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“Flash blending” development finance: how to make aid donor-private sector partnerships help meet the SDGs

Marc J. Cohen*, Claire Godfrey, Hilary Jeune, and Shannon Kindornay

ABSTRACT
Aid donors, development advocates, and finance experts increasingly look to the private sector to fill the estimated $2.5 trillion annual Sustainable Development Goals financing gap, an amount likely to increase due to effects of COVID-19. Donors use a variety of partnerships with the private sector to realise development objectives. We use the term donor-private partnerships (DPPs) to describe the broad range of arrangements between donors and private-sector actors. Using ODA to leverage private finance, innovation testing, or service delivery, modalities include blended finance, de-risking instruments, public-private partnerships, and more. Does the reality match donors’ enthusiastic rhetoric? There are success stories but civil society actors and others question whether private-sector engagement in development reduces poverty and inequality, advances gender justice, and achieves environmental sustainability. There may be trade-offs between development and profit making. We present our research based on frameworks we developed to categorise and assess DPPs. We applied these to 20 partnerships involving nine donors and found that donors fail to sufficiently integrate development, human rights, and environmental standards. They inconsistently implement due diligence and risk management requirements, and impact assessments are inadequate. Our frameworks offer practitioners and academics valuable tools to examine how DPPs can advance sustainable development.

ARTICLE HISTORY
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KEYWORDS
Blended finance; private sector and development; SDGs; aid effectiveness; human rights; worker rights

Introduction
Since 2015, financing for development discussions have emphasised mobilising private finance, in order to help bridge the estimated $2.5 tn annual Sustainable Development Goals (SDGs) funding gap (UNCTAD 2014). Now, the economic impact of the COVID-19 pandemic is expected to greatly complicate matters, with a projected 5–15% decline in foreign direct investment in 2020 (Inter-Agency Taskforce 2020) and output losses in sub-Saharan Africa of $37–79 bn driving household welfare losses of 7% (World Bank 2020). Bilateral aid donors, international financial institutions, development finance institutions, and institutional investors all see private finance as playing a key role in filling the yawning finance gap. The World Bank’s Maximising Finance for Development approach (World Bank 2018) is paradigmatic.

Multilateral development banks are reinventing themselves as conduits for private investments, rather than lenders of public funds, and development finance institutions, which seek to catalyse private investment in developing countries, are gaining prominence. This new agenda permits donors to support their own businesses and financial actors (especially institutional investors such as pension funds), while also

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fostering global development. The figures tell the story: in 2018, foreign direct investment in Africa rose 11% even as it declined globally (UNCTAD 2019). This has re-oriented donors’ theory of change, diagnostic reviews, and development interventions via capital markets. For many donors, COVID-19 makes the emphasis on private finance even more compelling (Inter-Agency Taskforce 2020).

This privileged position for private finance entails new opportunities, risks, and governance challenges. The private sector and private finance can, in the right context and with the right regulatory framework, make important contributions to sustainable development, poverty eradication, and lessening income and gender inequality by creating decent jobs, sparking innovation, and paying taxes that enable states to deliver public services (Villanger and Berge 2015).

However, there are concerns that in their efforts to engage the private sector, donors will relax the linkage between their official development assistance (ODA) and the principles of development effectiveness. A particular dilemma is how to balance private sector priorities against nationally determined development plans (GPEDC 2019), particularly in instances in which priorities diverge.

In this article, we begin by examining the current debate over aid donors’ partnerships with the private sector and the role of those partnerships in achieving sustainable development and poverty reduction. We then present the frameworks we have developed to categorise and assess donor-private sector partnerships (DPPs). Next, we report on results from putting our frameworks to use to assess both programmes and specific partnerships. We conclude with recommendations to donors on how best to ensure that DPPs advance development.

State of the debate: passionate rhetoric, but jury still out on results

Donor agencies and many other development actors and analysts are generally enthusiastic about engaging the private sector in development (Caio 2019). This has resulted in increased use of private sector instruments, such as equity investments, loans, and guarantees to private-sector actors, as part of aid packages. Donors use a wide range of programmes and modalities to realise a variety of objectives, with the private sector playing multiple parts. We have coined the term DPPs to cover this broad range of ODA-supported arrangements with private businesses. Using ODA to leverage private finance, innovation testing, or service delivery, DPPs include blended finance, de-risking instruments—these are public financial instruments, such as loan guarantees, that seek to make financial and investment activity in developing countries less risky from the perspective of private-sector actors—public-private partnerships (PPPs), policy dialogue, and much more.

It is unclear whether private finance for development can scale up sufficiently, given the lack of bankable or commercially viable projects, particularly in low-income countries. For example, Attridge and Engen (2019) found that every $1 that multilateral development banks and development finance institutions put into blended finance leverages $0.75 in private funding, and $0.37 of private money in low-income countries. Though not insignificant, this is far cry from donors’ billions to trillions narrative (World Bank 2018).

Moreover, the evidence is inconclusive on the effectiveness of DPPs in achieving poverty reduction and sustainable development (Andersen et al. 2019; Caio 2019). Issues that stand out include the different roles of public and private finance and the related question of how to ally social and commercial returns; prioritisation of scarce ODA directed to blended finance; and the matter of who bears the risk.

Will private sector engagement promote development?

For decades, the private sector has played a major development role, providing goods and services through government procurement processes. But only recently have donors viewed private sector actors as “partners in development”. They increasingly engage in job creation, multiple forms of service delivery, technology transfer, testing innovative solutions and new products, and providing capital.

Donors encourage partner-country governments to address market failures and other constraints, to create a favourable investment climate. In 2015, $9.9 bn in ODA supported such efforts (DI 2018).
But an enabling environment looks different to different actors. Policies that facilitate operations of multinational seed companies may constrain local farmers’ ability to reuse saved seeds. Measures to attract firms to export zones may include tax holidays and relaxed labour and environmental standards. If donors drive allocation of development finance to bankable projects and asset de-risking, do they still take developing countries’ development plans into account and support governments’ responsibility to provide quality services to all? The Kampala Principles on Effective Private Sector Engagement in Development Cooperation represent a multi-stakeholder effort at guidance on addressing such questions (GPEDC 2019).

Private finance serves a different purpose from domestic public finance or ODA, and private flows cannot simply replace public funding. This is a crucial concern in low- and low-middle-income countries, which are frequently too poor or unprofitable for private finance. Public development finance via ODA remains crucial in these countries (Attridge and Engen 2019). It is the only resource flow explicitly aimed at reducing poverty, and it supports development spending without increasing fiscal deficits.

Poverty reduction as a result of private sector engagement cannot be assumed – it must be nurtured. This makes donors’ inter-relationships with private sector partners complex. Donors need to offer incentives that provide commercial returns (Blue Orchard 2018). Also, many private-sector actors find donor partnership requirements too onerous. Incentivizing private sector engagement may lead to trade-offs between poverty reduction and sustainable development on the one hand and profit making on the other. It remains essential to show how DPPs will create shared value and make the case for de-risking, so that they do not merely offer subsidies to private-sector partners.

In addition, private-sector-engagement rhetoric refers to the private sector as a single, undifferentiated development actor. This begs the question of whether donors are using DPPs to foster entrepreneurship in developing countries and support micro-, small, and medium-sized enterprises (MSMEs). Are the main partners rather donors’ own companies and investors? Both the Netherlands and the United States for example have had DPP programmes formally tied to their firms. Tied aid tends to increase costs and deprives developing countries of opportunities to strengthen their own private sectors (Meeks 2017).

As the financialization of development expands, so do the sectors covered. Donors are increasingly including projects related to essential public services such as health and education. These initiatives use ODA for blending or impact investing, sometimes prioritising market returns over service quality. Donors regularly fail to oblige private investors to adhere to due diligence and risk management requirements (Thilakasiri, Nash, and Perrault 2012). Moreover, PPP delivery of education and healthcare tends to bypass low-income people, turning citizens with rights into consumers whose rights depend on ability to pay (Marriott 2014; Malouf Bous and Farr 2019). It can also exacerbate gender inequality: education and health PPPs commonly leave underfunded public-sector equivalents to serve the poorest people, who are disproportionately women (Romero 2019).

**A perfect blend?**

There is no universally agreed definition of “blended development finance”. We focus on initiatives that seek to blend small amounts of ODA with private finance. Much as a quick jolt from a blender makes a cold “flash blended” cocktail, the idea is that a jolt of public finance will catalyse substantial private finance.

Donors have long relied on blending to de-risk private investment in microfinance and promote financial inclusion (see, e.g. Scola, Moretto, and Lahaye 2018). But scale up and out are both problematic. Convergence, a blended finance network, acknowledges that blending “is not a panacea for achieving all the SDGs” (Convergence 2018). Investments concentrate in profitable sectors to ensure acceptable returns.

Furthermore, when donors seek to mobilise private finance with ODA, what matters is not just how much private money they generate (Attridge and Engen 2019), but importantly, the type and quality of funding. ODA can encourage sustainable development and decent jobs by helping
to promote business models that share value by design and support government efforts to uphold worker rights. The ultimate poverty impact is too often assumed, not thoroughly examined; the problems lie in how donors use blending and their reasons for doing so (Caio 2019).

Transferring risk to the poor?

Private sector engagement in development carries significant risks. Too often, the communities that bear the costs – e.g. pollution, loss of land, or adverse health consequences – face challenges in accessing recourse mechanisms (Geary 2015). De-risking does not eliminate risk, but shifts it in whole or part from the private sector to governments, donors, and, ultimately, taxpayers in the Global South and North (Romero 2015). So, strong governance and policy frameworks are required.

Transparency, accountability, and the right of redress for communities that suffer adverse effects from DPPs are key challenges. Too often private investors claim much of the information about their ventures is commercially sensitive, so exempt from disclosure. Nevertheless, over 1,300 investors managing $60 tn have committed to the UN Principles for Responsible Investment, which stress transparent integration of environmental, social, and governance factors into investment decisions and asset management (Andersen et al. 2019).

Despite these issues, donors’ current private sector engagement emphasis means there is political will to expand substantially on the current modest base (Caio 2019). In order to help development advocates, practitioners, and policy makers better understand the potential and pitfalls of DPPs, we devised two frameworks: one for partnership categorisation and a second for assessment.

Categorising DPPs

Our classification framework (Table 1) categorises DPPs according to objectives, type of programme supporting the DPP, private sector instruments involved, financing and governance arrangements, and the private sector role. The framework draws from the DPP literature (e.g. Kindornay and Reilly-King 2013) and offers a tool to scrutinise donors’ activities and hold them accountable.

With regard to financing and governance, partnerships can be donor-led, in which case fund recipients must follow donor rules. Alternatively, there could be a coalition, including civil society organizations (CSOs), the private sector, governments, and research institutions, usually with both public and private funding. In still another approach, donors provide funding, but other partners take the lead, e.g. company-led, business-CSO alliances, or CSO-led models that can result in creation of a social enterprise or for-profit company (Kindornay 2013).

Private sector roles include beneficiary (of financial support, capacity building, technical assistance, or knowledge sharing); implementer, creating new business models with donor support; reformer, e.g. reducing environmental impact; resource provider; participant in policy dialogue, knowledge sharing, and multi-stakeholder initiatives; or target (i.e. government, civil society, other private sector stakeholders, and/or multilateral institutions encourage the private sector partner to change its business practices). A private-sector actor might play several such roles.

Assessment framework

Our assessment framework (Table 2) provides a standardised way to gauge DPPs’ strengths and weaknesses, and to identify good practice. The assessment criteria are rooted in widely accepted development norms (alignment with human rights, additionality, and ensuring robust M&E). We use the framework to assess donor partnership programmes and individual DPPs; the programme level assessment can serve as a proxy for assessing individual partnerships when information is limited. Where there is information, the framework recognises that at the individual DPP level, policy and programme requirements do not always translate into practice.
The framework is qualitative in nature, and is not intended for quantitative scoring of DPPs. Rather, it allows for development of a comprehensive narrative on partnership quality, from which it is then possible to identify broad trends.

**Objectives**

Programmes and partnerships should ground their development objectives and theory of change in impacts on poverty, income and gender inequality, environmental sustainability, and achieving the SDGs. DPP objectives should not focus on short-term donor self-interest.

**Development effectiveness principles**

Over the past 15 years, donors have agreed at the series of aid-effectiveness summits on a set of principles. Accordingly, like all ODA, DPPs should be based on agreed norms and standards. These include:

Table 1. Summary of DPP classification system.

<table>
<thead>
<tr>
<th>Category</th>
<th>Classification options</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objectives of private sector engagement</td>
<td>• Mobilizing private finance</td>
</tr>
<tr>
<td></td>
<td>• Realising specific development results</td>
</tr>
<tr>
<td></td>
<td>• Innovation testing</td>
</tr>
<tr>
<td></td>
<td>• Promotion of private sector development</td>
</tr>
<tr>
<td></td>
<td>• Promotion of inclusive and responsible business</td>
</tr>
<tr>
<td></td>
<td>• Promotion of domestic private sector</td>
</tr>
<tr>
<td>Private sector programmes(^a)</td>
<td>• Blended finance</td>
</tr>
<tr>
<td></td>
<td>• Business support</td>
</tr>
<tr>
<td></td>
<td>• Business-to-business</td>
</tr>
<tr>
<td></td>
<td>• Capacity development</td>
</tr>
<tr>
<td></td>
<td>• Challenge funds</td>
</tr>
<tr>
<td></td>
<td>• Multi-stakeholder partnership</td>
</tr>
<tr>
<td></td>
<td>• Non-profit private sector partnerships</td>
</tr>
<tr>
<td></td>
<td>• Output-based aid</td>
</tr>
<tr>
<td></td>
<td>• Other programmes and ad hoc support</td>
</tr>
<tr>
<td></td>
<td>• Technical assistance</td>
</tr>
<tr>
<td>Private sector instruments(^b)</td>
<td>• Grants</td>
</tr>
<tr>
<td></td>
<td>• Debt instruments</td>
</tr>
<tr>
<td></td>
<td>• Mezzanine finance instruments(^c)</td>
</tr>
<tr>
<td></td>
<td>• Equity and shared investment vehicles</td>
</tr>
<tr>
<td></td>
<td>• Guarantees and other unfunded liabilities</td>
</tr>
<tr>
<td>Financing and governance</td>
<td>• Donor-led private sector</td>
</tr>
<tr>
<td></td>
<td>• Donor-led non-profit</td>
</tr>
<tr>
<td></td>
<td>• Coalition</td>
</tr>
<tr>
<td></td>
<td>• Company-led</td>
</tr>
<tr>
<td></td>
<td>• CSO-led</td>
</tr>
<tr>
<td></td>
<td>• Business-CSO alliance</td>
</tr>
<tr>
<td>Private sector role</td>
<td>• Beneficiary</td>
</tr>
<tr>
<td></td>
<td>• Implementer</td>
</tr>
<tr>
<td></td>
<td>• Reformer</td>
</tr>
<tr>
<td></td>
<td>• Resource provider</td>
</tr>
<tr>
<td></td>
<td>• Participant</td>
</tr>
<tr>
<td></td>
<td>• Target</td>
</tr>
</tbody>
</table>

Source: The authors.
Notes:
\(^a\)See OECD (2016) for discussion of programme types and private sector instruments.
\(^b\)See Kindornay (2013) on financing and governance arrangements.
\(^c\)Mezzanine capital is any subordinated debt or preferred equity instrument that represents a claim on a company’s assets which is senior only to that of common shares. It can be structured either as debt or preferred stock.
<table>
<thead>
<tr>
<th>Component</th>
<th>Sub-component</th>
<th>Programme level assessment</th>
<th>Partnership level assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aid and development effectiveness principles</td>
<td>Programme operates in line with principles of country ownership and alignment.</td>
<td>• Principle explicitly mentioned in programme documents</td>
<td>• Evidence partnership supports country ownership (mention of explicit link to national priorities or national stakeholder involvement)</td>
</tr>
<tr>
<td></td>
<td>• Programme and subsequent projects are explicitly structured to support national leadership and development plans</td>
<td>• Provisions for compliance set out in partnership application and/or selection process</td>
<td>• Evidence of domestic government demand for partnership</td>
</tr>
<tr>
<td></td>
<td>• Programme and partnerships include provisions for consultation and involvement with domestic stakeholders (government, civil society, and the private sector)</td>
<td>• Evidence of assessment of country ownership in evaluations</td>
<td></td>
</tr>
<tr>
<td>Programme operates in line with principle of managing for results.</td>
<td>• Sets out key performance indicators and results metrics and/or provisions for development of partnership specific results indicators</td>
<td>• Description of indicators</td>
<td>• Partnership specific results indicators</td>
</tr>
<tr>
<td></td>
<td>• Description of provisions for establishing results indicators</td>
<td>• Description of whether programme is tied aid</td>
<td>• Description of how results indicators link to development objectives</td>
</tr>
<tr>
<td>Programme operates transparently, making publicly available partnership criteria, application procedure, decision-making, partners supported, activities, results, and evaluation.</td>
<td>• Description of elements that are publicly available</td>
<td>• Description of regulations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Existence of programme transparency policy</td>
<td>• Description of oversight mechanisms</td>
<td>• Evidence that partnership follows relevant regulations and is subject to public oversight</td>
</tr>
<tr>
<td></td>
<td>• Public reporting</td>
<td>• Description of evaluation provisions</td>
<td></td>
</tr>
<tr>
<td>Programme operates in line with accountability principles: Public oversight</td>
<td>• Subject to government regulation and includes public oversight</td>
<td>• Evidence that partnership was subject to public consultation</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Subject to independent evaluation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consultation mechanism</td>
<td>• Subject to public consultation</td>
<td></td>
<td></td>
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<tr>
<td></td>
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</tr>
</tbody>
</table>
**Complaints mechanism**

- Mechanism exists for affected communities to raise concerns and seek meaningful resolution

**International legal and voluntary standards**

- Programme operates in line with frameworks

**Private sector voluntary standards**

- Programme operates in line with standards

**International human rights framework**

- Frameworks mentioned
- Provisions for compliance

**Programme operates in line with frameworks**

- Standards mentioned
- Provisions for compliance

**Development objective**

- Programme has as primary purpose realising development objectives such as poverty reduction, gender equality, reduced inequality, or environmental sustainability
- Programme linked to SDGs
- Programme and partnerships grounded in theory of change for realisation of development objectives

**Programme linked to SDGs**

- Description of development objectives and theory of change
- Description of other programme objectives (e.g. supporting domestic commercial interests)

**Due diligence Partnership criteria**

- Programme sets out clear criteria in terms of corporate governance, finance, development impact with respect to potential private sector partners

**Partnership criteria**

- Articulated due diligence process
- Provisions for FPIC

**Due diligence system**

- Programme includes due diligence assessment of partners
- Programme includes free, prior, and informed consent (FPIC) for affected communities

**Risk management**

- Programme outlines how financial, environmental, social, governance, and economic risks are assessed and managed

**Key risks identified**

- Provisions to manage risk

**Programme includes due diligence assessment of partners**

- Articulated due diligence process
- Provisions for FPIC

**Programme includes free, prior, and informed consent (FPIC) for affected communities**

- Evidence that partnership was subject to due diligence process
- Evidence of community consultation and consent

**Risks identified and provisions for management articulated**

**Due diligence system**

- Programme includes due diligence assessment of partners
- Programme includes free, prior, and informed consent (FPIC) for affected communities

**Risk management**

- Programme outlines how financial, environmental, social, governance, and economic risks are assessed and managed

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**Risks identified and provisions for management articulated**

**International human rights framework**

- Frameworks mentioned
- Provisions for compliance

**Programme operates in line with frameworks**

- Standards mentioned
- Provisions for compliance

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- Provisions to manage risk

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- Evidence of community consultation and consent

**Risks identified and provisions for management articulated**

(Continued)
<table>
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<th>Sub-component</th>
<th>Programme level assessment</th>
<th>Partnership level assessment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Additionality</td>
<td>Development</td>
<td>• Scope of development results expected to be achieved through partnerships that otherwise would not be achieved</td>
<td>• Articulation of development results that otherwise would not be achieved</td>
</tr>
<tr>
<td>Financial</td>
<td>• Programme supports partnerships that demonstrate financial additionality</td>
<td>• Financial additionality requirements</td>
<td>• Explanation of financial additionality</td>
</tr>
<tr>
<td>Value</td>
<td>• Programme supports partnerships that demonstrate value additionality</td>
<td>• Potential roles of public and private sectors under programme beyond financing</td>
<td>• Description of value added by private sector partner</td>
</tr>
<tr>
<td>Monitoring</td>
<td>• Programme sets out provisions for regular monitoring of activities and results</td>
<td>• Description of monitoring process</td>
<td>• Evidence of monitoring – e.g. mid-term reporting available</td>
</tr>
<tr>
<td>Evaluation</td>
<td>• Programme includes provisions for evaluation of partnerships and/or Programme is evaluated based on sample of partnerships Programme’s impact on the poorest</td>
<td>• Description of evaluation provisions</td>
<td>• Description of evaluation provisions</td>
</tr>
</tbody>
</table>

Source: The authors.
democratic country ownership, use of country systems, alignment and harmonisation, managing for results, and transparency and accountability. Operating in line with democratic country ownership ensures inclusiveness and participation of impacted populations, including civil society, as well as alignment with national development plans. Ownership and use of country systems mean donors avoid tied aid. Managing for results and harmonisation require clear key performance indicators across donors and results metrics, and clear partnership-specific results indicators.

Donors and the international development community should make certain that policies and standardised systems are in place that deliver people-centred and sustainable development outcomes. When donors partner with the private sector, they must demonstrate that the partnerships will lead to development additionality, i.e. greater development impacts than either partner would create alone, and that partnership activities do not undermine governments or country systems and serve the public good.

**Sound monitoring & evaluation**

The framework focuses on the robustness of M&E requirements at the programme level and actual evidence of M&E occurring at the partnership level. It also uses M&E data when available to assess individual DPPs.

**Respect mandatory and voluntary standards**

There are established and accepted global standards and legally binding principles that pertain to the impact of private sector operations on economic, social, and environmental outcomes. Our framework looks at donors’ binding international legal obligations, such as international human rights law and ILO worker rights conventions. We also consider voluntary business standards, e.g. the UN Guiding Principles on Business and Human Rights and the International Finance Corporation’s (IFC’s) Performance Standards on Environmental and Social Sustainability. These focus on companies doing no harm, advancing human rights, and avoiding environmental degradation. Host governments and donors bear responsibility for ensuring firms’ conformity.

**Due diligence and risk management**

Due diligence and compliance systems are critical when providing ODA to the private sector and the financial institutions that facilitate leveraging. There are concerns over the extent to which donors carry out due diligence to ensure partners follow environmental, social, and governance standards (Thilakasiri, Nash, and Perrault 2012; Geary 2015). Partnership criteria should ensure partners are responsible businesses in this regard. Private-sector partners should treat due diligence processes seriously and be transparent on risk management.

**Additionality**

The value of DPPs also lies in the extent to which they achieve financial and development additionality. Financial additionality means that finance is mobilised and an investment is made that would not have materialised otherwise. Development additionality refers to the outcome and impact of the investment that goes beyond what would have been achieved in the absence of additional finance (e.g. poverty reduction, job creation, greater gender and income equality, environmental protection) (OECD 2018). DPP projects must demonstrate the need for a public subsidy to deliver these results. At present, in most cases, additionality is assumed and not observed.
**Limitations**

We intend the assessment tool for desk-based work. However, due to the lack of publicly available information on many individual DPPs and how donors operationalise principles and policies into their partnerships, users will often need to supplement this with direct engagement with ODA providers and their private-sector partners. Another limitation of the framework is that even when donors have overarching policies that guide private sector engagement, it is frequently difficult to assess how these inform programmes and individual partnerships.

**Putting the frameworks to use**

We used our frameworks to study partnership programmes of nine major donors – Australia, Canada, the EC, France, Germany, the Netherlands, the UK, the USA, and the World Bank. We often found it difficult to get specific information on programme structure and operations. We also assessed 20 specific DPPs involving one or more of the donors (Jeune 2019 provides details). We purposively selected the DPPs using information available on donor websites. Our selection criteria included developing a representative and diverse sample that reflects the donors’ main private sector programmes and a range of private-sector partners and partner countries. In a separate exercise, we assessed the same donors’ blended finance for agricultural development.

**Findings from partnership assessments**

Generally, we found massive information gaps on overall financial allocations to implementing partners and on partnership details. These make it hard to fully assess donors’ private sector engagements.

Although donors showcase examples of good practice, the evidence does not bear out assumptions that DPPs are inherently good for development. Our findings correspond with those of other recent studies (Caio 2019; Philanthropy University, the Conrad N. Hilton Foundation, and GSVlabs 2020). Our review found that the 20 DPPs do not sufficiently integrate established international development, human and labour rights, and environmental principles and standards. Most donors do not use development effectiveness principles as a baseline for private sector engagement. Donors do not adequately track aid transfers and are inconsistent with due diligence and risk management requirements. Systems are inadequate to demonstrate net benefits (development and financial additionality) of engaging a private-sector partner, including whether the partner pays its fair share of taxes.

Our assessment of agricultural blended finance found that partnerships generally focus on commercialising value chains, with much less emphasis on poverty alleviation, direct improvements in household food security, reducing income and gender inequality, or environmental sustainability. The most commercially viable small-holders are more likely to attract investment than those on the margins. DPPs are likely to leave behind the latter farmers, who are more often women than men.

**Additionality**

Donors should show that they are not unnecessarily subsidising investments the private sector would make in the absence of the DPP. Many of the programmes we assessed mentioned the importance of financial additionality, but very few demonstrated how they achieved it. None focused on development additionality. The majority of programmes did not include criteria requiring partners to articulate the case for either form of additionality.

One of the individual DPPs we assessed was a $4 mn USAID loan guarantee to improve access to microcredit in Haiti. USAID also provided technical assistance to local banks. An evaluation focused explicitly on additionality concluded these banks did not change their loan terms or diversify borrowers. This calls into question the partnership’s development additionality.
**Development effectiveness**

Our partnerships assessment found that donor policies on development effectiveness principles are not always explicitly translated into programmes. In turn, it is not always clear how partnerships concretely operationalise programme provisions; what looks good on paper is, in practice, lost in translation. Few of the assessed DPPs systematically referenced or integrated development effectiveness principles. While more traditional ODA activities implemented by NGOs or partner governments often likewise struggle to put those principles into practice, donors do try to ensure that such projects integrate the principles (see, e.g. Ahmad and Wainer 2016 on ownership). There is concern that the current emphasis on private sector engagement has eroded development effectiveness standards (Kindornay and Reilly-King 2013).

For example, one of the agriculture DPPs we assessed involved the Dutch Good Growth Fund (DGGF) and Lalibela BV, a small-scale Dutch horticulture trading firm. The company received a loan of €1 mn and €1.4 mn in guarantees to grow roses for export in Ethiopia. The investment was projected to create 450 jobs, mostly for women, and to transfer knowledge and skills. However, this DGGF facility provides support exclusively to Dutch firms. DGGF does not specify development additionality indicators, although it says there was an ex-ante corporate social responsibility check. But foreign land acquisition to produce flowers for export has caused controversy in Ethiopia, including sometimes violent protests in 2016 (Schemm 2016). Such tensions have implications for robust due diligence criteria, systems, and management, as well as country ownership.

We found that more generally, the 20 assessed DPPs poorly reflect country ownership. Only four partnerships demonstrated linkage to country strategies or priorities, though 15 did have a local partner (government, company, non-profit). Donors seem to focus more on private-sector priorities in DPPs, rather than align with partner-country plans. We also found little information on DPP governance, so it is difficult to calculate the extent of stakeholder representation in decision making beyond the donor and private-sector partner. The Kampala Principles (GPEDC 2019) recognise the challenge of establishing broadly inclusive processes around private sector engagement.

Transparency and access to information undergird good governance, informed participation in decision-making, and public accountability. Open processes pave the way for inclusive development that improves the lives of vulnerable and marginalised people and society overall. Women, girls, and gender minorities are particularly vulnerable due to patriarchal norms, and the consequences of DPPs if not designed and implemented correctly can be dire. For example, women generally have far weaker land rights than men, leaving them in a weaker position to bargain with government authorities or investors, and they are often more at risk of violence where a land deal involves intimidation (Levien 2017). Lack of transparency further disadvantages them.

Although the assessed donors have transparency policy frameworks, they do not appear to consistently translate these into high levels of transparency in programmes and individual DPPs. The lack of information on DPPs is highly problematic, making it impossible to assess partnerships against donors’ criteria.

Accountability provisions need to be improved over all 20 DPPs. Public consultations need to have better provisions, especially those with affected communities, and must have explicit ways to take gender into account. Consultations often severely limit or totally ignore the needs of women, girls, and gender minorities, and offer little opportunity to voice those needs. Though there are provisions for oversight and complaints mechanisms at the programme level, donors frequently provide little information on these. Information was also lacking on how donors had undertaken due diligence, including risk management, and on actions taken as a result.

One of the DPPs we assessed, the Zinc Alliance for Child Health (ZACH), has a very strong development objective, but unclear accountability mechanisms. It is a partnership between Global Affairs Canada and the non-profit Nutrition International, UNICEF Canada, the World Food Programme, and Teck, Ltd., a Canadian mining company. ZACH aims to reduce child mortality through use of zinc and
oral rehydration salts to treat diarrhoea. The partnership educates local health workers and communities on the effectiveness of this approach. However, our 2016 review of the project found no information on public consultation, beneficiaries’ project oversight, or a complaints mechanism.

**International frameworks are ignored**

We found that the majority of programmes and partnerships do not refer to specific international human and labour rights frameworks or use voluntary standards to inform their approach. Among those that did make such references, ILO conventions were the most prominently cited frameworks, along with the IFC Performance Standards and the OECD Guidelines for Multinational Enterprises. This last is a set of voluntary standards, and strong political will is required to integrate it into policies and practices. We found few references to environmental legal frameworks or the International Bill of Human Rights. In general, we found that development finance institution and financial institution programmes were more likely to include reference to specific frameworks. The ZACH project makes no reference in its documentation to compliance with international legal or voluntary standards. This does not mean that projects are not in compliance per se but rather that information on DDPs is largely limited with respect to this assessment dimension.

Another DPP that we assessed is supported by French ODA through Sunref (Sustainable Use of Natural Resources and Energy Financing), the French aid agency’s green finance label, which facilitates access to affordable, sustainable energy. Sunref East Africa enabled the New Zealand firm Olivado to access $1.3 m in financing in order to invest in biogas power plants in Kenya. These power Olivado’s factory, with the surplus going to local farmers. There is little or no information on a results framework, transparency policy, consultation mechanisms, public oversight, or the risk mitigation strategy, and no evaluations were available. Project documents make no reference to international human rights frameworks or private sector voluntary standards. Apparently, the theory of change is that Sunref will encourage banks to finance the ecological transition by removing technical and financial barriers, but there is no detailed analysis proving this has actually happened.

We also assessed a partnership involving CDC Group, the UK development finance institution. In 2011, it partnered with a Bangladesh subsidiary of the Swedish equity fund manager Brummer. This DPP sought to make equity investments of $5–$15 mn in the country’s export, agriculture, health, education, IT, and services sectors, creating jobs, especially for women. CDC has a Code of Responsible Investing which references international human rights law, ILO conventions, the IFC Performance Standards, and the OECD Guidelines. We could find no information on how CDC ensures partners’ compliance. In particular, we could not find information on whether local communities know about a complaints mechanism or if this DPP has a risk mitigation strategy, two areas covered in the IFC standards.

**Lack of harmonised M&E systems**

There are currently no harmonised M&E systems or standardised reporting mechanisms for DPPs. Though many of the assessed partnerships have some sort of monitoring system, the variety of approaches confounds comparative analysis. Private-sector actors have called for a common impact measurement system (Blue Orchard 2018), but the lack of common definitions for many terms and concepts impedes progress. Development of the Operating Principles for Impact Management, launched in April 2019, and endorsed by a number of private investors and donor agencies (IFC 2019) represents an important step forward. However, public reports on the impact of blended development finance, for example, remain difficult to find (Caio 2019).

At the institutional level, donors commonly have a results-based framework and standardised reporting. However, in reporting on individual DPPs, only about half the programmes and partnerships assessed explicitly mentioned their results indicators.

Fewer than half of both the programmes and partnerships linked their objectives to a theory of change. Evaluations focused on quantity (private finance leveraged, loans made, jobs created), rather
than quality (decent work, effects on gender and income inequality). The limited information is highly problematic given donor assumptions and ambitions regarding DPPs.

**Conclusion**

Our frameworks for categorising and assessing DPPs seek to balance the ideal and the pragmatic, based on already agreed standards, principles, and international law. We offer the assessment framework not as a one-off analytical tool, but rather to inform ongoing legislative and policy debates, to ensure that donors integrate the underlying principles when they allocate ODA to DPPs.

**Recommendations**

Based on our assessments, we offer donors eight recommendations. We intend these to help harness DPPs’ potential and minimise the risks, recognising the variety of private-sector partnerships and instruments in terms of size and form; one size does not fit all.

1. Donors must recognise the need for caution. They should demonstrate that DPPs have an effective mechanism in place to manage risks to people and the environment before engaging in partnerships.
2. Donors must demonstrate ex ante that DPPs have a reasonable likelihood of financial and development additionality. They should measure development additionality with an integrated results framework, such as the SDGs. Partnership criteria should include public ex-ante forecasts that provide a theory of change establishing how the private partner is best placed to realise specific development results.
3. Given significant information gaps, donors should develop better, harmonised systems to track and report aid allocations to private-sector partners.
4. To ensure that ODA used to support private sector engagement leads to responsible business and decent jobs, donors should require that DPPs’ objectives contribute to achieving the SDGs, based on the leave no one behind principle. DPPs should demonstrably promote the rights of women and gender minorities, and equal economic opportunities for marginalised groups of entrepreneurs, producers, and workers.
5. Development effectiveness principles hold donors accountable to ensure they use ODA to sustainably reduce poverty and income and gender inequality. Consequently, donors should consult partner governments to verify that DPPs align with and complement national development strategies. Donors should avoid tied aid, and favour local MSMEs when tendering for DPPs, to help develop the local private sector and keep more value with local workers and entrepreneurs. As appropriate, they should engage civil society in consultation and public debate about DPPs, and in project design, implementation, and M&E. Such consultations must explicitly take gender into account. Donors should require publicly available independent evaluations of at least a sample of high-cost DPPs.
6. Accountability mechanisms engage stakeholders and create a sense of project ownership. Transparency is integral to accountability; at a minimum, donors should publish data to the International Aid Transparency Initiative Standard and require all private-sector partners to do so. They should also presume public disclosure of DPP contracts except to protect trade secrets or proprietary information. Donors should make suitable complaints mechanisms available and accessible, together with public reports on complaints resolution.
7. Donors should require all DPPs to comply with the highest applicable environmental, social, and governance standards, based on legal and voluntary frameworks.
8. Due diligence and risk management help DPPs avoid and address adverse impacts on human rights and the environment, as well as bribery and harm to affected communities. At a minimum, donors should ensure that private-sector partners avoid illegal activity and pay their fair share of taxes.
Further research

Further research is necessary because data on DPPs are not systematically captured or tracked. Case studies are too few or piecemeal, leading to a knowledge gap on the value and efficacy of DPPs, despite donor enthusiasm. The tools we have developed should prove useful in filling this gap.

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