SIX CRITERIA FOR DONOR ENGAGEMENT WITH THE PRIVATE SECTOR

Countdown 2030 Europe is a consortium of 15 non-governmental organisations in twelve European countries working to hold European donor governments and the European Union institutions to account for their policy and funding commitments on sexual and reproductive health and family planning. In this paper, we set out six criteria that we believe donor governments should be guided by as they increasingly seek to mobilise private sector resources in support of development objectives.

IN RECENT years, donor governments have increasingly looked to new forms of financing beyond Official Development Assistance (ODA) to contribute to meeting the financing needs of sustainable development. The Addis Ababa Action Agenda, adopted in 2015, reiterates donor governments' commitments to ODA, but places strong emphasis on the use of ODA and other international public finance to mobilise private finance in support of development objectives, including through mechanisms such as blended finance, risk mitigation instruments and public-private partnerships. The Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC) has been working on developing rules for the reporting of donor investments in private sector instruments as ODA, with the aim of encouraging increasing use of such instruments.[1]

Countdown 2030 Europe welcomes donor governments' efforts to mobilise additional resources in support of development objectives and recognises the potential of the private sector[2] to contribute to meeting the financing needs of sustainable development. Yet, we share the concerns of other civil society stakeholders regarding the risks of increasing donor reliance on the private sector and are wary of the effects that it may have on the financing of rights-based sexual and reproductive health and family planning services in low- and middle-income countries.

Financing mechanisms aimed at mobilising private sector resources are heavily focused on areas such as infrastructure development and banking and financial services, and only to a much smaller extent on social sectors, including health.[3] Yet, there is increasing interest in relying on such mechanisms more strongly also in relation to health, including sexual and reproductive health and family planning. Examples of the current use of such mechanisms in relation to health include public-private partnerships relied on for the financing and running of healthcare facilities. One key example of a financing mechanism that is looking to mobilise additional international and domestic private and public resources specifically for reproductive, maternal, new-born and child health is the Global Financing Facility, which is supported by the governments of Canada, Japan, Norway and the United Kingdom.

Below, we set out six criteria that we believe donor governments should be guided by as they increasingly seek to mobilise private sector resources in support of development objectives.

1. MEET EXISTING COMMITMENTS TO OFFICIAL DEVELOPMENT ASSISTANCE

2. ENSURE THAT THERE IS NO DIVERSION OF SUPPORT FROM SOCIAL SECTORS, INCLUDING SEXUAL AND REPRODUCTIVE HEALTH AND FAMILY PLANNING, AND THE POOREST COUNTRIES

3. DEMONSTRATE FINANCIAL AND DEVELOPMENT ADDITIONALITY OF INVESTMENTS

4. ENSURE COMPLIANCE WITH DEVELOPMENT EFFECTIVENESS PRINCIPLES AND HUMAN RIGHTS STANDARDS

5. ASSESS AND BE GUIDED BY DEVELOPMENT IMPACT, INCLUDING IMPACT ON POOR AND MARGINALISED GROUPS

6. BE CAREFUL NOT TO RESTRICT RECIPIENT COUNTRY FISCAL SPACE

1 MEET EXISTING COMMITMENTS TO OFFICIAL DEVELOPMENT ASSISTANCE

OFFICIAL Development Assistance (ODA) continues to be essential to the financing of health and wider development, particularly in the poorest countries. Development assistance made up 35.7% of total health spending in low-income countries, and amounted to 25% of total spending on contraceptives in low- and middle-income countries in 2014.[4]

Donor governments have repeatedly reiterated their commitment to spend 0.7% of their Gross National Income (GNI) on ODA, yet, in 2016, this target was met by only six OECD DAC donor countries.[5] ODA spending grew rapidly following the adoption of the Millennium Development Goals in 2000, but has been stagnant in recent years. In 2016, total ODA from the twenty European Union DAC donor countries amounted to 0.51% of their combined GNI.[6] ODA to the least developed countries has been facing a downward trend.[7]

As donors increasingly look to mobilise private finance in support of sustainable development, it is essential that these efforts do not in any way divert focus from the meeting of ODA commitments. Donor governments should ensure they live up to their ODA spending targets, including their commitments to spend 0.7% of GNI as ODA and to dedicate 0.15 to 0.20% of ODA/GNI to least developed countries.

2 ENSURE THAT THERE IS NO DIVERSION OF SUPPORT FROM SOCIAL SECTORS, INCLUDING SEXUAL AND REPRODUCTIVE HEALTH AND FAMILY PLANNING, AND THE POOREST COUNTRIES

INVESTMENTS in health and other social sectors are essential to realising individuals' rights and well-being and are critical to achieving positive outcomes across the spectrum of sustainable development. They are vital also to environments that will attract private finance, while poor development outcomes hamper private sector investments.[8] Family planning particularly is recognised as a hugely cost-effective intervention that yields pay-offs across all areas of sustainable development.[9]

Traditional ODA financing is guided by development policy objectives that for many donor countries include a strong focus on social sectors, including sexual and reproductive health and family planning. Mechanisms seeking to mobilise private sector resources are largely not focused on these areas. Moving away from traditional financing approaches and increasingly towards private sector mechanisms thus brings a real risk of reducing donor investments in areas such as health, including sexual and reproductive health and family planning.

The risk of a diversion of ODA resources from social sectors is evident in relation to the current development of OECD DAC rules for the reporting of donor investments in private sector instruments as ODA. With no increase in overall ODA and resources diverted to private sector instruments, investments in social areas might decrease.[10]

Increasing focus on private finance may also lead to a diversion of resources from the poorest countries. Investments through mechanisms engaging the private sector such as blended finance and public-private partnerships require environments profitable enough for the private sector to invest in and are thus heavily focused on middle-income countries.[11]

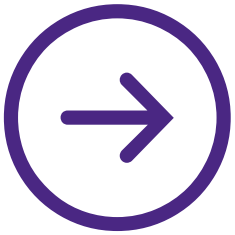
Donor governments should closely monitor their investments in private sector mechanisms, including by sector and country income group, and should ensure that growing focus on such mechanisms does not lead to a diversion of support from social sectors, including sexual and reproductive health and family planning, and the poorest countries.

3 DEMONSTRATE FINANCIAL AND DEVELOPMENT ADDITIONALITY OF INVESTMENTS

WHEN investing public resources in private sector mechanisms, donor governments must be able to demonstrate the financial and development additionality of these investments. This means that donor resources should not be substituting other forms of finance that would have been available to finance a project and that their investment should strengthen the project's development impact. Questions have particularly been raised about the added value of donor subsidisation of private investments in middle-income countries, which attract private finance also without donor support.[12]

ODA resources particularly are scarce and should be reserved for sectors and countries for which other forms of finance are not available or not adequate. Any ODA resources invested in projects that may not need subsidisation or that are of questionable developmental value are resources that cannot be invested in areas where they are sorely needed such as health and sexual and reproductive health and family planning.

Engagement of the private sector in development projects should not be an aim in and of itself. It should only be relied upon where the private sector is found to be best placed to contribute to delivering the desired development objectives following an assessment of other possible approaches and partners.[13]



4 ENSURE COMPLIANCE WITH DEVELOPMENT EFFECTIVENESS PRINCIPLES AND HUMAN RIGHTS STANDARDS

DONOR investments in private sector mechanisms poorly comply with development effectiveness principles. Private sector mechanisms are generally managed by donor country entities, such as development finance institutions, with little involvement of recipient country stakeholders, and benefit donor rather than recipient country companies. Public scrutiny is hampered by poor transparency, justified with the commercial interests of the private entities involved. Project-level information is rarely made publicly available, making it extremely difficult to understand donor support for specific areas, such as sexual and reproductive health and family planning.

Engagement of the private sector should not lead to a backsliding on well-established development standards. When dedicating resources to private sector mechanisms, donors should adhere to development effectiveness principles as with any other development intervention. This means that donors should seek to ensure recipient country ownership of any development projects they pursue by aligning private sector investments to national strategies, relying on recipient country systems when implementing projects and supporting local rather than international businesses as much as possible.

Donors should furthermore live up to the principles of transparency and accountability through making information on their investments, including their results and any evaluations, publicly available, and through putting in place accountability structures that apply to their own entities and their private sector partners. This should include safeguards and redress mechanisms against any harmful social or environmental impacts of their investments, as well as measures that will ensure compliance by private sector partners with human rights standards in accordance with the UN Guiding Principles on Business and Human Rights.

5 ASSESS AND BE GUIDED BY DEVELOPMENT IMPACT, INCLUDING IMPACT ON POOR AND MARGINALISED GROUPS

DESPITE growing donor investment in private sector mechanisms, there is still little evidence of their development impact in general or for specific sectors. This is acknowledged in the GFF Private Sector Engagement Strategy, which aims to facilitate partnerships between the global private sector and GFF focus countries and to develop innovative financing mechanisms to mobilise private capital. The strategy points to limited availability of data and analytical work on the private sector in health globally as a key challenge to the GFF's private sector engagement.[14]

Limited data also exists on the performance of private healthcare systems more broadly.[15] Much debate has revolved around the role that the private sector should play in health service provision in low- and middle-income countries. International financial institutions and increasingly also donor governments have promoted private sector involvement in health service provision for some time, asserting the greater efficiency of such approaches. Yet, the evidence base in support of such claims is scarce.[16]

A particular cause for concern in relation to greater private sector involvement in health service provision is the impact this may have on poor and marginalised groups' access to healthcare. Health services provided by private sector actors tend to predominantly serve higher income groups as providing health services to poorer people is little profitable.[17] A growing focus on private sector approaches may thus lead to an even further exclusion of poorer groups from health services and increase inequalities in access to healthcare.[18]

Donor investments in private sector mechanisms should be founded upon sound evidence of the positive development impact of such approaches. Reliance on private sector mechanisms in the absence of evidence of their aptness and effectiveness to bring about positive development outcomes uses up scarce resources that could be invested in more tested financing approaches.

Donors should fund independent evaluations to assess the development impact of their engagement with the private sector. This should include evaluations of individual projects to assess their impact on development outcomes, including their impact on poor and marginalised groups, to determine their cost-effectiveness and to identify best practices. It should further include evaluations and analyses assessing the impact of private sector approaches in specific sectors, including health and sexual and reproductive health and family planning. Donors should furthermore include indicators that measure impact on poor and marginalised groups in the design of projects.[19]

6 BE CAREFUL NOT TO RESTRICT RECIPIENT COUNTRY FISCAL SPACE

PRIVATE sector mechanisms can have substantial fiscal implications for recipient countries. Public-private partnerships, for example, have been described as a costly and risky form of financing that can weigh heavily on domestic budgets and can result in significant public debt if governments end up having to bail out failed projects.[20] Foreign companies investing in low- and middle-income countries often benefit from tax exemptions and other favourable tax conditions or engage in tax avoidance, which heavily restrains countries' ability to raise domestic revenues. This in turn limits the resources that countries will have available to spend domestically, including for areas such as health and sexual and reproductive health and family planning. High costs associated with public-private partnerships used for the operation of healthcare facilities may directly impede access to health services through increased user fees, a reduction of available services, or a diversion of resources from other health priorities.[21]

Donors should take measures to ensure that increasing engagement of the private sector in their development efforts does not hamper countries' ability to generate domestic revenues or increase their debt burdens beyond sustainable levels, with dire consequences for their ability to fund essential public services. This must include ensuring that companies engage in responsible corporate tax behaviour and that the costs and debt risks of private sector mechanisms are adequately assessed against those of other financing options.

SOURCES

1. See OECD DAC, 2016 High-Level Meeting Communiqué, available at: https://www.oecd.org/dac/DAC-HLM-Communique-2016.pdf. The 2016 High-Level Meeting agreed Principles of ODA Modernisation on Private Sector Instruments, which were to be complemented by implementation rules. The 2017 OECD DAC High-Level Meeting failed to reach agreement on implementation rules. See OECD DAC 2017 High-Level Meeting Communiqué, available at: http://www.oecd.org/dac/DAC-HLM-2017-Communique.pdf. Private sector instruments include loans or guarantees provided to or equity invested in private sector entities.
2. In the context of this briefing, the 'private sector' is understood as referring to the for-profit private sector.
3. The top three sectors over the 2012-2014 period that received private finance through blended finance, for example, were energy; industry, mining and construction; and banking and financial services. See Development Initiatives, Blended finance: Understanding its potential for Agenda 2030, 2016, p.16, available at: http://devinit.org/wp-content/uploads/2016/11/Blended-finance-Understanding-its-potential-for-Agenda-2030.pdf.
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5. Organisation for Economic Co-operation and Development (OECD), Development aid rises again in 2016, Detailed text on 2016 ODA data, April 2017, available at: http://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2016-detailed-summary.pdf.
6. Ibid.
7. CONCORD, AidWatch Report 2017, available at: https://concordeurope.org/wp-content/uploads/2017/10/CONCORD_AidWatch_Report_2017_web.pdf?1fdb40&1fdb40.
8. See Jesse Griffiths, Financing for development: current issues for international development cooperation, p. 8f, available at: http://www.eurodad.org/files/pdf/1546842-financing-for-development-current-issues-for-international-development-cooperation-.pdf, which highlights that ODA invested in public goods and services, such as health, education, water, sanitation and infrastructure, can help stimulate private investment, which depends on the provision of these goods.
9. Starbird et al., Investing in Family Planning: Key to Achieving the Sustainable Development Goals, in Global Health: Science and Practice 2016, 2016, available at: http://www.ghspjournal.org/content/ghsp/early/2016/06/10/GHSP-D-15-00374.full.pdf.
10. See Eurodad et al, CSO Expectations for the new PSI rules, June 2017, available at: http://www.eurodad.org/files/pdf/1546772-civil-society-organisations-position-on-oecd-dac-private-sector-instrument-rules-1496929195.pdf.
11. See Development Initiatives, Blended finance: Understanding its potential for Agenda 2030, p.11, which explains that of the collective amounts invested in blended finance by six official providers, 8% was invested in low-income countries, 50% in lower-middle-income countries, and 38% in upper-middle-income countries.
12. See Eurodad, A private affair, Shining a light on the shadowy institutions giving public support to private companies and taking over the development agenda, 2014, available at: http://www.eurodad.org/files/pdf/1546237-a-private-affair-shining-a-light-on-the-shadowy-institutions-giving-public-support-to-private-companies-and-taking-over-the-development-agenda.pdf.
13. See OECD, Private Sector Engagement for Sustainable Development: Lessons from the DAC, Highlights, 2016, p. 3f, available at: http://www.oecd.org/dac/peer-reviews/Highlights-from-a-Peer-Learning-Review.pdf.
14. Global Financing Facility Private Sector Engagement Strategy, 2016, available at: https://www.globalfinancingfacility.org/sites/gff_new/files/GFF-IG2-8-Private-Sector-Engagement.pdf.
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16. Ibid.
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19. See also Eurodad, Mixed messages: The rhetoric and the reality of using blended finance to 'leave no-one behind', 2017, available at: http://www.eurodad.org/files/pdf/1546844-mixed-messages-the-rhetoric-and-the-reality-of-using-blended-finance-to-leave-no-one-behind--1511464491.pdf.
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21. See Jubilee Debt Campaign, Double standards: How the UK promotes rip-off health PPPs abroad, available at: http://jubileedebt.org.uk/wp-content/uploads/2017/08/Double-standards-final.pdf; Oxfam, A Dangerous Diversion: Will the IFC's flagship health PPP bankrupt Lesotho's Ministry of Health?, available at: http://oxfamilibrary.openrepository.com/oxfam/bitstream/10546/315183/1/bn-dangerous-diversion-lesotho-health-ppp-070414-en.pdf. The latter report describes how an International Finance Corporation-facilitated public-private partnership hospital in Lesotho consumed more than half of the total government health budget in 2013/14.

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