

Private Sector in Development Aid

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Agenda

1. Re-visiting Development Aid
2. Aid for Trade
3. The role of the Private Sector
4. So how can you get involved?
5. Discussion & Questions

What is Development Aid?

- ✓ Development aid (also described as Development Assistance, International Aid, Official Development Assistance (ODA), or Foreign Aid) is financial aid given by governments and other agencies to support the economic, environmental, social, and political development of developing countries
- ✓ Most development aid comes from the Western industrialised countries but some poorer countries also contribute aid.

Bilateral vs Multilateral Aid?

- ✓ **Bilateral Aid** : given from one country directly to another;
- ✓ **Multilateral**: given by the donor country to an international organisation such as the World Bank or the European Union or the United Nations Agencies which then distributes it among the developing countries.
- ✓ The proportion is currently about 70% bilateral 30% multilateral

UK Commitment to Development Aid?

- ✓ The UK is committed to spending 0.7% of its gross national income (GNI) on aid every year, making it the first G7 country to meet the UN's 45-year-old aid spending target.
- ✓ Britain met the 0.7% target for the first time last year when it spent £11.4bn – or 0.72% of its GNI – on overseas aid.

Aid for Trade

- ✓ World Trade Organization (WTO), definition: helping developing countries, in particular the least developed, to build the trade capacity and infrastructure they need to benefit from trade opening
- ✓ Why? Internal barriers – lack of knowledge, excessive red tape, inadequate financing, and poor infrastructure hamper the potential for trade.

EXAMPLE:

A large proportion of China's aid could be considered Aid for Trade where China uses aid to support joint ventures between its firms and those in partner countries. Much Chinese aid supports infrastructure development in the form of roads, which could be classified as trade-related infrastructure. China's aid is **“tied”** to the use of Chinese contractors. In contrast Ukaid, AFD (France), Swiss, SIDA (Sweden) are **“untied”**

WTO's 4 components of Aid for Trade:

- ✓ **Trade policy and regulation:** Building capacity to formulate trade policy, participate in negotiations and implement agreements
- ✓ **Economic infrastructure:** Investing in the infrastructure – roads, ports, telecommunications, energy networks – needed to link products to global markets
- ✓ **Productive capacity building:** Strengthening economic sectors – from improved testing laboratories to better supply chains – to increase competitiveness in export markets
- ✓ **Adjustment assistance:** Helping with any transition costs from liberalisation – preference erosion, loss of fiscal revenue, or declining terms of trade

Role of the private sector in Aid for Trade?

- ✓ Pivotal role in economic development, generating jobs, growth, technology diffusion and incomes.
- ✓ Expanding trade opportunities, which augment the production frontiers of national businesses, generate foreign exchange reserves, and facilitate entry in global value chains.
- ✓ Working to improve the enabling environment for business through policy development and reform, technology transfer and business information and development initiatives.

Role of the private sector in Aid for Trade?

- ✓ Donors have also provided direct support for establishing or enlarging businesses – through twinning arrangements, joint ventures, PPPs and concessional loans and grants.
- ✓ Donors have played a supportive role in developing financial markets, supporting productive activities of those living at the bottom of the pyramid and encouraging responsible business conduct by multilateral enterprises.
- ✓ Donors are always seeking ways to deepen connections between trade and enterprise development

So, how can you participate? – Understand your products (or services) & markets mix

		Products (or Service)	
		<u>Current</u>	<u>New</u>
Markets	<u>Current</u>	Market Penetration	Product Development
	<u>New</u>	Market Development	Diversification

The Product (or Services) & Market mix

1. **Market Penetration:** *increase business through more effective marketing*
2. **Market Development:** *selling current products to new markets/segments*
3. **Product Development:** *innovation, product or service improvement etc.*
4. **Diversification:** *completely new situation – new products, new markets.*

****There are cost implications to each combination of product (service) and market mix, and it is important to analyse how it fits with your overall strategy.*