

Public Aid Policies and Private Sector Participation in Post-war Reconstruction Processes and Promoting Development

FRIDE Development In Context

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About FRIDE

FRIDE is an independent think-tank based in Madrid, focused on issues related to democracy and human rights; peace and security; and humanitarian action and development. FRIDE attempts to influence policy-making and inform public opinion, through its research in these areas.

The idea of the business sector participating in development processes with a view to meeting the Millennium Development Goals (MDG) has now been widely embraced, and attempts are currently underway to develop and define mechanisms facilitating this through public-private development partnerships. However, in the case of Spain, post-war reconstruction processes present a series of particular challenges with regard to private sector participation in what are relatively uncharted waters. This paper offers an introductory review of the public policies and guidelines offered by the Development Co-operation Directorate (DCD-OECD)¹, the European Union and the Spanish Agency for International Development Cooperation (AECID) for post-war reconstruction processes and development in the wider context of a general investigation into the participation of private economic actors in post-conflict reconstruction and development. The aim is to identify, firstly, to what extent business participation is taken on board in these policies and, secondly, what mechanisms facilitate the involvement of the private sector.

¹ The Development Assistance Committee of the Organisation for Economic Cooperation & Development (OECD)

The continuum from humanitarian aid to development

The key idea in post-conflict reconstruction is how to get development back on track and overcome conflict - hence the relevance of the idea of a *continuum* running from humanitarian aid to development, through the grey "rehabilitation" area where reconstruction takes place.

The question is just what relation humanitarian aid and development bear on each other when the time frames and philosophy of action of each are so different. The traditional idea of a continuum envisaged humanitarian aid, rehabilitation and development following on from each other in chronological order from the crisis point onwards. However, the current trend in the international community calls for the three elements to be introduced simultaneously and in a complimentary manner, reflecting long term planning from the beginning of humanitarian intervention in a conflict or natural catastrophe (DAC, 1997; EU, 2007a; MAEC, 2007a).

The following core principles from international humanitarian law taken together make up the essence which humanitarian aid bases itself on (Proyecto Esfera, 2004): (a) *humanity* - the right of all humans to life and the need to relieve the suffering of those who endure disasters; (b) *impartiality* - attending to the needs of all those affected by a catastrophe without discriminating on political, religious, ethnic or gender grounds; (c) *neutrality* - exclusively supporting humanitarian efforts, eschewing any participation in the conflict itself or any of the interests at stake; (d) *independence* - acting autonomously from the objectives of other international or local agencies taking part in the conflict, with a focus solely on humanitarian goals. The combination of these principles contributes to the political independence of humanitarian action with respect to the warring parties and their interests.

Besides these principles defining humanitarian action in a crisis context, an important aspect worth considering in terms of involving private actors is the adoption over the years of codes of conduct and other mechanisms by the aid community incorporating lessons learned from the recent past, which serve as a basis for the self-regulation of the aid sector.

The coordination of actors and types of aid

One of the main challenges for the international community with respect to post-war reconstruction and the concept of the *continuum* is the need for coordination between multilateral and bilateral agencies and the cultivation of an integrated approach within a framework conceived with a view to the long term (DAC, 1997; DAC, 2005a; UNDG, 2004; EU, 2005; EU, 2007a). If we add private actors, NGOs and businesses to the public aid agencies, the challenge takes on even greater dimensions.

The Spanish Agency for International Development Cooperation (AECID) (MAEC, 2007a) envisages humanitarian activity as a public policy involving many actors (NGOs, multilateral agencies, civilian protection, the military, amongst others), which means there is a basic need to guarantee efficiency through coordination. Non-governmental humanitarian organisations stand out from the rest of these organisations as the party that implements the lion's share of global humanitarian activity, which has grown spectacularly in the first decade of the twenty first century.

The first step required in terms of coordination is to establish a strategic framework based on the evaluation of needs and a joint analysis of conflicts by leading agencies and actors. In this regard, the United Nations and the World Bank have worked to coordinate the assessment of post-conflict needs over many years (UNDG-WB², 2004; 2007). The main conclusion drawn by these agencies is that a real post-crisis recovery alliance allowing for the generation of

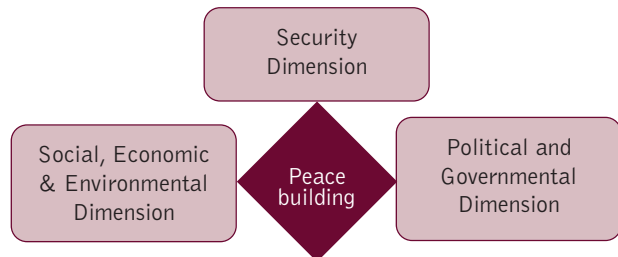
national capacities and including a successful exit strategy is what is required, rather than simply a joint response to a problem. Programmes of “early recovery” based on an evaluation of post-conflict needs have ultimately strengthened the planning and coordination of the three types of aid, reinforcing the links between them.

Peace building: security, governance and the socio- economic dimension

Moving beyond the coordination of actors and types of aid to consider their final aim, it is important to bear in mind that the ultimate goal of all aid, and especially development aid, is to go beyond the causes of the original conflict and thereby lay the groundwork for sustainable peace, allowing peace building to be carried out. Peace building can be understood as an activity complementary to preventive diplomacy, conflict resolution and peace keeping operations. It includes measures taken in rapidly developing situations, whether ongoing or in a phase of post-conflict, with the explicit aim of preventing violent conflict and promoting sustainable, long-term peace. For the AECID (MAEC, 2007b) peace building therefore goes beyond military and/or diplomatic action, taking into account its aim of tackling the causes that spark the upsurge in violence of an ongoing conflict, including structural, socio-cultural, economic and environmental factors; this means putting into place a holistic, multidimensional, long-term plan.

Based on this premise, the international community recognises the need to offer an integrated approach tackling political, socio-economic and especially security sector problems (DAC, 2002; DAC, 2005b;

DAC, 2007; UNDP, 2005a). To ensure a sustainable peace, a three-pronged action plan is therefore required, as is illustrated in the following diagram (DAC, 2005a:5):



Source: DCD (2005a:5)

Intervention in economic and social dimensions is key from the stabilisation phase onwards, so that actively strengthening and involving civil society and business from the start should always be on the agenda. The elites of the majority of countries on the periphery of the international system are united on one matter beyond their ideological differences, namely that the vitality, skills and efficiency of a vigorous private sector are required to generate strong economic growth. Simultaneously, the notion that under certain specific conditions the private sector can help prevent violent conflict erupting or keep post-conflict reconstruction on track has widely taken hold in the advanced economies (DCD, 2001; EU, 2005; EU, 2006; Spanish Foreign Ministry, 2007b).

Development aid agencies view the potential which private investment can unlock in these contexts with a great deal of hope. However, as is also the case with public and aid funded investment, the private sector needs guidance when it comes to investing, in order to avoid creating side effects which might adversely affect the structural stability of society, as laid out in the *Do No Harm* principle (DCD, 2001; Kanagaretnam y Brown, 2005). In terms of identifying opportunities to maximise profits, the private sector is well equipped to do this without any help from third parties.

² UN development group (PNUD, UNICEF, PMA & UNFPA) & the World Bank.

The private company

A common aspect in almost all the aid literature is the acknowledgment of the important role business can play in post-war reconstruction contexts. Strengthening the private sector and involving business is indispensable if development goals are to be met. The AECID's own strategic plan for the sector highlights the important role private enterprise has to play in development by mobilising and deploying internal resources, foreign investment and other flows of private capital, the expansion of international trade and the increase of ODA (MAEC, 2005). Nevertheless, the private sector's involvement must entail a degree of social responsibility (MAEC, 2005; 2007b); the activities of private actors must be governed by clear norms that avoid reopening wounds which are still fresh in societies that have only recently suffered conflict. A strong and effective regulatory framework able to control the potentially damaging effects which might arise from the absence of proper analysis of a post-conflict context is required, like that developed by the international aid community, which serves as a basis for national reconstruction. Only in this way will the private sector be able to become a force which favours economic growth and efficient development (DAC, 1997; 2001).

Companies potentially have an important part to play in the early recovery of a country, from the stabilisation phase where they can play a role in replacing essential infrastructure, through to restoring productive activities and the gradual increase of basic services in subsequent phases. In the case of so called fragile or failed states, companies can similarly make a contribution to the stability and development process as outlined above (DAC, 2005c; 2006; 2008).

Instruments for business participation in reconstruction

In joint private-public activities, the main obstacle to surmount in terms of business involvement in rehabilitation and national reconstruction is how to reconcile the profit motive and its concomitant effects with the need for these activities to have a positive effect on the population at large. To this end, similar approaches and formulae found in the *Do No Harm* principle and what has been termed Corporate Social Responsibility (CSR) are invoked (García-Marzá y Navarro, 2008; Kanagaretnam y Brown, 2005).

The following are some interesting examples of how CSR has burst onto the scene of post-war reconstruction and institutional fragility (Global Compact, 2007):

- AngloGold Ashanti (Democratic Republic of the Congo): After offering economic support to armed groups involved in human rights violations in 2005, this company reacted positively by subsequently adopting ethnically fair policies and promoting local development in a context of institutional fragility.
- Global Alumina (Guinea): With the construction of a refinery costing three billion dollars, this company has taken measures to guarantee a participative, consultative process with the inhabitants who will be uprooted to make way for the investment.
- Nestlé (Colombia): The company promotes training and has widened the skills base of ex-combatants in the dairy industry in Colombia. Milk is produced, jobs are created and dairy products are sold on the Colombian market.

Despite the acknowledgment of the potential role of business in socio-economic and infrastructure areas, the policies and strategies of post-war reconstruction on offer do not provide enough specific tools to facilitate national and international investment. In many cases,

the implementation of international community reconstruction programmes simply amounts to private business being involved as a mere supplier or contractor, a procurer of goods and services without any say in the decision making process, with the international or state organisations of the day bearing all the responsibility for a problem in the final instance.

In principle, this situation would appear to be remedied by the emergence of public-private alliances in which the aid and business communities share objectives, capital and risk in post-war reconstruction contexts, or those of institutional fragility. In fact, these alliances have revitalised already existing tools, like capital participations, adding new conceptual elements. An example of such existing tools can be found in the traditional programmes of International Finance Corporation³ and the MIGA⁴ of the World Bank Group. Another interesting case is that of DEG, part of German banking group KfW,⁵ which supports companies aiming to invest in developing countries and those *in transition*.

It comes as no surprise that the point of reference for business participation opportunities in reconstruction programmes comes in the shape of those government departments responsible for promoting business with the private sector. In any event, one of the new EU instruments developed in the framework of a public-private alliance is the Global Energy Efficiency & Renewable Energy Fund, a public-private alliance designed to offer capital and co-financing opportunities to investors with a view to promoting energy efficiency and renewable energy projects in developing countries and economies in transition (EU, 2007b).

Promoting business participation and establishing development partnerships constitutes one of the cornerstones of Spanish aid activity. Nevertheless, the credit lines offered by the Development Aid Fund (Fondo al Ayudo del Desarrollo, or FAD) have traditionally been

the instrument used to facilitate the participation of business in large scale initiatives, a matter handled by the Ministry of Industry, Tourism & Trade. At the moment, a reform process is underway to ensure these credits are in keeping with DCD/OECD international criteria. The reform in essence comes down to abolishing the tie between aid and the obligatory use of Spanish goods and services, complying with international commitments to eliminate this conditionality. In addition to the FAD credit lines, there are microcredits on offer aimed at strengthening small and medium sized companies in developing countries. In general, there are no specific instruments for the contexts of post-war reconstruction or institutional fragility because the pilot public-private alliances developed so far are geared to stable contexts (Casado, 2008).

Public-private alliances for development

Going beyond post-war reconstruction contexts, in terms of promoting global development, the international community has recognised the crucial role the private sector has to play too, actively advocating for its involvement in meeting the challenge of reaching the Millennium Development Goals. The key instrument recognised in Goal N° 8 is the promotion of public-private partnerships for development, something which many multilateral and bilateral agencies have already enthusiastically acted on. One of the most internationally recognised public-private alliances is the UN Global Compact,⁶ which is based on three types of partnerships or alliances:

- a. Partnerships to generate awareness, aimed at solving various problems.
- b. Partnerships for social and philanthropic investment.
- c. Business partnerships.

³ See <http://www.ifc.org>

⁴ Multilateral Investment Guarantee Agency (MIGA): <http://www.miga.org>

⁵ See http://www.kfw.de/EN/Home/kfw_bankengruppe/our_tasks/index.jsp

⁶ See <http://www.unglobalcompact.org>

The public-private alliances must lead to both parties involved sharing objectives, risks and profits in such a way that the public sector enjoys additional financial and human resources at times of budgetary restraint, while the private sector, for its part, can obtain direct and/or indirect benefits, such as access to new markets or an improvement in its social position (Mataix et al., 2008; EU, 2003; CEC, 2005). This is a relationship which goes way beyond merely contracting or sub-contracting services. Basing their findings on a review of programmes of other aid agencies, Mataix et al. (2008) identify three possible ways of structuring public-private alliances:

- a. Creating a unit or centralised programme, such as the case of the US government's Global Development Alliance (GDA).
- b. Creating multiple programmes in a decentralised fashion, such as the case of the German government.
- c. Creating capital funds and umbrella alliances through specific funds with private businesses, such as the case of the British government.

It is worth recalling just what a role specific capital funds can play - such as in the British case, the KfW in Germany, JBIC or CFI in Japan⁷ - where the funds, access to finance, insurance and specialised technical assistance in the contexts of developing countries amount to a potential incentive for the private sector. These traditional instruments have been renewed in the context of public-private alliances in which a strategic framework for development aid made compatible with the profit motive has been developed.

Public-private alliances for development initiated by the AECID have been somewhat experimental in nature; the agreement signed with the Fundación ACS in the context of the Patrimony for Development programme (Casado, 2008) stands out in this regard. In the Spanish case, other instruments closer to capital, financing and technical assistance services do not depend on the MAEC but instead on the Ministry of Industry, Tourism and Trade, or the Spanish

Company for Development Finance (COFIDES), as they are considered instruments for trade and foreign investment. The existence of funds and specialised kinds of service for industries or geographic areas, such as those which COFIDES offers Sub-Saharan Africa,⁸ is also worth highlighting.

Coherence between the instruments of international aid used to cultivate public-private alliances and the instruments used by other government ministries for the internationalisation of business is far from guaranteed; unfortunately, there are no coordinated instruments or areas shared between government ministries at the moment, save the FAD inter-ministerial commission⁹ (Casado, 2008).

In general, beyond declarations of interest and some early pioneering public-private experiments, it can be said that there has not been a radical change in the landscape which would allow a real hub between the aid community, civil society and the business community to take shape, with the same reference points and mutual benefits. The truth of the matter is that the majority of the tools which currently allow for the participation of private companies in the aid sector are the same ones that were used a decade ago.

⁸ <http://www.cofides.es/4lineafrica.html>

⁹ See information on the processing of funds: <http://www.comercio.es/comercio/bienvenido/Comercio+Exterior/Instrumentos+de+apoyo+a+la+internacionalizacion/Instrumentos+Financieros/Financiacion+en+terminos+Concesionales+%28FAD%29/pagTramitacion.htm>

⁷ Japan Bank for International Cooperation

Conclusions

Currently, international policy and good practice manuals consider private sector participation in both post-war reconstruction and development processes desirable and indeed a priority. In both cases too there is recognition of the crucial role that the international business sector plays in contributing to sustainable economic growth and the creation of an entrepreneur-friendly environment and productive local populations. Nevertheless, there are special roles and restrictions in the case of post-war reconstruction, where the context of early recovery requires greater knowledge and respect for humanitarian principles and the principles of *Do No Harm*.

In general, declarations of intent abound on specific instruments to aid coordination and the alliance of both sectors – aid and the private sector. However, overall, no instruments have been specifically developed to meet these challenges; instead, most frequently the all too familiar tools are used, including sub-contracting, service contracts, capital injections, credit lines and insurance. Public-private partnerships and the development of CSR have contributed to enriching the landscape, renewing many of the tools mentioned and granting increased importance to business. However, these new elements have scarcely been translated into working instruments of Spanish aid.

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