… loans in the aftermath of the Debt Crisis in 1982 in the form of Structural Adjustment Programmes [SAPs].' The European Economic Community (EEC), at this stage, aligned itself to the liberalisation policies of the Washington institutions. EEC aid under the Lomé Conventions (1975-2000), for instance, became conditional upon implementation of structural adjustment in the African, Caribbean and Pacific (ACP) countries (Mailafia 1997; Brown 2002).

In the current era, **budget support** modalities – as a successor to SAP programme aid – are promised in a spirit of **post-conditionality** as part of the **Post-Washington Consensus**. Louis Michel, while Commissioner for Development, articulated a moral case for progressive budget support: '[budget support] is the best way to apply what is for me the sacred principle of ownership. Only by respecting this principle can we enable our partners to decide on their priorities for themselves, to feel that they are masters of their own destiny and to ensure the success of their actions (European Commission 2008).

There are concerns, however, that **budget support curtails developing countries' policy space** for pro-poor private sector development and job creation. The Ghanaian government's President's Special Initiatives (PSIs), for example, were met with alarm by the Multi-Donor Budget Support (MDBS) group, including the European Commission. Whitfield and Jones explain that MDBS donors in Ghana 'openly disagreed with the way that the [Trade] Ministry prioritised funding for 2006, and Ministry Staff went round in circles trying to get a prioritisation that the donors would approve'. Accordingly, the authors contend that budget support is 'not a step towards greater democratic debate over public policies: it **emphasises accountability to donors**, and economic policy is decided in closed arenas' (cited in Langan 2014).

With regards to specific regulatory space for the creation of robust import tariff regimes, meanwhile, there are concerns that this is being eroded by the European Commission's pursuit of **free trade agreements** in developing countries. In particular, the European Commission's attempts to secure Economic Partnership Agreements **(EPAs)** with sub-regions of the **African, Caribbean and Pacific (ACP)** group under the Cotonou Agreement (2000-2020) is seen to undermine ACP regulatory space for pro-poor business growth. The EPAs would mandate the former colonies to liberalise their import tariffs in order to sustain equivalent levels of access to Europe as had been enjoyed under the preceding Lomé Conventions. As the next section illustrates, this would be **highly problematic** in terms of the attainment of pro-poor private sector development, and decent jobs, in Africa, the Caribbean, and the Pacific.

TARIFFS AND PRIVATE SECTOR DEVELOPMENT

Tariff regimes and priority business sectors

Tariff regimes are an essential component of a regulatory environment tailored to pro-poor private sector development and job creation. Import tariffs on foreign manufactures can help to ensure that nascent local **industries' products retain competitiveness** within their own domestic market, as a precursor to eventual export drives within global trade systems. Specifically, import tariffs are a means of discouraging inflows of excess volumes of cheaper foreign products from industrialised nations that would undermine emerging **manufacturing industries** and threaten jobs in developing countries. Import tariffs on processed agricultural products, meanwhile, can create space for **value addition and job creation** within rural economies, while also promoting food security (Chang 2002; 2005).

Interestingly, Ha-Joon Chang (2002), in ***Kicking Away the Ladder***, recounts numerous examples of Western industrialisation with use of tariff protectionism. In the case of Sweden, for example, he notes that 'despite its reputation as the "small open economy" during the post-war period, [that it] did not enter its modern age with a free trade regime. After the period of the Napoleonic Wars, its government enacted a strongly protective tariff law, banning the import and export of some items. As a result of the high tariffs, and the deliberately low tariffs on raw cotton, cotton cloth production was greatly increased…'

Significantly, however, developing countries currently face pressures to curtail use of import regulations in the prioritisation of their local industries and decent jobs. In the context of EU policies, the European Commission has sought to conclude **Economic Partnership Agreements (EPAs)** with ACP partners in the timeframe of the Cotonou Agreement (2000-2020). The EPAs mandate import tariff reduction across a wide range of ACP economic sectors, albeit with recognition of regulatory policy-space within a limited 'sensitive goods basket' – with 25% of commodities placed in this 'basket' in the case of ECOWAS states, and 20% of commodities in terms of SADC countries (Ramdoo 2014). This has **met with consternation** on the part of many ACP governments, as well as on the part of private sector stakeholders. The **National Association of Nigerian Traders (NANTS**), for instance, state that the tariff 'liberalisation imposed by EPA… is not in the best interest of the [ECOWAS] region, and in fact, may have the capacity to **destroy… Nigeria's efforts at building a virile economy'** (cited in TradeMark Southern Africa 2014).

African and European civil society stakeholders have also recently expressed and maintain that 'it is **imperative that [EPA] trade policies do not undermine** the **livelihoods** and the social, economic and cultural rights of small-scale farmers and agro-processors… trade policy should actively safeguard and support agriculture and the diversity of food chains' (TWN Africa 2012).

Consequences of premature tariff liberalisation

The need for regulatory space for private sector development and job creation becomes clearer in the context of **empirical evidence**. In terms of the ACP countries and the **EPAs**, for example, the majority of empirical studies indicate that developing countries' implementation of tariff reductions would not only **undermine private sector development and decent jobs**, but would also exacerbate problems relating to good governance and state fragility (Hinkle et al 2003; Morrissey and Zgovu 2009; Bussee et al 2007; Karingi et al 2007; Milner et al 2009; Dorémus et al 2004; Pricewaterhouse Coopers 2006).

On the issue of governance capacity, Hinkle et al (2003: 271) illustrate that premature tariff liberalisation in ACP countries would have serious consequences for state revenues. The authors explain that tariff revenues constitute approximately 1% of GDP and between 7% and 10% of government resources in Sub-Saharan Africa. In certain least-developed African states, tariffs account for up to 20% of state finances. Since EU goods account for approximately 40% of imports into Sub-Saharan Africa, Hinkle et al (2003: 271) conclude that **'eliminating all tariffs on EU imports would considerably lower tariff revenues – in some cases by as much as 15-20% of government revenue'**. This view is corroborated by Stevens and Kennan (2005: 54) who predict tariff revenue losses of up to 40 per cent across three-quarters of ACP states, with losses approaching rates of 60% of tariff revenues for the poorest one-third of ACP countries. It is further underscored by Bussee et al (2007: 270) who predict that ACP states such as **Cape Verde and Gambia will experience falls in total government revenue of 19.8% and 21.9%** respectively due to lost tariff revenues under EPAs.

Declining government revenues would have clear repercussions in terms of good governance and state 'fragility', putting already stretched governance systems under increasing financial pressures. This would have a negative impact on government capacity to effect pro-poor private sector development strategies going forward, with reduced finances for ministries tasked with job creation and growth.

Moreover, declining regulatory space to protect nascent industry would have serious consequences for decent jobs in **manufacturing industries** in Sub-Saharan Africa [SSA]. In the context of EPAs, Karingi et al (2005) find that in the scenario of a full EPA that does not address existing non-tariff barriers to African exports, that **'a majority of SSA industries will witness a reduction in their output** under full reciprocity. This contraction will be more serious in those sectors that are perceived to be the foundations for industrialisation, viz. low-tech and mid-tech industries; heavy industry; clothing; and textiles. Other than cotton, other crops, energy, natural resources and agro-processing industries, where there are marginal expansions, SSA industrial sectors stand to contract significantly. Thus **deindustrialisation** is likely to be a major outcome if the EPA reciprocity principle is implemented through full reciprocation'.

Milner et al (2009: 8-10) support this view and explain that 'increased imports from the EU will tend to induce falls in production and employment in domestic import-competing sectors'. In the case of **Mauritius**, for example, they predict that full EPA implementation will result in job losses of up to 6.5% of the existing agricultural workforce as subsidised agricultural produce from the EU enters the market, undercutting local smallholders. This would be exacerbated with **job losses of up to 15.5% in manufacturing, as cheaper imports enter the domestic market**. They estimate that this would result in around 6,500 direct redundancies, not including job losses among the indirectly employed, for instance, transportation workers**. The EU should therefore be aware that development efforts to strengthen the private sector may be wholly undermined by its trade policy agenda in Africa**, as well as in other contexts such as India (in terms of parallel Free Trade Agreement negotiations there).

Import safeguards

Developing countries also require regulatory space for the implementation of **emergency safeguards** against excess inflows of foreign commodities when they occur. In the case of agro-processing sectors, the use of emergency safeguards can play an important role in **food security**. Namely, if short-term import influxes are allowed to take place unchecked, then this can led to lost livelihoods in agricultural communities, with clear impact upon future food production.

Respect for developing countries' **policy space** to enact import safeguards should constitute an essential component of the European Commission's approach to free trade agreements with developing countries. The EPA signed between the EU and the **CARIFORUM countries**, for instance, did include space for mutual implementation of import safeguards, although these are not specific to agriculture. In addition, the parties are required to inform of their intent to use safeguards within thirty days of implementation (CARICOM 2008). This is a point of considerable contestation, and there are convincing arguments that **automaticity is essential for the protection of vulnerable smallholders** and decent jobs in developing countries (Bernal and Hampton 2009: 175).

Potential **damage due to a lack of emergency safeguards** is illustrated in the **case of Ivory Coast** where poultry imports surged from 2,152 tons in 2001 to 15,400 tons in 2003 upon tariff reductions, 'destroying more than 15,000 jobs in the local poultry sector' (Dorémus et al 2004: 6-9) This is also reflected in the **Sustainability Impact Assessment** (SIA) on agro-industry in West Africa. The SIA notes that between 60% and 70% of all jobs are within agriculture in the region and warns that 'competition from EU imports can depress local markets for some agricultural products such as onions, poultry and cereals. Sustained high levels of imports, or import surges can flood local markets and threaten growth levels of local production or discourage the development of a local processing industry' (Pricewaterhouse Coopers 2006: 30).

Private sector engagement for industrialisation

The European Commission's (2014: 2) Communication has expressed its support for the principle of private sector engagement for development, defined in terms of 'companies' own engagement for development'. This is something that has been witnessed in the context of business groups' strong advocacy for industrialisation. Namely, private sector associations have emphasised the need for value-addition within manufacturing sectors as a key component of economic (and social) development. The need for **industrialisation** and vibrant **manufacturing sectors** is, however, **broadly overlooked** within the **European Commission's (2014) Communication,** albeit with some limited reference to industrial clusters.

Specifically, private sector groups such as the aforementioned National Association of Nigerian Traders – as well as groups such as the Private Sector Foundation of Uganda- actively **call for a halt to destructive EU trade agendas (notably, EPAs)** that would undermine the conditions for industrialisation (bilaterals.org 2007). Indeed, private sector associations have engaged in development by publicly calling for the retention of protectionist import regimes, and for local officials to resist liberalisation agendas.

Moreover, private sector groups have engaged with key global governance organisations such as the **United Nations Commission for Africa (UNECA)** in order to highlight the contributions of industrialisation and manufacturing to economic and social upgrading in developing countries. For example, private sector leaders from Nigeria and other ACP states joined with Ministers and Central Bank Governors at the 11th African Union-UNECA joint annual meeting in March 2014 to discuss **"industrialization for inclusive and transformative development"** (UNECA 2014). Together these stakeholders expressed the 'rationale for industrialization in Africa' amidst fears that development focused solely on extraction and primary sector production would be 'characterized by low productivity and low wages which render employees vulnerable to poverty'. Industrial jobs in the manufacturing sector, on the other hand, were deemed to offer better opportunities for **well remunerated and skilled employment** – conducive to the realisation of decent work in Africa (*ibid*). Again this is a crucial element of private sector development on which the **European Commission's (2014) Communication is relatively silent**.

REGULATING FOR DECENT WORK

Decent work for pro-poor business growth

Developing countries must exercise regulatory space to support decent work. This is endorsed by the European Commission's (2006) ***Promoting Decent Work for All,*** which commits Europe to support decent jobs in the Global South as part of the social dimension of a fair globalisation. It is also rearticulated in the European Commission's (2014) *A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries*. In this manner, the European Commission aligns itself to the promotion of the International Labour Organisation's **four pillars of decent work**:

- To increase employment in productive sectors
- To promote respect of core labour standards
- To protect social dialogue
- To ensure social protection

Social dialogue and trade union rights

Developing country governments have a particular responsibility to support the **third pillar** of decent work through regulatory interventions. The third pillar – namely that of **social dialogue** between private sector employers, workers, and national governments – is essential to support not only the achievement of all other decent work pillars, but also to **improve good governance and state stability**.

Regulation is central to enable social dialogue to take place. In particular, developing country governments must ensure that there are **no 'no-go' areas for trade unions**. This must extend to Export Processing Zones **(EPZs)** and to industrial clusters. Again, this is not only a sound strategy for the creation of decent jobs in a socially equitable economy, but also a sound long-term strategy for societal cohesion and state stability. Notably, denial of workers' rights, and in particular the denial of social dialogue, can engender protests that undermine state authorities. Good governance processes that are inclusive of social dialogue, on the other hand, can improve **democratic functioning** and state capacity, as well as economic performance.

Through social dialogue, the **private sector can also ensure that it appropriately engages** in development. For instance, through negotiation with trade unions and developing country governments, appropriate measures can be put in place to deal with issues such as child labour and the use of informal workers. Social dialogue can also be used to support gender equality in the workplace, and to guard against exploitative production patterns that adversely affect the lives of young women workers. The private sector, accordingly, can be brought more fully into the development process itself (ITC 2015).

However, governments must seek to continually update regulatory frameworks in support of tripartite models of social dialogue. This must take into account **shifting patterns of economic production**, for example, the decline of parastatals under structural adjustment programmes, and the more recent shift to foreign investments within low-value, export-orientated sectors in many developing countries. The Norwegian Agency for Development Cooperation (NORAD 2011), for instance, acknowledges that in the case of Zambia that 'the **social dialogue process has been weakened by privatisation and liberalisation** of the economy and by extensive corruption. Many new employers are not engaged in the social dialogue process. Unemployed workers have been forced over into the informal sector where there is even less protection. There is therefore a great need to investigate how to extend protection to the informal sector'. **Regulations pertaining to Export Processing Zones**, as mentioned above, also become pressing.

Private sector engagement for Decent Work

In addition to social dialogue, governments should encourage the private sector to meaningfully engage for the achievement of decent work through **Private Standards Initiatives (PSIs).** Giovannucci and Ponte explain that, through PSIs, standards are 'being set outside the classic boundaries of governmental and intergovernmental authority and through amorphous alliances of corporations, NGOs, and civil society groups that tend to reach agreements' (cited in Tallontire et al 2011). In the Kenyan flower industry, for example, private sector actors came together with civil society organisations to form the **Horticultural Ethical Business Initiative (HEBI)** in 2003. This sought to allay concerns arising from media coverage of the abuse of workers' rights, and to steer the industry towards a more responsible and sustainable path (*ibid*).

Although HEBI is apparently defunct now due to lack of staffing and capacity, nevertheless, it demonstrated the potential for private sector actors to engage for Decent Work. Notably, HEBI appeared to deliver certain **beneficial reforms for women workers** on the flower farms. Hale and Opondo (2005: 315), for instance, remark that producers 'reported gender-sensitive changes such as increases in the duration of **maternity leave, a written equal opportunities policy and in one case a gender committee**. Significantly, all but one referred to a move from the use of low-skilled workers on repeated short-term contracts to a more stable workforce based on permanent and seasonal contracts'. In this context, Goodman and Sage (2014) note that HEBI 'represented an opening up of labour rights regulation to other actors' other than the Kenyan Ministry of Labour. **Governments should facilitate similar multi-stakeholder initiatives** as part of private sector engagement for development.

REGULATING FOR DOMESTIC RESOURCE MOBILISATION

Tax evasion and private sector development

Developing country governments must also enact regulations to ensure that the private sector contributes to development through **fair and transparent taxation**. This is important not only in terms of domestic resource mobilisation for social policies such as education and health, but also for mobilising resources for private sector development, and for state stability itself. **Domestic resource mobilisation** – particularly through the legitimate taxation of the private sector – is crucial for attaining development in all its aspects – social, economic, and political.

In this context, **tax evasion is a major problem** for developing countries to overcome. Eurodad (2013) estimates that developing countries lose between €660 and €870 billion per annum through tax evasion practised by multinational corporations. This compares to the €22.7 allocated under the 10th European Development Fund (EDF) from 2008-2013, illustrating the sheer scale of the issue for developing country governments, and their finances.

The European Commission has an important role to play in co-operating with developing countries with regards to the behaviour of European companies, and to thereby deal with tax evasion. The European Commission's (2010) Communication on ***Tax and Development: Cooperating with Developing Countries on Promoting Good Governance in Tax Matters*** makes clear that the 'EU is seeking from all countries, and in particular its partner countries, agreement on the basic cooperation principles of good governance in the tax area (transparency of the tax system, exchange of information and fair tax competition)… this would enhance the capacity of the EU Member States and their partner countries to address international tax evasion and avoidance, building on complementary international initiatives'.

Additionally, the European Commission (2010) has promised resources for enhanced regulatory practices and taxation systems within developing countries. In the context of the ACP group, the European Commission highlights the European Development Fund and budget support as a key means of supporting governance capacity within Africa, the Caribbean, and the Pacific. The European Commission also notes the need for international action to deal with secrecy jurisdictions and tax havens. In addition, the European Commission (2015) has made clear its support for the **Third United Nations Conference on Financing for Development (FfD)** due to be held in **Addis Ababa** as part of the wider Post-2015 Development Agenda.

Domestic resource mobilisation and state stability

Domestic resource mobilisation is also significant in terms of **guarding against state 'fragility'**, as defined by the Organisation for Economic Co-operation and Development (OECD). The OECD (2014) notes that 'fragile' states mobilise less than 14% of their revenues from taxation. This leads to overreliance upon donor funding, as well as upon remittances and corruption. Domestic resource mobilisation is central to overcome political fragility and to build more robust governance infrastructure.

Regulatory space is essential here for improving 'fragile' states' success in domestic resource mobilisation. In particular, developing country governments must reformulate tax regulations with regards to EPZs and foreign direct investment. Specifically, developing country governments should **remove themselves from a 'race-to-the-bottom'**, and apply appropriate taxation upon profitable production in their national territories. Corporate practices aimed at prolonging temporary investment incentives must be dealt with by national ministries of finance and of trade. Attempts by private sector investors to avoid the onset of taxation by artificial re-registration processes, for example, involving the name change of a company, should be tackled directly through robust government regulations.

Moreover, the OECD (2014) notes that a number of 'fragile' states have successfully engaged in international efforts to stem illegal financial flows, and to thereby enhance domestic revenue mobilisation. Its report states that of 51 'fragile' states, that 36 are participating in the Financial Action

Task Force (FATF), have FATF Associate Membership through a regional organisation, or are participating in the **Global Forum of Transparency and Exchange of Information for Tax Purposes**. The OECD (2014) also reiterates the need for donors to support the governance capacity of 'fragile' states to maximise their domestic revenues by:

- Building up relevant capacities in development agencies
- Building investigative capacities of partner country administrations to tackle economic crime in developing countries
- Building political commitment to combat economic and financial crime in developing countries
- Supporting research on illicit financial flows, especially at the country level
- Maintaining political momentum within OECD countries by supporting advocacy efforts. (OECD 2014.)

This prioritisation of taxation revenues in 'fragile' states is supported by a number of **civil society** organisations. **Save the Children** (2010), for example, calls for 'donor-supported tax reforms' which 'should include measures to strengthen public authority for raising and managing tax revenue, with a particular focus on broadening the tax base and on using progressive rather than regressive forms of tax'. **CONCORD** (2014), meanwhile, calls for fair taxation, and goes further to demand 'a specific EU framework setting out key principles and benchmarks for the private sector's engagement in development co-operation. This framework should ensure proper adherence to social, environmental, fair taxation, human rights, gender equality and transparency and accountability standards as a precondition for support to private sector actors in development as underlined in the Council conclusions of June 2014'.

Donors must ensure, however, that their own development instruments abide by principles of transparent and fair practice. Institutions such as the **UK's Commonwealth Development Corporation (CDC),** for example, have been accused of **utilising tax havens** (Bracking 2009). Moreover, the EU must ensure that its member states abide by ethical standards. Eurodad (2014: 2), in this context, notes that 'some of the countries that have been most successful in attracting companies – **Ireland, Luxembourg and the Netherlands – are also currently under investigation by the European Commission** for making competition-distorting arrangements with transnational companies behind closed doors'.

Private sector engagement for fair taxation

There has been a degree of success in orientating the private sector towards more transparent and robust accounting procedures in terms of domestic revenue generation in developing countries. The **Extractive Industries Transparency Initiative (EITI)**, in particular, has brought together an alliance of private sector actors, civil society groups, and national governments to tackle tax evasion and corruption. Private sector actors in the EITI include Anglo American, BP plc, Chevron Corporation, ExxonMobil, and Glencore (EITI 2015).

The EITI Principles document includes a number of key points relating to the need for responsible behaviour on the part of its private sector participants. For example, it states that:

- We believe that a broadly consistent and workable approach to the disclosure of payments and revenues is required, which is simple to undertake and to use.
- We believe that payments' disclosure in a given country should involve all extractive industry companies operating in that country. (EITI 2015).

Through the EITI, private sector actors in the extractive industries can engage in the development process to support more robust regulatory frameworks aimed at domestic resource mobilisation. Such initiatives can, moreover, be supported by donor agencies, by encouraging their own corporations to engage in such **multi-stakeholder transparency practices**, and by providing resources for the continuation of platforms such as the EITI.

Moreover, private sector actors have demonstrated a willingness to engage with the Third United Nations Conference on **Financing for Development (FfD)** to be held in **Addis Ababa**. In this context, the **Business Sector Steering Committee** has (rather implicitly) acknowledged the need to tackle unethical private sector behaviours, noting in January 2015 that 'developing countries will need to increase efforts to finance their own development by improving domestic resource mobilization including by strengthening tax administration, better harnessing natural resource revenue, and *curbing* ***illicit financial flows***. It will also be important for national governments to provide sufficient and predictable intragovernmental transfers to subnational governments providing essential infrastructure and social services.' (ICC 2015: 3; emphasis added).

LESSONS FOR EU BUDGET SUPPORT

Respecting regulatory policy space

One key lesson from this briefing is that **EU budget support** and adjacent **policy dialogue must not be used to discourage pro-poor regulatory policy space**. In particular, EU budget support (or indeed, other forms of EU aid-giving) must not be used as leverage to discourage robust import tariff regimes since these are necessary for promotion of **nascent manufacturing and agro-processing sectors** in emerging economies. Accordingly, budget support must not be tied, whether explicitly or implicitly, to the implementation of free trade agreements – such as the EPAs with ACP countries – that would have adverse consequences for pro-poor private sector development and for decent jobs.

This is an important issue, and may **necessitate revision of existing practice** on the part of the European Commission, particularly in terms of its **Country Strategy Papers (CSPs)**. For example, the CSP signed between the **EU and Uganda (2008-2013)** made clear that this country must deepen liberalisation reforms. It stated that poverty reduction can only be achieved through 'economic growth supported by sound governance and macroeconomic policies' while praising the government for undertaking 'policies **promoting economic liberalisation and private-sector based, export-led growth'**. The document underscored that budget support is allocated in expectation of Uganda's acceptance of a full EPA involving significant tariff reductions. Additionally, this CSP made clear that budget support toward trade governance in Uganda is important to sustain 'in the context of the EPAs' and that this aid will be 'important in terms of justifying the successful implementation of the EPAs'. Furthermore, the CSP explicitly stated that this support will provide 'leverage' for stimulating Uganda's 'sustainable economic growth', involving its 'integration in the region and in world markets' (Langan 2014). This tone is repeated in terms of the recent **Uganda-EU CSP (2014-2020).** Indeed, its National Indicative Programme (NIP) makes clear that EU support to Uganda and East Africa will address 'trade and regional economic integration… and address the needs from future **Economic Partnership Agreement (EPA) implementation'** (Uganda-European Commission 2014: 9).

It would appear, therefore, that EU budget support is often given to developing countries – particularly to ACP governments – in the **expectation of the roll-out of free trade arrangements** that would **jeopardise long-term industrialisation as well as decent work within rural**

economies. This must be challenged not only by developing states and their private sector and civil society organisations concerned with the undue leverage exerted by budget support donors. But it must also involve legislative challenge within donors themselves to question policy decisions that demean regulatory policy space in developing countries. Namely, the **European Parliament must take action** to hold the European Commission to account.

Supporting regulatory reform and engagement

If the EU is to continue with budget support to developing countries, one option would be to assist developing country governments to maximise domestic resource mobilisation, through support to governance capacity. This should assist, in particular, developing country efforts to **tackle tax evasion** and to join international initiatives that increase transparency about multinational corporate practices.

Moreover, in terms of private sector engagement for development, EU budget support monies might usefully be given towards the creation of **private sector associations** across priority economic sectors in developing countries. This would allow credible business associations to play a key role in mobilising their private sector members for engagement in development processes. Whether in terms of private sector engagement for industrialisation, private sector engagement for decent work, or private sector engagement for fair taxation - business associations are a necessary ingredient of a pro-poor development model. Bodies such as the **National Association of Nigerian Traders (NANTS)** can help to voice industry opinion on matters of concern and to mobilise action on necessary development issues.

Budget support contributions towards the capacity of multi-stakeholder associations such as the **Horticultural Ethical Business Initiative (HEBI)** or the more recent Extractive Industries Transparency Initiative (EITI) would also enhance private sector engagement for pro-poor development.

It is important to recognise, however, that budget support, in any form, potentially poses a risk to developing country sovereignty and policy autonomy. This aid modality is not immune from conditionality, and should be monitored closely, particularly in terms of the European Commission's use of policy dialogue on matters of economic governance. Budget support – as with previous forms of Government-to Government assistance under structural adjustment programmes – may pose a direct **challenge to developing countries' regulatory policy space** if not vigorously held to account by legislative actors, private sector stakeholders, and civil society groups.

CONCLUSION/RECOMMENDATIONS

From the discussion, it is clear that the European Commission must respect developing countries' regulatory policy space to provide robust import tariff regimes, to support decent work, to facilitate domestic resource mobilisation, and to encourage progressive forms of private sector engagement. Specifically the European Commission – with oversight from the European Parliament - should:

- **Respect developing country policy space** for the maintenance of **robust import tariff regimes** that facilitate creation of decent jobs within local manufacturing and agro-processing industries
- Ensure the **automaticity of emergency import safeguards** when required by developing countries in their trade relations with the European Union

- **Delink aid modalities from either explicit or implicit conditionality** in terms of the imposition of regressive free trade agendas, such as the Economic Partnership Agreements (EPAs)
- Pay greater attention to the **needs of the manufacturing base** in developing countries as a key component of economic and social upgrading, and for the creation of skilled, decent jobs
- Encourage developing countries to intervene in favour of **trade union rights**, as an essential part of social dialogue (especially in terms of Export Processing Zones, and industrial clusters)
- Support the establishment of **private sector associations** and **multi-stakeholder forums** that support development processes, particularly in terms of social dialogue and decent work
- Support **domestic revenue mobilisation**, with specific attention to tax evasion

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CREATING SHARED VALUE: HOW THE PRIVATE SECTOR CAN CONTRIBUTE TO DEVELOPMENT

ABSTRACT

Creating Shared Value (CSV) is as management framework developed by Harvard Business School scholars Michael E. Porter and Mark R. Kramer. It rests on the premise that the success of society and the success of its companies rise and fall together. CSV gives managerial guidance in the form of policies and practices for how to improve the competiveness of a company while simultaneously advancing the socio-economic conditions in the communities in which it operates. The framework contains three interrelated major goals: (1) restoring the legitimacy of business by reconnecting society and business, (2) fostering growth and innovation by reconceiving products and markets, redefining productivity in the company's value chain, by enabling cluster development and (3) increasing the competitive advantage of individual companies by addressing societal challenges. CSV, in principal, has the potential to contribute to the achievement of the UN Millennium Development Goals / Sustainable Development Goals. Although CSV has been enthusiastically embraced by managers, policymakers and academics, it is not without critics. Those critics claim that CSV is unoriginal, ignores the tension between social and economic goals, is naïve about the reality of businesses' ethical compliance, and is based on a shallow conception of the corporation's role in society.

EXECUTIVE SUMMARY

Section one of this briefing summarizes the background (1.1), the premises, the aims (1.2) and the tools (1.3) of the Creating Shared Value framework (CSV). CSV was developed by Harvard Business School scholars Michael E. Porter Mark R. Kramer (2006; 2011) before the background of the legitimacy crisis of the capitalist system and the parallel legitimacy crisis of business (see section 1.1). CSV strongly rests on the premise that the success of society and the success of its companies rise and fall together. Porter and Kramer define CSV as 'policies and operating practices that enhance the competiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progress' (Porter and Kramer, 2011: 66) (see section 1.2). CSV contains three major tools to achieve its goals. They are (a) reconvening products and markets to satisfy social needs, (b) redefining the productivity of the company's value chain and (c) enabling cluster development.

Section two demonstrates how the private sector can contribute to development via CSV. Since one of CSV's main promises is 'to unleash the next wave of global growth' (Porter and Kramer, 2011: 65; cf. 2006) the framework, in principal, might help to achieve the Millennium Development Goals - and substitutes, namely 1 (eradicate extreme hunger and poverty), 2 (achieve universal primary education), 4 (reduce child mortality) and 5 (improve maternal health). The development goals of increasing primary education (2), decreasing child mortality (4), improvement of maternal health (5) and combating HIV/AIDS and other diseases (6) seen from a business perspective, in principle, are unmet consumer needs and unrecognized markets. CSV strongly recommends that companies focus on these underserved products and markets. Therefore, the CSV framework, in principal, also applies to these goals. In addition, CSV with its focus on redefining the productivity in the value chain has the potential to promote gender equality and to empower women (goal 3), since women may be seen as highly valuable factors. Redefining the productivity in the value chain might also help companies to pursue their business in a more sustainable way (goal 7) by minimizing energy and water use, fostering new and cost saving ways of procurement by means of minimizing transaction costs and inefficiencies by supporting local suppliers, finding profitable and innovative distribution models by using distribution models that also reduce packaging material etc. The potential of CSV to connect with the development goals is illustrated by case studies of Nestlé's and Unilever's projects in India and with Yara's projects in Mozambique and Tanzania (see section 2.2).

Section three shows how the CSV framework has been received in- and outside of the scientific community. The original 2011 article named 'Creating Shared Value: How to Reinvent Capitalism — and Unleash a Wave of Innovation and Growth' (Porter and Kramer, 2011) and the underlying concepts have been enthusiastically embraced by many managers, policymakers and academics. The article won the McKinsey & Co.'s award for the best article in Harvard Business Review in 2011. Moreover, some companies have quickly adopted the framework: Hewlett-Packard, Nestlé, Novartis and Eli Lilly are a few leading examples (see section 3.1). CSV is not without critics: Leading business ethicists claim that CSV is unoriginal, ignores the tension between social and economic goals, is naïve about the reality of businesses' ethical compliance, and is based on a shallow conception of the corporation's role in society (Beschorner, 2013, Crane et al., 2014) (see section 3.2). Other scholars (Scholz, 2014; Scholz and de los Reyes, 2015 [in print]; de los Reyes, Scholz and Smith [forthcoming]) strongly emphasize the potential of CSV under some specific circumstances, but suggest that it is not a comprehensive framework and needs to be combined with other CSR and business ethics approaches (see section 3.3).

CREATING SHARED VALUE: BACKGROUND, AIMS AND TOOLS

CSV - Background

Harvard Business School scholars Michael E. Porter and Mark R. Kramer describe the capitalist system as being under siege. 'In recent years', they say, 'business increasingly has been viewed as a major cause of social, environmental, and economic problems. Companies are widely perceived to be prospering at the expense of the wider community' (Porter and Kramer, 2011: 64). As consequence of this prevalent distrust, '[the] legitimacy of business has fallen to levels not seen in recent history' (ibid.).

The syndrome, according to Porter and Kramer, is a vicious cycle born from the proposition that business and society are separate from each other (Porter and Kramer, 2011: 65; Harris and Freeman, 2008). The strategies that follow from this view have flooded society with a barrage of externalities — environmental, political, moral, social and otherwise. Since trust in business has been diminishing, civil society and their respective NGOs have been lobbying for change and political leaders have consequently set policies that aim to force companies to take over social and ecological responsibilities. While Porter and Kramer admit that 'regulation is necessary for well-functioning markets' (Porter and Kramer, 2011: 74) some policies can 'undermine and sap economic growth' (Porter and Kramer, 2011: 64).

The way to prevent even more regulation and to restore the legitimacy of business, Porter and Kramer say, lies in their Creating Shared Value framework (CSV). CSV takes its starting point from the idea that 'what's good for society is good for business' (Porter and Kramer, 2011: 66; Porter and Ignatius, 2011a: 4:31).

The thesis of the CSV approach is that Creating Shared Value can redeem global capitalism's flagging legitimacy and create a new wave of innovation and growth. Porter and Kramer defend CSV's plausibility with an extensive set of examples that leaves little doubt that many of the praiseworthy achievements of global capitalism in the past decade owe to a business formula that, in fact, creates shared value-benefit to society that enriches business too.

CSV - Premises and Aims

CSV, as indicated above, strongly rests on the premise that the success of society and the success of its companies rise and fall together. Porter and Kramer (2011: 66) define their concepts as follows: 'The concept of shared value can be defined as policies and operating practices that enhance the competiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates. Shared value creation focuses on identifying and expanding the connections between societal and economic progresses' (ibid.).

Consequentially, Porter and Kramer position CSV as a holistic approach that has the potential to redefine the role and purpose of companies within society. CSV contains at least three major goals:

1. CSV aims to restore the legitimacy of business by reconnecting society and business.
2. CSV aims to foster growth and innovation by (a) reconceiving products and markets, (b) by redefining productivity in the value chain, (c) by enabling cluster development.
3. CSV aims to increase the competitive advantage of individual companies by addressing social challenges (linked to point 2).

Porter and Kramer deliberately positioned CSV against economists and management scholars who pitted business and society against each other. The false division between business and society owes to 'economists [who] have legitimized the idea that to provide societal benefits, companies must temper their economic success' (Porter and Kramer, 2011: 64). This confusion, according to Porter and Kramer, has also created a space for Corporate Social Responsibility (CSR) to rise in importance. In the absence of a transnational government that covers the globe with uniform standards, parts of civil society (especially NGOs) have stepped up the call for companies to moderate their economic success with responsibility. This critical movement demands that companies treat the social and ecological externalities that result from their activities as part of the business' mandate. As a consequence, the CSR movement is an additional target of CSV. In their article, Porter and Kramer characterize CSR as essentially philanthropic and disconnected from a company's core businesses[55]. CSV, according to Porter and Kramer, should displace CSR because it forces companies to make trade-offs with profitability. By definition, CSV makes no trade-off with profitability. 'The essential test that should guide CSR is not whether a cause is worthy but whether it presents an opportunity to create shared value — that is, a meaningful benefit for society that is also valuable to the business (Porter and Kramer, 2006: 84). Moreover, Porter and Kramer (2011) emphasize that CSV is not philanthropy 'but self-interested behaviour to create economic value by creating societal value' (p. 64). As such, Porter and Kramer recommend that all companies should individually pursue shared value connected to their particular businesses (ibid.).

[55] For a comparison of CSV and CSR see Porter and Kramer 2011; 84. Note that according to Beschorner (2013) and Crane et al (2014) Porter and Kramer severely misrepresent CSR.

CSV - Tools

Porter and Kramer (2011) gear their CSV approach with the idea that 'companies can create economic value by creating societal value' (p. 67). They describe three key ways how companies can create shared value opportunities:

By reconceiving products and markets

In economically advanced as well as in developing countries, society's unmet needs are significant. These needs encompass health issues, better housing, improved nutrition, education, help for the aging, greater financial security, less environmental damage etc. (Porter 2011: 67). Porter and Kramer (2006; 2011) suggest that companies should focus their attention on these unmet needs and the consequential customer demand. In advanced economies, food companies for example, who traditionally focus on quantity and taste, can better match their customer demands when they focus on healthier food and better nutrition (Porter and Kramer, 2011: 67; for more examples see section 2.2). In developing countries as well as in disadvantaged communities of advanced economies, social needs are even more pressing. Since members of these communities have not yet been fully recognized as consumers and respective markets have not yet been fully developed, they constitute major economic opportunities (ibid.).

By redefining productivity in the value chain

Every company`s value chain affects, and is affected, by various social and environmental issues such as employee and worker issues (e.g. employee skills, employee health, working conditions, worker safety) as well as environmental issues (e.g. energy use, water use). Porter and Kramer suggest that companies should systematically review their primary and secondary value chain activities and search for shared value opportunities (2006; 2011). Opportunities to create shared value arise because (a) negative externalities (e.g. business driven environmental pollution) might inflict internal costs on the firm through increased governmental regulation or taxes. Moreover, (b) addressing social and environmental needs might create a competitive advantage for the respective companies. Shared value projects have the potential to reduce companies' costs for energy and logistics, to minimize companies' resource use, to foster new and cost-saving methods of procurement (e.g. minimizing transaction costs and inefficiencies by supporting local suppliers that in turn can increase their profits, create jobs and raise wages), to find profitable and innovative distribution models (e.g. new technology driven profitable distribution models that also reduce packaging material; supporting local resellers in order to gain access to hard to reach customers), to increase employee and locational factor productivity (Porter and Kramer 2006; 2011: 68-71).

By enabling local cluster development

Companies strongly interrelate with their business environment. The competitiveness of regions and nations (Porter, 2008) as well as the competitiveness of firms are strongly influenced by 'clusters', i.e. geographic concentrations of firms, related businesses, suppliers, service providers, and logistical infrastructure in a particular field (Porter and Kramer, 2011: 72; cf. Porter 2008). The success of a cluster is dominantly dependent on a framework of the following elements: Factor (input) conditions (e.g. factor quantity, quality and cost of natural-, human-, capital- and physical resources; physical-, administrative-, information-, technological- and scientific infrastructure), the context for firm strategy and rivalry (e.g. local context that encourages investment and sustained upgrading; vigorous competition between locally based rivals), demand conditions (e.g. sophisticated and demanding local customers, unusual local demand that can be served globally) as well as related and supporting industries (e.g. the presence of locally based suppliers and competitive related industries) (Porter, 2008: 225-229). Porter and Kramer (2006; 2011) suggest that companies can create shared value when they invest in cluster development (e.g. factor [input] conditions: support [public] education programs; context for firm strategy and rivalry: support local infrastructure; demand conditions: identify and satisfy local [health] needs; related and supporting industries: increase the capability of local suppliers).

HOW THE PRIVATE SECTOR CAN CONTRIBUTE TO DEVELOPMENT

General Context of Private Sector and Development

In several recent publications the European Commission (EC, 2014) and the Council of the European Union (CEU, 2014a; 2014b) call for a continued engagement of the private sector in reaching the UN Millennium Development Goals (MDGs) and its forthcoming substitutes (i.e., the Sustainable Development Goals). This section offers a brief analysis of how actors from the private sector can, in principle, contribute to the MDGs via applying the Creating Shared Value framework[56].

The United Nations Millennium Development Goals (MDGs) include the following eight main goals:

- goal 1: eradicate extreme hunger and poverty
- goal 2: achieve universal primary education
- goal 3: promote gender equality and empower women
- goal 4: reduce child mortality
- goal 5: improve maternal health
- goal 6: combat HIV/AIDS, malaria and other diseases
- goal 7: ensure environmental sustainability
- goal 8: develop a global partnership for development

Achievement of goals 1, 2, 4, 5 can correlate with the success of a society's economy. In principal, the stronger the economy, the less poverty and consequential phenomena such as hunger, high child mortality and bad maternal health one would find. One of Porter's and Kramer's key promises is that CSV has the power to create substantial growth (especially through enabling local cluster development) (2011: 65; cf. 2006). Consequentially, CSV strongly relates to these goals. Goal 8 (develop a global partnership for development) is an implicit part of the CSV framework since Porter and Kramer recommend strong collaboration between different institutional actors (e.g., governments, NGOs, the private sector) (Porter and Kramer 2011: 72).

More specifically from a business perspective, the goals of increasing primary education (2), decreasing child mortality (4), improving maternal health (5) and combating HIV/AIDS and other diseases (6) can in principle be seen as unmet consumer needs and unrecognized markets. CSV with one of its main tools (*reconceiving products and markets)* recommends that companies focus on these underserved products and markets.

[56] Although not explicitly analyzed in this paper it can be expected that CSV has the potential to contribute to the (not yet finally announced) Sustainable Development Goals. In principle, the private sector could use the CSV framework in order to contribute to: inclusive economic growth, the creation of decent jobs, the transition to a green economy, food and nutrition security, environment protection, climate change mitigation and adaptation, the social and economic empowerment of women and youth. It could do this by respecting a particular focus on the poorest and most vulnerable as demanded by the Council of the European Union (EC 2014a; cf. CEU 2014a; CEU 2014b).

In addition, CSV with its focus on *redefining the productivity in the value chain*, has the potential to promote gender equality and to empower women (goal 3), since women may be seen as highly valuable factors (see example below). Redefining the productivity in the value chain might also help companies to pursue their business in a more sustainable way (goal 7) by minimizing energy and water use, fostering new and cost saving ways of procurement by ways of minimizing transaction costs and inefficiencies by supporting local suppliers, finding profitable and innovative distribution models by using distribution models that also reduce packaging material etc.

Case Studies and Examples

As Porter and Kramer (2011: 64) acknowledge '[a] growing number of companies known for their hard-nosed approach to business — such as GE, Google, IBM, Intel, Johnson & Johnson, Nestlé, Unilever, and Wal-Mart — have already embarked on important efforts to create shared value by reconceiving the intersection between society and corporate performance.' In order to illustrate the theoretical explanation made above this section will provide three brief case studies. These practical examples, drawn from the relevant literature (Porter and Kramer, 2011; Pfizer et al., 2013) relate to the three main tools on how to create shared value. They should also exemplify CSV's potential to contribute to development:

(a) *Reconceiving products and markets*

Nestlé identified a new product and market by focusing on malnutrition in developing countries (this project relates to development goals 4 + 5) (Nestlé, 2013). In the process of extensive research on nutrition (deficits) in India, the company discovered that approximately '70% of children under the age of three and 57% of women suffered from anaemia' (Pfitzer et al., 2013: 5). After in-depth field studies Nestlé launched Maggi Masala-ae-Magic, a micronutrient-reinforced spice product that masks the bad taste of iron, iodine and vitamin A and is priced for low-income consumers (ibid.). Within a period of 36 months, Nestlé sold 138 million servings of its products, thereby providing inexpensive micronutrient-reinforced spices while generating major profits for the company (Pfitzer et al., 2013: 5).

(b) *Redefining productivity in the value chain*

Aiming to improve its value chain and to find new distribution models in non-traditional markets, Unilever created the project Shakti (this project relates to development goals 1+3+6) (Unilever, 2005). Shakti is a 'new direct to-home retail distribution system for Unilever, run by underprivileged female entrepreneurs in Indian villages of fewer than 2,000 people. Unilever provides microcredit and training and now has more than 45,000 entrepreneurs covering some 100,000 villages across 15 Indian states' (Porter and Kramer, 2011: 70) helping to better distribute Unilever products. The project provided women with business skills that often doubled their household income and consequently increased the development of the respective regions. Moreover, the new direct-to-home distribution system made Unilever's life altering products accessible to hard-to-reach consumers. Meanwhile, Shakti accounts 'for 5% of Unilever's total revenues in India. It has extended the company's reach into rural areas and it built its brand in media-dark regions, creating major economic value for the company' (ibid.).

(c) *Enabling local cluster development*

In order to improve the framework conditions of its cluster, Yara, the world's largest mineral fertilizer, in 2008 established two 'Growth Corridors' (Yara, 2015). The company teamed up with local governments in Mozambique and Tanzania, with the Norwegian government as well as with other stakeholders to improve the logistical infrastructure in the respective African countries (this project in principle relates to goals 1, 2, 4, 5). Currently, the initiative runs in two regions that have been identified as potential breadbaskets. Both contain large areas with high agricultural potential and a backbone of infrastructure to build on: the Beira Agricultural Corridor (BAGC) and the Southern Agricultural Corridor of Tanzania (SAGCOT) (ibid.). Yara discovered that the lack of a sufficient logistical infrastructure prevented African farmers from gaining efficient access to fertilizers and other essential agricultural inputs as well as from transporting their crops efficiently to market. Yara invested 60 million USD to create growth corridors by improving roads and ports (Porter and Kramer, 2011: 74). Respective calculations expect that the Mozambique corridor will 'benefit more than 200,000 small farmers and create 350,000 new jobs' (Porter and Kramer, 2011: 74). Simultaneously, Yara's investments in these corridors will help support the entire agricultural cluster in these countries, will create multiplier effects and consequently will help to grow Yara's own business (ibid.).

CSV – RECEPTION IN- AND OUTSIDE OF THE SCIENTIFIC COMMUNITY

Reception

Reconnecting business and society through Creating Shared Value offers an appealing vision and many managers, policymakers and academics have enthusiastically embraced Porter and Kramer's idea. According to a Google Scholar search, their initial 2011 article has been cited more than 2000 times (accessed on 18 February 2015). McKinsey & Co. awarded 'Creating Shared Value' the best article in Harvard Business Review in 2011. Moreover, the framework has been adopted quickly: Hewlett-Packard, Nestlé, Novartis and Eli Lilly are a few leading examples.

Critique

Nevertheless, CSV faces numerous critics in the scientific community. Especially business ethicists and CSR scholars Andrew Crane, Guido Palazzo, Laura Spence and Dirk Matten (Crane et al., 2014) as well as Thomas Beschorner (2013) have mounted multipronged attacks on CSV in the pages of leading academic journals (e.g. California Management Review; Business Ethics Review). In their articles, Crane et al. as well as Beschorner claim CSV is unoriginal and ignores relevant parts of stakeholder management and strategic CSR literature (Crane et al., 2014: 137) and that, in general, it attacks a CSR straw man (Beschorner, 2013). Especially Beschorner (2013) criticizes that Porter and Kramer mischaracterize CSR as being essentially philanthropic and disconnected from a company's core business. Beschorner argues that 'CSR is not an end-of-pipe practice, but an integral part of business practices, including the supply-chain and the market side. It is not about how businesses spend their profits but, indeed, about how they earn them.' (Beschorner, 2013: 108).

Especially Crane et al. accuse Porter and Kramer of ignoring the tension between social and economic goals, of being naïve about the reality of businesses' ethical compliance, and of basing their article on a shallow conception of the corporation's role in society. Moreover, these authors suspect that 'instead of promoting the common good, CSV might promote more sophisticated strategies of greenwashing' (Crane et al., 2014: 137).

Porter and Kramer (2014) offered a response to these charges, noting (according to the charge of unoriginality) that their initial publication in the Harvard Business Review (2011) does not allow for literature reviews acknowledging related contributions. They further suggested that Crane et al. (2014) were engaging in a type of 'wishful thinking' that drives a wedge between business and society rather than promoting business attention to corporate responsibility and sustainability.

Further Developments

Business ethicists and management scholars de los Reyes, Scholz and Smith (Scholz 2014; Scholz and de los Reyes 2014; de los Reyes and Scholz 2015 [forthcoming]); Scholz and de los Reyes 2015 [forthcoming]; de los Reyes, Scholz and Smith [in preparation]) strongly emphasize the potential of CSV to create A-cases. A-cases are situations that are beneficial for the company and for its respective (socio-economic) environment. Following Porter's and Kramer's (2011) own limitations in their original CSV article , 'NOT ALL societal problems can be solved through shared value solutions' (emphasis in the original) (p. 77), de los Reyes, Scholz and Smith show that there are problematic business situations that cannot be solved by the CSV toolkit. The authors call these situations B-cases. The characteristic of a B-case context is that managers have not (at least as yet) identified a win-win strategy to respond to the societal challenge at hand. In B-cases profitability and social advantage appear at odds, as for example, in the case of improving the labour and building standards in the Bangladeshi textile industry. It was only after the collapse of the Rana Plaza complex that the issue was forced upon the global brands that are sourcing from Bangladesh (Quelch and Rodriguez, 2013). An investment in safety improvements by companies would most probably lead to a reduction rather than an increase in profit margins — thus a potential lose-win scenario. According to de los Reyes, Scholz and Smith [in preparation], CSV cannot inform the manager at a global brand about the limits to acceptability of lower labour standards (wages, hours, safety conditions) on the ground in Bangladesh as compared to the global brand's home country standards. It is quite possible that one can develop a story about how investing in the improvement of supply chain labour standards will produce competitive advantage. In such a case, the respective global manager can move forward and can create shared value. However, in other cases, shared value cannot be developed. In these cases companies are confronted with a B-case, and CSV does not give any guidance on how to deal with these cases. Since B-cases appear frequently in business, managers need guidance on how to deal with these situations. De los Reyes, Scholz and Smith suggest that in addition to CSV, managers need to be equipped with modules that give them guidance on the non-legal norms they should follow (norm-taking) and, if necessary, even engaging in norm-making processes. Examples of companies that need guidance in non-legal norm-taking reach from cases in the Bangladeshi textile industry (where non- or conflicting norms have regulated issues such as wages, hours and safety conditions) (Quelch and Rodriguez, 2013) to IT-companies operating in China (that are accused of being gate keepers for an oppressive government) (Brenkert, 2009; Dann and Haddow, 2008; Scherer et al., 2013). Where suitable norms (legal and non-legal) are generally absent or have not yet been sufficiently developed, companies need guidance in norm-making, i.e. on how to create new norms (e.g. in research involving embryos or stem cells, new technologies such as fracking or deep water drilling, new business models such as those in the sharing economy) (Scholz 2014; Scholz and de los Reyes 2014; de los Reyes and Scholz 2015 [forthcoming]); Scholz and de los Reyes 2015 [forthcoming]; de los Reyes, Scholz and Smith [in preparation]).

CONCLUSION AND RECOMMENDATIONS

Creating Shared Value as introduced by Porter and Kramer (2006; 2011) provides methods and tools that have the potential to reconnect business aims (e.g., profitability) with broader aims of society (e.g., development). Although CSV is not a fundamentally new idea (Beschorner et al, 2013; Crane et al, 2014) it has the potential to contribute strongly to the UN Millennium Development Goals (and in principle to its substitutes, i.e., the SDGs) through its well-known main tools (a) reconceiving products and markets, (b) redefining productivity in the value chain, c) enabling local cluster development (see section 2). The potential of CSV to create A-cases, i.e. situations that are beneficial for a company and for its respective (socio-economic) environment is enormous. The idea of encouraging managers to embrace a conception of their role as identifying and using opportunities to create social/ecological and economic value should be strongly encouraged. The limitations of CSV clearly lie in its ability to address B-cases, i.e. where profitability and social advantage appear at odds. Consequently, CSV should not be understood as an all-encompassing comprehensive framework. CSV needs to be combined with a norm-taking module. A norm-taking module informs the manager about how to deal with conflicting non-legal norms (e.g. Yahoo in China). Moreover, CSV needs to be combined with a norm-making module in order to address cases where norms are generally absent or have not yet been sufficiently developed (e.g. in research involving embryos or stem cells, new technologies such as fracking or deep water drilling, new business models such as those in the sharing economy). In these cases managers should be encouraged to engage in norm-making processes, i.e. managers together with multiple other stakeholders need to develop new non-legal (e.g., guidelines and standards) as well as new binding legal norms in order to regulate business behaviour (for similar recommendations see Donaldson and Schoemaker 2013; Scherer and Palazzo 2007; cf. EC 2014; CEU 2014a; CEU 2014b).

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