



The European Union's Non-state Actors and Local Authorities in Development Programme,
Coordination, Cooperation and Networking Activities Among European Organisations

THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT ASSISTANCE AND AID EFFECTIVENESS



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Table of Contents

Introduction	5
Common Conclusions and Recommendations	7
Studies by Countries	12
Bulgaria	12
Czech Republic	21
Estonia	32
Hungary	42
Latvia	58
Poland	76
Romania	82
Slovak Republic	98
Slovenia	116

List of Abbreviations

AfT.....	Aid for Trade
CSO	Civil Society Organisation
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FDI.....	Foreign Direct Investments
GDP.....	Gross Domestic Product
GNI	Gross National Income
IPA	Instrument for Pre-accession Assistance
LDC	Least Developed Countries
MDGs	Millennium Development Goals
MFA.....	Ministry of Foreign Affairs
NGDO.....	Non-Governmental Development Organisation
NGO	Non-Governmental Organisation
NMS	New Member States
ODA	Official Development Assistance
OECD.....	Organisation for Economic Co-operation and Development
SMEs	Small and Medium-sized Enterprises
UN	United Nations
UNDP.....	United Nations Development Program
UNIDO.....	United Nations Industrial Development Organization
WTO.....	World Trade Organization

INTRODUCTION

Development assistance

In 2000, the UN adopted a Millennium Declaration¹ formulating the Millennium Development Goals. With this Declaration the member states committed their nations to stronger global efforts to reduce poverty, improve health and promote peace, human rights and sustainable environment. Securing resources to achieve the Millennium Development Goals is one of the key issues in international development cooperation. Development assistance is closely related to the Millennium Goals and aims at providing the resources necessary to both governments and various agencies so as to support economic, social and political development, and environmental protection in developing countries.

EU is a leading partner in development assistance, and development policy is one of the numerous Community policies. While being part of the foreign policy of both the Community and individual member states, development policy is different from Community policies regulating issues of internal nature. Current crisis forced EU to not just continue with implementation of commitments taken under the European Development Policy but also to take on additional measures in response to both crisis implications and future perspectives. To that end, development assistance priorities have been refocused with an emphasis on quickened assistance disbursement including increased frontload aid, accelerated budget support and increased aid effectiveness². Some of the new initiatives include supporting developing countries to overcome global crisis implications. These entail rising size of assistance to countries covered by the European Neighbourhood Policy and accession states; accelerating the 'Aid for Trade' initiative implementation and improving its effectiveness; increasing export credits to cover a larger business volume; providing investment guarantees and credit facilities to countries involved in the European Neighbourhood Policy.

Private sector

Along with governments and intergovernmental agencies, civil society and private business play an important role in international development cooperation.

In the recent years development assistance and various actors' involvement in it have been the discussion topic of several international forums. The Accra Declaration³ substantiates the significance of civil society

¹ http://www.undp.bg/millennium_goals.php?lang=bg

² Commission of the European Communities. Commission Staff Working Document accompanying the Communication from the Commission to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions. Supporting Developing Countries in Coping with the Crisis. Millennium Development Goals – Impact of the Financial Crisis on Developing Countries, Brussels, 8.4.2009, COM (2009) 160 final

³ The Accra Declaration, UNCTAD, April 2008

in development assistance. The Busan Forum⁴ focuses on **private sector** role in development policy implementation. The Busan Declaration acknowledges the roles of private sector as a growth engine based on accelerating innovations, mobilizing local resources, creating jobs and providing better healthcare and standard of living in poorly developed countries.

It is a general perception that private sector remains in the periphery of development assistance. To make sure private sector is more actively involved in development policy, it is necessary to formulate guiding principles for cooperation and joint actions between the government and private sector. This means that, firstly, a common approach and joint participation of both government and private companies is to be applied. Under budget restriction conditions, governments develop detailed plans for supporting development that cannot be implemented without private sector involvement. Secondly, private sector participation has to be enhanced by entrusting it with a more central role in donor operations on the basis of clear incentives and reference points. A better mutual complementation and use of private sector potential will provide for increasing the limited governmental resources. Government and private sector involvement in development assistance delivery process is different and hence, collaboration between them leads to a better effect in combating famine and poverty in countries assisted.

An important assistance assessment criterion is the extent to which investments and employment rates increase in a developing country, both being a guarantee for sustainable economic development of the country and improved population access to healthcare, education and infrastructure. Directing capital flows from developed to developing countries provide for transfer of technologies, improved work force education and qualification, deeper trade integration and more competitive business environment. Opportunities for setting up competitive local companies are improved, stable economic relations amongst such companies and partners from the donor countries are established, thus allowing the former to become part of international manufacturing chains.

The present paper analyzes private sector involvement in development assistance provided by the nine project countries. General conclusions and recommendations are drawn up regarding more active business involvement in development assistance.

⁴ Busan Partnership for Effective Development Cooperation, Fourth High Level Forum on Aid Effectiveness, 29 November-1 December, 2011, Busan

COMMON CONCLUSIONS AND RECOMMENDATIONS

Private sector as an actor in the development co-operation

This part of the research project examined the role that private, for-profit sector plays in the provision of development aid, and more broadly how it contributes to the achievement of development co-operation policy goals and objectives in case of 9 countries of Central and Eastern Europe: Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania, Slovakia and Slovenia.

In the established development aid providers, the role of the private sector in the development co-operation is already taken as a matter of fact. This is despite the traditional suspicion linked to the private sector's participation as development assistance actor, as a way of advancing particular business interests rather than contributing to the development of poor countries. Nevertheless, many key international documents such as the Paris Declaration of 2005, the Accra Programme of 2008 or the United Nations Global Compact of 2010, acknowledge the need of business sector involvement. The reality is such that for instance in the United States, the Official Development Assistance (ODA) provided by the for-profit companies amounted to 7 billion US \$, representing roughly one fourth of the ODA provided by the US government. In other Western countries, the direct contribution of the for-profit sector as a proportion of the overall ODA might be smaller, nevertheless still important in comparison to the involvement of the business sector in case of Central and Eastern European (CEE) countries.

The research looked at the role of the private sector from two perspectives. One angle of the analysis included the role of the private, for-profit sector in contributing to the broader goals and objectives of development co-operation policy by looking at the activities of companies from Central and Eastern European countries in the ODA recipient countries and their link to the development policy aims. The other aspect looked at the involvement of the private sector in a more narrow sense by examining its role in the formulation, implementation and evaluation of the development co-operation policies of CEE countries, and their specific participation in both bilateral and multilateral development projects.

Despite the common methodology for the countries surveyed, the individual country reports nevertheless resulted in quite different descriptions of the private sector involvement, which makes their comparison a lot more challenging. While some reports analysed the classical activities of the business sector in the recipient countries, others focused more on the role and experience of the private sector as a development policy actor in a classical sense. Also, some of the research methods used, especially the questionnaire survey among companies operating in the ODA recipient countries, received a relatively low response rate, which poses the question of the representativeness of its outcome.

Involvement of the private sector in the ODA activities in a narrow sense

The research has shown that in an absolute majority of Central and Eastern European countries, the role of the private sector in the formulation, implementation and evaluation of the development co-operation policy is extremely low, if not non-existent. Only a very few country reports accounted for the business sector involvement in the ODA projects delivery: namely in case of the Czech Republic, Slovakia and Slovenia. In other reports it could not be always discerned whether some of the activities described as undertaken by the private sector actually account for the participation in ODA activities and as such are financed by the (mainly bilateral) ODA budget.

Involvement of the private sector in programming and evaluation of ODA

When it comes to programming, it is only the Czech Republic that officially involves business in planning and evaluation of its development co-operation policy. This stems from the fact that the Czech Republic as the only country in the region has a formal platform of business representatives involved in development co-operation, called “Platform of Businessmen in International Development Co-operation”. The existence of such platform makes it obviously much easier for the Czech government to find a natural counterpart that is able to speak on behalf of the business sector (although primarily, of course, on behalf of its members only) and contribute to the formulation and evaluation of the Czech development policy¹. The platform, however, also hugely enhances the capacity of its members to gain in-house knowledge relating to the development policy and increases the commercial sector’s success in bidding for development projects, although mainly in the framework of bilateral ODA. There were attempts to establish such a platform in Poland, but they failed as the companies were simply not interested in participating.

The questionnaire survey in most of the countries revealed that the business sector does not have sufficient information on the development policy, pointing to the lack of access to policy documents available and lack of interest and poor communication on part of public authorities as the main obstacles. But in most cases, the companies would be interested to know more about the opportunities presented for their activities by the development co-operation framework and participating actively in its shaping.

Involvement of the private sector in the implementation of ODA projects

The generally low involvement of the private sector from Central and Eastern Europe in development projects is given also by a particular nature and structure of the development assistance provided by these countries. Compared to ODA provision by rich Western countries with more generous budgets, the CEE development aid is very limited in size and tends to focus on “soft” projects such as transfer of know-how, capacity building or technical assistance which are usually executed either by government organisations (technical assistance) or civil society organisations (transfer of know-how, capacity building). Sometimes the projects relating to transfer of best practices and know-how or capacity building were delivered by for-profit companies, such as was the case of Estonia. However, the Estonian example represents an exception rather than a rule, as the implementers of such projects are often for-profit companies performing tasks that are otherwise normally undertaken by NGOs.

The private sector is more typically involved in “hard” projects where ODA finances for instance infrastructure development or delivery of particular goods or services. These are, however, much more costly and thus not so much in focus of CEE countries development strategies. This explains partially why the richer countries of the group with more established development policy framework, such as Czech Republic, Slovakia, Hungary and Slovenia, show a higher degree of involvement of the private sector in ODA delivery, as they do finance such

¹ The platform was initiated by three big consortia: Union of the Industry and Transport of the Czech Republic, Union of the Engineering Technologies and Association of the Czech railway industries. It currently has 20 members and enjoys an observer status in the Council for Foreign Development Co-operation, the key inter-ministerial co-ordinating body which is key in formulating the strategies and priorities of the Czech development policy.

“hard” infrastructure projects which can be delivered by private for-profit companies. What is quite striking is that Poland, as a big donor in terms of overall ODA volumes and a country with more established development co-operation tradition, does not account for projects that would be contracted and executed by private companies. This might be so because private companies often look at maximising their profits and they do not see how they could make the development projects profitable. However, for instance in the Czech case this is not excluded. Most of the development aid going into infrastructure development or delivery of goods or services is not disbursed in the form of grants but in the form of tenders (based on the competition for the best price offered), which means that private companies can still make profit if they can perform the tasks cheaper. This possibly gives further incentives for businesses involvement and fosters competition.

An interesting case of incentivizing private sector’s participation in ODA delivery is that of Slovakia, which conceptualized it in a document called “Concept of the Involvement of Business Entities in the Slovak International Development Co-operation”. The document presents some measures to foster the private sector’s participation in development co-operation. This includes for instance provision of the so-called start-up funds, capable of financing initial activities in the recipient countries such as assistance in finding local partners, provision of feasibility studies or business plans for development projects. The other incentives include the possibility of establishment of joint ventures with local partners or subsidiaries, as well as the possibility of direct participation in projects commissioned by the Slovak Ministry of Foreign and European Affairs (MFEA). Although seemingly this can appear an innovative approach, it is being contested because it provides the business sector with a privileged access to ODA funding, as such incentives (especially start-up programme) are not available to civil society or government organisations. The scheme could also be in breach of the general OECD DAC principles, which stress the necessity to decouple support of business activities of donor country’s companies from the development assistance delivered. For this reason, such approach was already abandoned by the Czech Republic earlier on.

As to the number and proportion of development projects contracted and implemented by for-profit companies, very little data is available across the region, with the exception of the Czech Republic, Slovakia and Latvia. The Czech case illustrates that the involvement of the private sector is quite robust, accounting steadily for the implementation of 45-55% of bilateral development projects (in terms of funding). In case of Slovakia, the percentage is much lower, oscillating between 24 - 29% since 2007, with the notable exception of 2011 when the percentage fell to mere 7%. The Slovak civil society organisations are thus much more successful and important in delivering ODA projects. The situation in the Czech Republic is more balanced, although the businesses tend to implement fewer projects with higher funding. Again, this is thanks to a different nature of projects normally implemented by for-profit entities as opposed to those executed by NGOs. In case of Latvia, the proportion of business-executed projects accounts for 19% of bilateral ODA projects for 2005-10 period, bringing it closer to the Slovak case. However, the Latvian private companies engage in different types of activities than the Czech or Slovak businesses (see further).

In terms of the thematic fields in which the private sector participates, it is obvious that these are linked mainly to the priorities of bilateral development assistance. In case of three countries - Hungary, Czech Republic and Slovakia - these areas show strong correlation. The projects in the realms of water supply and sanitation, energy generation and supply and agriculture feature high in all three cases. The situation in Latvia is different: due to the different priorities of Latvian bilateral ODA, these projects include strengthening civil society (which sounds a bit paradoxical), capacity building, general education, business and commercial management training, European integration, business environment etc., i.e. exclusively “soft” projects.

Due to the limited information available on the business participation in the development projects, it is difficult to draw conclusions as to the main obstacles related to the sustainability of the private sector involvement. One problem acknowledged in the Czech case is that it is rather difficult to ensure a commercial follow-up. For instance, if a project consists in supplying certain services or goods to local authority, financed by development funds, the company delivering such goods or services expects that the delivery might continue and be financed by the recipient country or local authority once the development funding is finished. However, these often lack

the funds for doing so, or another donor is able to step in (this was mentioned particularly in case of Ethiopia, when a multitude of donors makes the commercial follow-up practically impossible).

When it comes to participation in multilateral development projects (financed e.g. by the EU or the World Bank), even the Czech or Slovak businesses face huge obstacles in terms of their capacity. This relates mainly to their inability to prove previous references or to have a sufficient turnover which is often a formal condition for participation in tenders. Thus for instance the Czech civil society organisations were a lot more successful in winning the EU grants and tenders than the businesses. This problem is acknowledged also in the Estonian report, but is largely attributed to the fact that Estonian administration does not lobby sufficiently within the multilateral development aid providers. Thus, so far the main mode of involvement remains participation in international consortia led by more established applicants – this has been the case particularly mentioned in the Latvian report. However, it is quite clear that the participation of business in multilateral projects is way below its potential across the whole region.

The role of the private sector in recipient countries' development in a broader sense

The private sector can also contribute to the development of the recipient countries indirectly, through various activities or operations that are not directly linked to the development co-operation, nevertheless can contribute to the same goals and objectives.

The scale of business activities that have a potential of exerting a positive impact on the recipient countries' development is wide. The areas that were accounted for in the reports include trade, investment, public – private partnerships, transfer of know-how, infrastructure building and human capital development or corporate social responsibility.

Private entities' investment in the recipient countries has a huge potential for enhancing their development, as it is directly linked to job creation, transfer of technology and know-how, hiring of local producers and suppliers or improvement of local infrastructure. However, the problem is that many Central European private entities are hesitant to invest in the recipient countries for various reasons, including political instability, high levels of corruption and nepotism, unpredictable economic and legal milieu, different business practices, lack of contacts etc. On the other hand, the fact that many of the priority recipient countries are indeed geographically, culturally and linguistically close somehow counterbalances this problem. Even when it comes to the low-income countries, many Central European countries had vivid business contacts with these areas during communism. Although these territories were largely abandoned in 1990's, some countries, notably but not exclusively Hungary and the Czech Republic, are now trying to "re-conquer" these markets.

Private sector's investment and employment opportunities provision

In the absolute majority of the country studies it is evident that the companies that establish themselves in the recipient countries use the local workforce, as well as local suppliers of goods and services. The exception is Hungarian companies that show rather low rate of co-operation with local economic subjects as well as low levels of hiring local workforce (however, it has to be noted that the representativeness of the questionnaire survey is questionable in all the countries surveyed). This is probably partially explicable by the specific example of the so-called "tied-aid" system, which conditions the provision of development aid on the supply of Hungarian products and services in the recipient countries.

The CEE employers in the recipient countries often use full-time contracts, while the use of part-time contracts is usually scarcer. In some cases, the use of short-term or seasonal contracts has been accounted for, as in the case of Latvian companies operating in Belarus. Another specific case was mentioned in case of Slovakia, where the majority of companies surveyed uses specific type of the service contracts. Full-time contracts are also usually preferred by larger companies operating in the recipient countries. The provision of employment

contracts often brings along additional benefits, such as social and health insurance, food vouchers are also mentioned relatively frequently, and in some cases also other benefits such as schooling or requalification. However, it cannot be discerned from the survey whether these extra benefits are provided because it is required by local legislation, or whether they represent a benevolence of the private businesses operating in the recipient countries.

A pattern which is often identified as an obstacle in enhancing the private sector's capacity to do business and invest in recipient countries and articulated in several cases, namely Bulgaria, Hungary and Estonia, is the credit risk in relation to operations in the recipient countries. In Estonian case, it was singled out that although the support and guarantee scheme exists (provided by KredEx), the procedure is too cumbersome and it is not covering many trade and development sectors, which deters many potential investors from operating in the recipient countries. In case of Hungary, the particular case of tied aid makes the export credit and insurance highly competitive and arguably hampers larger involvement of private sector in the business activities in the recipient countries.

Corporate social responsibility

The research has also shown a relatively small importance attached by the Central and Eastern European businesses to corporate social responsibility in relation to their business activities in the recipient countries. If CSR activities are implemented, it is more often in case of transition investments, for instance when an international corporation invests in a recipient country through its branch based in a CEE country, or in case of larger companies. However, even here some positive examples can be traced. The Estonian report mentions the case of Reet Aus, a fashion designer, who assisted to reduce the textile waste in the mass production of the largest Bangladeshi fabric and garment producer and launched a collection of recycled clothes made with reduced amount of water and energy per garment. Another example linked to CSR, although indirect, is the case of Polish branch of BP which in co-operation with the Polish Humanitarian Action linked its loyalty programme to the possibility of provision of meals for malnourished children in Africa, or Polskie Zdroje which enabled, as part of its marketing campaign, construction of wells in Southern Sudan. Generally speaking though, the CSR is still a relatively new and underdeveloped phenomenon in the entrepreneurial scene of the Central European region, and thus it is understandable that the companies do not have a tendency of "exporting" it to other countries. Linking the image of the company to its activities in support of development in Third World countries does not seem to be attractive in some cases (as articulated in the Polish report), or the contrary the Czech report believes that such activities could improve the image of certain companies among Czech citizens.

Private sector as a co-funder of development activities

It is also quite telling that the reports do not account for the cases when the private sector would act also as a funder or co-funder of development activities. The Slovenian report mentions the fact that the role of the private sector in this respect is undervalued, and more could be achieved through a closer involvement of the private sector in the public- private partnerships (PPP) whereby the businesses would invest some of their own funds into the development co-operation projects. This is explicable by several factors. The development policy is still relatively new and not well anchored in the CEE countries' discourse. The private entities are more often than anyone else unaware of its goals and instruments, apart from a few rare cases when they participate in the implementation of ODA projects and in the sole case of the Czech Republic also in policy planning and evaluation. Yet even here, this is conferred to a relatively small group of enterprises by far not representative of the corporate sector as such. This has been confirmed by the surveys across the region. Secondly, the private companies are still mainly motivated by generating profit, so engagement yet alone funding or co-funding of development-related activities would require a kind of mental shift on part of the corporate sector which will be hard to achieve on a short run.

Studies by Countries

BULGARIA

Introduction

Despite EU and some other leading international organizations call for a more active involvement of private sector in development assistance, Bulgarian business is still refraining from direct participation in both development policy formulation and implementation of specific projects in development assistance. Private business representatives declare readiness for a closer collaboration and partnership with the government to formulate development goals, but the appropriate formula for sector's incorporation in development policy tasks is yet to be found. It is Bulgarian private company business interests that lead commercial and economic relations with developing countries; in doing so, however, these companies contribute to countries' development. Their input in implementing development assistance tasks is indirect, namely, **by means of creating jobs and having a positive impact on the social and economic status of recipients involved.** It is precisely that approach that has been adopted for the purposes of assessing private business role in development assistance and presented in the analysis herein.

Methodology

The objective of the survey conducted was to outline Bulgarian private sector involvement in development assistance and to formulate some recommendations for more active private sector participation in the process. Information sources used included questionnaire surveys, in-depth interviews with large company managers, interviews with experts at the Ministry of Economy, Energy and Tourism, and focus groups.

As per the selection criteria for countries assisted by Bulgaria, the survey entailed countries from the Southeast European region (Serbia, Macedonia, Albania, Kosovo, and Bosnia and Herzegovina); Black Sea Basin countries (Moldova, Georgia, Armenia, Azerbaijan); and some other countries holding a more substantial share in Bulgarian trade and investment.

The present exposé outlines private sector role in trade and investment, and looks at private sector representatives' involvement in development assistance, as well as at some good practices and effectiveness of sector's involvement in development assistance; it offers a summary and recommendations.

1. Private sector activities in support to development. Trade and investment

With the support of the Bulgarian Chamber of Commerce and Industry (BCCI) 300 Bulgarian companies having trade relations with Third World countries were identified. Due to restricted access to information, the survey considered only the above mentioned number of companies even though it was stipulated to be larger. Questionnaire cards sent were 25 and in-depth interviews conducted were 5. These companies had

commercial relations¹ with companies from Macedonia, Serbia, Bosnia and Herzegovina, Albania, Ukraine, Armenia, Azerbaijan, Moldova, Georgia, Uzbekistan, Kazakhstan, Jordan, Egypt, Algeria, Vietnam, etc. Trade exchange entailed a large spectrum of investment commodities as well as consumer goods (for instance, medicinal substances and products, detergents, lubricants, batteries, cables and wires, etc.) to satisfy the needs of local economies and population.

Another channel used by private businesses to exercise support to local economies was investment. Bulgarian investments in developing countries were relatively small by volume, some 20 per cent of all external investments. Investment distribution among countries was most uneven: over 75 per cent were allocated to the Balkan region countries and the Black Sea Economic Cooperation states. Some substantial investments were made in Vietnam, the Dominican Republic and Uzbekistan. The major portion of Bulgarian private companies' investments was allotted to two countries – Serbia and Macedonia.

These investments had a positive impact on social and economic development of recipient countries, affecting predominantly via job creation and improvement of social status of population employed. Some assessments stipulated that Bulgarian investments provided for over 10 000 employments in Serbia. Industrial investments played an important role in the respective regional economies' development. In some cases investments were coupled with know-how transfer, thus also contributing to modernization of these economies.

Bulgarian private investors participated in privatization of local businesses, in mixed companies and also in building up new facilities. Projects for building and improving road, railway and energy infrastructure in neighbouring countries were implemented by mixed companies and partnerships between Bulgarian and domestic enterprises. Other investment areas were: metallurgy, food industry, pharmaceutical industry, power engineering, construction industry, banking and insurance industry, information and telecommunication technologies, tourism and trade.

By taking part in privatization Bulgarian financial investors acquired shares or full ownership of banks and insurance companies in Serbia. Considerable investments were made in the mining industry of Serbia and Macedonia. Newly established production facilities were relatively few (for instance, a pharmaceutical factory and a battery recycling factory in Serbia). A significant portion of investments was introduced to services delivery – new commercial sites were opened to provide new jobs and created value added.

The predominance of Bulgarian private investments in neighbouring countries was determined by the high market potential, geographic and language proximity, and the traditionally good neighbouring relations. Investments outside the Balkan region were negligible. There were no data available about newly opened or maintained jobs as a result of such investments. Single investments were made in some Central Asian countries.

2. Participation of different kinds of representatives of private sector in development aid. Good practices

Some large Bulgarian companies participating in development assistance were identified to maintain commercial and economic contacts with developing countries, and to implement investment projects there. In that way these companies contributed to development of the partnering country. Larger firms investing in ODA countries were, for example, Kaolin AD, Prista Oil AD, Monbat AD, and Sopharma AD. In-depth interviews were conducted with representatives of these companies.

Private for-profit companies

Kaolin AD² operated actively in a number of countries all across the world, including in some developing countries. It was present in all of the Balkan Peninsula states: Former Yugoslavia countries, also Ukraine, Russia,

¹ For details on trade with recipient countries, see the Analytical Report of Trade and Foreign Trade Regimes.

² <http://kaolin.bg/bg>

Belarus, Armenia, and Turkey. Company's commercial activities spread across Africa: Tunisia, Algeria, Morocco, Egypt, South Africa; the Middle East: Syria, UAE, Oman; the Far East: India, Bangladesh, Sri Lanka, Vietnam, Malaysia, Indonesia, and China. The company held active commercial liaisons with these countries. Company's activity was oriented to manufacture and delivery of processed raw materials required for a respective manufacturing industry, thus securing a vertical integration. In fact the company served several industries. It provided refined end products for pure manufacturing. Besides sales, the company provided also servicing, technical support and logistic maintenance of its warehouses in the partner countries.

Along with trade, third country support was provided by means of industrial investments, namely, in production facilities and joint ownership of mines in Serbia and Ukraine. In Serbia such investments amounted to about EUR 6 mil, in Ukraine – over EUR 10 mil. The company invested at a smaller scale in Romania (EUR 310 000) and Turkey (EUR 250 000) via its respective representation offices.

Another Bulgarian company, **Prista Oil AD**³, was active in developing countries. The company dealt mainly in the field of manufacture and distribution of lubricants. Company operations were active in Southeast European region and encompassed the following states: Turkey, Macedonia, Serbia, Montenegro, Ukraine, Bosnia and Herzegovina, Croatia and Albania. In Serbia and Macedonia the company opened branches long ago. In Serbia company market share of lubricants amounted to 8%. In Kosovo it started operations in 2005 via NTP BALLKAN PETROL. Along with that, the company liaised actively with North African countries (Algeria), with Yemen, and some Central Asian countries, etc. With Algeria and Yemen, company's turnover and trade volume amounted to about 20%. Small exports were made to Egypt. In Central Asia, namely, Uzbekistan, the company made a substantial investment by setting up a joint venture with a branch of the country's national company. In its interaction with developing countries the company applied a diverse business relation model. In North Africa, for instance, it used public procurement for delivery of lubricants; in Central Asia it opted for setting up industrial investments. Moving production in less developed countries brought some advantages for local population by means of creating new job opportunities.

Monbat AD⁴, another enterprise with a strong export orientation, looked for new market options mainly in North Africa. Company's manufacturing process involved a complex technological cycle that allowed for building facilities in developing countries. In Serbia, for instance, a facility for recycling accumulator batteries was set up to operate with local staff.

Hydrostroy AD⁵, another company implementing projects in developing countries, such project being: the Danube River Port at Reni town, Ukraine; design of the dam structure in Buhalufa and Mexena, Algeria; Maharde and Ratan dams and some irrigation systems in Syria; sewage system in Bagdad, Iraq, as well as two irrigation systems; Wadi Zarat and Wadi Libda dams in Libya.

Transstroy Varna AD, a private company operating in developing countries, worked on: a hoisting device for ship repairs in Aqaba Port and Class A roads in Jordan; port facilities in Reni Black Sea Port and telecommunication systems in Starokonstantinov, Ukraine; Motorways and a by-pass road in Iraq; sports complexes in Jos and Lagos, Nigeria; transport infrastructure in Abuja, Nigeria, etc.

Technos OOD⁶ supplied and installed elevators for the Odessa Water Park, Ukraine, for the business centre at Geroy Kossmossa Blvd., Kiev, for the housing estate at Shtors St., Kiev, etc.

Glavbolgarstroy AD⁷ implemented construction projects in a number of developing countries, such as: Ukraine, Belarus, Kazakhstan, Uzbekistan, and some countries in Africa, Middle East and Central Asia.

³ Prista Oil holds a leading position on lubricants market, reaching 60% market share in Bulgaria.

⁴ <http://www.investor.bg/companies/MONBAT/view.html>

⁵ Hydrostroy AD, a joint-stock company was established in 1993.

⁶ The company was established in 1993, with 100% private capital.

⁷ <http://www.gbs-bg.com/en/>

Private companies sending experts to support domestic development in developing countries

A few Bulgarian companies assigning highly qualified specialists to support economic development of Third World countries were identified. It is worth noting that Bulgaria has a long-standing tradition in that respect which must and can be restored.

To that end, **Technoimpex AD** held the top position, as one of the oldest Bulgarian companies to recruit and assign highly qualified specialists and advisors to work for developing countries. Since 1999 the company had been privatized into a joint-stock company within Technoimpex-98 AD. The company continued operating in Syria, Libya, Tunisia, Algeria, Morocco, Angola, Mozambique, Zimbabwe, Nigeria, Cuba, Tanzania, Ethiopia, Ghana, and Kuwait. It maintained permanent representation in Libya, Tunisia, Zimbabwe and Algeria. The company strived to transfer advanced technologies reflecting world's achievements and practices by means of recruiting and assigning highly qualified engineers and technicians to work in various economic fields. Without the participation of such specialists, many of the projects would have hardly been implemented in the recipient countries. Lecturers for universities and technical schools were provided to improve qualification of local employees, thus allowing for rising income and reducing poverty. Some of the major projects implemented or in the processes of implementation were:

Libya: Cooperation with Abu Kamash, the chemical complex of the General Company for Chemical Industry. The complex operated a Salt Factory, a PVC Factory, a Vinylchloride Factory, a Sodium Hydroxide Factory and an ancillary facility. Over 1000 Bulgarian specialist were employed there: chemical engineers, electrical engineers, machine engineers, engineers in measurement and control devices, as well as technicians in various areas: panel operators, systems maintenance and repair. Cooperation with Khun, the company for administrative centres construction, was initiated in 1996. Thus far, over 50 civil, electrical, machine, and communication engineers had been employed by it. Their main activities involved infrastructure projects associated with building settlements in the area of Sirte and the oasis of Jufra. Experts' scope of responsibilities encompassed design, construction and supervision of residential and administrative buildings, pump and purification facilities, and electrical and communication networks. The first phase of 'Great River' project was implemented in 1995-1999, and about 170 Bulgarian specialists worked for the two companies commissioned to reconstruction and building new sites in Tripoli, and associated with the big project. The expertise encompassed civil engineers, water supply and sewage systems engineers, electrical and machine engineers, and technicians. A new contract for supplying over 100 engineers and technicians in various fields to work in a Spare Parts and Specialized Equipment Factory under the General Staff of Home Front was signed for 1996-1997. Over 300 electrical, machine, civil and water supply and sewerage systems engineers and technicians were hired for the purification facility and fertilizers factory under the Environment Protection Agency in Benghazi for 1982-1991. The National Electricity Company hired over 300 specialists to work on maintenance and repair at the thermoelectric and diesel power plants, substations and high voltage networks.

Syria: The company had operated in the country for over 30 years. Some of the major projects implemented were for: the Ministry of Public Construction and Water Resources, (supply of Bulgarian machine, electrical, civil and water supply and sewage systems engineers); Damascus Municipality (architects, civil engineers and landscape designers); the Ministry of Public Services, Damascus (civil, electrical and machine engineers, water supply and sewage systems designers for Damascus sewage system and construction of various purification facilities); Mount Kassion Company (road and bridge for the needs of company); the Ministry of Irrigation (Technoimpex AD supplied hydraulic engineers, dam-construction, irrigation and land recovery engineers); Al Sahel Company, Latakia (contract for provision of civil engineers in 1986); General Directorate for Water Exploration, Homs (a contract for provision of hydraulic engineers, machine and civil engineers, and other experts was signed in 2000).

Nigeria: The main Bulgarian specialists' field of operations was construction industry. Over 100 civil engineers, architects and geodesists worked for H.F.P. Mayssa Int. on designing and building residential and administrative buildings, purification facilities, and similar sites.

Algeria: The total number of specialists employed in the country was over 800. These included agronomists, livestock experts, architects, civil engineers, ship crews, university and technical college lecturers. After winning a tender, 20 hydraulic and civil engineers acted as construction supervisors of 5-6 dams. The Institute of Hydraulic Engineering in Oran also employed Bulgarian constructors, hydraulic engineers and geodesists. Due to the situation in the country in the recent years, some of the Bulgarian staff had been recalled but in 2007 the recruitment process was restored.

Morocco: Over 800 Bulgarian specialists were employed in the Kingdom of Morocco, such as architects, civil engineers and university and technical college lecturers.

Tunisia. Highly qualified lecturers in mathematics, ICT, and other scientific fields were provided to the Tunisian Ministry of Higher Education. Cooperation was initiated in 1977 and since then about 70 to 100 Bulgarian experts had lectured there on annual basis.

Pre-export financing from private banks

Some banks had provided and continued providing support to Bulgarian companies for extension of their trade relations with various developing countries. For example, First Investment Bank and Unionbank acted as intermediary agents under the *Programme for Pre-export Financing of Black Sea Region Countries*. Two credit lines were made operational by the Black Sea Trade and Development Bank. The first one, initiated in March 2001, provided USD 5 mil to First Investment Bank, while the second one provided USD 1.5 mil to Unionbank. First Investment Bank granted loans for up to 1 year, while Unionbank – for up to 180 days. Pre-export financing was granted on an ongoing basis while each export deal was subjected to financial analysis by the respective bank.

Financed were deals on export goods intended for Black Sea Economic Cooperation countries, namely, Albania, Armenia, Georgia, Greece, Moldova, Romania, Russia, Turkey and Ukraine. As an exception, export to other countries could also be financed subject to approval of the respective financial institution. That enabled promotion of trade relations among countries in the region.

First Investment Bank developed also a product for companies exporting goods in countries posing high risk to exporters and their banks.

3. Private sector's participation in development cooperation.

Activities for increasing employment. Social activities

In-depth interviews conducted and questionnaires filled in confirmed that the main channels employed by private businesses in supporting development were trade and investment for building manufacturing capacity. As a whole, business representatives assessed as positive the trade regimes applied to partner countries. Non-tariff restrictions obstructing trade with such countries were not applied. At the same time, each country had its own specific administrative regulations and companies had to comply with them, though such regulations could not be deemed as restrictive. As noted by company managers, bilateral and multilateral trade agreements offered a favourable framework for relationship development. In some cases the issues faced were associated with constraints imposed by the international community to certain countries such as Syria and Iran, and hence, trade and economic relations were hindered.

Accession to EU did not affect substantially trade relations with third countries since Bulgaria traditionally had maintained good trade and economic interactions with developing countries, being development assistance targets. Managers interviewed deemed as positive the impact of accession process on the relations with some pre-accession countries (for example, Serbia).

Credit risk was identified to be the major issue in interacting with these countries, and led to higher companies' costs. Because of that credit risk, the presence of Bulgarian companies in some Third World countries (in Africa

and the Far East) was negligible. A way about could be prompting insurance companies to secure against such a risk. Also, the Bulgarian Export Insurance Agency (BEIA) had to be actuated.

Some companies were of the view that a **state level support** was required in order to achieve successful investments in Central Asian and Middle East countries. Such support was generally absent, though there were some good practices of Bulgarian trade and economic advisors assisting private businesses (for instance, Prista Oil received such support in Yemen).

Bulgarian companies involved in industrial investments recruited **local work force** for their enterprises, thus contributing to rising employment rates in the countries of operation. For example, Kaolin AD employed local staff for its enterprises in Ukraine and Serbia. The same applied to the company representation office in Turkey (10 people), that office being used as an export hub for Middle East and African countries. Prista Oil recruited local staff for its production facility in Uzbekistan. The majority of workers were hired on a full-time basis, less were those on temporary employment basis. Season type of employment was less frequently used. Company arrangements provided for a manager in charge of developing country or regional operations, seated in company headquarters in Bulgaria. During the first years of operations in recipient countries, these companies had on-the-site Bulgarian managers in charge; they knew well the local market, culture, traditions and mentality. With time local managers were put in charge. As whole, Bulgarian companies operating in recipient countries relied entirely on local work force.

Companies recognized the importance of **gender equality** in recruitment, however, in many cases number of men hired predominated due to operations specifics. Women were employed appropriate activities (for example, women accounted for 20% of the staff at Kaolin's office in Turkey; Prista Oil laboratory staff was predominated by women).

Bulgarian companies provided to local personnel some **relieves** in compliance with standards and practices, adopted in the respective country, and also in accordance to the standards and practices applied by other companies operating in the same industry field. As supplementary relieves employees received bonuses, food vouchers, health insurance, etc. Recipient country workers were subject to trade union protection. In general the activity did not deviate from the general rules.

Majority of companies observed **ethic principles and norms**, and followed certain corporate values. They conducted a social policy that gave top priority to environmental protection. For instance, Prista Oil (EBRD granted investments to it), was very particular about devising and observing stringent environmental rules in its operations abroad. An Environmental and Social Action Plan was under development. Importance was placed also on sustainable development of enterprises in recipient countries, as well as on domestic economy as a whole.

Majority of companies employed the services of **local producers and suppliers**, thus aiding domestic economic development and supporting efficiency and optimization of local companies' operations. Such services were transport, warehousing, distribution, raw material supply, half-finished components' supply, information and communication services, business services, etc. The majority of companies deemed as important the role of local businesses in domestic market operations.

Some companies applied **outsourcing of certain operations and services** in recipient countries, for instance, for regional sales management the managers were hired locally under adequate qualification and motivation criteria. Local personnel were employed for services and maintenances to be exercised in recipient countries. Companies also used local investors and trade agencies to conduct domestic market research, risk assessment, export insurance, etc. That had a positive effect on achieving maximum efficiency because such local entities had better comprehension of local regulations and consumption culture, and had better opportunities to tackle domestic market specifics.

A substantial part of the produce manufactured by Bulgarian companies' enterprises operating in recipient countries was sold on both the domestic and neighbouring developing countries' markets. Adequate quality

produce and services offered allowed for withstanding domestic and external competition, and for a good market perception. Orientation towards external markets was anticipated to enhance and purposeful efforts were undertaken to extend market presence in Third World countries.

As a general view, managers expressed their belief that industrial investment as a support arrangement contributed to **rising social status** of both personnel employed and region of operations, because it created jobs, complied with environmental regulations and a healthy lifestyle, introduced standards of behaviour, secured high quality of maintenance and services. Strive to deliver and apply know-how of new production technologies which allowed for long-term employment perspectives, examples being Kaolin in Serbia and Ukraine was made evident.

Bulgarian companies worked well with local authority representatives in recipient countries. There was a good dialog between companies and local authorities, both parties being interested in prompt resolution of arising day-to-day issues.

In summary, it could be said that regardless of the absence of purposeful government policy dedicated to attracting private sector in implementing development assistance, Bulgarian companies were present in some recipient countries by means of industrial investment, thus creating jobs, manufacturing export produce and disseminating know-how and technological experience. Intensive trade relations were also maintained. That had a positive impact on recipient countries from the perspective of both domestic economy and overcoming poverty and famine. Aided by the state (stirring BEIA; support to develop and enter new markets via financing a part of costs for participation in fairs and exhibitions, etc.), the private sector would be able to become a better functioning actor in development assistance.

4. Conclusions and recommendations

According to Bulgarian businesses, a more targeted government policy on ODA countries is required. Particularly at times of crisis a number of Bulgarian enterprises are prepared to redirect their commercial and investment operations towards developing countries, should they be assisted by the state. Furthermore, Bulgaria has traditional relations and experience gained in a number of these countries. They need some serious support to revive and modernize their infrastructure, industrial production and facilities. It is about Libya, Egypt, Iraq, Yemen, North African countries, former Soviet republics in Central Asia, etc. Instead of closing down diplomatic missions in these countries, it is necessary to work more actively with the businesses and aid them so that they can provide more goods and services. Entrepreneurs need advice where to direct their operations in order to work in harmony with the government goals, and in that respect, they expect a clearly articulated consistent and purposeful policy. According to them, joint forces may render a more balanced political orientation, including towards lesser developed and more distant to Bulgaria countries. Diplomatic missions need to be reopened in such countries in order to grant assistance to businesses and contribute to a comprehensive development of domestic economies. The dialog between business and government is not an active one, and a closer interaction is required so that entrepreneurs are drawn in policy decision-making, pertinent to relations with ODA countries.

Private sector role in development assistance may be enhanced by means of implementing responsible corporate practices. In that sense, Global Compact Bulgaria network encompassing more than 30 large Bulgarian companies holds importance. The private sector is a key partner that contributes to achieving the Millennium Development Goals. The Initiative calls for the companies to adopt some universal principles in the area of human rights, labour standards, environment and fighting corruption, and incorporate these principles in their business strategies.

Recommendations to the Bulgarian government and private sector in view of stirring up its involvement in development assistance can be the following:

Bulgarian Government:

- In a timely manner, to adopt basic strategies and programme documents in that area and in due course inform properly the Bulgarian business about priorities therein;
- Close collaboration of the government with the Global Compact Bulgaria network for the purposes of joined work on development issues.
- To support the implementation of projects in economic infrastructure and development of financial markets in developing countries as key elements of private industrial investments.
- To promote entrepreneurship and innovations, research and technologies, technology transfer; support education and raising qualification in ODA countries.
- To promote application of public-private partnership.
- To draw up analyses on recipient countries and sectorial specifics at national and local levels, promote public debates on development assistance outcomes.
- To encourage public-private dialog at national and local levels so that small entrepreneurs and workers can be drawn into decision-making consultations regarding development policies.
- To assess aid effectiveness and overall effect on economic development – it is necessary to devise assessment criteria and present examples of successful and failed practices.

Private sector:

- To extend the role of projects and investments for securing growth which on its part leads to poverty reduction via: creation of more jobs, better use of land and more efficient functioning of markets; removal of restrictions regarding women's participation in the work force; maintenance of environmental sustainability; expanding access to innovations and knowledge, stirring up and improving rural area operations and potential.
- To promote responsible business practices in areas such as labour relations, environment and anti-corruption.
- To change the way business is operated – to supply part of the donor provided goods and services from the developing countries. This will support development of domestic private sector.
- To support stable local partners that can achieve reliable reforms in recipient countries and catalyze democratic processes.
- To use market approaches to support companies: such companies have to be selected on the basis of precise evaluations of their potential regarding innovations, job creation, and provision of services to domestic markets.

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CZECH REPUBLIC

This policy paper focuses on the Czech Official Development Assistance (ODA) and the involvement of private sector into it.

The author used the information from broadly accessible sources and materials published by the main stakeholders of ODA, i.e. Ministry of Foreign Affairs (MFA), Czech Development Agency (CDA), Czech Forum for Development Cooperation and Platform of Businessmen for Foreign Development Cooperation. The relevant sources have been carefully referred as the footnotes.

Next sources of information are as follows; firstly, interviews with selected representatives of the private sector and civil servants were conducted within the period from January to February 2013. Secondly, on-line survey for the representatives of the Czech companies active in the area of ODA, was realized in November 2012. Finally, the method of focus group was used in March 2013. The focus group was chaired by a professional facilitator and six experts from both public administration (MFA and Ministry of Industry and Trade) and business sector participated. The information gained from these sources have been used in the following text without detailed references or quotations.

Introduction

In the past Czech Republic (as well as former Czechoslovakia) traditionally carried out development assistance in selected countries. During the socialism (1948-1989) this development assistance was defined unambiguously by an ideological perspective and therefore the Czech government supported only regimes which closely co-operated with the group of communist countries led by the Soviet Union. Those supported countries were for instance Mongolia, Cuba, Ethiopia, Democratic Yemen or Angola. As for the sectors of interest, numerous branches of economy were supported including infrastructural projects in the machinery industry, transport, geological research and the water infrastructure and treatment.

In 1995 the Government officially revived the foreign development programme¹. In 2000 the Czech Republic signed on the Millennium Development Goals² and in 2004 joined the European Union (EU) – a community which is by far the largest donor of development assistance in the world³. In connection with its membership in the EU, the Czech government adopted commitment⁴ to raise the development assistance volume and reach

¹ Conception of the Czech Foreign Development co-operation in the period 2010-2017, pg. 3

² <http://www.un.org/millenniumgoals/>

³ http://europa.eu/pol/dev/index_en.htm

⁴ Presidency Conclusions of the Brussels European Council, 16 – 17 June 2005 - http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/85349.pdf

0.33 per cent of Gross National Income (GNI) by 2015. This specific objective has not yet been achieved since the total expenditures in the period 2009-2011 were in average 0.12 per cent of GNI.

From the institutional point of view a considerable progress has been seen in the Czech Republic from 1995. While the first decade (1995-2005) can be defined by a lack of detailed conceptions and division of competences among individual ministries, in 2007 a significant reform of the whole development policy commenced. However it was already in 2002 when the first official conception of ODA was adopted⁵. Then in 2007 all the competences in this policy were entrusted to the MFA⁶ and a year later the Czech Development Agency was established. Division of work is clearly marked; MFA is responsible for the conception and strategic tasks and CDA is to implement the development policy including the organization of grant schemes and public tenders as well as monitoring activities. Finally, in 2010 a new bill on foreign development co-operation was passed⁷ in which the competences of both crucial players, i.e. MFA and CDA were described in details.

As for other stakeholders it is worth mentioning Ministry of Finance (co-operation with international financial institutions) and Ministry of Interior (provision of humanitarian aid within the European Union). As regards to the entities conducting specific ODA projects in abroad it is two groups of subjects – non-profit organizations and private companies. In smaller extent universities, academy of science and different bodies of public administration are involved in the ODA too. The Council for Foreign Development Co-operation consists just of the representatives of above-mentioned subjects and works as a consultative body of the main ODA co-ordinator, i.e. MFA.

Compared with previous periods the current ODA conception (2010 – 2017) can be assessed as much more progressive, consistent, transparent and visible. All important documents published by both MFA and CDA are publicly accessible including e.g. financial data of supported projects and brief description of projects' goals and outputs.

As for the involvement of the private sector there is a representative of business participating in the consultative government body – The Council for foreign development co-operation. The official businessmen' body is called the Platform of Entrepreneurs for foreign development co-operation gathering companies and their association interested in the ODA. It consists of four associations of companies and sixteen individual business corporations.⁸

Main goal of this platform is to provide the expert services for its own members, e.g. provision of analyses, information, seminars and trainings. On the other hand this platform can contribute to shaping the official development strategy and its implementation on the level of The Council for foreign development co-operation.

Private Sector and Official Development Assistance

In the Czech Republic the foreign development co-operation has been legally regulated by the law no 151/2010 Coll. on Foreign Development Assistance and humanitarian aid provided to abroad. The ODA has been defined as the complex of activities⁹ financed from the state budget whose aim is to contribute to a reduction of poverty in the sustainable development context and fulfilling the MDGs, to economic and social developments, to a protection of environment as well as to the democracy support, human rights and good governance in the developing countries. Apart from these general goals we can add some other reasons why any donor country has decided to commence some development co-operations. One of them is security aspect with the argument that large socio-economic imbalances decreases the system stability on the global level and can

⁵ Conception of Foreign Development Assistance for the period 2002 – 2007 (Government resolution no 91/2002 from 23rd January 2002)

⁶ Government resolution no 1070/2007 from 19th September 2007

⁷ Law no 151/2010 Coll. on Foreign Development Assistance and humanitarian aid provided to abroad.

⁸ <http://www.ppzrs.org/inpage/clenska-zakladna/>

⁹ See article 2 of the law no 151/2010 Coll.

produce a security threats. The second reason can be a build-up of the brand of the Czech Republic in abroad and the positive perception of this country.

It is important to emphasize an important difference between any business entity and other stakeholders of the ODA (e.g. non-profit organization or a state body). Every company's goal is to reach some profit through its business activities and the ODA is usually perceived in such context. A concrete project in a target country is especially a good reference, entry for the market and an opportunity for further business activities. A businessman perceives a development project from the perspective of its "commercial follow-up" and they are well aware that successfully implemented development project can open the doors for this particular market. The stress on the commercial follow-up can be in practice demonstrated by two model examples.

A company has built up an infrastructural project in a certain locality (e.g. water wells, water treatment facility, etc.) and this result is positively evaluated by the local authority. As a further step this company is approached by this local authority and encouraged for further similar projects. However, such a follow-up is no more supported from the Czech state budget.

A delivery of goods is the second model example (e.g. delivery of medical and sanitary equipment to local hospitals). After completion of this development project the deliveries can continue on the basis of a standard business contracts.

The lack of financial sources of the local authority thus constitutes main risk for the commercial follow-up of both above-mentioned models. If such effort fails in a target country a Czech company has one more chance. It can approach a different donor (European Union and its EuropeAid programme) and apply for the support using the successfully implemented and evaluated project as a good reference. Last chance is to wait for the next round of the selection process of the Czech Development Agency. Businessmen would appreciate a possibility to chain the projects, i.e. use the template of the successful project and implement it in a different locality. Even though this method is fully backed by the local authority demand it is clear that such approach is not in accordance with the transparency requirements in public tenders.

Some entrepreneurs remember the practice in the ODA and the selection process in the nineties of last century when whole Czech development policy was in its early stage and the procedures were not fully formalized. Approach of the Czech authorities is supposed to be more flexible and the first initiative was often made by the company having some contacts and business interests in a developed country. After this idea had been elaborated and presented in details, such project had realistic chances for a support. In this case the company perceived the development assistance as an indirect business support in a territory. While the government could include the project in the ODA, the businessmen appreciated such approach as a part of pro-export policy. However, after the first conception of ODA had been approved (2002) this informal co-operation between the government officials and entrepreneurs was left. The reason was obvious.

Besides the above-mentioned principles of transparency in public tenders it was especially the co-operation rule in the development policy that meant a new milestone in shaping the ODA. The co-operation principle constitutes a close partnership of the governments, i.e. Czech government and the government of receiving country. The set of development priorities should stem directly from the requirements of local authorities which are supposed to know better the country's needs and furthermore are expected to co-finance the selected projects. In the end the priorities which have been mutually consulted and defined are then incorporated into the complex document and signed by the officials of both governments. In case of the Czech Republic such programme documents have been concluded with four of five priority countries (Bosnia and Herzegovina, Moldova, Mongolia and Ethiopia).

Most of entrepreneurs would appreciate a certain enlargement of the priority countries list, respectively the enlargement of sector support. They argue that such extension would be in line with the effort of Czech government as well as the Ministry of Industry and Trade to enhance the export capacities of Czech companies to extra-European territories. Currently, 75 per cent of the overall Czech export leads to the EU

member states¹⁰ and the Czech government has brought with the initiative to diversify the final markets for the Czech products¹¹. It is hardly contestable that seeking the commercial opportunities on new markets in developing countries is very difficult not only from the financial point of view. The Czech companies (above all small and medium enterprises) require some financial guarantees and preferential export loans¹² regardless a non-financial governmental support including communication with local authorities, diplomatic consultation at the local embassy and various other ways of assistance.

However, businessmen's requirement for an extension of priority countries interferes with the government effort to further reduce this list of receiving countries in the framework of the concentration principle (see for more in the part "Priority Countries for the Czech ODA")

The private sector definitely appreciates the concept of commercial follow-up which was not taken for granted always in the past. In the beginning of millennium the state authorities considered the commercial follow-up of the particular project as something at least suspicious. What is generally assessed very positively is the fact that there is no barrier for the companies to gain two different benefits from the development project, i.e. certain financial profit from the project itself and the commercial follow-up in business activities.

Cooperation principle

The co-operation principle has been mentioned as a focal point of modern ODA. Partnership between the governments is often in practice transformed into the partnership between the local authority and the company – implementer of specific project. Entrepreneurs often refer to incapacity (or unwillingness) of a local authority to comply with the obligations stated in the inter-governmental documents. In practice it can be a commitment to build-up additional infrastructure, co-finance the project or assist actively with a concrete investment (e.g. territorial decision and construction certificates).

Similar problem can cause a lack of co-ordination among the donor countries. The companies sometimes complain that it is unlikely to continue in the business activities provided that there are lots of donors' funds available for certain country. Businessmen give the example of Ethiopia as a country in which the commercial follow-up is almost excluded since either the local authority is not willing to financially support the follow-up project or (more likely) another donor is ready to provide the funds for similar projects. There are some countries where the market for the development assistance is very competitive both for the companies and for the governments willing to implement their development strategies. According to the representatives of private sector such tough competition definitely does not contribute to stable and predictable situation in a target country. Certain co-ordination on the EU level would be welcomed.

Next aspect of the co-operation principle is the contact with a local partner. Most of Czech entrepreneurs agree that such co-operation with a local partner (either individual or company) is absolutely indispensable condition for the project or investment success. The local partner can significantly ease some difficulties, overcome administrative barriers, negotiate with local authorities and sub-contract the local companies which usually supply some materials or construction works. As for the sub-contracting it is necessary to emphasize that local labour force is usually used just via local sub-contractors.

During interviews some entrepreneurs tried to compare the legal environment in target countries with the situation in the Czech Republic. In their opinion similar legal framework exist in many countries (Bosnia and Herzegovina, Moldova and Vietnam) including labour law rules, environmental protection or territorial development. On the other hand the application and enforcement of these rules in practice is not often smooth. Relevant authorities interpret some legal rules in a different and non-consistent ways which does not contribute to a more stable and predictable environment.

¹⁰ See in publication "V4 Trade and FDI Observer" - http://www.europeum.org/images/publikace/v4_trade.pdf, page 7

¹¹ Export Strategy of the Czech Republic for the period 2012 – 2020 (Ministry of Industry and Trade)

¹² Export Guarantee and Assurance Company and Czech Export Bank

Access to relevant information is one of the assumptions to succeed in whatever area of human activities including development projects. Representative of the private sector were questioned whether they have sufficient information on the ODA. 60 per cent of them consider their knowledge and access to information as average while 40 per cent of respondents think they have above-average information. Compared with the broad public (see for more in the part Public opinion) a significant difference is obvious.

Nevertheless while the representatives of private sector assess the setting and efficiency of the Czech ODA as quite good or satisfactory, they perceive insufficient involvement of private companies into the ODA. The results of questionnaire survey and individual interviews show that the reasons can be a lack of financial sources as well as unwillingness of state administration to involve businessmen into the development policy setting. The latter reason has been transformed into the specific recommendation, i.e. more active participation of the private sector into programming and strategic planning of the ODA.

Corporate Social Responsibility and Official Development Assistance

The topic of „Corporate Social Responsibility“ has been currently accented and popular in the business community and positively accepted by the Czech population. An entrepreneur supporting concrete projects, e.g. in the social services area or environmental issues is usually perceived in much better light than a company with no such societal engagement. CSR is definitely something which can be easily presented to the broad public as a tool how to strengthen good public relations and indirectly increase the sale of goods or services. In this context it is quite surprising that it was not found a company which has ever tried to build up its CSR visibility through the business activities in developed countries. The question was formulated in much broader sense and did not focus exclusively on the projects in the framework of the ODA (which are quite negligible from the total yearly expenses). However, corporations do not even actively work with their larger investments which in any case help create some job opportunities in developed countries and contribute to a reduction of poverty. It is a question when the first Czech company take this opportunity and use its potential.

EU tenders and private sector

In bilateral part of the Czech ODA the opportunities for the private companies are quite confined. The reasons are limited number of target countries, list of supported sectors as well as the overall budget of the CDA. In comparison with it the multilateral ODA represented primarily by the European Union (UN and OECD to a certain extent) seems to be an alternative chance for the Czech subjects. These opportunities are open for all of them in the EuropeAid programme.

Although the amount of EU funds used for the development assistance is multiplicity higher than the Czech state budget funds (approx. 6 bill € in the EU a 16 mil € in CZ¹³), entrance conditions to the EU tenders are quite difficult for the Czech private companies. The major difficulties represent a need of references (successfully implemented project in the territory) or required yearly turnout. Therefore a certain chance might be an involvement of the Czech corporations into the international consortia. The findings of this research show that Czech non-profit organizations are much more active and successful in using EU funds for development assistance than the private sector. The evidence for that is not optimistic for the businessmen at all since according to the list of supported trilateral projects (see for the details further in the text) in 2011 the CDA supported exclusively beneficiaries from non-profit sector.

Existence of “trilateral projects” is highly appreciated by the beneficiaries, i.e. implementers of the ODA projects. The organization, whose project was supported from the EU programmes, is often asked to co-finance this particular project from other sources. It can cause some serious troubles especially for the non-profit organization and therefore one of the CDA programmes is directly focused on such co-financing. The Czech organization regardless it has been established as for-profit or non-profit is entitled to apply for additional

¹³ This amount consists of funds distributed by the CDA without other ODA instruments, e.g. scholarships for foreign students, transformation co-operation and humanitarian aid.

funding at the CDA. In 2011 thus 41 projects were supported from the state budget in the form of grants under this trilateral programme.¹⁴

Typology of private sector projects

With the exception of small local projects which stayed in the competences of individual Czech diplomatic representations the Czech Development Agency has become a major body responsible for distribution of funds for the ODA projects. CDA distinguishes two kinds of support; 1) grants and 2) public tenders. Private sector is active especially in the field of public tenders (using approximately two thirds of these funds) which consists either in supply of goods or investment works. Here lies an important difference from the non-profit sector which is focusing primarily on soft projects (e.g. education, social services, etc.) which are usually implemented via grant schemes.

Regarding the support of individual sectors¹⁵, water supply and sanitation constitute 27% of development assistance, followed by production and distribution of energy (18%), education (15%) and agriculture, forestry and fishery (15%). Private sector's ratio on overall bilateral ODA oscillates between 45% and 55% (in the years 2009 – 2012), nonetheless the number of implemented projects is lower than ones of non-profit organizations. Deliveries and investments works (hard projects) are thus larger from financial point of view than soft projects (e.g. education, training, and consultancy) which prevail in portfolio of non-profit sector. It is beneficial for the private corporations that there is no ban of the financial profit in the ODA projects selected via public tenders.

The annex 2 of this paper enumerates projects of private companies ranked according to the target countries and supported sectors.

Priority countries for the Czech ODA¹⁶

Selection of priority countries for the Czech ODA is fully in the hands of MFA which is a state body responsible for the strategic planning. In any case the entrepreneurs have their own ideas which countries should be prioritized or which should be the selection criteria for such countries. One of the crucial criteria for the business sector is the historical ties with respective countries. These historical ties, references to former joint projects or various other forms of co-operation are certain guarantee of a positive perception of the Czech Republic in a target country. Mongolia and Vietnam can be presented as these examples. While Mongolia benefits from its status of programme country Vietnam was shifted to the group of phase-out countries with which the co-operation is diminishing.

Businessmen consider as a logical step that two European countries – Bosnia and Herzegovina and Moldova have been classified as the programme countries. Both of them are smaller than the Czech Republic and it is more likely that the financial investments might have larger impact and visibility.

On the other hand Afghanistan as the next programme country is generally perceived as a territory where the Czech companies have minimum chances to actively work. Firstly, Provincial Reconstruction Team in Logar is going to definitely close down its mission in June 2013, secondly the competition in the field of development assistance is enormous since many other countries and allies of the IFOR operation classified Afghanistan as the ODA top priority. Similar reservations have been formulated in the case of Ethiopia; this country is incomparable with the Czech Republic in terms of population and area. Simultaneously, many other governments and other international donors are active in Ethiopia which is a factor undermining a long-term conception work and potential commercial follow-up for the corporations.

¹⁴ See the Annual Report 2011 of the Czech development Agency.

¹⁵ See Annual Report 2011 of the Czech Development.

¹⁶ Czech Republic has currently five programme countries, five project countries and four other phase-out countries where the development activities are finishing (see details in Annex 1).

The Czech government's task (respectively MFA's) is to well-balance the list of priority ODA countries. In the case of Afghanistan, the security commitments towards international community and the NATO allies might have played non-negligible role. The reason for placing Ethiopia on the priority list could lie in geopolitics. Africa is generally considered as the most needed continent for development assistance and each donor country is expected to include at least one of African states on the list. Moreover, Ethiopia ranks among the least developed countries (LDC)¹⁷. Out of the Czech priority countries it is also Cambodia and Afghanistan which belong to the LDC group while all other countries are listed as low-medium income or medium income countries. As for the overall amount of the Czech bilateral ODA only 25% of sources is directed to the LDCs.

Within past ten years the number of target ODA countries was reduced by a half. While in 2002 the government conception counted with twenty countries (see Annex 1), current strategy enumerates five programme and five project countries. In accordance with the concentration principle, a larger impact on receiving country as well as better visibility it is probable to expect further reduction of the priority list. However, neither experts nor civil servants are capable to agree what number of countries would be optimal. Nor businessmen are united in this question since their both geographical and sector priorities vary a lot. On the other hand there are some entrepreneurs who consider the government arguments relevant and are in favour of the concentration principle strengthening.

When assessing the ODA from the purely financial point of view for individual partner countries the rank more or less corresponds with a division on programme (primary) and project (secondary) countries. Important exception represents Afghanistan where a significant reduction of financial sources is expected after the mission of Provincial Reconstruction Team is definitely finished in 2013. In total sums for individual ODA countries¹⁸ the first place occupies Mongolia (65.85 mil CZK) followed by Moldova (60.1 CZK) and Bosnia and Herzegovina (54 mil CZK). The financial outlook 2013 – 2015 shows a certain decrease of funds for Mongolia and reversely an increase for both Moldova and Bosnia and Herzegovina. The overall budget of the Czech Development Agency is around 400 mil CZK (16 mil €) yearly and this level is expected to keep by 2015 too.

Mutual Trade

Mutual trade between the Czech Republic and the ODA countries is a specific factor showing the intensity of economic activity and indirectly a quantum of traditional ties and contacts. Studying both programme and project ODA countries from this angle in details the table 1 brings some interesting findings. None of the partners ranks among very important trade partner of the Czech Republic. There is no country in the first thirty of the trade partners and only two of them are classified in the first fifty (Serbia and Bosnia and Herzegovina).

Just these two Balkan countries participate at the overall Czech export from more than two thirds (72%) while all other examined countries play relatively negligible role for the export of Czech products. The picture differs a bit in terms of import to the Czech Republic. Albeit Serbia stays an important trade partner, its overall export is still lower than Vietnam's one. When we add up the import from these two countries this ratio constitutes 81% of the overall Czech import from all ODA priority countries.

Table 1 also clearly shows the picture of mutual imbalances in trade exchange. On one hand there countries as Vietnam and Cambodia with which the Czech Republic is in distinctive deficit (in the case of Cambodia it is even hardly to find any Czech export at all!). On the other hand we can categorize all other ODA countries which imports much more from the Czech Republic than they are capable to export backwards. Only in cases of Serbia and Ethiopia we can assess the mutual trade as well-balanced, all other countries show only symbolic and occasional export (e.g. Mongolia, Kosovo, Afghanistan) or even almost no export at all (Occupied Palestinian Territories).

¹⁷ See methodology of the UN and the World Bank - <http://www.unohrlls.org/en/lcdc/25/>, <http://data.worldbank.org/about/country-classifications/country-and-lending-groups>

¹⁸ Calculations for the years 2011 and 2012

We have already argued that the Czech private sector perceives development assistance hand in hand with the export policy. From this perspective it is natural that business opportunities in individual ODA countries differ. One method of assessment of the country potential is the gross domestic product (GDP) and its progress.

Table 1. Trade with the ODA countries (amounts in thousands of €)

	PRIORITIES	OVERALL TRADE (2006-2011)	EXPORT / TRADE (%)	IMPORT / TRADE (%)	EXPORT	IMPORT
Bosnia a Herzegovina	program	1 007 443	77,15	22,85	777 251	230 192
Moldova	program	268 245	76,69	23,31	205 706	62 539
Georgia	project	320 142	84,30	15,70	269 865	50 277
Serbia	project	2 541 387	67,80	32,20	1 722 952	818 434
Vietnam	other	1 323 558	16,09	83,91	212 957	1 110 601
Afghanistan	program	103 465	96,98	3,02	100 336	3 129
Kosovo	project	67 922	96,12	3,88	65 288	2 634
Mongolia	program	47 201	91,96	8,04	43 407	3 794
Ethiopia	program	62 497	66,52	33,48	41 571	20 926
Cambodia	project	74 448	7,67	92,33	5 709	68 739
Occupied Palestinian territories	project	4 814	99,56	0,44	4 793	21

From the point of view of the yearly GDP¹⁹ growth it is Mongolia (12.7%) that is ranked as a top developing country worldwide, followed by Afghanistan (11%). The economic growth of Ethiopia (7%) and Vietnam (5.1%) is also very strong and in a long-term perspective it remains high above the world GDP average growth.

Public Opinion

Eurobarometer²⁰ survey shows that 86% of the Czech population support certain level of development assistance (including humanitarian and transformation / pro-democracy assistance), compared with 87% the EU population. It is surprising to some extent that such a large percentage of population realizes a responsibility of a developed country towards the poor developing counterparts. Some sceptical voices argue that such a high percentage has been significantly distorted by an unclear term “development assistance” which is generally understood as primarily humanitarian aid. As a counterargument one can say that the Eurobarometer survey is quite detailed and the text of questions imply the variety and complexity of the development assistance, i.e. with an emphasis on long-term projects and co-operation.

Private sector and its relation to the development assistance was one of sub-topics of that Eurobarometer survey. The Czech Republic has been assessed as an average EU country. In terms of positive aspects and benefits of the development assistance citizens usually state the job opportunity (52% comp. with 57% on the EU level) and the poverty reduction (44% comp. with 42%). As for some negative aspects of the ODA some respondents mention corruption behaviour towards local authorities (24% comp. with 21%) and exploitation of developing countries and their environment (23% comp. with 27%). Absolute majority of citizens is convinced that the companies should comply with social and ethical standards when doing business in a developing county (80% comp. with 81%). Even higher percentage of respondents think that the respective EU authorities should have certain competences in this field and try to ensure that these social and ethical standard are complied with (89% comp. with 87%).

¹⁹ CIA World FactBook - <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2012rank.html> (data za rok 2012)

²⁰ Special Eurobarometer 392 published in October 2012 (http://ec.europa.eu/public_opinion/archives/ebs/ebs_392_en.pdf)

Regarding the information on the ODA only 40% of the Czechs have at least general image where and how the ODA sources are used (comp. with 54% on the EU level). Traditionally, distinctive differences between individual groups of citizens have been found out. The rule that the more educated social group the more information on the development assistance it has was confirmed.

Conclusions

1. Private sector does not sufficiently distinguish between the development assistance and pro-export policy. Stressing the linkage between the development assistance and individual instruments of pro-export policy would be advisable. Such an approach could strengthen “commercial follow-ups” of the Czech ODA projects for instance through the export loans and investment guarantees.
2. Regarding the development assistance in general the Czech companies are active especially in the framework of the bilateral ODA but even on this field they lag behind non-profit organizations in terms of number of implemented projects. Large reserves have been identified in using EU development funds, e.g. under EuropeAid programme. While the Czech non-profit organizations have become relatively successful even on the EU level the participation of Czech corporations in the EU tenders remain one of the most important challenges. Moreover, they could easily benefit from the trilateral co-operation tool which is administered by the Czech Development Agency and has been open for the private companies too.
3. Many entrepreneurs either do not know or do not use the services of the Platform of Businessmen for Foreign Development Assistance. Nonetheless this association focuses on provision of expert information and territorial analyses, defends the interests of private implementers of the ODA projects and contributes to formulation of the Czech development co-operation strategy.
4. It is natural that the private sector is markedly diversified in terms of its sector and geographical priorities. Therefore businessmen do not welcome gradual reduction of the Czech target countries or sectors of support. Nevertheless the concentration principle has been rationally defended and the private sector cannot but accept it. Furthermore, entrepreneurs could try to lobby for an increase of financial sources just for remaining priority countries.
5. Entrepreneurs definitely appreciate diplomatic support in ODA target countries. Nevertheless, they would welcome more intensive support especially from the sections of commerce and trade.
6. Czech corporations have not yet used the benefits of Corporate Social Responsibility in priority countries. CSR can play a positive role in building up good company’s name in the Czech Republic via informing about own development projects in abroad. It is positive to say that the Czech companies usually comply with social and ethical standards in the host countries and they cannot afford to breach labour law or environmental rules. It is unsubstantial whether their main motivation is a protection of good name and potential follow-up of their activities or simply threat of possible sanctions or administrative burdens from the local authorities.

Annex 1

List of priority countries of the Czech ODA in 2010 -2017

Program countries: Bosnia and Herzegovina, Ethiopia, Moldova, Mongolia, Afghanistan

Project countries: Georgia, Serbia, Kosovo, Cambodia, Occupied Palestinian territories

Other (Phase-out) countries: Vietnam, Zambia, Angola, Yemen

List of priority countries of the Czech ODA in 2002 – 2007 (2009)²¹

Europe: Serbia and Montenegro (including Kosovo), Bosnia and Herzegovina, Macedonia

Countries of the former USSR: Uzbekistan, Kazakhstan, Ukraine

Asia: Mongolia, Vietnam, Afghanistan, Lebanon, Palestinian National Authority, Yemen

America: Nicaragua, Salvador, Bolivia

Africa: Ethiopia, Burkina Faso, Mali, Angola, Namibia

Annex 2

List of private sector projects realized in 2012

Country	Project	Implementer
Bosnia and Herzegovina	Increase of a milk production in north-eastern Bosnia (agriculture)	Consortium of companies
	Ensuring access to safe drinking water in the village of Lukavac (water supply and sanitation)	MEVOS, spol. s.r.o.
	Improving waste management in municipalities Dobož and Maglaj (water supply and sanitation)	GEOtest, a.s
	The use of renewable energy sources for central supply of heat in the village of Nemila, Bosnia and Herzegovina (production and supply of energy)	Consortium of companies, led by MEVOS spol. s.r.o
Ethiopia	Capacity development in the field of engineering geology and hydrogeology in Ethiopia (water supply and sanitation)	Aquatest, a.s.
	The introduction of a sustainable water supply in small towns The introduction of a sustainable water supply in the small towns of Sidama SNNPR zone, Ethiopia (water supply and sanitation)	Group „Sidama Water Supply“ (Ircon s.r.o., Aquatest a.s. and GEOTest a.s.)
Georgia	Promoting prevention and early detection of cancer in women in the areas of Samegrelo and Shida Kartli II. (public health)	Charity Czech republic
	Strengthening Georgia's preparedness to extreme weather (general environmental protection)	ČHMÚ, Glomex MS, Aquatest a.s.

²¹ Report on Foreign Development Co-operation of the Czech Republic, Ministry of Foreign Affairs, August 2002

	Energy from renewable energy sources for protected areas - Georgia (production and supply of energy)	Glomex MS
Kosovo	Construction of wastewater treatment plant in the village of Harilaçi (water supply and sanitation)	Consortium „Waste Water Treatment Harilaçi“
Moldova	Exploration and rehabilitation of sites contaminated by oil products in villages of Lunga and Mărculești, Moldova (water supply and sanitation)	Dekonta, a.s.
	Remedy of the environmental damage caused by pesticides in Moldova (water supply and sanitation)	Dekonta, a.s.
	Renewal of the waste water system in the city of Vulcănești (water supply and sanitation)	Group “Waste Water Vulcănești” (Ircon s.r.o. and TopolWater s.r.o.)
	Renewal of the waste water system in the city of Nisporeni (water supply and sanitation)	Nisporeni group (CIR, o.s., TopolWater s.r.o., Kubíček s.r.o.)
	Renewal of the wastewater system in the city of Cimișlia (water supply and sanitation)	Waste Water Cimișlia group (Ircon s.r.o., TopolWater s.r.o.)
	Renewal of the monitoring station network in the basin of the river Prut - modernization of the information system of flood protection (general environment protection)	Aquatest a.s
Mongolia	Identification system for livestock (agriculture, forestry, fishery)	Czech University of life Sciences
	Survey of pollution and proposal for reconstruction in the industrial area of Hargia, Ulan Bator (water supply and sanitation)	DEKONTA, a.s.
	Construction of new water sources for rural areas Zalugiin Gol and Ulaan Tolgoi in the broader area of Erdenet (water supply and sanitation)	GEOMIN družstvo a.s.
	Development of water resources management in the region of Murun (water supply and sanitation)	Charity Czech republic
	Rehabilitation of non-functional water sources for the drinking water supply of Ulan Bator (water supply and sanitation)	Vodní zdroje a.s.
	Modernization of the control room, equipment and chemical water treatment regulation for the Power plant 4, Ulan Bator (production and supply of energy)	Bohemia Müller s.r.o.
Serbia	Promoting cancer prevention among women in the region of Šumadija (public health)	Charity Czech republic
	Development of waste management in the city of Valjevo (water supply and sanitation)	Association for the Development of Waste Management (VHS Brno, a.s., MEVOS, spol. s.r.o.)
	Increasing energy efficiency of heating the hospital in Valjevo (production and supply of energy)	MEVOS spol. s.r.o
	Improving access to drinking water in the village of Osečina-Belotić (water supply and sanitation)	VHS a.s.
	Support for the production of cheese in Pester / Sandžak (trade and other services)	Pacovské strojírny trading
	Support for artificial insemination and increase the yield of local breeds of cattle (agriculture, forestry, fishery)	Chovatelské družstvo Impuls

ESTONIA

1. Introduction

This policy brief analyses and defines the current role of the Estonian private sector as a development actor. The role of the state and civil society organisations (CSOs) in Estonian development assistance has been quite well documented to date. However, the role of an increasingly important sector – the private sector – has so far been overlooked. This policy brief aims to fill that gap. In doing so, it will examine the different roles of the private sector in development cooperation, what activities the private sector is undertaking and provide a brief assessment of the effectiveness of the private sector in development cooperation. Furthermore, recommendations will provide ways to increase the engagement of the private sector in development cooperation.

Here, the private sector is defined as formal businesses and represented by for-profit companies (including banks, investment funds, private insurance companies, and private educational establishments). The research will also include the business and employers associations as organised representatives of the private sector companies.

The relationship between the private sector and development assistance is complex. The private sector includes sole proprietors, SMEs, large companies and MNCs not controlled by the state, which have the potential to contribute through direct channels of development assistance (e.g. employment and income, infrastructure, goods and services) and through indirect channels of development assistance (e.g. economy, tax, policy and governance). One of the main objectives of the Fourth High Level Forum on Aid Effectiveness (HLF4), held in Busan in 2011, was to ‘enlarge the tent’ and change the development assistance architecture by bringing in the private sector as a partner on equal terms as CSOs and other actors. Furthermore, Article 32 stipulates the “central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction”.¹

The role of the private sector is quite different to that of the state or CSOs. Unencumbered by strict state regulations, the companies operate more along the lines of arm’s length transactions and profit maximisation. These market-directed strategies would seem to be somewhat unaligned with welfare improvement. As such, the private sector’s potential impact is far greater than that of the state or CSOs, although the question arises as to whether they have fulfilled this potential and if not, why?

This policy brief is based on the findings of research on the role of the private sector in development effectiveness as part of the project activities within the framework of the European Commission project entitled: *Update of*

¹ http://www.undp.org/content/dam/uspc/docs/OUTCOME_DOCUMENT_-_FINAL_EN.pdf

the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sectors as development actors in the new EU Member states.

1.1. Methodology

This policy brief will analyse the abovementioned issues, using the findings from an online survey sent to Estonian private companies which do business with developing countries, semi-structured interviews with those active in the field of development assistance, as well as desk research based on secondary data from reports and other sources about development cooperation.

An online survey was run between November and December 2012. Respondents were chosen based on direct invitations and public announcements made through mailing lists. A total of 9 responses were garnered, which although low is within the norms for contacting the private sector with requests for information. Therefore, the results cannot be interpreted as being representative for the private sector, but rather is indicative of the individual trends that have been occurring. This would also seem to highlight that the private sector's knowledge of development assistance is low, as most companies which received the questionnaire stated that this topic does not concern them despite their activities being closely related to development assistance.

In-depth interviews were held with representatives of various private sector companies which do business in developing countries as well as public sector representatives (see appendix 1).

The focus of this policy brief will be on the Estonian private sector in relation to Estonia's priority development assistance countries (Afghanistan, Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine), although examples from other recipient countries will also be given.

This policy brief is organised as follows: the next section will focus on the role of the Estonian private sector in development assistance, focusing on different channels through which assistance is given. This is followed by a section dealing with the private sector's participation in development assistance. Thereafter, the participation of different kinds of private sector representatives in development aid will be addressed. The final section concludes, recapping the major issues and providing policy recommendations.

2. The Role of the Private Sector in Development Assistance

Although the MFA development cooperation database² does not record all private sector involvement in development assistance, nonetheless the total value of development cooperation projects undertaken by Estonian companies rose from over €21,000 in 2006 to over €169,000 by 2012, indicating the potential role the private sector can play in development assistance.

The breadth of activities in which the private sector operates is far wider than the state or CSOs. Below are examples of development supporting activities across different channels. This is by no means an exhaustive list, but rather it is indicative of the various activities that the private sector is currently undertaking.

2.1. Trade

Estonian trade with priority countries and developing countries has been steadily growing in the past few years. Estonian businesses have sought to expand outside Estonia through building up trade networks.

One good example of development assistance trade is with the wine sector. Many developing countries (and especially Estonia's priority countries) specialise in cultivating grapes and making wine. The Gurjaani Wine Cellar Aguna³ based in Gurjaani, Georgia is owned by Estonians. Much wine is sold on the local market and also exported to Estonia. This company supports local development through offering jobs to the local population.

² https://rakendus.ee/akta/andmed_otsing.php

³ <http://www.agunawine.ge>

Estonia imports much wine from developing countries such as Chile (€7.2 million in 2012, the 4th largest country of imports) and South Africa (€2.6 million in 2012, the 5th largest country of imports). Indeed, one Estonian IT developer has set up a successful company importing wines from South Africa and selling them on in Estonia as well as through a network in Latvia and Lithuania.

Despite this increased trade, from a development assistance perspective, companies are still yet to understand fully the impact they can have, that their actions could be considered support for development assistance. Consequently, much business is still conducted with more emphasis on profit maximisation and less on the good will to support the development there. Insufficient promotion and information that trade can be a mechanism of development assistance could be the reason why entrepreneurs in priority countries and other developing countries have not undertaken more development supporting trade. Furthermore, Estonian companies do relatively little trade with African and Asian countries, which are still considered to be markets for their products and services and also an area for supply of raw materials. Consequently, the inclusion of development assistance is nearly non-existent in these regions.

2.2. Direct Investment

Many of Estonia's most prominent business people have invested abroad through their investment companies, especially in the Caucasus region. However, as with trade, the investments are usually made with an aim of gaining a profit rather than supporting development assistance. Furthermore, the volumes of investments are not significant. The largest Estonian investments go into real estate, professional, scientific and technical activities, and wholesale and retail trade. These trends are reflected in the FDI statistics.

Private investments in the developing countries are still fraught with difficulties due to political instability and risky investment climate in the developing countries. One survey respondent mentioned that he had planned to invest in Ukraine, although after witnessing the losses other Estonian investors had, he decided to invest in Georgia instead. Unfortunately, the war with Russia broke out, so he then decided to invest in Moldova, although the economic climate there is not stable and the potential risks are very high. He pointed out that he would feel safer with his investments if the Estonian government was more influential in these countries and could guarantee to safeguard or return his investments in case of any political or economic turmoil.

The lack of direct investments is in many cases also due to little knowledge of foreign markets and business climate in the priority countries and other developing countries. Nevertheless, many Estonian companies have pointed out that they would be willing to invest more if there would be more know-how and some supporting agency which would help them to invest and monitor the business climate and markets, however such a mechanism is not present today.

2.3. Transfer of know-how, technology and good practices

The transfer of know-how and good practices is a stated aim at state level – to contribute to the reform of the partner countries, using Estonia's own experience. At private sector level, the transfer of know-how and good practices usually occurs through arm's length trade as well as direct investments, although not as an explicit action. However, some companies are involved specifically with the aim of passing on best practice to Estonia's partner countries. For example, the Harju County Entrepreneurship and Development Consultancy (HCEDC),⁴ an institution whose goal is to initiate and implement projects aimed at contributing to the local development in Harju county (Estonia has 15 counties altogether), is trying to build up civil society in Georgia through offering the same type of consultancy services. As such, since 2010 it has received around €50,000 annually from the Ministry of Foreign Affairs (MFA) for implementing the distribution of Estonian enterprising experience and support of start-up businesses. During the 2008 Russia-Georgia war, HCEDC changed its focus to concentrating on those in refugee camps by providing them know-how on how best to start their own company. The aim was to help these people out of these camps and poverty, to give them back their self-confidence and a future.

⁴ <http://www.heak.ee>

2.4. Building of physical infrastructure

The building of physical infrastructure is something that is usually regarded as being the preserve of the state rather than the private sector. Defendec⁵ has been building up a border guard control system in Georgia for detecting intruders in green spaces such as forests. This project came about with the help of lobbyists, who actively championed such activities as being in the interest of the country there. With the help of the MFA, in 2010 Defendec also deployed its system in Ukraine, to guard the green border and prevent the illegal movement of persons and goods over the Ukrainian-Moldovan border. In the framework of that project, the border guard officials of Moldova and Ukraine were trained on the issues of adhering to the European Union, NATO and Schengen visa area.

The contribution of Estonian companies in building up infrastructure is not confined to state projects, but also to private companies. For example, Net Group,⁶ an IT company providing business solutions, is building a system for one of Ukraine's major oil companies to monitor their infrastructure and other gas related data.

2.5. Building of human capital

The building of human capital (such as the training of farmers, teachers, health personnel and social dialogue) is considered one of the most important elements of state development assistance. As such, it is mostly undertaken by the state and CSOs, crowding out the need from the private sector. In the short term this activity offers more intangible rewards rather than immediate financial reward, which means that many companies only undertake it connected to long term investments. Therefore, the companies which have undertaken training in relation to development assistance are usually those specialise specifically in that field. Examples of private companies which assist in building up human capital include Miksike OÜ,⁷ a private education initiative, which since 2011 has run an online learning environment in Crimean schools in Ukraine. Professionals from the Crimean Teacher Training Institute (KRIPPO) are involved in teacher training, being taught to use information and communications technology both in classroom instruction and in organising schoolchildren's independent studies. The broader goal of the project is to support achievement of the goals of the UNESCO Education for All program and the goals set in the Ukrainian information society development plan 2007-2015, which call for students to be given an opportunity to acquire ICT knowledge and skills concurrently with the learning process.

Other companies have focused on transferring the Estonian experience to other countries. In 2008 Invent Baltics OÜ⁸, an innovation consulting company, ran a series of trainings, seminars and study trips in Georgia for civil servants, representatives of R&D institutions and private companies to share the Estonian experience of establishing innovation support structures and making the technology transfer function. Equally, in 2008 Tallinn Development and Training Center⁹ undertook a training programme in Moldova, Georgia and Ukraine on e-governance and digital local agenda, best practices of Tallinn and e-Estonia.

Utilising experiences from the Estonian school computerisation programme 'Tiger Leap', the E-governance Academy (although a CSO, the Academy involved private companies in its work) is involved in elaborating digital study materials, establishing sustainable training systems of teachers, integrating ICT into the curricula, and monitoring the Georgian Deer Leap programme (the Georgian equivalent to the Estonian Tiger Leap).¹⁰

The building of human capital has also involved infrastructural projects. In 2007 a project was prepared in co-operation between the private limited company Aquatilis, Põlva County Government, the foundation of the

⁵ <http://www.defendec.com>

⁶ <http://www.netgroup.ee>

⁷ <http://www.miksike.ee>

⁸ <http://www.invent.ee>

⁹ <http://www.takk.ee>

¹⁰ <http://www.dlf.ge>

Ida-Viru Enterprise Centre and AS Viimsi Vesi. The objective was to arrange project management training for the employees of Kulikovka region of Chernigov oblast, Ukraine. In the framework of the project officials of Kulikovka region were also consulted about the modernisation of their water and sewerage system as well as about the implementation of the development project.

Starting from 2011 the Estonian Center of Eastern Partnership¹¹ (a CSO, which operates along business lines) started to operate in Tallinn. Based on the experiences of the Estonian School of Diplomacy (ESD), the training centre has been created for arranging training programs and seminars related to various aspects of good governance reform to the government officials from EU Eastern Partnership countries. An important aspect of the work of the centre is enhancing the regional cooperation and integration of the Eastern Partnership countries. The activities of the centre are funded from the MFA development cooperation budget.

2.6. Healthcare

Estonian private healthcare companies have not been too active in development cooperation, as these activities are usually undertaken by state institutions or CSOs. One exception is AS Chemi-Pharm¹², a pharmaceutical company specialising in producing disinfecting agents, cleaning and maintenance products and natural cosmetics, which targets its main exports at Russia, the ex-Soviet countries and Asian countries (e.g. Malaysia, Indonesia, Saudi Arabia, Turkey). In particular, it is involved with the least developed hospitals and medical institutions in Asian countries, as the tropical weather combined with a relative lack of tidiness and sterility contribute to more prevalent infection and mortality rates there. Through the export of its products, as well as greater education in the need for sterile conditions at the workplace, Chemi-Pharm contributes to combating the spread of infectious diseases and to increasing the health and well-being of the people in these countries.

Another company, Amhold AS¹³, is helping design and build a network of medical laboratories for six hospitals in Uganda. At a cost of US\$87 million, local engineers from a partner firm in Uganda, engineering companies from Estonia, scientists from the University of Tartu, specialists from international organisations as well as local experienced medical staff are involved in the project. The laboratories, including bacteriology and AIDS laboratories, will serve the everyday need of doing analyses in hospitals, as well as educational and scientific purpose. The project contributes to transforming the lives of 28 million people across the country into a more secure and healthier direction.

2.7. Education

There are some private institutions which undertake educational activities aimed at development assistance. It has been said that as Estonia cannot offer as much development assistance funding to recipient countries as other developed countries, it has focused on training and information through other educational methods instead. As such, education plays an important part of Estonia's development assistance.

Perhaps the most important education organisation aimed at development assistance is the ESD, which works very closely with priority countries. In 2013, it started to undertake training for Afghan diplomats and civil servants on diplomacy, international relations and international cooperation training. In addition, it takes young diplomats/civil servants from Georgia and Moldova for 9 months free training, with the aim that these students will return to their public sector jobs and disseminate the good practices learnt in Estonia.

A focused educational initiative on traffic prevention has been run by SA Lõuna Koolitus (a CSO which operates along business lines, working in tandem with other private companies) in the Caucasus. In 2010 it ran a project in Georgia for school children in Tbilisi, sharing the experiences of the Estonian Police work in prevention work and helping lessen the traffic injuries. In 2012 a similar project was run for Moldovan school children.

¹¹ <http://www.eceap.eu>

¹² <http://www.chemi-pharm.com>

¹³ <http://www.amhold.ee>

2.8. Finance

Finance is a less chosen method of private sector development assistance, as many companies do not have large amounts capital to invest. Rather, the private sector focuses on sharing and disseminating know-how and expertise. Despite this, 44% of companies reported in the survey that their main area of activity is finance and insurance.

2.9. Technical assistance in building regional integration structures

Private sector technical assistance in building regional integration structures has mostly been undertaken by larger companies that have the capacity to undertake such activities. Skinest Rail¹⁴, a group of railway companies, has a wide range of activities and offers various services in many developing countries. The company contributes to building up an international railway network in some of Estonia's priority countries (Ukraine, Georgia and Belarus). This is achieved through the sales of rolling stock and spare parts, railway construction and rolling stock repairs, maintenance of railway equipment, technical consulting, sales and leasing of railway equipment and modernisation of railway equipment. While doing this, it offers jobs in many countries (according to data, they have around 10 people in leading positions in every country as well as many other people employed as technical assistance and other workforce). It integrates region by many means this way - it supports trade in the region, however, the same railway is used by passenger carriers as well.

3. Participation of the Private Sector in Development Cooperation

3.1. Activities for increasing employment in developing countries

There are many activities for increasing employment in developing countries, such as the hiring of a local workforce and using local producers or providers. From the private sector survey, it is clear that the majority of private companies rely heavily on the local workforce to undertake the work in developing countries (44% of survey respondents employ over 75% local personnel in their total workforce). However, in some cases this is more than simply utilising the local workforce. Helmes¹⁵, an Estonian IT solution company, has set up a subsidiary in Belarus and trained a team of IT specialists there. The cause for this was not to outsource to a lower cost location, but rather as there is a shortage of IT specialists in Estonia. With the help of the Belarusian team, Helmes has started to undertake various development assistance projects in other priority countries. As Estonian companies are usually quite small and specialised, they generally employ either specialists from the partner countries (mainly well-educated employees who help find local partners, lobby for projects and seal the deals) or skilled employees who carry out the projects. Unskilled workers are generally not employed by Estonian companies.

3.2. Social activities in developing countries

There are various social activities the private sector can undertake which contribute significantly towards development assistance, such as increasing the level of female workforce, providing training to the local personnel, providing various social services, providing membership in local trade unions, or implementing a company code of ethical behaviour.

Many private companies offer such activities as part of their corporate social responsibility within the scope of their work. For example, the Estonian fashion designer Reet Aus¹⁶ has helped largest fabric and garment producer in Bangladesh to reduce textile waste in mass-production. Consequently, she has launched a collection based on upcycled clothes made with much reduced water and energy per garment. In doing so, she also supports the employment of local workers in Bangladesh.

¹⁴ <http://www.skinest.ee>

¹⁵ <http://www.helmes.ee>

¹⁶ <http://www.reetaus.com>

The survey for the private sector actors found that in most cases companies offer extra benefits to the employees in the priority countries (44% of respondents), indicating that they are treated equally with the companies' Estonian employees. The most frequent type of benefit is social insurance (33%). This is followed by food vouchers/company canteen, vocational/in-house training, support for schooling, and health insurance (each 22%). However, the survey found that some benefits are not offered by any companies, such as daycare for children, employment injury benefits, maternity benefits, and occupational pension schemes. This may be explained that many Estonian companies only undertake projects in partner countries rather than having a permanent business established there, consequently the provision of such benefits is prohibitively expensive for the value of the work they undertake. In any case, the level of benefits Estonian companies provide highlights their social responsibility, and that Estonian companies are not there merely to exploit the local workforce.

4. Participation of Different Kinds of Private Sector Representatives in Development Aid

Different types of private sector representatives, such as for-profit companies, multinational and regional banks, private insurance companies and private educational establishments have different roles and levels of importance within Estonian development cooperation.

Although private for-profit companies are the key drivers behind private sector development assistance they cannot work by themselves and rely on a support system, not only from the state structures but also in particular from private banks and insurance companies.

Multinational and regional banks are an integral part of private sector development assistance, as they grant funds to the private sector which can then be used for development assistance. However, Banks in Estonia are not too willing to grant special loans for investing in priority countries. There has also not been much talk about special grants from regional banks. This may be partly attributed to the global economic downturn, which caused banks to scale back on providing loans for projects that are perceived to have a higher risk of defaulting. Consequently, private sector actors have a somewhat negative attitude towards the banks.

The provision of multinational grants is a big issue for some of the interviewed companies. The general feeling is that funds (e.g. World Bank grants and funding) are usually granted to companies from the USA or other influential countries. Companies feel that this is the case because there is not the capacity to fulfil their expectations, for example, there are often not enough IT specialists and other personnel. In addition, for companies to get funding from multilateral institutions, strong and continued lobbying is often required, something which is fairly weak. One interviewee mentioned the examples of Italy and Greece, which have such lobbyists and have been successful in gaining funding and projects for their companies, even though their projects are often much weaker than Estonian ones. As such, companies feel that this is one area in which the government could strengthen the possibilities for increasing exports and improving development assistance.

Estonian private insurance companies are not currently active within development cooperation. One interviewee commented that there is a great lack of investment insurance for Estonian companies to invest in the priority countries. Most European countries have such a system, where they try to secure large investments and through this increase investments to countries which are not always considered safe to invest to. Estonia has a similar system run by the Credit and Export Guarantee Fund KredEx, although its programme is not considered to be effective by the private sector. It can take at least half a year to get the insurance and KredEx is not willing to cover many trade and development sectors.

Another key private sector representative is the private educational establishments. As noted above, there are not too many private educational establishments as such activities are usually undertaken by the state or CSOs. Therefore, their impact on development aid has been somewhat limited to date.

5. Future Plans and Qualitative Assessment of Private Sector Development Aid Effectiveness

On the basis of the surveys, focus group discussion results and interviews, it is clear that the Estonian private sector has much more potential than has been used to date. This is not necessarily a problem which is solely confined to Estonia, as many other countries are in a similar situation. Nevertheless, a greater inclusion of the private sector in future would significantly increase the level and effectiveness of development assistance.

Estonian private sector development assistance activities are still yet to take off, although this is natural given stage of private sector development (e.g. EBRD indicators show improvement still needed in enterprise restructuring, competition policy, securities markets & non-bank financial institutions). The stronger the private sector becomes, the greater the chance it will contribute more to development assistance activities.

Private sector aid and assistance that has been given has not yet been fully mapped or evaluated. This is a crucial first step in defining the private sector's potential for development aid effectiveness. This should be undertaken by the MFA in conjunction with other private sector associations and representatives.

Another key issue is that the private sector still does not understand its potential role within development assistance and consequently it does not consider its actions to be development assistance. The level of knowledge varies from sector to sector, with the ICT sector being relatively more well-informed and other sectors such as the trade sector being less informed or assessing less their development assistance effectiveness. Consequently, there are cases where companies are undertaking activities which could be considered development assistance although they do not seek help from the state in supporting their activities.

Most current private sector activities are profit-orientated; therefore the effectiveness of development assistance has not been deemed necessary to evaluate them.

A major issue is that many Estonian companies do business with neighbouring countries and more developed countries, rather than developing countries. Private companies seek to do business with equal partners: if such partners do not exist in the recipient countries or there are no markets for its products, it is difficult to justify being there. Many companies would be encouraged to enter less developed markets if they had greater support from state mechanisms.

6. Conclusions

At the moment, there are very few initiatives which motivate the private sector to deliver development aid. Indeed, although this could be seen as a missing piece in Estonian development cooperation policy, it should be borne in mind that this is no different than the experiences of other developed countries. Further inclusion of this important sector would expand the potential impact of Estonian official development assistance in its priority countries and beyond.

Support for business activities in developing countries is given through project financing by the MFA as well as some funding for entrepreneurship from Enterprise Estonia and guarantees from KredEx. However, the companies have not widely taken up these forms of funding. This might be due to the nature of the private sector not being fully aware of the possibilities, but equally could also be attributed to the project compatibility issues and difficulties in obtaining finance and insurance.

Most of the different channels of private sector development assistance apply in the case of Estonia, albeit to differing relevancies. Some are more prevalent and important (e.g. training and education), whilst others play a marginal role, are not very relevant, or are still notably absent (e.g. finance). This has been a reflection of Estonia's desire to share its experiences.

Private companies have been quite active in supporting development assistance through their activities, possibly as a result of strengthened corporate social responsibilities. However, given the relatively limited resources these companies have not been able to offer as much as they might hope. A first step towards exploring the potential of the private sector would therefore be to map this highly heterogeneous sector.

7. Recommendations

On the basis of the analysis presented above, recommendations can be made to different groups of stakeholders which should be considered for increasing the effectiveness of the private sector in development assistance. These are as follows:

Estonian Government

- In all of Estonia's development assistance priority countries, there should be strong embassies with a permanent economic attaché or business representative, who would link Estonian companies with local governments, policy makers and entrepreneurs. According to Estonian entrepreneurs, such business–politics cooperation is a necessity in Estonia's priority countries and other countries with developing markets.
- Increase the role and level of input from the Ministry of Economic Affairs and Communications and the Ministry of Finance in fostering private sector development assistance, as these ministries contribute significant amounts to ODA and have a large wealth of knowledge about supporting entrepreneurship.
- At the World Bank, UNDP, IMF and other such global organisations engaged in development assistance there should be lobbyists who would help to get development assistance projects to Estonian companies. It is considered crucial for further integrating private companies into the development assistance sphere.
- More information about international and national funds to incorporate development assistance issues to making business abroad (in priority countries and other countries with developing markets). This could include greater information and project calls.
- Review the system for insuring investments in order to support the increase of direct investments to Estonian priority countries.
- Include private sector associations and representatives when planning and reviewing the priority country list, to ensure the choices also incorporate business ties and economic reasons rather than being made predominantly on a political basis.

Private sector

- Hold the private sector to account for strengthening its links with public sector and CSO development assistance actors (as per the HLF4 aim). This could be achieved through soft initiatives, such as training and information dissemination (e.g. a series of seminars or workshops where the importance of the private sector could be clearly highlighted), as well as hard initiatives, such as legislation.
- Good cooperation and links between Estonian companies and the public sector (ministers and other key policy makers) should continue. All diplomatic and business delegations to the countries with developing markets and Estonia's priority countries has highlighted how needed such a combination is. Also, there has not been any problem in getting Estonian ministers (for example the Minister of Economic Affairs or Minister of Foreign Affairs) to do much needed official visits to seal some important business deals with priority countries or other developing countries. Ministers have been very supportive and helped as much as they have been able to.
- Business associations and representatives could regularly collect more information about companies' activities abroad, so that the state could provide them with information and other services to improve their stance within the sphere of development assistance. At the same time, this mechanism could serve as an input for the ministries when drafting regulations.

Appendix 1. List of interviews

Liina Grünberg, Director of External Relations Bureau, Ministry of Agriculture

Ruth Oltjer, Executive Director, Chemi-Pharm

Oleg Ossinovski, Owner, Skinest Rail

Kaupo Reede, Director, Harju County Entrepreneurship and Development Consultancy

Christman Roos, Specialist, Internal Market Department, Ministry of Economic Affairs and Communication

Indrek Vimberg, Executive Director, ICT Demo Center

HUNGARY

Introduction

This policy paper provides recommendations for Hungarian policy-makers about the *involvement of private sector actors in the field of international development*. The suggested recommendations come from the findings of a research into the current role of the Hungarian private sector. The analysis is one part of a wider research agenda that looks into the role of governmental actors and civil society organisations in international development.¹ In addition, the same research is carried out in eight other new European Union member states that joined since 2004.²

The explicit admittance of private sector actors in international development projects is a new phenomenon. The classical approach of development aid considers private sector participation in international development activities as a refined and hypocritical form of promoting particular business interests. Leading scholars of international development aid are critical about the aids' commercial purposes (Lancaster 2007). While nongovernmental organisations (NGOs) have long been considered legitimate and supportive actors of international, the inclusion of for-profit actors is still considered a sensitive and problematic area, indeed for some, the implicit involvement of business actors is one of the main causes of aid ineffectiveness. The issue of tied aid, in other words, assistance that had to be spent by purchasing goods or services from the donor country, has become an especially suspect form of aid, even if donor governments in the past 'regarded it as a means of maintaining domestic support for aid from important commercial interests' (Lancaster 2007:55).³

However, during the last decade „political and social agendas have increasingly been promoting *the role and responsibility of the private sector in helping to achieve development goals*“ (United Nations Global Compact 2010, Hoxtell et. al. 2010:9). The idea of stronger private sector inclusion is supported by various arguments: the need for additional financial resources, the potential for technological innovation as well as the shared responsibility for the social and ecological effects of private economic activities. In this respect, the ideal type of private sector actors involvement draws on several propositions (1) private companies are able to achieve huge profitability thus they possess additional financial resources for investing in global development issues, (2) they have the technological capacities as well as (3) the human resources to promote innovation also in countries with less favourable business environments. Moreover, this vision about private companies implicitly assumes that (4)

¹ For more details about these sectors see the research paper of Leiszen (2013) and the policy paper of Selmeczi (2013) respectively.

² A comparative synthesis report is planned to be published in the Summer months of 2013. For more details about the whole research agenda see „Official Development Assistance (ODA) in the New Member States: Trade Regimes, the Private Sector and the Civil Society as Development Actors“. Available at the website of the Central European University, Center for Policy Studies (CEU CPS): <http://cps.ceu.hu/research/official-development-assistance>

³ As a result, since 2001 there is an agreement to partially untie aid, at least to the least developed countries.

private companies are aware of corporate social responsibility (CSR) issues and are willing to act in a globally responsible way in poorer developing countries.

The idea that there are private companies with strong financial, technological and human capacities and a substantial commitment to CSR, could be at best partially valid for Hungary. The domestic economy has been struggling on the verge of recession since the last quarter of 2006; unlike other EU new member states that experienced economic decline only for a limited period in 2008-2009.⁴ Consequently, it is more realistic to assume that as a result of an enduring crisis, the majority of Hungarian private companies lack profitability and they have a rather limited financial, technological and human potential to significantly participate in international development projects. Instead of strong global economic players, the *Hungarian private companies are fragile actors that can potentially play a valuable development role only in a small number of countries*; such as states on the EU's Southeastern and Eastern borders such as Serbia and Ukraine or with those countries which Hungary has particular historical ties such as Vietnam.

Methodology

The empirical research was based on the following steps⁵: first, we selected 10 countries from the OECD DAC list of ODA Recipients effective for reporting on 2011 flows. Then we identified for-profit companies that were active in these countries and conducted a survey with them about their activity in the specified countries as well as their attitudes towards international development. We interviewed representatives of line ministries and governmental agencies dealing with development cooperation, and we had a focus group discussion on the topic with private company managers, representatives of business associations, ministries and government agencies. Finally, we discussed our findings with our 'task force' group members (representing all of the major stakeholders) and included their feedback in the final version.

Country Selection

Hungary has strong bilateral trade relations with the relatively more developed upper-middle-income countries on the DAC list. However, our research sought to explore private sector activity and potential in lower income countries as well. As a result, the bilateral trade volume criterion was supplemented with additional criteria: *foreign and economic policy preferences, ODA allocation levels, geographical position* (situated in the Western Balkan or in 'Eastern Partnership' area) and *historical development ties*.⁶ Nevertheless, for our analysis a *valuable trade volume was a necessary condition*, therefore we have only 5 states (Egypt, Kenya, Nigeria, Ukraine and Vietnam) that are non-upper-middle-income countries, while 6 states (Bosnia and Herzegovina, China, Kazakhstan, Macedonia, Montenegro, Serbia) which are upper-middle-income countries.⁷

The role of the Hungarian private sector in the selected countries

Exports have been a driving force in the Hungarian economy since EU accession. Between 2003 and 2011 the external trade with *all countries* increased by 90% in euro terms (measured at current prices), and even between the crisis period of 2008 and 2011, it increased by 4%. Regarding services, we only have comparable data since 2006: in this period, foreign trade of services increased by 45% (and in the latter period by 13%). In general, *bilateral trade of goods with recipient countries expanded much more than the average*: the trade value

⁴ In order to compare yearly economic growth rates within the EU, see the Eurostat data about real GDP growth rates: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec00115>

⁵ The research methodology guidelines were defined by the EuropeAid program representatives of the European Commission (the funders of the research).

⁶ Although Hungary is considered to be a 'new' donor country, it has a relevant historical experience as a donor from the late state socialist period. In 1980, the estimated ratio of development assistance expenditures achieved 0.7% of the Hungarian national income albeit with a different methodology for national income calculation and fundamentally ideological motivations for aid allocation (HUN-IDA 2004:10). Even so, certain countries such as Ethiopia, Laos, Mongolia, and Vietnam continue to be considered as historical development partners (HUN-IDA 2004:11, Szent-Iványi 2009:193).

⁷ This way we have altogether 11 countries (instead of the prescribed 10 countries) according to the present internationally recognized borders, but Serbia and Montenegro formed still one common state in time of the EU-accession of Hungary.

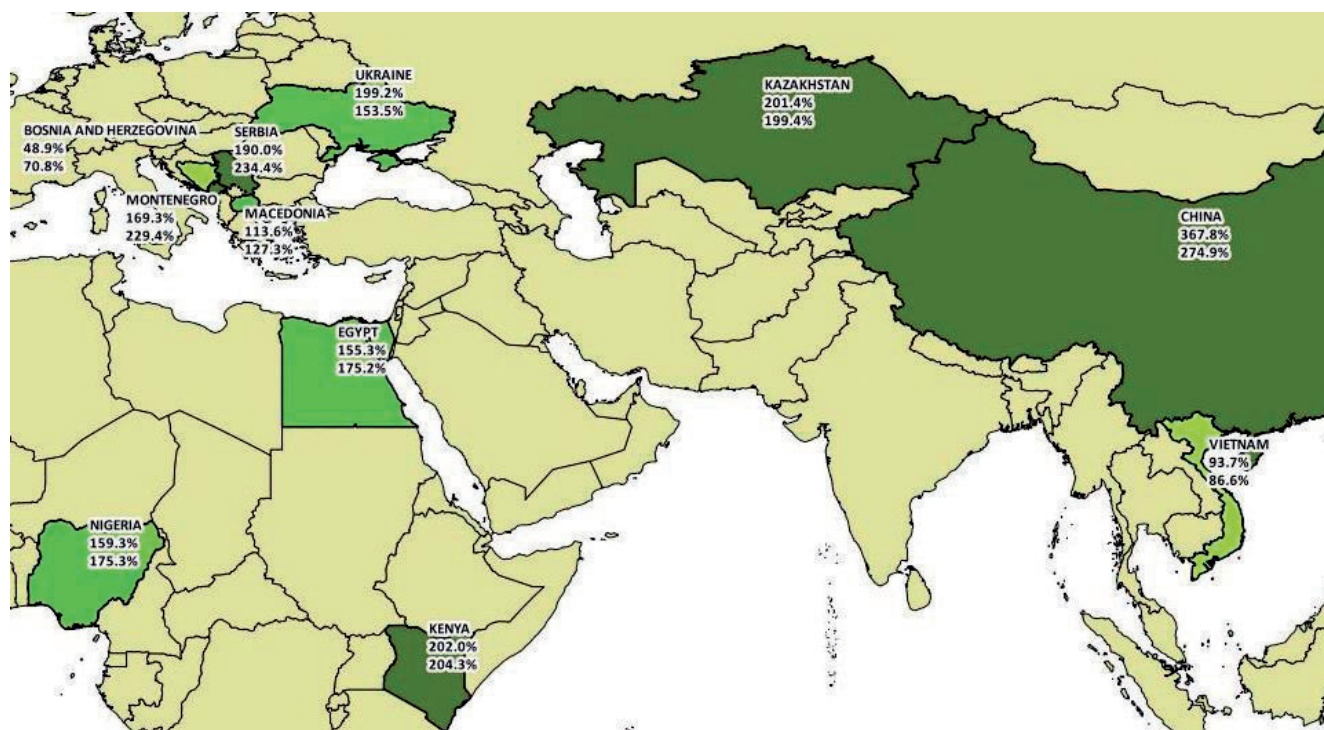
in euro terms in 2011 was almost 4 times larger than in 2003, though since 2008 the increase was only 6% (only slightly above the average). Concerning bilateral trade relations in services, the tendencies are less promising: they increased significantly below the average since 2006 (and the same is true in the crisis period).

The dynamics of worldwide Hungarian *exports of goods* between 2003 and 2011 was even slightly higher than exports and imports together. Moreover, the growth of exports to the selected recipient countries was 3.8 times higher than the average. However, this exceptional bilateral trade dynamics applies only for 8 countries: China, Serbia, Montenegro, Ukraine, Kazakhstan, Egypt, Kenya and Nigeria, while it increased below the average to Bosnia-Herzegovina and Vietnam (it was slightly above the average in the Macedonian relation). The moderate dynamics of exports to Vietnam is especially conspicuous if we consider that total Vietnamese imports increased by 242% in euro terms between 2003 and 2011.⁸ While this might indicate a problem of cost-competitiveness of Hungarian exports, the low dynamics of the trade with Bosnia and Herzegovina is more a consequence of weak Bosnian demand. In this respect, during the 2008-2011 crisis period, the *demand for imports* decreased especially in Bosnia-Herzegovina, Montenegro and Serbia. It stagnated in Macedonia and Ukraine, increased slightly in Kazakhstan, Egypt, Kenya and Nigeria, while it expanded strongly in China and Vietnam.

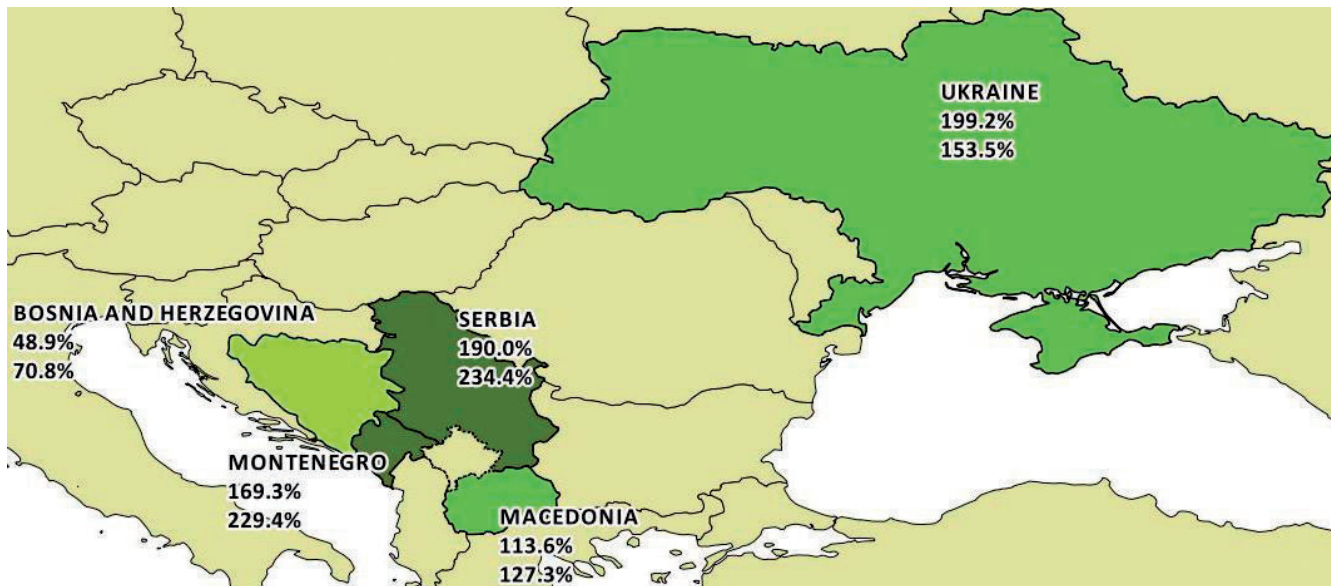
Charts 1-2.

Exports and Bilateral Trade of Goods with Selected Recipient Countries, 2003-2011 (average growth with the countries of the world =100%)

The first figure represents the growth of Hungarian exports and the second figure the growth of bilateral trade (exports+imports).



⁸ The statistical source is The World Bank, DataBank, World Development Indicators, and calculated in current euro terms to ensure comparison <http://databank.worldbank.org/data/views/variableselection/selectvariables.aspx?source=world-development-indicators#> and the USD/EUR exchange rates available at: <http://sdw.ecb.europa.eu/browse.do?node=2018794>



- Below average growth in goods
- Slightly above average growth in goods
- Strong growth in bilateral trade of goods (at least 2 times the average growth)

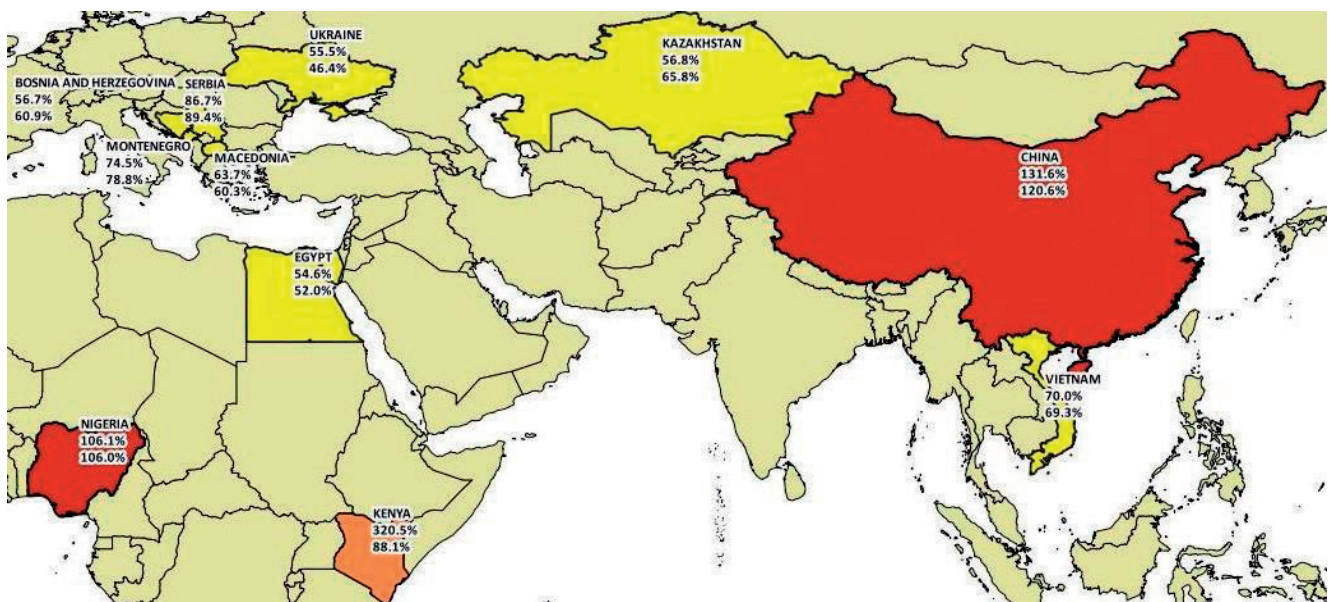
Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2003 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011

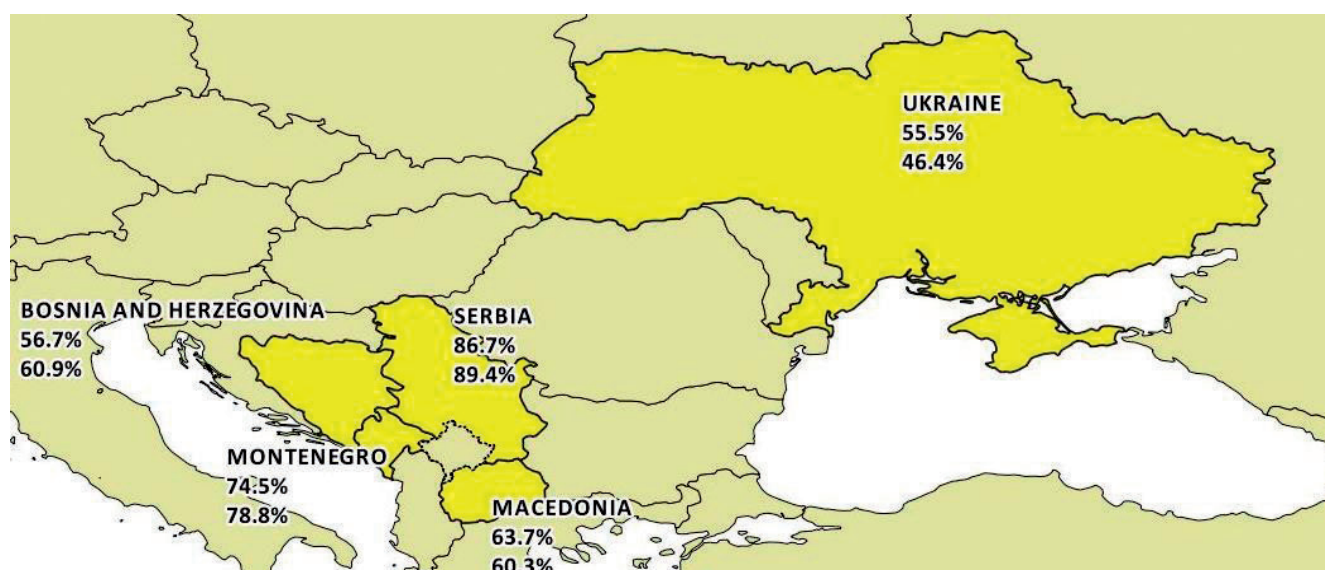
Source: Own calculation based on data from the Hungarian Central Statistical Office.
Available at: <http://www.ksh.hu>

Charts 3-4.

Exports and Bilateral Trade of Services with Selected Recipient Countries, 2006-2011 (average growth with the countries of the world =100%)

The first figure represents the growth of Hungarian exports and the second figure the growth of bilateral trade (exports+imports).





- Below average growth of both exports and bilateral trade in services
- Above average growth of exports of services but below average growth of bilateral trade in services
- Moderate growth of both exports and bilateral trade of services

Note: Before 3 June 2006 Serbia and Montenegro formed one country; their 2006 data are decomposed based on the average exports/trade ratio of the two countries between 2007 and 2011

Source: Own calculation based on data from the Hungarian Central Statistical Office.
Available at: <http://www.ksh.hu>

The following table summarizes the changes in bilateral trade relations between Hungary and the selected recipient countries:

Table 2. Changes in Relative Weights of the Selected Recipient Countries in the Overall International Trade Turnover of Hungary (%-points, between 2003/2006 and 2011)

<i>Bilateral trade indicators</i> →	Exports of goods (2003-2011)	Exports of services (2006-2011)	Exports + imports of goods (2003-2011)	Exports + imports of services (2006-2011)
<i>Countries</i> ↓				
Bosnia and Herzegovina	-0.34	-0.09	-0.09	-0.11
China	1.11	0.20	2.34	0.39
Egypt	0.05	-0.07	0.04	-0.10
Kazakhstan	0.01	-0.27	0.004	-0.24
Kenya	0.09	0.003	0.07	-0.0005
Macedonia	0.02	-0.01	0.03	-0.01
Montenegro	0.02	-0.04	0.02	-0.06
Nigeria	0.02	0.004	0.01	0.01
Serbia	0.64	-0.15	0.54	-0.05
Ukraine	1.02	-0.32	0.60	-1.12
Vietnam	-0.003	-0.02	-0.01	-0.03
11 countries together	2.63	-0.77	3.55	-1.33
10 countries (without China)	1.53	-0.97	1.21	-1.73

Note: **green background** indicates an increase of the weight of the particular country in bilateral trade relations. Sources: Own calculation based on data from the Hungarian Central Statistical Office. Available at: <http://www.ksh.hu>

Time series data for *international trade of services* are only available at the level of total services.⁹ Among the 11 countries the only one that increased its relative weight is China, with slight increases for Kenya and Nigeria albeit starting at an extremely low level. The increasing role of non-European countries in international trade of services is even more obvious in the crisis period: since 2008 Kazakhstan and Vietnam joined China, Kenya and Nigeria among the expanding markets. Nevertheless, service trade level between the selected 11 countries and Hungary is still very low with only 1-2 projects bringing virtually outstanding changes. For lack of country-specific data we may only note in general that *transport services, construction and IT services* are the internationally most competitive sub-branches of the Hungarian service sector.

Concerning the external trade of goods, the following bilateral trade profiles can be drawn based on the volume of exports and imports and the product-level trade flows between the recipient countries and Hungary.

1. With Southeast Europe Hungary has a significant trade surplus: imports from these countries typically cover only 10-30% of the value of Hungarian exports. In addition to the flagship machinery exports, pharmaceutical companies are also outstanding exporters to this region. Moreover, Hungarian agricultural and food industry companies have an important role in the food supply of Bosnia and Herzegovina and the Hungarian energy sector is an important energy provider for Serbia. The only exception is Montenegro; because of the outstanding volume of imports from aluminum and articles thereof (that covers almost 99% of the Hungarian imports from Montenegro) Hungary registers a deficit in Montenegrin trade relations.
2. Hungary's export profile is rather similar with Ukraine and Kazakhstan. However, the Hungarian trade surplus is less significant because of the high volume of energy imports from Kazakhstan and a more balanced trade flow in machinery products with Ukraine. Besides pharmaceutical and machinery exports also food- and plastic-manufacturing industries play an important role in exports to these countries.
3. Hungarian external trade is especially unbalanced with African countries. The volume of imports from African amounts to less than 10% of exports to Egypt, Kenya, and Nigeria; in the case of the latter two the ratio is below 1%. Machinery products dominate exports to these countries, but Hungarian companies also deliver significant amount of organic chemicals, plastic articles, textile products, ceramic products and furniture. The volume of Hungarian imports is significant from Egypt in agricultural, chemical and paper industry articles. There are no significant import products from either Kenya or Nigeria – the only exception is the import of live trees from Kenya.
4. Global trade flows dominate the Hungarian trade profile with East Asian countries. However, with China and Vietnam, Hungary has a trade deficit; moderate with Vietnam, but very high in relation to China. Machinery products dominate Chinese-Hungarian trade relations, while Hungarian trade flows with Vietnam also comprise several food industry products, pharmaceutical, chemical and furniture articles.

Direct Investment

At first glance Hungary plays a relatively important role in direct investment activities in the Western Balkans. The perceived 'frontrunner' status of Hungary among the EU new member countries, its earlier liberalization and privatization generated a significant outward foreign direct investment to the neighbouring countries (Szemplér – Éltető 2012). However, an important part of this OFDI is so-called transit FDI when multinational companies reallocate capital between countries via their operational subsidiaries.¹⁰

⁹ The practice of statistical trade data is not to provide statistics by countries and by service sub-branches so as not to break the principle of non-identifiability of data-providers. At the level of sub-branches the number of the international service data providers is very low for several countries (informant: Zsófia Prohászka, CSO Hungary, Department of External Trade and Service Statistics). Moreover, none of the selected 11 countries are major international service trade partners which means that the non-identifiability principle is especially valid.

¹⁰ "According to the Hungarian National Bank, € 2.5 bn of the € 4 bn FDI and of the € 2.7 bn OFDI was thus related to this type of multinational activity, which is actually recorded in the balance of payments in FDI and OFDI, but in reality does not result in lasting direct investments inside and outside of Hungary" (Szemplér – Éltető 2012:27).

Besides tax optimization purposes (partly in Cyprus, Switzerland and the Dutch Antilles) Hungarian OFDI is valuable in Croatia, Slovakia, Romania, Bulgaria and two of the selected recipients, *Serbia and Ukraine*. Nevertheless, Hungarian companies' investment activity is rather limited: both Serbia and Ukraine have a weight of about 2% of total OFDI.¹¹ In addition, there is a lower, but statistically still measurable Hungarian OFDI in Macedonia, Montenegro and China whereas in the other 6 countries, Hungarian investment activity is statistically insignificant. The *Macedonian and Montenegrin OFDI are mainly transit type foreign direct investment*:¹² through their local subsidiaries the Magyar Telekom is the main investor, the ultimate owner and decision-maker is Deutsche Telekom.¹³ Hungarian investment in China is even smaller amounting to less than 0.2% of total Hungarian OFDI. China is the only country among the 11 where Hungarian private investment activity has been rising every year since 2008. In sum, the impression of significant Hungarian investment activities along the Southern and Eastern EU border is misleading with a significant part of "Hungarian" investment being the transit type of FDI. In addition, the Hungarian presence is based on a few large companies generally active throughout Central- and South-Eastern Europe (Magyar Telekom, MOL, OTP, Richter Gedeon) whilst the investment activity of other, smaller Hungarian companies is very low.¹⁴

A missing link: Hungarian financial private companies in international development activities

The participation of Hungarian financial private companies in international development activities is limited; the fact that the otherwise very extensive research of Szent-Iványi (2009) does not mention this is not accidental and there are several reasons behind this.

Foreign ownership has dominated the Hungarian banking sector since the second half of the nineties (Várhegyi 1998: 908); since 1997 the ratio of foreign ownership in the overall banking assets has been above 60%. The role of domestic private ownership is even weaker if we consider that most Hungarian financial companies are locally oriented saving banks. In fact, only one bank with (partial) domestic ownership has a realistic potential to significantly participate in international development activities, namely the OTP Bank. The international development preferences of the foreign-owned banks are in practice unrelated to Hungarian international development policy.

The international financial crisis has had negative consequences on the position of Hungarian banks (Várhegyi 2012). Sustained crises clearly undermine the willingness to participate in development activities. In addition, Hungarian private financial companies have been constrained by a special extra banking tax and the burden of an early repayment scheme for credits denominated in foreign currencies. The consequence of these crisis-management measures is that the multinational banking groups devalue their Hungarian affiliated banks in their regional financial strategies (Várhegyi 2012: 234) fundamentally undermining aid development activity of these banks.

The only private Hungarian bank active in international projects is the OTP Bank which besides its operations in Hungary, the OTP Group currently operates in 8 countries in the region. Among these, Serbia, Montenegro and Ukraine might be relevant in international development projects. However, the Serbian and Montenegrin subsidiaries are the weakest performers in the banking group and the Ukrainian affiliated company is not among the best performers either.¹⁵ As a result, we could not realistically expect significant international development activities from the OTP Bank.

¹¹ For comparison, Serbia's weight in the total Hungarian exports is 1.4% in goods and 1% in services and that of Ukraine is 2.1% in goods and 0.4% in services.

¹² In Macedonia some smaller investment activity is observable in the food industry and other manufacturing sectors (Milanov 2012:19).

¹³ See the annual report of Magyar Telekom at http://www.telekom.hu/static/sw/download/2011_MT_IFRS_Annual_Report_hun.pdf

¹⁴ A good illustration is the practically non-existent OFDI of the 'flagship' automotive industry.

¹⁵ This is in sharp contrast with the outstanding profitability of the Bulgarian and Russian subsidiaries and the positive Hungarian core profitability, see Annual Report, 2011): http://bet.hu/data/1544339/OTP_Eves_jelentes_2011.pdf

Hungarian financial institutions or local subsidiaries of international banks indirectly support *financial development projects in the poorer regions of Hungary*. A good example is the Polgár Foundation for Opportunities that combines the expertise of leading bank managers with researchers involved in education and Roma minority inclusion. This foundation has micro loans and the bridging loans projects that could be absolutely relevant for of international development.¹⁶

Nevertheless, Hungary's main contribution to the financial development in certain DAC countries is through the activities of *two specialized state-owned financial institutions*, the EXIMBANK (Hungarian Export-Import Bank Private Limited Company) and the MEHIB (the Hungarian Export Credit Insurance Private Limited Company). Their role is "to facilitate the sale of Hungarian goods and services to international markets".¹⁷ EXIMBANK and MEHIB are technically supporting Hungarian companies in countries considered as more uncertain markets – and the selected 11 countries clearly fall to this category. Concerning their role in international development, the most important is the provision of *tied aid credits*.¹⁸ However, in this enduring crisis period, in particular because of the drying up of liquidity and a credit crunch in Hungary, the steadily increasing number of indigent companies created a more general use for the services of these institutions and as a consequence, the number of companies interested in tied aid credits and international development projects has been rising.

Transfer of know-how and technology, building of physical infrastructure and human capital

Hungarian private sector play a role in Hungary's international development assistance projects in a limited number of fields, among the most important being humanitarian aid (donation of foods and medicines) and some aspects of technical assistance (Kiss 2012:374). However, the project-level overview of development activities indicates a more significant contribution. In this respect, we underline the following projects:

- Infrastructure development in Bosnia and Herzegovina (namely the transfer of water purification technology of drinking water in Tuzla);
- Agricultural and food industry training in Kenya (as part of the joint Scholarship Programme with the United Nations' Food and Agriculture Organisation);
- Adult training project in Macedonia;
- Construction activities in Montenegro's educational infrastructure (kindergarten, primary school, healthcare vocational school and adult training centre);
- Viticultural training and technological improvement in preserving the genetic profile of indigenous goat and sheep breeds in Serbia;
- Bilateral scientific and technological cooperation projects with Ukraine;
- Joint Scholarship Programme with the UN FAO for Vietnamese applicants.

In addition, it is worth mentioning that private companies contributed to agricultural development projects in Afghanistan and Laos: agricultural companies transported seeds and help open the joint scholarship programme with the UN FAO also to Afghanistan, whilst several projects helped improve technological efficiency of agricultural production in Laos.

The transfer of know-how, technology and good practices are particularly important in *agriculture and related manufacturing industry sectors*; this includes not traditional production methods of foods and beverages, but also latest technologies in viticulture and environmentally sustainable animal husbandry. *Human capacity building scholarship programmes* play a predominant role in international development policy and the joint programmes with FAO are especially relevant in developing countries.

¹⁶ For more details, see: <http://polgaralapitvany.hu/en/>

¹⁷ <http://www.eximbank.hu/en/eximbankrol/kuldetes/> The mission of Eximbank is to enable Hungarian companies – whether small or large – to take their export opportunities by assisting in financing the export of Hungarian goods and services. The export financing products and services of Eximbank are alternative of complementary tools intended to fill the gaps in trade finance created by the lack of ability or willingness of commercial banks to absorb risks."

¹⁸ Tied aid credits have been applied in Hungary since 2004. The author of the main research on this topic (Némedi-Varga 2003) is one of the primary individuals currently responsible for tied-aid-credit-related projects at EXIMBANK.

Hungarian private sector actors can contribute significantly to international projects mainly in the investment and manufacturing fields, especially when the latter is related to agriculture. Private involvement is smaller in the educational and healthcare sectors where state-ownership is dominant and where non-governmental development organisations play a particularly important role in *education*.

Recent development relations with Kenya generated an increasing interest in the support to the *health sector*; the Ministry of Foreign Affairs actively promoted the private sector “to provide Mother and Child Health, Nutrition and Family Planning Services”. In principle, comprehensive health sector projects are opportunities for Hungarian companies construction (planning of hospitals, building and related services), manufacturing of surgical instruments and health-care training. However, the actual participation of private companies in international development projects is conspicuously low. As Ministry of Foreign Affairs underline ‘*the small amount of winners in international development projects are government agencies and civil society organizations and not private companies*’, the winner of a health development project in Langas, the second largest slum of Kenya was the non-profit Foundation for Improvement of Medical Services (Külügyminisztérium 2012:21 and Vitényi 2012:21).

Hungarian private sector’s participation: motivation and potential

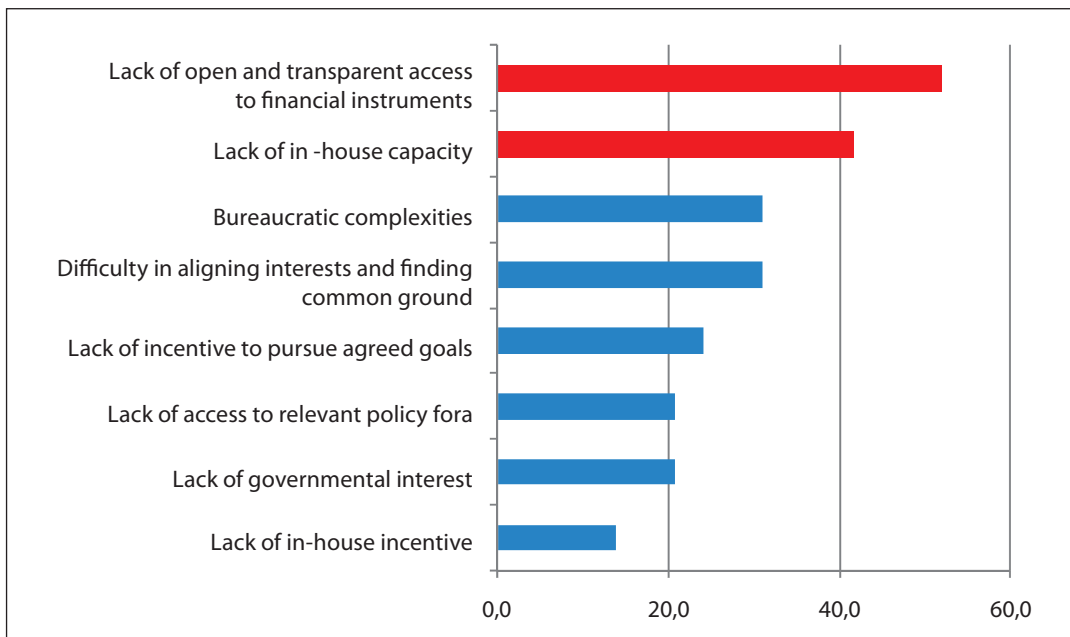
In order to explore the motivation and potential of Hungarian private sector actors to participate in development activities we carried out a survey in late 2012.¹⁹

The most important finding was that the vast majority of companies are *too small to be able to participate successfully in international development projects*. About a half of the respondent companies considered the ‘*lack of open and transparent access to financial instruments*’ as the major difficulty for taking part in international development projects. However, a significant part (41.4%) is aware of their own capacity problems. This is in contrast with their *high level of motivation* – 86% of respondents do not have problems with in-house incentives.

The capacity problems likely account for the *low level of cooperation with local partners* present in the selected 11 countries. The main field of cooperation is transport, storage and distributions, followed by cooperation in business services as well as IT and communication fields; less than one-third have regular production cooperation with local partners.

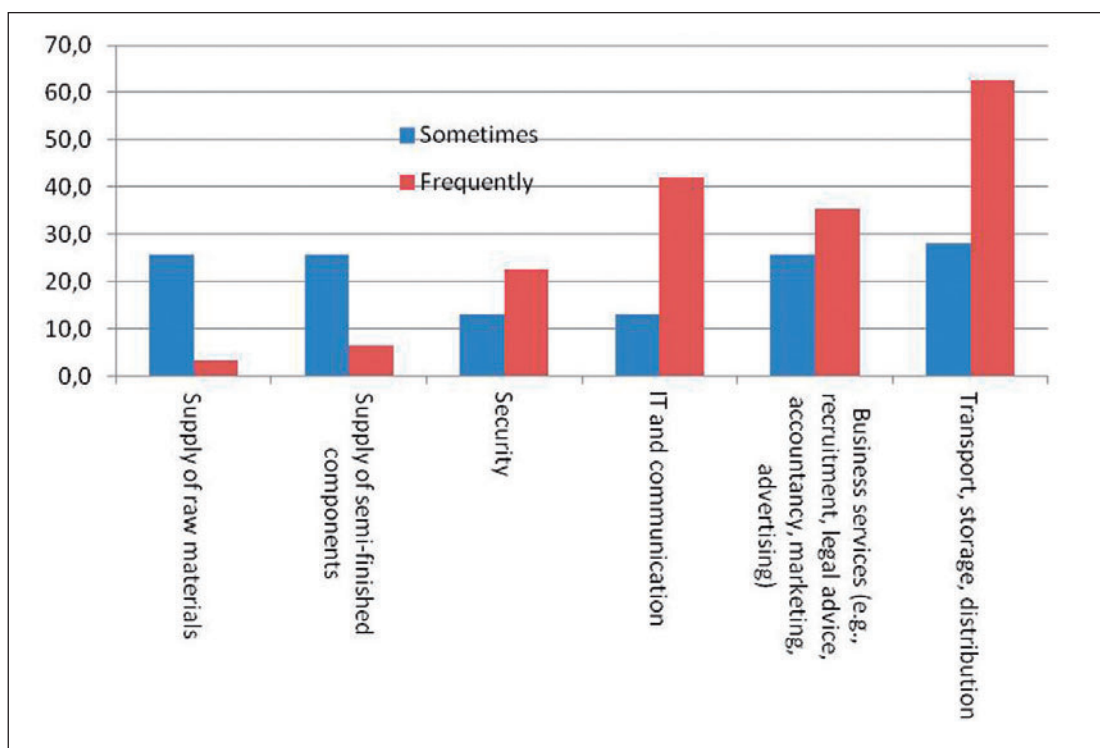
¹⁹ We have 32 response units representing 11 countries; though this meets the methodological guidelines our results can only be considered initial findings of an explorative research.

Chart 5. Main challenges of private companies in international development projects



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

Chart 6. Use of local partners (%)



Source: CPS Survey October-December 2012

The main suggestions to improve their involvement in international development projects concentrate on three fields: (1) joint participation in specific sectoral working groups (mentioned by 38% of respondents); (2) more active opportunity to define the framework of co-financing mechanisms (mentioned by 52%) and first and foremost, the possibility to participate in *regular professional consultations* (mentioned by 68%!).

There was a conspicuous *scepticism concerning the role of foreign-owned private for-profit companies in contributing to development goals in poor countries*. At a scale from 1 to 5, they gave slightly above-average evaluation only for two components: encouraging the development of basic infrastructure and improving employment standards and conditions. According to the respondents, foreign companies have only a moderate role in transferring know-how and technology, promoting fair market competition, facilitating access to finance and enhancing local human capital. Moreover, they consider the supposed development-supporting impact of foreign companies especially weak in the transparent implementation of law and regulatory frameworks.

Employment, social activities, and corporate social responsibility

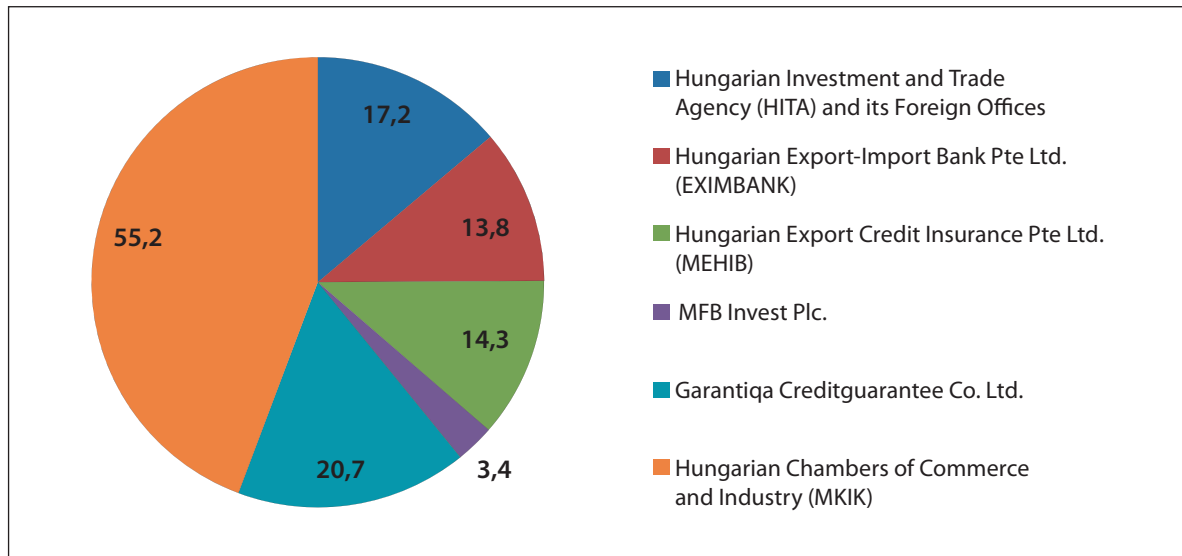
It is difficult to provide valuable information about the role of the Hungarian private companies in the field of employment and related social activities in the selected countries. Trade-based relations dominate bilateral cooperation between Hungarian companies and local actors in the recipient countries. The other types of cooperation, such as involving local producers in sub-contracting and providing market services, are rather moderate. This is also valid for the supposed employment of local workforce, especially because of the small size of the Hungarian companies. In addition, most companies that might provide information about employment relations in selected countries were reluctant to share this information.

In the rare cases when Hungarian companies employ a local workforce, they employ them without trade-unions. However, 58% of responding companies have a specific employment ethical code which they apply with the same standards in the selected recipient countries as in Hungary. As our respondents are mainly performing physical infrastructure building activities, it is not surprising that they employ significantly more men than women. However, when the administrative unit is larger, the level of female employment is higher. The typical employment relation of the recruited workforce is full-time employment; part-time employment is atypical. Finally, there are very few traces of corporate social activities: supporting community transport commuting and providing in-house training are the ones observed at all.

The role of intermediary organizations

Intermediary organizations can help transfer information between government agencies and enterprises as well as to promote cooperation in the form of clusters. According to our survey, the Hungarian Chambers of Commerce and Industry (MKIK) could play a strong role. Thanks to its decentralised character more than half of the motivated private companies maintain regular contact with it. The specific function of MKIK and HITA (the Hungarian Investment and Trade Agency) is related to managing corporate data bases, while other significant supportive organizations such as Garantiqa, EXIMBANK, and MEHIB fulfill technical functions.

Chart 7. Contacts with Government Agencies and Business Associations (%)



Source: CPS Survey with the Hungarian private sector about international development (October-December 2012)

Tied aid

The practice of tied aid plays a specific role in Hungarian international development policy. Tied aid has a strong domestic legitimacy not only within the private sector and intermediary organizations but also with most relevant government agencies.²⁰ Moreover, one of the leading Hungarian scholars in the field argues that profit tied aid is a “successful form of the aid practice” (Kiss 2012:385). Under the present economic and social conditions the domestic legitimacy of international development among can hardly be based solely on altruism; it requires additional tangible results that may raise public awareness about international development. Tied aid is considered as a form of international aid that also supports the export market and thereby indirectly promotes the well-being of Hungarian citizens as well.

A successful example: the Hungarian Water Business Cluster

General capacity problems can be partly overcome through cluster development and a successful example is the Hungarian Water Business Cluster that started in January 2008. This cluster brought together different areas of the water industry and by 2013, it had 10 active members in construction, public utility (water and drainage systems) operation, potable water purification, communal and industrial wastewater treatment and environmental services (e.g. flood prevention). In this manner, the otherwise insurmountable gap between motivation and capacity to participate in international development projects can be bridged. Members “can jointly help their potential partners in water management issues using their expertise, knowledge, know-how, capacity and vitality”.²¹ It is noteworthy that among others achievements, the Hungarian Water Business Cluster was able to achieve significant business success in China.

²⁰ In addition, Government Decree 1516/2012 (XI. 22.) will provide financial assets for the continuance of tied aid credits. The Minister of Economics will assign South and Far-East Asia, various Africa Regions, and the Western Balkans as target areas for the 2012-2020 budgetary period.

²¹ Source <http://www.vizipariklaszter.hu/home>

Conclusions and recommendations

The Hungarian private sector has so far made a rather moderate contribution to the international development policy goals of Hungary. One of the principal reasons is that the Hungarian business environment has been on the verge of recession since 2006. Secondly, micro- and small companies dominate the corporate landscape and the vast majority is incapable of taking part in international development projects. The few large companies are mostly multinational and they are embedded in the international development network of their owner's country. Recent crisis-management measures generated distrust between foreign-owned companies and the Hungarian government, especially within the banking sector.

SMEs are very interested in participating in international development projects although they lack relevant capacities and only a few provide significant technological value-added in international markets. They cannot finance the investment needs of larger-scale projects, and capacity problems are additionally aggravated by human resource problems.²²

Business associations can help fill the gap between private sector interest and capacity. Though cooperation is uneven amongst domestic private actors, corporate cluster as evidenced by the water industry, is one promising alternative. However, our findings do not confirm a special role for social network capital acquired by individuals once studying in Hungary and now occupying influential positions back home; this might have been important in the past, but it is rather marginalised nowadays. In addition, though Hungarian NGDOs could, in principle, help foster private participation in international development projects, this network is practically non-existent with local NGDOs first and foremost embedded in international civic networks.

In these circumstances the potential of tied aid is not surprising. Both private and government actors have a common position that under present untied aid conditions the vast majority of Hungarian private companies cannot take part in international development projects. However, tied-aid-related tenders undoubtedly generate additional opportunities to increase exports and support the legitimacy of international development aid in a country that has been experiencing a narrowing domestic market and increasing poverty for the last 7 years. Though it has strong opposition amongst international organizations and civic actors, tied aid has a relatively strong domestic legitimacy.

Nevertheless, taking into account foreseeable international trends we recommend that the relevant Hungarian government actors gradually reduce the predominant role of the tied aid. This may gain greater legitimacy if Hungarian private actors are more competitive which will necessitate additional efforts, within initiatives such as clusters but also through the work of financial institutions such as EXIMBANK and MEHIB. Improvements in the general business climate will help but in the short term, human capacity problems can be partly solved through greater cooperation with the NGDO sector. Intermediary organizations can help foster greater inter-firm co-operation as well as maintain opportunities through an accessible and transparent data base.

²² Since the 1990s, SMEs have experienced certain human capital devaluation: the relatively higher and more stable salaries and career opportunities at multinational companies and in various new state agencies attracted those with higher level of education at the expense of domestic enterprises (Lengyel 2003:127).

Appendix 1. Selection Criteria and the Selected Recipient Countries from the Hungarian Perspective

<i>Selection criteria</i> → <i>Countries</i> ↓	Trade volume	Foreign policy or economic policy preferences	ODA allocation level	Country of Western Balkan or Eastern Partnership	Historical development ties
Bosnia and Herzegovina	X		X	X	
China	X	X			
Egypt	X	X			
Kazakhstan	X	X			X
Kenya		X	X		
Macedonia	X			X	
Montenegro		X	X	X	
Nigeria		X	X		
Serbia	X	X	X	X	
Ukraine	X		X	X	
Vietnam		X	X		X

Sources: Central Statistical Office (CSO) Hungary: International Trade Statistics; Ministry of Foreign Affairs: Hungarian Foreign Policy after the EU Presidency, 2011; Ministry of National Economy: International Economic Strategy, May 2011; Ministry of Foreign Affairs: Report on Hungary's International Development and. Humanitarian Aid Activities in 2011, June 22, 2012; Szent-Iványi (2009:193)

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Main sources of information

- A survey about the Hungarian private sector actors' participation in international development (October-December 2012) sample from 11 countries, 32 response units (the questionnaires and the SPSS database is submitted in separate files in the research archive)
- Interviews with the representatives of ministries and government agencies (between September 2012- January 2013): Ministry of Foreign Affairs, Ministry of National Economy, Ministry of Rural Development, Hungarian Investment and Trade Agency, EXIMBANK
- Focus group (30 January 2012): 4 representatives of private companies, 1 representative of the Hungarian Water Business Cluster, 2 representatives of intermediary organizations (MKIK, Hungarian Chambers of Industry and Trade and HITA, Hungarian Investment and Trade Agency)

Supporting technical and statistical softwares

HBI Bisnode Hungary Ltd. corporate database

Maps were created using the dataset available under a Creative Commons Attribution-Share Alike License and can be downloaded from: http://thematicmapping.org/downloads/world_borders.php. Provided by Bjorn Sandvik, thematicmapping.org. Software used: Quantum GIS Desktop (1.8.0)

SPSS software. (IBM SPSS Statistics 21). More details about it available at: <http://www-01.ibm.com/software/analytics/spss/>

SurveyGizmo Survey Software. More details about it available at: <http://www.surveygizmo.com/>

LATVIA

Introduction

This is a report on the findings of research on the role of the private sector in development effectiveness. The specific objective of the research is to analyze the potential of private sector engagement in development cooperation.

In the case of Latvia, research includes the top 20 developing countries based on volume of trade/investment of Latvia with countries eligible to receive official development assistance (ODA)¹ and the period of research is from 2004 to 2011.

For the purpose of this particular research the private sector is defined as formal businesses and represented by for-profit companies (including banks, investment funds, private insurance companies, and private educational establishments)². The research also includes business and employers associations as organized representatives of private sector companies, as well as trade unions as representatives of employees interacting with companies.

This policy paper is addressed to both national and European Union decision makers (public sector) and the private sector in Latvia.

The role of the private sector in the development assistance in Latvia

The role of the private sector in development assistance and aid effectiveness has to be seen in the context of policy dialogue on development in Latvia, and the level of partnership being created for development by the government.

¹ All countries and territories eligible to receive official development assistance (ODA): all low and middle income countries based on gross national income (GNI) per capita as published by the World Bank, with the exception of G8 members, EU members, and countries with a firm date for entry into the EU. The list also includes all of the Least Developed Countries (LDCs) as defined by the United Nations (UN). Source: OECD Home, Development, Aid statistics > DAC List of ODA Recipients, <http://www.oecd.org/development/aidstatistics/daclistofodarecipients.htm>, last viewed: 26/11/2012. Croatia is included in the research for the period of analysis 2004 - 2010. U 2010 Croatia was classified as an upper middle income country (Source: The World Bank, Countries and regions, <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/0,,pagePK:180619~theSitePK:136917,00.html#c>, last viewed 26/11/2012) and on 9 December 2011 leaders from the EU and Croatia signed the accession treaty. Subject to its ratification by all EU countries and Croatia, then the country will become the 28th EU member country on 1 July 2013 (Source: European Commission, Enlargement, Countries, Detailed country information, Croatia, http://ec.europa.eu/enlargement/countries/detailed-country-information/croatia/index_en.htm, last viewed 26/11/2012).

² In the case of Latvia the definition also encompasses corporations with shares owned by the state and/or local government. According to the law on State and local municipalities shares and corporations (26.09.2002 likums Par valsts un pašvaldību kapitāla daļām un kapitālsabiedrībām), the corporations are for-profit and operate on the basis of the Commercial Law (13.04.2000. likums "Komerclikums"). Source: 26.09.2002 likums Par valsts un pašvaldību kapitāla daļām un kapitālsabiedrībām, <http://www.likumi.lv/doc.php?id=67363> and 13.04.2000. likums "Komerclikums", <http://www.likumi.lv/doc.php?id=5490>, last viewed on 13/12/2012.

The core problem of this research is related to the fact that no sufficient partnership between government and the private sector has been created in Latvia to advance both development and business outcomes so that they are mutually reinforcing. Moreover, Latvia practices the approach where policy is largely detached from the economy and where government is largely detached from the private sector and its activities. With few exceptions, the public and private sector operate in parallel worlds that are not coherent and no substantial contribution is made to advance mutually reinforcing development and business outcomes.

If we compare the two rankings, namely the top 20 trade and mutual investment ODA countries for Latvia and Latvia's political & economic interest representation in these countries, then the picture shows a very **scattered approach - a focussed, targeted and mutually reinforcing approach by Latvia in ODA countries is hard to observe.**

Latvian official development assistance, even with participation of private sector representatives in implementing specific projects, is focussed and dominates in the countries with which Latvian trade relations are minor, such as *Moldova, Georgia and Afghanistan*. At the same time in countries with comparatively large Latvian official development assistance, such as Ukraine and Belarus, the share of Latvian official development assistance is disproportionate to the comparative importance of these countries in terms of trade and investments.

Moreover, in the circumstances there is little evidence that practical efforts have been made or are intended to establish long-term public and private sector partnerships that would contribute to sustainable development both in ODA countries and in Latvia. This proposition is supported by repeatedly dominating views and answers to the questionnaire and highlighted during meetings and discussions (focus-group) with representatives of enterprises, organizations representing business interests, as well as at meetings with representatives of public authorities.

1. Private sector activities in support of development

As to private sector activities in support of development in terms of trade and mutual investments, the general context is the following. Respondents³ have operated or are currently active in the following ODA countries⁴ among the top 20 trading and mutual investment partners of Latvia: the majority in *Belarus, Ukraine*, as well as in *Uzbekistan*, followed by *China, Georgia, Kazakhstan and Azerbaijan*. Respondents have been or currently are operating also in *Moldova, India and Serbia*, as well as *Egypt and Thailand*. One respondent is operating in *Croatia* and in *Turkey*. In more than one third of cases, respondents acknowledge that in these countries they have been operating for over 5 years or less than 2 years. Respondents also acknowledge that in a large part of these countries they have operated in the past but are no longer active there.

In answering the question whether representatives of companies and business associations are **aware of the existence of any national and European strategies and documents related to development assistance**, the replies vary – from confirmation to denial; some of the respondents answering that “it probably exists”, but “haven't gone into details”⁵. It was noted very clearly by one of the respondents that the vast majority of companies are unclear about what “development” and “development cooperation” concepts mean since many

³ The general profile of the respondents in the survey questionnaire is the following. Legal status: large majority (16 respondents or 80%) being a corporation (limited liability company and joint stock company), as well as self-employed (3 or 15%), but partnership (general partnership and limited partnership) only one the same as association – only one. Number of employees: of the respondent a large part (6 respondents or 30%) are large enterprises with more than 250 employees, followed equally by micro enterprises with 1-9 employees (5 respondents or 25%) and medium-sized enterprise with 50–249 employees (5 respondents or 25%), as well as small enterprises (10 – 49 employees (4 respondents or 20%). Main areas of activity: the respondents represent different sectors of the economy: different business services (e.g. consulting, marketing, advertising, legal), as well as agriculture, forestry and fishing, pharmaceuticals, transportation services and storage, education, health and social welfare services. In single cases also such areas as food, beverages and tobacco, transport, information and communication services, media as well as other manufacturing products..

⁴ Not all respondents indicated specifically the country, but instead of that - the region.

⁵ Focus group discussion on 15/11/2012.

of them have “not even heard about it or do not understand it when discussed”.⁶ Officials confirm that awareness of development cooperation is insufficient.⁷

Asked to reply whether the private sector is aware of a **pro-active awareness campaign about development assistance in Latvia**, respondents replied “no”⁸ and “I think there is none. I haven’t noticed”.⁹ Some of them commented that there are no activities aimed at raising interest in the subject¹⁰ although many documents are available.¹¹ Officials confirm that no special information strategy has been designed; instead different forms of communication are used to raise the level of awareness.¹² Respondents also noted that there is a general lack of comprehensive information about countries, including ODA countries. There is also still a lack of information about Latvia in the world and a very low level of awareness about the Latvian private sector and industries and what could be offered to other countries, including ODA countries.¹³

Asked to reflect on private sector activities in support of development¹⁴, almost all respondents acknowledge that the private sector has an important role in supporting development goals. The most important role of the private sector has been identified as transferring know-how and technology, followed by promoting fair market competition, enhancing local human capital and supporting development of local entrepreneurship. (see table below) This encompasses such activities as creating a legal framework for functioning of private operators in different sectors, such as transport and logistics.¹⁵ This also holds for training of specialists of food industry,¹⁶ training of entrepreneurs in entrepreneurship and trade promotion, also on subjects covering development of NGOs, consumer rights, placing goods on the market, organization of trade (mostly in Ukraine and Belarus, but less in Kazakhstan, Uzbekistan and Azerbaijan).¹⁷ The same applies to transferring know-how in production of pharmaceuticals to support health improvement¹⁸ in ODA countries.

⁶ Interview on 16/11/2012 (trade union).

⁷ Interview on 08/10/2012 (ministry).

⁸ Interviews on 13/11/2012 (enterprise) and 16/11/2012 (trade union).

⁹ Interview on 12/11/2012 (business association).

¹⁰ Interview on 16/11/2012 (trade union).

¹¹ Interview on 12/11/2012 (business association).

¹² Interview on 09/10/2012 (ministry).

¹³ Focus group discussion on 15/11/2012.

¹⁴ Promoting fair market competition, improving employment standards and conditions, supporting transparent implementation of law and regulatory frameworks, enhancing local human capital, transferring know-how and technology, supporting development of local entrepreneurship, facilitating access to finance and encouraging development of basic infrastructure.

¹⁵ Focus group discussion on 15/11/2012,

¹⁶ Focus group discussion on 15/11/2012,

¹⁷ Interview on 13/11/2012 (business association).

¹⁸ Interview on 29/11/2012 (enterprise).

Latvian private sector: importance of the private sector in supporting the development goals (ranking)

	Rank from 1 to 5 (1 not useful at all, 5 very useful)	1	2	3	4	5	Total
Development Goals	Promoting fair market competition		1	1	8	8	18
	Improving employment standards and conditions		1	3	11	2	17
	Supporting transparent implementation of law and regulatory frameworks			5	7	5	17
	Enhancing local human capital		2	2	11	3	18
	Transferring know-how and technology			2	15	5	22
	Supporting the development of local entrepreneurship		3	3	7	5	18
	Facilitating access to finance		2	3	10	2	17
	Encouraging the development of basic infrastructure	1	3	2	8	2	16
Total		1	12	21	77	32	

Source: Private sector survey (questionnaire).

Also included is transfer of know-how in introduction of e-services, such as an electronic scoring system for risk assessment at the workplace; creation of an online documentation system to organize a system of interest representation (lobbying) process, as well as training on labour protection and protection equipment in retail (in Armenia). Another area is transfer of know-how on the role of the sectoral business associations (employers' organisations) in promoting vocational training at sectoral level (in Armenia and Azerbaijan) and training teachers in the area.¹⁹ The list concludes with policy expertise and advice to government on European integration, reform of public administration and governmental budgets, financial decentralization and local government reform, strengthening civil society dialogue with government.²⁰

Many activities are taking place within a framework of international institutions and multilateral initiatives representing a certain overlap of the support provided within a framework of projects financed by the European Commission, the Council of Europe, the World Bank, the UNDP and bilateral projects financed by the governments of Sweden, Denmark, Germany and Great Britain.²¹ The International Organization of Employers (ILO) is also contributing to the process with representatives of the Latvian private sector taking part in ILO trainings, also offered to ODA countries. The ILO training provides a forum for private sector representatives both from the EU and ODA countries to meet and to share know-how, good practices and contribute to building human capital. Many activities have a multilateral character created by participation of private sector representatives from Germany, Latvia, Armenia, Azerbaijan and Georgia under the umbrella of social dialogue, the concept that encompasses a wide range of subjects: human resources, labour protection, labour law, labour councils and trade unions in the workplace. Also the Latvian private sector is sharing experience from colleagues from other countries and the process of transferring know-how, technology and good practices, and building human capital has to be perceived as two-way.²² Respondents also acknowledge that their

¹⁹ Interview on 12/11/2012 (business association).

²⁰ Interview on 13/11/2012 (enterprise).

²¹ Interview on 13/11/2012 (enterprise) and interview on 12/11/2012 (business association).

²² Interview on 12/11/2012 (business association).

operation in the ODA covers a wide range of areas and it is hard to isolate one area from other²³ and impact is achievable only in the longer term²⁴.

Asked to give views on the existence of **initiatives in support of private sector participation in development assistance in Latvia**, answers vary, from “I do not know”²⁵ to “it doesn’t exist” and “I think something exists”²⁶. Those who were more informed noted that credits and export insurance to promote production and export exist²⁷, including grants provided by the Latvian Investment and Development Agency (LIAA)²⁸, but are not sure if they are available for the purpose of development assistance objectives.²⁹ It was acknowledged that the banking sector is very conservative and requires a guarantee; consulting firms do not possess tangible assets as do manufacturing companies, while a reputation for successfully implemented projects is not taken into account. It was also noted that not much is known about the conditions of support allocated from public funding to ODA countries, for example, recent financial support by Latvia to Syria to mitigate the humanitarian crisis.³⁰

Regarding the **involvement of companies in publicly funded EU programmes**³¹, the absolute majority of respondents provided answers that they are not involved in any programmes. A few of them have been involved in INTERREG (Development cooperation within and among EU regions), while a couple of them have been involved in the Instrument for Pre-accession Assistance (IPA) and the European Neighbourhood Policy Instrument (ENPI).

Asked to **estimate the level of development of innovative financial mechanisms to mobilize private finance for shared development assistance goals**, respondents answered that no innovative financial mechanisms have been observed.³² Cooperation with ODA countries is taking place on a business to business (b2b) level within a particular territory taking into account the needs and interests of business, such as promotion of a brand/company and attraction of financial resources, opening markets for sale of products and services.³³ Training of specialists in different sectors is mostly financed by the private sector itself.³⁴ Therefore, cooperation depends on the company’s financial resources and in most cases is taking place without government support.³⁵

As to **participation in clusters with companies from recipient countries** and **participation in trans-border cooperation with recipient countries**, practice varies. There are private sector representatives who have acknowledged that at the moment no clusters have been created and no cross-border cooperation is taking place³⁶. However there are cases when a cluster has been formed as a consortium together with similar companies from Great Britain, Denmark, Sweden, Germany, the Netherlands, Austria, France, Finland, and Spain.³⁷ There is also experience of cooperation in the area of creation of tourist guides on roads and

²³ Focus group discussion on 15/11/2012.

²⁴ Interview on 12/11/

²⁵ Interviews on 16/11/2012 (trade unions) and on 13/11/2012 (business association).

²⁶ Interviews on 16/11/2012 (business associations).

²⁷ Interviews on 12/11/2012 (business association) and focus group discussion on 15/11/2012.

²⁸ Focus group discussion on 15/11/2012.

²⁹ Interviews on 12/11/2012 (business association).

³⁰ Interview on 12/11/2012 (business association).

³¹ Instrument for Pre-accession Assistance (IPA); INTERREG (Development cooperation within and among EU regions); European Neighbourhood Policy Instrument (ENPI); Intergovernmental Authority on Development (IGAD) incentives (Africa); Intergovernmental Authority on Development (IGAD) incentives (Asia).

³² Interviews on 13/11/2012 (business association and enterprise).

³³ Interviews on 12-16/11/2012 (business association and trade union).

³⁴ Focus group discussion on 15/11/2012.

³⁵ Interviews on 12-16/11/2012 (business association and trade union).

³⁶ Interview on 29/11/2012 (enterprise) and Focus group on 15/11/2012.

³⁷ Interview on 13/11/2012 (enterprise).

information e-platforms.³⁸ There are intentions to form clusters, for example, in the transport and logistics sector with Ukraine.³⁹

2. Private sector participation in development cooperation

Employment

Among respondents who provided responses on their employment activities in developing countries in which they have been or are currently active, **employment opportunities** are provided in the following countries: *Belarus, Ukraine, Uzbekistan, Georgia, Kazakhstan, Moldova*, as well as *Azerbaijan, China and Serbia, Egypt and Turkey*.

The evidence shows that employment opportunities are also high in countries where activities of companies have been observed to be relatively high. However, in the case where employment opportunities have been provided the private sector tends to use two types of employment: full time employment and casual/seasonal employment, with comparatively fewer part-time employment opportunities. (see table below)

In such countries as *Belarus, Ukraine and Uzbekistan* with comparatively high activity by private sector, practice in the private sector varies. In *Belarus* more casual/seasonal employment opportunities are provided along with comparatively lower use of full time employment and even fewer part-time employment opportunities. In *Ukraine* both casual and seasonal employment and full time employment opportunities are provided by the private sector, whereas far fewer part time employment opportunities are provided. In *Uzbekistan* both casual/seasonal employment and full time employment opportunities are provided by the private sector, but no part-time employment opportunities are provided.

However, in such countries as *China, Georgia, Kazakhstan, Azerbaijan and Moldova* where activity is also high, practice in the private sector varies. In *China* only casual/seasonal employment opportunities are provided. In *Georgia* and *Kazakhstan* both casual/seasonal employment and full time employment opportunities are provided. In *Azerbaijan* more casual/seasonal employment opportunities are provided than full time employment opportunities. But in *Moldova*, in contrast more full time employment opportunities are provided than part-time and casual/seasonal employment opportunities. In countries where private sector presence has been observed at a very low rate and where employment opportunities are provided as indicated by respondents – in *Turkey and Egypt* – only full time employment is provided.

³⁸ Interview on 13/11/2012 (business association).

³⁹ Focus group discussion 15/11/2012.

Latvian private sector: Employment and type of contracts in developing countries

	In country activity	Employment opportunities	% Employment rate in respect to in country activity	% Type of contracts (Full time)	% Type of contracts (Part time)	% Type of contracts (Casual/seasonal)
Azerbaijan	6	3	50	33		67
Belarus	13	6	46	33	17	50
China	8	2	25			100
Croatia	1	0	0			
Egypt	2	1	50	100		
Georgia	8	4	50	50		50
India	3	0	0			
Kazakhstan	8	4	50	50		50
Moldova	5	4	80	50	25	25
Serbia	3	2	67	50		50
Thailand	2	0	0			
Turkey	1	1	100	100		
Ukraine	12	5	42	40	20	40
Uzbekistan	10	4	40	50		50
Total				56	21	54

Source: Private sector survey (questionnaire).

Overall, evidence shows that employment opportunities by the private sector in developing countries are provided more by large enterprises⁴⁰ and less by small enterprises⁴¹ and even less by micro enterprises.⁴² Full time contracts in the vast majority of cases are provided by large enterprises (of the cases indicated by respondents), whereas part time contracts are provided by small and micro enterprises. At the same time casual/seasonal type of contracts are provided by large, small and micro enterprises.

Among the respondents who provided responses on their practice of **hiring of local workforce** in developing countries, evidence shows that in the vast majority of cases local personnel of more than 50% are hired by large enterprises. At the same time there are several cases where local personnel of more than 50% in a developing country are hired by micro enterprises. At the same time, micro and small enterprises are those whose share of local personnel in developing countries is low.

Among the respondents who provided responses on the importance of *local business* in their operation in developing countries the majority indicated that local business is important (from "somewhat" to "very important"). The evidence is that, irrespectively of the size of the company, local business is important, with a slightly greater importance of local business being for large and medium size companies.

⁴⁰ More than 250 employees.

⁴¹ 10 – 49 employees.

⁴² 1-9 employees.

Being more specific on the practice of use of specific and various **local producers/providers** the frequency and type of use varies among enterprises. In a large part of cases indicated by respondents, use of local producers/providers is frequent and the largest share here is made by large enterprises. At the same time companies have indicated that they never use local producers/providers – with a slightly larger share among small enterprises, albeit other size companies also indicated that they never use local producers/providers. Predominantly, small and medium enterprises are also among those who indicated a comparatively high number of specific and various local producers/providers which they use sometimes, albeit also medium-sized and large enterprises have indicated such examples. (see table below)

Latvian private sector: size of company and use local producers/providers in developing countries

	% Number of respondents	% Use of local producers/ providers (never)	% Use of local producers/ providers (sometimes)	% Use of local producers/ providers (sometimes)	% Use of local producers/ providers (frequent)
Micro enterprise (1-9 employees)	25	14	7	25	6
Small enterprise (10 - 49 employees)	20	36	11	39	12
Medium-sized enterprise (50-249 employees)	25	21	5	18	24
Large enterprise (more than 250 employees)	30	29	5	18	58
Total	100	100	28	100	100

Source: Private sector survey (questionnaire).

Respondents indicated the following specific and various local producers/providers that are sometimes or frequently used by Latvian companies in developing countries: business services such as recruitment, legal advice, accountancy, marketing, advertising; transport, storage and distribution; IT and communications; supply of raw materials; security; supply of semi-finished components; and others. Professional services used are market research, services provided by investment/trade agencies, risk assessment, services provided by professional export associations, export insurance and others.

Answering the question where the majority of **products and services are sold or delivered** by companies operating in developing countries, respondents as their first destination indicated nationwide markets and international markets, followed by the answer that this is only in local markets less than 50 km from the local headquarters or factory and in regional markets, including neighbouring countries. Only one respondent answered that the destination of its products and services sold or delivered is a home country. Only for a micro enterprise is the destination local markets less than 50 km from the local headquarters or factory and only for a small enterprise is the destination a home country.

In conclusion in the analysis of activities for increasing employment in developing countries the contribution to development goals by Latvian private sector in terms of hiring of local workforce is to be attributed more to large enterprises which in the majority of cases are providers of full-time employment for the local labour force. Irrespective of the size of the company, for the majority local businesses are important and in most cases the use of local producers/providers is frequent. However, the largest share of frequent use of local producers/providers is by large enterprises. The Latvian private sector is also contributing to development of ODA

countries by *selling and delivering products and services* that are produced and consumed by ODA countries, but also exported by ODA countries.

Social activities

Respondents who provided responses on their practice of **employing women** in the majority of the cases indicated that the gender composition of their permanent workforce is predominantly male, followed by an equally large number of replies acknowledging that they do not know the gender composition of the local workforce and also affirmation in a number of cases that their permanent workforce is predominantly female. (see table below)

Latvian private sector: gender composition of permanent workforce in developing country.

	Number of respondents	Gender composition of permanent workforce (Predominantly male)	Gender composition of permanent workforce (Relatively equal)	Gender composition of permanent workforce (Predominantly female)	Gender composition of permanent workforce (Don't know)
Micro enterprise (1-9 employees)	5	2		4	
Small enterprise (10 - 49 employees)	4	4			
Medium-sized enterprise (50-249 employees)	5				
Large enterprise (more than 250 employees)	6	5	7		10
Total	20	11	7	4	10

Source: Private sector survey (questionnaire).

Large enterprises - those who are contributing more to development goals in terms of hiring of local workforce – in a large part indicated that they do not know the gender composition of the local workforce. However, large enterprises are also those who confirmed that the gender composition of their permanent workforce is relatively equal between men and women. Micro and small enterprises noted that the gender composition of their permanent workforce is both predominantly male and predominantly female.

Only 1/3 of respondents indicated that they provide **benefits to the local workforce**. But those who do, ensure a rather wide range of additional services. (see table below) Benefits to the local workforce are provided more often in countries where the activity of enterprises is also higher, namely in such countries as *Belarus, Ukraine, Kazakhstan* and *China*. At the same time a comparatively high level of activity in a given country does not necessarily mean that benefits will be provided to the local workforce – this observation is evident in such countries as *Azerbaijan, Moldova, Serbia* and *Uzbekistan*.

Latvian private sector: Benefits to local employees in developing countries

	%	Number of respondents	Daycare for children/ kindergarten	Food vouchers/company canteen	Housing support	Transport	Vocational/ in-house training	Support for schooling	Occupational safety and health training	Night shift/overtime benefits	Employment injury benefits	Medical care and sickness benefit	Health insurance	Maternity benefits	Occupational pension schemes	Paid holidays	Redundancy pay	Other	Total
Micro enterprise (1-9 employees)	25					1	1	1										2	5
Small enterprise (10 - 49 employees)	20				1	1	2	2			1		1			2	2		12
Medium-sized enterprise (50-249 employees)	25																		0
Large enterprise (more than 250 employees)	30					3	3	2	1				2	2		2	1		16
Total	100	0	0	1	5	6	5	1	0	1	0	3	2	0	4	3	2	33	

Source: Private sector survey (questionnaire).

The largest share of benefits is provided by large enterprises, followed by small enterprises. A comparatively low contribution in terms of benefits to the local workforce is provided by micro enterprises and there is no contribution at all by medium-sized enterprises. At the top of the list is **training provided to local personnel**: vocational/in-house training and support for schooling. Micro, small and large enterprises provide training and schooling for local employees. Some enterprises provide other social services as benefits to local personnel, such as: transport, paid holidays, health insurance and redundancy pay, maternity benefits, housing support, occupational safety and health training and employment injury benefits.

Among respondents only 25% of enterprises indicate that their employees are represented by trade unions – these are medium-sized enterprises, followed by large enterprises and small enterprises. Instead, a large majority - 60% - of enterprises indicate that they follow their **company's code of ethical behaviour or policy** towards employee relations.

3. Participation by different kinds of private sector representatives in development aid

Participation by the private sector in development aid projects financed by Latvia amounts to 19% of total Latvian official development cooperation assistance and projects implemented in the period 2005-2010.⁴³ Companies were mostly involved in Belarus, as well as in Moldova and Georgia. (see table below)

⁴³ Ārpolitika, Attīstības sadarbība, Latvijas palīdzības saņēmējvalstis un īstenotie projekti, <http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/valstis/>, last viewed 15/12/2012.

Latvian assistance recipients and projects implemented (2005- 2010, Lats)

	2005	2006	2007	2008	2009	2010	TOTAL	Private sector participation (Ls)	Private sector participation (%)
Moldova	59 480	102 793	157 079	186 424		3 477	509 253	115 197	23
Ukraine			54 271	75 019			129 290	2 459	2
Georgia	21 093	47 210	99 976	96 837	2 960		268 076	57 947	22
Belarus			40 822	58 384			99 206	55 939	56
Afghanistan			26 475	100 307		10 000	136 782		0
Kirghistan				50 000			50 000		0
TOTAL	80 573	150 003	378 623	566 971	2 960	13 477	1 192 607	231 542	19

Note: Latvia's contribution without co-financing of International donors.

Source: Ārpolitika, Attīstības sadarbība, <http://www.mfa.gov.lv/lv/Arpolitika/Attistibas-sadarbiba/valstis/>, last viewed 16/12/2012.

Companies and educational establishments participated in implementation of projects covering the following areas: strengthening civil society and cooperation with the public sector, capacity building and general education, including environment protection, business and commercial management training, European integration, business environment, market economy and sustainable development and IT training.

Activities implemented by the private sector within the framework of official development assistance of Latvia correspond to the general understanding demonstrated by officials of the need to promote reforms in ODA countries, to strengthen the capacity of national authorities to transpose EU standards and regulations with a view to facilitating cooperation with these countries in the future, also at the level of private companies.⁴⁴

4. Future plans and assessment of private sector development aid effectiveness

Asked to **assess the effectiveness of participation of the private sector in development assistance**,⁴⁵ responses are varied.

Business associations are those who consider their contribution as promoting a non-discriminatory, fair and competitive global market; establishing regulatory frameworks that uphold property rights; rooting out corruption⁴⁶ and accelerating entry to the formal economy; providing capacity building and general education,⁴⁷ as well as facilitating access to finance and investment risk mitigation instruments.⁴⁸ Activities are tailored towards creating transparent decision-making, regarded as a pre-condition for investment inflow into the country, and thus having an indirect effect on the objectives of a fair and competitive global market.⁴⁹

⁴⁴ Interviews on 08/10/2012, 09/10/2012, 15/10/2012 (ministries) and 16/11/2012 (public service).

⁴⁵ Promoting a fair and competitive global market that is non-discriminatory; establishing regulatory frameworks that uphold property rights; accelerate entry to the formal economy and root out corruption; providing capacity building and general education; facilitating access to finance and investment risk mitigation instruments; securing the necessary investments into core infrastructure.

⁴⁶ Interview on 12-13/12/2012 (business associations).

⁴⁷ Interview on 12-13/12/2012 (business association) and interview on 16/11/2012 (trade union.)

⁴⁸ Interview on 16/11/2012 (trade union.)

⁴⁹ Interview on 12/12/2012 (business associations).

A number of respondents acknowledged that it is beyond the capabilities of the private sector to deal with corruption if the corruption is at the level of the state – in many ODA countries corruption is “a rule and a lifestyle”, part of the culture⁵⁰ and “an accepted rule of the game”.⁵¹ Even if the level playing field is lost as a result of such practices,⁵² entrepreneurs tend to adapt to the rules of the game.⁵³ Officials also confirm that entrepreneurs tend to adapt - if there is a problem, they deal with it on their own and few initiatives come from the private sector and presented to the public sector as issues to be addressed.⁵⁴

One respondent noted that the general trend on a global scale, including in ODA countries, is the following: countries tend to protect their market and shape the legislative environment accordingly. In such circumstances it is hard to talk about fair competition. ODA countries are only interested in investments. Therefore enterprises taking part in the study are trying to preserve their presence in the markets of ODA countries and are considering reallocation of production in order to stay in historically close markets.⁵⁵

Officials also confirm growing interest from the private sector to establish enterprises (subsidiaries) in ODA countries, such as Ukraine and China, accompanied by an interest in creating a favourable business environment in these countries by introducing partners to EU requirements in various areas influencing business operation, such as services, IT solutions, insurance, environmental technologies, education sector and others.⁵⁶

As to the issue of non-discrimination, it was acknowledged that much depends on the values and culture accepted in countries, for example, there is “no hope of dealing with the issue of non-discrimination between men and women in Afghanistan”. Therefore, engagement should be based on “respect and sensitivity to the local culture and traditions, these factors having a great inertia”.⁵⁷

An entrepreneur who has implemented specific development assistance projects judged that effectiveness depends on the project. “There are projects in which the recipient is not actually interested in the proposed assistance, or the tasks programmed are inaccurate and minor in terms of their importance. In cases where there is both a clear interest of the recipient in the ODA country and clearly defined tasks, there it is possible to prevent existing problems and contribute to effective functioning of the government and to help to develop and implement appropriate policies and train the staff appropriately”.⁵⁸

As to the effectiveness of assistance provided, the self-assessment varies even if the root of the explanation (availability of resources) is common. Some respondents acknowledge that “efficiency is relatively low due to a lack of funds to implement the initiative”⁵⁹ while other respondents judge that “efficiency is sufficient taking into account the little amount of money invested, activities are financially or cost effective”.⁶⁰

There is also acknowledgement that to be able to apply for EU funded projects (EuropAid) the size of the applicant and the scope of activities matters and therefore cooperation is important among different stakeholders - the approach envisaged to apply in the future.⁶¹

⁵⁰ Interview on 29/11/2012 (enterprise).

⁵¹ Focus group discussion on 15/11/2012.

⁵² Interview on 29/11/2012 (enterprise).

⁵³ Focus group discussion 15/12/2012.

⁵⁴ Interview on 12/10/2012 (agency).

⁵⁵ Interview on 29/11/2012 (enterprise).

⁵⁶ Interview on 12/10/2012 (public agency).

⁵⁷ Interview on 12/12/2012 (business association).

⁵⁸ Interview on 13/12/2012 (enterprise).

⁵⁹ Interview on 13/12/2012 (business association).

⁶⁰ Interview on 12/12/2012 (business association).

⁶¹ Interview on 12/11/2012 (business association).

Conclusions

Regarding opinions on **Latvia's progress towards achieving development assistance policy goals**, respondents have replied that apart from direct transfers from Latvia to the budget of EU development cooperation financial instruments, Latvia's contribution is "minimal and mostly moral support".⁶² In other words the contribution is "what is required to comply with the agreements and even a little more".⁶³ There is also a view that Latvia is implementing appropriate measures within the limits of state budgetary constraints⁶⁴. At the same time the measures are not adequately publicized to the general public for the public to be able to see these as a necessity and a priority, especially in the current economic context.⁶⁵ The added value of the measures implemented can be debatable or even regarded as controversial⁶⁶ since the contribution of Latvia is based on an "impenetrable and incomprehensible strategy of public support for those engaged in this policy" as support is not "defined".⁶⁷

As to **challenges faced by the private sector** in meeting development goals, respondents noted the following. Primarily these are bureaucratic complexities and lack of in-house incentive, as well as lack of government interest and lack of in-house capacity. Difficulty in aligning interests and finding common ground and lack of incentive to pursue agreed goals were also noted. Lack of open and transparent access to financial instruments and to relevant policy documents was mentioned as a challenge.

Being more specific on the challenges for the private sector related to development assistance⁶⁸ generally the respondents agree that these are non-participation in policy making, lack of specific financial instruments and incentives, lack of communication, lack of partnership and lack of information.⁶⁹ In addition, excessive bureaucracy related to "the paperwork" is noted as problematic.⁷⁰

Not all respondents agree that there is a lack of well-educated personnel.⁷¹ A challenge in terms of well-educated or appropriately educated personnel was acknowledged to be relevant in the case of implementing development assistance programmes with Africa due to the perception that specific language skills would be required.⁷² For the private sector from Latvia there is no language barrier in Commonwealth of Independent States (CIS)⁷³ countries.⁷⁴

Officials' views are divergent. There are those who consider that private sector challenges are related to lack of well-educated personnel⁷⁵ and lack of capacity.⁷⁶ There are also officials who consider that the private sector does not have a problem of well-educated personnel, instead, missing experience of implemented projects and lack of resources is a challenge – the enterprise has to ask a bank for an additional loan to implement

⁶² Interview on 13/11/2012 (with enterprise).

⁶³ Interview on 12/11/2012 (business association).

⁶⁴ Interview on 16/11/2012 (trade union).

⁶⁵ Interviews on 16/11/2012 and 13/12/2012 (trade union and enterprise).

⁶⁶ Interview on 13/11/2012 (enterprise).

⁶⁷ Interview on 13/12/2012 (business association).

⁶⁸ Non-participation in policy making; lack of specific financial instruments and incentives; lack of communication; lack of partnership; lack of information; lack of well-educated personnel.

⁶⁹ Interviews on 12/11/2012 (business association) and on 16/11/2012 (trade union).

⁷⁰ Interview on 16/11/2012 (trade union).

⁷¹ Interview on 13/11/2012 (business association).

⁷² Interview on 12/11/2012 (business association).

⁷³ Azerbaijan, Armenia, Belarus, Kazakhstan, Kirgizstan, Moldova, Russia, Tadjikistan, Turkmenistan, Uzbekistan and Ukraine, Source: Государства - участники СНГ, <http://e-cis.info/index.php?id=2>, last viewed 26/11/2012.

⁷⁴ Interview on 29/11/2012 (enterprise).

⁷⁵ Interview 09/10/2012 (ministry).

⁷⁶ Interviews on 08/10/2012, 09/10/2012 and 21/11/2012 (ministries).

a project in the area.⁷⁷ One official pointed out the main challenge –a lack of information on development cooperation and the private sector is not involved.⁷⁸

If communication and consultations take place, effectiveness (reaching out to the target audience and cooperation partners) is questioned.⁷⁹ For example, on the Africa platform the message from the public sector was “written in such a way that nothing can be understood - in such complex language that is difficult to tell members of business associations what the benefits will be”.⁸⁰ Therefore, one has to mitigate the existing “miscommunication as no one is to blame”.⁸¹

Participation in policy making by private sector representatives is regarded as fragmented, since involvement takes place only when bilateral cooperation is discussed, but a common strategy is missing.⁸² It is not clear which countries are set to be a priority, and how and on the basis of what criteria support is distributed among the group of countries.⁸³ Everything done by the private sector is done on own initiatives and “government likes that”. However, the representatives of the private sector would expect the government to promote pooling all efforts together with a question: “What can be done there?” for example, in Azerbaijan.⁸⁴ Private sector representatives expect the government to create partnerships.⁸⁵

Recommendations

A special strategy for work with the private sector in the area of development assistance and aid effectiveness would require the following efforts:

1. **To mitigate the existing “miscommunication” between the private sector and public sector.** This would require creation and maintenance by the government of a special active website devoted to development cooperation policy and involving business associations to “translate” the information into a language business understands and to pass the information further to companies thus creating a platform for the public and private sectors to consult each other.
2. **To ensure active and systematic dialogue by the government with companies and NGOs involved in development policy.** This would require provision of both informative, networking and lobbying support from the government during the whole cycle of development policy and calls for tenders, increasing financing (also in the form of “seed money”) and providing export guarantees for development policy in priority areas. This would also require formation of a tripartite cooperation model allowing finding cooperation partners among other EU member states and Latvian experts. EU missions in ODA countries should be more open and responsive to initiatives by private sector representatives.
3. **To involve the private sector in policy planning and policy application, as well as policy revision and evaluation in support of development goals.** This would mean enhancing public-private dialogue on setting medium to long term goals, participation in cross-sectoral working groups, devising country strategy action plans, developing co-financing mechanisms and organizing regular consultations. It would also mean pooling all efforts together in legislation by the government, creating conditions for business operation in third countries and by lifting all kinds of barriers, by supporting Latvian companies’ cooperation

⁷⁷ Interview on 12/10/2012 (public agency).

⁷⁸ Interview on 16/11/2012 (public service).

⁷⁹ Interview on 12/11/2012 (business association).

⁸⁰ Interview on 12/11/2012 (business association).

⁸¹ Interview on 12/11/2012 (business association).

⁸² Interview on 13/12/2012 (business association).

⁸³ Interviews on 12-13/12/2012 (business associations).

⁸⁴ Interview on 13/11/2012 (business association).

⁸⁵ Interview on 12/11/2012 (business associations).

with the private sector from other countries on the industry level and by creating strategic partnerships with different countries for investment attraction.

4. **To ensure a level playing field for all EU member states in the EUROPAID procurement system as a whole.** This would require modifying the EUROPAID competition requirements so as to be accessible for companies from Latvia and other NMS, e.g. promoting transparency, putting emphasis on actual experience and ability to implement high-quality projects, as well as on the interests of project beneficiaries.
5. **To strengthen the role of organized business society in the area of development assistance policy.** This would require the private sector to engage in the work of business associations in order to consolidate interests and for business associations to work together.

Appendix

MAIN SOURCES OF INFORMATION

Surveys, focus group, interviews with representatives of companies, business associations, government institutions; projects with recipients from developing countries; government documents, others.

Interviews with the public sector

1. **Food and veterinary service**
2. Latvian Investment and Development agency (LIAA)
3. Ministry of Agriculture
4. Ministry of Defence
5. Ministry of Economics
6. Ministry of Foreign Affairs

Survey among for-profit companies (questionnaire)

1. 999 Desing
2. Corporate & Public Management Consulting Group
3. Felix Holding
4. JSC "LatLADA"
5. JSC "Valmieras stikla šķiedra»
6. JSC „Baltijas Ekspresis»
7. JSC „Latvijas valsts meži”

8. JSC Grindeks
9. JSC Olainfarm
10. JSC Transport and Telecommunication Institute
11. Latvian Traders Association
12. Ltd „Deiwoss”
13. Ltd „Evi&Jo”
14. Ltd Aloja Starkelsen
15. Ltd Lattelecom
16. Ltd ZAAO
17. Ltd. «Plastikas ķirurģijas klīnika»
18. Ltd. Business & Investment
19. Oskars Kastēns
20. Turība University

Focus group discussion/interviews with the private sector

1. Corporate & Public Management Consulting Group
2. JSC “Baltijas Ekspresis
3. JSC Grindeks
4. Latvian Chamber of Commerce and Industry (LCCI)
5. Latvian Employers’ Confederation (LDDK)
6. Latvian Free Trade Union Confederation (LBAS)
7. Latvian Traders Association
8. Ltd Aloja Starkelsen
9. Ltd. Business & Investment

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POLAND

Introduction

Polish role in international development cooperation has deeply changed during last two decades. Poland gradually, but more and more significantly, moves from the position of beneficiary to the position of donor. Taking into account all EU structural fund for Polish development on one hand and Polish donor's activity on the other hand, one can conclude that Poland is in the middle of transitional period from beneficiary to donor. Limited staff, experience and financial resources make Polish development activity continuing challenge.

Poland started providing development assistance on a larger scale once it joined the European Union in 2004. One can say that the Polish system of development cooperation is still in the making. Its institutional structure, tools, volume and directions are still debated. Some fundamental have been introduced in recent years or are still in progress. Poland therefore can be perceived as relatively young donor and its development activity still contain some open questions. The role of private for-profit sector, i.e. companies, is one of the issues that has not been implemented to a larger scale so far, but also have not been a subject of in-depth debate.

This papers analyses the role of private for-profit sector in Poland's development aid programmes. It starts with an analysis of the main obstacles in involving private sector into development cooperation. Due to extremely limited numbers and projects, it is not possible to provide any numerical data. Therefore the second section of the paper is based on case studies. Each of those selected shows an opportunity to overcome those obstacles in involving private sector into development cooperation.

Business in development aid in the world

In the Western Europe or the USA, having decades of experience in providing development aid, the certain role of private sector is a fact. All the main international documents related to development cooperation refer to the role of business sector. In appears in the Paris Declaration (2005) or Accra Programme (2008) and Millenium Development Goals. The Paris Declaration directly indicates encouraging private sector to involve into aid activities and the international dialogue on aid.

As mentioned, in some Western countries, the role of business in development aid in large, in terms of financial resources. For instance, in case of the USA in 2010 official development assistance (ODA), i.e. the assistance provided by the government to the development counties, amounted in USD 30 billion, and it was lower than the assistance provided by private sector – USD 39 billion. The assistance coming from private companies was USD 7 billion, i.e. one fourth of the government's ODA. The vast majority of this assistance are in-kind donations from pharmaceutical companies and medical equipment manufacturers. However, uncounted

volume of other donations, provided by foundations, charities, churches and individual persons, also originally comes from companies.

In the USA philanthropy is well developed, therefore the European examples can be as follows. In France, that provides annually USD 12 billion of official development assistance, private resources in assistance are approximately USD 1 billion, and companies' input – USD 0,5 billion. In Spain ODA is USD 6 billion annually, private resources USD 350 million, companies – USD 50 million.¹

Finally, as an analysis of the Social Responsibility Business Forum shows, most of the world's largest companies, active in the "companies' social responsibility" field, in their programmes refer to millennium development goals and this activities changes from money transfer into long-term projects connected to the companies' commercial activities profile.²

Poland's international economic activity

In Poland the process of involving private for-profit sector into development cooperation has not yet started. Certainly it is not only related to the development of Poland aid system, but also limited activity of Polish firms abroad and especially in ODA countries.

Poland is a leading outward investor among Central-Eastern European countries that entered the European Union in 2004 and 2007, but in comparison with other countries with emerging markets with similar GDP Polish capital invested abroad is rather limited.³ According to Polish National Bank data Polish direct investments abroad increased rapidly from EUR 0,7 billion in 2004 to EUR 7,1 billion in 2006, than decreased EUR 3 billion in 2008 due to financial crisis and later increased to EUR 5,1 billion in 2011⁴. As regards its geographic distribution, the vast majority of outwards direct investments goes to Western Europe. Among European ODA beneficiary countries, largest recipients of Polish investments are Russia (EUR 140 million in 2011) and Ukraine (EUR 36 million). Outside Europe the largest recipient are the USA and among ODA countries – Kazakhstan (EUR 51,1 million in 2011).

The Polish government's activities related to investments has always been mainly directed into promoting investments in Poland. However, recently more and more attempts are undertaken to support Polish companies in investing abroad also in more distant markets. In 2011 bilateral political visits were initiated between Poland and China.⁵ The Ministry of Economy implements a long-term project "Promoting Polish economy on international markets" in selected countries: Canada, Brazil, Algeria, Kazakhstan and Turkey. Another programme "Go Africa" covers Angola, Kenya, Mozambic, Nigeria i South Africa.⁶ The Ministry has also established the Network of Investor and Exporter Assistance Centers.⁷ However, it is yet to early to assess the effectiveness of those activities.

Besides limited activity of Polish firms in ODA countries, one can identify several other barriers or obstacles in involving firms into development cooperation.

¹ The Index of Global Pilantrophy and Remittances 2012, Hudson Institute, Center for Global Prosperity, 2012, <http://www.hudson.org/files/publications/2012IndexofGlobalPhilanthropyandRemittances.pdf>.

² Renata Putkowska, Prywatny wkład w międzynarodowy rozwój?, Forum Odpowiedzialnego Biznesu, 13.12.2012.

³ See: Polish multinationals go beyond Europe, The Institute for Market, Consumption and Business Cycles Research, Columbia Law School and the Earth Institute at Columbia University, Warsaw and New York, 2012, pp. 13-15.

⁴ Polskie i zagraniczne inwestycje bezpośrednie w 2011 r., National Bank of Poland, Department of Statistics, Warsaw 2013, http://www.nbp.pl/publikacje/ib_raporty/raport_ib_2011.pdf, pp. 48-55.

⁵ In 2011 Polish President Bronisław Komorowski visited China. In 2012 Chinese Prime Minister Wen Jiabao visited Poland. Moreover Deputy Prime Minister Waldemar Pawlak visited China with representatives of Polish business. See Instytut Badań Rynku Kunsumpcji i Koniunktur z 2012 r.

⁶ See: Ministry of Economy, <http://www.mg.gov.pl/node/17510>.

⁷ See: <http://wybor.coie.gov.pl/>.

Private for-profit sector in development cooperation - barriers

Disinterest in pro-social activities of firms

First barrier can be defined as generally low level of interest of companies in activities in favor of society in different forms: CSR (companies social responsibility), sponsoring etc.

One of the fields where the development cooperation activities can be searched are the companies' activities in CSR – companies social responsibility activities. However, it has to be taken into consideration, that although CSR seems to be getting more and more popular, it is not as widespread as one could expect. According to previous research, it is implemented in Poland mainly by foreign companies and by the largest Polish companies.⁸ Other research shows that only 31% of Polish companies' representatives know the term and they mainly perceive it as related to consumer relations, staff relations, companies organization, fair market activity, human rights and environmental issues. Only 11% of respondents indicate social activities as important CSR field.⁹ The last is probably the field where activities related to development aid could be found.

The involvement of companies into development cooperation is so limited, that no numerical data is available. However, the 2011 report by Responsible Business Forum, that contains description of good CSR practices, did not include a single one project related to development or humanitarian aid or any other activity abroad (with exception of two employees of British American Tobacco Poland volunteering in Belarus). This data shows that companies in Poland are generally not very interested in pro-social activities, even more in pro-social abroad activities.

CSR also relates to the impact of companies' activities on local communities in developing countries. The volume of Polish investments in such states is not very high. However, some of them, including those state controlled: Orlen, Lotos, PGNiG, KGHM, invest in sensitive mining sector in countries with weak government's control over for instance working conditions. This can, in some cases, lead to a situation, when Polish enterprises have negative impact on local communities or, on the other hand, active CSR policy can improve the situation of this community or its representatives. Nevertheless, as previous research show, enterprises do not inform the public about their impact on local communities in investment countries, nor it has been independently analyzed, neither when it comes to working conditions of local employees, nor environmental effects of investments. Few of Polish enterprises investing abroad have developed CSR policies in Poland, so they also do not apply it abroad.¹⁰

This disinterest is even more visible when it comes to development cooperation activities.¹¹ Companies do not implement development projects, therefore they are not interested in this topic, they do not understand it and do not see a place for them in this field. A representative of one of the companies described his attempts to establish a platform for Polish companies somehow engaged in development policy. The idea was rejected, because simply there were not firms interested.

The division of places of investing and having marketing results

Another problem in engaging firms into development aid is the division of the place of activity, where the beneficiaries of the development projects are, and the place, where companies have their target groups, i.e. their potential clients, to whom they aim to target their marketing campaigns. Companies would engage, if they saw an added value for themselves and what is the easiest thing to offer, is an improvement in their image

⁸ Polish multinationals go beyond Europe...

⁹ Ocena stanu wdrażania standardów społecznej odpowiedzialności biznesu Zestaw wskaźników społecznej odpowiedzialności w mikro, małych, średnich oraz dużych przedsiębiorstwach, MillwardBrown SMG/KRC, PwC, Warsaw 2011, <http://www.parp.gov.pl/files/74/75/77/13079.pdf>.

¹⁰ P. Mielechow, G. Piskalski, CSR and Polish business on foreign market. Preliminary research results, December 2009, CentrumCSR.PL, Friedrich Ebert Foundation.

¹¹ This low interest has also been confirmed by an attempts to include representatives of companies in our research. We invited approximately 30 Polish enterprises investing abroad and Polish branches of international companies to participate in a focus group interview as well as a later consultation meeting of the preliminary findings of this research. We did not manage to get a single one person to any of the two meetings.

for their clients. If the project, which is to be financed, takes place “somewhere in Africa” and here, in Poland, where the firm has its clients or potential clients, no one will even know about the actions, it is unprofitable.

This can be confirmed by reading annual reports of Polish Humanitarian Action (PAH), the largest Polish NGO in the area of development policy, in the tables indicating the source of financing projects. Private companies finance about one third of PAH’s activity, but almost all those projects are implemented in Polish (for instance in activities related to flood in the southern Poland in 2010 - Ikea, Orange, banks’ foundations, PZU – the biggest Polish insurance company). If there is a project implemented abroad, the list of sponsors include public institutions, international organizations and public collection of donations, but hardly ever companies. Firms also appear when it comes to educational or promotion campaigns or for instance publishing books (with companies’ logos on the cover).

Another problem appears when it comes to Polish branches of international enterprises. Representatives of Polish NGOs confirm, that those branches would not be interested in development project in other countries, due to the fact, that there is another branch of the same company in this country.

Overcoming the barriers – three case studies

Very rare, those barriers can be overcome. Three such case studies, where NGOs managed to involve private for-profit sector into their development activities, are described below.

Polish Humanitarian Action (PAH)

The largest and the most visible non-governmental organization dealing with development and humanitarian aid in Poland is Polish Humanitarian Action (*Polska Akcja Humanitarna*, PAH), established in 1992 by Janina Ochojska. It has developed wide cooperation with for-profit companies, that support different kind of PAH’s projects in different form and themes. According to its staff, resourced from private for-profit companies constitute approximately one third of the whole PAH’s budget, therefore PAH’s cooperation with private for-profit sector can be analyzed as a case-study itself.

PAH has established a number of partnership agreements with companies. One example is a partnership with BP. Anyone, who buys petrol on BP gas stations can become a member of its loyalty programme and collect “points”, that can be exchanged into gifts from BP’s catalogue. Thanks to PAH and BP cooperation the points can be also allocated to support PAH’s so called “Pajacyk” action, instead of receiving gifts. Going into details, 100 points can be exchanged into one dinner meal for malnourished children. The financial resources collected are transferred to PAH monthly. Another example of partnership cooperation with companies, is the one where PAH receives financial support from a company collecting used printing toners.

However, most of these agreements are linked to PAH’s activities in Poland rather than abroad, in developing countries. According to PAH’s fundraising officer and member of board gaining support for this type of activities (crucial in PAH’s strategy) cause particular difficulties. Companies expect to gain image-related effect in Poland, where their customers are, rather than somewhere in the developing world. CSR and similar activities are perceived as marketing related.

There is, however, an interesting example, where marketing aims of the company has successfully been linked with development aid of PAH. That is the water campaign by PAH “Water crisis – our common problem”, that is also the most visible PAH’s joint action with private company. The campaign was launched in 2004 and it had a dual aims: raising social awareness among Poles of problems with excess to drinking water in development world as well as building wells in Southern Sudan.¹²

¹² Detailed description of the action can be found in: Aleksandra Gutowska, „Water for Sudan” action: The cooperation between Polish Humanitarian Action and Polish Bottled Mineral Water Distributor “Polskie Zdroje” – Cisowianka Brand, In: Jan Mihalik, Hearts and Money beyond Borders. Fundraising from individuals for development and relief, 2012, Partners for Democratic Change Slovakia, pp. 123-133.

In 2008 the campaign was joined by "Polskie Zdroje" – Polish distributor of mineral water "Cisowianka", second largest on Polish mineral water market.¹³ It intended to promote its new product, small mineral water bottle (0.33 l). A part (10-25%) of income generated by selling this product was allocated to PAH's activities, building wells initially in Sudan.

Apart from that, Cisowianka launched a marketing action promoting water campaign, new product and its cooperation with PAH. The campaign was widely promoted in the media, also due to cooperation with media house (providing access to billboards), PR company and the media: TVN (the largest private TV channel), Onet (largest information website), National Geographic Channel, Polish Radio and others.

The campaign has been perceived as successful. It was granted several CSR related awards. Moreover its real impact on public opinion has been confirmed by public opinions polls about development aid, annually ordered by the Ministry of Foreign Affairs. The number of Poles recognizing the problem with access to water as the main problem of developing world raised from 37% in 2007¹⁴ to 50% in 2012¹⁵ (the campaign was launched in 2004, but was most visible after 2008).

On one hand, this case shows an opportunity to overcome one of the barriers. The divisions into development activities in Africa (building wells) and educational (and promotion) campaign in Poland, where the sponsor could reach its target group. On the other hand, it has to be taken into consideration, that the real effects in beneficiary countries were limited. The number of wells built within this cooperation was not very impressive. The first wells was built in March 2010. Until the end of 2010 (the end of the project) PAH built altogether 7 wells, that gave a access to clear water to 3500 Sudanese, but they were finances not by Cisowianka only, but also other sources: public donations and resources of other companies (e.g. Electrolux). To compare, during the same period PAH managed to build another 29 wells financed by Sudanese TOTAL, that gave an access to clear water to 19 000 people. Additionally from the European Commission funds PAH repaired 22 wells giving access to water to 11 000 people. This confirms that for the for-profit sector, its activity and marketing in home country is key and the effects in, in this case, Sudan are obtained "by the way".

Aid Pol company

Business involvement into development cooperation can take place not only on non-profit by also for-profit basis. An example – and probably the only such company in Poland is Aid Pol. It is a small company and probably the only Polish firm working in the area of humanitarian and development aid. Aid Pol is a supplier of different kinds of products useful in humanitarian crisis, in refugee camps etc., such as: water tablets and purification kits, cooking sets, ecological fuel (useful for example in large groups of people in refugee camps) and solar kits. Most of the products are manufactured in Poland and at the specific order of Aid Pol and adapted on the basis of experience gained in the field, i.e. the place where the products are to be used.

Although in Poland this type of business activity is something new and extraordinary, it is already well developed market with high competition by Western as well as Chinese or Indian firms.

Aid Pol also undertakes some kind of CSR activities. It enables representatives of non-governmental organizations from Poland participation in conferences related to humanitarian aid products ((International Conference and Exhibition Humanitarian Aid and Development DIHAD 2012 in Dubai). In addition, in some cases it provides its products free of charge in situations such as the crisis in Syria (water purification tablets).

Interestingly, Polish-African cooperation in this field is also possible. New Polish-Kenyan company established by Aid Pol will deliver biodiesel to the United Nations refugee camp in Kenya. Polish side offers its know-how and technology, the production will take place in Kenya from Kenyan biomass.

¹³ Ibid., p 127.

¹⁴ Polacy o pomocy rozwojowej. Wyniki badania przeprowadzonego przez TNS OBOP dla Departamentu Współpracy Rozwojowej Ministerstwa Spraw Zagranicznych, Warsaw 2006, p. 9.

¹⁵ Ibid., p. 23.

In the opinion of representatives of this company, Polish know-how can be valuable in humanitarian aid. Polish firms could therefore be encouraged to enter this market with Polish products and activities in favor of that by the ministry would be welcomed.

Navegadores association

Although the Navegadores association is a small NGO, it presents an interesting and unique model of engaging private companies into development cooperation. The organization is responsible for an idea for the project and its preparation. A company is responsible for financial resources for the implementation of the project. Finally, employees of the company are responsible for directly implementing the project in a beneficiary country for the company's resources and under coordination by the organization. The projects examples are such as: electrification of medical clinics in Ethiopia, equipping women educational and activation center in Morocco.

This model of cooperation between non-governmental sector and business, although implemented on a small scale (however, the last project implemented in 2013 in Morocco involved 130 employees of a company), is an interesting model to overcome the barrier of disinterest of for-profit sector in development cooperation. According to the representative of the organization, the motivations of companies are different, but in each case the firm has to gain some profit from participating in the project. The profits are as follows: public reception of the company (customers and consumers appreciate the socially responsible behavior of a company), market related (business partners can participate together) and internal (integration of employees, image building, employees motivation, solving conflicts).

Recommendations and the future

Poland is still at the beginning of involving private for-profit sector into development cooperation. However, as the establishment of its development aid system is coming to an end after recent reforms, the issue of engagement of private companies can be the next step in developing Poland's development activity.

Some recommendations have already been formulated. For instance: delegating a particular person in the Ministry for Foreign Affairs (dealing also with development cooperation) to deal with cooperation with business; opening MFA's Polish development cooperation programme for projects implemented by firms or private-public partnership in development cooperation, i.e. financial development projects jointly by public and private sector.¹⁶ The MFA recognizes its role in this process. According to information gained from the Ministry's representatives some works have already been started to define the Ministry's role in the process and propose certain activities to engage business into development cooperation system.

However, the above mentioned case studies suggest that the a key factor enabling engagement of business in development cooperation is the cooperation with non-governmental organizations. NGOs can provide ideas and proposals of projects and somehow acquaint firms with development aid. Firms, on the other hand, can provide resources. Additionally, it also has to be taken into account that any involvement of a company to development aid needs it a profit, even when speaking of sponsoring of SCR activities. And a key are companies' relations with its customers. Therefore any mechanisms involving firms into development aid must probably rely on image building and marketing profit for a company. Firm may gain profit either from participating in development project, which can also be advertised, or by supporting recognized NGOs and using its "brand" for company's marketing.

¹⁶ Kamil Kosowicz, Współpraca rozwojowa a biznes – potrzeba rozwiązań systemowych, „Think Tank Magazin” report, Warsaw 2013.

ROMANIA

1. General Introduction

The main trade-related target of MDG 8A, calls for the further development of an open, rule-based, predictable, non-discriminatory trading system. In order for trade to serve as an engine of growth, improvements to the current global trading system are required both on the demand and supply sides. Developing countries need assistance on the supply side to improve capacity and build new skills to produce goods and services and to more efficiently reach global markets. One of the indicators used to measure progress towards MDG 8 is the proportion of ODA allocated to building the supply side and productive capacity of the developing countries, including through Aid for Trade.

Promoting sustainable development in developing countries is a core objective of the Official Development Assistance (ODA), representing the flows of official financing. The EU is the largest ODA contributor but it does not function as a unitary actor on ODA policy, as it does in trade policy. Each member state still fields its own aid management structures, personnel and preferences. Therefore, bilateral development policies co-exist with community policies managed by the EC. In order to increase aid effectiveness and implement the requirements of the Paris Declaration on Aid Effectiveness a better coordination of policies and actions is necessary. Upon accession to the EU new member states (NMS) have made a commitment to meet the specific targets of ODA. Referring to their comparative advantages through the experience of transition to democracy and a market economy NMS put the emphasis on the transfer of transition experience to other post-communist countries, especially on the EU's Eastern and South-Eastern borders, boosting bilateral development cooperation. It is a fact that our countries tend towards development co-operation with countries with which they have either geographical or historical ties, combined with deploying comparative advantages, such as transition know-how, or limiting co-operation to a narrow range of sectors.

To implement and benefit from WTO agreements and to expand foreign trade, developing countries need to develop necessary trade-related skills and infrastructure. The Aid for Trade (AfT) initiative aims to help developing countries formulate and implement trade policies and practices (so called "Trade Related Assistance"), and support developing a wider economic capacity to trade (building trade related infrastructure and productive capacity). Donor countries' activities are considered as Aid for Trade only if they have been identified as trade-related development priorities in the recipient countries' national development strategies.

Civil Society Organizations (CSOs) are seen as distinct development actors, different from donors and governments. Sound economic policies involve a rational balance of responsibilities between the private sector, civil society and the public sector to secure sustained and widespread economic progress. CSOs can help design national strategies, deliver services, defend human rights, participate more actively in development aid.

The 4th High Level Forum on Aid Effectiveness, held in Busan, South Korea (29 November - 1 December 2011) agreed on Busan Partnership for Effective Development Cooperation through which governments, civil society organizations, private sector, local and regional organizations decided to get “united by a new partnership that is broader and more inclusive, founded on shared principles, common goals and differential commitments for effective international development.” Article 32 stipulates the “**central role of the private sector in advancing innovation, creating wealth, income and jobs, mobilising domestic resources and in turn contributing to poverty reduction**”¹.

The 3 researches on CSOs, private sector and Aid for Trade are part of the international project *Update of the current status of implementation of international/bilateral trade regimes with ODA recipients and the current role of civil society and private sector as development players in the new EU Member states* coordinated by the Center for Economic Development Foundation (CED) from Sofia – Bulgaria during January 2012 – June 2013. The project approaches are based on the needs and potential of the CED, its network partners based in the new EU member states and also other related to development national and EU stakeholders to run more effective and structured dialogue on the current status of implementation of MDGs, the 2008 Accra Agenda for Action and the 2011 Busan Partnership for Effective Development Cooperation just 3 years prior the agreed end period of their fulfillment.

The goal of the project is to build transnational alliances between 9 new EU member States so as to capitalize and disseminate their best network and advocacy practices on the occasion of the existent international trade systems with ODA recipients and the role of private and civil society actors as development actors. The project is simultaneous implemented in 9 NMS such as Poland, Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Bulgaria and Romania.

The present research main objective is to study and define the role of the private sector as effective development player in making Development Assistance policies more effective.

The understanding is that if the *private sector* follows the principles of MDG, it will ultimately be contributing to the overall economic, social, and environmental progress in the developing countries. The scope of the research is therefore structured on a twofold level:

1. To highlight the main achievements and challenges of the Romanian’s private sector’s participation in making Development Assistance policies more effective.
2. To propose specific steps to increase the private sector’s capacity as a development player, taking a more active role in the dialogue on development policy setting and improving partnerships with public providers of Assistance for Development’ policies.

2. Methodology

As part of an international team that also includes countries such as Poland, Czech Republic, Hungary, Slovakia, Slovenia, Estonia, Latvia, Bulgaria coordinated by the Center for Economic Development Foundation (CED) from Sofia - Bulgaria, the Institute for Public Policy from Romania has followed a common research methodology elaborated by the Coordinator with some adjustments to reflect the local particularities.

Three such policy briefs have been elaborated by a reputed team of experts coordinated by the Institute for Public Policy in Romania, one of these approaching the private sector’s challenges in the context of the Development Assistance’ goals. The main approach of the methodology included desk research and information collected from the public authorities by disseminating a complex questionnaire elaborated at the international level and translated in Romanian. Important categories of information, including those that directly helped the project team in selecting the sample of countries included in the research, have been provided by the public

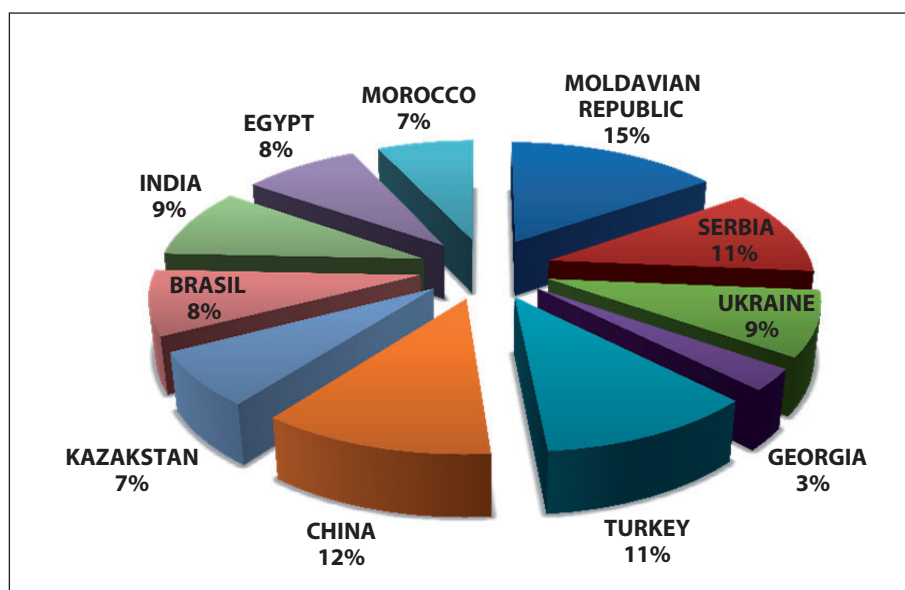
¹ <http://www.oecd.org/dac/effectiveness/busanpartnership.htm>

authorities (Ministries and National Statistics) based on the Romanian legislation allowing citizens to access public data (Law no. 544/2001).

The official data inquired referred to the years of 2010 and 2011.

Thus, in order to objectively select a relevant sample of countries, the team documented the particularities of trade at the level of 10 countries, selected based on Romania's volume of trade/investment - Turkey, China, Kazakhstan, Ukraine, Serbia, Republic of Moldova, Brazil, India, Egypt, Morocco. In order to coherently coordinate the Romanian research efforts to other project's colleagues, the country of Georgia has been also added to the research - this one, alongside with Republic of Moldova and Serbia benefiting *in priority* from Romanian ODA support' contribution.

Chart 1. Distribution of private companies within the survey



A total number of 76 for-profit companies operating in the 11 selected countries mentioned above were included in the survey/documentation activity related to the policy brief drafting. In the end 20 companies answered the questionnaire, 7 refused to complete it and 51 provided no answer despite repeated reminders of IPP.

Apart from the statistical information that has been collected during the months of August - September 2012, the project team also used other important tools such as interviews with the representatives of companies (5 interviews during November 2012) as well as with the Government officials and Embassies (Morocco, Republic of Moldova which responded to IPP's request of meeting) and focus group with representative of the private sector/business associations (on 11th of December 2012). In some circumstance several face to face interviews with the private sector representatives (for-profit companies, business association or experts) were organized.

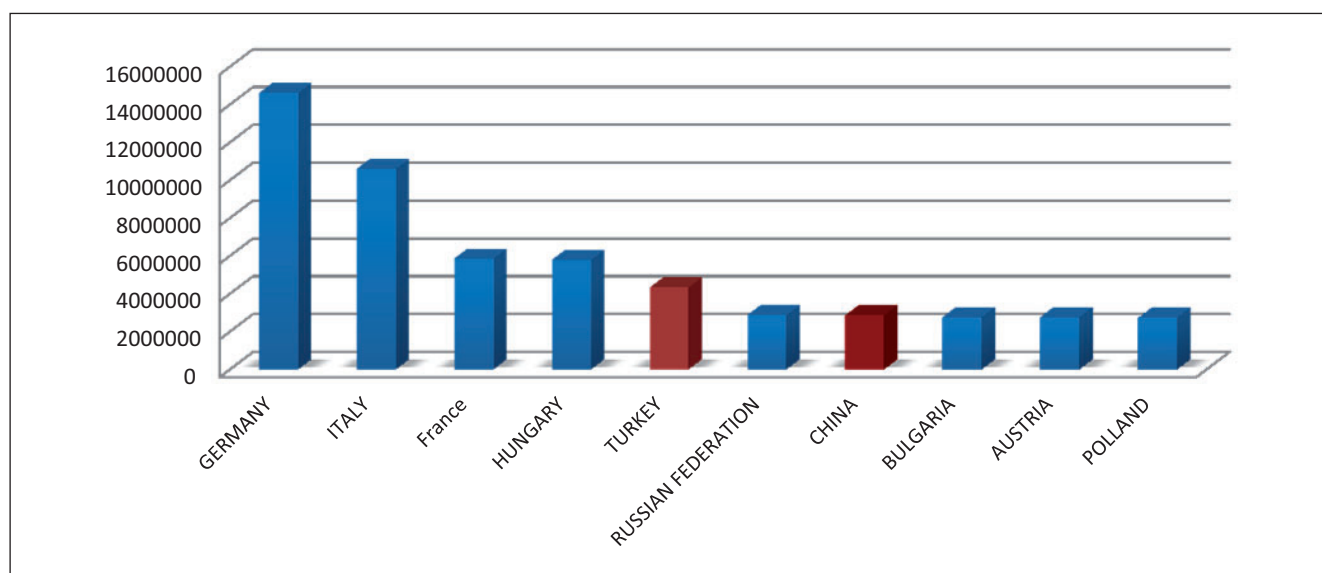
In addition, the research team used secondary sources of information such as previous reports and studies related to ODA policies in general and Romania efforts in particular provided by the Embassies' representatives (especially those of the priority countries) that were also interviewed as by the related Chambers of Commerce' leaders that the team also met and discussed with.

3. Romanian foreign trade and ODA countries

3.1. Romanian trade is mainly directed at the European market

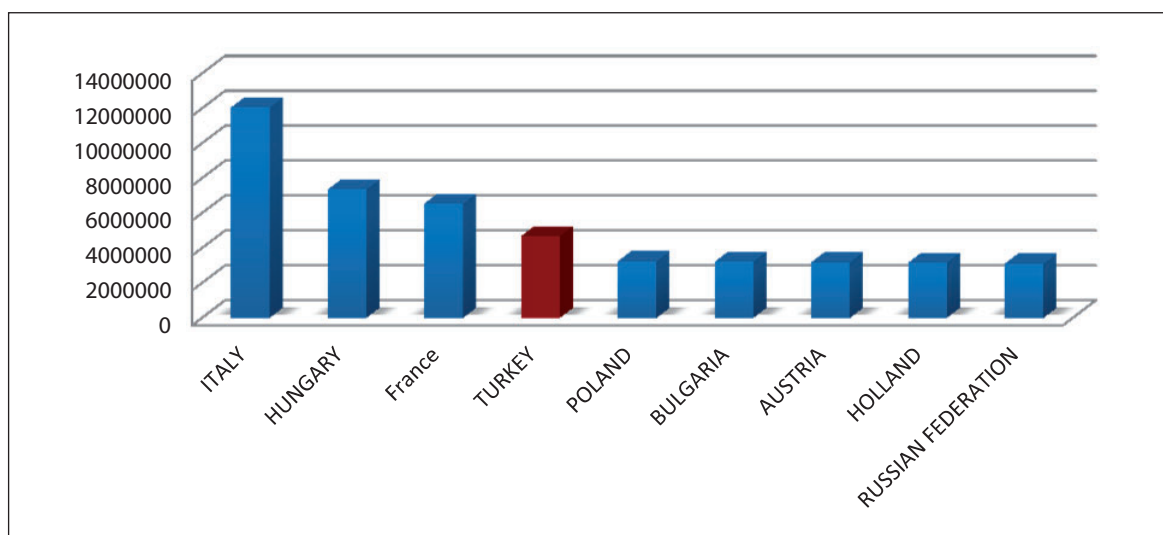
Statistical analysis of Romania's trade volume for the years 2010 and 2011² underlines the net predominance of the EU, especially Germany, Italy, France, Poland, Austria and Hungary. Quantitative data collected by the research team from the National Institute of Statistics (INS) clearly shows the current trade situation.

**Chart 2. ROMANIA : VOLUME OF FOREIGN TRADE 2010
VALUE (thousands euro) ; top ten countries**



Data collected from INS, 2010 – 2011

**Chart 3. ROMANIA : VOLUME OF FOREIGN TRADE 2011
VALUE (thousands euro) ; top ten countries**



Data collected from INS, 2010 - 2011

² Data collected from INS (2010, 2011)

Out of the 11 surveyed countries receiving Assistance for Development, only 2 appear in first positions of Romania trade partners rankings, namely: Turkey, ranking 5th in foreign trade both in 2010 and 2011 and China, ranking 7th in 2010 but no longer on the Top 10 list after 2011.

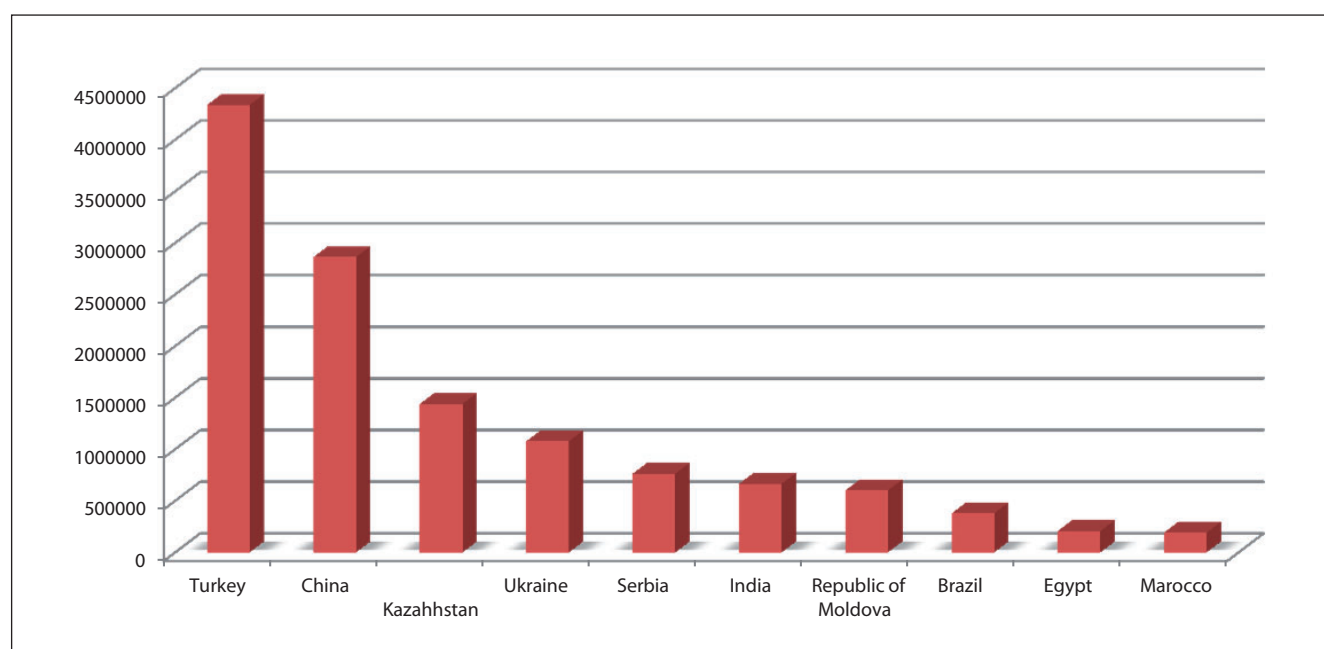
3.2. Romanian trade with the ODA countries: 3 groups of countries

The statistical analysis regarding the volume of Romanian foreign trade (imports and exports) makes it possible to identify the Top 10 ODA recipient countries which are engaged in trade relations with Romania³. However, there are significant differences within these countries judging from the trade volume with Romania at the level of 2010 and 2011.

3 groups of countries could be identified:

- a) Countries engaged in significant trade volume: Turkey holds an unquestionable 1-st place, followed - at a long distance - by China, Kazakhstan and Ukraine;
- b) Countries that Romania has a medium trade volume with: Serbia, India, Republic of Moldova and Brazil;
- c) Countries that Romania is participating in a rather low trade volume with: Egypt and Morocco.

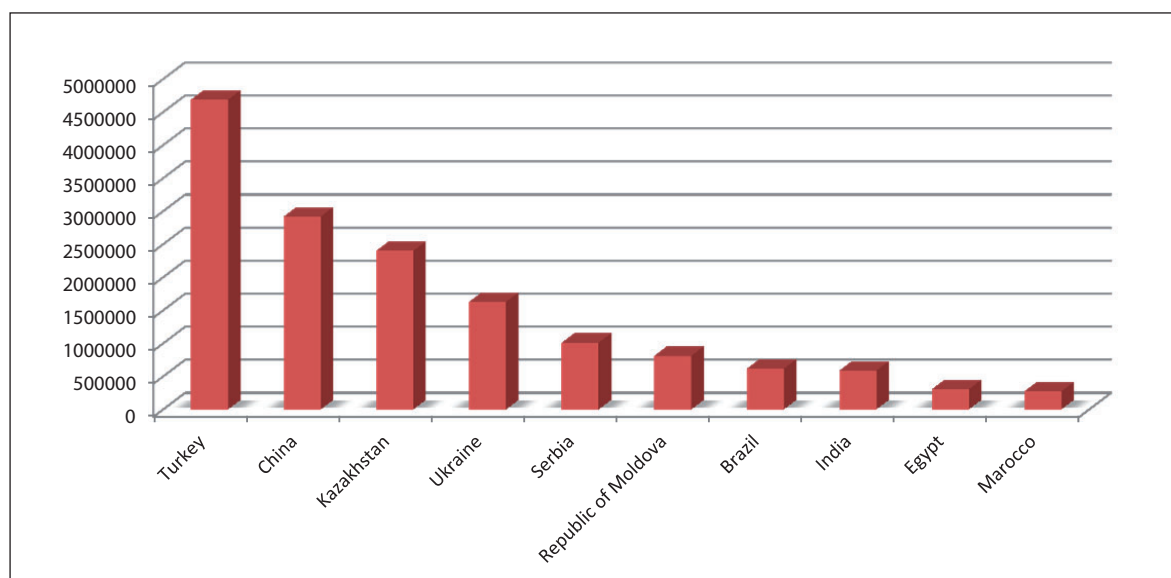
Chart 4. ROMANIA : VOLUME OF TRADE ODA COUNTRIES 2010 - VALUE (thousands euro)



Data collected from INS, 2010 – 2011

³ Explained in the *Appendix* attached to the current report..

**Chart 5. ROMANIA : VOLUME OF TRADE ODA COUNTRIES 2011
VALUE (thousands euro)**



Data collected from INS, 2010 - 2011

Several particular cases are worth to be further taken into consideration in this context.

Egypt is a distinct case: data included in the present analysis comes refers to the years of 2010 and 2011 and it does not take into account the political crisis of 2012 affecting Egypt. Such events may be of influence at the level of the trade regime between Romania and Egypt, likely leading to the exclusion of Egypt from the Top 10 ODA countries with which Romania maintained trade relations in 2012.

A second specific case is the Republic of Moldova. The trade volume, however, places the Republic of Moldova in the Top 10 ODA countries maintaining economic relations with Romania. Arguably, elements such as geographic, language and cultural proximity explain this particular situation. The Republic of Moldova is similarly the main beneficiary of the Assistance for Development granted by Romania, during the last years, through various institutional ways.

Eventually, the Georgian case can also be highlighted. This country is not within the list of the Top 10 ODA countries that Romania maintains trade relations with but has been included in the current survey for the coherence of the global approach (other international partners of the current research project took Georgia into consideration too). In terms of its volume of trade with Romania, Georgia holds the 13th position in 2011, respectively 14th in 2010, having a trade volume closed to the one of Morocco⁴ also taken into consideration.

4. Role of the Romanian private sector in Development Assistance and Cooperation

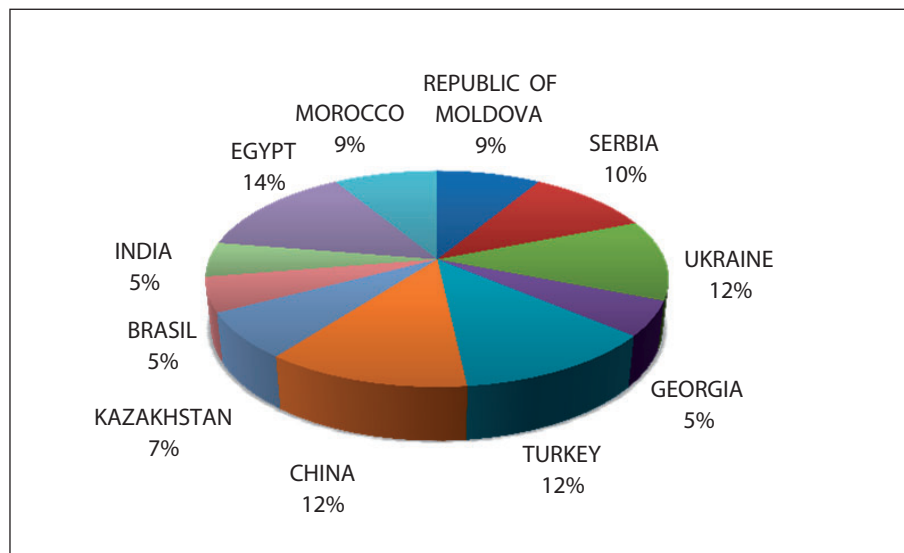
4.1 Romanian for-profit companies: presence in ODA countries and areas of activities

Apart from collecting information from the official sources, the project also used a very important complementary source of data, by drafting and disseminating a complex questionnaire that has been equally disseminated in all countries included in the project for comparison purposes.

The for-profit companies responding to the Survey are operating in all the 11 ODA countries (see Chart bellow).

⁴ It refers to the ranking of trade volume between Romania and ODA countries. See trade volume in tables from the Appendix.

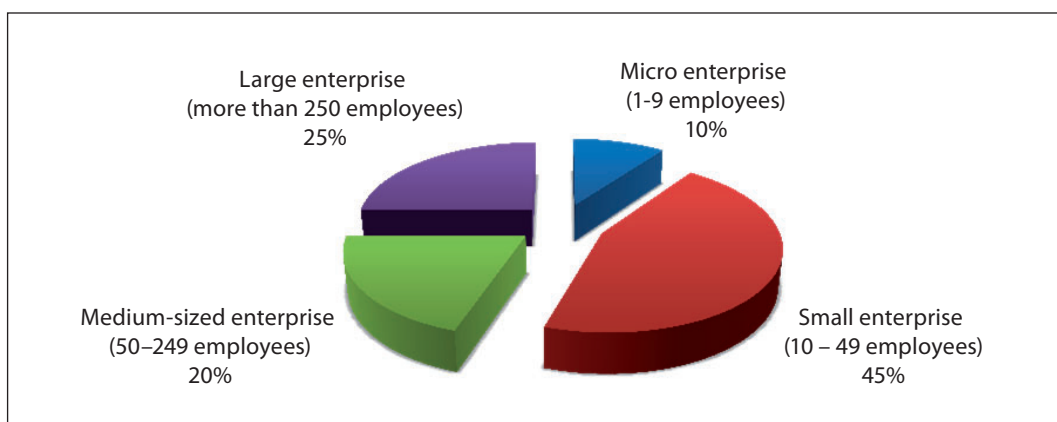
Chart 6. Implementation or business activities of for profit companies in ODA countries



IPP Survey Data, 2012

The companies responding to the Survey are quite equally balanced as far as concerns the number of their employed persons: 55% are micro and small enterprises and 45% large and medium-sized enterprises. We underline nevertheless the importance of medium-sized enterprises which account 45% of the sample.

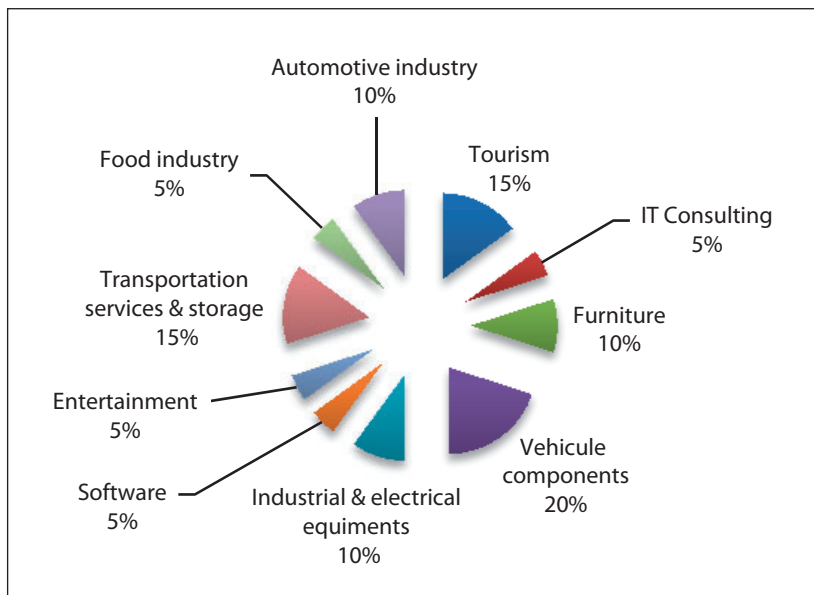
Chart 7. Size of companies that answered the Survey : total number of employees



IPP Survey Data, 2012

The fields of activity of the companies that answered the Survey are on purposely quite diverse to have a representative conclusion of their experience in the end. A majority of these companies is involved in trade (export or imports) in various sectors: furniture, vehicle components, food, rubber and plastic manufacturing, electrical equipment, etc.; those are followed by transportation services, tourism and consulting services. The bellow chart clearly show the distribution of fields of interest in the foreign trade between Romania and the selected countries.

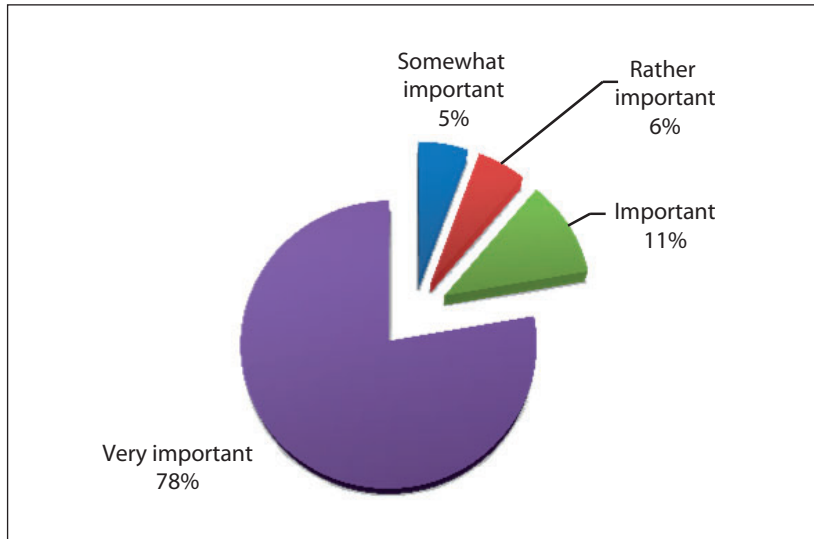
Chart 8. Areas of activity of the companies that answered the Survey



IPP Survey Data, 2012

A large majority of the for-profit companies that answered the Survey considers that *the local business is very important to their operations* (78% of them comparing to 22% that consider it important/rather important/somewhat important). This importance is related first of all to the achievement of their business goals.

Chart 9. Importance of local businesses in companies' operations?



IPP Survey Data, 2012

4.2 Romanian for-profit companies: direct and indirect contribution to development

The Romanian private sector's contribution to the Development Assistance in the beneficiary countries is of two types:

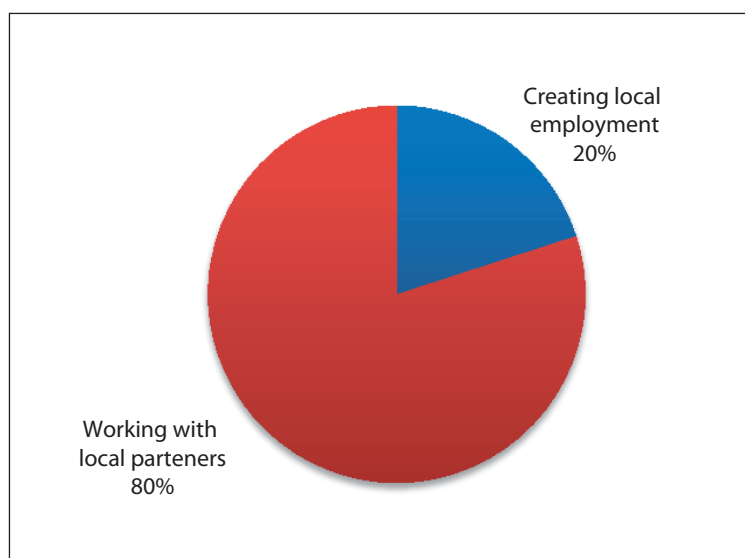
- a) **Direct contribution to development:** linked to companies' capacity to create employment in the beneficiary countries. Employment can also generate better living conditions, especially if it is stable and includes social services (e.g. food vouchers, transportation, daycare for children, vocational/in-house training, support for schooling) and social security (medical care, health insurance, maternity benefits, occupational pension schemes, paid holidays, etc.).
- b) **Indirect contribution to development:** linked to local partnerships or services that the company uses (local producers or providers, use of the services or products on the local or nationwide market, etc). This contribution can also generate employment and better living conditions in the beneficiary countries, though indirectly.

Few commentaries about these two types of assistance will follow.

a) In terms of direct contribution to development in the beneficiary countries

Although many of the answering companies are already involved in trade, their direct contribution in creating local employment is only of 20%.

Chart 10. Direct contribution : local employment



IPP Survey Data, 2012

On their turn, the large companies claim that they favor full-time employment contracts; the medium sized-companies generally work on short-term contracts.

They all claim that their employees benefit from social security services, according to local employment legislation (mainly medical care, health insurance, pension, paid holidays), though they provide no other social service, like housing support, transportation, food vouchers, support for schooling, daycare for children or kindergarten, etc.

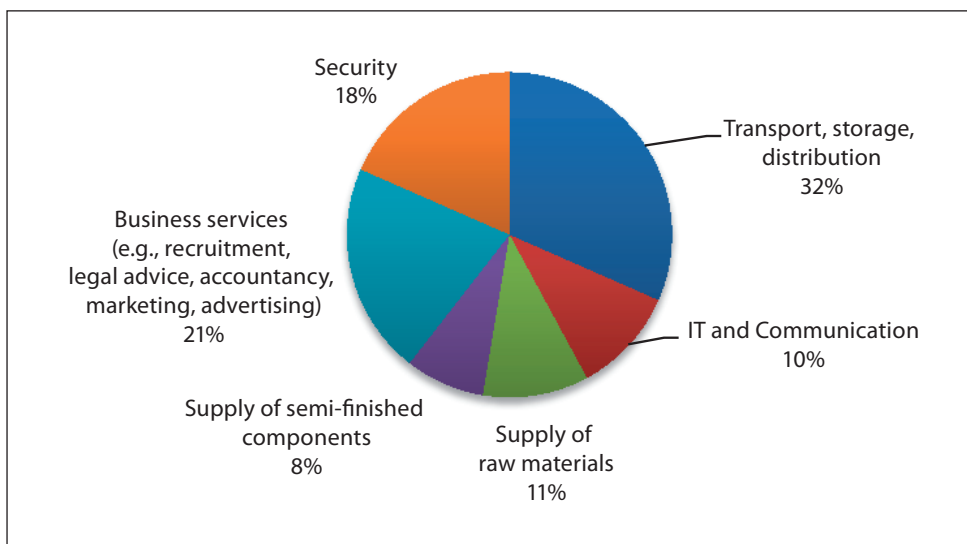
Furthermore, the companies answering the Survey don't have particular initiatives in promoting women in their local employment policies nor a specific ethical code (except from the internal company code).

b) In what concerns the indirect contribution to Development in the beneficiary countries

The forms of indirect contribution are various and seem quite important: use of local producers and providers, uses of services linked to business activity, uses of different products or services on the local or nationwide markets of the beneficiary countries.

Concerning the use of local producers (creating implicitly local jobs), one third of for-profit companies that answered the Survey use transportation, storage and distribution services; the second place is occupied by business services (21%) and the third by security issues (18%); communication, supply of raw materials and semi-finished components come on last places.

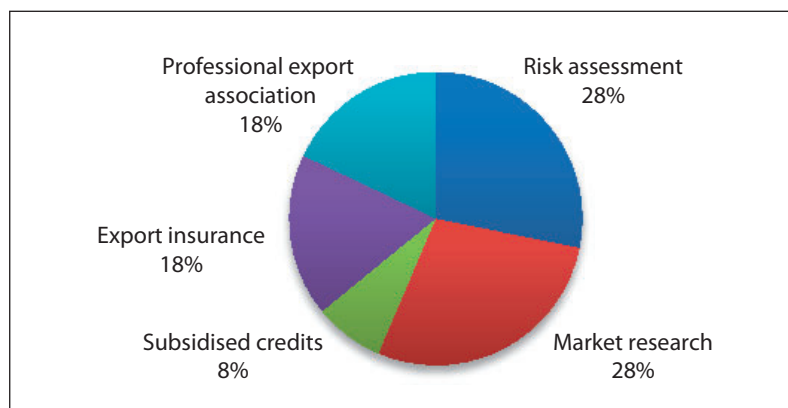
Chart 11. Use of local producers/providers in the beneficiary countries



IPP Survey Data, 2012

The most important services used by the Romanian private sector that stimulate indirectly the national economy of ODA countries are those linked to risk assessment (28%) and market research (25%). These are followed by the use of professional export associations (18%) and export insurance companies (18%); subsidized credits come on the last place (8%).

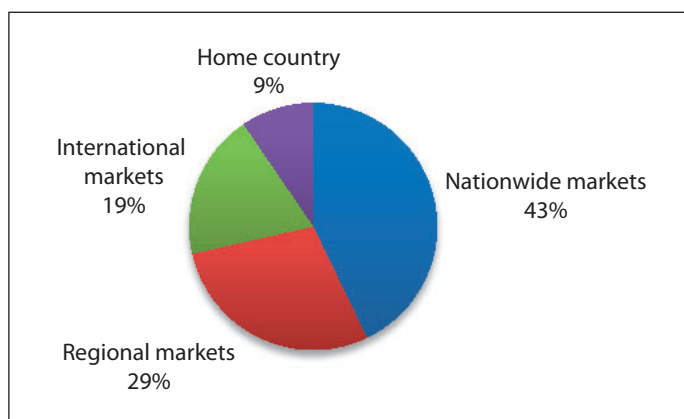
Chart 12. Use of professional services in the beneficiary countries



IPP Survey Data, 2012

Concerning the destination of the products and services produced in ODA countries, it seems that the national markets (43%) and the regional markets (29%) are the most important destinations. The international markets account of 19% and the home country market appears as secondary (9%).

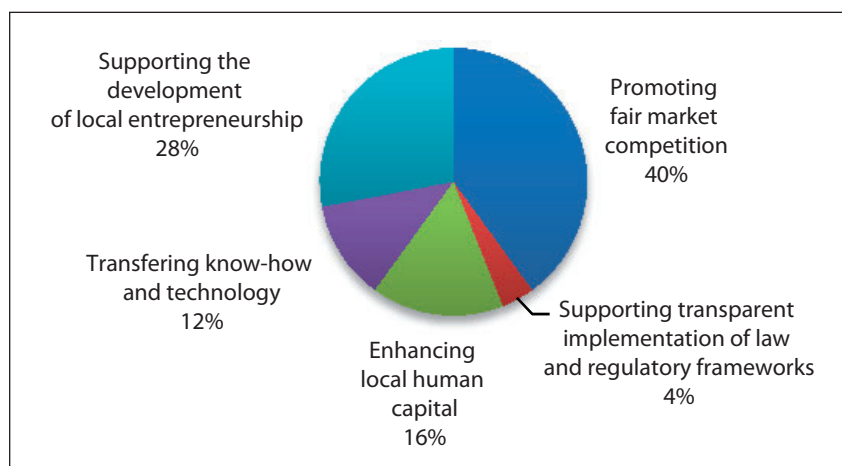
Chart 13. Where is the majority of your products and services sold or delivered?



IPP Survey Data, 2012

Concerning the for-profit companies' assessment of their own contribution to Development, 40% of them consider that the most important effect of their activity is to *promote a fair market competition*; 28% consider that their activity directly supports the development of local entrepreneurship. Only 16% of the interviewed for-profit companies estimate that their activity can have a positive contribution to transfer of know-how or enhance local human capital; transferring know-how and technology counts for only 12% and supporting transparent implementation of law and regulatory frameworks for 4%.

Chart 14. Indirect contribution of the private sector to development



IPP Survey Data, 2012

The private sector does not seem to consider itself as a major development player in ODA countries; the for-profit companies interviewed did not take into consideration the indirect effects involved by their local operations. Unfortunately the indirect contribution to development is difficult to precisely assess in financial terms or from the point of view of employment creation.

5. Development assistance effectiveness & the private sector

5.1 Romanian private sector: insufficiently informed or associated to development assistance program

Romania has recently become a donor country in the Assistance for Development program. Until 2007, when Romania joined the European Union, Romania was a beneficiary country. This change of status seems difficult to assume both for governmental institutions and apparently for the private sector too. Furthermore, the funds allocated by Romania in the assistance for development program remain quite modest (around 3 millions €) in comparison to Germany (around 10,452 millions € in 2011⁵). The funds are mainly directed to priority countries amongst which the Republic of Moldova holds an important place.

Concerning strictly the private sector, it appears to be difficult for the private companies to adopt the position of a contributor to Assistance for Development, as long as their main purpose remains attached to making profit and very rarely aims to developing the countries where they are operating. At the same time, the interviews and the discussions at the focus groups clearly showed that the private companies strongly believe that they are not informed (or not *sufficiently informed*) about the implementation of any governmental programs for Development.

This situation is not unusual. The Romanian private sector operating in foreign countries, especially the small and medium enterprises, acts most of the time autonomously. Representatives from the Ministry of the Economy indicate that Government funding cannot cover the entire scope of the Developing countries effectively. For example, only 4 countries on the African continent have a Romanian Economic attaché, due to the scarcity of funds. As such, data concerning significant opportunities for Romanian companies from regions of Africa that are not covered by these offices (such as infrastructure or natural resources processing projects), is not dispatched through institutional channels. Consequently, the Romanian business community is depending on local individually developed contacts in order to gather information, while the only connection with the administration remains occasional, strictly limited to participation in public tenders (posted on the web site of the Ministry of the Economy).

This situation is specific to the period after 1989 as during the Communist regime Romania had a very strong and effective presence in the African countries (mostly in infrastructure projects). Private capital, re-emerged after 1990, didn't have the ability or the financial means to maintain a Romanian presence on the African markets.

Another interesting situation concerns the Republic of Moldova. Given the geographic, linguistic and cultural proximities, the Romanian business environment is indeed more interested in entering the Moldavian market. Romanian official policy encourages uppermost initiatives in this direction. Yet, governmental projects suffer from significant backlog or do not eventually materialize in tangible support for companies. Consultations held with representatives of the business sphere show that private companies already interested in expanding their businesses in the Republic of Moldova are not aware of any Assistance for Development dispatched by Romania for the Republic of Moldova. Yet, they would be interested to share these projects especially if there would be opportunities to access specific funding in order to strengthen these ties for mutual benefits.

5.2. The Romanian private sector's interest to become a Development assistance player

Discussions with representatives of the private sector indicate that businesses could be interested in involving themselves in the implementation of the Assistance for Development programs on several conditions:

a) The main interest for the business sector is to access funding (non-refundable funds or loans).

As much as funds could be granted, that can be accessed directly by the private sector or through public-private partnerships, private companies would be interested to make an effort to invest in projects likely to contribute to the development of the ODA countries (such as job creation, know-how transfer, etc.).

⁵ http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/germany-donor-profile.pdf

b) The business sector should become aware of its development capacity for improving ODA countries environment (directly or indirectly).

Currently, the business sector does not see itself as a major part of the Development process. Communication regarding assistance for development programs should emphasize in the direct and indirect ways through which the business community can contribute to the development of countries where it operates.

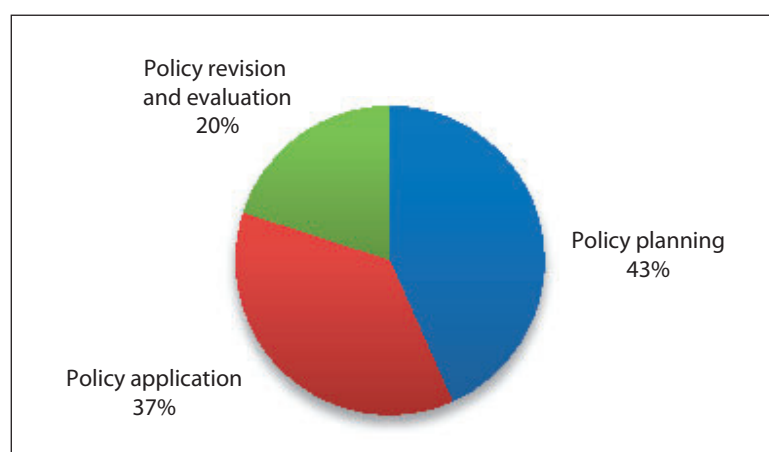
The input of the Romanian business community to the Assistance for Development programs can be also reinforced on the long term through association with the corporate social responsibility concept. This idea emerged in Romania by 2007-2008 and was firstly assumed mostly by local branches of the corporate groups present in Romania. The extent of this concept is experiencing a slump nowadays because of the economic crisis and funds scarcity. Yet, on the long term the corporate social responsibility can be reinforced and also adopted by the small and medium enterprise sector, especially if motivated through financial incentives and pressure from public opinion.

c) The private sector needs to be better informed and associated to the implementation of assistance for development programs in order to be interested in participating.

Actually a large majority of Romanian private sector's representatives claims that for-profit companies are not sufficiently informed nor associated to the Development Programs or to the implementation of Assistance for Development policies. On the other side, the Ministry of Foreign Affairs assumed collaboration with the Romanian Chamber of Commerce in this respect but the companies' feed-back was negative or almost inexistent.

Companies do express the need to be assisted in business operations in beneficiary ODA countries and show their availability to participate to private-public working groups in order to develop the strategy and define concrete objectives for the Program. 43% of companies participating in the current research implemented prior to drafting the current report say that the private sector should be associated in the policy planning stage and 37% that the private sector believe that it should play an active role in the policy enforcement phase.

Chart 15. How might the private sector work better with the public sector to support the previous goals?

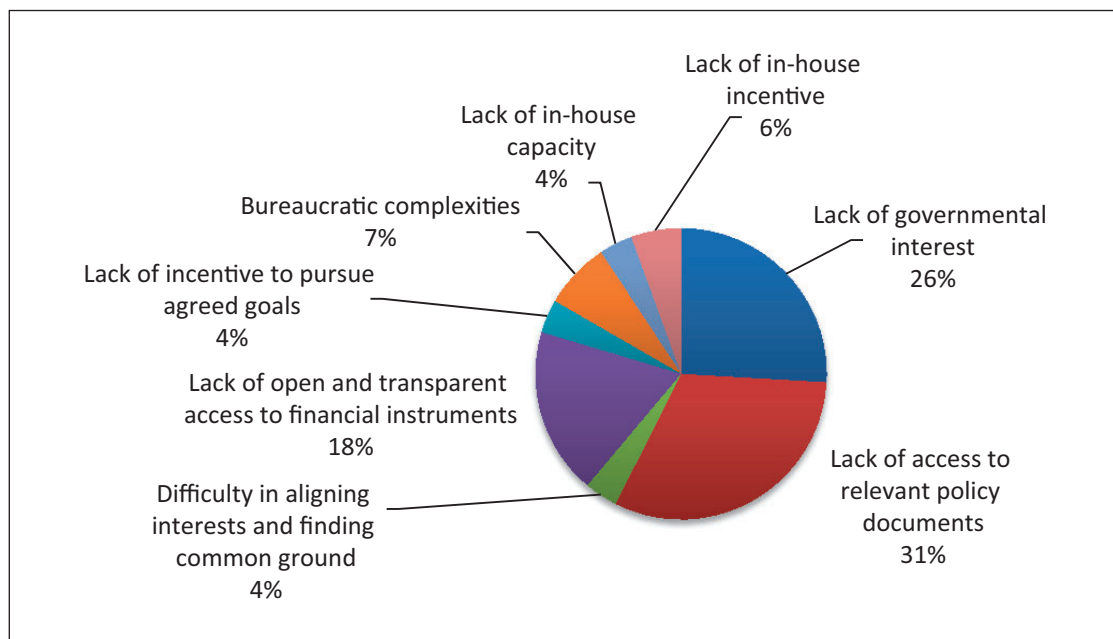


IPP Survey Data, 2012

According to private sectors' representatives the main challenges for a more active implication of private companies in the development and application of assistance for development programs are first of all the lack of access to relevant policy documents and the lack of governmental interest in really involving them in the process. The lack of access to financial instruments and the overall level of limited transparency on the

governmental come on third place, as importance for the private sector. It is important to underline that 2 large companies that are already involved in ODA program actually refused to answer to our questionnaire, arguing that they do not wish to criticize Government's institutions or activities in the field.

Chart 16. Challenges for the private sector in participating to development policy elaboration and application



IPP Survey Data, 2012

Furthermore, all answering companies to IPP Survey claim that they do not know about ODA Assistance or they use other programs such as: IPA, INTERREG, ENPI and IGAD (for Asia and Africa) in their activity. In brief, discussions with private sectors' representatives in face to face meetings underline that the private companies are not sufficiently informed about the financial instruments and objectives of these Programs.

6. Main Conclusions and Recommendations

Though the Romanian private sector does not perceive itself as a development player, it does contribute to development in the 11 beneficiary countries taken into account by the study, both directly and indirectly.

Direct contribution appears as minor. Only 20% of the companies answering the survey actually create local employment. And when local employment is created, private companies limit themselves to strictly respect the local employment legislation, without promoting any particular initiatives in this field, able to improve the local standards of living.

The indirect contribution is more important. It is materialized in various forms rather equally balanced: use of local products and services (transportation, security, communication, etc.), delivery of products and services on local and regional markets, stimulation of local entrepreneurship, transfer of know-how. Unfortunately, the indirect contribution to development is difficult to assess in statistical terms (financial, number of employment created, etc.), but such a task should be envisaged by the Romanian policy makers in the future.

The Romanian private sector does not see itself as a development player in the beneficiary countries, but would be interested to get involved in Assistance for Development programs provided that stimulates business.

Companies are interested, first of all, in making profit. If Assistance for Development programs propose specific objectives and conditions for the private sector, able to stimulate their business, Romanian private sector would be ready to get involved in this type of projects.

The main need expressed by representatives of the private sector regards access to finance (non-refundable grants, credits). Insofar access to finance is facilitated - the private companies would be interested in adopting direct contribution development goals (creating local employment, promoting the equality of genders in the corporate employment policy, etc.).

Communication on assistance for development programs should be definitely improved, at national level and particularly targeting the Romanian private sector.

If business involvement in Assistance for Development programs is targeted, the approach should be as concrete as possible, in terms of objectives and opportunities. The communication should aim at using specific business channels: trade unions, business associations, Chambers of commerce, etc. The Chambers of commerce, for example, are particularly involved in foreign business activity as they gather information about the opportunities on the national and regional foreign markets, information that was already identified by the Ministry of Economy.

Furthermore, the Ministry of Economy should play a more important role in the communication concerning assistance for development objectives and concrete opportunities (conferences, seminars targeting the private sector). A more effective coordination between the Ministry of Economy and the Ministry of Foreign Affairs is expected in order to give a new more effective dimension of the Assistance for Development Programs that Romania is initiating/coordinating.

Appendix

COUNTRIES	ROMANIA : VOLUME OF TRADE ODA COUNTRIES 2010 – VALUE (THOUSANDS EURO)
Turkey	4337118
China	2863252
Kazakhstan	1440323
Ukraine	1078429
Serbia	764268
India	665555
Republic of Moldova	601276
Brazil	379096
Egypt	208701
Marocco	192801
Algeria	174367
Siria	160806
Libanon	158209
Georgia	156872

Data collected from INS, 2010

COUNTRIES	ROMANIA : VOLUME OF TRADE ODA COUNTRIES 2011 - VALUE (THOUSANDS EURO)
Turkey	4689741
China	2920052
Kazakhstan	2403142
Ukraine	1629085
Serbia	1011787
Republic of Moldova	813176
Brazil	618537
India	589188
Egypt	306731
Marocco	275544
Iran	269640
Algeria	207890
Georgia	206822

Data collected from INS, 2011

Online References

European Commission

http://ec.europa.eu/europeaid/what/development-policies/financing_for_development/documents/germany-donor-profile.pdf

Romanian National Institute for Statistics -

<https://statistici.insse.ro/shop/>

Busan Partnership for Effective Development Cooperation

<http://www.oecd.org/dac/effectiveness/busanpartnership.htm>

SLOVAK REPUBLIC

Introduction

This study analyzes the participation of the private sector in the Official Development Assistance of the Slovak Republic (hereafter Slovak ODA, or the official name *SlovakAid*). It reviews the strategic and institutional framework of Slovak development policy, including programming documents and respective national legislation, with a focus on the role of the private sector within Slovak ODA. Tracing the reports of the administrative and contracting units of Slovak ODA – the Slovak-UNDP Trust Fund (2003–2008), the Bratislava-Belgrade Fund (2004–2006), and the Slovak Agency for International Development Cooperation (hereafter SAMRS)¹ since 2007 – the study analyzes statistical data on the involvement of the private sector in Slovak ODA. In addition, it examines those development projects implemented by Slovak private companies through the application of the OECD-DAC Sector Classification, with the aim of identifying the sectoral focus of their development activities. The examined period includes the years 2003–2011.² It should be noted that this study analyzes statistical data concerning the participation of private companies within the bilateral ODA of the Slovak Republic, i.e. it does not include data on the activities of the Slovak private sector within the multilateral component of Slovak ODA, or within the development programs of other donors.

In addition to the research of primary sources, the findings of this study are based on a survey conducted via questionnaires distributed among representatives of Slovak governmental agencies dealing with ODA (Questionnaire A), as well as representatives of private companies that have implemented at least one project within Slovak ODA during the period 2003–2011 (Questionnaire B). In order to identify the development activities of Slovak companies within recipient countries of Slovak ODA – including in the fields of employment policy, social responsibility, and support for local development – we have interviewed Slovak private companies that have trade relations with and/or business activities in selected recipient countries (Questionnaire C). Finally, questions aimed at assessing the involvement of the private sector in development policy – including challenges faced by private companies and their policy recommendations as to how to strengthen the private sector's participation in development aid – have been included in the two questionnaires directed at private companies: questionnaires B (private companies with experience in the implementation of Slovak ODA projects) and C (private companies having business relations with or within ODA recipient countries).³

¹ See the website of the SAMRS agency (Slovenská agentúra pre medzinárodnú rozvojovú spoluprácu): <http://www.slovakaid.sk/>.

² The examined period is the year 2011, since the annual report of SAMRS on 2012 covering developments within Slovak ODA, including the participation of the private sector, was not yet available at the time of finalizing this study.

³ The questions included in all the questionnaires are identical to those that have been agreed to within the project research team as comprising model questionnaires for representatives of governmental agencies and private companies, as well as a model questionnaire on trade regimes. The one minor exception is our Questionnaire B for private companies with experience in the implementation of development projects within Slovak ODA, in which we have included specific additional questions in order to investigate the assessment of Slovak private companies as to the functioning of the Slovak ODA.

The total number of questionnaires distributed to representatives of Slovak governmental institutions who are active in the field of Slovak ODA (Questionnaire A) was 15, of which five questionnaires were consigned to representatives of central state institutions, e.g. the Slovak Ministry of Foreign and European Affairs (MFEA of SR – Section of Economic International Cooperation, Department of Development Assistance, and the Third Territorial Department), the Slovak Ministry of Finance (Section of International Affairs, Development Cooperation Department), and the Slovak Agency for International Development Cooperation (SAMRS). In addition, Embassies representing the Slovak Republic in selected recipient ODA countries were invited to fill in the questionnaire – for example, Slovak Embassies in (or responsible for) bilateral relations with Ukraine, Serbia, Belarus, Vietnam, Bosnia and Herzegovina, Tunisia, Egypt, Kazakhstan, Macedonia, and Moldova. The selection of the above ten ODA recipient countries – as well as other Slovak Embassies for the research purposes of this study – has been made on the basis of the agreed research criteria, for example the ranking of recipient ODA countries by volume of bilateral trade turnover with the donor country within the period of 2004–2012.⁴ In addition to the central ODA institutions (MFEA of SR, MF of SR, and SAMRS) we have also included representatives of Slovak Embassies in the survey, due to the fact that they play an important role in the institutional system of Slovak ODA. First, they participate in the process of Slovak ODA policy planning, as well as in the approval of development projects for their respective recipient countries, and in the monitoring of the implementation of approved projects. Second, Slovak Embassies in selected ODA recipient countries operate the micro-grants program, which is also a part of Slovak ODA. The total number of filled in and returned questionnaires, which allow for an assessment of the perspective of representatives of Slovak governmental agencies as to the involvement of the private sector in development aid, was seven.⁵

As a result of our research of primary sources – e.g. the reports of the administrative and contracting units of Slovak ODA (Slovak–UNDP Trust Fund, Bratislava–Belgrade Fund, and SAMRS) – we identified 35 Slovak private companies that have implemented at least one project within Slovak ODA during the period 2004–2011. Thanks to the Business Register of the Slovak Republic, operated online by the Slovak Ministry of Justice, we were able to retrieve their current or last available contact data.⁶ Thus, the total number of distributed questionnaires for this group of respondents (Questionnaire B: private companies with experience in the implementation of ODA projects) was 35. The number of filled in and returned questionnaires was seven. Five of the seven companies interviewed were micro enterprises (1–9 employees), one was a small enterprise (10–49 employees), and one a medium-sized enterprise (50–249 employees). They indicated the following as areas of their business activity: business services (consulting, project development, marketing and advertising), agriculture, water supply, waste management, textile and clothing, public relations and media.⁷

With the aim of investigating the development activities of the Slovak private sector within ODA recipient countries, we have identified 61 Slovak private companies having trade relations with and/or business activities within the selected Slovak ODA recipient countries.⁸ Thus, the number of questionnaires distributed to this group of respondents (Questionnaire C: private companies having trade relations with and/or business activities within Slovak ODA countries) was 61. The number of filled in and returned questionnaires was 14. As to their size, seven of the 14 companies interviewed indicated that they are micro-enterprises (1–9 employees), four companies were small enterprises (10–49 employees), two companies medium-sized enterprises (50–249 employees), and one company a large enterprise (more than 250 employees). The interviewed companies indicated the following as areas of their business activity: agriculture, water and waste management, engineering, consulting and project development, manufacturing (rubber and plastic, textiles and clothing),

⁴ See Attachment 1. The total number of recipient countries of Slovak ODA within the period 2004–2011 was 26. In addition to the above selected 10 countries, the following countries have also been recipients of Slovak ODA within the examined period: Afghanistan, Albania, Cambodia, Cuba, Burma (Myanmar), Ethiopia, Georgia, Haiti, Kenya, Kirghizia, Mongolia, Mozambique, Montenegro, Sudan, Tajikistan, and Uzbekistan.

⁵ See Attachment 2 (Questionnaire A). It includes cumulative data tabulated from the answers of representatives of Slovak governmental agencies participating in the system of Slovak ODA.

⁶ The *Business Register of SR* is available online: <http://www.orsr.sk/Default.asp?lan=sk>.

⁷ For cumulative data processed from Questionnaire B (private companies with experience in the implementation of ODA projects) see Attachment 3.

⁸ The data on Slovak companies trading with and/or doing business within Slovak ODA recipient countries was collected first of all thanks to the kind support of the Slovak Embassies within their respective ODA countries, as well as due to our own research conducted via interviews with representatives of business associations and other available sources of information.

transportation services, information services and media, wholesale and retail trade. All of them stated that they have active business relations with ODA recipient countries at present. Five of the 14 companies interviewed said they have been active in their respective business relations for more than one year (2011–present), one company more than two years (2010–present), two companies more than four years (2008–present), one more than five years (2007–present), four more than nine years (2004–present), and one more than ten years (2002–present). Nine of the 14 companies interviewed said they run subsidiary enterprises in ODA recipient countries in co-ownership with local business partners.⁹

The questions regarding the perspective of the Slovak private sector as to potential improvements in development policy, including the private sector's more active involvement, were part of the questionnaires for both groups of business respondents. Thus, the number of private companies interviewed concerning the matter of the further development of ODA was 21. They consisted of the above mentioned two subgroups: first, seven companies with experience in implementing projects within Slovak ODA (Questionnaire B), and second, 14 companies having trade relations with and/or business activities within Slovak ODA recipient countries (Questionnaire C). As to their legal form, 13 of the 21 companies interviewed were Ltd companies, seven companies were PLC (joint stock companies), and one respondent was a business association. They indicated the following as areas of their business activity: services (consulting, marketing, project development, and advertising), wholesale and retail trade, agriculture, water supply, waste management, engineering, manufacturing (rubber and plastic, textiles and clothing), transportation services, information services and media, and wholesale and retail trade.¹⁰

Thus this study is based, first, on the research of primary sources of information (official documents and legislation); second, on the research of secondary sources of information (expert discourse); and third, it draws from a structured survey of the assessments of representatives of both the governmental and business communities of Slovakia as to the role of the private sector in development aid. In its final part, this study, first, sums up the main findings of the research on the participation of Slovak private companies in development aid, and secondly, it outlines policy recommendations for strengthening the private sector's involvement in development aid.

Strategic and institutional framework

The launch of the existing, institutionalized form of Slovak ODA dates back to 2003. With Resolution no. 432 of 5 June 2003, the Slovak Government approved the "Medium-Term Strategy for Official Development Assistance: 2003–2008," including the goals, principles and mechanisms of Slovak ODA. Beginning in 2003, the Slovak Ministry of Foreign Affairs took possession of specific budget allocations for ODA.¹¹ Prior to the launch of its own comprehensive mechanism for development cooperation in 2003, Slovakia provided its development assistance in the form of voluntary contributions to international organizations, as well as in the form of humanitarian aid.

The first medium-term strategy of Slovak ODA for the years 2003–2008 identified "participation of Slovak entities in international development projects" and "expansion of economic co-operation with developing countries" as two of the five goals of Slovak development aid (together with the transfer of Slovak experience and know-how, participation of Slovak experts in international development activities and mechanisms, and assistance to ethnic Slovaks). The role of the Slovak state was also identified as providing support via its ODA for the involvement of Slovak entities in international development tenders, including for suppliers of goods and services. Enhancement of economic cooperation between donor and recipient countries was declared to

⁹ For cumulative data processed from Questionnaire C, see Attachment 4.

¹⁰ For cumulative data processed from questionnaires B and C, mapping the perspective of the Slovak private sector regarding the further development of ODA, see Attachment 5.

¹¹ See Medium-Term Strategy for Official Development Assistance: 2003-2008. Bratislava: Ministry of Foreign Affairs of the Slovak Republic, 2003; the text of the corresponding resolution of the Slovak Government: "Uznesenie vlády SR č. 432 z 5. júna 2003 k návrhu strednodobej koncepcie oficiálnej rozvojovej pomoci na roky 2003 až 2008." Bratislava: Vláda SR. Available online: <http://www.rokovania.sk/Rokovanie.aspx/GetUznesenia/?idRokovanie=411>.

be both a positive consequence and the natural follow-up goal of development aid.¹² From the very beginning of Slovak ODA, its programming documents included a strong emphasis on aid for trade principles.

In the period of 2003–2007, Slovakia provided its ODA to selected countries within two bilateral programs, the Slovak-UNDP Trust Fund (TF) and the Bratislava-Belgrade Fund (BBF). The Slovak-UNDP Trust Fund was the bilateral international development assistance mechanism of Slovakia established in cooperation with the UNDP office in Bratislava, and has been focused on Asian and African countries and the Balkans (referred to as “priority countries” of Slovak ODA). The Bratislava-Belgrade Fund was established in cooperation with the Civic Activities Support Fund (NPOA - *Nadácia na podporu občianskych aktivít*) and was tailored to meet the development needs of Serbia and Montenegro (Slovakia’s only “program country”) during the first years of SlovakAid.¹³ In 2007, a new Act – Act no. 617/2007 on Official Development Assistance – was adopted by the Slovak Parliament (National Council of SR), which defined the principles, goals and forms of official development assistance. This Act set out the present institutional design of Slovak ODA by establishing the Slovak Agency for International Development Cooperation (SAMRS) as the administrative and contracting unit of Slovak ODA.¹⁴

Act no. 617/2007 introduced the two principal policy planning instruments of Slovak ODA: first, the medium-term strategy which must be adopted for at least 5 years; and second, the annual national program that will both follow and implement the goals of the medium-term strategy by determining the priorities of Slovak ODA for each respective year. The Ministry of Foreign Affairs has been determined to serve as the central state authority responsible for the policy planning of Slovak ODA, for its alignment with the international obligations of Slovakia, and for the management of SAMRS.¹⁵ The Act identified “support for economic cooperation with developing countries” as one of the six fundamental goals of Slovak ODA towards developing countries, along with elimination of poverty and famine, support for sustainable economic, social and ecological development, ensuring of peace and security, and access to education and healthcare.¹⁶

The second medium-term strategy of Slovak ODA for the years 2009–2013 was adopted by the Slovak Government on 4 March 2009.¹⁷ It identified four sector priorities, two of which assumed a more robust participation of the private sector in SlovakAid, as follows: economic development, building up of the market environment, strengthening of the macroeconomic environment, public finance management, support to small and medium-sized enterprises; and infrastructure development with a positive impact on sustainable development and environmental protection.¹⁸ The recent economic crisis, which started in 2009, has motivated the Government to concentrate its attention on economic diplomacy, including exploring the potential of Slovak ODA for supporting the activities of Slovak businesses abroad, and for boosting the foreign trade relations of Slovakia.¹⁹ However, it turned out to be not so easy to locate the thin line between the pro-export policy of the Government on the one hand, and its support for the participation of private companies in development aid on the other.

¹² Medium-Term Strategy... op. cit., pp. 8-9.

¹³ For the Trust Fund’s activities see - Slovak-UNDP Trust Fund, Summary Report 2003-2008. Initial Period of Slovak Bilateral Development Cooperation (prepared by Zuzana Letková and Sylvie Hanzlová). Dunajská Streda: United Nations Development Programme, Valuer s.r.o., August 2008. For the BBF’s activities visit the web site of the Citizens’ Actions Support Foundation (*Nadácia na podporu občianskych aktivít*): <http://www.npoa.sk/o-fonde-bratislava-belehrad>.

¹⁴ Zákon č. 617/2007 z 5. decembra 2007o oficiálnej rozvojovej pomoci a doplnení zákona č. 575/2001 Z. z. o organizácii činnosti vlády a organizácii ústrednej štátnej správy v znení neskorších predpisov. Zbierka zákonov č. 617/2007, čiastka 255, s. 4454-4456.

¹⁵ Zákon č. 617/2007... op. cit., p. 4455-4456.

¹⁶ Zákon č. 617/2007... op. cit., p. 4454-4455.

¹⁷ For the text see Medium-Term Strategy for Official Development Assistance of the Slovak Republic for the years 2009-2013. Bratislava: Ministry of Foreign Affairs of the Slovak Republic, 2009; for the resolution of the Government of SR see “Uznesenie vlády SR č. 170 z 4. marca 2009 k Strednodobej stratégii oficiálnej rozvojovej pomoci SR na roky 2009 - 2013.” Bratislava: Vláda SR. Available online: http://www.rokovania.sk/File.aspx/ViewDocumentHtml/Uznesenie-10137?prefixFile=u_

¹⁸ Medium-Term Strategy..., 2009, op. cit., p. 15.

¹⁹ For more see R. Boháč, “Slovak economic diplomacy and the economic crisis,” in: P. Brezáni (ed) Yearbook of Slovakia’s Foreign Policy 2008. Bratislava: Research Center of the Slovak Foreign Policy Association, 2009, pp. 65-72.

At the request of the Slovak Ministry of Foreign Affairs (MFA), the OECD Development Co-operation Directorate (DCD) along with representatives of the Development Assistance Committee (DAC) conducted a special review of Slovakia's international development co-operation from November 2010 to April 2011. When it came to the participation of the private sector in Slovak ODA, the DAC special report said: "The role of the private sector is being given an increasing emphasis in Slovakia's development co-operation. The special review team noted that the Ministry of Foreign Affairs and the Ministry of Finance may be mixing commercial and development objectives in a way that is incompatible with DAC standards for the use of development co-operation funds. While the DAC recognizes a legitimate role for the private sector in development co-operation, a clear distinction should be made between Slovak trade and investment promotion activities and development co-operation projects using the ODA budget. The two ministries could explore different options for involving the private sector in development co-operation, e.g. through public-private alliances, trade capacity building activities, investment guarantees and risk insurance schemes... Slovak firms could be encouraged to establish networks, find niches and enter into consortia to enlarge their market power, but Slovakia's ODA should not be used to promote their business, or to support their development and capacity building."²⁰

Nevertheless, the Program Declaration of the present Slovak Government, of May 2012, says that economic diplomacy will comprise one of the pillars of its foreign policy. The Government declared it will support the pro-export activities of those Slovak companies seeking new markets for Slovak exporters. In addition, it straightforwardly states that "the priorities of Slovak ODA will be adjusted to accommodate the goal of supporting the pro-export activities of Slovak companies."²¹ In October 2012, with a reference to both the DAC Special Report of the Slovak Republic and the Program Declaration of the Government, the Slovak Ministry of Foreign and European Affairs adopted a special planning document entitled "Conception of the Involvement of Slovak Business Entities in the International Development Cooperation of the Slovak Republic."²²

The Conception states that the participation of "dozens of Slovak private companies" in SlovakAid since 2003 has not been backed by adequate supportive mechanisms, and that is why it happened that projects implemented by private companies in many cases have not been sustainable and did not create conditions for their long-term activities in recipient ODA countries. It also says that its aim is to identify modalities for a more robust involvement of the Slovak private sector in SlovakAid; however, it adds that its ambition is not to substitute governmental instruments for its support of pro-export policy.²³ The Conception identified three new tools for supporting the involvement of private companies in Slovak ODA. First, the so-called *Start Up Program*, within which Slovak private companies might apply for support for their initial activities in an ODA recipient country – for example, identifying a local partner, the elaboration of a feasibility study or business plan for their development project, holding initial workshops, contacting local public authorities, etc. Secondly, the development projects of private companies within the territorial and sectoral priorities of Slovak ODA may include also those costs related to the establishment of joint enterprises with local partners or subsidiary companies. Thirdly, private companies may participate in the implementation of development projects commissioned directly by the Slovak MFEA. The tendered projects should be the outcome of consultations of the Slovak MFEA with the government of the ODA recipient country, the respective Slovak Embassy and EU Delegation, and finally with the EBRD. Private companies will be invited to participate in the tenders in order to implement commissioned projects via Slovak ODA.²⁴

To summarize, the Conception makes private companies the most privileged implementing organizations of Slovak ODA as of 2013. Neither Slovak non-governmental organizations nor Slovak public institutions are offered the possibility of applying for start-up costs to cover their initial development activities, of including in

²⁰ DAC Special Review of the Slovak Republic. SlovakAid, OECD, 2011, p. 28.

²¹ Programové vyhlásenie vlády Slovenskej republiky. Bratislava: Vláda SR, May 2012, p. 10. Available online: http://www.vlada.gov.sk/data/files/2008_programove-vyhlasenie-vlady.pdf.

²² Koncepcia zapájania podnikateľských subjektov do rozvojovej spolupráce Slovenskej republiky. Bratislava: Ministerstvo zahraničných vecí a európskych záležitostí Slovenskej republiky, 4.10.2012.

²³ Koncepcia..., op. cit., pp. 2-3.

²⁴ Koncepcia..., op. cit., pp. 5-6.

their development projects costs related to the establishment of their subsidiaries in ODA recipient countries, or of participating in tenders on directly commissioned projects via Slovak ODA. SAMRS published the first call for project proposals from Slovak private companies within the “Start Up Program” on 4 April 2013.²⁵

It is too early to judge the impact of these new supportive tools, recently adopted by Slovak governmental authorities with the aim of boosting the participation of the private sector in Slovak ODA. However, due to the following two factors one cannot exclude the possibility of their future revision. First, the OECD–DAC could once again raise the question of the compliance of the above measures with OECD–DAC standards for the use of development cooperation funds, since its 2011 special report on Slovakia clearly states that the “ODA budget should not be used to promote the business of private companies, or to support their development and capacity building.”²⁶ Secondly, the expansion of opportunities specifically for private companies in the field of Slovak ODA raises the question of discrimination against Slovak non-governmental organizations and public institutions as eligible applicants or implementing organizations of development projects within Slovak ODA. There is the question of how the applied measures favoring private companies comply with the principle of equal access to Slovak ODA for all categories of eligible implementing organizations, including rules for fair competition.

Statistical data

The primary sources of statistical data concerning the participation of Slovak private companies in SlovakAid are drawn from the reports of the administrative and contracting units of Slovak ODA, as follows: the Slovak–UNDP Trust Fund (2003–2008), the Bratislava–Belgrade Fund (2004–2006), and the Slovak Agency for International Development Cooperation (2007–2011).²⁷

Altogether we identified 35 Slovak private companies²⁸ that implemented 107 development projects within the bilateral ODA of Slovakia during the years 2003–2011 (the average number of projects per company is 3.05). The total Slovak ODA budget allocation contracted for the above development projects of Slovak private companies was 12,124,592 euro (the average budget allocation per one project was 113,314 euro). The number of projects of private companies contracted by the UNDP TF was 36 (the total budget allocation of Slovak ODA for those projects was 3,311,652 euro), by the BBF 21 projects (with a budget allocation of 2,131,286 euro), and by SAMRS 50 projects within 2007–2011 (with a budget allocation of 6,681,654 euro).²⁹

²⁵ See the website of the SAMRS “Call for submissions of project proposals within the ODA of SR – ‘Start Up’ subsidy scheme for starting business partnerships.” SAMRS, 4 April 2013. Available online: <http://www.slovakaid.sk/?p=8347>.

²⁶ DAC Special Review... op. cit., p. 28.

²⁷ Slovak-UNDP Trust Fund, Summary Report 2003-2008. Initial Period of Slovak Bilateral Development Cooperation (prepared by Zuzana Letková and Sylvie Hanzlová). Dunajská Streda: United Nations Development Programme, Valuer s.r.o., August 2008; information about development projects approved by the Bratislava-Belgrade Fund within the four calls for project proposals (2004-2005) is available online on the website of the Citizens’ Actions Support Foundation (Nadácia na podporu občianskych aktivít): <http://www.npoa.sk/o-fonde-bratislava-belehrad> – see the references on ACU Bratislava-Belgrade Fund; and the annual reports of SAMRS since 2007, including information about approved projects – see the references (Výročná správa rozpočtovej organizácie Slovenská agentúra pre medzinárodnú rozvojovú spoluprácu, 2007-2011). This study includes statistical data on development projects contracted by private companies during the years 2003-2011, since at the time of completion of this study the last available annual report of SAMRS with information on contracted projects was for the year 2011. The annual reports of SAMRS are available on its website: www.slovakaid.sk. The identification of the implementing organization of Slovak ODA, including its legal statute, has been verified at the Business Register of the Slovak Republic, operated online by the Slovak Ministry of Justice: <http://www.orsr.sk/Default.asp?lan=sk>.

²⁸ We checked the legal status of the implementing organizations of Slovak ODA introduced in the ACU reports through the Business Register of SR operated online by the Slovak Ministry of Justice (<http://www.orsr.sk/Default.asp?lan=sk>) in order to identify whether or not they are for-profit private entities. We found that circa 20% of the above mentioned 35 private companies that implemented development projects within Slovak ODA do not exist anymore in the legal status they had when they contracted the projects – either they changed their legal status or simply ceased to exist.

²⁹ Our own calculation: we recalculated the data from the UNDP TF summary report given in USD, as well as corresponding data from the BBF given in Slovak crowns SKK (for the years 2003–2008; Slovakia became a member of the Eurozone starting on 1 January 2009) converted into euro, following the average yearly exchange rate of euro to USD and SKK for each of the years 2003–2008.

In addition to the collection of statistical data on the participation of private companies in Slovak ODA, we applied the OECD–DAC Sector Classification³⁰ method when researching the goals of their development projects, with the aim of identifying the sectoral focus of their development activities. The following tables summarize the data on the sectoral focus of the development projects of Slovak private companies for the period 2003–2011, including the number of projects contracted by the administrative and contracting units of Slovak ODA within the given sector, the cumulative sector allocation of the ODA budget, and the recipient countries in which the projects have been implemented.

Table 1. Sectoral focus of Slovak private companies by the number of implemented development projects and cumulative ODA budget contracted by the Slovak-UNDP Trust Fund (2003–2008) according to the OECD-DAC Sector Classification

Sector	Number of projects	Cumulative ODA budget (in USD)	Recipient countries
Water and sanitation	8	1,229,926.62	Kyrgyzstan, Mongolia, Mozambique, Sudan
Energy generation and supply	7	848,746.27	Bosnia and Herzegovina, Kyrgyzstan, Mongolia, Mozambique, Uzbekistan
Agriculture	5	704,035.00	Kazakhstan, Kenya, Mongolia
Government and civil society	3	397,147.33	Afghanistan, Kazakhstan, Mongolia
Conflict prevention and resolution, peace and security	2	400,000.00	Kenya, Sudan
General environmental protection	2	221,807.83	Kazakhstan, Kenya
Banking and financial services	2	192,947.87	Kazakhstan, Macedonia
Transport and storage	2	180,000.00	Macedonia
Tourism	1	111,999.00	Kyrgyzstan
Trade policy and regulations, and trade-related adjustment	1	100,000.00	Kyrgyzstan
Health	1	99,998.51	Kazakhstan
Commodity aid and general programme assistance	1	93,109.29	Bosnia and Herzegovina
Industry	1	78,021.60	Kenya
Total	36	4,657,739.32	9

Note: following the average exchange rate for the year 2008, 1 USD : 0.711 EUR, the cumulative ODA budget contracted by the UNDP TF to the development projects of Slovak private companies during the years 2003–2008 was 3,311,652 EUR.

Source: Slovak-UNDP Trust Fund

³⁰ See "Purpose Codes: sector classification," OECD-DAC. Available online: <http://www.oecd.org/dac/stats/purposecodessectorclassification.htm#>. For the sector classification of the development projects of Slovak private companies contracted during the period 2003–2011, we applied the last actual version of the DAC–OECD purpose codes, which was revised in 2011. Analyzing the reports of the administrative and contracting units of Slovak ODA, we found that – apart from the UNDP Trust Fund – the reports of the Bratislava–Belgrade Fund, as well as those of SAMRS for the years 2007–2010, did not apply the OECD–DAC Sector Classification for the identification of the sectoral focus of development projects.

Table 2. Sectoral focus of Slovak private companies by the number of implemented development projects in Serbia and Montenegro and cumulative ODA budget contracted by the Bratislava-Belgrade Fund (2004-2006) according to the OECD-DAC Sector Classification

Sector	Number of projects	Cumulative ODA budget (in SKK)
Energy generation and supply	6	27,346,761.00
Water and sanitation	4	17,483,662.00
Rural development	3	10,178,730.00
Transport and storage	2	6,994,674.00
Business and other services	2	6,463,644.00
Communications	1	3,500,000.00
Agriculture	1	3,490,790.00
Forestry	1	3,381,924.00
General environmental protection	1	2,834,944.00
Total	21	81,675,129.00

Note: following the cumulative annual exchange rate of 1 EUR : 38.322 SKK (38.796 for 2004 and 37.848 for 2005; source: National Bank of Slovakia), the total ODA budget contracted by the Bratislava-Belgrade Fund for development projects implemented by Slovak private companies in Serbia and Montenegro (in 2004 and 2005) was 2,131,285.60 euro.

Source: ACU Bratislava-Belgrade Fund

Table 3. Sectoral focus of Slovak private companies by the number of implemented development projects in ODA countries and cumulative ODA budget contracted by SAMRS (2007-2011) according to the OECD-DAC Sector Classification

Sector	Number of projects	Cumulative ODA budget (in EUR)	Recipient countries
Education	15	434,068	Kyrgyzstan, Moldova, Slovakia
Water and sanitation	11	2,017,716	Serbia, Mozambique, Macedonia, Georgia, Montenegro, Kenya
Energy generation and supply	9	1,838,721	Serbia, Bosnia and Herzegovina
General environmental protection	6	1,070,442	Uzbekistan, Serbia, Bosnia and Herzegovina, Macedonia
Agriculture	3	343,852	Afghanistan, Kazakhstan, Mongolia
Health	2	377,924	Afghanistan, Kenya
Government and civil society	2	199,645	Serbia, Montenegro
Conflict prevention and resolution, peace and security	1	204,074	Bosnia and Herzegovina
Trade policy and regulations, and trade-related adjustment	1	195,212	Montenegro, Bosnia and Herzegovina, Macedonia
Total	50	6,681,654.00	13

Source: SAMRS, 2007-2012

On the basis of the above data it is possible to conclude that the priority sectors of the bilateral development aid of Slovakia in which Slovak private companies have been concentrating their activities are as follows: water and sanitation (23 implemented projects – 21.5% of the total number of development projects contracted to private companies within Slovak ODA), energy generation and supply (22 projects – 20.6%), education (15 projects – 14%), agriculture (9 projects – 8.4%), general environmental protection (9 projects – 8.4%), health (3 projects – 2.8%), and rural development (3 projects – 2.8%).

Table 4. The share of the private sector in the development aid of SR by the administrative and contracting unit and by the years of conclusion of the project contracts, in %

ACU	2003	2004	2005	2006	2007	2008	2009	2010	2011
UNDP TF	42						■	■	■
BBF	■	32				■	■	■	■
SAMRS	■	■	■	■	24	29	24	27.8	7

Source: UNDP Trust Fund, Bratislava-Belgrade Fund, SAMRS

Table 5. The share of non-governmental organizations in the development aid of SR by the administrative and contracting unit and by the years of conclusion of the project contracts, in %

ACU	2003	2004	2005	2006	2007	2008	2009	2010	2011
UNDP TF	46						■	■	■
BBF	■	42				■	■	■	■
SAMRS	■	■	■	■	58	41	64	56.8	73

Source: UNDP Trust Fund, Bratislava-Belgrade Fund, SAMRS

Non-governmental organizations and private companies are the two key development actors within Slovak ODA. The share of other actors in Slovak ODA – e.g. public institutions, including state agencies, universities, and self-governmental authorities at the regional and local levels, and agencies established by public administration authorities – ranges from 10–20%. The above data (tables 4–5) show a downtrend in the share of private companies in Slovak ODA, which began in 2007 and culminated in 2011, the year of the lowest participation of private companies in Slovak ODA throughout the whole period of its existence. On the other hand, the above data also show that the share of Slovak non-governmental organizations in Slovak ODA has been growing, especially during the final three years of the examined period, 2009–2011.³¹ This trend also helps to explain the motives of the Slovak MFEA (in addition to the political anti-economic crisis directives of the present Slovak Government elected in 2012) in adopting specific measures for boosting the participation of the Slovak private sector in Slovak ODA, even at the risk of challenging the OECD-DAC standards regarding the use of development cooperation funds.³²

Assessment of the participation of the private sector in Slovak ODA

This part of the study explores the assessments of governmental officials concerning the involvement of the private sector in development aid, as well as the assessments of private companies as to their own experience with participation in Slovak ODA. It is based both on the aforementioned survey of representatives of Slovak governmental institutions active in the field of Slovak development aid, as well as on the survey of private companies that have implemented development projects within Slovak ODA.³³

³¹ For an analysis of the Slovak “third sector” as a development actor within Slovak ODA, including its competitiveness capacity vis-à-vis other development actors in Slovakia, see the study by Peter Brezáni.

³² See the above analysis of the “Conception of the Involvement of Slovak Business Entities in the International Development Cooperation of the Slovak Republic,” adopted by the MFEA of SR in October 2012. Reference: *Koncepcia...*, op. cit.

³³ For cumulative data processed from questionnaires A (governmental institutions active in the field of ODA) and B (private companies with experience in the implementation of ODA projects), including a description of their respective groups of respondents, see Attachments 2 and 3 respectively.

Representatives of Slovak governmental institutions agree that the involvement of the private sector in Slovak ODA is “weak” (42.8% of answers) and “very weak” (28.6%), whereas less than a third of them consider the involvement of the private sector “average” (28.6%). When asking representatives of governmental agencies to indicate the services, products or inputs of the private sector that they find relevant for their work related to development aid and aid for trade, we received a much diversified picture. Each of the seven official representatives interviewed indicated a different private sector input relevant for his or her work – “development of products” (one respondent – 14.3% – who specified that it depends on sector priorities), “delivery of services” (one respondent), “specific expert contribution” (one respondent, who specified “services provided by consulting companies in the area of public finance”), “none of these” (one respondent), and finally one respondent opted for “other” and specified the following: “it depends on the specific needs of private companies.” In contrast to their answers regarding the private sector, the answers we received from representatives of these same governmental agencies were quite well structured regarding the relevant inputs of NGOs, and indicated the following preferences: “workshops, conferences, debates” (57.1%), “advocacy campaigns” (28.6%), and “research papers” (28.6%). The same goes for the estimation given by governmental officials regarding the involvement of NGOs in Slovak ODA: “high” (57.1%) and “average” (42.8%).

The above contrast between their understanding of the role of NGOs vs. that of the private sector within Slovak ODA – as well as the diverse set of responses regarding relevant inputs from the private sector – leads us to believe that the representatives of Slovak ODA governmental agencies do not know what to expect from the private sector as a development actor. It appears that, although at the highest level of Slovak government there is the political will to support the involvement of the private sector in Slovak ODA, at the lower level of governmental administration there is a lack of knowledge about the role of the private sector.

When asked about possible contributions to the improvement of Slovak ODA (respondents could indicate several options), 57.1% of respondents from governmental ODA agencies indicated “better input from other development actors such as international organizations, NGOs, private sector,” whereas only 28.6% of respondents indicated “more information about the input of NGOs and private sector.” When asked about the most important factors that could contribute to the development aid of Slovakia, respondents from governmental agencies indicated – along with “better input from other development actors, including private sector” – the following: “better inter-ministerial coordination” (57.1%) and “better planning and programming” (57.1%), followed by “better statistics” (42.8%) and “more state and private funding available” (42.8%). Even though as yet there is no “innovative financial mechanism that would mobilize private funding for development goals” in place in Slovakia (with the exception of the regular co-funding of development projects, which is requested from all implementing organizations of ODA projects regardless of their legal status), the majority of governmental representatives estimated “the level of development of innovative financial mechanisms to mobilize private funding for development goals” as “average” (57%), as opposed to “not good” (42%). It is not easy to interpret this positive assessment of the representatives of Slovak ODA agencies. In any case, the new mechanisms for supporting the participation of private companies launched by the MFEA’s Conception of 4 October 2012 cannot be interpreted as tools for mobilizing private funding for development goals – quite the contrary, the new mechanisms can be interpreted only as tools to mobilize more public funds for the private sector, or tools to redistribute the existing public ODA budget in favor of the private sector.

The above responses of the representatives of governmental ODA agencies show again the already mentioned paradox – on the one hand, governmental officials think that “better input from the private sector” might contribute to Slovak ODA; on the other hand, however, they have difficulty identifying “what concrete input” from the private sector they expect. Another important finding is that among governmental officials there is the prevailing perception of the need to improve both the planning and programming of Slovak ODA, as well as inter-ministerial coordination in the field.

When asked about their first source of information about the possibility of applying for a Slovak ODA project, the majority of the interviewed representatives of private companies with ODA experience indicated “SAMRS” (57.1%), “other business partners” (28.6%) or “own initiative” (14.3%), whereas none of them indicated “Ministry of Foreign Affairs,” “NGO,” “media” or “other source.” This is also an important finding since it gives a slightly

different perspective on the very positive assessment of representatives of Slovak ODA governmental institutions who thought that “Slovak ODA is well communicated to the Slovak public” (71.4%), as opposed to only 28.6% who thought the opposite. Since the role of SAMRS is first of all to serve as the administrative and contracting unit of Slovak ODA, while the issue of policy planning and informing the public falls under the responsibility of the Slovak MFEA, the finding of our research is that the MFEA should improve its communication channels for informing the Slovak public about its core activities including ODA, to say nothing of communicating ODA issues to the Slovak private sector.

The main aim of conducting a survey of this group of respondents was to identify the assessments of private companies regarding the functioning of the Slovak ODA system. When it came to their assessment of the transparency of the approval process for projects within Slovak ODA, 42.8% of private companies said it was “rather non-transparent,” while an equal number of them said it was “rather transparent;” whereas 14.3% said they considered the approval process “transparent.” Even though none of the respondents indicated that the procedure is “non-transparent,” this rather mixed perception of private companies concerning the transparency of the Slovak ODA approval process might serve as an inspiration for its further improvement. The representatives of the private sector gave us a much more explicit evaluation of the administrative demands (red tape) connected with the implementation of ODA projects: 71.4% of them said the red tape was “too demanding,” as opposed to only 28.6% who said it was “appropriate to this kind of project.”

We received rather surprising assessments from representatives of private companies when it came to the financial allocation amounts approved for their ODA projects: 57.1% of respondents said it was “adequate to this type of project,” as opposed to 28.6% who said it was “insufficient.” The same goes for their estimation of the amount of co-funding required from implementing organizations for Slovak ODA projects: 57.1% said it was “adequate to this type of project,” as opposed to 42.8% who said it was “too big, it does not motivate potential ODA applicants.” When responding to the question of whether the implementation of an ODA project helped them to develop business relations with, or activities within, the ODA recipient country, 14.3% of respondents indicated an unambiguous “yes,” while 57.1% of them said “rather yes.” However, 28.6% of them said “no,” meaning that the ODA project did not help them improve business relations with, or activities within, the ODA recipient country. After their own experience with a Slovak ODA project, 57.1% of the private companies interviewed confirmed that “they plan to apply for another ODA project,” whereas 28.6% said “they are not decided yet,” and 14.3% said they do not plan to apply for a new ODA project.

Summing up the assessments of private companies having experience with Slovak ODA, the following main conclusions may be drawn. First, most private companies are satisfied both with the amount of the ODA budget allocation for approved projects, and the amount of co-funding required from implementing organizations. Second, in order to make the Slovak ODA scheme more attractive to Slovak private companies, there is a need to make the approval process for ODA projects more transparent, as well as to modify the administrative demands related to the implementation of ODA projects. Third, the Slovak MFEA should improve their communication of ODA policy to the Slovak public generally, and to the private sector in particular. Fourth and last, most private companies with experience working within the Slovak ODA scheme consider the option of applying for a new ODA project.

Assessment of the development activities of Slovak companies in ODA recipient countries

This part of the study evaluates the development activities of Slovak companies within Slovak ODA recipient countries, with a focus on their support for local development and employment policy. It is based on the

survey of Slovak companies that conduct business activities in ODA recipient countries through their subsidiary companies.³⁴

When asked how they entered the market of a Slovak ODA recipient country, 55.6% of the companies interviewed said they entered via delivery of know-how to a local partner, 33.3% via delivery of technology to a local partner, while 11.1% of them invested financial resources into the creation of a joint enterprise with a local partner. None of the Slovak companies interviewed said it was the sole owner of an enterprise in a Slovak ODA recipient country. The overwhelming majority of them (66.7%) said that the trading markets for products and services produced by their subsidiaries in ODA countries were international markets, and included the EU; 22.2% said they trade the production of their subsidiaries within the national market of the ODA country of operation, and 11.1% indicated a regional market which included the markets of neighboring countries of the ODA country in which they operated a subsidiary.

Less than half of the companies interviewed (44.4%) said that their business activities required additional investment in the development of the local infrastructure (two items were specified: first, investment in improvements of local roads, and second, investment in the local water supply system), as opposed to 55.6% who said there was no need of further investment in the local infrastructure. When asked about their contribution to the development of the basic infrastructure of the municipality in which they run their subsidiary, we received similar responses: 55.6% of respondents answered “no” as opposed to 44.6% who said “yes.” Those who responded “yes” specified the following contributions: support for local sport teams (football and ice hockey), support for local hospitals and secondary schools, ensuring a supply of drinking water to the local community, and the development of a local transport infrastructure.

When asked about the importance of local businesses for their operations, 55.6% of the companies interviewed said that local businesses were “very important,” while 33.3% said they were “important,” and 11.1% indicated “somewhat important.” When it came to cooperation with local partners, 66.7% of companies interviewed said they frequently used the services of local businesses in the area of “transport, storage, and distribution,” 55.6% in the area of “supply of semi-finished products,” 44.4% “supply of raw materials,” 22.2% “business services” (e.g. recruitment, legal advice, accountancy, marketing, advertising), 11.1% “IT and communication,” and 11.1% “security.”

When it came to the size of their subsidiary companies, measured by the number of employees, 36.3% of the companies interviewed said they employed 1-9 people in subsidiary companies, 27.3% had 250 or more employees, 18.2% had 10-49 employees, and 18.2% had 50-249 employees. As to job contracts, 27.3% of respondents said they offered “full-time job contracts” to employed personnel, while an equal number (27.3%) said they offered “ad hoc/seasonal job contracts.” Almost half of the interviewed companies (45.4%) indicated “other,” and specified that they employed local staff via service contracts with a local business partner (i.e. they do not have direct job contracts with local employed staff). Asked about the proportion of local employed staff to the total workforce of their subsidiary companies within ODA recipient countries, 44.4% of respondents said it is more than 50%, 33.3% that it varies between 20-50%, and 22.3% that this is not applicable in their case.

As to the gender of their employees, 44.4% said that they employ mainly a male workforce, 33.3% mainly a female workforce, and finally 22.3% that they “don’t know” (including those companies who employ local staff via service contracts with local business partners). As to social benefits offered to local employed staff, 78.1 % of companies interviewed indicated they provide “additional education and requalification courses” to local staff, while 33.3% indicated the following benefits: “food vouchers/company canteen,” “health insurance,”

³⁴ For cumulative data processed from Questionnaire C (private companies having trade relations with or business activities within Slovak ODA recipient countries), see Attachment 4, including a description of interviewed respondents; in particular see part II of the questionnaire, “In-ODA country activities.” Note: nine of the 14 companies interviewed said they have business subsidiaries in Slovak ODA recipient countries. One of these nine companies operates its subsidiary enterprises in three different Slovak ODA countries. The companies interviewed conduct business activities in the following sectors: water and waste management, engineering, consulting and project development, manufacturing (rubber and plastic, textiles and clothing), transportation services and storage, wholesale and retail trade. It should be stressed that none of the interviewed companies from this group of respondents has experience with either Slovak ODA or any other ODA program.

"pension insurance," "paid holidays," and "paid maternity leave." 11.4% indicated "other" and specified that they create possibilities for the self-employed business activities of local people based on service contracts. Only one third of the companies interviewed (33.3%) said their local personnel are organized into trade unions, while a majority of them (55.5%) said "no," and 11.2 % said that this question is "not applicable" in their case. At the same time, 77.8% of the companies said they apply a particular ethical code or policy to their employees, as opposed to 11.1% who said they do not apply such policy, and 11.1% who said this is "not applicable" to their company.

In addition to the above questions on the development activities of Slovak companies within ODA recipient countries, we added one more specific question concerning Slovak ODA, as follows: "Are you informed about Slovak ODA? Did/do you consider it an option to make use of Slovak ODA in order to support your trade relations with, or business activities within, recipient countries of Slovak ODA?"³⁵ We got the following responses: "We have not considered this option as yet, however we would like to know more about the possibility of participating in Slovak ODA" (35.7%); "No, we do not have any info about Slovak ODA" (28.6%); followed by 14.3% who said, "Yes, we are informed about Slovak ODA," and another 14.3% who responded, "We have considered the option of making use of Slovak ODA."

Summing up our assessment of the development activities of Slovak companies within ODA recipient countries, on the basis of the cumulative data of the project questionnaire, the following are our main conclusions. First, about half of the Slovak companies that operate subsidiary companies in ODA recipient countries made an additional investment into the development of the local infrastructure. Second, about half of them contributed to the development of the basic infrastructure of the municipality in which they run their subsidiary (transport infrastructure, water supply, support for local sport teams, hospitals and secondary schools). Third, an overwhelming majority of Slovak companies support local businesses through contracting their services (especially when it comes to transport and storage services, and the supply of semi-finished products and raw materials). Fourth, only about a third of the Slovak companies active in ODA countries offer full-time job contracts to local personnel, including additional social benefits (e.g. food vouchers, health and pension insurance, paid holidays and maternity leave). And fifth, although none of them has any experience with ODA projects, a majority of them are interested in knowing more about the possibilities of Slovak ODA and/or would consider the option of applying for Slovak ODA projects in order to support their business activities within ODA countries. This offers an additional argument for Slovak governmental agencies to improve their communication with the private sector, in order to motivate it to greater participation in development aid.

Potential for strengthened PPP in Slovak ODA

This part of the study aims to explore the views of representatives of Slovak private companies as to how the further development of Slovak ODA might meet their expectations. It is based on a survey of 21 Slovak private companies consisting of two subgroups: the first made up of seven companies with experience in implementing Slovak ODA projects, and the second consisting of 14 companies having trade relations with or business activities within Slovak ODA recipient countries.³⁶ It should be noted that none of the Slovak companies interviewed has been involved in either EU or UN funded development aid or technical assistance programs. 33.3% of them said they considered it an option to apply for EU programs; the same number (33.3%) said that although they have not yet considered such an option, they would like to know more about the possibility of participating in EU programs; and 23.8% of them said they have no information about EU programs.

The survey led to the following important finding: almost half of the Slovak companies interviewed (47.6%) think that the main barrier preventing the private sector from a more active participation in development policy is "insufficient knowledge about development policy programs," followed by a "lack of open and transparent

³⁵ 100% of respondents = 14 private Slovak companies, of whom 9 have subsidiary companies in Slovak ODA countries, and 5 have only trade relations with partners from ODA countries.

³⁶ For cumulative data processed from questionnaires B and C (B – private companies having experience with participation in Slovak ODA, and C – private companies having trade relations with or business activities within Slovak ODA recipient countries) see Attachment 5, which includes a description of the group of interviewed respondents.

access to financial instruments” (14.3%), “lack of incentives – financial allocations for development projects are low” (14.3%), and “lack of expert and administrative capacity of private sector” (9.5%). When it came to a sort of “self-assessment” in terms of how they saw the role of the private sector within development aid, and the importance of the private sector in achieving development goals (they were asked to rank indicated development goals from 1 to 5; 1 is “not important” and 5 “very important”), we got the following ranking of the importance of the private sector in achieving development goals, by total number of assigned points:

<i>Development policy goals</i>	<i>Total number of assigned points</i>
Transfer of know-how and technology	82
Development of basic infrastructure	66
Enhancing local human capital	64
Promoting fair market competition	63
Transparent implementation of law and regulatory frameworks	62
Development of local entrepreneurship	52
Facilitating access to finance resources	49
Improving employment standards and conditions	47
Other	0

The Slovak companies interviewed saw potential for a strengthened cooperation with the public sector within each of the three main phases of the implementation of development aid, starting from development policy planning through the process of implementing development projects, and the evaluation of achieved results and further adaptation of development policy.

As to potential forms of cooperation on the stage of policy planning, 52.4% of the companies interviewed said they would welcome “the creation of cross-sectoral working groups,” while 47.6% would support “enhanced public-private dialogue on medium and long-term development goals.” When it came to the implementation of development policy, 42.9% of respondents said they would like to “participate in the elaboration of Country Strategy Action Plans for ODA recipient countries,” while 33.3% said they would like to work with the public sector on “the developing of co-funding mechanisms,” and 23.8% indicated that it would be good to achieve “agreement on joint rules and procedures for the implementation of development projects.” As to the evaluation and further adaptation of development policy, 66.6% of the companies interviewed would prefer to reach “agreement on the joint rules and framework for the monitoring and evaluation of project outcomes,” whereas 33.3% of them indicated they would welcome “holding regular consultations” with the public sector.

When asked to suggest measures that would encourage the participation of the private sector in development policy, 57.2% of the Slovak companies interviewed indicated the introduction of “new financial tools” (one of them specified that the government should provide financial guarantees for development projects implemented by private companies) as an important incentive, whereas 38.1% of the companies interviewed indicated the development of “a new PPP tailored to development policy” (one specified that PPP in Slovak ODA should focus on the development of the energy infrastructure of recipient countries).

The following are the main conclusions resulting from the above survey. First, almost half of the Slovak companies interviewed think that the main barrier preventing the private sector from a more active participation in development policy is insufficient knowledge about development policy programs. Second, Slovak companies see the transfer of know-how and technology to ODA recipient countries as the priority development goal in which the role of the private sector is crucial. And third, Slovak companies see the potential for a strengthened PPP dialogue tailored to development policy, including through a more institutionalized dialogue with the public sector, through reaching joint agreements on the rules for

implementation and evaluation of the outcomes of development policy, and through the introduction of new financial tools as an incentive for the private sector to participate in development aid.

Summary of main findings

ODA policy framework

- The role of the private sector has been given a strong emphasis in Slovak ODA programming documents since the very beginning of its operation in 2003; however, the participation of private companies in Slovak ODA has been declining over the last five years. Nevertheless, together with non-governmental organizations, private companies are the key implementing actors of Slovak ODA.
- The Government of Slovakia is willing to adopt supportive measures to encourage the participation of the private sector in Slovak ODA. In October 2012, the Slovak Ministry of Foreign and European Affairs adopted their “Conception of the Involvement of Slovak Business Entities in the International Development Cooperation of the Slovak Republic,” which made private companies the most privileged category of implementing organizations of Slovak ODA. Unlike NGOs and public institutions, private companies are offered the possibility of applying for start-up costs to cover their initial development activities, and of including in their development projects costs related to the establishment of their subsidiaries within ODA recipient countries. Lastly, they are the only eligible applicants for the implementing of directly commissioned projects via Slovak ODA.
- It is too early to judge the impact of the above mentioned new supportive tools for boosting the participation of the private sector in Slovak ODA. However, one cannot rule out their possible future revision, due to the following two factors: first, the OECD-DAC in its 2011 special report on Slovakia concluded that the “ODA budget should not be used to promote the business of private companies, or to support their development and capacity building;” and second, the expansion of opportunities specifically for private companies in the field of Slovak ODA raises the question of discrimination against Slovak non-governmental organizations and public institutions as eligible applicants and implementing organizations of development projects within Slovak ODA.
- At the highest level of Slovak governmental administration there is the political will to support the involvement of the private sector in Slovak ODA; however, at the lower level of governmental administration of ODA there is insufficient knowledge about the role of the private sector in development aid. Our research shows that the representatives of governmental ODA agencies have difficulty identifying “what concrete input” they expect from the private sector relevant to their work. Another important finding is that there is the prevailing perception among governmental officials of the need to improve the planning and programming of Slovak ODA, as well as its inter-ministerial coordination in the field.

Participation of private companies in Slovak ODA

- Altogether we identified 35 Slovak private companies³⁷ that implemented 107 development projects within the bilateral ODA of Slovakia during the years 2003–2011 (the average number of projects per company is 3.05). The total Slovak ODA budget allocation contracted for these development projects of Slovak private companies was 12,124,592 euro (the average budget allocation per project was 113,314 euro). The priority sectors of the Slovak bilateral development aid in which Slovak private companies have concentrated their activities are as follows: water and sanitation (23 implemented projects – 21.5% of total contracted development projects for private companies within Slovak ODA), energy generation and supply (22 projects – 20.6%), education (15 projects – 14%), agriculture

³⁷ We checked the legal status of the implementing organizations of Slovak ODA introduced in the ACU reports through the *Business Register of SR* operated online by the Slovak Ministry of Justice (<http://www.orsr.sk/Default.asp?lan=sk>) in order to identify whether or not they are for-profit private entities. We found that circa 20% of the above mentioned 35 private companies that implemented development projects within Slovak ODA do not exist anymore in the legal status they had when they contracted the projects – either they changed their legal status or simply ceased to exist.

(9 projects – 8.4%), general environmental protection (9 projects – 8.4%), health (3 projects – 2.8%), and rural development (3 projects – 2.8%).

- Our research found that, first, most private companies are satisfied with both the amount of the ODA budget allocation for approved projects and the amount of co-funding required from implementing organizations; second, they think that the Slovak ODA scheme could be made more attractive to the private sector, provided that the approval process for ODA projects becomes more transparent and the administrative demands related to implementing ODA projects are modified; third, the Slovak MFEA should improve their communication of ODA policy to the Slovak public generally, and to the private sector in particular; and fourth, most private companies with experience working within the ODA scheme would consider the option of applying for a new ODA project.

Development activities of private companies in ODA recipient countries

- First, about half of the Slovak companies operating subsidiary companies in ODA recipient countries made an additional investment in the development of the local infrastructure; second, about half of them contributed to the development of the basic infrastructure of the municipality in which they run their subsidiary (they indicated the following contributions: transport infrastructure, water supply, support for local sport teams, hospitals and secondary schools); third, an overwhelming majority of Slovak companies support local businesses through contracting their services (especially when it comes to transport and storage services, and the supply of semi-finished products and raw materials); fourth, only about one third of Slovak companies offer full-time job contracts to local personnel, including additional social benefits (e.g. food vouchers, health and pension insurance, paid holidays and maternity leave); and fifth, although none of them has experience with ODA projects, the majority of them are interested in knowing more about the possibilities of Slovak ODA, or would consider the option of applying for a Slovak ODA project in order to support their business activities within ODA countries.

PPP in Slovak ODA from the perspective of the private sector

- First, almost half of the Slovak companies interviewed think that the main barrier preventing the private sector from a more active participation in development policy is insufficient knowledge about development policy programs; second, Slovak companies see the transfer of know-how and technology to ODA recipient countries as the priority development goal in which the role of private sector is crucial; and third, Slovak companies see the potential for a strengthened PPP dialogue tailored to development policy, including through a more institutionalized dialogue with the public sector, through reaching joint agreements on the rules for implementation and evaluation of the outcomes of development policy and its further adaptation, and through the introduction of new financial tools as an incentive for the private sector to participate in development aid.

Policy recommendations

- There is a need for the further clarification of the distinction between the pro-export policy of donor countries and their development aid, according to the OECD-DAC standards for the use of the ODA budget. Consequently, the governmental authorities of Slovakia should introduce measures supporting the participation of the Slovak private sector in Slovak ODA in line with OECD-DAC standards. And finally, any new measures applied within the system of Slovak ODA aimed at supporting the participation of the private sector should not discriminate against other types of implementing organizations.
- The knowledge of representatives of governmental agencies operating in the field of Slovak ODA concerning the role of the private sector in development aid should be improved. The Slovak

Ministry of Foreign and European Affairs in cooperation with the Ministry of Finance should consider additional education for the staff of all agencies that participate in Slovak ODA, including those Embassies representing Slovakia within ODA recipient countries, about the role of the private sector in development aid.

- The Slovak Ministry of Foreign and European Affairs as the central state authority responsible for Slovak ODA should, first, initiate the creation of a new system of inter-ministerial coordination in the field of ODA; and second, improve the process of ODA policy planning by involving all types of implementing organizations, including the private sector.
- There is a structural gap within the ODA dialogue in Slovakia. Unlike Slovak NGOs associated through the Platform of Non-Governmental Development Organizations, private companies do not have any coordinating unit that would facilitate their dialogue on ODA issues with both governmental ODA authorities and NGOs. Without such a coordinating unit it is impossible to meet the expectations of Slovak companies as indicated in our survey results, when it comes to innovative forms of PPP cooperation in Slovak ODA. Neither it is possible to improve either the information available to private companies or their knowledge about ODA, or its goals and programs, including the possibility of their more active engagement. Governmental agencies operating in the field of Slovak ODA – first and foremost the MFEA – should initiate a discussion with business associations on the creation of a platform organization of Slovak private companies that either have participated in, or are interested in, ODA.
- The Slovak Ministry of Foreign and European Affairs, in cooperation with SAMRS and implementing organizations, should reach agreement over joint rules – first, for improvement of the approval process for Slovak ODA projects, with the aim of making it more transparent; and second, to eliminate administrative demands related to ODA project implementation, reporting and accounting. Our research shows that the more transparent and less bureaucratic Slovak ODA becomes, the more attractive it may be for the private sector.
- The Slovak Ministry of Foreign and European Affairs, as the central public authority responsible for Slovak ODA, should improve its communication of ODA to the Slovak public in general, and to the Slovak private sector in particular.

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SLOVENIA

Introduction

Recent global economic and also social shocks have demonstrated that it can “no longer be business as usual” in the development world. Aid budgets are being cut or are drying up and developing countries are facing a shortfall of funds¹. Official Development Assistance (ODA) from rich industrialised countries to poorer developing nations was once considered as pivotal in achieving growth and development, but in the 21st Century, however, the global architecture of development cooperation is changing rapidly². For the first time in 15 years, the net volume of international development aid as a percentage of global GDP has dropped and it is still decreasing. In this context of economic and financial crisis there have been significant cuts in development aid allotments and the possibility of fulfilling international commitments to address major world problems is shrinking, while the needs of poor people are consistently growing³.

The private sector is increasingly looked at as an important additional source of funding for development and important partner in development cooperation. Moreover the private sector can be driving force in making growth inclusive not only by generating productive and decent job opportunities, but also by investing in innovation and business models that are targeted at the needs of the poor. It is known that economic growth generates wealth and thus is an important precondition to the eradication of poverty and increasing levels of growth are necessary to improve income and employment prospects in developing countries⁴.

The basic goal of international development cooperation is the eradication of poverty by creating opportunities for global development and stability and by fostering economic progress and prosperity in developing countries. Over the years, Slovenia has become an important stakeholder in international development cooperation, and the Slovenian economy is involved in different development projects. This kind of cooperation fosters economic development in developing countries and at the same time, it has positive effects on the economic integration and internationalization of the Slovenian economy. Integration between the public and private sectors definitely contributes to a positive impact on socio-economic development. Till now, the public and private sectors were strictly separated, but today their cooperation is increasingly gaining in significance, mostly to explore synergies and links between their two worlds, because they both work in the same arena towards achieving a common goal, but with different motives (Bučar and Udovič 2007).

¹ Friends of Europe: Policies for promoting the private sector’s role in development, Winter 2011

² Friends of Europe: The private sector and development cooperation, November 2011

³ Foreign Aid for Development Assistance (Anup Shah)

⁴ http://ec.europa.eu/europeaid/news/documents/edd12_psd_25092012.pdf

Purpose of this brief

Objective

The objective and purpose of the study is to analyse the current state of private sector participation in development aid submitted to recipient countries in order to suggest measures for achieving more sustainable development result.

Data collection and methodical approach

The analysis will be done for the period after Slovenia's EU membership (Slovenia joined EU on the 1st May 2004). The research methodology will be based on statistical information, desk research and sociological instruments such as focus groups, individual interviews, and questionnaires.

Scope of the Research: This research will include the first 10 developing countries based on volume of trade/investment of the donor country.

The countries to be subject of the analysis were defined as following – at first they were ranked according to the value of Slovenian exports in 2011 and then among the top 30 countries 12 were identified as relevant for the analysis. The selection was further narrowed considering the geographic priorities, the presence of Slovenian NGOs, the presence of Slovenian embassies, the number of Slovenian exporting companies, and the DAC List of ODA recipients (see Table 1, Appendix). The countries that were selected are the countries that support Slovenia's geographic priority, namely the countries of the Western Balkans – Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, Serbia, and four additional countries from the selection that are important for Slovenia's economy as well, that is Moldova, Turkey, Ukraine and Kazakhstan.

The research methodology will also include focus group discussions, questionnaires, and interviews. The survey respondents will include:

- **Survey among for-profit private companies.** A survey upon questionnaire among 20 for-profit private companies working with partners from developing countries.
- **Interviews** with up to 5 representatives of line ministries/governmental agencies dealing with development cooperation.
- **Focus group.**

The analysis was done on the basis of:

- National and other documents on aid for development (Ministry of Foreign Affairs, Center for International Cooperation);
- Documents referring to private sector engagement in development assistance (Friends of Europe, Concord, Euroaid, OECD and other relevant documents);
- Statistical and other information about companies, trade and other forms of economic cooperation, such as direct investments (Statistical Office of the Republic of Slovenia, Bank of Slovenia, Slovenia export business directory, Trade/Invest Slovenia);
- Results from survey, interviews and focus group discussions with representatives of government administration (responsible ministries and agencies), private sector representatives developing trade and investments in recipient countries.

1. Private sector activities in support to development

Through years the Slovenian private sector has been involved in activities of international development cooperation as well as humanitarian assistance. The role of the private sector is especially important as it stimulates economic development in recipient countries, particularly the development of small and

medium-sized enterprises, investment, and job creation. A more active role of the private sector is supported by bilateral agreements which are at the same time a step towards establishing private public partnerships.

Trade

Slovenia's economy is highly dependent on international trade. The ratio of merchandise trade (imports and exports) to GDP is one of the highest in the region. Moreover it in January 2013 exports, given in EUR, have actually increased by 3.3% since January 2012 (Statistični urad Slovenije).

The product composition of merchandise trade is still dominated by semi-finished and intermediate manufacturing goods, is shifting gradually. The shares of textiles, clothing and steel in merchandise exports are declining slightly, while those of automotive products, electronics and pharmaceuticals are increasing.

In recent years the structure of Slovenian commodity exports has shifted in favour of products that use technology and human resources most intensive (Slovenia Invest).

FDI

When it comes to foreign direct investments Slovenia turned to neighbouring countries first, more specifically to the countries of former Yugoslavia. The majority of Slovenian direct investments are directed to these countries. Slovenia was and is one of the leading investors in this region, being able to overcome the obstacles that deterred investors from other countries. The largest obstacle was and still is high political risk. Slovenian companies have invested in the region despite political instabilities, having an advantage in better knowing specific local factors, such as business practice, culture, language, customs and etiquette. At the same time, Slovenian companies and Slovenian products have enjoyed good reputation in these countries, often being associated with quality and trust. In addition, Slovenian companies have been involved in building and upgrading the infrastructure of these countries (transport, energy and communications infrastructure). Slovenia has invested in many economic sectors in the region; thus helping in diversifying their export base and increasing the share of higher value added products (CMSR).

According to the Bank of Slovenia's data the share of Slovenian direct investments in the four countries under consideration, namely Serbia, Bosnia and Herzegovina, Macedonia, and Montenegro, in total investments abroad was 42.70% on 31 December 2011 (including Croatia, the share of Slovenia's direct investments in these five countries in total investments abroad was 69.82%). Slovenian companies invest in Kosovo as well; however the Bank of Slovenia does not publish any official data on direct investments in Kosovo. It is estimated that the cumulative value of Slovenia's direct investments in Kosovo is at most 500 million euro.

Slovenian direct investments in the other five countries are low. The cumulative value of Slovenian direct investments in Ukraine amounted to 39.60 million euro on 31 December 2011, in Turkey 11.30 million euro, in Albania 5.30 million euro (the first investments were recorded in 2007), in Kazakhstan 1.60 million euro, and in Moldova only 0.90 million euro (the first investments were recorded in 2009).

Other activities

The private sector is becoming more and more aware of the importance of international development cooperation and has consequently cooperated with the public sector and international institutions in some development assistance-related activities. The Chamber of Commerce and Industry has organized several projects, mainly in the field of transferring knowledge and experience to countries of South Eastern Europe, and it has also cooperated with the Global Opportunity Fund, the EU Commission and the European Association for Management Consultants. The projects were focused on assistance in establishing the Associations for Management Consulting in Southeast Europe, entering the EU market and in developing electronic procurement (GZS).

Similarly as in direct investments, most of Slovenian official development assistance is directed to the countries of Western Balkans (around 80% of total bilateral official development assistance). Slovenia has been supporting their EU integration process by providing technical assistance. This has been executed by transferring best practices and knowledge to these countries and thus helping in creating a more competitive business environment; by supporting various measures which promote trade cooperation in the region and between the region and by participating in policy making, which is beneficial for both sides. Slovenia has organized many educational and training courses for custom administration, for border police, and for public administration of the Western Balkan countries.

Equally important for enhancing trade in recipient countries is bilateral official development assistance that promotes investment projects. In the past three years, around two thirds of these projects were executed in Macedonia and Montenegro, since they are the only two of all priority countries that Slovenia signed special memorandums on international development cooperation with; in addition, the government adopted an approval of the programme for international development cooperation with both countries each year from 2010 to 2012.

Some examples of the investment projects, that received Slovenia's bilateral official development assistance and that have or are expected to have a positive contribution to the growth of recipient country's international trade, especially exports, are (CMSR):

- Project engineering and preparing the documentation on technological and technical solutions for the opening of a brown coal mine in Macedonia (larger share of domestic production of electricity will decrease imports of electricity and improve the external balance of goods);
- Promotion of the development of small and medium-sized wood processing enterprises and their internationalization in Serbia;
- Modernization of the exploitation of mineral resources in Bosnia and Herzegovina (mining sector is crucially important in exports);
- Modernization of technological process and introduction of a remote surveillance system in a mine in Bosnia and Herzegovina;
- Establishment of two laboratories in Bosnia and Herzegovina: one in Sarajevo – Laboratory for electrical quantities, and one in Banja Luka – Laboratory for testing the safety of electrical installations and electromagnetic compatibility (Bosnian companies will be able to get quality certifications locally instead of getting it abroad as before the establishment of these two laboratories, which will simplify export procedures and lower their costs);
- Establishment of a Laboratory for materials research and installation of equipment for the laboratory in Kosovo (laboratory will simplify export procedures and lower their costs).

2. Private sector's participation in development cooperation

All the companies involved in the survey have more than 50% of the local personnel in their workforce, furthermore they frequently hire local providers/ producer, but only as long they can provide what they need, but when it comes to IT, communications and business services more than half of the surveyed companies prefer their own providers. Companies also tend to have relatively equal gender composition at workplace, only one company has predominantly male workforce, because of the nature of their work (hard manufacture work).

All companies think that training is necessary part of their business because it helps to optimise their business processes, so they all provide training to the local personnel as well other social services listed in questionnaire (except daycare for children/kindergarten and housing support which are not common services in Slovenia). They provide same social services as in their headquarters. All employees are represented by a trade union organisation and they have a company code of ethical behaviour.

3. Participation of different kinds of representatives of private sector in development aid

As we mentioned before Slovenian companies are involved in development assistance mainly through bilateral ODA. They participate mostly in the form of public-private partnership cooperation, where companies offer their knowledge and expertises and the public sector provides the funds. The CMSR (Center for International Cooperation and Development) offers official development assistance to development countries on the basis of public authorisation for the implementation of a part of the technical and operational portion of the Slovenian international development cooperation. There is few companies that have cooperated in those public-private partnerships (examples are listed in the section 1), because funds are limited but CMSRs survey has showed that Slovenian companies are interested in information about the possible forms of assistance and co-financing in Slovenia (such as donations or credit facilities and insurance, analysis of medium-term strategic direction or plans of planned investment, real business contacts and information about institutions to support markets). The main reason for insufficient cooperation between companies and developing countries is that that when Slovenian companies enter foreign markets, they face a variety of obstacles: for example: a different business culture, their ignorance of laws and the economy, corruption, etc. Moreover, 28 percent of the Slovenian companies who were surveyed believe that the state should do more to help them to penetrate those markets. Companies, for example were very pleased with the donations of the Republic of Slovenia under the ODA. As many as 49 percent of the companies believe that the grant is a significant contribution to the realization of their projects in the beneficiary country, but believe that more could be done to foster economic progress in developing countries.

4. Future plans and qualitative assessment of private sector development aid effectiveness

As we mentioned before most of the private sector in Slovenia is included in development assistance through the CMSR. Criteria for the selection of individual company are set out in the Rules for the implementation of ODA and Rules for evaluating the ODA projects. In addition to CMSR Slovenian companies are also included through the United Nations Industrial Development Organization (UNIDO), which applies the provisions of the Cooperation Agreement between UNIDO and the Government, or by direct selection to tender for contracts according to national law and the rules of procurement (MFA).

According to Slovenian Ministry of Foreign Affairs (MFA) private sector is indisputably gaining in importance. Belief that public resources are enough is far from sufficient to address all the global challenges, and to solve the development problems there is the need to attract private capital in general. Many even believe that the private sector should become the driving force in development assistance. There are just too many needs in the developing world and they are too complex and interconnected to be effectively addressed only with the instruments and financial resources of the public sector. In the framework of development assistance in Slovenia the private sector is often overlooked as a co-financer. The private sector is mostly regarded as one of the performers of development policies and too rarely as a co-financer or even funder of projects that are both important for the development of the partner countries and an attractive business opportunity for Slovenian companies. Public - private partnership, for example, is recognized as an extremely challenging already at national level, and in the international context it is even more complicated. One of the reasons for non-utilization of the potential of the private sector is also limitations in resources and human capacities for economic integration in the development assistance.

The Chamber of Commerce and Industry also agrees that private sector in Slovenia is mainly a contractor and not really a co-financer of the development projects, but they also recognise the importance the private sector has in development assistance. So they try to advise companies and pass them the necessary information about the public-private partnerships and developments projects and refer them to the CMSR or Ministry of Economy where they can get more information. Several times they also tried to popularize the development

assistance projects in their events but among companies but there was not sufficient interest. They are trying to create some mechanism for „channelling“ interested companies to development projects though.

It is interesting that even companies agree that the public development actors should try to increase the interest of the private sector and actually activate the sector in real life situations. Moreover 58 per cent of the surveyed companies agrees that public sector should enhance public-private dialogue on setting medium to longer term goals, 50 per cent of them thinks that private sector should participate in cross-sectoral working groups and only 16 per cent of them thinks that private sector should participate in technical committees and advisory boards. 75 per cent agrees that public sector should develop more co-financing mechanisms and develop joint monitoring and evaluation frameworks. Moreover they also recommend specialization of part of the private sector in financial consultation with real life experienced staff and support from public sector with know-how transfer. Optimum would be in setting up a system of professionally oriented members who can share their know-how on case by case basis and contribute with their experience.

As the main challenge in cooperating with public sector the companies see the bureaucratic complexities and lack of governmental interest (67%), lack of open and transparent access to financial instruments (50%), difficulty in aligning interests and finding common ground and lack of incentive to pursue agreed goals (41%), less problematic are lack of in-house incentive (25%) and lack of in-house capacity and lack of access to relevant policy documents (8%). Interesting are also their recommendations, because some would gladly participate in further actions and development as well active as passive and some are absolutely against it (“Get politics out of the private sector. Governance of the law only!”).

In keeping with the increased role of the private sector, the debate on aid effectiveness should be enlarged to include “development effectiveness”. Better efficiency will be achieved through better organization, better division of labour, avoiding duplication, better cooperation between public and private sector. Moreover, the project, which does not address the needs of the recipient country, no matter how well designed and implemented it is, is not effective. Ineffective are also activities that do not show adequate durability. The OECD and the EU has already done a lot of work in this area, however, there is still a lot of challenges, especially in Slovenian bilateral cooperation. In recent years, there have been significant improvements in the field, from consolidation of resources, better tracking of priorities, more strict reading of project proposals and also including assessment indicators. Such trend will be also maintained in the future (MFA).

One of the main problems that occur is the lack of private sector attention on development issues through public discussions and raising publicity on development issues. There should be done more to attract the private sector funds and also their expertises and knowledge. Ideally public sector would organize awareness campaigns and cooperate more with companies. All sides agrees (interviews) that the MFA is the one who should create development policy and that is not good to involve private sector at that stage of development process, but when it comes to the implementation process they should include also representatives from private sector, because only by cooperating we can get the most from the funds that are spent in investment projects.

Conclusions and recommendations

Increased visibility of Slovenia in its aid recipient countries would allow the entry of a greater number of Slovenian companies in those markets: it makes sense that the Slovenian economy is more incorporated in the formulation of its official development cooperation programs. The economic interest can be claimed on both types of official development assistance; multilateral and bilateral cooperation; however, bilateral cooperation is most important for fostering economic interests. This kind of cooperation allows the donor country to have more power to determine the conditions of private sector involvement in development aid programs. The importance of other forms of bilateral cooperation, such as direct investments, development cooperation, cooperation between companies and joint actions on third markets, will increase during the time, so the role of the Slovenian government in terms of providing support for the enterprise sector is crucial. These are all

countries where it is important to maintain good political relations with in order to be able to significantly expand business cooperation.

Firstly, it must be stressed that the main objective of all companies is still creating a profit. At this point, we can raise a question on how to combine these two concepts (creating profit and development aid) so that it does not lead to potential abuse (effects of corporate financing are not necessarily only positive. For example, companies may be humanitarian-oriented in a “fictitious” way, but in reality this is only a “cover” for the exploitation of cheap labour or for causing environmental pollution). Therefore, the main challenge that arises in this field is how to balance the expectations of the public sector and the public about the positive impact of business on development of less economically developed countries, while keeping in mind their perception of businesses, the vast majority which exist for the sole purpose of maximizing profits. FDI and good trade relationships can create jobs or necessary infrastructures for developing countries. But they also have negative side effects. They lead to strong deregulation which can harm the legal protection of persons. They often focus on the exploitation and exportation of cheap resources to the detriment of sustainable territorial development and their fiscal contribution to developing countries’ budget are often low. But including the private sector into development assistance is usually beneficial for both sides, especially in investment projects. On the one side it helps public sector by gaining additional funds, which can be spent on development assistance and are due to the austerity measures necessary, and on the other side it helps the private sector to establish good business relationships with developing countries and help them face a variety of obstacles by providing them a good references when expanding their business to developing countries. The shift from being only performers of development policies to a co-financer or even funder of projects has to be made, because it is important for the development of the partner countries and also an attractive business opportunity for Slovenian companies.

Secondly, the ultimate benefits in this area are also very difficult to measure, since the benefits on the economic development of countries are mostly indirect (e.g. paying taxes, job creation and, consequently, infrastructure development). Because these are mainly investments in an unstable economic and social environment, the first step is to ensure appropriate conditions for businesses to operate in these “developing” countries (especially suitable regulatory frameworks). Moreover, common principles need to be agreed upon to promote greater cooperation between the public and private sectors, with the objective of increasing understanding of their respective contributions towards common development objectives, building on existing initiatives.

Thirdly, in partnering with governments and international agencies, private and public donors should agree on common development outcomes and engage with each other in transparent and inclusive dialogues on their priorities which will improve aid effectiveness that concern all project partner countries.

Finally, the current aid revolution should be welcomed, but also closely monitored. Since there is still the fear of exploitation by companies, there is a tendency for mutual cooperation between the public and private sectors in a form of a public-private partnership (PPP). Through PPPs, we can ensure greater transparency and compliance with environmental and other standards while promoting socially responsible methods of doing business. In addition to that PPPs also help reduce risks when expanding business on unstable markets.

To sum up, the role of the private sector in Slovenia is still not as important as in other European countries, where private sector actively contributes to development assistance. Although private sector is recognised as important development actor, it is still too often seen only as a contractor who has the necessary means and knowledge to implement bilateral investment projects and not as a funder or co-financer of development assistance. So in the future there should be done more when supporting the business activities in the developing countries. First of all, the development actors (MFA, Ministry of Economy, Chamber of Commerce and Industry and all the interested companies) should strengthen their cooperation mostly through transparent and inclusive dialogues and find new ways to combine their interests, capacities and efforts in order to contribute to the attainment of the post-2015 agenda and also start considering innovative sources of financing, moreover new partnerships will play a crucial role in a new development landscape. Furthermore, there should be done more when raising publicity on development issues. MFA and Ministry of Economy should have more public awareness campaigns and public discussions which will also help motivate private sector and give them the

opportunity to express their concerns and also offer their knowledge and expertise's. It is important to increase the role of the private sector and at the same time also promote socially responsible methods of doing business, especially when dealing with development assistance, so that we will avoid exploitation and exportation of cheap resources, which is the main goal of development assistance.

Appendix 1

Table 1.

Countries	Priority area (ODA recipient)	Presence of NGO	Presence of Slovenian embassy	Number of Slovenian companies	OECD DAC list
Serbia	✓	✓	✓	1675	Upper Middle Income Countries and Territories
Bosnia and Herzegovina	✓	✓	✓	1791	Upper Middle Income Countries and Territories
Turkey	X	✓	✓	260	Upper Middle Income Countries and Territories
Ukraine	✓	✓	✓	233	Lower Middle Income Countries and Territories
Republic of Macedonia	✓	✓	✓	947	Upper Middle Income Countries and Territories
Albania	✓	✓	✓	191	Upper Middle Income Countries and Territories
Kosovo	✓	✓	✓	452	Lower Middle Income Countries and Territories
Montenegro	✓	✓	✓	633	Upper Middle Income Countries and Territories
Iran	X	X	X	107	Upper Middle Income Countries and Territories
Kazakhstan	X	X	X	77	Upper Middle Income Countries and Territories
Republic of Moldova	✓	✓	✓	67	Lower Middle Income Countries and Territories
Uzbekistan	X	X	X	28	Lower Middle Income Countries and Territories

Source: Sloexport, MFA, Sloga (2012)

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