MAKING PRIVATE SECTOR INVESTMENTS IN DEVELOPMENT PROGRAMS ALIGNED WITH THE SDGs

TRADE UNIONS' KEY ASKS

TUDCN-RSCD

WHAT'S AT STAKE

The assumption that a significant scale-up of investments is required to achieve the Sustainable Development Goals (SDGs) is the foundation of the growing role of the private sector in development cooperation. Blended finance is the prominent financial modality in this respect.

Growing percentages of public official development assistance (ODA) are being directed to support private investments in developing countries through blending. Within blending approaches, guarantees/risk insurance coverage sticks out as an emerging trend to catalyse additional private capital.

Besides challenging ODA's core objective of promoting the economic development and welfare of developing countries, this also means using public money to cover private investments' potential losses.

BLENDED FINANCE

refers to the use of public development finance for the mobilisation of additional private finance towards sustainable development in developing countries.

ODA

Official development assistance (ODA) is defined by the OECD Development Assistance Committee (DAC) as the resource flows to countries and territories and to multilateral development institutions that are:

1. provided by official agencies, including state and local governments, or by their executive agencies; and
2. concessional (i.e., grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective.

> *"THE USE OF GUARANTEES/RISK INSURANCE IN THE BLENDED FINANCE MARKET ARE GROWING IN IMPORTANCE AND ARE PRESENT IN 21% OF ALL BLENDED FINANCE DEALS".*
>
> bit.ly/2zpQzCw

WHAT ARE THE CHALLENGES

The impact of blended finance operations on actual development is still only an assumption, partly because tracking the volume of private finance mobilised by ODA remains a challenge in itself (bit.ly/2nj0fc2) and also because there is no solid and constant evidence providing for any long-term development benefit to the countries where it has been implemented.

An evaluation on blending undertaken by the EU in 2016 supports this claim, as it found out that *"only five out of the twenty-one projects reviewed aimed to impact positively on the creation of jobs"* and *"three of them set quantitative targets to be reached in terms of temporary and/or permanent job creation".*
bit.ly/2x2flEH

HOW CAN WE ENSURE THAT BUSINESS INVESTMENTS IN DEVELOPMENT PROGRAMS REALLY CONTRIBUTE TO THE SDGs AT COUNTRY LEVEL?

HOW CAN ACCOUNTABILITY OF PROGRAMS BE GRANTED AGAINST DEVELOPMENT RESULTS?

HOW TO KEEP BUSINESS, PRIVATE-SECTOR ACTORS, AND INSTITUTIONS ACCOUNTABLE FOR SPENDING PUBLIC MONEY?

The use of blended finance in development poses important questions that still remain unanswered.

DFIs

National and international development finance institutions (DFIs) are specialised development banks or subsidiaries set up to support private sector development in developing countries. They are usually majority-owned by national governments and source their capital from national or international development funds or benefit from government guarantees.

REALITY CHECK

When it comes to the implementation of blended finance operations, the most used vehicles are the Development Financial Institutions (DFIs). Consequently, **DFIs are likely to channel increasing amounts of ODA in the future in support of leveraging private sector investments.**

However, **recent analysis shows that at present DFIs are not sufficiently equipped to support developing countries in line with development effectiveness principles.**

This brings about serious concerns in terms of accountability, transparency, ownership and, last but not least, development results.

AT A GLANCE: DFIs' PERFORMANCE AGAINST SELECTED DEVELOPMENT EFFECTIVENESS PRINCIPLES

DFI	Ownership			Development results		Mutual accountability	
	FOCUS ON DOMESTIC COMPANIES	RESTRICTIONS IN ACCESS TO DEV. FINANCE	STAKEHOLDER PARTICIPATION	PERFORMANCE STANDARDS	MONITORING	TRANSPARENCY	COMPLAINT MECHANISM
Bio Invest (Belgium)	above average	above average	average	average	average	poor	poor
CDC Group (UK)	poor	above average	average	average	average	average	above average
Cofides (Spain)	poor	poor	poor	average	average	poor	poor
DEG (Germany)	poor	above average	poor	average	average	average	above average
EIB (EU)	above average	average	average	average	average	average	above average
FMO (Netherlands)	poor	average	average	above average	average	poor	above average
IFC (World Bank)	above average	average	average	average	average	above average	above average
IFU (Denmark)	poor	poor	poor	average	average	average	above average
Norfund (Norway)	poor	above average	poor	above average	average	average	poor
Proparco (France)	average	above average	poor	average	average	average	poor
Swedfund (Sweden)	above average	average	poor	above average	average	poor	poor

■ poor performance ■ average performance or some good features ■ above average good performance

WHAT HAPPENS ON THE GROUND

MICROFINANCE IN ZAMBIA

In 2011, Norway's development finance institution (Norfund) gave a loan of USD 3.5 million to a local private bank (BancABC) for a project aiming at scaling up lending to small and medium enterprises, and individuals in Zambia.

It was evident that the terms of the Norfund loan encouraged BancABC to **MINIMISE RISKS AND EXTEND FUNDS MAINLY TO MEDIUM-SIZED ENTERPRISES** with the capacity to repay. Beyond the requirement to increase the number of loans, there is no information available on the indicators used to track and monitor the impact of the project.

NAME: African Banking Corporation Zambia

PROJECT TYPE: Provide access to credit

DONORS: Norfund (Norway)

OPERATORS/ CONTRACTOR: BancABC (Zambia)

BARRAGE CONSTRUCTION IN MALAWI

The Shire Liwonde Barrage upgrade is part of a project, started in 2012, funded through a blend of grants from the Global Environmental Facility (GEF), the Least Developed Countries Fund (LDCF) and a concessional loan from the World Bank. The Norwegian company Norplan supervised the project, and Conduril Engenharia (Portugal) and CMC Di Ravenna (Italy) were in charge of implementing it. Interviews with workers on the project site and government officials demonstrated **WEAK IMPLEMENTATION OF LABOUR STANDARDS. NOT ONE OF THE WORKERS INTERVIEWED WAS AWARE OF BASIC LABOUR REGULATIONS AND ONLY 23 PER CENT OF THEM WERE AWARE OF THE EXISTENCE OF A RELEVANT TRADE UNION**.

Furthermore, the project appeared to be **USING MAINLY UNSKILLED WORKERS WITH VIRTUALLY NO TRAINING, WHILE FOREIGN EXPERTS RECEIVED THE SKILLED JOBS.** As a result, the transfer of skills to local actors has been almost non-existent.

NAME: Shire Liwonde Barrage

PROJECT TYPE: Barrage upgrade

DONORS: GEF, LDCF, WORLD BANK

OPERATORS: Norplan (Norway)

CONTRACTORS: Conduril Engenharia (Portugal) and CMC di Ravenna (Italy)

ESTABLISHMENT OF A SPECIAL ECONOMIC ZONE IN HAITI

Following the 2010 earthquake in Haiti, the Inter-American Development Bank and USAID supported the construction of a special economic zone, the Caracol Industrial Park, providing infrastructure for S&H Global, a major textile company. S&H was to generate thousands of new jobs and reinvigorate the zone. In return, grants would cover the cost of building the infrastructure as well as provide guarantees for the company's losses until the site would start to generate profit. However, there are serious doubts about this project's contribution to sustainable development. **OUT OF THE 6,500 JOBS CREATED, AN OVERWHELMING MAJORITY WERE UNDER APPALLING CONDITIONS. APPROXIMATELY 87 PER CENT OF THE WORKERS DID NOT EARN THE DAILY MINIMUM WAGE;** there have been reports of irregularities about social security contributions and medical leave as well as cases of sexual harassment, threats and failure to pay severances.

NAME: Caracol Industrial Park

PROJECT TYPE: Setting up a special economic zone

DONORS: Inter-American Development Bank and USAid

OPERATORS/ CONTRACTOR: S&H Global (Korea)

TRADE UNIONS' DEMANDS

It is necessary to create a clearer nexus between allocation of resources and impact of actions for which donors and development finance institutions (DFIs) hold responsibilities.

TRADE UNIONS DEMAND that donor governments and DFIs endorse criteria on private sector investment in development programs with the purpose of granting contribution to the SDGs and ensuring coherence with the international development effectiveness principles.

These criteria will need to guide the selection of the **PRIVATE SECTOR ACTOR**, the **PROGRAM/PROJECT** and the **RESULTS ASSESSMENT** following its implementation.

Consult our full set of criteria at **bit.ly/2At0uHk**

HERE ARE SOME EXAMPLES OF KEY CRITERIA:

PRIVATE SECTOR ACTOR must

- adhere to Development Effectiveness Principles and to the SDGs;
- explicitly adhere to key responsible business conduct instruments; and
- have a policy on disclosure of data in place.

PROGRAM/PROJECT must

- contain a risk analysis on social, economic and environmental levels, highlighting risks identification, mitigation and avoidance, including grievance mechanisms in place (due diligence procedure);
- provide additionality check evidencing the value added of the action;
- be based on transparency over sharing of risk and liability of profit/losses; and
- contribute to fostering social dialogue, accompanying the implementation of the action.

RESULTS ASSESSMENT must check that

- infrastructure/services/goods are additional, accessible and affordable for all and without discrimination;
- the jobs created are of quality and are sustainable (based on international labour standards), particularly on: freedom of association and collective bargaining; fair wages; social protection; occupational health and safety provisions;
- the income generated at country level is in favour of the domestic country system, including taxes and social contributions;
- there is an assessment of financial profits and losses of private and public entities involved in the action; and
- the project contributes to the creation of local private-sector entities and domestic capital (and their sustainability), especially: number and type of local companies created; number of contracts for purchases/procurement with local companies; respect of new companies for international labour and environmental standards; and training and upskilling of local workers.

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