BRIEFING
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# Private sector: Mismatching development with economic growth?


This briefing aims to shed light on the impact of the private sector's involvement in development, particularly on the achievement of the main development cooperation goals of inequality reduction and poverty eradication through a human rights based approach ensuring a space for civil society. The main objective is to question the recent promotion of and blind support given to the private sector as the principal actor for development.

SOLIDAR's general recommendations are:

- To define and adopt a normative framework offering an approach and clear guidelines to the private sector when engaging in development. It means ensuring a participatory, solidarity-based and human rights-based approach to development while keeping inequality reduction and poverty eradication as primary objectives and promoting decent work;
- To improve and expend more effort on transparency, accountability and regulations.
- To ensure that any development-related foreign direct investments, business investment, responsible corporate actions and projects are designed in line with the country and local specificities as well as with the national development strategy. Consultations with all concerned stakeholders should be guaranteed.


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## FOREWORD

Has the private sector a key role to play in development? The EU position on that matter is clear. Referring to the Sustainable Development Goals of the 2030 Agenda, Neven Mimica, Commissioner for International Cooperation and Development, stated that 'The massive need for investment in projects of public interest in developing countries cannot be met by the public sector alone, this is why the involvement of the private sector in reaching the SDGs is key' (Gotev, 2017).

Although the private sector could indeed support development financially, the main question remains: as private investment is profit driven can it lead to its achievement? On the latter, SOLIDAR is less convinced. The involvement of the private sector has not yet proven to have a real positive impact on development. On the one hand, although not fulfilling the UN's 0.7% objective, governments are making a considerable effort and taking significant risks to mobilise domestic resources through leveraging private investment via public-private partnerships. Quality and accessibility of services for users may fall, contrary to development goals, while governments may be obliged to finance deficiencies resulting from a lack of return on investment.

On the other hand, although the private sector might potentially contribute to some of the growth aspects of the 2030 Agenda, it could also stand in contradiction to the universal character and general interest of the Agenda as a whole. Private companies have contributed to the creation of new job opportunities but this often happens at the expense of decent wages, fair working conditions and the environment, communities' and citizens' rights. Moreover, a greater power imbalance has been observed, where States have failed to guarantee and protect the rights of communities and indigenous people, while the space for civil society organisations has been shrinking as a result.

As long as the private sector is too much rooted into a growth logic, where profits and return to investments matters most, the objectives of poverty eradication and inequality reduction might not be achieved. This mismatching between growth, fuelled largely by private initiatives, and development has led to more inequalities and a race to the bottom, a path which is no longer sustainable. The fact that the private sector is now promoted as a key actor for development, without questioning it, is a real concern.

Given the controversy surrounding this topic, SOLIDAR wishes to present its considerations. With the support of SOLIDAR members, this briefing looks at the diverse implications of the private sector's involvement in development and proposes associated recommendations. If the private sector is to be involved in development, this must be based on well thought-out and critical assessments, which is the only way towards sound policies meant for the good of the people.

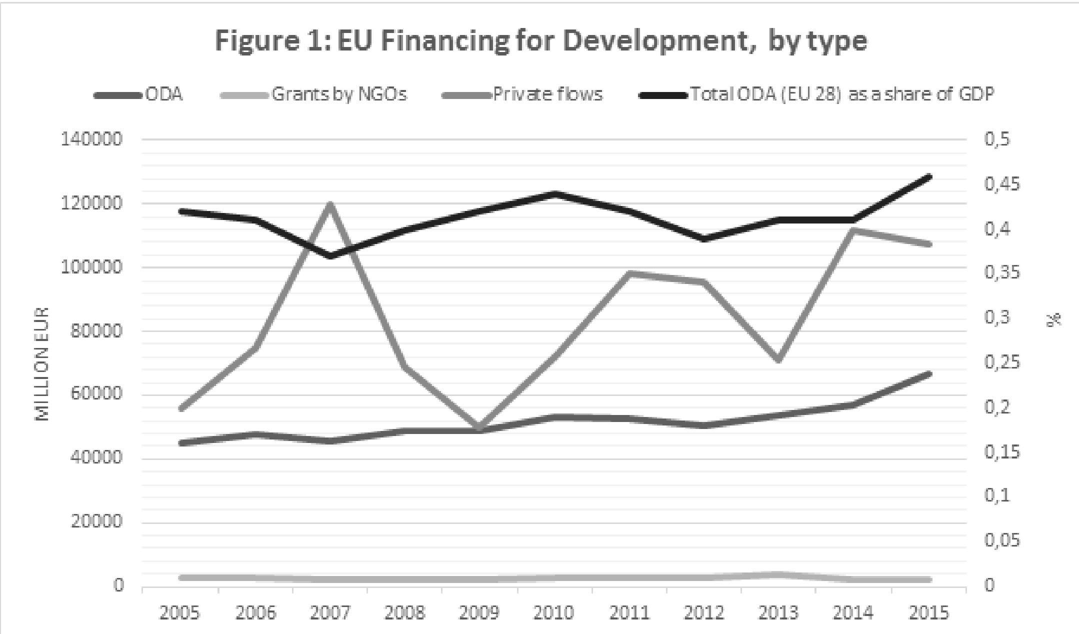
Conny Reuter
Secretary General of SOLIDAR

## INTRODUCTION

In recent years, the private sector has become increasingly involved in mobilising resources for development. Traditionally dominated by Official Development Assistance (ODA), financial resources for development are now driven by private financial flows including foreign direct investment (FDI), remittances and philanthropy, while new donors have emerged on the scene such as the BRICS (Brazil, Russia, India, China and South Africa) (Savoy , et al., 2016). A real increase in FDI is observed, especially in emerging economies, while fragile States or least-developed countries (LDCs) still experience difficulties in attracting private capital. Moreover, there has been a huge growth in funds coming from development finance institutions (DFI)[1] which mobilise private investments in developing countries. According to the Center for Strategic and International Studies' (CSIS) estimates, it has grown from $10 billion in 2000 to almost $70 billion in 2014, corresponding to a 10% nominal increase per year (Savoy , et al., 2016). Even the traditional source of financing for development, i.e. ODA, is now increasingly being used to promote private investments for development (OECD, 2006, p. 12).

As observed in the figure below, private flows have increased more rapidly compared to ODA over recent years.

This stronger emphasis on the role of the private sector as a key actor in sustainable development is very much reflected in today's political discourse. Governments as well as EU institutions are looking for new alternatives to finance development. For instance, the Busan Partnership, adopted in 2011, meant to enhance effective development cooperation, and which is supported by governments, civil society organisations, private actors and others, does recognise 'the central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction' and encourages the 'participation of the private sector in the design and implementation of development policies and strategies to foster sustainable growth and poverty reduction' (Fourth High Level Forum on Aid Effectiveness, 2011, para. 32). Partnership has also become an essential component of the 2030 Agenda for Sustainable Development adopted in 2015, as translated into the SGD 17. More specifically, it encourages and promotes effective public, public-private and civil society partnerships, building on the experience and resourcing




Sources: Based on Eurostat, see data on http://ec.europa.eu/eurostat/web/sdi/indicators/global-partnership

1 For more information on DFI, see http://www.oecd.org/dac/stats/development-finance-institutions-private-sector-development.htm

strategies of partnership. The Addis Ababa Action Agenda adopted during the same year, which set up the global framework for financing development after 2015, also calls on businesses to find innovative solutions to sustainable development challenges and invites them to engage as partner. Recently, at the United Nations' Financing for Development Forum held in May 2017, it was reiterated that private investments should be encouraged to generate full employment and decent work for all given that 'the current global trajectory will not deliver the goals of eradicating poverty in all its forms and dimensions by 2030' (UN Economic and Social Council, 2017, para. 2).

At the EU level, it is clear that the private sector is considered a key actor in financing for development. In September 2016, the European Commission, in its communication on a new External Investment Plan[2] aiming to boost investment in Africa and the neighbourhood region, calls on the private sector to join efforts for advancing economic growth and prosperity. In the recently adopted new European Consensus on Development, it is clearly stated that 'The private sector can contribute to the implementation of the 2030 Agenda. The EU and its Member States, in close coordination with the European Investment Bank, will promote the mobilisation of private resources for development, whilst also promoting private sector accountability, in areas with significant transformation potential for sustainable development' (European Commission, 2017, para 53).

Interest in the private sector has grown mainly due to the need for governments to significantly increase resources to achieve the sustainable development goals. Public money alone will not be sufficient as often reiterated in public discourse. At the same time, aid flows to developing countries through ODA are stagnating or reducing. In 2015, the Finnish government announced a 40% cut in its aid budget while Denmark, with the new centre-right government, reduced it to 0.73% of GNI, instead of 0.87% as originally planned (CONCORD, 2016, p. 11). Although ODA has increased in absolute and relative terms on average from EU donors, only five countries (Luxembourg, Denmark, Sweden, Germany, United Kingdom) were at or above the UN-target of 0.7% of GNI in 2016 while in total, DAC countries are far below the target (0.32 % of GNI in 2016)[3]. As shown in the figure above, ODA as a share of GDP has been relatively stable over the last ten years. Hence governments feel the need to multiply resources through new investments involving the private sector.

Another reason why governments are so keen to engage with the private sector is that private companies are believed to be more effective and efficient in achieving growth and job creation, reducing poverty and inequality, improving health and education systems and mitigating climate change. The new European Consensus on Development even considers the private sector, alongside other stakeholders, 'as instrumental partners in reaching the most vulnerable and marginalised people' (European Commission, 2017, para. 72). It is true that development can benefit from the private sector in term of skills, innovations, technology and finances, but it has also proven to be responsible for the destruction of natural resources, human right violations and indecent and low-paid jobs, casting doubts on its real contribution to development. It is more and more acknowledged that "business as usual" is not a sustainable, particularly when it comes to addressing today's global development challenges.

## PRIVATE AND BUSINESS CIRCLES: A PLURALITY OF ARRANGEMENTS

Development has been traditionally channelled through direct aid from governments (grants and some loans) or aid agencies, but also through the

2 See http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM:2016:581:FIN

3 See http://www2.compareyourcountry.org/oda?cr=20001&cr1=oecd&lg=en&page=0

public arms of multilateral development banks (World Bank) or regional banks. Nowadays, the private sector arms of the multilateral development banks and development finance institutions form important channels through which the private sector is involved in development while traditional public aid is increasingly promoting private investments for development.

The involvement of the private sector in development can take many forms, from direct provider of development finances to manager of projects or recipient of ODA. The TUDCN (2017) identifies five types of contractual engagements through which the private sector can be involved:

- The private sector can receive direct public aid such as ODA in the form of subsidies or loans for their investments and activities;
- The private actor can be a contractor in implementing aid projects which can happen through traditional public procurement procedures referring to 'the process by which public authorities, such as government departments or local authorities, purchase work, goods or services from companies'[4];
- Public-private partnerships (PPPs) can also be established between a public and private units. Those are long-term contracts 'whereby one unit acquires or builds an asset or set of assets, operates it for a period and then hands the asset over to a second unit. Such arrangements are usually between a private enterprise and government but other combinations are possible, with a public corporation as either party or a private non-profit institution as the second party (Article 15.41 of Regulation (EU) No 549/2013)'[5];
- Blending mechanisms can also be used pooling different resources (e.g. combining EU grants with loans or equity from public and private financiers[6]);
- Private companies can also act as 'a provider of aid-equivalent development resources (private philanthropic foundations and corporate donations) and/or as a facilitator in networking and policy making processes through business forum and networks' (TUDCN, 2017).

In this briefing, we refer to the private sector in broad terms, i.e. those acting directly for development as described in this section but it also encompasses more globally corporate or business companies, hence for-profit-enterprises and private foundations.

## A DRIVER OF DEVELOPMENT OR ECONOMIC GROWTH?

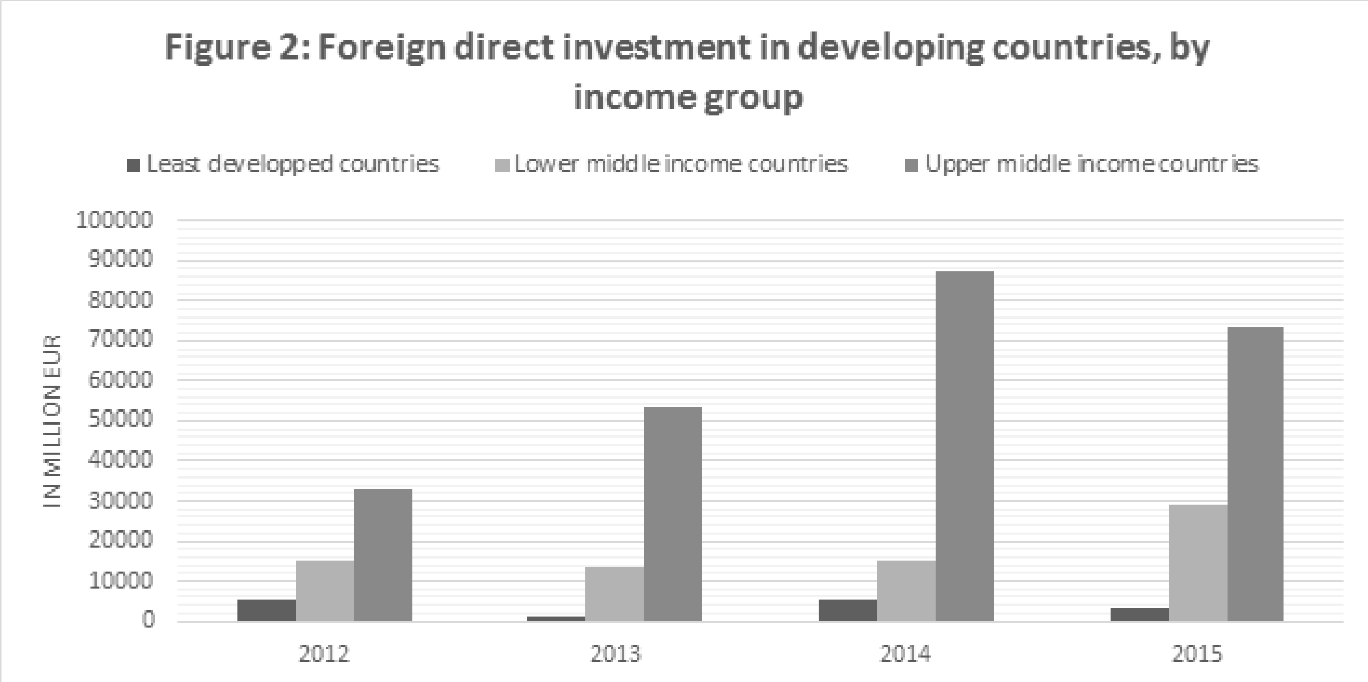
Assessing the impact of the private sector on development can be a very arduous endeavour due to the various forms of contracts that exist. They may differ depending on the design, implementation plan, rationale, the actors involved, the sector and country concerned. Correspondingly, very different development impacts can be reached. However, an increasing literature shows evidence that the involvement of the private sector in development may not always be beneficial, instead it may challenge it.

### Poverty eradication vs. maximising profits

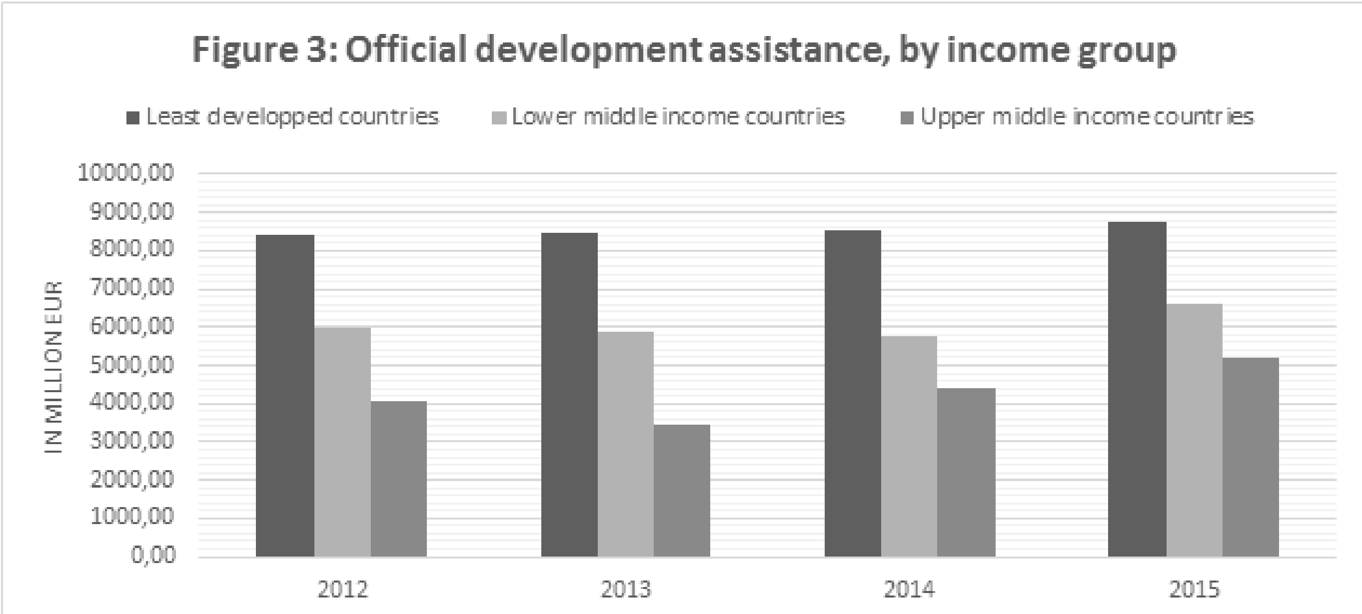
A first concern that can be expressed is the rationale that drives the private sector. Intrinsically, the private sector's first objective is to maximise profits while reducing costs where competition matters most and where citizens are merely seen as consumers. As a consequence, involving the private sector for development may be a paradox, as development objectives such as poverty eradication or inequality reduction are placed on a secondary level. From this perspective, decisions that are being taken by private companies are often without real consideration for social, economic and environmental rights. In the case of public private partnership contracts for example, it could be decided to reduce wages or cut jobs if this is good for profits, even though this is completely counter-productive to development (Eurodad, n.d.). Given that the main goal is to

4 See https://ec.europa.eu/growth/single-market/public-procurement_fr
5 See https://ec.europa.eu/digital-single-market/en/glossary#letter_p
6 See https://ec.europa.eu/europeaid/policies/innovative-financial-instruments-blending_en

make money out of their investments, contractual engagements signed with the private sector are often for projects that are the most profitable, namely where the return on investment is higher (Gordon, 2017). This also means that some private companies may avoid investing in fragile countries – as it may be less profitable - where the neediest populations live. Looking at global figures, it seems indeed that priority is given to upper middle income countries. Figure 2 below shows that foreign direct investments made by the EU (28) countries in developing countries are largely directed to the upper middle income group coun-




Source: Based on Eurostat, see data on http://ec.europa.eu/eurostat/web/sdi/indicators/global-partnership




Source: Based on Eurostat, see data on http://ec.europa.eu/eurostat/web/sdi/indicators/global-partnership tries. Interestingly enough, the opposite can be observed when it comes to official development assistance directed to the same income groups.

Another fact accounting for the little consideration given to the objectives of poverty eradication and inequality reduction is the wide use of offshore financing centres or tax havens by development finance institutions or multinational corporations (TUDCN-RSCD, 2016). These types of practices have a very negative impact on development itself but also on the potential of development. On the one hand, tax evasion or tax avoidance contributes to more inequality as more money goes into the pocket of the richest. On the other hand, less money is available for public investment meant to foster social protection and equality (Donald, 2017).

## Human rights vs. business practices

More and more, global production is being dominated by multinational corporations and global supply chains. Although it has increased job opportunities, especially in labour-intensive industries, it has happened at the expense of labour, social and environmental rights. The 2014 Human Rights Risks Atlas reported an unprecedented increase in human right violations, especially in key growth markets where labour violations are perpetrated (Verisk Maplecroft, 2013). It is clear now that the practices used by big multinational corporations to stimulate growth and create jobs are very questionable, as evidenced by the Rana Plaza collapse in 2013. Workers are undeniably confronted with low wages which may not even reach the national minimum wage. They have to work in unsafe and unhealthy conditions with no security system or social protection in most cases, which greatly increases their vulnerability (Hinds, 2015, p. 12). Moreover, it is very hard for them to make their voice heard due to the lack of or prohibition on joining a trade union of their choice and access collective bargaining. In the same vein, workers, victims of human rights violations, cannot sue companies due to the lack of access to jurisdiction or the lack of regulation. On the other side, multinational corporations are allowed to sue governments if laws were to affect their profits (Martens & Seitz, 2017, p. 117). In addition, the business sector is abusively taking advantage of regulation gaps and the informal economy - the latter being very much widespread in developing countries - in order to reduce their costs and maximise their profits as shown in Adim's article (see box 1). This further impedes the formalisation of the economy and impacts severely any attempts to eradicate poverty.

Box 1: Tackling Multinational Corporations' Abusive Practices to Promote inclusive Growth – Adim L.

In her article, Adim challenges the traditional thinking that multinational corporations necessarily increase living standards in developing countries and help formalise their economies. Instead, the article shows that multinational corporations' abusive practices are at the heart of their strategy, seeking profit-maximisation and a reduction of costs at the expense of the population and the State economy. Focusing on two indirect consequences of multinational corporations' abusive practices – namely, corporate tax abuse and the abusive use of an informal labour force - the author denounces the human rights violations that such practices perpetuate and the unfair situations they give rise to.

The author (2017, pp. 47-78) concludes that 'some MNCs' conduct creates a series of negative consequences that can affect various parties in different places and timeframes to a lesser or greater extent and that, in any case, it provokes distortions at the global level. The argument necessarily draws attention to breaches of the Economic Social and Cultural Rights included in the Universal Declaration of Human Rights and endorsed by the Charter of Fundamental Rights of the European Union, which set out the basic standards for guaranteeing a decent existence to every individual. MNCs' abusive practices involving the use of informal labour can be considered as direct violations of the rights related to work and social security, while a broader and deeper interpretation of article 2.1 of the International Covenant on Economic, Social and Cultural Rights would lead to the conclusion that MNCs which include tax abuses in their business strategies could be considered accountable for the decrease in the "maximum of available resources" that States must employ for realising economic and social rights. Tax abuses and the informal economy, given the purpose for which they are employed by some MNCs, contribute significantly to worsening individuals' living conditions, while also representing a systemic threat to inclusive growth owing to their clear tendency to create mismatches in the global economy.'

The lack of regulation, transparency and accountability is one of the major issues when it comes to multinational corporations. Guidelines such as the OECD Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights or voluntary initiatives such as Corporate Social Responsibility exist but they are not strong enough for companies to be held accountable. No binding instruments are so far available, reflecting a situation where economic interests still prevail over the respect of social and labour rights. Although steps are being taken in the right direction such as the proposals for public country by country reporting which would require multinational companies to disclose information with regards to their assets, taxable income, taxes paid, the number of employees, etc., additional measures which are enforceable and global in scope are needed to end this race to the bottom.

### Development objectives vs. efficiency

Looking at PPPs in particular, the existing literature casts doubts on their positive impact on development goals. PPPs are being very much promoted as key instruments to leverage investment in developing countries, especially after the adoption of the 2030 Agenda for sustainable development. However, it is often based on the false belief that PPPs will enable investments with lower costs and greater efficiency. Eurodad performed a critical assessment of PPPs and came to the following conclusions (Romero, 2015):

- Financing costs in PPPs are very high, if not the most expensive;
- Construction and transaction costs are higher than public works;
- Financial risks are greater for the public sector as it is the State that has to bear the costs if the project fails, which may be translated into higher public debt;
- PPPs are not necessarily more efficient as theory initially predicted;
- PPPs may be less transparent and may lack accountability which in turn may increase corrupt behaviour;
- Finally, depending on the sectors, development outcomes may differ greatly.

Because of the intrinsic nature of the private sector, which aims to maximise its profits, it can lead to decisions undermining employment creation or poverty reduction goals. For example, PPPs are established where it is possible to make returns, excluding areas where development may be most needed. As already mentioned, it might also be decided to cut jobs to ensure profitability. PPPs can also lead to the fragmentation of service delivery and, hence, the reinforcement of inequalities in provision (Eurodad, n.d., p. 2). In some sectors, the tariff/price of the services can significantly increase and become unaffordable, especially for the poorest, reinforcing the inequality gap. As Eurodad (n.d.) states, 'All too often PPPs tend to distort development priorities as governments tend to favour projects that are financially viable in the short term rather than those that can deliver long term development impacts'.

In the education sector for example, PPPs do not necessarily improve access to and the quality of education. As shown by Verger and Moschetti (see box 2), these types of contracts may instead reinforce discrimination, segregation and pre-existing school segmentation as PPPs induce more competition which in turn incentivises schools to select the best students. They do not lead to better student achievements or learning outcomes, or at least evidence is quite mixed in this respect. Not only may PPPs not improve students' situations, teachers can also be affected. They may face some sort of exploitation including longer working days, lower pay and no access to trade unions to protect their interests.

Box 2: Partnering with the private sector in the post-2015 era? The main political and social implications in the educational arena - Verger A. and Moschetti M.

In their article, Verger and Moschetti aimed to shed light on the concept of public-private partnerships and their impact on the field of education. Based on a 'review-scoping' approach, they assess the impact of public-private partnerships based on indicators such as equality and developed skills. This implicitly demonstrates that performance cannot be reduced to financial analyses only, but it should take the quality of learning, teachers, equity and other educational dimensions into consideration.

They claim that 'PPPs could represent a step forward – at least in the short run – in contexts where public education provision is insufficient, inappropriate or non-existent. Partnering with private providers should not be seen a way of postponing the necessary improvement in the State sector in education. In fact, market and pro-school choice solutions, which are often seen as the ultimate PPP models in education, are not well-suited to promote much-needed inclusive and equitable education. The effects of PPPs involving voucher programmes or charter schools may well vary according to contextual and policy design variables, including the nature of the incentives of private actors (for instance, whether they are 'for profit', religious or non-religious, etc.). However, existing evidence shows that market-like PPPs introduce a broad range of challenges from an educational equity perspective and they promote socio-economic segregation and school segmentation. Furthermore, PPPs tend to accelerate the processes of education privatisation – broadly understood as the increased participation of private actors in education provision' (Verger & Moschetti, 2017, pp. 260-261).

Given these aspects, the recent promotion of PPPs is very worrying as it may do more harm than good for societies in developing countries.

## Civil society space vs. the private sector

According to the Busan Partnership for Effective Development Co-operation, governments and several organisations are committed to enabling civil society organisations exercise their role as independent development actors (Fourth High Level Forum on Aid Effectiveness, 2011, para. 22). However, partnering with the private sector for development does not necessarily provide an enabling environment for CSOs, in fact it may undermine it.

The increasing involvement of the private sector in development has come alongside a decrease in civil society space. One of the reasons is that civil society organisations may be seen as an obstacle by governments when the latter want to agree deals with private companies (Gneiting, 2017). As Gneiting (2017) reports, 'the parallel rise in private sector power and closing civil space is thus no coincidence, since it is often civil society that challenges corporate interests in instances of environmental or social abuses.'

In addition, as mentioned by Donald (2017, p. 99) in the 2017 *Spotlight on Sustainable Development: Reclaiming policies for the public*, the abusive practices used by large multinational corporation (incl. tax avoidance, tax evasion, …) are contributing to a so called "inequality trap" where the growing inequality driven by those practices leads to more power imbalances in favour of corporations which have more room to influence policy-making process, but at the expense of trade union and CSO leverage. Those private companies have gained greater power and are able to significantly influence policies. As stated by Oxfam America (2017), US$ 2.5 billion is spent on lobbying by the 50 largest US companies of which US$ 352 million is spent on lobbying for tax reduction. The benefits are quite considerable knowing that 423$ billion of tax breaks have been gained through lobbying. In other words, one dollar spent on lobbying on tax issues is worth US$ 1,200. Again, these practices reflect more inequality, power imbalances and fewer resources for development.

The Coalition for Human Rights in Development also refers to the real difficulties for civil society in accessing information and policy makers to influence the design of development policies (Gordon, 2017). The complexities of the arrangements between private and public actors in development can add an extra layer of difficulty for CSOs seeking to participate in, monitor or influence policy processes. Business secrecy may add another challenge to accessing information which is essential for civil society to monitor and evaluate development impacts.

Finally, not only are CSOs affected by the increasing involvement of the private sector, especially of multinational corporations, so are local communities and indigenous people. In many parts of the world, the competition for the control of natural resources for instance has led to an increasing number of conflicts between companies and local communities which are dependent on natural resources and are seeing their environment and their lifestyle deteriorating. States may fail to guarantee and protect the right of indigenous people to be consulted. Beyond the fact that participatory and consultation processes are not always ensured, Alianza por La Solidaridad reported cases where communities are victims of human rights violations, arrests, kidnapping or even murder (see box 3).

Box 3: Rights of local communities and indigenous people: The case of Guatemala[7]

Alianza por la Solidaridad carried out two cases study showing the impact of private companies' activities on local communities and indigenous people.

1) The case of the hydroelectric complex and Quekchí Indians'rights in Alta Verapaz[8]

In Alta Verapaz, more than 29,000 Quekchí Indians are in danger because of the construction of the Renace hydroelectric complex by the Spanish company Cobra (Grupo ACS), owned by Florentino Pérez (also president of the Real Madrid football club). Every day they see the flow of the river Cahabón, their main source of subsistence, reducing because of this project. After extensive research that lasted two years, Alianza por la Solidaridad denounced the significant impact on the environment and the violations against the communities that live along the river, as well as the ongoing criminalisation of activists who oppose the project.

2) The case of the hydroelectric dam and communities' rights in Santa Cruz de Barillas[9]

In Santa Cruz de Barillas, campaigning by local communities and the voices of more than 15,000 citizens stopped the construction of a hydroelectric dam by the Spanish company Hidro Santa Cruz (Ecoener-Hidralia) in December 2016. The

7 See here: http://mailchi.mp/449270301f0a/straight-from-the-field-solidar-networks-vision-for-stronger-and-fairer-eu-lac-relations-2427009?e=[UNIQID]
8 See the full case here: http://www.alianzaporlasolidaridad.org/wp-content/uploads/Maq.-Tierrra3.pdf
9 See the full case here: http://www.alianzaporlasolidaridad.org/wp-content/uploads/Informe-Hidralia.pdf

dam would have affected 130,000 inhabitants. The initial works have triggered serious social conflicts with the indigenous communities living in the region. Not only were community leaders arrested, there were also cases of kidnapping and even murder.

### Accountability vs. secrecy

Overall, it is often claimed that information disclosed on projects including the private sector can be very limited while ex-ante and ex-post assessments can be very hard to get. The lack of complaint mechanisms enabling all actors and communities to be heard when a problem occurs is also an issue. Not only is there a lack of complaint mechanisms, but when they are in place, they may not be independent. Altogether, these issues add up to a problem of accountability. In order to shed light on the performance of development financial institutions in terms of accountability, the TUDCN-RSCD carried out a study looking at the level of transparency and the existence of complaint mechanisms. The facts show that development finance institutions are far from being fully transparent as described in box 4.

Box 4: Accountability and development finance institutions: findings from TUDCN-RSCD

In their report 'The development effectiveness of supporting the private sector with ODA funds', the TUDCN-RSCD (2016) looked at the extent to which development effectiveness criteria have been transposed and integrated by development finance institutions using aid to leverage additional finance for development. In one of their chapters, they assess accountability alongside two preconditions they have identified, namely access to information (transparency) and the existence of complaint mechanisms, looking at nine development finance institutions. Overall, they show that only a few development finance institutions disclose enough information related to their project while 'only four out of the nine DFIs […] have a complaint mechanism in place and in only three cases is the mechanism independent' (TUDCN-RSCD, 2016, p. 51). The table below summarises their findings. It is worth noting, however, that it only tells us about the presence of these two preconditions. The effectiveness and quality of these mechanisms may be of concern as well but are yet to be assessed.

| DFI | Transparency | Complain mechanism |
|---|---|---|
| BIO (Belgian Investment Company for Developing Countries) | Poor information, current information only, no information on project evaluations, no country-by- country reporting | No complaint mechanism |
| CDC group (UK's Development Finance Institution) | Poor information, current information only, no information on project evaluations, country-by- country reporting | Non-independent complaint mechanism |
| Cofides (Spanish Development Finance Corporation) | Very poor information, current information only, no information on project evaluations, no country-by-country reporting | No complaint mechanism |
| DEG (German Investment and Development Corporation) | Poor information, two-year-old information, summary of project evaluations, no country-by-country reporting | Independent complaint mechanism |
| FMO (Entrepreneurial development bank of the Netherlands) | Poor information, one-year-old information, no information on project evaluations, no country-by-country reporting | Independent complaint mechanism |
| Norfund (Norwegian Investment Fund for Developing Countries) | Poor information, current information only, no information on project evaluations, no country-by-country reporting | No complaint mechanism |
| Proparco (French Development Finance Institution) | Poor information, one-year-old information, summary project evaluations upon request, no country-by-country reporting | No complaint mechanism |
| Swedfund (State-owned risk capital company - Sweden) | Poor information, current information only, no information on project evaluations, partial country-by-country reporting | No complaint mechanism |

Source: TUDCN-RSCD, 2016, p. 44

As already mentioned in the section 'human rights vs business practices', there is also the issue of enforceability. The lack of a regulatory framework to prevent violations and the lack of a commitment to social, labour and environmental standards are key issues when it comes to the involvement of the private sector in development.

## GENERAL RECOMMENDATIONS

### Development with private sector must be regulated and guided

Although SOLIDAR acknowledges the potential of the private sector to create jobs and provide new skills and innovative technologies, it must be done within a normative framework defining the approach as well as establishing clear guidelines. This framework should ensure that a participatory and human rights based approach to development is used for any engagement with the private sector while recognising that the government remains the main sources of public provision for development (TUDCN, 2017). Any development investment must be solidarity-based and the primary objective should be development, including poverty eradication, the reduction of inequality and a not-for-profit approach. The 2030 Agenda for Sustainable Development, which promotes policy coherence for sustainable development, should help in setting this framework to ensure that the private sector's involvement does not go against the achievement of social cohesion and human rights. Box 5 highlights key demands in light of the 17 Sustainable Development Goals.

Box 5: SOLIDAR must-haves for the private sector to contribute to sustainable development or not cause harm

| | |
|---|---|
| SDG 1: No poverty | *When engaging with the private sector in development, it is essential to:* Ensure that the mobilisation of resources from different sources is intended for developing countries to acquire the means and tools to end poverty in all its dimensions. |
| SDG 2: Zero hunger | Ensure that indigenous peoples and communities keep a secure and equal access to land while new food production systems maintain eco-systems and improve land and soil quality. |
| SGD 3: Good health and well-being | Ensure that global supply chains offer a healthy working environment, including ensuring the reduction of the number of deaths and illnesses from hazardous chemicals and air, water and soil pollution and contamination resulting from companies' activities. |
| SDG 4: Quality education | Ensure that all learners acquire the knowledge and skills needed to promote sustainable development and a sustainable lifestyle. |
| SDG 5: Gender equality | Ensure that the most vulnerable groups, such as women, are targeted and not left behind. |

| | |
|---|---|
| SDG 6: Clean water and sanitation<br>SDG 7: Affordable and clean energy<br>SDG 9: Industry, Innovation and Infrastructure<br>SDG 11: Sustainable cities and communities | Any investments in new infrastructure, which are modern, safe, affordable and reliable, must be made in developing countries, in particular in the least developed countries, small islands developing States and landlocked developing countries. They must benefit equally from resilient infrastructure investments and innovation. |
| SDG 8: Decent work and economic growth | Ensure decent work all along the global supply chains while ending modern slavery. It means guaranteeing safe and clean and worker-friendly use of raw materials and in production; living wages at all stages of involvement as the private sector; good working conditions; rights to collective bargaining and freedom of assembly. |
| SDG 10: Reduced inequalities | Ensure the empowerment of the most vulnerable groups by offering fair and good working conditions and universal social protection as a mean to reduce inequality. Human rights due diligence in all activities in developing countries should take place in parallel. |
| SDG 12: Responsible consumption and production | Ensure the promotion of responsible and sustainable production and consumption patterns. Production and transportation of goods must be environmentally-friendly |
| SDG 13 Climate action<br>SDG 14: Life below water<br>SDG 15: Life on land | Minimise negative impacts on environment-related SDGs (water use, climate-friendly, ecosystems, oceans etc.) |
| SDG 16: Peace, justice and strong institutions | Ensure the end of any forms of violence or exploitation against workers in global supply chains. The rule of law and equal access to justice should be ensured, including the setting of independent mechanisms. Illicit financial flows should end while participation, transparency and accountability should prevail. |
| SDG 17: Partnerships for the goals | Ensure that if public-private partnerships are to be set, they are based on careful assessment of their development impact. Multi-stakeholders partnerships, such as the Global Deal initiative , which gathers businesses, civil society representatives and governmental actors, should be established as a way to promote common solutions to sustainable development. Policy coherence for sustainable development must be guaranteed to respect planetary boundaries and leave no one behind. Finally, the objective of ODA and development must remain first and foremost poverty eradication. |

In addition, if the private sector is to be engaged in development projects, it should not be in a country where violations of human, labour and environmental rights are perpetuated, where the government is unwilling or corrupted, and it is important to make sure the private actors will respect and commit to social, labour and environmental standards.

### More accountability, regulation and monitoring is needed

Transparency should be ensured through the regular and public publication of data and information on the activities and results of the projects. Country-by-country reporting should become a mandatory and common mechanism for all companies. Accountability should be ensured through the setting of clear social, labour and environmental standards in any contracts. They should be regularly assessed and monitored internally but also by independent and external actors (CSOs for example) in order to ensure that there is compliance with the standards. Ex-ante and ex-post evaluations should therefore be systematically carried out. Each project should be assessed beforehand and show that they would deliver positive development results, accounting for the fact that development goals must remain the prevailing criteria for selection, assessment and monitoring (Kwakkenbas, 2012).

In addition, binding instruments should be set up to ensure compliance with the standards but also to limit tax avoidance or evasion and ensure that resources are correctly collected to be invested into public policies, such as the provision of essential services which would benefit everyone and contribute to development.

Finally, free, accessible and independent complaint mechanisms should be set up to avoid any conflict of interests.

### All concerned actors must be part of the process

During the project design as well as during the implementation process, consultations with all concerned stakeholders from government officials and worker representatives to local residents and communities must be established in order to ensure that all interests and demands are taking into account. Any development-related foreign direct investments, business investments, responsible corporate actions and projects should be designed in line with the country and local specificities and must be in line with the national development strategy of the concerned country in order to respect country ownership. It means that each type of private intervention, setting or contract should be properly assessed as no one size fits all solution exists across all development contexts.

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Overall SOLIDAR advocates for decision-makers to adopt a more critical position when it comes to involving the private sector in development. It is only through well thought-out and critical assessments that sound policies can be decided for the good of the people.

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In the context of the growing emphasis on role of the private sector in development, very much reflected in the current political discourse, SOLIDAR, with the support of its members, wishes to present its considerations. Partnership has indeed become an essential component of the 2030 Agenda for Sustainable Development adopted in 2015, as translated into the SGD 17. More specifically, it encourages and promotes effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnership. In the recently adopted New European Consensus for Development, the promotion of the private sector as a key actor to mobilise resources for development appears clearly. It is true that development can benefit from the private sector in term of skills, innovation, technology and finances, but it has also proven to be responsible for the destruction of natural resources, human rights violations, and indecent and low-paid job creation. It is therefore important to question the recent promotion of and support given to the private sector as the main actor for development. If sustainable development is to be achieved, decision-makers will have to adopt a more critical position. It is only through well thought-out and critical assessments that sound policies can be decided, which respect planetary boundaries and leave no one behind.

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