



House of Commons
International Development
Committee

Private Sector Development

Fourth Report of Session 2005–06

Volume I



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**Private Sector
Development**

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Volume I

Report, together with formal minutes

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International Development Committee

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Footnotes

In the footnotes of this Report, references to oral evidence are indicated by 'Q' followed by the question number. References to written evidence are indicated by the page number as in 'Ev 12'.

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Summary

The Department for International Development (DFID) and Private Sector Development

Private Sector Development (PSD), an approach to poverty reduction that underlines the central importance of economic growth within development processes, represents a relatively new area for DFID. Broadly, we commend the policies and financing mechanisms that DFID is using in support of PSD. DFID has developed an array of innovative PSD policies and is showing intellectual leadership in pursuing investment climate improvements simultaneously with supporting market development strategies.

However, we have some serious reservations concerning whether DFID's organisational and operational capacities have kept pace with the Department's rapid proliferation of policy interventions towards PSD. There is a lack of either sufficient strategic planning or appropriate resource allocation for PSD within DFID. There is a degree of DFID trying to 'run before it can walk' — rushing to implement a mix of policies that are not necessarily thought-through or linked. This may be to the detriment of following up and sustaining existing policies. DFID's primary task now is to take a step back and consider its overall PSD strategy. Innovation is not a panacea for sustainable, long-term PSD policies that are coherent with other areas of DFID's work and underpinned with appropriate resources.

Ensuring that DFID's organisational design supports a coherent approach to PSD is of key importance. A considered and co-ordinated strategic plan with appropriately resourced, practical and time-bound plans for the full implementation of existing PSD policies needs to be developed and implemented.

PSD is not so much a discrete sector as a 'way of doing things' that cross-cuts a variety of policy areas, from agriculture to health. In developing its overall PSD strategy, DFID needs to seek integrated and co-ordinated solutions that permeate its organisational structure and embed PSD as a mainstreamed development approach that is assimilated into policy-making throughout the Department.

DFID also needs to find ways to involve the private sector in policy-making by changing its ways of engaging with the private sector and bringing more business expertise 'in-house'. Currently, somewhat of a cultural divide exists between DFID and the private sector. Bridging this gap will involve slimming down the time and opportunity costs associated with participation in policy consultation, which are evidently perceived by the private sector as a barrier to their engagement with DFID. Bringing more business expertise 'in-house' at DFID — through changes to recruitment criteria and through secondments — will also help integrate the private sector within the policy-making process.

Private Sector Development and poverty reduction

Private sector development emphasises the central importance of economic growth to reducing poverty. The links between the private sector and poverty reduction are manifold; PSD aims to maximise the benefits of these connections for poor people to

achieve job creation, markets that work for poor people and the growth of the local private sector in developing countries.

The typical private sector entity is not a large multinational company, but a rural small-holding, a market stall or co-operative factory. 90% of people from sub-Saharan Africa are in the private sector: the Secretary of State for International Development, Hilary Benn, recently stated, “Poor people are the private sector”.

Sustained poverty reduction will require the development of small and medium-sized enterprises through domestic and foreign investment and the movement of businesses from the informal to the formal economy.

Growth is a necessary, but not sufficient, condition for poverty reduction: the pace and pattern of growth both affect its ability to be pro-poor. Meanwhile, a series of factors affect the private sector’s ability to deliver ‘the right kind of growth’: the climate in which investment takes place is foremost amongst these factors. The regulatory environment; the presence of supporting infrastructure; rights to property and land; governance; corruption; access to financial, physical and human capital — all of these factors will nurture or inhibit investment climates.

Creating the right conditions for growth and job creation is a primary function of governments. However, donors can assist the ability of both governments and the private sector to generate and sustain growth. As well as supporting governments in improving their investment climates, donors can address the systemic factors — such as poor employment opportunities and conditions, a lack of access to assets such as finance, health and education and dysfunctional market conditions — that prevent poor people’s participation in markets. Certain country circumstances, such as conflict, fragility and access to natural resources, will put such constraints in even sharper focus, and will require specific donor interventions.

Donors have a key role in mobilising the resources of the private sector — primarily finance, human capital and regional and international networks — and stimulating the investment of these resources in ways that contribute to poverty reduction. In particular, donors can act as investment pioneers, providing initial funding for investments perceived as too risky by the private sector and demonstrating the investments’ potential. Donors and governments can also help markets reach even the very poorest, by sustaining markets that are not profitable for the private sector through microfinance.

Whilst the primary function of the private sector is clearly to drive growth, there is an increasingly wide acceptance that the manner in which private sector entities trade, invest, employ staff and address their social and environmental impacts has a profound impact on poverty reduction. Donors can maximise these pro-poor responses in a number of ways, for instance, through direct engagement with the private sector through public private partnerships and support for changes to trading structures and practices.

Background and acknowledgements

The role of the private sector as the driver of economic growth has perhaps been neglected by donors, who have tended to focus on securing poverty reduction through aid to social sectors. More recently, Private Sector Development has been given a higher profile on donor agency agendas, including DFID's. The Committee, therefore, decided to conduct an inquiry into the role of the private sector, and specifically the role that donors can play, in encouraging PSD. We received written memoranda from more than 50 individuals and organisations, including companies, Non-Governmental Organisations (NGOs), academic institutions, consultancies, co-operatives, business forums, public private partnerships, UN agencies and other multilateral organisations, as well as from individuals. We held eight evidence sessions at Westminster between February and May 2006.

We are grateful to all those who submitted evidence, and those who assisted us in other ways. We would like to thank especially the following individuals and organisations who gave oral evidence: the Rt Hon Hilary Benn MP, Secretary of State for International Development; Sharon White, Director of Policy Division, DFID; William Kingsmill, Head, Growth and Investment Group, DFID; Gavin McGillivray, Head, International Financial Institutions Department, DFID; Richard Boulter, Head of Profession, Enterprise Development, DFID; Tony Venables, Chief Economist, DFID; Richard Laing, CEO, CDC Group; Robert Annibale, Global Director, Citigroup Microfinance Group; Professor Adrian Wood, University of Oxford; Sunil Sinha, Director, Emerging Market Economics; Joe Matome, Company Secretary, Debswana Diamond Company; Jay Naidoo, Chairman, Development Bank of Southern Africa; Peter Cameron, Fellow, Institution of Civil Engineers (ICE) and Chairman of ICE's Appropriate Development Panel; Petteer Matthews, Executive Director, Engineers Against Poverty; Lord Brett, Director, International Labour Organisation (ILO) London; Dan Rees, Director, Ethical Trading Initiative (ETI); Albert Tucker, independent consultant and former Director of Twin Trading; Michael Pragnell, Chief Executive, Syngenta; Dr Andrew Bennett, Executive Director, Syngenta Foundation for Sustainable Agriculture; Professor Keith Palmer, Chairman of Emerging Africa Infrastructure Fund and of Infraco, Non-Executive Director of Guarantco; Bob Fitch, Project Director, Financial Deepening Challenge Fund, Enterplan; Ann Grant, Vice-Chair, Standard Chartered Capital Markets Ltd; Sue Clark, Director of Corporate Affairs, SABMiller, former Chair of Business Action for Africa; Walter Gibson, Head of Global Health through Hygiene Programme, Unilever; Andrew Hollas, Head, Africa Markets, PricewaterhouseCoopers; Stirling Smith, Co-operative College; Sumi Dhanarajan, Head of Private Sector Team, Oxfam; Dominic Eagleton, Policy Officer, ActionAid and Dr Claire Melamed, Trade and Private Sector Policy Manager, Christian Aid.

We are particularly grateful to those organisations and individuals from developing countries, and/or with close links to developing countries, who took the time to engage with the inquiry. We greatly value their input and look forward to more input from developing countries in future inquiries.

We would like to thank our Specialist Advisers, Zahid Torres-Rahman, Director, Inspiris Limited and Dr. William Kalema, Board Chairman of the Development Finance Company of Uganda and member of the Commission for Africa. We would also like to thank all those who took part in informal discussions with the Committee, including Jim Tanburn, consultant and Coordinator of the Donor Committee for Enterprise Development, Michael Klein, Vice President for Private Sector Development, World Bank and the International Finance Corporation and Hernando de Soto, Institute for Liberty and Democracy, Peru.

1 Introduction

Private Sector Development

1. The objective of Private Sector Development (PSD) has been defined as: “To create more, better, and decent jobs and sustainable livelihoods by helping markets to function well and by stimulating the growth of the local private sector in developing countries and countries in transition.”¹ The World Bank sees PSD not as a sector but as a ‘way of doing things’ that cross-cuts a variety of policy areas from agriculture to the financial sector.² As such, it does not represent another sector in which donors should be engaging, but rather a change in the perspective and practice that comprise their current development approaches. PSD is not an end in itself but a tool for achieving positive human development outcomes such as equality, stability and empowerment.

2. Whilst it has been accepted that the private sector is a primary driver of growth and human development for a number of decades, the last ten years have seen PSD rapidly raise its profile within development discourse and practice. The creation of new global targets in 2000 triggered fresh thinking about appropriate and feasible strategies for attaining these goals — and Millennium Development Goal 8 specified that a ‘global partnership for development’, including cooperation with the private sector, should underpin international efforts.³ The Washington Consensus pushed market solutions and economic globalisation to the top of the donor agenda.⁴

3. PSD’s move into the mainstream has been marked with a prolific — and growing — body of literature and analysis scoping the rationale, empirical evidence and potential practical impact of the approach.⁵ We do not intend in this report to repeat what has been said so well in existing publications. Our intention is to cast the spotlight very specifically on the UK’s Department for International Development (DFID) and its core partners, rather than examine the work of other donors and organisations in any great detail. It is also worth noting that PSD is a wide-ranging, disparate and relatively new policy area, and thus addressing every aspect of private sector activity has not been possible in this report. The Committee has looked at the issue of international trade in depth in another recent report, marking the end of World Trade Organisation’s Doha Development Round⁶, and the international trade regime is therefore not covered in detail in this report. The Committee will explore the issues of water and sanitation in an inquiry beginning later in 2006, and so again these areas are not addressed in detail in this report. The report focuses

1 Canadian International Development Agency, Policy on Private Sector Development Policy (Canada, 2003), p.1, available online at <http://www.acdi-cida.gc.ca/>.

2 World Bank, Private Sector Development Strategy (Washington: World Bank, 2002).

3 UN Millennium Development Goals (2000), online at www.un.org/millenniumgoals.

4 Williamson originally coined the phrase ‘Washington Consensus’ in 1990 “to refer to the lowest common denominator of policy advice being addressed by the Washington-based institutions to Latin American countries as of 1989.” The phrase has become synonymous with ‘neoliberalism’ and ‘globalisation’.

5 See, for instance, Claes Lindahl for SIDA, ‘Wealth of the Poor: Eliminating Poverty through Market and Private Sector Development’ (Stockholm: SIDA Studies No.14, 2005); UNDP Commission on the Private Sector and Development, ‘Unleashing Entrepreneurship: Making Business Work for the Poor’ (New York: UNDP, 2004); Commission for Africa Report, Chapter 7 (2005); World Bank, ‘World Development Report 2005: A Better Investment Climate for Everyone’ (Washington: World Bank, 2004).

6 International Development Committee, Third Report of Session 2005-06, The WTO Hong Kong Ministerial and the Doha Development Agenda HC 730.

more on sub-Saharan Africa than on Asia, the Middle East or Latin America. This reflects a number of factors: the nature of the evidence we received; the current orientation of DFID's work (one third as much again is currently spent on African than on Asian programmes) and scale of poverty (sub-Saharan Africa is the only region not on track to meet any of the MDGs).⁷

4. It is indicative of how far the debate over PSD has come that not a single piece of evidence received under this inquiry contested the basic premise that the private sector must contribute to poverty reduction. This demonstrates the emerging consensus in the development community on the important role of the private sector in job-creating, poverty-reducing growth.⁸ Clearly, concerns exist about the power and growing social and environmental 'footprint' of business.⁹ But there is growing recognition, firstly, that constructive engagement with big business is an effective way to influence corporate behaviour and, secondly, that the global private sector generally does not conform to the stereotypical corporate giant, but manifests itself far more often as small and medium-sized companies, co-operative enterprises and family farms.

5. This inquiry, then, starts from the premise that donors should view the private sector as a key partner in global poverty reduction. After an initial survey of how PSD is defined and a brief exploration of the rationale for utilising it as a development approach in Chapter 2, the report will seek to explore the two primary approaches to PSD currently employed by donors: enabling investment climates (Chapter 3) and making markets work for the poor (Chapter 4). Chapter 5 will look at the financing of PSD, and Chapter 6 will survey the private sector's current contribution to poverty reduction, and how these efforts can be supported by donors. The report will conclude with an assessment of how DFID's PSD policies operate in practice (Chapter 7), through an examination of DFID's organisational design and ways of working in this area.

6. Our role is to scrutinise DFID and find constructive solutions to its shortcomings in areas of policy, expenditure and administration. At first glance, DFID has an impressive array of innovative PSD policies. However, with greater scrutiny it becomes clear that there is a lack of either sufficient strategic planning or appropriate resource allocation for PSD within DFID. As the final chapters and our conclusion to this report make clear, we have a number of quite serious reservations about DFID's capacity to implement its PSD policies. There is a degree of DFID trying to 'run before it can walk', and we strongly advise the Department to take a step back and develop a coherent and co-ordinated strategic plan with appropriately resourced, practical and time-bound plans for the full implementation of existing PSD policies.

7 DFID, Departmental Annual Report 2006, p.224 and 'Millennium Development Goals: 2005 Progress Chart', online at <http://unstats.un.org/unsd/mi/pdf/MDG%20Chart%20Sept.pdf>.

8 Ev 320

9 See, for instance, Ev 151 and Ev 165 [Christian Aid]

7. The Secretary of State for International Development, Rt Hon Hilary Benn MP, when giving evidence, told us that, “If you are interested in helping the poor you need to be interested in private sector development.”¹⁰ We trust that he and his Department find the recommendations in this report useful in reducing not just the poverty of individuals but also the poverty of the state in which they live.¹¹

10 Q 404 [Hilary Benn, Secretary of State for International Development]

11 Q 448 [Malcolm Bruce MP]

2 Understanding private sector development

What is private sector development?

8. We sought first to understand what and whom constitutes the ‘private sector’. This is a wide-ranging term covering all private actors engaged in economic activity, from the market stall-holder and family farmer to large domestic and foreign corporations.¹² It is estimated that 90% of people in sub-Saharan Africa are in the private sector¹³; the Secretary of State for International Development recently stated, “Poor people are the private sector, they are the farmers and small businesses that we are trying to help”.¹⁴ The enduring stereotype of the international private sector as consisting primarily of multinational corporations is a false vision. 80% of investment in Africa, for example, is domestic.¹⁵

9. The links between the private sector and poverty reduction are manifold. The rate of economic growth necessary to accelerate progress towards the MDGs — for Africa, 7% by 2010, an increase from current levels close to 3%¹⁶ — will only be achieved with major increases in profitable investment by the private sector. Private sector investment generates jobs and higher wage income; it boosts national savings; enhances the national tax base, permitting higher public spending on basic services such as education and health, and it strengthens civil society and popular participation in national development.¹⁷

10. Private sector development underlines the central importance of economic growth in reducing poverty. Robust growth rates generate the crucial financial resources to meet education, health, water and poverty targets. Higher growth rates are correlated with increased poverty reduction (see Figure 1). Indeed, approximately 75 to 80% of the variations in poverty reduction across countries over the last 20 years are explained by differing growth rates.¹⁸ Asia’s high growth economic model has seen a number of ‘tiger economies’ burst into the international business scene over the last 20 years, simultaneously pulling millions of people out of poverty. Vietnam, for example, saw annual per capita growth rates of 6% contribute to poverty reduction of 8% a year over the 1990s.¹⁹ China’s 10% growth rates are estimated to have lifted 400 million people out of poverty over the last 20 years.²⁰

12 Ev 326 [World Business Council for Sustainable Development]

13 Q 278 [Ann Grant]

14 Hilary Benn, First White Paper speech, 19 January 2006. Available online at <http://www.dfid.gov.uk/news/files/Speeches/wp2006-speeches/growth190106.asp>

15 World Bank, World Development Indicators (Washington: World Bank, 2004)

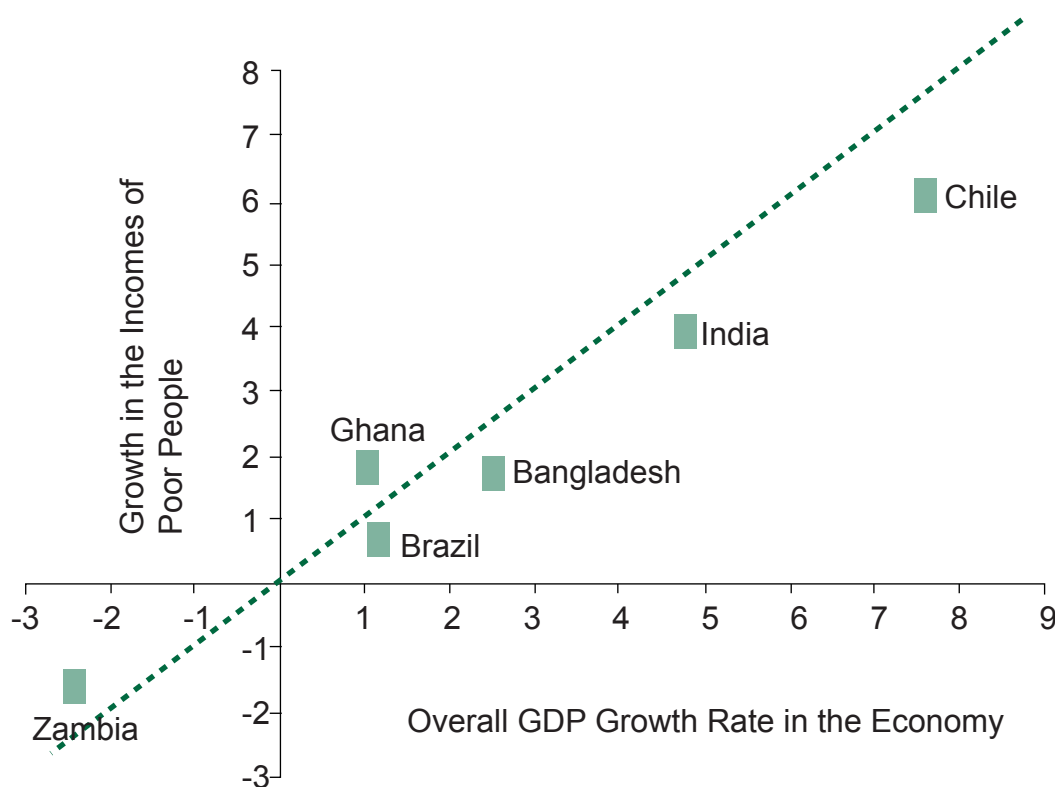
16 Commission for Africa Report, p.221. It is worth noting that the Commission calculated this projected growth rate using figures from 2000, hence the rate is likely to be higher now.

17 Ev 187 [Professor Keith Palmer]

18 Q 21 [Professor Adrian Wood]

19 World Bank, ‘Pro-poor growth in the 1990s: Lessons and Insights from 14 Countries’ (Washington: World Bank on behalf of the Operationalising Pro-Poor Growth Research Programme, 2005), p.2 and p.20.

20 Heather Stewart, ‘All they need is a fair chance to compete’, *The Observer (Business)*, 22 January 2006.

Figure 1: Growth and poverty

Countries with higher overall growth rates also saw higher growth in incomes of poor people. Points above the 45-degree line indicate incomes of poor people rising faster than average incomes.

DFID, 'What is Pro-Poor Growth and Why Do We Need to Know', *Pro-Poor Briefing Note 1* (London: DFID, 2004)

Pro-poor growth

11. However, it is increasingly acknowledged that growth is a necessary, but not sufficient, condition for reducing poverty. Quality of growth is as important as the pace of growth: high quality growth is “grounded in human rights and justice [...] and builds upon participation, transparency and human empowerment”.²¹ Countries can have similar levels of growth yet achieve poverty reduction at different speeds. Dr. Claire Melamed of Christian Aid gave the Committee the example of Tunisia and Senegal, whose poverty reduction rates have differed by a factor of two to Tunisia’s advantage, despite having almost exactly the same growth rates.²² This variance is partly due to inequalities within countries and government policies for addressing poverty. But the rate and redistributive nature of growth are also pivotal. Over the last decade, the term ‘pro-poor growth’ has emerged to reflect a new way of looking at how growth and changes in inequality together affect poverty reduction.²³

²¹ Ev 320

²² Q 463 [Dr. Claire Melamed]

²³ For discussions of pro-poor growth, see, for instance, ‘World Development Report 2006: Equity and Development’ (Washington: World Bank, 2005) or DFID Pro-Poor Growth Briefing Note 1, ‘What is pro-poor growth and why do we need to know?’ (DFID Policy Division internal paper, February 2004).

12. So what exactly differentiates ‘pro-poor’ growth? There are two key reasons why growth may not be pro-poor. Firstly, growth rates may be too negligible to affect poverty — especially if they are lower than population growth — and secondly, inequality levels may compromise growth’s ability to engage all sectors of society.²⁴ There is a triangular relationship between growth, inequality and poverty²⁵, as is being borne out in China, where, despite a high growth rate, rising inequality has slowed the rate of poverty reduction since 2000.²⁶ Inequality, however, is not the only determinant affecting growth’s ability to be ‘pro-poor’. Countries afflicted by the ‘resource curse’²⁷ demonstrate that the pattern of growth is also significant. Such countries — including Nigeria, Chad, Equatorial Guinea and the Democratic Republic of Congo — tend to experience short periods of high growth that is not sustained and fails to benefit the poor because of a damaging combination of economic dependency, corruption and conflict.²⁸

Constraints to private sector development

13. The private sector has the ability to deliver pro-poor growth through driving entrepreneurship, job creation and rising incomes. The private sector’s capacity to do this, however, is shaped by the environment set for it.²⁹ The climate in which investment takes place varies from country to country and in many contexts the private sector will be subject to a number of constraints. Countries wishing to attract foreign investment must, for example, have appropriate laws, regulations and institutions in place.³⁰ There is evidence that if these ‘macro-level’ constraints are addressed — that is, the rule of law is enhanced, regulation eased (but, where it is necessary, rigorously implemented), tax revenue collected efficiently and corruption reduced — new business entry and growth will be encouraged.³¹

14. Macroeconomic policy (especially monetary policy), plus public spending and taxation levels, exert a profound influence on the preparedness of companies to invest.³² The World Bank estimates that as a result of investment climate improvements in the 1980s and 1990s, private investment as a share of GDP nearly doubled in China and India; in Uganda it more than doubled.³³ A poor investment climate and weak regulation will tend to push private sector activity into the informal economy, thereby blocking potential tax revenues and limiting returns and opportunities for growth for entrepreneurs. Developing countries often have a reputation for cumbersome bureaucracy, red tape and inefficiency, and

24 Humberto Lopez, ‘Pro-poor growth: How important is macro-economic stability?’ (Washington: World Bank, 2005).

25 Q 23 [Sunil Sinha]

26 Q 24 [Sunil Sinha]. See also Martin Ravallion and Shaohua Chen, ‘China’s (Uneven) Progress Against Poverty’ (Washington: World Bank Policy Research Working Paper No. 3408, September 2004).

27 The resource curse — a cycle of dependency, corruption and conflict to which resource-rich countries are prone — demonstrates that the more dependent an economy is on natural resource exports, the worse its economic performance will be over the long term (see Ev 297, Memorandum submitted by Plan B).

28 Q 21 [Sunil Sinha]

29 Q 29 [Sunil Sinha]

30 Ev 303

31 Ev 290

32 Ev 303

33 ‘World Development Report 2005: A Better Investment Climate for Everyone’ (Washington: World Bank, 2004), p. 2.

changing this image (and reality) will take sustained efforts.³⁴ Conflict is also a major obstacle to PSD at the macro-level.³⁵

15. Micro-level constraints also act as serious obstacles to investment. Access to finance — often microfinance where the Small and Medium-sized Enterprise (SME) sector is concerned — especially credit, is clearly crucial in order for the private sector to flourish, especially for SMEs and for potential business start-ups. Evidence suggests that prosperous areas have higher levels of business start-ups than poorer regions.³⁶ Analysis of the challenges facing SMEs in China, for example, has tended to focus on credit constraints, generally relating to the low levels of finance provided by the banking sector to private companies.³⁷

16. Major impediments to private sector development also exist at the ‘meso-level’.³⁸ The primary issue here is inappropriate, low-quality or non-existent infrastructure. Efficient transportation, telecommunications and energy infrastructure can help open new markets and encourage them to work for poor people.³⁹ Conversely, weak infrastructure can greatly inhibit markets: in Uganda, for example, transport costs add the equivalent of an 80% tax on clothing exports.⁴⁰ In addition to infrastructure, other resource inputs that may be constrained include human resources, especially skilled personnel, business development services and market intelligence.

Donor approaches to private sector development

17. We considered how donors can best stimulate and sustain private sector development. This has been a subject of debate over the past two decades. Donors’ interest in PSD was triggered by a number of factors: the pre-dominance of the market-economy system after the end of the Cold War; the process of globalisation and concomitant growth in international trade; increasing evidence of the links between growth and poverty reduction; rising migration flows — all these factors have contributed to a growing recognition of the role of growth in poverty reduction, and of the private sector in driving growth.⁴¹

18. In the 1980s and 1990s, donor policies on PSD tended to centre on direct intervention in markets. Development agencies attempted to provide and implement market inputs — finance, technical advice, contacts, business development strategies — themselves. Yet acting as a direct player within the market proved largely not to work, possibly because this approach involved addressing the symptoms of dysfunctional markets (for instance,

34 Ev 303

35 Q 39 [Professor Adrian Wood]

36 Ev 223 [Professor Andrew Atherton]

37 Ev 249

38 ‘Meso-level’ refers to constraints at the national level, notably resources and infrastructure (see Ev 175 – Ev 187 for further details).

39 Ev 178

40 Figure quoted in Commission for Africa Report from Milner et al, ‘Policy and Non-Policy Barriers to Trade and Implicit Taxation of Exports in Uganda’, *Journal of Development Studies*, vol 37 no 2 (2000), pp. 67-90.

41 SIDA Studies No.14, ‘Wealth of the Poor: Eliminating Poverty through Market and Private Sector Development’ by Claes Lindahl (Stockholm: SIDA, 2005)

business problems and access to finance) rather than the causes (systemic weaknesses such as the macro-economic framework and the investment climate).⁴²

19. A number of major surveys at the end of the 1990s responded to these problems and highlighted the distortions and dependencies that can develop in markets following direct donor intervention.⁴³ Market intervention by the public sector risks crowding out the indigenous private sector in developing countries and even jeopardising public provision of goods and services — for instance, within healthcare — by supporting private providers.⁴⁴ The late 1990s reviews indicated that more effective donor strategies focused on market development (as opposed to intervention) — focusing on providing business development services, facilitating systemic changes to improve market conditions and providing inputs where appropriate.

20. A theoretical framework for a new approach to PSD began to develop, a strategy that became known as Making Markets Work for the Poor (MMWP). A MMWP approach is based on the need to understand market systems, looking at systemic factors from the perspective of poor people.⁴⁵ The Approach retains a degree of the interventionist strategy of the 1980s and 1990s but learns from previous mistakes: for instance, offering business support services such as accountancy, training and technology advice instead of entering the market as a direct player. The Approach involves donors seeking to facilitate and catalyse, rather than intervene in, markets.⁴⁶ Disciples of the MMWP Approach include the Swedish International Development Cooperation Agency (SIDA), which gave substantial prominence to MMWP ideas in one of its three recent agency-wide Policy Guidelines papers.⁴⁷ Germany's development agency, GTZ, has also afforded considerable importance to the MMWP approach⁴⁸, as has USAID, particularly regarding business development services and strategies for the avoidance of market distortions.⁴⁹

21. This brings us to the current situation *vis-à-vis* donor approaches to PSD, and an emerging split in donor thinking on 'what works'. A parallel stream of work to MMWP — represented by another active donor working group on the Donor Committee for Enterprise Development — is the investment climate approach (sometimes known as the 'enabling environment' approach). The World Bank and International Finance Corporation (IFC), under their Vice-President for Private Sector Development, Michael Klein, have led this school of thought. The approach focuses very clearly on cementing the building blocks for economic growth through improving investment climates — the broad business environment in which investment takes place. Measures for achieving such

42 Ev 265

43 For instance, Committee of Donor Agencies for Small Enterprise Development, 'Business Development Services Preliminary Guidelines 1998' and 'Guiding Principles 2001', available online at <http://www.enterprise-development.org/groups/group.asp?groupid=3>

44 DFID Policy Paper, 'DFID and the Private Sector: Working with the private sector to eliminate poverty' (December 2005), p.10.

45 Ev 265. On the Making Markets Work for the Poor approach, see also <http://www.care.ca/CEP/>.

46 'DFID and the Private Sector', pp.10-13.

47 Swedish International Development Cooperation Agency (SIDA), 'Policy Guidelines for Sida's Support to Private Sector Development' (Stockholm: SIDA, October 2004).

48 GTZ Economic Reform and Private Sector Development Section, 'From Ideas into Action: The implementation and Metamorphosis of the BDS concept' (February 2006).

49 See, for instance, the USAID AMAP Business Development Services webpage at http://www.microlinks.org/ev_en.php?ID=1205_201&ID2=DO_TOPIC.

improvements include microfinance⁵⁰, support for entrepreneurship, addressing property rights, regulatory and taxation reforms, competition policy, infrastructure investments and anti-corruption strategies.⁵¹ There is evidence that some developing countries engage actively and even compete with each other to promote their rankings on the league tables for attracting investment — especially in the World Bank’s ‘Doing Business’ Reports.⁵² Although the World Bank is now involved in a wide range of enabling environment reforms, it is difficult to detect a coherent strategy as yet for moving from analysis to implementation. Similarly, there is, as yet, little discussion about the measurable impacts on poverty.⁵³

22. A number of bilateral donors have aligned themselves with the investment climate approach. For example, AusAID has published a White Paper that lists "improving the policy environment for growth" as its first priority in promoting growth.⁵⁴ The Canadian International Development Agency's Private Sector Development Policy also advocates the investment climate approach, together with a range of other strategies.⁵⁵

DFID’s approach to private sector development

23. So where does DFID sit on this spectrum? The Department’s current approach seems to straddle both the MMWP and investment climate approaches — with an additional preference for budget support as a major conduit for DFID’s support to PSD. DFID currently uses Poverty Reduction Budget Support (PRBS) in 16 countries and views this approach as particularly useful for PSD: in its written evidence, DFID told us, “Budget support is well suited to supporting macro stability (key for the private sector to thrive), and potentially also to building capacity of government agencies to support PSD.”⁵⁶

24. The merits of using budget support for PSD are contested, however: a multi-donor joint evaluation of General Budget Support, published in March 2006, tested the effects of budget support on growth and income poverty reduction and was critical in its conclusions: “A forceful critique of PRBS is that [...] it neglects growth and the development of the private sector on which growth and poverty reduction depend [...] There should be more explicit attention paid by governments and international partners to the income poverty and growth implications of public policy and expenditures.”⁵⁷ Written evidence from Alan Gibson of the Springfield Centre for Business in Development also emphasises that DFID should not to rely on budget support for PSD: “Budget support [...] has limited efficacy in relation to PSD outcomes [...] DFID needs to restore greater balance

50 Microfinance is defined as credit, savings, insurance and money transfer services for relatively poor people (see Ev 234 – Ev 237 for further information).

51 See, for instance, ‘World Development Report 2005: A Better Investment Climate for Everyone’ (Washington: World Bank, 2004) and the ‘Doing Business’ reports 2004-2006.

52 World Bank, ‘Doing Business’ reports 2004-2006.

53 2006 PSD Reader (ILO, forthcoming).

54 AusAid, ‘Australian Aid: Promoting Growth and Stability’ (Canberra: AusAid, 2006), available online at <http://www.ausaid.gov.au/publications/pdf/whitepaper.pdf>.

55 Canadian International Development Agency, Policy on Private Sector Development Policy (2003).

56 Ev 136

57 International Development Department, University of Birmingham and associates, ‘Evaluation of General Budget Support: Synthesis Report’ (May 2006), online at www.oecd.org/dac/evaluation.

to its work and complement its budget support focus with other interventions related to market development.”⁵⁸

25. But the hybrid approach currently favoured by DFID by no means favours sole reliance on budget support. DFID’s submission to this inquiry and its most recent policy paper on PSD, published in December 2005, indicate commitments to both the Making Markets Work and investment climate approaches.

26. Indeed, this balanced approach is the only logical one: generating and sustaining growth, through improvements to the investment climate, and then using this growth to provide opportunities for poor people to participate in markets. DFID’s policy paper uses a MMWP framework as a unifying theme for the different strands of its PSD approach (agriculture, financial services reforms, developing infrastructure etc).⁵⁹ DFID’s leadership of the Investment Climate Facility and its commitment of \$30 million to this nascent initiative demonstrate strong faith in the investment climate approach. Sunil Sinha, of Emerging Market Economics, saw no problem in combining these approaches:

“We have had over a period of time now a debate on private sector development which is saying: do we concentrate on the enabling environment? Do we intervene directly? What we have found is that direct intervention without the enabling environment is frankly not very productive [...] On the other hand, waiting for enabling environment change to happen, which is a long term process, can make you miss out on intervening where markets fail [...] There is a role for both.”⁶⁰

27. We consider that DFID should retain its focus on both market development and investment climate approaches to PSD. Indeed, this balanced approach is the only logical one: generating and sustaining growth, through improvements to the investment climate, and then using this growth to provide opportunities for poor people to participate in markets. To increase the role of budget support in PSD would risk neglecting the systemic development of the private sector and markets. DFID has a real opportunity to provide intellectual leadership on a hybrid approach incorporating both market development and investment climate work. DFID should be aware of changing donor ‘fashions’ within PSD and attempt to carve out a sustainable, long-term model for its PSD policies.

58 Ev 266

59 ‘DFID and the Private Sector’ (2005).

60 Q 36 [Sunil Sinha]

3 Enabling investment climates

28. In its World Development Report 2005, the World Bank sought to distil the characteristics that mark a good investment climate. Such an environment:

- is not just about generating profits for firms, but about improving outcomes for society as a whole;
- drives growth by encouraging investment and higher productivity;
- enhances the lives of people directly: as employees; entrepreneurs; consumers; users of infrastructure, property and finance and as recipients of tax-funded services or transfers;
- encourages firms to invest by removing unjustified costs, risks and barriers to competition;
- encourages higher productivity by providing opportunities and incentives for firms to develop, adapt and adopt improvements to the way they operate;
- makes it easier for firms to enter and exit markets in a process that contributes to higher productivity and faster growth;
- increases incentives for micro-entrepreneurs to move from the informal to the formal economy,
- can expand the resources that governments have available to fund public services.⁶¹

29. In order to assess how these benefits can be secured by donors and other actors, this chapter will work through a number of sub-themes to consider how best to bring about the different elements of a good investment climate. These themes include: infrastructure; property rights; regulation, taxation and competition policy; the Investment Climate Facility; governance; corruption and irresponsible lending; improving investment climates in resource-rich countries and enabling investment climates in fragile, conflict-affected and least developed states.

30. Addressing the enabling environment is an important strand of donor approaches towards PSD. The World Bank estimated that the total assistance provided by major bilateral and multilateral donors for investment climate improvements averaged US\$21.1 billion per year between 1998 and 2002 — or about 26% of all development assistance.⁶² Investigating this statistic shows that it has been calculated by aggregating all policy-based support, technical assistance and infrastructure development extended to developing countries — a somewhat ambitious definition of what can be counted as investment climate work. Even so, the amounts directed to specific investment climate interventions are still huge, and the championship of the investment climate approach by the World Bank and other donors means these flows will increase. Accordingly, identifying the priorities for disbursing these funds is of urgent importance.

⁶¹ World Development Report 2005, Overview (pp.1-15).

⁶² World Development Report 2005, p.190.

Infrastructure

31. The pivotal role of infrastructure in meeting development targets has been emphasised repeatedly during recent years, notably during the Millennium Summit, the World Summit on Sustainable Development in 2002 and the Commission for Africa in 2005. The need for infrastructure across the developing world is huge. One third of humanity is without access to electricity⁶³ and 40% do not have access to basic sanitation.⁶⁴ Increasing urbanisation will raise demand for these and other services — and for affordable housing and improved transport routes. Lack of infrastructure has profound implications for the rural poor, particularly regarding access to employment, essential services such as clinics and schools and reliable food and water resources. Whilst one MDG — Goal 7, the achievement of environmental sustainability — demonstrates an explicit commitment to improving infrastructure, the attainment of all eight goals relies on building and improving infrastructure services throughout the developing world. For instance, achieving universal primary education (Goal 2) relies upon the building of new schools and improved transport links.

32. Poor infrastructure is a significant obstacle to PSD. Both agricultural and industrial growth hinge on dependable infrastructure; markets work better for poor people if distances can be more quickly traversed, resources more efficiently transported and energy more reliably harnessed.⁶⁵ Currently, the most urgent need appears to be for agriculture-supporting infrastructure within Africa⁶⁶, especially irrigation and storage. Asia offers examples of countries where high levels of infrastructure spending — especially on agriculture-supporting infrastructure — over the 1990s have driven growth, particularly Vietnam and Bangladesh. Developing physical infrastructure (roads, bridges, flood defences) has been a critical part of rural development in these countries. Vietnam, which halved its poverty rate between 1993 and 2002, targeted infrastructure investments to regions with high poverty levels and prioritised large infrastructure investments in an effort to maximize growth (attracting some criticism for benefiting larger contractors rather than smaller operators).⁶⁷

33. The nature of the challenge facing donors, governments and the private sector in regard to infrastructure overwhelmingly concerns funding. The Commission for Africa recommended that, in order to address the full scale of services needed, from rural roads and slum improvement to regional highways and large power projects, a doubling of infrastructure spending is required (an initial increase in donor funding of US\$10 billion a year up to 2010 and, subject to review, a further increase to US\$20 billion a year in the following five years). The 'Connecting East Asia' study (2005) estimated that the

63 Electricite de France, 'Electricity for All: Timetables, Targets, Instruments' (2002), available online at http://www.geni.org/globalenergy/library/media_coverage/electricite-de-france/electricity-for-all-targets-timetables-instruments.shtml.

64 UNICEF and WHO, 'Meeting the MDGs drinking water and sanitation target – A mid-term assessment of progress' (2004).

65 See Commission for Africa, Section 7.3.2 on Infrastructure (pp. 233-237).

66 Ev 187 [Professor Keith Palmer]

67 World Bank, 'Pro-Poor Growth in the 1990s' (2005).

development of East Asia's infrastructure alone requires funding at least US\$165 billion over the next five years.⁶⁸

34. Currently approximately 70% of investment in infrastructure is made by the public sector, 25% by the private sector and 5% by donors. The donor flows consist of loans — albeit low cost ones — and the grant funding that does exist is small. The share of total ODA directed to infrastructure in sub-Saharan Africa dropped sharply during the 1990s — by over 30 percentage points, from 43% in 1973 to 12% in 2003.⁶⁹ As the Commission for Africa noted, this has resulted in a “backlog of investment [...] that will take strong action, over an extended period, to overcome”.⁷⁰ As the Secretary of State admitted to the Committee, “We went through a period in the Eighties and Nineties where it was rather fashionable to think the private sector will look after all investment in infrastructure, but it could not be more wrong.”⁷¹ The Commission for Africa estimated that the private sector is unlikely to finance more than a quarter of the major infrastructure investment needs within Africa.⁷²

35. As Professor Keith Palmer told the Committee:

“The challenge is to find a way of creating the infrastructure ahead of it being proven to be the right thing to do [...] My view is and has always been that unless donors are prepared to provide that sort of support [early investment in infrastructure] it will not happen. The private sector cannot take the sorts of risks involved.”⁷³

36. DFID is engaged in a number of initiatives focusing on mitigating risk in this way – for instance, the US\$305million Emerging Africa Infrastructure Fund, a public-private financing partnership initiated in 2002 by a multi-donor group⁷⁴ — but, undoubtedly, could do more. **It is crucial that the mistakes of the 1990s — assuming that the private sector will shoulder the burden of responsibility for infrastructure investments — are not repeated. Donors and governments should help mitigate risks that the private sector cannot afford to take. The current priority must be to emulate Asia's successes in building infrastructure in Africa, with a particular focus on agriculture-supporting infrastructure. To support this, DFID must engage with other donors to ensure that the Commission for Africa-recommended increase in donor funding of US\$10 billion a year up to 2010 (and, subject to review, a further increase to US\$20 billion a year in the following five years) is secured.**

68 Asian Development Bank, Japan Bank for International Cooperation and the World Bank, ‘Connecting East Asia: A New Structure’ (2005). Online at <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPINFRASTRUCT/0,,contentMDK:20700727~menuPK:1833026~pagePK:64168445~piPK:64168309~theSitePK:855136,00.html>

69 Ian Curtis, 2005, ‘Infrastructure in the Context of the 2005 Agenda’, paper presented at Institution of Civil Engineers Conference: ‘Accelerating Progress towards the Millennium Development Goals: Scaling-up Investment in Infrastructure’, held in London, 28 November 2005.

70 Commission for Africa Report (2005), pp.233-234.

71 Q 444 [Hilary Benn, Secretary of State for International Development]

72 Commission for Africa Report (2005), p.233-234.

73 Q 247 [Professor Keith Palmer]

74 The Private Infrastructure Development Group (PIDG), whose founding members are DFID, the Swedish Government acting through the Swedish International Development Co-operation Agency, the Netherlands Minister for Development Co-operation and the Swiss State Secretary for Economic Affairs of the Government of the Confederation of Switzerland.

37. Large infrastructure projects are enjoying a resurgence of interest amongst donors. In 2005, the G8 proposed the creation of a new multi-donor initiative, the Africa Infrastructure Consortium. Members include the African Union, NEPAD, African Development Bank, ECOWAS, the World Bank and the EU. When it begins work later in 2006, the Consortium will have a particular focus on donor coordination and mobilising resources for national and cross-border regional infrastructure projects. DFID has pledged US\$20 million over 3 years to help with the work of the Consortium.

38. Approval of DFID's leadership on the Consortium was tempered with concerns that 'big loans for big infrastructure' — ports, airports and road networks — must not be at the expense of more locally-sensitive, directly pro-poor operations, focusing on social infrastructure such as water and sanitation, and flexibly adapted to country-specific needs (therefore requiring mechanisms for consultation to ensure that poor people and the local private sector can express their views as to infrastructure priorities).⁷⁵ **DFID has shown leadership in establishing the Africa Infrastructure Consortium. DFID now needs to use its authority amongst the Consortium donors to build on initial momentum and swiftly generate extra investment for African infrastructure. Efforts should be made, however, to balance big loans to governments with smaller, locally sensitive grants reflecting regional and national infrastructure priorities. Consultation mechanisms should be put in place to ensure that investments by the Consortium reflect the needs of poor people and the local private sector.**

Property rights

39. Insecure or non-existent property rights inhibit investment climates. Formal legal title to homes and land is often required as collateral to obtain credit and guarantee investments. It is estimated that only 1% of the land in sub-Saharan Africa has been officially registered.⁷⁶

40. The theory of property rights advanced by Peruvian economist Hernando de Soto contends that the primary obstacle preventing the developing world from benefiting from capitalism is its inability to produce capital. According to the de Soto thesis, poor people possess "dead capital" — assets, such as property, that are held in defective forms: houses but not titles, crops but not deeds, businesses but not statutes of incorporation (de Soto's 'The Mystery of Capital' puts the total value of such 'dead' capital at US\$9.3 trillion across the developing world).⁷⁷ If clear property rights can be established, De Soto claims, poor people's assets will become "live" and they will be able to obtain credit and therefore lever themselves out of poverty through capitalism.

41. DFID is — justifiably — resistant to de Soto's claim that increasing security of property title is the solution to global poverty. The Department does, however, concur with de Soto's basic assumption that that a lack of secure property rights undermines incentives to invest

75 Q 206 [Petter Matthews] and Q 272 [Professor Keith Palmer]

76 UN Habitat Submission to Commission for Africa Report, 2004.

77 Hernando de Soto, 'The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else' (Black Swan Books, 2000).

and the ability of the poor to access credit.⁷⁸ DFID told us that they are becoming “more conscious of the importance of property rights in terms of unlocking PSD”.⁷⁹ In some countries (Rwanda, South Africa and Tanzania), DFID is now the lead donor in this area and in 13 others it has specific projects involving property rights.⁸⁰ However, a real constraint to the Department’s work on property rights exists at the human resources level. DFID admits that whilst, “in all our programmes there is an awareness of property rights”, labour resources are constrained.⁸¹ The Department does not employ property rights experts and relies on its 25 PSD Advisers and “external partners” such as UN agencies to implement its property rights programmes.⁸²

42. DFID also seems to show hesitancy in scaling up its property rights work due to a reluctance to engage with a potentially politically-charged issue. DFID’s submission states: “The challenge facing DFID and its partners is that ‘property rights’ and security of land tenure require political consensus for reform [...] We will do more in contexts where partner governments emphasise that this is an area where they welcome donor assistance”.⁸³ We broadly accept DFID’s claims that “governments have very strong views on land tenure”⁸⁴, and that in some contexts the issue of property rights has become politicised. Nevertheless, whilst DFID must in no way attempt to direct partner government policies on property rights, dialogue should be encouraged in countries where work on the issue is under-developed.

43. It is clear that varying country contexts make it difficult to have a standardised approach to property rights, and DFID is right to avoid “a blanket prescription for land rights in all contexts”.⁸⁵ However, a more coherent policy on property rights would not preclude retaining a flexible approach. **DFID is becoming more engaged in the property rights agenda but capacity and activity remains limited. There appears to be no specific staff expertise in this area within DFID and capacity needs to be stepped up. The need for flexibility across varying country contexts and sensitivity around a politically-charged issue should not prevent DFID from increasing and broadening its property rights programmes, as long as this expansion is underpinned by a coherent strategy and in-house expertise.**

Regulation, taxation and competition policies

44. The manner in which governments regulate and tax firms, and operate competition policy, is a significant feature of the investment climate. All three policies offer governments a tool by which to channel private sector activity to wider social goals, such as

78 DFID, ‘An Assessment of Hernando de Soto’s Work’, internal DFID paper attached to letter sent by Hilary Benn, Secretary of State for International Development, to John Bercow MP (24 February 2006). Copy of letter placed in the House of Commons Library.

79 Q 65 [Sharon White]

80 Ev 145. See the sub-section on fragile, conflict-affected and least developed states later in this chapter for further discussion of the location of DFID’s property rights programmes.

81 Q 66 [William Kingsmill]

82 Ev 141. DFID currently employs 25 PSD Advisers. Some are known as ‘Enterprise Development Advisers’ and others as PSD Advisers – to avoid confusion, this report will refer to all 25 positions as PSD Advisers.

83 Ev 141

84 Q 66 [William Kingsmill]

85 DFID, ‘An Assessment of Hernando de Soto’s Work (24 February 2006).

the improvement of public services. Regulating business will help private sector activity move from the informal to the formal sector (informal businesses currently account for over half of all economic activity in developing countries⁸⁶) and increase the national tax base. Taxation offers countries the opportunity to translate investment directly into social benefits, yet many countries reduce their tax rates to very low levels due to the perceived need to attract foreign direct investment, as Dr. Claire Melamed of Christian Aid told us: “This tendency of countries to think that, if they just reduce their tax rate enough, they will get investment and getting investment is all that matters, is quite a dangerous calculation for countries to make.”⁸⁷

45. Reducing barriers to competition is also of central importance: competition encourages market entry and reduces costs for consumers, as is borne out by the recent rapid spread in mobile phone use across Africa.⁸⁸ Streamlining ‘red tape’ makes business registration more efficient and boosts investment in the economy, and hence the amount available for public spending. Currently, the time to set up a new business ranges from two days in Australia to more than 200 days in Haiti.⁸⁹ As the World Bank points out, the challenge for governments is to fulfil these objectives without undermining the incentives for firms to invest and prosper.⁹⁰ New policies may be met with opposition; for instance, barriers to competition may benefit many firms — whilst increasing costs to other companies and consumers, and inhibiting innovation — and thus dismantling them is likely to be unpopular with some companies.

46. Donors can help shape these policies through technical assistance to governments. Such assistance will form a major part of the new Investment Climate Facility, to which DFID has made a strong commitment (see next sub-section for further details). Witnesses emphasised how important technical assistance — to all levels of government — is and expressed a concern that such assistance must not be sidelined by increasing budget support.⁹¹ Evidence emphasised the usefulness of business environment surveys⁹², for example the DFID-supported SBP business environment case studies across southern African countries.⁹³ **DFID must continue to support capacity building and technical assistance on regulation, taxation and competition policies, at all levels of government. DFID’s support for business environment surveys is valued and should be extended, where possible.**

The Investment Climate Facility

47. The Investment Climate Facility (ICF) is a major multilateral attempt to fund and implement investment climate improvements across Africa. The ICF is a public private partnership that was launched in June 2006 by (and in support of) NEPAD, the African

⁸⁶ World Development Report 2005, Overview.

⁸⁷ Q 473 [Dr Claire Melamed]

⁸⁸ World Development Report 2005, p.130.

⁸⁹ World Bank, ‘Doing Business in 2004 – Understanding Regulation’ (Washington: World Bank).

⁹⁰ World Development Report 2005, p.10.

⁹¹ Ev 305

⁹² See, for instance, Ev 290 and Ev 291.

⁹³ Ev 305

Union and African Heads of State.⁹⁴ The ICF aims to facilitate joint action from the public and private sectors to improve business environments across Africa through technical assistance, grants, inputs such as market intelligence and property rights programmes, regulation, taxation and customs reform, financial markets, infrastructure, labour markets, competition and corruption. Its ‘added value’ amongst existing investment climate initiatives, such as the World Bank’s Investment Climate Assessments, stems from it being the only African-‘owned’ initiative focusing specifically on the continent’s investment climate. Other key benefits of the initiative include its action focus and its complementarity with existing initiatives in Africa — it will respond to issues highlighted by the African Peer Review Mechanism, the World Bank’s Investment Climate Assessments and Doing Business Reports and the Africa Enterprise Challenge Fund.

48. The ICF was enthusiastically endorsed by the Commission for Africa, which recommended that donors and the private sector should come behind the ICF by finding required funding of US\$550 million over seven years. DFID has led the way among donors in achieving this with its commitment of \$30 million over three years. At the time of writing, the ICF’s official launch in Cape Town was triggering fresh pledges of support from donors and the private sector, closing the shortfall in the US\$110 million required for the initial phase.⁹⁵

49. DFID has led the way amongst donors with its support for the ICF, an innovative policy representing an impressive, business-supported, African-‘owned’ partnership. The Facility has the potential to be a powerful vehicle in making Africa an easier and more attractive place to invest. However, now that initial phase funding is secured, the challenge is to ensure that the ICF focuses on bringing about sufficient, tangible changes in Africa’s business environment. The ICF’s role and the existing need have been well thought-out; time spent hiring consultants and carrying out more analysis must be avoided in preference to actively supporting programmes and technical assistance as efficiently as possible (without compromising on quality).

50. Concerns also exist about the scale of the ICF and whether it is too limited in size to make up the level of difference that is needed. The World Development Report 2005 clearly conveys the extent of the need for investment climate improvements: over half of the output from developing countries currently originates from the informal economy; over 90% of firms claim gaps between formal rules and business practice; costs associated with weak investment climates can amount to over 25% of sales (or more than three times what firms typically pay in taxes).⁹⁶ The Report recommends, in particular, that donors invest more in technical assistance to governments on how to improve their national investment climates⁹⁷ — a wise recommendation, but one that takes considerable resources. **Whilst in many ways ‘starting small’ is beneficial to assessing national and regional needs and building momentum from the bottom up, the ICF’s operations**

⁹⁴ The ICF was formally launched at the World Economic Forum on Africa, held in Cape Town from 31 May to 2 June 2006.

⁹⁵ As of 29 June, donor contributions included: DFID US\$30m; IFC US\$30m; Netherlands 15m Euros; Ireland 2m Euro; European Commission: Pledged — amount to be determined. Corporate contributions included: Shell US\$2.5m (over 5 years); AngloAmerican US\$2.5m (over 5 years); Unilever US\$1 (for first 2 years, remaining \$1.5m dependent on performance in first phase); SABMiller US\$2.5m.

⁹⁶ World Development Report 2005, p.15.

⁹⁷ Ibid, p.190.

should be conducted with a view to potential increases in scale, to ensure that technical and other forms of assistance are sufficient to meet the huge need for investment climate improvements.

Governance

51. Economic and political governance is critical to countries' ability to turn growth into poverty reduction. Good investment climates are ultimately the responsibility of national governments, and the policies and behaviours that governments exhibit are of pivotal importance to securing investment, whether national or international. As UNDP's submission makes clear, "The central role of the private sector does not in any way diminish the role of public governance."⁹⁸ Good governance — strong institutions (especially the legal and judicial system) and a government's credibility and legitimacy — will enable governments to influence their country's investment climate and introduce sustainable, effective reforms. This is demonstrated by a number of countries that have strong growth but where poor governance has resulted in low development indicators: poor governance in Equatorial Guinea, for example, means that its massive oil wealth has failed to bring about improvements in human development indicators — the country is ranked 103 places lower on its 2002 human development performance (based on life expectancy, adult literacy, school enrolment and average income), than it is on its growth performance.⁹⁹ Conversely, good governance provides fertile ground for investment climate reforms and subsequent private sector growth and poverty reduction.¹⁰⁰ This is borne out by the case of Botswana, where good governance has enabled natural resource revenues to be used for social investments and poverty reduction.

52. Governance links closely to the following sub-sections on corruption and the natural resource sector. It is also closely integrated with all other aspects of PSD; witnesses repeatedly pointed out that financial sector reforms, improvements to infrastructure and so on all hinged on the presence of good governance.¹⁰¹ A current instrument being used towards securing governance improvements across Africa is the innovative African Peer Review Mechanism (APRM), linked to NEPAD and based on the principle of self-monitoring, to which member states of the African Union voluntarily accede.

53. Companies such as Syngenta, de Beers and Anglo American spoke of the critical importance of governance in their investment decisions.¹⁰² The Secretary of State stated that governance was essential to private sector development, and that governance would be a major theme of DFID's forthcoming White Paper.¹⁰³ **Good investment climates hinge on strong economic and political governance. We hope to see the symbiotic relationship between good governance and private sector development emphasised across the Department's PSD policies.**

98 Ev 321

99 Statistics quoted in the Commission for Africa Report, p.222.

100 World Development Report 2005, p.37.

101 See, for instance, Q 166 [Jay Naidoo].

102 Q 262 [Michael Pragnell], Ev 240 and Ev 220

103 Q 405 [Hilary Benn, Secretary of State for International Development]. DFID, Eliminating World Poverty: Making Governance Work for the Poor, Cm 6876, July 2006.

Corruption and socially responsible investment

54. Corruption is a decisive barrier to creating stable investment climates and transparent markets. It creates weighty extra costs for the private sector and substantially undermines business confidence.¹⁰⁴ The Commission for Africa made a number of recommendations on corruption, including: improved transparency within developed country Export Credit Agencies (ECAs); the implementation of “all legal and administrative measures” to repatriate illicitly acquired state funds and assets and the ratification and implementation of the UN Convention Against Corruption by all states.

55. Progress on these recommendations is patchy. Movement on the first issue, regarding transparency within ECAs, has been slow but the UK’s Export Credit Guarantee Department (ECGD) will finally implement new anti-bribery and corruption procedures (first introduced in 1 May 2004) in July 2006.¹⁰⁵ There are questions as to whether there are enough resources devoted to investigating bribery and corruption and securing prosecutions. However, the recent impasse in high-level discussions for improving ECA procedures on bribery suggests that not all G8 countries are taking their commitments seriously enough.¹⁰⁶

56. On the Commission for Africa’s second recommendation, DFID admits it “still has more work to do” regarding re-patriation of stolen assets, although it is receiving support in this from other countries including Switzerland.¹⁰⁷ Regarding the third recommendation, the UK has ratified the UN Convention Against Corruption¹⁰⁸ — however, at the time of writing, only 25 of the 123 other signatories to the Convention had also done so. DFID’s general support to anti-corruption commissions and involvement in anti-corruption initiatives has been welcomed.¹⁰⁹ **DFID should continue to place the eradication of corruption high on the donor agenda and lobby at the global level for commitment to anti-corruption measures. Specifically, DFID should actively encourage developed country ECAs to enhance transparency — internally and in the projects that they support — by implementing improved procedures on bribery and corruption; should seek to fulfil as swiftly as possible the Commission for Africa’s recommendation regarding the implementation of “all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets” and should lobby for the ratification of the UN Convention Against Corruption and the implementation of supporting legislation by all signatory countries.**

57. Another constraint to good investment climates is irresponsible lending and investment. Socially Responsible Investment (SRI) upholds the need to invest responsibly in developing countries through the integration of social, environmental and ethical issues within standard investment practice.¹¹⁰ The UK’s network for SRI, the UK Social Investment Forum (UKSIF), builds its membership base from companies that offer SRI

104 Ev 177

105 For further details, see <http://www.thecornerhouse.org.uk/item.shtml?x=471570>.

106 Ev 177

107 Q 443 [Secretary of State]

108 Q 442 [Secretary of State]

109 Ev 178

110 Ev 318 [UK Social Investment Forum]

services such as ethically-screened funds (e.g. the DFID-funded Just Pensions programme¹¹¹); microfinance initiatives (that is, financial services for poor people) and investments governed by social and environmental guidelines such as the Equator Principles.¹¹² The launch of the UN Principles for Responsible Investment (PRI) in 2005 established a global framework of institutional support for responsible investment.¹¹³

58. Banks and fund managers are in a central position to influence development outcomes through the loan and investment services that they extend to developing country governments and state-owned companies. Recently, a number of banks have come under scrutiny for the potentially negative impacts of such lending. A number of commercial banks have chosen to lend to countries with a history of corruption and economic mismanagement — such as Angola, Sudan and Zimbabwe — often securing this lending against future resource revenues.¹¹⁴ Such high interest resource-backed loans are potentially lucrative for the lenders but are not generally subject to the rigorous anti-corruption conditions applied by multilateral or donor lending. The terms and amount lent are often not disclosed in the public domain, risking possible misappropriation of funds. It is argued that such loans undermine the IMF and World Bank's efforts towards fiscal transparency.¹¹⁵

59. UK banks are amongst those who have lent to resource-rich but corrupt and very poor African countries in this way. Increasing pressure has been brought to bear on such banks to re-consider the use of resource-backed and other non-transparent loans.¹¹⁶ **DFID and the UK Government should engage with UK banks to encourage a review of the use of resource-backed loans to developing countries, especially those with a history of corruption and economic mis-management. UK banks should take advice from the international financial institutions on adopting appropriate conditions for loans relating to levels of disclosure and oversight requirements.**

60. Chinese banks have attracted particular criticism for a recent series of billion-dollar loans to Angola, Nigeria and Sudan, despite IMF condemnation of loans without governance clauses and inviting speculation that China is waging a neo-Colonial 'resource grab' on Africa.¹¹⁷ Chinese Premier Wen Jiabao carried out a seven-nation tour of Africa in June 2006, seeking strategic relationships with oil-producing countries.¹¹⁸ For instance, it is estimated that three quarters of Angola's oil output is now destined for China. This significant stake in the Angolan economy provides Chinese banks with a unique opportunity to positively influence Angola's investment climate and record on governance.

111 'Just Pensions' was launched in 2000 by Traidcraft and War on Want and became a UK Social Investment Forum programme in 2002-2005, receiving core funding from DFID for this period.

112 Ev 318 and Ev 319. The Equator Principles are a set of voluntary guidelines for managing social and environmental issues in project financing.

113 Steve Waygood, 'A challenge for the industry', *Financial Times (Responsible Business)*, 13 June 2006.

114 See, for example, Gabriel Rozenberg, Jonathan Clayton and Gary Duncan, 'Thirst for oil fuels China's grand safari in Africa', *The Times*, 1 July 2006.

115 'The Other Side of the Coin: the UK and Corruption in Africa', Africa All-Party Parliamentary Group (March 2006).

116 For example, Global Witness, 'All the President's Men', (March 2002) and Africa All-Party Parliamentary Group, 'The Other Side of the Coin: the UK and Corruption in Africa', (March 2006).

117 Lester Holloway, 'Africa: the Chinese Takeaway', BLINK (25 April, 2006), available online at <http://www.blink.org.uk/pdescription.asp?key=11422&grp=18&cat=183>.

118 Gavin Stamp, 'China Defends its African Relations', BBC News Online, 26 June 2006 <http://news.bbc.co.uk/1/hi/business/5114980.stm>.

However, over recent years, the state-owned Chinese Eximbank has made a number of loans to Angola — including a US\$3 billion oil-backed credit line issued in 2005 — with no conditions attached.¹¹⁹ We wrote to Eximbank on 24 May 2006 to ask about the justification for such loans, and whether Eximbank would be continuing to offer unconditional lending to Angola in the future. We have received no response.

61. As Ann Grant of Standard Chartered Bank made clear to the Committee, such lending must be brought into international regulatory structures: “The challenge now is to bring the huge economies of India and China and the banks and financial institutions that operate in those countries into [regulatory frameworks] [...] What we want is a playing field where everyone observes that level of regulation and where we are able to compete fairly.”¹²⁰ **China’s growing interest in African investments requires donors and governments to find mutual interests that will encourage the Chinese authorities to regulate resource-backed loans and other provision of capital more tightly, to ensure that lending does not contribute to corruption and negative developmental outcomes.**

Improving investment climates in resource-rich countries

62. In addition to tighter regulation of loans, a range of other interventions are crucial to improving the business environments of resource-rich but poverty-stricken countries. Resource-rich countries tend to experience weaker growth than non-resource-rich ones. The well-documented ‘resource curse’ — the self-perpetuating cycle of economic dependency, corruption and conflict to which resource-rich countries are prone — has contributed to weak growth in countries such as Equatorial Guinea, Angola, the Democratic Republic of Congo, Chad and Nigeria. Empirical evidence shows, however, that the ‘resource curse’ can be avoided. Through good governance, macro-economic stability and careful management of its diamond revenues, Botswana averaged 12% annual growth between 1975 and 1995.¹²¹

63. Mis-managed and non-transparent expenditure of the revenues from natural resources is a key contributor to corruption, poor governance and conflict. The payments made by oil, gas and mining companies to governments currently tend not to be made public, severely impairing the ability of citizens to chart these nationally-owned funds — and yet these flows are massive: the Overseas Development Institute estimates that due to high global oil prices, the annual surpluses of around US\$35 billion received by the eighth largest resource-producing countries in Africa will easily dwarf the total amount of aid pledged by G8 governments to the whole of the continent in the coming years.¹²²

64. DFID has attempted to develop a strategy to address these problems of transparency by initiating the Extractive Industries Transparency Initiative (EITI). The EITI — a partnership of oil, gas and mining companies, NGOs and producer/consumer countries — was launched by the Prime Minister in 2002, following pressure from civil society.¹²³ By

¹¹⁹ Reuters AlertNet, ‘Angola: China entrenches position in booming economy’ (17 April 2006).

¹²⁰ Q 295 [Ann Grant]

¹²¹ Increase measured in average GDP per capita growth. Since 1995, the rate has slowed due to factors such as the HIV/AIDS pandemic, and currently stands at 5%.

¹²² Ev 301 [Publish What You Pay coalition]

¹²³ The Publish What You Pay coalition of NGOs (www.publishwhatyoupay.org).

increasing public knowledge of revenue levels, the Initiative aims to empower citizens and institutions to hold governments and companies to account. Twenty countries have endorsed the principles of EITI and 11 are currently at various stages of implementation. DFID has convened the EITI process since its inception and now jointly hosts the EITI Secretariat with the World Bank. **DFID has spearheaded and hosted the EITI process over the past four years. DFID's leadership has secured buy-in to the process from companies and countries alike.**

65. However, implementation of the EITI — that is, meeting the EITI criteria including the regular publication of all oil, gas and mining payments by companies to governments and all revenues received by governments — remains patchy. Whilst Nigeria and Azerbaijan have developed quite substantive EITI reports, other countries such as Ghana are 'stuck' at the early stages of reporting. Key oil-producing regions (North Africa, Middle East and Latin America) remain under-represented: the overwhelmingly majority of current EITI countries are in West Africa.¹²⁴ **The EITI implementation process needs to be expedited within signatory countries. Under-represented oil and gas producing regions, such as North Africa, the Middle East and Latin America, need to be brought on board.**

66. Another primary concern with the EITI approach relates to poor implementation standards; in many countries, governments and companies propose aggregating payments and revenue data, thereby undermining accountability.¹²⁵ Civil society may not always be sufficiently empowered nor have the political space to serve fully in a watchdog role, as demonstrated by the case of the Democratic Republic of Congo, where two civil society members of the EITI National Commission were subjected to death threats in May 2006.¹²⁶ **Parallel measures to build capacity and open the political space available to civil society will greatly enhance EITI's potential to improve transparency and accountability.**

67. Moreover, civil society organizations argue that the whole premise of transparency is jeopardised by the EITI's reliance on a voluntary rather than mandatory approach.¹²⁷ Possible options for a mandatory mechanism include requirements in stock market listings or relevant national and international accounting standards.¹²⁸ DFID claims that, for now, the voluntary approach is the right one and that adopting the listings approach would risk excluding the 70% of resource revenues emerging from state-owned companies. However, the Department admits that the merits of adopting a mandatory approach should be revisited in two or three years' time.¹²⁹

124 See <http://www.eitransparency.org/section/countries> for a map of country membership of EITI.

125 Ev 302

126 Ev 302 and 'Death threats against activists for denouncing abuses in the natural resource sector in the DRC', Publish What You Pay press release, 5 May 2006, available online at http://www.publishwhatyoupay.org/english/pdf/releases/pwyp_drc_050506.pdf.

127 Ev 302

128 Ev 302

129 Q72 [Sharon White]

68. DFID's future involvement in EITI is unclear. DFID plans to withdraw from hosting the Secretariat in the near future ("sooner rather than later"¹³⁰); they state that this is due to the need for international ownership rather than efficiency savings or other reasons.¹³¹ Discussion is ongoing as to EITI's future governance and institutional arrangements. DFID is "actively considering" how to extend the principles of EITI to other sectors, most likely to be procurement, construction and/or arms.¹³² **DFID should keep an open mind as to potential strategies for underpinning the EITI with mandatory disclosure requirements and should, at the very least, actively consider transferring from a voluntary to a mandatory approach in 2008–9, when further international implementation and political will has been secured. DFID must energetically explore when, how and to whom EITI's Secretariat should be transferred, with the ultimate aim of international 'ownership' the driving decision-making factor. Securing and consolidating further 'buy-in' from other donors will be particularly important to achieving this. DFID needs to move ahead with extending the EITI framework to other sectors such as procurement, construction and arms.**

Enabling investment climates in fragile, crisis-affected and least developed states

69. Resource-rich states are just one example of priority — and more challenging — contexts for investment climate work. Other such environments include fragile and crisis-affected states, which are an increasingly prominent area of DFID engagement.¹³³ DFID has an emerging work-stream on how to minimise the private sector's contributions to fragility or crisis, and maximise its solutions to these problems. The Department lists the following interventions as having helped the private sector contribute to stability and development: public works programmes in post-conflict situations; micro-finance; remittance initiatives; technical assistance on legislation, customs and taxation; financial sector restructuring and monetary policy advice.¹³⁴

70. Property rights are omitted from this list but are clearly a significant strategy in building investment climates in fragile states.¹³⁵ Land and property titling assist with reconstruction and economic integration. Disciples of Hernando de Soto's approach to property rights even claim that integration into the formal property system can form part of anti-terrorism strategies.¹³⁶ DFID is working on property rights in a few fragile states — for instance, in Angola, where it is co-funding the Luanda Urban Poverty Project, which has a considerable focus on land law.¹³⁷ However, DFID's property rights programmes are overwhelmingly concentrated in more stable states such as Uganda, Kenya, Rwanda, India

130 Q74 [Sharon White]

131 Q73 [Sharon White]

132 Q75 [Sharon White]

133 DFID, 'Why we need to work more effectively in fragile states' (2005), available online at <http://www.dfid.gov.uk/pubs/files/fragilestates-paper.pdf>.

134 Ev 139

135 See also the earlier Property Rights sub-section in this chapter.

136 The Economist, 'The Economist Versus the Terrorist' (30 January 2003), available online at http://www.economist.com/people/displayStory.cfm?story_id=1559905. See Paragraphs 42 and 43 for further discussion of de Soto's ideas.

137 Ev 145

and Vietnam. **DFID should expand its resources for property rights work to ensure programmes and projects are prioritised for fragile and conflict-affected states.**

71. But whilst property rights, access to finance and other interventions in the enabling environment will open market opportunities to a degree, PSD in such contexts may simply not be appropriate or possible. Wars tend to eliminate or seriously disable investment climates, and accordingly conflict prevention strategies are, of course, the ultimate tool for addressing PSD in fragile and conflict-affected states. As the Secretary of State himself admitted, “The very basic responsibility of governments is not having a war [...] Somalia [is] a country devastated by 15 years of conflict, people are eking out an existence [...] but is anybody going to come and invest money in Somalia while the conflict goes on? No, they are not.”¹³⁸

72. However, for states that are no longer in the throes of out-and-out war, **DFID needs a clearer strategy for improving nascent, disabled and damaged investment climates. DFID’s emerging work-stream in this area must be strengthened to develop a specific PSD strategy for fragile and conflict-affected states, with strong links to complementary policy areas such as transparency in the natural resources industry and conflict reduction. This is particularly important given DFID’s increasing profile in such countries.**

73. Another issue that this inquiry has grappled with is how to improve the climate for investment and PSD in the poorest countries. The Committee’s visit to Malawi in February 2006 witnessed a country which is simply too poor to have much of a formal private sector. **It is clear that in very poor countries, where there is very little capital or purchasing power, donors and governments have a particular obligation to step in and ‘fill the gap’ between private sector reach and the poorest of the poor.** As Robert Annibale of Citibank told the Committee:

“There is a public good about providing a certain level of inclusion into society, and some of that may need to come from specialised institutions understanding that post-conflict, war-affected or isolated communities or indigent people may not be reached by commercial models”.¹³⁹

74. To some extent, filling this gap is about pioneering investment in difficult business environments to create a ‘demonstrator effect’, which DFID has attempted to do for many years through its principal instrument for risk finance, CDC (see Chapter 5 for more information on the CDC). DFID also works with pioneering investors such as the IFC and helps to mitigate risks for the private sector by providing initial finance for infrastructure projects through the Emerging Africa Infrastructure Fund and GuarantCo.¹⁴⁰

138 Q 406 [Hilary Benn, Secretary of State for International Development]

139 Q 165 [Robert Annibale]

140 ‘DfID and the Private Sector’ (2005), p.24.

75. Microfinance is clearly of signal importance in reaching the financially excluded and thereby pulling the margins of the private sector right down to the poorest of the poor. DFID is often praised for its microfinance work¹⁴¹, but its successes in this area need to be scaled up radically within the poorest countries; more than 90% of the population in African countries remains financially excluded.¹⁴²

76. Instituting general measures to improve the investment climate — addressing competition, taxation, regulation, infrastructure and corruption — will be particularly pressing within the poorest and least developed countries. Yet beyond re-stating these wider PSD strategies, DFID had no specific strategies for improving the investment climates of least developed countries to share with the Committee. When asked about the specific example of Malawi, the Secretary of State's response was simply that it is “a small market...a very difficult example.”¹⁴³ **DFID had no clear answers to this inquiry on specific PSD strategies for the poorest countries, beyond work on the enabling environment and regional integration. A specific work-stream on improving the investment climate of the poorest countries would help identify a coherent strategy and more creative approaches towards this end.**

141 See, for instance, Q 159 [Robert Annibale]

142 Ev 129. See Chapter 5 for more information on microfinance.

143 Q407 [Secretary of State]

4 Making markets work for poor people

77. As discussed in Chapter 2, the Making Markets Work for the Poor (MMWP) framework¹⁴⁴ is a major donor strategy used in support of PSD. The Approach focuses on addressing the systemic barriers that prevent poor people's participation in markets.¹⁴⁵ Clearly, this approach depends on countries meeting the central challenge of generating and sustaining growth, without which opportunities for people to participate in markets simply won't exist. The MMWP strategy, then, complements growth policies and improvements to the investment climate, as Professor Adrian Wood of the University of Oxford told the Committee: "It is not a magical combination but it is fairly straightforward. What you need to do is to give the poor more assets and more access to markets so that they can participate in the growth process more".¹⁴⁶

78. As well as discussing the specific MMWP interventions used by DFID under the MMWP approach, this chapter will take a wider view of how donors and the private sector can create opportunities for poor people to participate in growth. Clearly, the most direct way in which the private sector creates opportunities is through job creation and self-employment. But there are a number of other ways to empower, equip and support poor people to maximise their participation in growth, including improved skills, technology, health and education, access to finance and support to traditional markets, notably agriculture.

The Making Markets Work for the Poor Approach

79. Market access is a crucial component of sustainable growth and poverty reduction.¹⁴⁷ Markets offer the foremost means through which poor people can participate in economic activity, whether as producers (farmers, entrepreneurs), as employees or as consumers. If people don't participate in markets — for example, if unemployment is high or if access to key assets, such as human, physical and financial capital, is constrained — then their chances to benefit from growth are limited to 'trickle down' through tax or philanthropy.¹⁴⁸

80. Yet markets in developing countries do not automatically offer opportunities for all sectors of society. Markets are often under-developed and unbalanced. Professor Andrew Atherton of the University of Lincoln identified a number of characteristics often present in developing markets: i) a large self-employed population, both formal and informal; (ii) a relatively small number of internationally competitive, i.e. growing and exporting, small firms; (iii) a 'missing middle', i.e. few medium-sized competitive indigenous businesses; (iv) an 'unbalanced' large company structure, typically made up of companies, often operating as loose or complex conglomerates, close to and often influenced by

144 This approach is also known as the Market Development or Business Development approach.

145 Ev 265

146 Q 23 [Professor Adrian Wood]

147 Ev 303

148 Alan Gibson, Hugh Scott and David Ferrand, 'Making Markets Work for the Poor: An Objective and an Approach for Governments and Development Agencies' (Woodmead, South Africa: ComMark Trust, 2004), p.2.

government, and (v) dependence on multi-national companies with headquarters and decision-making control elsewhere.¹⁴⁹

81. The MMWP approach, however, does not recommend direct donor intervention in markets to address these problems. Learning from the flawed ‘impulsive intervention’ approach of the 1980s, MMWP recognises that development agencies are not businesses and do not possess the relevant skills or culture to become market players.¹⁵⁰ Instead, MMWP addresses the underlying macro-level constraints that prevent markets working and builds the right conditions for a more effective system.

82. There is a growing body of evidence to support the use of MMWP.¹⁵¹ An example of the MMWP approach in practice is the DFID-funded ComMark Lesotho Textile and Apparel Project.¹⁵² This project aims to improve the level of investment and competitiveness of Lesotho’s garment sector so that it benefits poor people by creating formal job opportunities.¹⁵³ Another example is the FinMark Trust, again funded by DFID, a ‘market catalyst’ that seeks to make financial markets work for poor people in South Africa, Botswana, Lesotho, Namibia and Swaziland.¹⁵⁴

83. There are (incipient) signs within DFID that MMWP is emerging as a unifying theme for the different disciplines within its PSD approach.¹⁵⁵ **We recommend that DFID continues its leading role in demonstrating the value of the MMWP approach, adequately supported with sufficient funding and other resourcing. The Department must build on the successes of the FinMark and ComMark initiatives and scale up these innovative programmes. The technical assistance and creative thinking that underpin these MMWP programmes must not be sidelined by the increasing profile of either investment climate work or budget support.**

Employment

84. Translating economic growth into new jobs that pay a just wage — that is, a wage that can help to lift people out of poverty — and treat employees fairly is a key objective of PSD. A recent International Labour Organisation (ILO) report found that half the world’s workers do not earn enough to lift themselves and their families above US\$2 a day.¹⁵⁶ For many countries, securing growth is largely about the need to create jobs.¹⁵⁷ But sometimes getting a job is not enough; securing ‘decent work’ — defined by the ILO as being freely chosen, with labour rights and social security¹⁵⁸ — remains elusive for many workers worldwide, who are subjected to poor labour conditions that mean that they pay a heavy cost for the wages they take home.

149 Ev 223

150 Ev 266

151 Ev 265 and Ev 266

152 ComMark stands for ‘Making Commodity Markets Work for the Poor in Southern Africa.’

153 Ev 230

154 Ev 251 [FinMark Trust]. See the section on Financial Sector Development later in this chapter for more details.

155 Ev 267 and ‘DFID and the Private Sector’ (2005)

156 ILO, 2005, Key Indicators of the Labour Market (KILM), 4th Edition. Online at <http://kilm.ilo.org>.

157 Q 75 [William Kingsmill]

158 Q 221 [Lord Brett]

85. Particular concerns exist for young people out of work; almost half of the world's unemployed are aged 15 to 24, and this age-group is more than three times as likely as adults (25 and over) to be out of work.¹⁵⁹ For young people to be able to use education and skills in productive livelihoods not only fulfils their human rights but will positively affect political stability and growth in developing countries.¹⁶⁰

86. Yet employment is not mentioned once within the MDGs.¹⁶¹ As Albert Tucker, a key figure within the fair trade movement, told us, donors must help fill this void by developing and financing a clear target-driven focus on employment, especially in Africa, with measurable indicators of success attached.¹⁶² The Secretary of State admitted that DFID does not offer specific employment generation schemes for young people, saying that the Department preferred to concentrate on creating the right climate for growth and job creation.¹⁶³ DFID's Chief Economist, Tony Venables, acknowledged that, "Youth employment issues possibly have not been thought about enough by the development community as a whole." He recognised, however, that attention to this area is increasing — for instance, next year's World Development Report will focus on youth.¹⁶⁴ Lord Brett, Director of the ILO in the UK, thought that youth employment was a crucial issue for donors, who need to support education and develop international partnerships around this issue.¹⁶⁵ The Commission for Africa Report recommended that donors should assist African governments in formulating and implementing national action plans on employment through the Youth Employment Network (YEN), an initiative backed by two UN resolutions and supported by the ILO and World Bank.¹⁶⁶

87. In the absence of global targets on employment, a key priority for donors is achieving a more explicit focus on creating and sustaining jobs, especially within African countries. This should include increased support for improving the technical skills of those at the lowest end of the job markets. Consideration should be given to developing international targets on employment, with a particular focus on young people. DFID's current reliance on investment climate reforms as a means to create jobs is insufficient to reach the groups who are most in need, especially young people. The Department should seek to build partnerships with governments and companies that closely link education with job creation.

88. As William Kingsmill of DFID told the Committee, the reality is that, whilst a lot of jobs are being created in many countries, the vast majority of people are still self-employed, running small household businesses in the informal sector.¹⁶⁷ Lord Brett saw addressing job creation and labour rights for these informal private actors — unprotected by labour laws — as DFID's biggest challenge *vis-à-vis* employment.¹⁶⁸ Companies clearly have a

159 ILO, 'Global Employment Trends Brief' (2006). Online at www.ilo.org/trends.

160 Q 217 [Lord Brett]

161 Q 217 [Lord Brett]. It should be noted that Goal 8 mentions 'youth opportunities'.

162 Q 217 [Albert Tucker]

163 Q 441 [Secretary of State]

164 Q 441 [Tony Venables]

165 Q 217 [Lord Brett]

166 Commission for Africa Report (2005), p. 244.

167 Q 75 [William Kingsmill]

168 Q 216 [Lord Brett]

major duty in formalising and expanding opportunities for decent work, and DFID told us that it seeks to make investors aware of their obligations in this regard.¹⁶⁹

89. DFID’s support to the ILO — with whom a new partnership agreement will be started this year, worth about £20 million — is clearly valued by the Organisation, especially in regard to child labour and HIV/AIDS work¹⁷⁰, and is an important contribution to upholding international labour standards and bringing poor people into the formal economy. **Bringing the millions of informal workers in developing countries under international labour law protection is a major priority and DFID needs to seek active dialogue with the private sector, governments, multilateral organisations and other donors on how to ensure that investment climate improvements and other PSD strategies prioritise minimum labour standards enforcement.**

Financial sector development

90. Financial markets will only work for poor people when access is available to the products and services supplied by, for instance, banks and insurance companies. Access to finance is crucial for entrepreneurs and firms of all sizes in increasing productivity and promoting technological progress.¹⁷¹ Yet currently more than 90% of the population in African countries is financially excluded.¹⁷² Increasingly, ‘semi-formal’ channels such as Micro Finance Institutions (MFIs) are filling the gap for the un-banked or under-banked.¹⁷³ However, currently MFIs still only reach a minority of the population. Only 8 countries across the world have seen MFIs succeed in serving more than 2% of the population; in 35 of 55 developing countries surveyed recently, MFIs reached less than 1% of the population.¹⁷⁴

91. Microfinance is only one of the tools applicable to financial sector development. As the written submission from South Africa’s FinMark Trust highlighted, “The policy priority should be on bringing about systemic change in the way financial markets operate — as a whole — rather than on the support of one fairly small aspect of financial sector activity.”¹⁷⁵ Clearly, financial sector development is dependent on the institutional, legal and regulatory framework in which it is rooted, and hence must be integrated with reform programmes relating to governance and investment climate improvements.¹⁷⁶

169 Q 75 [William Kingsmill]. See Chapter 6 for further details on company efforts to meet labour laws.

170 Q 212 [Lord Brett]

171 Ev 129

172 Ev 129

173 See Chapter 5 for further discussion of microfinance.

174 Sam Daley-Harris, ‘State of the Microcredit Summit Campaign Report 2003’, quoted in Patrick Honohan, ‘Financial Sector Policy and the Poor’ (World Bank Working Paper 43, 2004); see also Consultative Group to Assist the Poor (CGAP) research.

175 Ev 252

176 Q 280 and Q 281 [Bob Fitch]

92. Financial products — especially those governed by commercial banks, generally the principal source of domestic investment — often need redesigning and repricing in order to work for all sectors of society, as they tend to cater for the status quo rather than new customers. Financial exclusion partly reflects the fact that poor people cannot afford to pay high charges demanded by banks. Citibank stated that there is a minimum level of income below which it is simply not economical to have a bank account, due to transaction costs.¹⁷⁷ Charges for remittance transfers are particularly high and this is an unnecessary obstacle to these important development flows.¹⁷⁸ Banks can also play a role in working out how to leverage the existing financial infrastructure so that more people can be reached. The Giro system, operated by post offices across Europe, offers an example of how this could work.¹⁷⁹

93. But reaching even the poorest with financial services is possible, providing that the public sector or not-for-profit sector is prepared to step in and fill the gap that the private sector cannot viably bridge.¹⁸⁰ In South Africa, negotiations seeking lower transaction costs have taken place within a partnership of banks, the Government, civil society organisations and trade unions. Reducing such costs requires a broad transformation of the financial sector, incorporating improved access to credit and other services, as well as the willingness of banks to contribute to community reinvestment initiatives.¹⁸¹

94. Donors have shown they can support innovation in reaching the financially excluded, and have provided initial funding for a number of successful financial sector development initiatives.¹⁸² DFID has attracted particular praise for its support for the FinMark Trust, a Johannesburg-based initiative that acts as a ‘market catalyst’ by communicating research and information about southern African markets to stakeholders.¹⁸³ FinMark liken themselves to a policy centre that facilitates public-private dialogue and provides research to the government and private sector about tackling the causes of financial market failure. Amongst the information-based tools that FinMark has pioneered is FinScope — a comprehensive annual study of the markets for financial services in South Africa, Namibia and Botswana. As FinMark’s written submission pointed out, supporting the development of an information infrastructure has the important benefit of creating an open society that values information — and uses this information to create policy.¹⁸⁴ The FinMark methodology — developed from DFID’s initial £5 million funding — is now being paid for by the private sector in South Africa and is spreading in use throughout the region and further north.¹⁸⁵ DFID is having “very active discussions with the World Bank” on taking the methodology to many more countries.¹⁸⁶ **The FinMark Trust has deepened understanding and co-operation around financial sector development in southern Africa in a highly cost-effective and sustainable fashion. Negotiations with the World Bank regarding the FinMark methodology need to**

177 Q 165 [Jay Naidoo and Robert Annibale]

178 See Chapter 5 for further discussion of remittances.

179 Q 160 [Robert Annibale]

180 Q 165 [Robert Annibale]

181 Q 160 [Jay Naidoo]

182 Q 159 [Robert Annibale]

183 Q 167 [Robert Annibale]

184 Ev 254

185 Q 76 [Richard Boulter]

186 Q 79 [Richard Boulter]

be taken up at a high political level to ensure that this important tool for financial sector development is successfully replicated and scaled up.

Agriculture

95. Agriculture is the most important private sector activity in many developing countries.¹⁸⁷ In sub-Saharan Africa, agriculture contributes to 70–80% of employment.¹⁸⁸ Making agricultural markets work for poor people has multiple and far-reaching benefits. As well as providing livelihoods, agriculture offers food security and drives economic development outside of agriculture. It is also of huge social, cultural and environmental significance for many rural communities, particularly for women, who are estimated to produce around three quarters of the food grown in developing countries.¹⁸⁹

96. There has been much speculation about whether the ‘green revolution’ that has taken place in Asia since 1980 could be emulated in Africa, where agricultural productivity has stagnated. Witnesses could see no reason why Africa could not also transform its agricultural productivity, if a number of specific challenges are managed, including Africa’s volatile rainfall.¹⁹⁰ However, Africa’s agricultural potential is currently largely un-exploited.¹⁹¹ Agricultural infrastructure — especially irrigation, post-harvest and rural infrastructure — has played a vital role in Asia’s growth. Yet agriculture-supporting infrastructure is deficient in Africa, especially irrigation, of which there is an almost total lack — only 4% of arable land in sub-Saharan Africa is irrigated compared to 40% in South Asia.¹⁹² The Commission for Africa recommended that, as part of a wider set of measures to promote agricultural and rural development, donors must increase funding of irrigation by 50% before 2010 (this should double Africa’s arable land under irrigation by 2015).¹⁹³

97. Other obstacles to unlocking Africa’s potential for agricultural growth include inequitable land distribution and insecurity of land tenure; the international trade regime; climatic and ecological problems (pests, weeds and diseases) and the post-1980s decline of investment in small market towns and transport.¹⁹⁴ Overcoming these obstacles requires a package of measures: as Professor Keith Palmer put it, “I think that agricultural development in Africa is quite simple: it is simply a matter of bringing together the things everybody knows you need.”¹⁹⁵ Farmers need far greater access to inputs (for example, fertiliser, pesticides and seeds); electricity to operate water pumps; transportation and telecommunications systems to sell food at markets; post-harvest facilities such as adequate storage; extension and information services, and improved access to finance.¹⁹⁶ Small-holdings experience problems

187 Ev 290

188 G. Abalu and R. Hassan, ‘Agricultural productivity and natural resource use in Southern Africa’, *Food Policy Review* 23 (6), pp. 477-490 (1998).

189 Food and Agriculture Organisation of the UN, ‘Women and sustainable food security’ www.fao.org/FOCUS/E/Women/Sustin-e.htm quoted in ‘Power Hungry: six reasons to regulate global food corporations’, ActionAid International.

190 Q 239 [Michael Pragnell] and Ev 187 [Professor Keith Palmer]

191 Ev 187 [Professor Keith Palmer]

192 Commission for Africa Report, Chapter 7 (p.238).

193 Commission for Africa Report, Chapter 7 (pp. 237-238).

194 Ibid.

195 Q 240 [Professor Keith Palmer]

196 Q 240 [Professor Keith Palmer] and Ev 189.

in sharper focus than larger farms and need their particular problems addressed if they are to participate fully in the benefits of economic growth.¹⁹⁷ **If a series of key constraints can be addressed, there is no reason that Africa cannot emulate Asia's successes in achieving agricultural growth. A lack of agriculture-supporting infrastructure is the primary barrier, and increases in infrastructure funding must be targeted towards this sector. Irrigation is a particular concern. DFID must work with other donors to achieve the Commission for Africa-recommended 50% increase in funding for irrigation before 2010. Another priority is re-building the seed industry within Africa. This package of measures should be closely linked into other investment climate improvements such as addressing property rights and land tenure.**

98. Higher private investment in agriculture will only occur if there is a major increase in profitable investment opportunities for the private sector.¹⁹⁸ The key role for donors here is creating such opportunities and leveraging in private sector risk capital.¹⁹⁹ However, intervening in or directly funding agricultural markets carries the same risks as we discussed earlier in looking at the MMWP approach, and should be avoided.

99. DFID has been criticized in the past for agricultural market intervention and needs to learn from these criticisms. For instance, its Targeted Inputs Programme in Malawi, under which seed packs were handed out to farmers between 2000 and 2002, was criticised for compromising Malawi's existing seed industry and for its lack of sustainability.²⁰⁰ As the previous Committee recommended in its 2003 report on the Humanitarian Crisis in Southern Africa, Targeted Inputs Programmes can play an important role in achieving food security, but to do so they must be part of a long-term and sustainable rural development strategy which, over time, reduces dependence on free inputs and makes inputs more affordable by raising rural incomes and promoting rural development.²⁰¹ **The MMWP approach must underpin DFID's interventions in agriculture to ensure that market distortions are avoided.**

100. **In order to stimulate private sector investment in African agriculture, donors and governments must take the investment risks that companies cannot.** Models for using donor money to take early risks and then leverage in private sector finance exist and could be scaled up, for instance Infraco, a privately-managed infrastructure development company (funded by a group of donors including DFID²⁰²) which has proven to be effective in identifying infrastructure opportunities in Africa.²⁰³ When developing such initiatives, donors should balance making big loans to governments with smaller, more locally-sensitive operations²⁰⁴, and these initiatives should be run on business lines. As Professor Keith Palmer, Chairman of Infraco, told the Committee:

197 Ev 193

198 Ev 191

199 Ev 193

200 Q 243 [Dr Andrew Bennett]

201 International Development Committee, Third Report of Session, 2002-03, The Humanitarian Crisis in Southern Africa, HC 116, paragraph 122.

202 The Private Infrastructure Development Group (PIDG) – a donor grouping comprising the UK, Holland, Sweden and Switzerland.

203 Q 247 [Professor Keith Palmer]

204 Q 272 [Professor Keith Palmer]

“If agricultural initiatives are set up as aid projects, they are almost always unsustainable; if they are set up as facilitating small business development, African national private-sector people working with and with funding from donors, you can create over time [...] a really thriving industry.”²⁰⁵

101. Building partnerships is crucial in agriculture: a proven way to ensure that SMEs and smallholders benefit from investment in commercial agriculture is to build strong links between commercial farmers and rural smallholders.²⁰⁶ Syngenta told us of their successful partnership with other producers in China, which has enabled investment in a major herbicide manufacturing plant that supplies and trains very small farmers on the south-eastern coast. Using this herbicide has enabled these farmers to double or triple their crop.²⁰⁷ NGOs are vital members of such partnerships: agricultural-focused organisations such as Technoserve have done excellent work, for example the successful public-private partnership that they have built within the Ugandan fishing industry.²⁰⁸

102. Donors need to target funding in an intelligent way that mitigates private sector risk by providing early bursts of finance, supports the role of SMEs, co-operatives and small-holders (rather than creates a greater market role for government or donors) and allows projects to be run on business lines. Successful multi-donor initiatives of this kind already exist (for instance, Infraco). DFID should show leadership by pursuing the replication of such models. Partnerships are key to ensuring that the necessary linkages are built within the market that will bring the benefits of growth to small and large farmers alike.

Skills, technology, health and education

103. Strengthening the assets of poor people involves boosting human capital, such as health, education and skills, as much as physical capital, such as property and finance.²⁰⁹ Ensuring that people have the skills they need to enter work is a primary responsibility of government.²¹⁰ However, there are obvious and very strong links with the private sector. Skills and technology provision are mutually beneficial to poor people and the private sector: as Dr Banjoko of AfricaRecruit told us, they increase the capacity of people to move from being “consumptive to productive citizens and become economic participants in society.”²¹¹ A similarly symbiotic relationship exists between health, education and the private sector.

104. In most developing countries, there are insufficient numbers of people trained in the skills needed by the key engines of growth — business, the professions, and technical and vocational roles — and technology is similarly lacking.²¹² African countries, in particular,

205 Q 251 [Professor Keith Palmer]

206 Ev 190

207 Q 250 and Q 251 [Michael Pragnell]

208 Q 251 [Professor Keith Palmer]

209 Commission for Africa Report, p.223.

210 Ev 133

211 Ev 214

212 Ev 210

suffer from a limited pool of skilled personnel, reflecting insufficient education and training opportunities. Even South Africa only has 13% of tertiary level enrolment in technical subjects, compared with Thailand and Malaysia's 30%.²¹³ Women and girls are at particular risk at being excluded from education: in sub-Saharan Africa, only one in five girls are enrolled in secondary school²¹⁴ and 64% of the world's 800 illiterate adults are women.²¹⁵

105. Written evidence from Professor Calestous Juma of Harvard University argues that the private sector can serve as a foundation for the transfer of technical skills in society:

“New infrastructure projects such as railways, roads, ports, telecommunications and waterways should be directly linked to technical training and business [...] Current discussions to extend and expand telecommunications connectivity and rail networks in Africa provide a unique opportunity to create allied technical training institutes as well as foster the development of SMEs.”²¹⁶

106. AfricaRecruit identified a number of other strategies whereby the private sector can assist skills and technology transfer: apprenticeships; vocational training; the creation of knowledge centres; business support and advisory services; mentoring and assisting in the spread of Information Communication Technologies (ICT). AfricaRecruit itself has been a successful strategy — supported by donors through NEPAD and the Commonwealth Business Council — for boosting human capital within Africa.²¹⁷ A major function of the initiative is engaging the African diaspora and reversing the ‘brain drain’, under which approximately 40% of all African professionals have left the continent since decolonisation.²¹⁸ DFID supports other vocational and skills development programmes at country level.²¹⁹ AfricaRecruit expressed a concern in their written evidence that many of DFID’s projects are too short-term, and recommend engagement with the private sector as a way to promote sustainability.²²⁰ **In its ongoing dialogue with the private sector (through groups such as Business Action for Africa), DFID needs to press for investments in developing countries to incorporate training, skills and technology transfer. The AfricaRecruit initiative should continue to receive support as a successful strategy for boosting human capital within Africa and addressing the ‘brain drain’. This and other country-level skills programmes should receive longer-term donor support, in partnership with the private sector where possible.**

107. DFID has a priority focus on the primary education sector towards achieving MDG 2, Universal Primary Education. Discussion of DFID’s education strategy is beyond the remit

213 HL Deb, 26 January 2005, col 1283 [Lords Chamber].

214 Global Campaign for Education, ‘A Fair Chance: Attaining gender equality in basic education by 2005’ (London: GCE, 2003), p.17.

215 UNESCO, ‘Education for All - Literacy for Life’, EFA Global Monitoring Report 2006 (Paris: UNESCO, 2005).

216 Ev 273

217 Ev 210-216

218 Mohan Kaul, ‘Reversing Africa’s Brain Drain: the AfricaRecruit Initiative and the challenge to governments, the diaspora and the private sector’. (Commonwealth Business Council paper, 2004), p.1.

219 Ev 133

220 Ev 214

of this report and is well-documented elsewhere.²²¹ Empirical evidence demonstrates the importance of education as an input to economic growth.²²² Private sector institutions, as well as charities and community groups, are also significant providers of education services in developing countries and DFID needs to work with these partners towards achieving education for all.²²³

108. The role of health in Africa's development, and in PSD specifically, is, similarly well-documented — for instance, in Chapters 6 and 7 of the Commission for Africa Report. The central charge of the evidence that we received on this subject was that private sector growth in developing countries will not gain momentum unless health services — together with the necessary infrastructure, skills shortages, access to medicines and other concomitant measures — are improved.

109. HIV/AIDS and malaria are having a particularly devastating impact in sub-Saharan Africa, resulting in skills shortages and reduced productivity amongst adults.²²⁴ Large companies, such as Anglo American, are playing an important role in addressing HIV/AIDS, providing free anti-retroviral therapies to employees and developing care and treatment programmes in the wider community.²²⁵ The multinational private sector is the main source of Research and Development (R&D) into new drugs, although companies based in developing countries are playing an increasing role.²²⁶ In its Memorandum to this inquiry, DFID stated: "In developing countries the private sector is often the major provider of health services. The public-private boundary is increasingly blurred and there is great scope for greater private sector involvement in healthcare provision."²²⁷ **We agree that there is great scope for increased private sector involvement in healthcare provision. Private sector growth will only gain momentum in developing countries if basic services such as education and health are improved. Donors need to recognise the role of private sector providers of education and healthcare and strengthen partnerships with these bodies.**

Making markets work in middle income countries

110. The economic booms in high growth Asian economies have succeeded in lifting large numbers of people out of poverty, with China alone pulling 400 million people over the dollar-a-day poverty threshold in the last twenty-five years. But these booms do not automatically embrace all sectors of society. For example, Sunil Sinha, of Emerging Market Economics, told the Committee that in India, states such as Uttar Pradesh and Bihar have seen very little pro-poor growth.²²⁸ Job opportunities of the right skill level to be open to

221 See, for instance, DFID and HM Treasury, 'Keeping our Promises: Delivering Education for All' (DFID, 2006); Global Monitoring Report on Education for All 2006, 'Literacy for All' (Paris: Unesco, 2005); Global Campaign for Education, 'Missing the Mark: A School Report on rich countries' contribution to Universal Primary Education by 2015' (GCE, April 2005).

222 Q 437 [Tony Venables]

223 Ev 311

224 Ev 185

225 Ev 222

226 Ev 258. See the sub-section on Public Private Partnerships (PPPs) in Chapter 4 for further discussion of this issue.

227 Ev 133

228 Q 22 [Sunil Sinha]

the poorest sectors of society have failed to materialise in these states.²²⁹ The huge informal sectors which remain in many middle income countries mean many workers operate outside international labour law protection.²³⁰ Inequality levels are currently rising within China, where poverty reduction has slowed to a standstill since 2000.

111. How can donors work with governments and the private sector to ensure that the benefits of economic growth reach all sectors of society? The Secretary of State, when this question was put to him, responded:

“Within any country, there is a choice about how you distribute the fruits of economic growth [...] If inequalities and unequal distribution of wealth and power and opportunity leads to political conflict [...] then that is a problem in countries. In the end [...] I think the politics of the countries themselves must sort it out.”²³¹

112. Tony Venables, DFID’s Chief Economist, supported this line of argument, stating that, “There are political choices for the countries themselves to make about their income distribution.”²³² Lord Brett of the ILO gave a different response to this question, stating that the way to avoid excluding poor sectors of society from growth was, “To build social security — that is the way you provide a safety net... to how you stop people being left behind.”²³³ Yet beyond some research into the determinants of inequalities within countries²³⁴, DFID does not appear to be giving adequate attention to PSD in middle income countries — where growth has taken off, but not reached all sectors of society. **We consider assigning total responsibility to national governments for the equitable distribution of the benefits of growth to be an inadequate response by DFID. Achieving DFID’s ultimate aim of poverty reduction requires not just triggering growth but assisting partner governments in finding the right strategies to ensure that poor people benefit from growth. DFID needs to build a coherent strategy for PSD in middle income countries with large inequalities. This strategy should involve dialogue with the Governments of China and India, in particular, about how to include the poorest sectors of their countries in economic growth.**

229 Q 22 [Sunil Sinha]

230 Q 216 [Lord Brett]

231 Q 412 and Q 414 [Secretary of State]

232 Q 414 [Tony Venables]

233 Q 221 [Lord Brett]

234 Q 414 [Tony Venables]

5 Financing Private Sector Development

113. Donors have a number of mechanisms at their disposal for mobilising private sector finance and funding PSD policies. As DFID acknowledged in their Memorandum, the private sector has far greater potential resources — in terms of finance, human capital and regional and international networks — than donors, and finding ways to stimulate the investment of these resources is crucial to poverty reduction. This chapter will work through a series of the methods for PSD financing used by DFID and other donors, including risk finance (and DFID’s primary instrument for risk finance, CDC); microfinance; support to Small and Medium-sized Enterprises (SMEs) and business sector development; challenge funds; Public Private Partnerships (PPPs) and remittances.

Risk finance and CDC

114. A shortage of risk capital – the provision of finance for investments perceived to be risky — is holding back the potential for pro-poor growth in many countries.²³⁵ Risk finance is particularly important to major infrastructure and extractive projects where commercial finance may be conditional upon it, and where the minimum social, ethical and environmental standards set by risk finance agencies may be called into play.²³⁶

115. CDC is DFID’s leading risk finance instrument. Created in 1948 as the Colonial (later Commonwealth) Development Corporation to develop the resources of Britain’s colonies, CDC Group PLC was comprehensively re-structured (and re-named) in 1999, becoming a public limited company and de-merging the bulk of its operational capacity into a number of separate fund management companies in 2004, chief amongst them being Actis. These fund managers negotiate and manage the investment of CDC’s capital in developing countries, to fulfil its mission of “maximising the creation and growth of viable businesses in poorer developing countries, through responsible investment and the mobilisation of private finance”. CDC remains wholly owned by the UK Government and retains an investment portfolio valued at some £1.5 billion.²³⁷

116. DFID assured us that the re-structured CDC-Actis model is, largely, working well: it is making profits and the bulk of CDC’s investments remain in developing countries.²³⁸ DFID and CDC witnesses both told the Committee that a major benefit of the re-structuring has been CDC’s greater ability to trigger a ‘demonstrator effect’ and mobilise other money alongside its own.²³⁹ Richard Laing, the CEO of CDC, gave the example of a US\$20million fund in India:

“A fund that gives a kick-start, [the fund managers] can then go out to other providers of capital and say CDC is here [...] and this fund will work [...] The seeding of that fund enables other people to say yes, this is real, and they will commit

235 Ev 162

236 Ev 183

237 Ev 161

238 Q 68 [Gavin McGillivray]. An Investment Policy agreed with the UK Government requires that 70% of CDC’s new investments must be in poorer developing countries and 50% must be in sub-Saharan Africa or South Asia.

239 Q 69 [Gavin McGillivray] and Q 95 [Richard Laing].

capital [...] The chief executive of the Norwegian Development Finance Institution [...] has confirmed that his institution would be committing initially US\$10 million [to the Indian fund] and then a further US\$10 million in the future.”²⁴⁰

117. DFID sees CDC’s role as an investment pioneer as an enduring one. Gavin McGillivray, Head of International Financial Institutions at DFID, told us: “I think within our lifetimes there will still be a strong role for pioneering investment because the frontier keeps on advancing.”²⁴¹ **We agree that there is a continuing role for CDC as an investment pioneer and provider of risk finance. The 2004 restructuring seems to have been successful in reinforcing CDC’s ‘demonstrator effect’ and its ability to mobilise other money alongside its own.**

118. However, a number of factors affecting CDC’s contribution to poverty reduction lead us to believe that CDC’s continuing role must be kept under careful watch. For instance, CDC’s investment in agricultural projects — the mainstay of private sector activity in many developing countries — has dropped considerably, from 18% of its portfolio five years ago to 10% now. When we visited Mozambique and Malawi in March 2006, we witnessed at first hand the difficulties that African smallholders face in accessing capital. Richard Laing attributed agriculture’s declining profile within CDC’s portfolio to the fact that “returns on agribusiness were quite low”.²⁴² Yet this conflicts with his earlier statement that: “The advantage of the current structure where we are still owned by government is that we are less return-sensitive and we can direct capital to those areas where maybe we will not maximise our return.”²⁴³ He went on to admit that, “On a disaggregated basis fund by fund we will have a very clear idea what our return expectations will be.”²⁴⁴ The UK Government, according to Richard Laing, set an aggregated target return of 5%.²⁴⁵ **Whilst accepting the UK Government target of a 5% market return should be met wherever possible, we consider that returns should be balanced with directing finance where it is most needed to reduce poverty.** Agricultural investment within Africa is an urgent priority, and the provision of risk finance by CDC will encourage potential investors to step in.

119. CDC’s mission statement of “generating wealth, broadly shared, in emerging markets, particularly the poorest countries” has also been brought into question. For instance, through its fund manager, Actis, CDC provided a significant proportion of the equity for the The Palms Shopping Centre in Lagos, completed in December 2005. Richard Laing’s defence of this investment — that it will support Nigeria’s middle classes, who are themselves key to the country’s economic growth — is valid up to a point.²⁴⁶ **CDC’s portfolio of investments must continue to be carefully scrutinised for their overall contribution to poverty reduction. CDC’s social and environmental record is patchy and we recommend close monitoring by DFID on where and how CDC invests. Acting**

240 Q 95 and Q 96 [Richard Laing]

241 Q 70 [Gavin McGillivray]

242 Q 99 [Richard Laing]

243 Q 98 [Richard Laing]

244 Q 135 [Richard Laing]

245 Q128 [Richard Laing]

246 Q 115 [Richard Laing]

as an investment catalyst is a necessary but not sufficient contribution to poverty reduction: CDC must ensure that its ‘development footprint’ is a wholly positive one.

Microfinance

120. Microfinance is defined as credit, savings, insurance and money transfer services for relatively poor people.²⁴⁷ Successful microfinance institutions (MFIs) have been proven to contribute to poverty reduction in multiple ways, helping poor people to increase incomes, build assets and save and insure themselves against times of increased vulnerability.²⁴⁸ Microfinance has also been linked to increased access to education, improved women’s and children’s health and the empowerment of women (it has been estimated that 8 out of every 10 clients are women).²⁴⁹

121. Following the successful model famously pioneered by the Grameen Bank in Bangladesh, the last decade has seen a remarkable proliferation of MFIs. The Year of Microcredit in 2005 raised the profile of microfinance and brought banks, multilaterals and public sector bodies together.²⁵⁰ DFID’s continuing commitment to microfinance was recognised by witnesses. The Department’s support for the Consultative Group to Assist the Poor (CGAP) at the World Bank, which has been a leader on the microfinance sector, was welcomed.²⁵¹ DFID extends support to a number of financial sector development initiatives, such as the FinMark Trust, that relate closely to microfinance.²⁵² But, as Citibank pointed out, the amounts that DFID contributes to microfinance — approximately £30 million per year — are relatively small in terms of global finance.²⁵³

122. With the exceptions of Bangladesh and Bolivia, microfinance has not reached an inclusive, sustainable level. Large-scale sustainable microfinance is best achieved when financial services for poor people are successfully integrated into the broader financial systems of developing countries.²⁵⁴ Commercial banks continue to under-serve large swathes of the populations of developing countries: as Citibank admitted to us, banks have to find ways of reaching larger numbers of people in an affordable way.²⁵⁵ DFID has worked towards this by combining the skills of the microfinance and commercial banking sectors, and in doing so has set itself apart from other donors’ microfinance work.²⁵⁶

123. But there are risks to using donor funds to promote commercialised MFIs.²⁵⁷ Using funds in this way could produce a bias towards more accessible geographical areas where economic activity is greater. It could risk compromising the ‘social mission’ of

247 Ev 235

248 CGAP Donor Brief No.11, ‘Microfinance means financial services for the poor’ (March 2003), p.1.

249 Figure quoted during HC Deb, 14 February 2006 [Westminster Hall].

250 Q 176 [Robert Annibale]

251 Q 167 [Robert Annibale]

252 See Chapter 4.

253 Q 167 [Robert Annibale]

254 CGAP Donor Brief No.11, p.1.

255 Q 159 [Robert Annibale]

256 Q 159 [Robert Annibale]

257 Ev 235

microfinance — for instance, the training traditionally carried out by NGOs and small MFIs that often goes beyond business to health, equality and community issues. DFID must continue to engage with banks and the not-for-profit financial sector to increase their reach to the poorest sectors of society. However, integrating microfinance into the commercial system requires care: efforts must be made to go beyond accessible, commercially-rewarding areas to reach the poorest, and to retain the ‘social mission’ of microfinance. **DFID’s annual expenditure on microfinance work remains limited and part of DFID’s increasing budget could be usefully spent in expanding microfinance projects beyond their currently very limited range, embedded in a broader strategy of deepening financial markets. This could include partnership with the banking sector in providing business case evaluated unsecured loans to small businesses whose principals have few assets of land or other security.**

124. A crucial determinant of the ability of MFIs to contribute to pro-poor growth is the regulatory environment in which they operate. Jay Naidoo, Chairman of the Development Bank of Southern Africa, described the problems experienced in South Africa whereby MFIs have taken advantage of unregulated environments. Charging high interest rates, these MFIs caused large numbers of poor people to become saddled with high debts, until the Government intervened and started to regulate more tightly.²⁵⁸ Evidence from Bolivia and Mexico shows that competition helps to reduce interest rates in microfinance.²⁵⁹ **Microfinance institutions have to operate in a regulated environment, otherwise poor people are liable to be exploited. In parallel with its support to microfinance, DFID must seek to build policy environments that provide appropriate levels of regulation and competition.**

Supporting SMEs and business sector development

125. Small and Medium-sized Enterprises (SMEs) are the backbone of private sector activity in most countries. Typically, they provide the overwhelming majority of jobs and — when operating in the formal sector — are large contributors to tax revenue and economic growth. SMEs can provide opportunities for employees to gain and use new skills and technology.²⁶⁰

126. Yet SMEs are also more vulnerable than multinational corporations to closure, exit, failure and economic shocks.²⁶¹ In certain sectors, such as agriculture, the vulnerability of SMEs is made more acute by climatic and seasonal variations such as droughts and floods. Start-up, survival and growth in SMEs is undermined by factors such as macro-economic turbulence; institutional weaknesses in legal and regulatory systems and resource constraints such as personnel, managerial know-how and finance.²⁶²

258 Q 168 [Jay Naidoo]

259 Q 168 [Robert Annibale] For further discussion of high transaction costs and rates by banks and MFIs, see the sub-section on Remittances later in this chapter.

260 Ev 249

261 Ev 223

262 Ev 224

127. Donor support towards the development of SMEs has traditionally been in the form of direct intervention and provision of inputs such as business support services and finance. But this approach carries the risk of causing market distortions, as Bob Fitch, Project Director of the Financial Deepening Challenge Fund, pointed out: “The real challenge in SME development [...] is how you foster their development without really disrupting the market.”²⁶³ Hence donors are now seeking to channel their support at the systemic level as well as ensuring direct assistance to businesses.²⁶⁴ This sub-section will not re-explore the range of investment climate interventions employed by donors (see Chapter 3), but will focus on how DFID is seeking to directly support SMEs.

128. Donors provide Business Development Services — in the form of advice, consultancy, training, provision of market intelligence and other information, development of business linkages and building networks — to improve the quality and performance of SMEs.²⁶⁵ Such services are crucial to ‘the missing middle’, a sector for which donors are sometimes criticised for paying insufficient attention²⁶⁶, and one that DFID admits it is only “beginning to” engage with (for instance, through its ‘Start and Improve Your Own Business’ programme in China).²⁶⁷ But as Alaric Fairbanks of Durham University highlighted, business development services are chiefly targeted towards larger companies; most transition and developing countries have little history of SME support services.²⁶⁸

129. To a large degree, business support services should be provided not by donors or governments but by business itself.²⁶⁹ Ann Grant of Standard Chartered Bank told us, “If you can get banking people to help with business plans and with financial literacy [...] that is probably more efficient than setting up some kind of DFID-led super structure.”²⁷⁰ **But an idealised notion that ‘the market will provide’ must not stand in the way of SMEs in undeveloped or missing markets receiving urgently needed basic assistance, which can be supplied and funded, to an extent, by donors and governments. Support to SMEs in the form of free business development advice and technical assistance is largely absent from transition and developing countries. Whilst any return to large-scale market intervention must be avoided by donors, DFID should not proceed to the other extreme and focus exclusively on investment climate work where SME growth is concerned.**

130. SME growth has a number of linked concerns that donors and governments need to monitor. SMEs are often over-represented in sectors with high environmental impacts, and they may not be subject to the same regulatory codes as large companies.²⁷¹ Equally, SMEs are more likely to evade or be unaware of international labour standards. Less emphasis has been placed on Corporate Social Responsibility (CSR) issues for SMEs than

263 Q 283 [Bob Fitch]

264 Q 283 [Bob Fitch]

265 Ev 249

266 Ev 154

267 Q 440 [Richard Boulter]

268 Ev 250-251

269 Ev 132

270 Q 285 [Ann Grant]

271 Ev 272

for large business.²⁷² Whilst such codes should be driven by the SMEs and Southern stakeholders themselves, rather than donors, engendering dialogue on CSR can be usefully done by donors. **DFID and other donors must be sure to include and prioritise SMEs in their dialogue with the private sector about social and environmental impacts. In their efforts to address SME growth, donors must concurrently pursue routes to improved adherence to international labour standards and codes on social and environmental abuses.**

Challenge funds

131. Challenge funds are a form of public-private partnership that allocates public funds through a competitive process to meet specific objectives. Challenge funds are considered to have potentially important ‘demonstrator’ effects — that is, demonstrating the viability of a market opportunity and ‘jump-starting’ markets that are slow or fail to deliver without public sector assistance. DFID maintains that: “Whilst improving the environment and investment climate for business is seen as crucial, there is still a vital role for a mechanism that can engage more directly with the private sector, and stimulate or catalyse businesses to act in a certain way that is pro-poor.”²⁷³

132. DFID is increasing its use of challenge funds within PSD. The management of these funds tend to be out-sourced to consultancies. Bob Fitch of Enterplan, the consultancy managing the Financial Deepening Challenge Fund (FDCF), believes this arrangement is sensible: “We can do it on a far more cost-effective basis than [DFID] could do it in-house [...] we are better able to talk and interface with private sector about business issues because we are a private sector business as well.”²⁷⁴ DFID’s use of challenge funds was generally supported by witnesses, who praised the funds’ ability to bring companies, NGOs, donors and multilaterals together and credited DFID’s use of this “bottom-up” initiative in conjunction with “top-down” strategies regarding enabling environment issues.²⁷⁵

133. Witnesses pointed out the respective strengths of different challenge funds supported by DFID. The South African not-for-profit company SBP commended the Business Linkages Challenge Fund (BLCF), a £15million grant scheme aimed at building business linkages and improving competitiveness, as a “proactive instrument” for creating linkages within markets and “engaging directly with the private sector to help businesses develop their supply chains.”²⁷⁶ The FinMark Trust valued the FDCF for its “innovation in a sector which is notorious for ‘upwards innovation’ (aimed at serving existing clients better) rather than the ‘disruptive innovation’ that new markets demand.”²⁷⁷

134. Challenge funds, however, are subject to criticism for failing to tackle broader systemic issues. As the ODI’s submission noted, the short-term injections of finance that challenge funds provide could risk distorting indigenous markets by focusing on a small

272 Ev 250. See Chapter 6 for further discussion of CSR.

273 Ev 137

274 Q 291 [Bob Fitch]

275 Q 167 [Robert Annibale] and Q 284 [Bob Fitch]

276 Ev 306

277 Ev 253

number of firms without adequate attention to sustainability and replicability once the grant period ends.²⁷⁸ But Bob Fitch of the FDCF told us that, whilst earlier challenge fund work lacked strategic thought and clear linkages to other policies and the wider enabling environment, efforts to redress this were now being made — for instance, operating the new Africa Enterprise Challenge Fund (a \$100million multi-donor initiative to be launched in November 2006) in tandem with the Investment Climate Facility (although Bob Fitch thought that “much more could be done” by DFID in terms of these integrated strategies).²⁷⁹

135. Mr Fitch, whilst positive about the lessons that have been learnt from previous challenge fund experiences²⁸⁰, emphasised the need for coherent development programming in the use of challenge funds. He told us that, “The funding for the FDCF actually came to a halt in 2004, so we are staring at a three to four year funding gap for the market place and the danger there is that we are losing the momentum we built up.”²⁸¹ **Challenge funds are a useful tool for direct engagement with the private sector and can help to catalyse market activity where it is slow or non-existent. For reasons of sustainability and coherence, however, it is vital that DFID embeds challenge funds in wider PSD programmes — not least to prevent gaps in funding. The linkage of the African Enterprise Challenge Fund with the ICF is a promising sign that DFID is aware of this need to integrate grant funding with systemic enabling environment improvements.**

Public Private Partnerships

136. One of the guiding principles for PSD set out in DFID’s recent policy paper, ‘Working with the Private Sector’, is “recognising that partnership is the best approach to development”.²⁸² Partnerships — especially Public Private Partnerships (PPPs) — were recognised throughout this inquiry as a major tool by which donors can finance and implement PSD.²⁸³

137. Private and public sector witnesses alike spoke positively of their experiences of PPPs. Petter Matthews of Engineers Against Poverty stated, “I think we have been through the myopic approaches that public is best and private is best and now we have a more nuanced understanding of bringing together the relative strengths of the different sectors.”²⁸⁴ Walter Gibson of Unilever described the Global Partnership for Handwashing with Soap as, “A wonderful thing because there is actually a shared vision at the heart of it [...] The private sector interest is the increased use of soap will expand the market; the public sector interest is promoting health.”²⁸⁵

278 Ev 284

279 Q 284 [Bob Fitch]

280 Q 288 and Q 289 [Bob Fitch]

281 Q 288 [Bob Fitch]

282 DFID, ‘Working with the private sector’ (2005), p.10

283 For further discussion of PPPs, see the sub-section on Infrastructure in Chapter 3, which details DFID’s involvement in infrastructure PPPs such as the Emerging Africa Infrastructure Fund.

284 Q 202 [Petter Matthews]

285 Q 324 [Walter Gibson]. The Global Public Private Partnership for Handwashing with Soap was set up in 2003 between a range of stakeholders, including the World Bank, Unicef, WHO and the three major soap companies — Unilever,

138. Several PPPs were put forward as models for success, including the Global Alliance for Improved Nutrition (GAIN), a partnership created to fight vitamin and mineral deficiency, whose partners include USAID, the Canadian International Development Agency, Unilever, UNICEF and the World Bank. GAIN's particular strength, according to its Chair, Jay Naidoo, is its ability to establish self-sustaining, market-driven programmes that become self-financed after initial donor funding.²⁸⁶ Another success story is SABMiller's Eagle Lager project, a PPP between SABMiller (a large brewing company), the Ugandan Government and a local Ugandan NGO, Afro-Kai. Eagle Lager has been produced from locally-produced sorghum in Uganda since 2002 and is now Nile Brewery's top brand with a market share of around 50%. 8,000 local Ugandan farmers are benefiting from contracts to grow sorghum at guaranteed prices and this number is expected to grow as demand increases. Sue Clark, Director of Corporate Affairs for SABMiller, told us, "The partnership point of view is very important: this was a government/NGO/business partnership and all three actors in that played a very significant role."²⁸⁷ Debswana, the diamond company held in equal parts by De Beers and the Government of Botswana and another successful PPP, told the Committee of how "the state in full partnership with the extractive industry" has helped to ensure Botswana's diamonds have paid developmental dividends as well as financial profit.²⁸⁸

139. The health sector, in particular, has seen a recent proliferation of PPPs, set up to develop new medicines, drugs, vaccines or diagnostics relevant to developing countries. These include Global Alliance for Vaccines and Immunisation (GAVI), the Global Fund to fight AIDS, TB and Malaria, the Stop TB partnership and Roll Back Malaria. The UK Government has provided both financial and technical support to these PPPs, and has also developed the International Finance Facility for Immunisation (IFFI) to leverage finance from capital markets to develop vaccines and vaccination programmes through GAVI.²⁸⁹

140. Two submissions expressed concern about the lack of donor and government funding for health sector PPPs. The George Institute were critical of the fact that health industry PPPs working on Research & Development (R&D) for neglected diseases receive very limited public sector support.²⁹⁰ Dr Valerie Curtis of the London School of Hygiene and Tropical Medicine made a similar point in her written evidence: that donors should develop and make widely available the means to support R&D for health goods such as cost-effective soap formulations, water purifiers, sanitation solutions, primary health care facilities, schools and offices.²⁹¹ **Numerous successful examples support the use of PPPs as a means to finance and implement PSD. The UK Government has shown innovation in spearheading the International Finance Facility for Immunisation and should explore other creative funding models for PPPs such as the self-financing Global Alliance for Improved Nutrition. In addition, the UK Government should engage with**

Procter and Gamble and Colgate-Palmolive, to help prevent diarrhoeal disease and other associated poor health impacts associated with a lack of handwashing.

286 Q 175 [Jay Naidoo]

287 Q 315 [Sue Clark]

288 Q 52 [Joe Matome]

289 Ev 133

290 Ev 257

291 Ev 238

governments and donors to address the funding problems experienced by the growing body of PPPs working on healthcare R&D, especially those working on neglected diseases.

Remittances

141. 175 million people live outside their home country²⁹² and many of them regularly send funds back home.²⁹³ Global remittance flows to developing markets were estimated at £73 billion in 2004; this value has grown by 13% annually since 2000. Migration and remittance experts argue that the unofficial transfers could be as large as formal flows. This could represent to a total annual flow to developing countries of £146 billion.²⁹⁴

142. World Bank research indicates that a 10% increase in international remittances for each individual migrant will lead to a 3.5% decline in the share of people living in poverty.²⁹⁵ In order to maximise the potential contribution of remittances to poverty reduction, the barriers to increased flows must be addressed. Many of these barriers are linked to the private sector, for instance, the high charges imposed by banks for money transfers. As the previous Committee said in its Migration and Development Report, published in June 2004, if transaction costs are to be reduced, then the market for remittance services needs to work better so that service providers compete harder, to offer better and cheaper services.²⁹⁶ Citibank acknowledged that “Banks have done a pretty poor job intermediating remittances”, and that currently there was a tendency to treat remitters as transactors rather than as clients.²⁹⁷ Seeing remittances as part of a client package will encourage banks to push transaction costs lower.²⁹⁸

143. It is more likely that improving competition will be the factor that drives down the costs of remitting. As the UK Money Transmitters Association told us, “One of the major weaknesses of the UK money remittance arena is that the market is not fully competitive [...] The UK money transfer market is dominated by two large money transfer companies creating, in effect, an oligopoly.” The Association suggests one straightforward way to take action on this monopoly would be to extend the Post Office’s current exclusive agreement beyond one large money transfer company.²⁹⁹ **Encouraging commercial banks to better facilitate remittance flows is a key example of how DFID can influence the private sector in contributing to development outcomes. To help increase remittance flows, banks must reduce transaction costs. The UK Government should engage with banks to encourage cheaper and more competitive services.**

292 DFID UK Remittance Market Report, November 2005

293 The issue of remittances was covered in depth in the previous Committee’s report on migration. Please see: International Development Committee, Sixth Report of Session 2003-04, Migration and Development: How to make migration work for poverty reduction, HC 79.

294 Ev 314

295 World Bank, International Migration and Development Research Programme (2005) quoted in Ev 314.

296 International Development Committee, Sixth Report of Session 2003-04, Migration and Development: How to make migration work for poverty reduction, HC 79.

297 Q 162 [Robert Annibale]

298 Q 186 [Robert Annibale]

299 Ev 316

144. DFID runs a number of remittance programmes at country level, for instance the Bangladesh remittance country partnership launched in 2005.³⁰⁰ The Department also funds the UK Remittances Taskforce, a private sector-led initiative, and the Sending Money Home website, which include market data and price comparisons for companies sending remittances from the UK. According to the UK Money Transmitters Association, some doubts remain as to whether money transfer customers (as opposed to industry specialists) find this website useful.³⁰¹

145. AfricaRecruit emphasised that inward investment flows from the diaspora go beyond remittances. Many members of the diaspora invest in their home countries in other ways, and efforts should be channelled into facilitating these flows. For instance, the private sector could help to create health insurance schemes for extended family in Africa, mortgage packages and investments in overseas stock exchanges.³⁰² **We consider that, as part of its dialogue with diaspora organisations, DFID should explore existing diaspora practices regarding remittances and other inward investment schemes and help engage the private sector to find additional ways — beyond remittances — to channel investment into home countries.**

300 Ev 129

301 Ev 315

302 Ev 216

6 How is the private sector contributing to development, and how can donors support this work?

146. The private sector's primary contribution to poverty reduction is through generating and sustaining economic growth. Clearly, however, the manner in which private sector entities trade, invest, employ staff and address their social and environmental impacts also has a profound impact on poverty reduction and human development.

147. This report does not limit its discussion of the private sector's contributions to development to this one chapter: many other sections of this report address this central issue — for example, the discussion of employment in Chapter 4, taxation in Chapter 3 and PPPs in Chapter 5. However, in this Chapter we consider a number of specific aspects of private sector impacts on development: private sector 'value chains' (the generic value-adding functions of an organizations, including its supply chains), trading practices, Corporate Social Responsibility (CSR), co-operative enterprises and business networks.

International trade

148. It is axiomatic that global trade practices and structures impact directly on poor people's capacity to participate in economic growth. The arguments for trade justice are well-documented: for instance, it is estimated that if African exports were to grow by 1% this would translate into revenue flows of more than \$40billion per year.³⁰³ Changing unfair systems and practices requires actions by governments and the private sector, and donors can support both. This report will not look at the issue of trade justice in depth; the Committee's position on this subject was clearly set out in our recent report on the WTO Hong Kong Ministerial and the Doha Development Round.³⁰⁴ We will focus instead on the trading practices used by companies in their supply chains — often described under the umbrellas of 'ethical' or 'fair' trade.

149. Before beginning this discussion, however, it is worth re-stating the primary conclusion from our report on the Doha Development agenda, namely that the Doha Round must ensure that liberalisation commitments put "trade at the service of development."³⁰⁵ Practically speaking, this means the WTO prioritising agreements in areas that have the potential to contribute the most to poverty reduction. To enable the identification of these pro-development proposals — and the positioning of these proposals at the top of the agenda — the WTO needs to promote a culture of balanced and

303 Andrew Rugasira, 'Beyond Kleptocracy and Kalashnikovs', *The Guardian* 8 June 2005.

304 International Development Committee, Third Report of Session 2005-06, *The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730.

305 Lecture by Peter Mandelson, European Commissioner for External Trade and Competitiveness, London, 4 February 2005, quoted in *International Development Committee, The WTO Hong Kong Ministerial and the Doha Development Agenda*, HC 730, p.3.

publicly available economic analysis of the effect of different trade initiatives on individual countries and groups within countries.³⁰⁶

150. ‘Ethical trade’ — defined for the purposes of this report as the assumption of responsibility by a company for the labour and human rights practices within its supply chain³⁰⁷ — offers the private sector a direct route to contributing to poverty alleviation. ‘Fair trade’ largely refers to the same practices and has become synonymous with the fair-trade certification scheme under which products are sold in Western supermarkets.³⁰⁸ For a product to be fair-trade certified, the importer selling it in the West pays a fee to the Fairtrade Foundation and pays a minimum price to one of the Foundation’s registered producers, which must provide a decent wage for workers and support community projects.

151. The last few years have seen an upsurge in popular and market interest in ethical sourcing and trading. UK shoppers have become the world’s biggest purchasers of fair-trade products.³⁰⁹ However, as the International Institute for Environment and Development emphasised to us, “Although sales in fairly-traded products are growing they are a very small component of total supermarket sales. The issue is therefore about how to mainstream fairness, equity and the development agenda into supermarket supply chains”.³¹⁰ There is also an issue around equipping consumers with clearer information so that they can make informed purchasing decisions based on the fair trading and ethical standards.³¹¹

152. Studies estimate that two thirds of global trade takes place between and within major trans-national companies.³¹² The supply chains of these companies clearly offer a major potential window of opportunity for leveraging better employment conditions and fairer prices for developing country suppliers. Larger companies can play an important role in providing long-term opportunities for small-scale enterprises as suppliers or distributors. Oxfam has termed such relationships, “Alternative supply chains [...] those that increase market power, income, savings and/or choice of poor producers in their interactions with companies.”³¹³ This issue will be explored later in this chapter in the Corporate Social Responsibility sub-section.

306 International Development Committee, Third Report of Session 2005-06, The WTO Hong Kong Ministerial and the Doha Development Agenda, p.32.

307 ‘Ethical trading’ is subject to broad interpretation, from organic farming to supply chains, from environmental sustainability to fair trade. The definition used here draws from the Ethical Trading Initiative’s document, ‘What is ethical trade? – Introduction’, online at <http://www.ethicaltrade.org/Z/ethtrd/aboutet/index.shtml#whatis>.

308 The term ‘fair trade’ is also used to refer to making the wider international trading structure more equitable, rather than the more narrow definition used here, relating only to the means of production. For instance, we quoted Peter Mandelson, the European Trade Commissioner, in our report *Fair Trade? The European Union’s trade agreements with African, Caribbean and Pacific countries* (Sixth Report of Session 2004-05, HC 68, p.3), as having declared that his mission on reaching office was to make trade fair for the many, and to ensure that the poorest have a share in rising global prosperity.

309 Lucy Siegle, 2006, ‘Dilemma as ethics enters mainstream’, *The Observer*, 12 March 2006.

310 Ev 270

311 Q 214 [Albert Tucker]

312 Ev 180

313 OxfamGB, Novib, Unilever and Unilever Indonesia, 2005, ‘Exploring the Links Between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia’, p.68. Online at http://www.oxfam.org.uk/what_we_do/issues/livelihoods/unilever.htm.

153. Dan Rees, Director of the Ethical Trading Initiative (ETI) — a DFID-supported alliance of companies, trade unions, development and campaigning groups working to improve the lives of workers in global supply chains³¹⁴ — praised DFID’s support for fairer trading practices: “To DFID’s credit, it has had a programme of ethical trade since 1997; it has supported, amongst others, the Ethical Trading Initiative [and] the fair trade movement”.³¹⁵ He expressed the opinion that, in regard to ethical trading, “One of the things donors do best is give money” and that the UK Government, “Should do that and it could do more of that”.³¹⁶ Mr Rees went on to recommend a package of other measures by which the UK Government can support ethical trade: firstly, creating the right enabling environment; secondly, focusing on the widespread implementation of labour standards — “Encouraging governments to act like governments and to enforce labour laws and to raise the bar in terms of creating that ethical environment”; thirdly, developing a “more coherent approach to ethical trading” across government — with other departments such as the Department of Trade and Industry (DTI) matching the levels of commitment shown by DFID — and; finally, ensuring that government procurement policy conforms to ethical standards.³¹⁷ Mr Rees told us, “The government in general [...] could have a more coherent approach to ethical trading [...] I hear much from DFID but I do not hear nearly so much from DTI.”³¹⁸

154. Albert Tucker, former Director of Twin Trading and now an independent consultant, also had recommendations for DFID’s policies in this area. He stated that, “One of the things DFID has been very strong at is piloting approaches, but where I see a weakness is bringing that to the mesh of business and private sector life and linking that in [...] How that learning is shared and applied, I think is a weakness”.³¹⁹ DFID should be scaling up successful pilots and assessing their contributions to systemic change — and sharing its valuable research as widely as possible.³²⁰ The examples given by Mr Tucker included DFID’s sudden exit following 3-year programmes supporting the coffee trade in Tanzania and the cocoa trade in Ghana, and its one-off guarantee for the Divine Chocolate Company.³²¹ Mr Tucker proceeded to express a concern about current financing arrangements: “We are putting costs back to suppliers and the poorest in the chain [...] I think donors can look at how to mitigate that in the way they apply funding, because I think there is a very strong focus on the market side.”³²² He also highlighted the need for donors to engage with the private sector over support to young entrepreneurs, through, for

314 The ETI was created in 1998. Corporate members include supermarkets such as Sainsburys and Tesco, high street retailers such as Gap and Boots, and food producers such as Typhoo Tea and Union Coffee Roasters. Corporate members of ETI commit to implement its Base Code (which reflects internationally agreed labour standards, enshrined in the national labour law of most countries) throughout their supply chains. The code stipulates, among other things, that working conditions are safe and hygienic, child labour is not used, working hours are not excessive and workers are paid living wages.

315 Q 213 [Dan Rees]

316 Q 213 [Dan Rees]

317 Q 213 [Dan Rees]. The need for greater coherence was reiterated in ActionAid’s written evidence (Ev 153) and the point about procurement in the IIED’s written evidence (Ev 270). See also our points on the DTI in Paragraphs 158 and 160.

318 Q 213. See also HC Deb, 4 May 2006, col 1084 [Commons Chamber].

319 Q 214 [Albert Tucker]

320 Q 215 [Albert Tucker]

321 Q 215 [Albert Tucker]

322 Q 214 [Albert Tucker]

example, apprenticeships.³²³ **DFID should seek to embed its support for ethical trading in a package of wider measures, including improvements to the enabling environment; the widespread implementation of labour standards; a more coherent approach to ethical trading across government and the development of an ethical code to govern government procurement policies. In addition, DFID needs to build up a more sustainable approach to supporting fair trade, with long-term, predictable funding a priority. Adequate consideration must be given to scaling-up pilot programmes and disseminating learning. As part of the increased focus on youth employment that we recommended in Chapter 4, DFID should seek to expand its work in supporting young entrepreneurs. DFID must engage with companies to ensure that fair trade schemes do not push costs back to suppliers and the poorest in the supply chain.**

155. The ETI has demonstrated that securing commitment to a basic ethical code (albeit a voluntary one) from companies is possible. The Initiative also has a valuable scrutiny role: in 2005, the alliance scrutinised the performance of some 6500 factories and farms worldwide, employing approximately 2.5million workers, and effecting 30,000 individual improvements in conditions.³²⁴ The ETI agreed that more independent scrutiny of company operations is needed.³²⁵ However, the Alliance was not set up to be a monitoring initiative: DFID’s support of £0.5m annually — plus company contributions — do not run to this. More commitment from other government departments, notably DTI (see Paragraph 158), would help the ETI to develop a monitoring function. Whilst Dan Rees, the Director of ETI, advised against the development of some form of “ethical scorecard”, given the current huge variations in company practice, he concurred that the ETI or a similar body could be constructed to fill an important gap in regards to improved scrutiny of ethical trade.³²⁶ Marks & Spencer were effusive in their support for the ETI — which has helped “develop a consensus between many retailers, trade unions and NGOs on the management of labour standards in global supply chains” — and supported the need for DFID to look at how “the ETI can play a more active role in addressing development issues.”³²⁷ **The ETI has demonstrated that securing commitment from companies to a basic ethical code is possible. However, the ETI currently has no ability to monitor ethical trade and there is a global gap in formal scrutiny. We suggest that the ETI could be usefully expanded into a monitoring mechanism that ensures more independent scrutiny of company operations. To enable this, sufficient funding arrangements should be put in place, which will need to include increases to DFID’s current contribution of £0.5million per year, in conjunction with seeking further funding from corporate members of ETI.**

Corporate Social Responsibility and beyond

156. Demands for greater corporate responsibility have been stepped up in the last two decades due to a range of factors, including the growth of multinational corporations; economic liberalisation; privatisation of basic services and evidence of companies’ negative

323 Q 214 [Albert Tucker]

324 Q 226 [Dan Rees]. The figure for improvements effected by the ETI is from 2004.

325 Q 226 [Dan Rees]

326 Q 229 [Dan Rees]

327 Ev 280

social and environmental impacts. In response to these changing circumstances, the corporate sector has worked through various phases of response, summarised by Sumi Dhanarajan, Head of Oxfam's Private Sector team, as follows:

“Starting with a ‘deny and defend’ position, moving to ‘paying penance’ through donations and philanthropy, and currently settling on risk management through mitigating the negative impacts of their business operations”.³²⁸

157. Many companies have responded to criticism by developing Corporate Social Responsibility (CSR) codes. NGOs such as ActionAid, whilst highlighting that CSR has important benefits, have criticised voluntary codes for being insufficient standards for the protection of human rights and the environment.³²⁹ Lord Brett, Director of the ILO in the UK, was also pessimistic about CSR policies: “We look at all the CSR reports of British multinationals and half of them leave more than a little to be desired. They are, at best, opaque and quite often misleading”.³³⁰ Others criticised CSR policies for the ‘bolt-on’ nature of their implementation, lack of ‘teeth’ and roots in Northern PR strategies rather than developing country supply chains.³³¹ Christian Aid’s findings on what lies ‘behind the mask’ of CSR are indicative of many of the charges levelled against companies by civil society: for instance, Shell’s oil spills and ineffective community development projects in Nigeria and British American Tobacco’s violations of pledges on health and safety amongst Kenyan and Brazilian tobacco farmers.³³²

158. As the logical corollary to these criticisms, many civil society organisations support stronger regulation of corporate behaviour through the implementation of international codes for multinational companies such as the OECD Guidelines for Multinational Enterprises and the UN Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights. As Dominic Eagleton of ActionAid told the Committee, whilst these frameworks are voluntary, and retain a number of inherent flaws in their implementation mechanisms, they do at least form a basis for redress.³³³ However, Dr. Claire Melamed of Christian Aid expressed concerns about cross-Whitehall coordination on implementing these codes.³³⁴

159. ActionAid suggested that a step further towards stronger regulation would involve securing responsible company behaviour through the legal requirements of company HQ countries.³³⁵ This would enable communities subject to corporate abuses in countries of investment to hold Western companies to account through the companies’ own national

328 Sumi Dhanarajan, ‘Managing ethical standards: when rhetoric meets reality’, *Development in Practice* vol.15 numbers 3 & 4 (June 2005), p. 531.

329 Ev 153

330 Q 224 [Lord Brett]

331 On this last criticism, see Q 450 [Dominic Eagleton].

332 Christian Aid, ‘Behind the Mask: the real face of CSR’ (2004), online at http://www.christianaid.org.uk/indepth/0401csr/csr_behindthemask.pdf

333 Q 466 [Dominic Eagleton]. NGOs criticise the OECD Guidelines for relying on a weak conformity mechanism based on reporting through national contact points. See the following report for further details: Christian Aid, 2006, ‘Flagship or failure? The UK’s implementation of the OECD guidelines and approach to corporate responsibility’, online at <http://www.christian-aid.org.uk/indepth/601flag/index.htm>.

334 Q 455 [Claire Melamed]

335 Q 453 [Dominic Eagleton] and Ev 153

legal systems. In the UK, a number of NGOs under the Corporate Responsibility Coalition and the Trade Justice Movement banners are seeking such requirements through the Company Law Reform Bill, which had its Second Reading in the House of Commons in May 2006. The coalitions are trying to secure amendments to the Bill to require companies to annually audit their impact on the environmental and human rights and to enable people overseas who are harmed by the activities of a British firm to take action against the company in a UK court.³³⁶

160. Whether or not civil society organisations succeed in their demands for greater regulation of corporate behaviour, it seems, as Lord Brett said, that “CSR is here to stay.”³³⁷ A number of witnesses stated their belief that companies are going beyond the more superficial aspects of CSR to recognise that commercial advantage and high ethical standards can proceed hand in hand. For instance, the Institution of Civil Engineers’ (ICE) written submission stated that, “CSR is evolving and as Gordon Brown recently stated, it has moved far beyond traditional philanthropy towards the heart of business management.” The ICE believed that this reflected the UK Government’s lead in this area, with a Minister for CSR and a CSR academy.³³⁸ As Alaric Fairbanks of Durham University pointed out, though, the focus has remained overwhelmingly on multinationals and, so far, far less emphasis has been placed on the development of CSR in indigenous enterprises, particularly SMEs.³³⁹ **Whilst a number of companies are ‘going beyond’ PR-driven CSR policies to implement responsible behaviour in their core business operations, many policies remain superficial, ‘tick box’ corporate gestures, rather than meaningful attempts to grapple with social and environmental impacts. Furthermore, the CSR focus is concentrated in the multinational business sector, rather than on SMEs, which are often over-represented in industries with high social and environmental impacts. DFID must seek to re-dress this balance. We urge the Department to support improved implementation of international codes for multinational companies such as the OECD Guidelines for Multinational Enterprises. This will entail lobbying for far greater collaboration and coordination across Whitehall and introducing Government initiatives to push companies into CSR policies.**

161. One potential case study of a new way to assess the impact of business on poverty reduction is a form of corporate-NGO ‘peer review’ trialled by Oxfam and Unilever. In 2004–5, Oxfam joined forces with Novib (Oxfam Netherlands) and Unilever to support an innovative research project in Indonesia, which explored how, and to what extent, the operations of Unilever Indonesia have an impact – positive or negative – on poverty in Indonesia.³⁴⁰ Both partners found the project to be highly beneficial. Walter Gibson of Unilever told the Committee that Unilever wished, “To follow up the research that we did with Oxfam, really to understand more about the people at the extreme ends of the value chain and what would make a difference to them.”³⁴¹ Oxfam was allowed unprecedented

336 At the time of writing, 200 MPs were supporting these amendments.

337 Q 224 [Lord Brett]

338 Ibid.

339 Ev 250

340 OxfamGB, Novib, Unilever and Unilever Indonesia, 2005, ‘Exploring the Links Between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia’. Online at http://www.oxfam.org.uk/what_we_do/issues/livelihoods/unilever.htm.

341 Q 334 [Walter Gibson]

access to a company's employees and operations, and was largely pleasantly surprised by Unilever's positive impacts in Indonesia:

“We found that Unilever Indonesia, in terms of its direct relationship with its employees, was very good [...] More than 300,000 people made their livelihoods in Unilever Indonesia's value chain, so the impact of that on poverty reduction is pretty immense.”³⁴²

162. Oxfam were excited about future possibilities of using this new model for assessing company operations: “One of the big roll-outs of this report is simply to take the methodology out there”.³⁴³ **The Oxfam-Unilever project exploring the links between business and poverty reduction in Indonesia is an exciting new model for assessing corporate behaviour and ensuring that growth benefits ‘the base of the pyramid’. DFID should, in its ongoing dialogue with business and civil society organisations, support similar projects, where they are likely to assist poverty reduction through private sector growth.**

Co-operative Enterprises

163. As democratic member organisations, co-operatives — when performing efficiently — can exemplify a private sector model that provides many benefits for poor people. Co-operatives can be any kind of business and they operate in most sectors of economic activity. Globally the co-operative movement provides employment for more people than multinationals, supplying over 100 million jobs.³⁴⁴ As with most private sector actors, co-operatives do not tend to start from a poverty reduction viewpoint, but contribute to this goal by providing economic opportunities to marginal economic actors (producers, workers or consumers).³⁴⁵ However, as Stirling Smith of the Co-operative College said, co-operatives “are part of the private sector but a little bit different”, with an ability “to provide a link between the formal part of the economy and the informal sector”, to enable “collective entrepreneurship” and to “provide access to markets that the individual, small farmer could not possibly achieve.”³⁴⁶

164. Co-operatives fell out of fashion with development actors in the 1980s and 1990s.³⁴⁷ Renewed support for co-operatives, however, seems to be emerging, as Lord Brett, Director of the ILO in the UK, told the Committee:

“Co-operatives in Africa had a bad reputation because they were seen to be top-down, state-driven standards... Therefore the word “co-operative” — a bit like the word “trade union” in Eastern Europe – had a problem in post-single-state Africa, but it is a key because, as has been said, it brings people together, it provides local training and leadership, it is multi-functional... We think this is a very cost-effective

342 Q 478 [Sumi Dhanarajan]

343 Q 480 [Sumi Dhanarajan]

344 Ev 170

345 DFID How To Note, ‘How to leverage the co-operative movement for poverty reduction’ (DFID, May 2005), p.3.

346 Q 386 [Stirling Smith]

347 Q 387 [Stirling Smith]

way of bringing assistance which will not blow away in three years... We think it is a major area for further investment.”³⁴⁸

165. DFID appears to be having a resurgence of interest in co-operatives, with its recent publication of a policy note on the issue³⁴⁹, a £50million grant to rural electricity co-operatives in Bangladesh extended in 2005 and its Strategic Grant Agreement (SGA) with The Co-operative College (launched in 2003). Under the SGA, the Co-operative College leads a consortium of co-operative enterprises and agencies in providing education, information and outreach services about co-operatives. The aims of the SGA are twofold: “to work within the UK co-operative sector to promote awareness of the MDGs and to build the capacity of the co-operative sector to deliver appropriate and effective help to co-operatives in the South”.³⁵⁰

166. The Co-operative College was enthusiastic about the SGA, and will be seeking renewed support from DFID when the Agreement expires in March 2007.³⁵¹ Mr. Smith pointed out the mutual benefits of the SGA for the College and DFID, “[The SGA] has been enormously helpful for us in raising our game in terms of international development work. It has helped DFID in terms of policy exchange and policy development [...] We are having some success in terms of shifting developing discourse to include co-operatives.”³⁵²

Co-operatives — when performing efficiently — represent a private sector model that provide many benefits and opportunities to poor people. We hope that the resurgence of interest in co-operatives is not a passing fashion: co-operatives represent a cost-effective and sustainable way to support PSD. DFID’s Strategic Grant Agreement (SGA) with the Co-operative College has been mutually beneficial, helping both partners to raise the profile of co-operatives as key contributors to PSD. We support the need to put in place a new SGA with the Co-operative College when the current Agreement expires in March 2007.

167. Co-operatives can provide an effective vehicle for the large-scale provision of electricity and water³⁵³, as DFID’s £50 million grant for rural electricity co-operatives in Bangladesh suggests the Department is beginning to realise. DFID estimates that the grant will help to connect over one million under-served households and businesses, benefiting up to 10 million people. The programme includes a training budget for managers and members of the local electricity co-operatives managing the service at the local level. However, Stirling Smith commented in regard to the Bangladesh grant, “We had a bit of an argument with DFID about it. They tended to see [the grant to Bangladesh] as being an efficient instrument for rural electrification and tended to ignore the co-operatives side of the equation.”³⁵⁴ Mr. Smith also thought that whilst some parts of DFID’s organisation

348 Q 214 [Lord Brett]

349 DFID, ‘How to leverage the co-operative movement for poverty reduction’, 2005.

350 Ev 169

351 Q 389 [Stirling Smith]

352 Q 389 [Stirling Smith]

353 Ev 170

354 Q 394 [Stirling Smith]

showed a high level of awareness regarding the wider role of co-operatives in PSD, the Department's country programmes were less cognisant of the link.³⁵⁵

168. The co-operative movement has been a leading player in the fair trade movement. Co-operatives are the largest retailers of fairly traded products globally.³⁵⁶ Albert Tucker, a leading fair trade consultant, was positive in regard to the role of co-operatives in improving trade practices: "In the fair trade movement we have found co-operatives quite valuable. I know there are mixed experiences of the success of co-ops, but we have found that poor-people-led co-operatives, when they are successful, have invested much more widely in the communities they are working in and in infrastructure than traditional shareholder-led private-sector interventions."³⁵⁷ **The co-operative movement has a particular role in public sector delivery and in making trade work for poor people. Co-operatives can provide an effective vehicle for the large-scale provision of public utilities, and governments planning public sector reform and privatisation projects should include co-operative enterprises amongst the private sector options. DFID's 2005 grant of £50 million to rural electricity co-operatives in Bangladesh is a positive indication of the Department's renewed commitment to the co-operative sector, and we anticipate similar expressions of support from DFID in the short-term future. The important role of co-operatives in PSD should be adequately communicated to all DFID country programmes to ensure a coherent approach to this under-recognised PSD model.**

Business forums

169. The emergence of a number of business networks focused on development is indicative of an emerging consensus on how business can assist poverty reduction. Business Action for Africa (BAA) is one such forum, as Ann Grant of Standard Chartered Bank, told the Committee:

"[BAA] really does the business for business; it is very well run; it hits the spot in terms of the information that we need, and it gives us a readymade platform for dialogue and for a quick meeting if we want one on a particular subject [...] [BAA] is getting us to that point where we stop talking and start doing things together."³⁵⁸

170. Sue Clark, Corporate Affairs Director of SABMiller, and (at the time) Chair of BAA, said that BAA represented an emerging consensus within business:

"[There is] a change and certainly an understanding increasingly amongst business that the profit motive is clearly important but you cannot do that without taking all your stakeholders with you, and when it comes to emerging markets that does mean actually looking at the market in a [...] different way."³⁵⁹

355 Q 391 [Stirling Smith]

356 'Co-operatives tackling poverty', Co-operative College press release, 10 November 2003. Online at <http://www.co-op.ac.uk/downloads/Tackling%20World%20Poverty%20release.pdf>.

357 Q 214 [Albert Tucker]

358 Q 289 [Ann Grant]

359 Q 317 [Sue Clark]

171. BAA is a growing network of businesses and business organisations, active in Africa and from the continent, launched in July 2005 to build on the momentum of the Commission for Africa and the G8. The forum currently has over 100 members and has thirteen listed funders, comprising companies and public sector bodies including DFID.³⁶⁰ BAA was commended to us a number of times, for instance, by Standard Chartered Bank³⁶¹, Marks and Spencer³⁶² and Syngenta, who told us of the work they are doing in close co-operation with other BAA members on agriculture.³⁶³ There is clearly anticipation that BAA will continue to grow. For instance, the Syngenta Foundation for Sustainable Agriculture told us, “We hope that Business Action for Africa can create an ‘Enterprise Forum for African Agriculture’ with the purpose of building a consensus and effective partnerships for helping to modernize African agriculture.”³⁶⁴ Petter Matthews of Engineers Against Poverty also saw an expanding role for BAA, possibly fulfilling an intermediary role: “It is not clear to me how the Infrastructure Consortium is going to be engaging with civil society and business. I know that Business Action for Africa [...] is looking at engaging with the Infrastructure Consortium. It is absolutely vital that that occurs.”³⁶⁵

172. Business forums have a variety of applications. The Donetsk Chamber of Commerce from Ukraine, who have partnered with DFID on the ‘Improving the Enabling Environment in Ukraine’ project, told us of the value of large business forums in bringing about effective public-private dialogue.³⁶⁶ There are also examples of single-issue business forums, such as the Global Business Coalition on HIV/AIDS, which works to unite the skills of over 200 companies in fighting AIDS and to helping members address the impact of the disease on their employees.³⁶⁷ **Business forums act as a vital conduit for public-private dialogue and private sector action on poverty reduction. Business Action for Africa (BAA) is a highly promising outcome from 2005 and it is crucial that DFID continues its support for the forum. In conjunction with support from BAA’s growing corporate membership, DFID should assess current funding levels with regard to ensuring that BAA can continue to expand as a crucial partnership for PSD.**

Industry groups

173. Bringing together companies from a particular sector with donors, governments, NGOs and other key stakeholders is an important channel for private sector involvement in development. Unfortunately, apart from evidence concerning the Extractive Industries Transparency Initiative (see Chapter 3), we did not receive any specific evidence on industry groups, but we considered it important to record two recent successful examples of DFID involvement in such groups nonetheless.

360 For further information, see www.businessactionforafrica.org.

361 Q 278 [Ann Grant]

362 Ev 279

363 Ev 201

364 Ev 205

365 Q 206 [Petter Matthews]

366 Ev 248

367 See <http://www.businessfightsaids.org/> for further details.

174. The UK Remittances Task Force is an example of a DFID-supported industry group, with 16 banks, money transfer companies and industry associations as members (including major international banks, the British Bankers Association, Western Union and the Post Office). The Task Force was formed in early 2006 with the aim of reducing barriers to remittance flows from the UK to developing countries. The private sector members have agreed to promote the following changes in the UK market for migrant remittances: greater transparency, more competitive markets, better informed customers, greater use of formal money transfer channels, better information for government and providers and more streamlined regulation of money transfers.

175. The Task Force is an outcome of the DFID-chaired Remittances Working Group, which met during 2004–2005 with both private sector and public sector representatives (including HM Treasury and the Financial Services Association). The Working Group members agreed a set of recommendations for a private sector Task Force to take forward. DFID is providing financial support to the Task Force, and helped identify its Chairperson and Steering Group members.

176. Another example of a successful industry group with DFID involvement is the high-level Working Group on Increasing Access to Medicines in Developing Countries (initiated by the UK Government in 2002). This industry group comprised of representatives from pharmaceutical companies, the UK Government, the EU, the WTO and NGOs. Building on consultation within the Group, DFID, the Department of Trade and Industry and the Department of Health launched 'Increasing people's access to essential medicines in developing countries: a framework for good practice in the pharmaceutical industry' in 2005, a set of recommendations for how pharmaceutical companies can help to increase access to their products in developing countries, including in relation to pricing and research and development investment decisions. The recommendations recognised the good work of many companies, whilst calling on the industry to go further.

177. The launch of the framework was welcomed by the Association of the British Pharmaceutical Industry, the American Pharmaceutical Group, Merck, Pfizer and GSK. Since the launch of the Framework, DFID has organised a number of meetings with pharmaceutical companies from the US and Europe to specifically progress recommendations in the framework. A report will be issued later this year reviewing progress regarding the framework.

7 PSD in practice: DFID's organisational design and ways of working

178. Thus far, this report has concentrated on examining DFID's thinking — as reflected in its policy-making — regarding PSD. DFID's current set of policies imply that the growth-poverty reduction linkage is reasonably well-established in DFID's thinking. Kurt Hoffman, Director of the Shell Foundation, believed DFID to be leading the way amongst donors on its thinking regarding PSD: "Looking across a number of the donor agencies that we deal with, DFID is far ahead of its competitors in terms of understanding the importance of [private sector-led growth]".³⁶⁸ The OECD Development Assistance Committee's Peer Review, published in June 2006, was satisfied that, "DFID is paying increased attention to the crosscutting "pro-poor growth" agenda and is considering further integration of economic growth and productive sectors into programming for poverty reduction."³⁶⁹

179. However, we now need to consider whether DFID's operational capacity — its administration, organisational design and ways of working — has 'caught up' with its policy-making on PSD, and adequately reflects the growing priority accorded to the PSD within DFID's thinking. This chapter will explore whether DFID's deployment of resources — both inside and outside the Department — adequately supports its PSD policies. It will also look at DFID's strategy and planning regarding PSD, and explore issues of coherence and co-ordination relating to PSD policies.

A cultural divide

180. As Ann Grant of Standard Chartered Bank pointed out, PSD represents a relatively new area for development actors:

"I think the fact that growth and jobs are key to development and that the private sector is key to both is now accepted wisdom, but the actual mechanisms and ways of working and, indeed, training and background of people involved in development is still quite new... I think the intellectual work has now been done...but you are talking about people in long-term business, whether it is NGOs, governments, multilaterals, for whom working naturally and easily with the private sector is still quite new."³⁷⁰

181. DFID officials acknowledged that PSD is a relatively new area for the Department.³⁷¹ However, **we observe a number of indications that DFID's administration and organisational design have not 'caught up' with the Department's growing prioritisation of PSD within its thinking and policy-making. For a start, somewhat of a cultural divide seems to exist between DFID and the private sector — their ways of**

368 Q 9 [Kurt Hoffman]

369 OECD Development Assistance Committee (DAC), Peer Review (Paris: OECD, 2006), p.13. 'Productive sector' is another term for 'private sector'.

370 Q 277 [Ann Grant]

371 Q 65 [Sharon White]

working and organisational cultures are very different, and bridging this gap represents a challenge that DFID has not yet fully addressed. Ann Grant expressed such a view:

“[There is a] Civil Service way of working that does not match up very easily to the way the private sector works and I think [the private sector] have not got that much tolerance for another lot of summits, another lot of discussions — discussions on policy in particular [...] We learn by doing rather than by talking about it.”³⁷²

182. Andrew Hollas, Head of Africa Markets at PricewaterhouseCoopers, echoed this view, pointing to a lack of real understanding within DFID regarding how to work with the private sector: “I have huge respect for virtually every individual I have ever come across that worked in DFID. I think they are incredibly able, incredibly sincere and incredibly committed people. Does DFID properly understand and work with the private sector? No, in my view”.³⁷³

183. Involving the private sector in policy-making — an integral part of building PSD policies — will require DFID to accommodate the different working styles in public and private sector bodies, otherwise the capacity of companies to contribute to PSD approaches may be compromised. One aspect of overcoming the cultural gulf is slimming down the time and opportunity costs associated with participation in policy consultation, which are evidently perceived by the private sector as a barrier to their engagement with DFID. Ms Grant suggested that speed was of the essence: “We need to get sharper and smarter and briefer [...] somebody [from DFID] to come to the Bank to do half an hour's quick presentation [...] rather than the opportunity to submit papers and to come in [to DFID]”.³⁷⁴

184. Adopting this streamlined approach should not require radical or costly changes to DFID's approach, merely an adapted style. Time will not permit DFID staff to visit every individual company involved in a particular aspect of PSD. This is why we recommend that DFID makes better use of business forums networks such as Business Action for Africa, and industry groups in the UK and across countries of operation, as a means to link with a number of private sector actors simultaneously in a time- and cost- effective way.

185. A second aspect of bridging the cultural divide between DFID and the private sector concerns personnel issues within DFID. Out of a total staff of 2500, DFID employs just 25 PSD Advisers, who represent the primary cadre of officials working on PSD.³⁷⁵ **In our view, not only does the limited number of PSD specialist staff affect DFID's ability to engage effectively with the private sector, it is also an insufficient number to cover DFID's 36 country offices plus its two UK-based headquarters. We believe that DFID should set a minimum target of one PSD adviser for each of its 36 country offices in addition to the current Growth and Investment Group within DFID headquarters.**

372 Q 278 [Ann Grant]

373 Q 366 [Andrew Hollas]

374 Q 278 [Ann Grant]

375 Q 432 [Richard Boulter]

186. We also believe that DFID should seek to better integrate its PSD Advisers within its organisational structure, to ensure coherence with other areas of work. As we discussed in the Introduction, PSD is not so much a development sector as a ‘way of doing things’ that cross-cuts a variety of policy areas. Currently, DFID sites all 9 of its London-based PSD Advisers within its Growth and Investment Group (except for two who belong to the International Trade Department).³⁷⁶ The remaining 16 PSD Advisers of the 25 total are employed within country teams.³⁷⁷

187. There is evidence that this improved integration is already occurring within a number of country office teams. Sunil Sinha of Emerging Market Economics stated:

“In the most progressive DFID offices, what is happening is a change from enterprise development advisers doing enterprise development in isolation to pro-poor growth teams being brought together, multidisciplinary teams, which will include a macro-economist, an enterprise development adviser, a governance expert, somebody who is good on basic social services like education and health, trying to address the pattern and pace of growth holistically. That is still restricted to a few offices... [including] the Nigeria office”.³⁷⁸

188. Professor Wood agreed and detected this trend more widely, “Ghana is another example where they have had a very strong team. Most of the Africa country offices are taking this focus.”³⁷⁹ **The development of multidisciplinary teams in country offices, which integrate PSD expertise with other policy specialisms, should be emulated across all 36 DFID country offices.**

189. **We believe that greater integration should also be sought within DFID’s Policy Division. Deploying an PSD Adviser to every team — for instance, in the way a Social Development Adviser currently sits within most teams — would involve too large-scale an increase in staff to be cost-efficient. But, following the Department’s restructuring in 2002 — which aimed for enhanced fluidity of staff deployment — DFID should have the structure in place to ensure that PSD Advisers can work flexibly across different teams according to work priorities. We advise DFID to use the flexibility and fluidity of its post-restructuring arrangements to maximum effect, and move PSD Advisers in and out of Policy Division teams to support changing priorities and the cross-cutting nature of different policy areas.**

190. Ensuring that PSD Advisers have first-hand experience of the private sector and business expertise will help both mitigate the cultural gap and contribute to DFID’s pool of knowledge regarding PSD. DFID’s current staff of PSD Advisers is well-qualified in this regard, with 82% having either a business qualification or experience in business, or

376 The Group is sub-divided into five teams, the Business Alliances Team (with one PSD Adviser), Investment Climate Team (two PSD Advisers), Pro-Poor Growth Team (one PSD Adviser), Financial Sector Team (two PSD Advisers) and Renewable Natural Resources and Agriculture Team (one PSD Adviser – currently unfilled). There is also a Head of Profession within the Group.

377 There are currently five PSD Advisers in Asia, seven in Africa, two in Latin America and two on secondment to other parts of the Department.

378 Q 40 and Q 41 [Sunil Sinha]

379 Q 41 [Professor Adrian Wood]

both.³⁸⁰ **We recommend that if, as we have recommended, the numbers of PSD Advisers are expanded, a minimum target should be set to recruit advisers who have both business qualifications and business experience.**

191. As well addressing its external recruitment of PSD Advisers, DFID should focus on developing the business skills of its current employees. One possible route towards this would be the increased use of secondments of DFID staff to the private sector. To date, DFID has only undertaken one such secondment in this direction (who worked for BP as an Analyst in their Shareholder Team for 12 months in 2004). Six secondments into DFID from the private sector have also been undertaken in the last 3 years.³⁸¹ Currently, Unilever has an arrangement with the Foreign Office whereby high potential FCO staff are seconded for a year to Unilever’s Africa and Middle East Region office. We feel similar secondment schemes within DFID would assist the development of common understanding between DFID and the private sector. **We advise that increased use of secondments into and from the private sector will assist the development of common understanding between DFID and the private sector.**

Using resources outside DFID

192. However, as Gavin McGillivray, Head of International Financial Institutions at DFID, pointed out, “Having a few people in-house with private sector experience is helpful but so is using the right people outside of DFID”.³⁸² DFID uses a number of different arrangements for placing the running of PSD policies in private sector hands — for instance, the CDC-Actis fund management model and the out-sourcing of challenge funds to consultancies. As Bob Fitch, Project Director of the Financial Deepening Challenge Fund at Enterplan, said:

“DFID themselves are not the best body to do the business type of interaction. The private sector has some difficulty in having constructive conversation with civil servants, however good and enlightened they are, and I think [DFID’s] willingness to look at ways of outsourcing that type of intermediary role has been very important as well in pushing [the PSD] agenda forwards.”³⁸³

193. **We support DFID’s current outsourcing of challenge funds to consultancies and risk finance to the CDC Group. Not all DFID policies will benefit from being outsourced to the private sector and we do not recommend expanding the use of outsourcing beyond its current usage, which is focused on policies which involve the most direct engagement with the private sector.**

194. **DFID will also strengthen its resources for PSD by ensuring that it utilises the strengths of other UK Government Departments through effective co-ordination of policies linked to PSD. A particular area where improved co-ordination would be**

380 Peter Wilson, Report to DFID Enterprise Development Cadre, Review Of Competency Framework And Continuing Professional Development (The Enterprise Partnership Ltd, 10th January 2005).

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382 Q 65 [Gavin McGillivray]

383 Q 279 [Bob Fitch]

beneficial is the implementation of international regulatory codes on the private sector's social and environmental impacts. Dr Claire Melamed of Christian Aid told us:

“It is safe to say that government policy could be much better coordinated in this area [...] I think there is a cross-Whitehall group which is supposed to deal with these issues which perhaps is less effective than it might be. I think there are specific areas where you can see there is a particularly woeful gap. One that comes to mind is the Export Credit Guarantee Department, for example, where DFID needs to have a much, much stronger authority to look at the kind of support that is being offered to companies [...] That is just one example and I think there are a whole range.”³⁸⁴

195. DFID should also ensure that its wider PSD approach is co-ordinated with the international and development policies of other UK Government departments. To reiterate a concern that we first expressed in a letter to the Secretary of State in March 2006, responding to the White Paper consultation, we noticed that the widely-distributed letter sent jointly by Hilary Benn, Tony Blair and Gordon Brown on 9 March 2006 announcing the progress report on ‘Implementation of the Commission for Africa Recommendations and G8 Gleneagles’ Commitments on Poverty’ did not mention PSD, implying that DFID’s prioritisation of PSD is perhaps not shared with HM Treasury and No.10 Downing Street.³⁸⁵ The accompanying Progress Report, whilst making a number of references to PSD, did not convey that PSD would be a central tool in implementing the development promises made during 2005. We found it concerning that DFID may not be coordinating closely with HM Treasury, in particular, over harnessing the potential of the private sector for poverty reduction. **DFID will strengthen its resources for PSD by ensuring that it utilises the strengths of other UK Government departments. This will involve more efficient co-ordination with other departments, where appropriate, to ensure a shared vision for achieving the development promises for 2005 and the role of PSD in meeting global targets. A particular area where greater co-ordination would be beneficial is the implementation of international regulatory codes on the private sector’s social and environmental impacts.**

196. DFID should also ensure that it co-ordinates effectively with other donors over PSD. We discussed the differing approaches used by donors in Chapter 2 of this report, and will not re-examine these at this point. Donor co-ordination is important within any development area, but it has particular significance within PSD due to the wide-ranging nature of the private sector’s potential engagement with poverty reduction. Jonathan Mitchell, Dirk Willem te Velde and Michael Warner of the Overseas Development Institute (ODI) said the following in relation to donor co-ordination within PSD: “While this needs to avoid the creation of an “escalator” of donor-assisted instruments at the micro level, resulting in a dependency of local business on subsidy, there does need to be a co-ordinated approach by donors across various areas (infrastructure, human resources, credit) at a strategic level.”³⁸⁶

384 Q 455 [Claire Melamed]

385 Letter from Malcolm Bruce MP to the Rt Hon Hilary Benn MP, Secretary of State for International Development, 28 March 2006.

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197. Unfortunately, we did not receive specific evidence on how donors effectively are co-ordinating their approaches to PSD in practice. DFID is involved in international co-ordination initiatives that bring donors together in terms of policy and practice in PSD, such as the Committee of Donor Agencies for Enterprise Development and the OECD PovNet, which looks at private sector, agriculture and infrastructure policy around growth and PSD specifically.³⁸⁷ **Donor co-ordination is particularly important within PSD due to the wide-ranging nature of the private sector’s potential engagement with poverty reduction. DFID should ensure that it co-ordinates effectively with other donors over PSD, and continue its active participation in international co-ordination initiatives such as the Donor Committee for Donor Agencies for Enterprise Development and the OECD PovNet.**

Innovation: a weakness as well as a strength

198. DFID is viewed as an innovator and leader amongst donors in regard to PSD.³⁸⁸ The Department is spearheading a multiplicity of creative approaches to PSD: the EITI, Investment Climate Facility (ICF), Africa Infrastructure Consortium, the FinMark Trust, challenge funds – to name just a few. Yet, witnesses’ praise for DFID’s imaginative policies was tempered with a concern that innovation was not a panacea for sustainable, long-term policies. Alan Gibson of the Springfield Centre for Business Development spoke of development’s “emperor’s new clothes syndrome”, under which, “Good intentions are mistaken with achievements.”³⁸⁹ Bob Fitch of Enterplan believed that donors were sometimes prone to short-termism in regard to PSD:

“I said earlier that I thought one of the strengths of DFID was its innovativeness but in many organisations a strength can also become a weakness, and I think sometimes there is too much of looking for new answers rather than seeing what merit there is in existing approaches, and there is a tendency — and this is not just DFID but the development community as a whole — to look short term rather than long.”³⁹⁰

199. Other witnesses expressed the view that, as long as one donor was prepared to lead and pioneer new policies, others will follow. Speaking with reference to the Investment Climate Facility, Professor Adrian Wood of the University of Oxford stated, “On past record, there are an awful lot of things in which DFID has been the first donor in the past which have been very successful. A lot of other donors have come in and the fact that DFID is leading should not necessarily be seen as a bad sign.”³⁹¹ Hilary Benn expressed a similar view:

“We are not afraid to innovate. We are not. One of the questions when you do innovate, if it has been shown to work, is: Who is going to pick it up and then carry it forward? The question is: Is it the job of DFID, having shown the kind of innovation that is possible, to do that? For example, through the Financial Deepening Challenge

387 Ev 139

388 Q 9 [Kurt Hoffman], Q 279 [Bob Fitch], Q 167 [Robert Annibale]

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390 Q 287 [Bob Fitch]

391 Q 38 [Professor Adrian Wood]

Fund, working with Vodafone, to show that you could transfer money across using a mobile phone. It shows it is technical, it is possible, and one would hope that the business community and business sector would say, “That’s a good idea. It has been shown to work. Some of the costs of trying to find out whether it was working have been borne by somebody else, we are going to pick that up and run with it”³⁹².

200. In the case of multi-donor or multilateral initiatives such as the ICF, EITI and Infrastructure Consortium for Africa, relying on others to follow up innovation seems to be a safe assumption. This is borne out, for example, by the sudden rush of donor funding for the ICF at its launch in June 2006, following a long period during which DFID had been the lone bilateral funder. But where care is needed is in ensuring the sustainable development of bilateral DFID policies where the Department cannot rely on follow-up support from other donors. Albert Tucker, a fair trade consultant, described the problems that can be caused by “short-termism” within bilateral support for PSD:

“One of the things DFID has been very strong at is piloting approaches, but where I see a weakness is bringing that to the mesh of business and private sector life and linking that in [...] DFID put [in] £70,000 to develop a coffee programme in Tanzania and in Ghana with the coffee farmers. After this three-year intervention, DFID had done that and it is gone.”³⁹³

201. Mr Tucker went on to describe how DFID gave a one-off guarantee to the Divine Chocolate Company — but then “decided this was something they could not do any more — the guarantee structure was far too troublesome.”³⁹⁴

202. The sustainability of policies is clearly a concern within any development sector. But we feel that in its approach to PSD — a new and disparate area — DFID is at particular risk of innovating at the expense of following up and sustaining existing policies. New ideas and pilot schemes are not a panacea for sustainable, long-term PSD policies, especially in the case of bilateral projects, where DFID cannot rely on other donors to step in after initial phases. DFID should focus on ‘implementing as well as innovating’ with regard to PSD. Existing policies should be carefully assessed for scalability and sustainability before new policies are launched.

A coherent approach to PSD

203. Our recommendation that DFID should take care to ‘implement as well as innovate’ with regard to PSD leads directly to our final concern about DFID’s operational capacity to deliver on PSD. This relates to the need for DFID to ensure that it has a strategic, coherent plan underpinning its approaches to PSD. As we have already said, DFID is perceived as an innovator in regard to PSD and can point to a clutch of creative approaches for which it has led the way. Yet the thread that links these policies is that most are yet to be rolled out, yet to secure complete funding or are at very initial stages of implementation. As we said in our letter to Hilary Benn on the White Paper consultation, the success of these creative

392 Q 421 [Hilary Benn]

393 Q 214 and Q 215 [Albert Tucker]

394 Ibid.

strategies can only be judged when they are put into full operation, and this will require deliverable, practical and time-bound plans for their full execution.³⁹⁵

204. It is also crucial that DFID's PSD policies are looked at in a coherent way across the Department's work. Building on our comments in the previous sub-section relating to DFID's organisational design, we believe that integrating PSD approaches within other policy areas will transform PSD's current status as somewhat of an 'add-on' to a mainstreamed development approach that is assimilated into policy-making throughout the Department.

205. There are numerous possible examples of how this integration should work in practice, but we will draw one from the discussion of fragile states in Chapter 3 of this report. Fragile states are an increasingly prominent area of engagement for DFID. DFID told us in their memorandum that they have "an emerging workstream" on PSD in fragile states.³⁹⁶ But does the Department also have PSD expertise integrated within its fragile states team — does it have PSD Advisers working directly with officials on, for example, how infrastructure PPPs could bring urgently needed finance for post-conflict situations, how remittance initiatives could contribute to new financial inflows, how new and vulnerable administrations can be assisted over developing regulatory and taxation legislation? As far as we know, it does not. Thus the Department risks establishing two parallel channels of work, instead of properly integrated, coherent policy approaches.

206. Achieving this 'mainstreaming' of PSD will, to a degree, evolve naturally if the other aspects of re-organisation that we have recommended are implemented. For instance, a larger number of PSD Advisers, and more flexible working patterns allowing for PSD Advisers to move in and out of teams, will enable increased deployment of expertise within the organisation. However, **we advise that DFID should take pro-active steps to integrate PSD as a 'way of doing things' across the full range of policy areas, from agriculture to health and education. Integrating PSD approaches within other policy areas will transform PSD's current status as somewhat of an 'add-on' — a stand-alone channel of work — to a mainstreamed development approach that is assimilated into policy-making throughout the Department.**

207. We are concerned that DFID's portfolio of 'immature' and somewhat isolated PSD policies may indicate a lack of a clear strategic plan regarding PSD. Without adequate planning or a long-term vision for what it wants to achieve through PSD, DFID risks amassing an incoherent mix of policies that will undermine the private sector's potential to contribute to poverty reduction. Bob Fitch of Enterplan explained the risks of an under-developed strategic plan:

"At the risk of being overly critical of one of my clients [...] One of the frustrations we did have with Financial Deepening Challenge Fund is that one of our roles as management was to go out and tell the rest of the development community [...] of the successes and the strengths of the instrument [...] the question would generally be: "That is really interesting, that is great, what are DFID going to do next?" To

395 Letter from Malcolm Bruce MP to the Rt Hon Hilary Benn MP, Secretary of State for International Development, 28 March 2006.

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which my answer was: “I do not know, what would you like them to do next?”
Sometimes it is that lack of, I suppose, a strategic plan as far as we can see.”³⁹⁷

208. It is imperative that DFID’s PSD policies are underpinned by a clear strategic plan. Without this long-term vision and coherent strategy, DFID’s capacity for innovation could result in a scatter-gun approach to PSD — an incoherent mix of policies that will undermine the private sector’s potential to contribute to poverty reduction. We anticipate DFID’s PSD strategy being spelt out as soon as possible, together with deliverable, practical and time-bound plans for the full implementation of existing PSD policies.

Conclusions

209. We have conducted this inquiry at a time when PSD represents a relatively new area for DFID. Considering that DFID's PSD approach is in its infancy, the breadth and innovation of the policies it has already developed is impressive. DFID is seen as a leader amongst other donors in regard to PSD. The Department is showing intellectual leadership is pursuing a hybrid approach that unites the investment climate work currently being led by the World Bank Group, and the Making Markets Work Approach favoured by a number of other bilateral donors. This ensures that the wider constraints to PSD, such as poor enabling environments, are addressed in conjunction with pro-active efforts to support poor people's capacity to participate in markets and the benefits of growth.

210. Broadly, we commend the policies and financing mechanisms that DFID is using in support of PSD. However, we have some quite serious reservations concerning whether DFID's organisational and operational capacities have 'kept up' with the Department's rapid proliferation of policy interventions towards PSD. We believe that DFID needs to take a step back and map out the strategic plan that unites its multiple responses to PSD. There is a degree of the Department trying to 'run before it can walk', with a set of policies that are not necessarily underpinned by specific objectives or appropriate resource allocations.

211. Ensuring that DFID's organisational design supports a coherent approach to PSD is of key importance here. Going back a step and developing — and clearly communicating — a co-ordinated PSD strategy, with accompanying measures of re-organisation and re-deployment, will greatly assist the achievement of DFID's ultimate goal of poverty eradication. DFID's wider administration needs to rapidly 'catch up' with new policy directions towards PSD, and to build a co-ordinated, Department-wide PSD strategy.

The 2006 DFID White Paper

212. DFID published its 2006 White Paper, *Eliminating World Poverty: Making Governance Work for the Poor*³⁹⁸, shortly before we agreed this report. The White Paper devotes Chapter 5 to private sector development and we are pleased that the Chapter accords high priority to growth as a means towards poverty reduction: it states, "Economic growth is the single most powerful way of pulling people out of poverty." The Chapter sets out many of the PSD policies described in this report. It spells out the hybrid approach to PSD discussed in the introduction to this report, addressing both the stimulation of growth through the investment climate approach and the creation of opportunities for poor people to participate in growth through the Making Markets Work approach. The White Paper makes several key announcements in support of both approaches. On the investment climate approach, DFID pledges to work with partners through the Africa Infrastructure Consortium to provide US\$10 billion per year for infrastructure in Africa by 2010, and to increase support to private sector investment in infrastructure by at least £40 million over the next three years. In support of the Making Markets Work approach, DFID undertakes

398 DFID, *Eliminating World Poverty: Making Governance Work for the Poor*, Cm 6876, July 2006.

to improve property rights³⁹⁹ and support microfinance initiatives. We were particularly pleased that DFID recognised the need to increase support to the private sector in difficult environments.

213. However, our primary conclusions regarding DFID's PSD approaches remain unchanged following the publication of the White Paper. The impressive array of policies and financing mechanisms set out in the Paper remain just that – a collection of initiatives that are not necessarily adequately linked by a clear PSD strategy. We reiterate our conclusion that innovation is not a panacea for sustainable, long-term PSD policies that are coherent with other areas of DFID's work and underpinned with appropriate resources. DFID must take time out from innovation to develop a clear PSD strategy, together with deliverable, practical and time-bound plans for the full implementation of existing PSD policies, so that it has the blueprint it needs to be a global leader in driving private sector development.

³⁹⁹ It should be noted that improving property rights is a feature of both the investment climate and Making Markets Work approaches to PSD.

Conclusions and recommendations

1. We consider that DFID should retain its focus on both market development and investment climate approaches to PSD. Indeed, this balanced approach is the only logical one: generating and sustaining growth, through improvements to the investment climate, and then using this growth to provide opportunities for poor people to participate in markets. To increase the role of budget support in PSD would risk neglecting the systemic development of the private sector and markets. DFID has a real opportunity to provide intellectual leadership on a hybrid approach incorporating both market development and investment climate work. DFID should be aware of changing donor 'fashions' within PSD and attempt to carve out a sustainable, long-term model for its PSD policies (Paragraph 27)
2. It is crucial that the mistakes of the 1990s — assuming that the private sector will shoulder the burden of responsibility for infrastructure investments — are not repeated. Donors and governments should help mitigate risks that the private sector cannot afford to take. The current priority must be to emulate Asia's successes in building infrastructure in Africa, with a particular focus on agriculture-supporting infrastructure. To support this, DFID must engage with other donors to ensure that the Commission for Africa-recommended increase in donor funding of US\$10 billion a year up to 2010 (and, subject to review, a further increase to US\$20 billion a year in the following five years) is secured. (Paragraph 36)
3. DFID has shown leadership in establishing the Africa Infrastructure Consortium. DFID now needs to use its authority amongst the Consortium donors to build on initial momentum and swiftly generate extra investment for African infrastructure. Efforts should be made, however, to balance big loans to governments with smaller, locally sensitive grants reflecting regional and national infrastructure priorities. Consultation mechanisms should be put in place to ensure that investments by the Consortium reflect the needs of poor people and the local private sector. (Paragraph 38)
4. DFID is becoming more engaged in the property rights agenda but capacity and activity remains limited. There appears to be no specific staff expertise in this area within DFID and capacity needs to be stepped up. The need for flexibility across varying country contexts and sensitivity around a politically-charged issue should not prevent DFID from increasing and broadening its property rights programmes, as long as this expansion is underpinned by a coherent strategy and in-house expertise. (Paragraph 43)
5. DFID must continue to support capacity building and technical assistance on regulation, taxation and competition policies, at all levels of government. DFID's support for business environment surveys is valued and should be extended, where possible. (Paragraph 46)
6. DFID has led the way amongst donors with its support for the ICF, an innovative policy representing an impressive, business-supported, African-'owned' partnership. The Facility has the potential to be a powerful vehicle in making Africa an easier and

more attractive place to invest. However, now that initial phase funding is secured, the challenge is to ensure that the ICF focuses on bringing about sufficient, tangible changes in Africa's business environment. The ICF's role and the existing need have been well thought-out; time spent hiring consultants and carrying out more analysis must be avoided in preference to actively supporting programmes and technical assistance as efficiently as possible (without compromising on quality). (Paragraph 49)

7. Whilst in many ways 'starting small' is beneficial to assessing national and regional needs and building momentum from the bottom up, the ICF's operations should be conducted with a view to potential increases in scale, to ensure that technical and other forms of assistance are sufficient to meet the huge need for investment climate improvements. (Paragraph 50)
8. Good investment climates hinge on strong economic and political governance. We hope to see the symbiotic relationship between good governance and private sector development emphasised across the Department's PSD policies. (Paragraph 53)
9. DFID should continue to place the eradication of corruption high on the donor agenda and lobby at the global level for commitment to anti-corruption measures. Specifically, DFID should actively encourage developed country ECAs to enhance transparency — internally and in the projects that they support — by implementing improved procedures on bribery and corruption; should seek to fulfil as swiftly as possible the Commission for Africa's recommendation regarding the implementation of "all necessary legal and administrative measures to repatriate illicitly acquired state funds and assets" and should lobby for the ratification of the UN Convention Against Corruption and the implementation of supporting legislation by all signatory countries. (Paragraph 56)
10. DFID and the UK Government should engage with UK banks to encourage a review of the use of resource-backed loans to developing countries, especially those with a history of corruption and economic mis-management. UK banks should take advice from the international financial institutions on adopting appropriate conditions for loans relating to levels of disclosure and oversight requirements. (Paragraph 59)
11. China's growing interest in African investments requires donors and governments to find mutual interests that will encourage the Chinese authorities to regulate resource-backed loans and other provision of capital more tightly, to ensure that lending does not contribute to corruption and negative developmental outcomes. (Paragraph 61)
12. DFID has spearheaded and hosted the EITI process over the past four years. DFID's leadership has secured buy-in to the process from companies and countries alike. (Paragraph 64)
13. The EITI implementation process needs to be expedited within signatory countries. Under-represented oil and gas producing regions, such North Africa, the Middle East and Latin America, need to be brought on board. (Paragraph 65)

14. Parallel measures to build capacity and open the political space available to civil society will greatly enhance EITI's potential to improve transparency and accountability. (Paragraph 66)
15. DFID should keep an open mind as to potential strategies for underpinning the EITI with mandatory disclosure requirements and should, at the very least, actively consider transferring from a voluntary to a mandatory approach in 2008–9, when further international implementation and political will has been secured. DFID must energetically explore when, how and to whom EITI's Secretariat should be transferred, with the ultimate aim of international 'ownership' the driving decision-making factor. Securing and consolidating further 'buy-in' from other donors will be particularly important to achieving this. DFID needs to move ahead with extending the EITI framework to other sectors such as procurement, construction and arms. (Paragraph 68)
16. DFID should expand its resources for property rights work to ensure programmes and projects are prioritised for fragile and conflict-affected states. (Paragraph 70)
17. DFID needs a clearer strategy for improving nascent, disabled and damaged investment climates. DFID's emerging work-stream in this area must be strengthened to develop a specific PSD strategy for fragile and conflict-affected states, with strong links to complementary policy areas such as transparency in the natural resources industry and conflict reduction. This is particularly important given DFID's increasing profile in such countries. (Paragraph 72)
18. It is clear that in very poor countries, where there is very little capital or purchasing power, donors and governments have a particular obligation to step in and 'fill the gap' between private sector reach and the poorest of the poor. (Paragraph 73)
19. DFID had no clear answers on specific PSD strategies for the poorest countries, beyond work on the enabling environment and regional integration. A specific work-stream on improving the investment climate of the poorest countries would help identify a coherent strategy and more creative approaches towards this end. (Paragraph 76)
20. We recommend that DFID continues its leading role in demonstrating the value of the MMWP approach, adequately supported with sufficient funding and other resourcing. The Department must build on the successes of the FinMark and ComMark initiatives and scale up these innovative programmes. The technical assistance and creative thinking that underpin these MMWP programmes must not be sidelined by the increasing profile of either investment climate work or budget support. (Paragraph 83)
21. In the absence of global targets on employment, a key priority for donors is achieving a more explicit focus on creating and sustaining jobs, especially within African countries. This should include increased support for improving the technical skills of those at the lowest end of the job markets. Consideration should be given to developing international targets on employment, with a particular focus on young people. DFID's current reliance on investment climate reforms as a means to create jobs is insufficient to reach the groups who are most in need, especially young

people. The Department should seek to build partnerships with governments and companies that closely link education with job creation. (Paragraph 87)

22. Bringing the millions of informal workers in developing countries under international labour law protection is a major priority and DFID needs to seek active dialogue with the private sector, governments, multilateral organisations and other donors on how to ensure that investment climate improvements and other PSD strategies prioritise minimum labour standards enforcement. (Paragraph 89)
23. The FinMark Trust has deepened understanding and co-operation around financial sector development in southern Africa in a highly cost-effective and sustainable fashion. Negotiations with the World Bank regarding the FinMark methodology need to be taken up at a high political level to ensure that this important tool for financial sector development is successfully replicated and scaled up. (Paragraph 94)
24. If a series of key constraints can be addressed, there is no reason that Africa cannot emulate Asia's successes in achieving agricultural growth. A lack of agriculture-supporting infrastructure is the primary barrier, and increases in infrastructure funding must be targeted towards this sector. Irrigation is a particular concern. DFID must work with other donors to achieve the Commission for Africa-recommended 50% increase in funding for irrigation before 2010. Another priority is re-building the seed industry within Africa. This package of measures should be closely linked into other investment climate improvements such as addressing property rights and land tenure. (Paragraph 97)
25. The MMWP approach must underpin DFID's interventions in agriculture to ensure that market distortions are avoided. (Paragraph 99)
26. In order to stimulate private sector investment in African agriculture, donors and governments must take the investment risks that companies cannot. (Paragraph 100)
27. Donors need to target funding in an intelligent way that mitigates private sector risk by providing early bursts of finance, supports the role of SMEs, co-operatives and small-holders (rather than creates a greater market role for government or donors) and allows projects to be run on business lines. Successful multi-donor initiatives of this kind already exist (for instance, Infraco). DFID should show leadership by pursuing the replication of such models. Partnerships are key to ensuring that the necessary linkages are built within the market that will bring the benefits of growth to small and large farmers alike. (Paragraph 102)
28. In its ongoing dialogue with the private sector (through groups such as Business Action for Africa), DFID needs to press for investments in developing countries to incorporate training, skills and technology transfer. The AfricaRecruit initiative should continue to receive support as a successful strategy for boosting human capital within Africa and addressing the 'brain drain'. This and other country-level skills programmes should receive longer-term donor support, in partnership with the private sector where possible. (Paragraph 106)
29. We agree that there is great scope for increased private sector involvement in healthcare provision. Private sector growth will only gain momentum in developing

countries if basic services such as education and health are improved. Donors need to recognise the role of private sector providers of education and healthcare and strengthen partnerships with these bodies. (Paragraph 109)

30. We consider assigning total responsibility to national governments for the equitable distribution of the benefits of growth to be an inadequate response by DFID. Achieving DFID's ultimate aim of poverty reduction requires not just triggering growth but assisting partner governments in finding the right strategies to ensure that poor people benefit from growth. DFID needs to build a coherent strategy for PSD in middle income countries with large inequalities. This strategy should involve dialogue with the Governments of China and India, in particular, about how to include the poorest sectors of their countries in economic growth. (Paragraph 112)
31. We agree that there is a continuing role for CDC as an investment pioneer and provider of risk finance. The 2004 restructuring seems to have been successful in reinforcing CDC's 'demonstrator effect' and its ability to mobilise other money alongside its own. (Paragraph 117)
32. Whilst accepting the UK Government target of a 5% market return [on CDC's investments] should be met wherever possible, we consider that returns should be balanced with directing finance where it is most needed to reduce poverty. (Paragraph 118)
33. CDC's portfolio of investments must continue to be carefully scrutinised for their overall contribution to poverty reduction. CDC's social and environmental record is patchy and we recommend close monitoring by DFID on where and how CDC invests. Acting as an investment catalyst is a necessary but not sufficient contribution to poverty reduction: CDC must ensure that its 'development footprint' is a wholly positive one. (Paragraph 119)
34. DFID's annual expenditure on microfinance work remains limited and part of DFID's increasing budget could be usefully spent in expanding microfinance projects beyond their currently very limited range, embedded in a broader strategy of deepening financial markets. This could include partnership with the banking sector in providing business case evaluated unsecured loans to small businesses whose principals have few assets of land or other security. (Paragraph 123)
35. Microfinance institutions have to operate in a regulated environment, otherwise poor people are liable to be exploited. In parallel with its support to microfinance, DFID must seek to build policy environments that provide appropriate levels of regulation and competition. (Paragraph 124)
36. An idealised notion that 'the market will provide' must not stand in the way of SMEs in undeveloped or missing markets receiving urgently needed basic assistance, which can be supplied and funded, to an extent, by donors and governments. Support to SMEs in the form of free business development advice and technical assistance is largely absent from transition and developing countries. Whilst any return to large-scale market intervention must be avoided by donors, DFID should not proceed to the other extreme and focus exclusively on investment climate work where SME growth is concerned. (Paragraph 129)

37. DFID and other donors must be sure to include and prioritise SMEs in their dialogue with the private sector about social and environmental impacts. In their efforts to address SME growth, donors must concurrently pursue routes to improved adherence to international labour standards and codes on social and environmental abuses. (Paragraph 130)
38. Challenge funds are a useful tool for direct engagement with the private sector and can help to catalyse market activity where it is slow or non-existent. For reasons of sustainability and coherence, however, it is vital that DFID embeds challenge funds in wider PSD programmes — not least to prevent gaps in funding. The linkage of the African Enterprise Challenge Fund with the ICF is a promising sign that DFID is aware of this need to integrate grant funding with systemic enabling environment improvements. (Paragraph 135)
39. Numerous successful examples support the use of PPPs as a means to finance and implement PSD. The UK Government has shown innovation in spearheading the International Finance Facility for Immunisation and should explore other creative funding models for PPPs such as the self-financing Global Alliance for Improved Nutrition. In addition, the UK Government should engage with governments and donors to address the funding problems experienced by the growing body of PPPs working on healthcare R&D, especially those working on neglected diseases. (Paragraph 140)
40. Encouraging commercial banks to better facilitate remittance flows is a key example of how DFID can influence the private sector in contributing to development outcomes. To help increase remittance flows, banks must reduce transaction costs. The UK Government should engage with banks to encourage cheaper and more competitive services. (Paragraph 143)
41. We consider that, as part of its dialogue with diaspora organisations, DFID should explore existing diaspora practices regarding remittances and other inward investment schemes and help engage the private sector to find additional ways — beyond remittances — to channel investment into home countries. (Paragraph 145)
42. DFID should seek to embed its support for ethical trading in a package of wider measures, including improvements to the enabling environment; the widespread implementation of labour standards; a more coherent approach to ethical trading across government and the development of an ethical code to govern government procurement policies. In addition, DFID needs to build up a more sustainable approach to supporting fair trade, with long-term, predictable funding a priority. Adequate consideration must be given to scaling-up pilot programmes and disseminating learning. As part of the increased focus on youth employment that we recommended in Chapter 4, DFID should seek to expand its work in supporting young entrepreneurs. DFID must engage with companies to ensure that fair trade schemes do not push costs back to suppliers and the poorest in the supply chain. (Paragraph 154)
43. The ETI has demonstrated that securing commitment from companies to a basic ethical code is possible. However, the ETI currently has no ability to monitor ethical

trade and there is a global gap in formal scrutiny. We suggest that the ETI could be usefully expanded into a monitoring mechanism that ensures more independent scrutiny of company operations. To enable this, sufficient funding arrangements should be put in place, which will need to include increases to DFID's current contribution of £0.5million per year, in conjunction with seeking further funding from corporate members of ETI. (Paragraph 155)

44. Whilst a number of companies are 'going beyond' PR-driven CSR policies to implement responsible behaviour in their core business operations, many policies remain superficial, 'tick box' corporate gestures, rather than meaningful attempts to grapple with social and environmental impacts. Furthermore, the CSR focus is concentrated in the multinational business sector, rather than on SMEs, which are often over-represented in industries with high social and environmental impacts. DFID must seek to re-dress this balance. We urge the Department to support improved implementation of international codes for multinational companies such as the OECD Guidelines for Multinational Enterprises. This will entail lobbying for far greater collaboration and coordination across Whitehall and introducing Government initiatives to push companies into CSR policies. (Paragraph 160)
45. The Oxfam-Unilever project exploring the links between business and poverty reduction in Indonesia is an exciting new model for assessing corporate behaviour and ensuring that growth benefits 'the base of the pyramid'. DFID should, in its ongoing dialogue with business and civil society organisations, support similar projects, where they are likely to assist poverty reduction through private sector growth. (Paragraph 162)
46. Co-operatives — when performing efficiently — represent a private sector model that provide many benefits and opportunities to poor people. We hope that the resurgence of interest in co-operatives is not a passing fashion: co-operatives represent a cost-effective and sustainable way to support PSD. DFID's Strategic Grant Agreement (SGA) with the Co-operative College has been mutually beneficial, helping both partners to raise the profile of co-operatives as key contributors to PSD. We support the need to put in place a new SGA with the Co-operative College when the current Agreement expires in March 2007. (Paragraph 166)
47. The co-operative movement has a particular role in public sector delivery and in making trade work for poor people. Co-operatives can provide an effective vehicle for the large-scale provision of public utilities, and governments planning public sector reform and privatisation projects should include co-operative enterprises amongst the private sector options. DFID's 2005 grant of £50 million to rural electricity co-operatives in Bangladesh is a positive indication of the Department's renewed commitment to the co-operative sector, and we anticipate similar expressions of support from DFID in the short-term future. The important role of co-operatives in PSD should be adequately communicated to all DFID country programmes to ensure a coherent approach to this under-recognised PSD model. (Paragraph 168)
48. Business forums act as a vital conduit for public-private dialogue and private sector action on poverty reduction. Business Action for Africa (BAA) is a highly promising

outcome from 2005 and it is crucial that DFID continues its support for the forum. In conjunction with support from BAA's growing corporate membership, DFID should assess current funding levels with regard to ensuring that BAA can continue to expand as a crucial partnership for PSD. (Paragraph 172)

49. We observe a number of indications that DFID's administration and organisational design have not 'caught up' with the Department's growing prioritisation of PSD within its thinking and policy-making. For a start, somewhat of a cultural divide seems to exist between DFID and the private sector — their ways of working and organisational cultures are very different, and bridging this gap represents a challenge that DFID has not yet fully addressed. (Paragraph 181)
50. Involving the private sector in policy-making — an integral part of building PSD policies — will require DFID to accommodate the different working styles in public and private sector bodies, otherwise the capacity of companies to contribute to PSD approaches may be compromised. One aspect of overcoming the cultural gulf is slimming down the time and opportunity costs associated with participation in policy consultation, which are evidently perceived by the private sector as a barrier to their engagement with DFID. (Paragraph 183)
51. Adopting a streamlined approach should not require radical or costly changes to DFID's approach, merely an adapted style. Time will not permit DFID staff to visit every individual company involved in a particular aspect of PSD. This is why we recommend that DFID makes better use of business forums networks such as Business Action for Africa, and industry groups in the UK and across countries of operation, as a means to link with a number of private sector actors simultaneously in a time- and cost- effective way. (Paragraph 184)
52. In our view, not only does the limited number of PSD specialist staff affect DFID's ability to engage effectively with the private sector, it is also an insufficient number to cover DFID's 36 country offices plus its two UK-based headquarters. We believe that DFID should set a minimum target of one PSD adviser for each of its 36 country offices in addition to the current Growth and Investment Group within DFID headquarters. (Paragraph 185)
53. The development of multidisciplinary teams in country offices, which integrate PSD expertise with other policy specialisms, should be emulated across all 36 DFID country offices. (Paragraph 188)
54. We believe that greater integration should also be sought within DFID's Policy Division. Deploying an PSD Adviser to every team — for instance, in the way a Social Development Adviser currently sits within most teams — would involve too large-scale an increase in staff to be cost-efficient. But, following the Department's restructuring in 2002 — which aimed for enhanced fluidity of staff deployment — DFID should have the structure in place to ensure that PSD Advisers can work flexibly across different teams according to work priorities. We advise DFID to use the flexibility and fluidity of its post-restructuring arrangements to maximum effect, and move PSD Advisers in and out of Policy Division teams to support changing priorities and the cross-cutting nature of different policy areas. (Paragraph 189)

55. We recommend that if, as we have recommended, the numbers of PSD Advisers are expanded, a minimum target should be set to recruit advisers who have both business qualifications and business experience. (Paragraph 190)
56. We advise that increased use of secondments into and from the private sector will assist the development of common understanding between DFID and the private sector. (Paragraph 191)
57. We support DFID's current outsourcing of challenge funds to consultancies and risk finance to the CDC Group. Not all DFID policies will benefit from being outsourced to the private sector and we do not recommend expanding the use of outsourcing beyond its current usage, which is focused on policies which involve the most direct engagement with the private sector. (Paragraph 193)
58. DFID will also strengthen its resources for PSD by ensuring that it utilises the strengths of other UK Government Departments through effective co-ordination of policies linked to PSD. A particular area where improved co-ordination would be beneficial is the implementation of international regulatory codes on the private sector's social and environmental impacts. (Paragraph 194)
59. DFID will strengthen its resources for PSD by ensuring that it utilises the strengths of other UK Government departments. This will involve more efficient co-ordination with other departments, where appropriate, to ensure a shared vision for achieving the development promises for 2005 and the role of PSD in meeting global targets. A particular area where greater co-ordination would be beneficial is the implementation of international regulatory codes on the private sector's social and environmental impacts. (Paragraph 195)
60. Donor co-ordination is particularly important within PSD due to the wide-ranging nature of the private sector's potential engagement with poverty reduction. DFID should ensure that it co-ordinates effectively with other donors over PSD, and continue its active participation in international co-ordination initiatives such as the Donor Committee for Donor Agencies for Enterprise Development and the OECD PovNet. (Paragraph 197)
61. The sustainability of policies is clearly a concern within any development sector. But we feel that in its approach to PSD — a new and disparate area — DFID is at particular risk of innovating at the expense of following up and sustaining existing policies. New ideas and pilot schemes are not a panacea for sustainable, long-term PSD policies, especially in the case of bilateral projects, where DFID cannot rely on other donors to step in after initial phases. DFID should focus on 'implementing as well as innovating' with regard to PSD. Existing policies should be carefully assessed for scalability and sustainability before new policies are launched. (Paragraph 202)
62. We advise that DFID should take pro-active steps to integrate PSD as a 'way of doing things' across the full range of policy areas, from agriculture to health and education. Integrating PSD approaches within other policy areas will transform PSD's current status as somewhat of an 'add-on' — a stand-alone channel of work — to a mainstreamed development approach that is assimilated into policy-making throughout the Department. (Paragraph 206)

63. It is imperative that DFID's PSD policies are underpinned by a clear strategic plan. Without this long-term vision and coherent strategy, DFID's capacity for innovation could result in a scatter-gun approach to PSD — an incoherent mix of policies that will undermine the private sector's potential to contribute to poverty reduction. We anticipate DFID's PSD strategy being spelt out as soon as possible, together with deliverable, practical and time-bound plans for the full implementation of existing PSD policies. (Paragraph 208)

List of acronyms

BAA	Business Action for Africa
BLCF	Business Linkages Challenge Fund
CGAP	Consultative Group to Assist the Poor
CSR	Corporate Social Responsibility
DFID	Department for International Development
ECOWAS	Economic Community Of West African States
ECA	Export Credit Agency
EITI	Extractive Industries Transparency Initiative
ETI	Ethical Trading Initiative
FDCF	Financial Deepening Challenge Fund
FDI	Foreign Direct Investment
GAIN	Global Alliance for Improved Nutrition
GAVI	Global Alliance for Vaccines and Immunisation
GDP	Gross Domestic Product
ICE	Institution of Civil Engineers
IDC	International Development Committee
ICF	Investment Climate Facility
IFC	International Finance Corporation
IIED	International Institute for Environment and Development
ILO	International Labour Organisation
IMF	International Monetary Fund
MFI	Micro Finance Institution
MDG	Millennium Development Goal
MMWP	Making Markets Work for the Poor
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PPP	Public Private Partnership
PRBS	Poverty Reduction Budget Support
PSD	Private Sector Development
R&D	Research and Development
SGA	Strategic Grant Agreement
SMEs	Small and Medium-sized Enterprises
SRI	Socially Responsible Investment
UNDP	United Nations Development Programme
UNICEF	The United Nations Children's Fund
WTO	World Trade Organisation

Formal minutes

Monday 17 July 2006

Members present:

Malcolm Bruce, in the Chair

John Battle
John Bercow
Ann McKechin

Joan Ruddock
Mr Marsha Singh

Draft Report (Private Sector Development), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs entitled "Background and acknowledgements" read and agreed to.

Paragraphs 1 to 213 read and agreed to.

Summary agreed to.

Resolved, That the Report be the Fourth Report of the Committee to the House.

Ordered, That embargoed copies of the Report be made available in accordance with the provisions of Standing Order 134 (Select committees (reports)).

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

[Adjourned till Tuesday 18 July at 10.00am]

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Sumi Dhanarajan, Head of Private Sector team, Oxfam, **Dominic Eagleton**, Policy Officer, ActionAid and **Dr Claire Melamed**, Trade and Private Sector Policy Manager, Christian Aid Ev 118

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Second Report	Darfur: The killing continues:	HC 657 (HC 1017)
Third Report	The WTO Hong Kong Ministerial and the Doha Development Agenda	HC 730–I&II (HC 1425)