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Background Paper EDD Round Table

Fostering Equitable and Sustainable Development: The Role of the Private Sector and Trade in Times of Economic Turmoil

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Introduction

The global economic crisis has sent shock waves not only throughout capital cities and financial centers but also into small farming and mining communities in remote parts of the world. The World Bank's submission to the G20 Meeting in September 2009 predicted that as a result of the crisis 89 million more people will be living in extreme poverty by the end of 2010.¹ The International Labour Office (ILO) report to the Summit highlighted an unprecedented increase in unemployment globally, and noted that even if an economic recovery began to take hold this year or next, a global jobs crisis could linger for six to eight years.²

As international trade flows wane for the first time since the global depression of the 1930s, and governments pursue a range of policies aimed at putting the global economy on a more secure footing, it is an appropriate time to reflect on how the private sector, trade and investment best contribute to equitable and sustainable development, and to consider how people can be protected during times of crisis.³ This is all the more pressing because progress on the Millennium Development Goals (MDGs) and enjoyment of minimum standards of human rights for all people continues to be so variable both across, and within, countries. At the two-thirds mark to achieving the MDGs, it is clear that many of the goals will not be met in countries across the world. Equally important, there has been a failure to address persistent problems of inequality and social exclusion, resulting in those most at risk and most vulnerable facing a situation of chronic poverty. Noted development expert Jan Vandenmoortele pointed out in a recent study that inequality and disparities are widening in a majority of countries. This is neither irrelevant nor a passing phase, and results in the undermining of social cohesion and greater social exclusion.⁴

Private sector investment has far eclipsed official development aid in many developing countries, with an increasing proportion of this investment coming in recent years from emerging markets such as China and India. As the role and power of the private sector has grown, there has been general agreement on both the critical role which the private sector plays in promoting development, and the importance of defining the expectations of companies for contributing to these efforts.⁵ Equally, the importance of international trade to promoting economic growth, employment and development has been universally accepted by governments.

But it is also true that a positive contribution by business and trade to broader development efforts is not automatic. Business activities, as well as government policies in the areas of trade and investment, can lead to negative impacts on development and undermine efforts to promote and protect internationally agreed human rights and labor standards. The shared aim and ongoing challenge is to put in place policies

and legal, institutional and civic structures which promote equitable and sustainable development, and ensure that such policies and structures are robust enough to withstand periods of economic turmoil.

This paper reflects on these challenges and offers a brief analysis of:

- Existing constraints on business activity in developing countries, and how they may be exacerbated in times of crisis;
- How the crisis can undermine the private sector's contribution to equitable and sustainable development; and
- Conditions under which business activity and trade and investment promotes equitable and sustainable development.

The paper then sets out a number of recommendations aimed at consolidating and increasing the contribution of the private sector and trade to development through periods of economic turmoil.

Existing constraints on business activity in developing countries

A number of challenges face the private sector not only in many developing countries, but also in many underdeveloped areas within emerging market economies.

Insufficient access to capital and savings facilities for SMEs, micro-enterprises and the self-employed.

Lack of infrastructure, most notably a reliable source of power, transport systems, water and sanitation, and telecommunications.

Limited access to markets. Africa has a decreasing share of world exports due to a range of trade barriers and insufficient trade capacity. Domestic markets tend to be small, and there is little regional integration due to infrastructure gaps, tariffs and conflicts. These discourage existing companies, and even more so the entry of new firms and innovation.

A limited or inappropriate role played by the public sector. On the one hand, in many countries the public sector has limited capacity to plan for and coordinate investment, private sector infrastructure and business development and expansion. On the other hand, in many countries businesses suffer from inefficient regulation and bureaucracy and predatory public sector practices such as corruption.

Lack of a broad-based business class that is not segmented by ethnicity or national origin.⁶

How has the crisis impacted private sector activity and trade?

The global economic crisis has challenged assumptions that levels of international investment and trade flows would inexorably rise, and that freer capital flow would stimulate sustainable growth and development. The crisis has had a broad range of impacts on private sector activity, for example a reduction in availability of financing for private sector activity from commercial financing from the banking system and development program financing.⁷ It has also led to a reduction in the demand for developing country products leading to a decline in export volume. The World Bank G20 report estimates that export market demand for low-income countries has dropped by 5–10 percent in 2009. There has been a decrease in prices for commodities and primary products, which tend to make up the bulk of export revenues for developing countries. Business downturns in northern countries and markets are causing a squeeze that is pushed down supply chains. Remittances are down, which fuel both consumption and domestic productive activity in developing countries. The WB G20 report estimates an annual reduction of 5–7 percent in 2009 and at best a modest recovery in 2010. Finally a reduction in tourism has hurt many developing countries for which tourism has been an increasing source of revenue.

Identifying Risks to Development Outcomes from the Crisis

The effects of the crisis are overlaid on the existing challenges facing private sector activity in developing countries, and without appropriate public sector policies, the crisis is likely to jeopardize the contributions that business and trade can make to equitable and sustainable development. The major risks include:

Impacts on Workers in the Supply Chain

Enterprises need to remain competitive in national and international markets. A major sector for export manufacturing is the textile industry. A range of studies have documented some of the practices in this industry that lead to precarious employment, particularly for women, such as “just-in-time” purchasing and locating factories in special economic zones exempt from domestic legislation. At a time when global demand for manufactured goods decreases or fluctuates, many firms will try to save on labor costs in their supply chains through lower payment per piece, long working hours and compulsory overtime, and greater reliance on temporary contracts and subcontracting.

Impacts on Developing Country Business Partners in the Supply Chain

One of the main benefits of foreign direct investment is its generation of multiplier effects in local economies through partnerships with local businesses. Decreases in global demand are likely to squeeze these businesses as well, pushing them to reduce costs. The UK’s Overseas Development Institute (ODI) program on business and development undertook a 2009 consultation with businesses on the effects of the global crisis.⁸ Preliminary analysis found that new investments are being postponed and that innovation is suffering. As weaker players drop out of the market there is a potential risk from market consolidation as well – if the number of international buyers decreases, the bargaining position of developing country business partners is further weakened.

Impacts on Finance for Enterprise

One of the major areas of development fueled by, and focused on stimulating, private sector activity within developing countries has been expanding access to capital (and to a lesser extent, savings facilities). On the one hand, private banks from OECD countries and from within developing countries have expanded enormously across borders for either business activity or consumption, targeted mainly at relatively well-off segments of society. There has as well been huge growth in microfinance provision, with benefits including economic empowerment, widening of economic opportunities and diminishing vulnerabilities to external shocks. A significant study released in 2009 called *Will the Bottom of the Pyramid Hit Bottom?* assessed the experiences of

microfinance institutions (MFIs) across countries. The study notes that, since mid-2008, the shortfall in credit reduced the available commercial capital for MFIs and has thereby constrained the growth of their loan portfolios. The authors estimate that over 2009 and 2010 the scarcity of private credit will mean that the sector-wide microfinance loan portfolio will grow by US\$28 billion less than anticipated, much lower than demand. Higher borrowing costs for the MFIs themselves will further erode their margins, which often are already low. As a response, international agencies including The World Bank and the IFC may extend emergency liquidity funds, but the study points out that MFIs should be cautious because these hard currency loans can exacerbate the foreign exchange risk exposure of some MFIs. Those MFIs that accept deposits appear better positioned to withstand the crisis.

In the global credit crisis, development lending programs going to scale using domestic, regional and/or international banks have faced obstacles. The development agency BRAC, founded in Bangladesh and now working in more than a dozen countries, has made more than \$5 billion in micro-loans to over 7 million participants, mostly women. BRAC has a program in South Sudan where they deposited US\$5 million with the Nile Commercial Bank.⁹ Given the liquidity crisis, the money simply isn't there to provide to BRAC for on-lending, reports the bank, which instead has dispensed funds in smaller increments and only as they become available. In 2008 and 2009, West African banks holding BRAC's funds in global banks have sometimes been asked to pay for the privilege of depositing funds, not just for borrowing, even with accounts of significant size.

The other major trend is likely to be higher delinquencies from poor borrowers and struggling SMEs buffeted by the crisis. Just as increased credit availability in developed countries encouraged new borrowers who afterwards found difficulty repaying mortgages, consumer or business loans, the same is happening in developing countries.

Impacts on Government-Business Negotiations

Foreign investors in industries from extractives to manufacturing already appear to be tougher in negotiating with governments, for example internal steel and rubber companies operating in Liberia. The negotiating power of governments for royalties, corporate tax, land compensation and other benefits from foreign investment will be weakened as inflows from FDI generally taper off. At the same time, when faced with decreasing revenues from corporate taxes and tariffs that originate in business activity, the public sector may put a tighter squeeze on businesses through increased fees or other regular or irregular payments.

Private Sector Activity and Trade Policies that are Conducive to Development

The role of the private sector is critically important in providing work, products, services and innovation. Businesses can contribute to broad-based and sustainable development most importantly by creating employment, contributing to the government tax base, providing socially-useful products and services, and stimulating innovation and entrepreneurship. The private sector generally makes investment decisions free of bureaucratic hindrances often associated with public investment. Moreover, private sector investment generally has a vested interest in ensuring the ongoing success of business activities and increase in purchasing power, and thereby finds value in stimulating the micro-economy around it.

During an economic crisis it is more important than ever to focus on the characteristics of private sector activity which have been shown to most effectively promote equitable and sustainable development. A number of issues should be considered in this respect.¹⁰ For example, the key driver that translates economic activity and growth into genuine development and poverty reduction is the quantity and quality of employment created. Governments, therefore, should especially encourage private sector investment that creates more jobs. Jobs must also meet minimum standards to contribute effectively to equitable and sustainable development. Governments, companies, trade unions and other civil society actors should help ensure that all of those working in the value chain, either direct employees, contract hires or suppliers, work in “decent” conditions in terms of pay and benefits, health and safety, and social dialogue. Wages must be sufficient to create a household surplus to improve the well-being of workers and their families.

Another area of importance involves the distribution of wealth and incomes throughout the value chain. A study of Unilever Indonesia’s value chain, referencing agricultural producers and small-scale retailers on either end of the chain and the company and its employees in the middle, showed that wealth generated from this successful company was far higher in the center of the chain than at its outer ends, arguably typical of most global businesses.¹¹ Moreover, direct employees of Unilever were found to have had good working conditions in accordance with the company’s code of conduct, while employees who were sub-contracted were not always afforded the same protections. To promote development in times of stability and even more so in times of crisis, it is essential to identify and encourage mechanisms that promote the interests of those throughout the value chain. This can be achieved by building the negotiating power and other capacities of workers’ and producers’ organizations by providing finance, training and other support.

It is clear that private sector activities usually deliver more development benefits when they plant “roots” in a society, establish forward and backward linkages deep into the local economy, and thereby gener-

ate a range of multiplier effects. More could be done by governments to provide incentives for companies with a long-term commitment to developing the local economy and engaging even through periods of crisis. Such investment tends to create more employment, contributes more to technology transfer and skills development, and distributes the benefits of economic activity more widely through society. In the Unilever Indonesia example cited above, one of the most important contributions was these linkages, for example sourcing from more than 330 suppliers, 80% of which were domestic, and distributing through thousands of retail outlets. Small and medium enterprises (SMEs) in many contexts are particularly important for generating equitable and sustainable development. They often account for about 90% of firms in developing countries, are a main source of employment, and much of their revenues are ploughed back into the local economy.

Another key to positive development impact is to find innovative ways of avoiding the short-term thinking that afflicts, in particular, many publicly-traded companies – the very short-termism that contributed to the global financial crisis. A recent report by a panel comprised of leading business, trade union and academic experts highlights the dangerous focus on short-term financial performance by investors, money managers and corporate executives that ‘systematically robs the economy of the patient capital it needs to produce sustained and vigorous economic growth’.¹² The commitment of a business to all of its stakeholders, not just its shareholders’ quarterly returns, is important in facilitating development outcomes.

An important area of private sector activity that is often under-emphasized and that is crucial to the overall economic and social well-being of developing countries is the informal sector. It is estimated that in developing countries the informal economy makes up 60–90 percent of the workforce.¹³ In today’s world of work, the formal employment relationship is often disguised or ambiguous, and the informal economy in most countries lies outside of the governance mechanisms that make economies function most efficiently. Policies and processes that enhance the legal empowerment of those in the informal economy, strengthen their voice and visibility, and enable informal economy actors to enter the formal economy can make a substantial contribution to promoting equitable development.

Finally, global trade is most likely to promote development outcomes when a broad range of domestic firms and agricultural producers are able to find export markets that give them a good return on their investment of capital and labor. This is possible when developing country governments have well-conceived trade-development strategies, and when the requirements are in place for regional and global trade to enable participation from a broad base of the population, for example sufficient infrastructure, high capacity to engage in export markets, export diversification, and trade policy analysis, negotiation and implementation capacity.

Recommendations for the Private Sector's Contributions to Development

At this critical juncture, a range of policies can be used by governments, in concert with business and civil society actors, to optimize the developmental role of business. These are important measures at any time; they are doubly important in a time of crisis when the private sector feels particular pressure to focus on the single bottom line of profit.

The UN High Commissioner for Human Rights, Navanethem Pillay, has noted, “States are not relieved of their human rights obligations in times of crisis. Rather, measures to protect not only the economic and social rights but also the civil and political rights of those groups and individuals most adversely affected and marginalized by the crisis must be put in place as matters of both urgency and priority.”¹⁴ The multiple crises facing the developing world, not only the global economic crisis, can be used as an opportunity to scale up positive developmental impacts of the private sector and trade policies as the following recommendations suggest.

1. Adopt monetary and fiscal policies that strengthen domestic demand.

For the private sector to deliver equitable and sustainable development there must be greater domestic demand and this can only be achieved with greater purchasing power in local communities. Given that resources in developing countries are limited, in ongoing public expenditures or in recovery and stimulus packages governments should:

- Target funds to infrastructure investment that promotes the growth of local economic activity, such as electricity, transport, telecommunications and water;
- Consider emergency employment programs that generate small business opportunities; and
- Create an explicit incorporation of representative views for those who might have less voice in the deliberations - the ‘bottom half’ – now recognized as overlooked in many developed-country stimulus packages that focused principally on rescuing the larger players but too little on small businesses and workers who comprise the bulk of demand.

2. Maintain or create a course of inclusive and employment-intensive growth that builds on the Decent Work agenda: macroeconomic policies that place employment as a central objective, respect for core labor standards and human rights, social dialogue and social protection for all.

The Global Jobs Pact approved by the tripartite membership of the ILO in 2009, and endorsed by many governments, recommends: additional spending on infrastructure; support for small enterprises such as credit, subsidies and tax reductions; engaging in social dialogue and collective bargaining as constructive processes that build the commitment of employers and workers to joint action to overcome the crisis; and utilizing international labor standards that create a basis for a crisis response rooted in respecting human dignity. The Pact warns against the damaging consequences of deflationary wage spirals and worsening working conditions, and the importance of promoting core labor standards and addressing gender inequality. It further calls for legal and regulatory frameworks that enable enterprise creation and employment across sectors, and calls for greater policy coherence between employment, development and trade policy.

There are also measures that firms can take to cope with the crisis to remain economically viable, but not at the expense of social costs.¹⁵ At the firm level, the measures include improving skills in anticipating change such as monitoring the performance of suppliers, customers and competitors; adopting human resource development planning that views employees as assets and sources of innovation and renewal, not costs; being aware of the hidden costs of restructuring; undertaking restructuring that maximizes consultation with workers and uses non-discriminatory practices; and making firms more efficient and productive through measures other than reducing staff costs.

Policy-makers must create an enabling environment for these measures by ensuring, inter alia, these conditions: social dialogue and respect for universal human rights; sound and stable macroeconomic policy; trade and sustainable economic integration; rule of law; education, training and lifelong learning; and social justice and adequate social protection.

3. Improve the performance of developing country banking systems and financial markets through better capitalization and more effective public support and oversight of the banking sector.

Both private and philanthropic credit institutions are facing a less benign environment, and their challenges in adjusting are manifold. Governments should build the capacity of these institutions to address capital shortages to improve their sustainability and enable them to ride through this and future crises. Developing and developed countries alike have a stake in redesigning banking systems to better serve the societies in which they operate.

Domestically, it will be important to help them secure access to local currency funds, both deposits and local bank loans, to overcome the MFI liquidity issue mentioned above. This means ensuring a better balance of deposits and loans; reducing costs and inefficiencies while maintaining commitment to development outcomes; improving customer

outreach and service in ways that provide security to both the institution and the customer; and diversifying funding sources. Prudential banking oversight will also be important. This can include improving the tax and regulatory environment; providing access to better information; and streamlining bureaucracy in accessing credit and permissions.

It is essential that credit be mobilized better for the 'missing middle' – SMEs – whose needs are not met by commercial banks or microfinance institutions. Interventions include reorienting development banks' portfolios toward smaller borrowers; developing a range of financial instruments to mitigate risks, such as guarantee funds; and creating financial tools to facilitate cross-border investment of local savings where necessary.

4. Institute reforms for global and regional multilateral financial institutions that prioritize investment for development.

Even before the crisis, multilateral financing to the private sector had grown enormously, to about \$40 billion per year. As multilateral development banks (MDBs) plan a further scale-up to help address the global crisis, it is a good opportunity to ensure their selection criteria is revised to more directly incorporate development objectives. Most MDBs include sustainable development and poverty reduction within their mission statements, but these are not incorporated sufficiently in project selection criteria. To address this, their Boards and senior management could institute measures such as:

- Defining investment strategies that are based on selecting and structuring projects that address local development and poverty challenges, and incorporate this into communications, management and monitoring processes;

- Tightening the selection criteria to focus on projects that cannot easily find funding from other sources; and

- Incorporating a greater tolerance for risk in lending to projects with strong development outcomes, even if the administrative costs will be higher – projects requiring smaller loans, with less experienced companies, in higher-risk countries, for example.

The World Bank has announced its intention to establish a Crisis Response Facility to ensure that quick and effective assistance can be provided to low-income countries following shocks. It will be important that this and other global financial institutions enable counter-cyclical policies to avoid boom-bust phenomena, and put in place international supervision that has adequate representation from developing countries to ensure greater efficiency and legitimacy. Beyond this, other measures that are important for the medium term include the development of regional and sub-regional financial institutions owned by developing countries to complement existing institutions, and the creation of a well-functioning network of national and regional banking authorities.

5. Focus on programs specifically geared toward supporting SMEs.

As The World Bank's G20 paper on the crisis noted, SMEs are critical to the resumption of growth in low-income countries. SMEs generally plough their earnings back into the local economy and provide a high level of employment per unit of capital. But SMEs generally are buffet-

ed by economic turmoil more than larger companies due to their lower capitalization and less flexibility in deploying their assets and workforce.

The public sector could do much more to support the expansion and strengthening of SMEs and enable them to function more effectively within complex networks of global production and trade and cross-border supply chains. As mentioned above, access to sufficient and dependable finance is critical, so at this time it will be important to counteract the tendency toward caution of lending institutions. Initiatives to simplify legal and regulatory frameworks and invest in infrastructure that enables SMEs outside of capitals to link to more markets are important. Expanding opportunities for technology transfer can help increase firm-level productivity. And ensuring that women are brought more proactively into SME development will help overcome the existing bias that keeps many women at the microenterprise and informal economy levels.

6. Adopt informal sector policies that recognize the important contributions of this sector of the economy, while protecting those working in it from setbacks due to the crisis.

Informal enterprises and informal wage workers feel most of the same impacts of the crisis as those in the formal economy, since demand for their goods and services is in decline as well. In some respects they are affected even more - laid off before those with formal employment status and contracts, and pushed to compete harder as laid off workers from the formal economy join their ranks and tilt their negotiating power unfavorably. Research by the global WIEGO network confirms these risks and urges policy-makers not to view the informal economy as a 'cushion' to fall back upon. Moreover, a recent joint study from the ILO and World Trade Organization (WTO) reinforced the importance of tackling the problems of the informal economy because informal employment can suppress countries' ability to benefit from trade by creating poverty traps for workers in job transition.

The policy measures relevant to this sector include expanding labor rights to informal wage workers, business rights to informal enterprises, and ensuring for both groups stronger property rights, social protection, and the right to organize. The working poor need greater voice and visibility – greater legal recognition and protection under the law, and a moratorium on state actions like evictions that make their livelihoods even more vulnerable. Companies can also contribute by supporting the micro-enterprises within their supply chains to improve their firm-level productivity, and helping them to realize the gains mentioned above.

7. Build accountability for the public and private sector working together toward improved development outcomes.

Now as never before, resources must be used in the most effective way possible, and with the private and public sectors under greater scrutiny it is an ideal time to reinforce the importance of the rule of law and strengthen legal and judicial systems that underpin private sector activity. On the one hand this means tackling inefficient or predatory behavior of governments toward the private sector by exposing corruption, for example. Limiting the discretionary power of public officials

can help by streamlining investment and start-up procedures for businesses and encouraging faster and more transparent customs clearance for business activity.

It is also a good time to reinforce the corporate responsibility agenda and the means by which private sector activity, including SMEs, best deliver development outcomes. Good corporate governance and government oversight will be more important than ever. Governments should ensure that in sectors like manufacturing, where global demand is falling, companies comply with the law fully in the areas of maximum work hours and limits to overtime, minimum wage levels, compliance with the ILO Core Labor Standards, and all local labor laws regarding issues such as contract work and freedom of association.

In the extractives industry, where reduced global demand has increased financial pressures, governments should be particularly careful to follow documented best practices for the industry, such as work done by the Extractives Industry Transparency Initiative, guidance from the UN Secretary General's Special Representative on Business and Human Rights John Ruggie, and an important study carried out by BP on its operations in Indonesia several years ago.¹⁶ The latter indicated that traditional problems for local communities such as displacement, disruption of local livelihoods, and environmental pollution and health problems should be addressed through minimum standards for investment such as consistent consultation with affected peoples, attention to land rights and fair compensation, transparency in decision-making on relocation, and protection of all rights including labor rights and freedom of association.

Core business operations provide just remuneration and reasonable working conditions, contribute to the government tax base, stimulate local economic development through multiplier effects, and respect national and international law. In times of crisis, governments should ensure that they are not pushed into negotiating away developmental outcomes through, for example, tax holidays, concessions more favorable to international partners, or lower labor standards. Rather than governments granting ad hoc benefits to investors affected by the economic crisis, they should instead use a dual approach of continuing to improve the investment climate, and attracting financially-sound and reputable companies.

OECD and developing country governments must also find ways to address the 'short-termism' phenomenon as it relates to investment in developing countries. The global nature of business has caused a focus on short-term profit maximization to gain a stronger hold, potentially weakening concern by company management, shareholders, labor and civil society (domestic and international) in favor of developmental objectives. Specific recommendations to combat this short-termism that were designed to address problems at the global level can be applied as well to development outcomes, specifically:

Building market incentives to encourage 'patient capital' by discouraging excessive share trading and encouraging longer-term share ownership;

Ensuring that the fiduciary responsibilities of financial intermediaries are clarified and enforced to better align the interests of intermediaries and long-term interests of not only investors but all of the stakeholders in company operations; and

Applying a higher degree of accountability and fiduciary duties by requiring increased disclosures on compensation and incentives, and updating disclosure rules to address the lack of transparency that creates opportunities for investors to use their influence to achieve short-term gains at the expense of long-term value creation and other developmental objectives.¹⁷

For those companies who have found business value in a principled approach and have embedded it within their core operations – whether from a more satisfied workforce, smoother operations from better industrial relations, a better public reputation, pride amongst employees or other reasons – their commitment to contribute to development will endure. For those for whom the Corporate Responsibility agenda was an optional add-on, it is far more likely that the triple bottom line may shrink to the single metric of profits during times of economic downturn. Crucially important at this time, therefore, is an active role for public institutions and public opinion to guard against the latter. Perhaps most important, the donor community must redouble their efforts to support parliamentary, civil society, media and peer oversight over the private sector in developing countries. Ongoing efforts such as preparation by the International Organization for Standardization (ISO) of a new standard on social responsibility, as well as growing consumer awareness, will facilitate this process.¹⁸

8. Build equitable development objectives into designing low-carbon growth paths.

Revolutionizing the energy sector is likely to be a locus of significant private sector activity in developed and developing economies alike. There is an opportunity for governments, the private sector and civil society to work in concert to address the enormous threat that climate change poses for development and human rights. The UN's World Economic and Social Survey 2009 notes that:

...implementing a big push, understood as a blend of pro-investment macroeconomic and industrial policies, built around a transformative low-emissions growth path, could be the bridge connecting economic development and reduced emissions. Management of the integrated development strategy needed to achieve this would require, however, the presence of a strong and dynamic developmental State and sufficient policy space to allow that State to adapt climate measures to local needs and sensitivities.¹⁹

Concerted effort will be needed to take advantage of this opportunity, including: a) identifying funding sources from developed countries, b) agreeing institutional channels for applying for, and disbursing, these funds, c) minimizing bureaucratic impediments to creating, importing and disseminating renewable energy and energy-conserving technologies, d) instituting a modified intellectual property regime for patents so that it is not prohibitively expensive for developing countries to invest in green technology, and e) providing financial and other incentives for scaling up of the transfer of technology to developing countries.

9. Rethink trade strategies and take maximum advantage of Aid for Trade initiatives.

The economic crisis has illustrated again the vulnerability of developing country economies to global trade shocks. Three ways in which governments can address this include:

Rethinking trade strategies

Some developing countries may want to redouble their efforts to diversify their exports, for example developing more of a comparative advantage in sectors that are not infrastructure-intensive. Commodity-dependent developing countries may want to redesign their trade strategy to reduce their commodity dependence, encouraging non-traditional exports through sectoral incentives or by strengthening domestic linkages of existing manufacturing export activities. In addition, more intra-regional trade cooperation through integration processes, e.g. payments agreements among central banks, can facilitate such trade without the need for hard currencies.

Aid for Trade and Trade Facilitation

Aid for Trade initiatives and Trade Facilitation funding remain an important source of support to improving the volume and efficiency of trade. These, as well as stimulus and recovery packages, may be used to overcome traditional constraints and to boost intra-regional trade to make a lasting contribution to more robust local development. Supporting creation of trade-development strategies, and facilitating broad-based trade capacity through infrastructure, training for export markets, export diversification, and improving trade policy analysis, negotiation and implementation capacity are all important measures.

Maintaining Pressure for Developmental Global Trade Talks

At the same time, global trade negotiations ultimately must return to the original focus on development. Specific measures include reducing production and export subsidies in OECD countries, allowing Special Safeguard Mechanisms and temporary capital restrictions to cushion against financial shocks, building regional and sub-regional commercial and reserve currency arrangements, subsidizing credit to domestic firms, and stimulating domestic economies with government procurement programs.

Conclusion

This paper has summarized different perspectives on the role of the private sector and trade in development, and offered recommendations on how to promote equitable and sustainable development. The private sector, because of its size and influence, has the potential to bolster, multiply or constrain development outcomes. Public funding – both from the aid community and from developing country revenues – will always be core to development and the fulfillment of human rights, and for many people in developing countries, aid and domestic government spending must continue to support areas like education, health and nutrition, and targeted programs for the poor like conditional cash transfers. The aid flows that helped to support them, estimated at over \$100 billion in 2007, should be protected even in the face of contraction of developed country economies.

The current global economic crisis provides an opportunity to reassess the mechanisms that translate economic activity into development and human rights outcomes. It is also a chance to challenge the lack of transparency and corruption that continues to undermine productive activity in the formal and informal sectors in many developing countries. All of these require a combination of private sector leadership, public sector encouragement and oversight, and an engaged public that believes in the importance of equitable and sustainable development.

Endnotes

- 1 See <http://siteresources.worldbank.org/NEWS/Resources/World-BankG20PaperonLICsSept2009.pdf>
- 2 The ILO report “Protecting People, Promoting Jobs: A Survey of Country Employment and Social Protection Policy Responses to the Global Economic Crisis” is available at: www.ilo.org/public/libdoc/jobcrisis/download/protecting_people_promoting_jobs.pdf.
- 3 The private sector is comprised of formal or informal organizations based in developed or developing countries that are privately owned and funded, and operating for profit. It includes multinational corporations, micro, small and medium enterprises, and a range of activities in the informal economy.
- 4 Jan Vandenmoortele, “Taking the MDGs Beyond 2015: Hasten Slowly,” document and powerpoint presentation. See also the Institute for Development Studies Bulletin #41 (forthcoming).
- 5 At the official level, what States have agreed in terms of the private sector’s role in development is specified in, for example, Paragraphs 27 and 29 of the final document of the 2002 World Summit on Sustainable Development: 27. We agree that in pursuit of its legitimate activities the private sector, including both large and small companies, has a duty to contribute to the evolution of equitable and sustainable communities and societies; 29. We agree that there is a need for private sector corporations to enforce corporate accountability, which should take place within a transparent and stable regulatory environment. For an overview of relevant documents from the UN SG’s Special Representative on Business and Human Rights see <http://www.reports-and-materials.org/Ruggie-statement-to-S-Africa-Govt-re-review-of-BITs-4-Sep-2009.pdf>.
- 6 Vijaya Ramachandran, Alan Gelb and Manju Kedia Shah, *Africa’s Private Sector: What’s Wrong with the Business Environment and What To Do About It* (Center for Global Development, 2009).
- 7 The WB G20 report estimates net private capital flows to the poorest countries declined from \$30 billion in 2007 to \$21 billion in 2008 and will drop further to just \$13 billion in 2009.
- 8 “The impact of the global economic downturn on private sector led development,” posted at <http://businessfightspoverty.ning.com/profiles/blogs/the-impact-of-the-global>
- 9 Personal communication with Susan Davis, President and CEO of BRAC USA.
- 10 Many development actors and research institutes have explored these issues in depth. For example, a framework used by the development organization Oxfam analyzes private sector development impacts through four channels: providing incomes, meeting needs, transfers to the state, and externalities that impact poor people’s assets (not only financial but also physical, human, natural and

- social). The UK's Overseas Development Institute has a useful analysis in "Harnessing Core Business for Development Impact," available at <http://www.odi.org.uk/resources/download/2714.pdf>
- 11 Jason Clay, *Exploring the Links between International Business and Poverty Reduction: A Case Study of Unilever in Indonesia* (Oxfam and Unilever, 2005).
 - 12 "Overcoming Short-termism: A Call for a More Responsible Approach to Investment and Business Management," (The Aspen Institute, 2009). The panel included billionaire investors Warren Buffett and Lester Crown; mutual fund pioneer John Bogle; new AFL-CIO President Richard Trumka; business leaders Jim Rogers, Lou Gerstner, and Felix Rohaytn; academics Bill George of Harvard and Lynn Stout of UCLA.
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 - 14 See <http://www.ohchr.org/EN/NewsEvents/Pages/humanrights-responsetothecrisis.aspx>
 - 15 "Responsible and Sustainable Enterprise-Level Practices at Times of Crisis: A Guide for Policy-Makers and Social Partners," (ILO, 2009). A 2009 ILO study on crisis impacts in Liberia also describes specific policy measures for inclusive and "job-rich" growth so that public sector interventions and private sector practices support equitable and sustainable development.
 - 16 See, for example, <http://eitransparency.org/> and http://www.bp.com/liveassets/bp_internet/indonesia/STAGING/home_assets/downloads/h/Tangguh_HRIA.pdf.
 - 17 This section draws upon and expands recommendations on pages 4-5 of the Panel's report.
 - 18 See <http://www.iso.org/iso/pressrelease.htm&refid+Ref800>.
 - 19 See <http://www.un.org/esa/policy/wess/index.html>

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