POTENTIAL AND PROSPECTS FOR PRIVATE SECTOR CONTRIBUTION TO POST-2015 DEVELOPMENT GOALS: HOW CAN DEVELOPMENT COOPERATION STRENGTHEN ENGAGEMENT AND RESULTS?

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CONTENTS

ABSTRACT

Though the importance of its role in realizing a development agenda has been often emphasized, the private sector has not emerged as a full-fledged development partner. The transformation to full-fledged partnership is an imperative as the world prepares to launch on an ambitious new development thrust appropriate to the post-2015 period. Recognizing that, this paper discusses the ways in which the private sector can function as a development partner, the obstacles to its emerging as one, and the interventions needed on the part of different actors at the national and international level to catalyze and ensure this transformation. A first and inevitable step in the transition must be the willingness of the private sector to become part of a global compact to promote employment, ensure minimum labor and environmental standards, and respect human rights. But far more is required of the private sector. Private agents, especially the corporate sector, must serve to be recognized as full-fledged development partners. This paper examines the way that they can do so, in particular the role that they can play in financing the post-2015 development agenda. Besides contributing by way of taxes that help finance the government's development effort (and abjuring tax evasion and avoidance), the private sector is seen as an agency that can not only leverage its technical and managerial expertise to bring real resources into play when helping implement the agenda, but also mobilize resources and directly finance its costs in multiple ways. Such financing efforts would require institutional and financial innovations, the advantages and shortcomings of which are explored.

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EXECUTIVE SUMMARY

If the post-2015 Development Agenda now under discussion commits to not merely finish the millennium development goal (MDG) agenda but go beyond it, it would have to establish more ambitious, credible, and monitorable goals, and find new ways to achieve them within a definite time frame.

To help implement the agenda and realize its goals, the United Nations' High Level Panel of Eminent Persons on the Post-2015 Development Agenda called for a new global partnership, which includes the private sector, both directly as the "business community" with the skills and expertise to mobilize and deliver technical, managerial and financial resources, and through the philanthropy that its profits sustain.

The potential role that the private sector can play in the Asia and Pacific region is immense. The unusually remarkable growth experience in the Asia region has been substantially led by the private sector (including in the People's Republic of China [PRC]). Moreover, while large family based conglomerates have played an important role in that dynamism, so have the small and medium-sized enterprises (SMEs) and self-employed individuals. The private sector's contribution, "institutionally" speaking, has been wide-ranging.

The Asian continent today accounts for 28% of global GDP and its three largest economies—the PRC, Japan, and India—account for 28% of the global economy when measured in purchasing power parity GDP. Competition in a more globalized world, rising wages (especially in the PRC), and the danger of being displaced from the global value chain by countries in Africa and elsewhere have pushed and are pushing firms long used to a substantial dose of protection and state support to adapt to rivalry. The result has been sustained innovation and persisting, even if lower, growth.

But, evidence that that growth has not delivered enough in terms of poverty reduction and human development advance, in individual countries and across the region, is substantial. More than 700 million people in the region live on less than $1.25 a day and it hosts 60% of the world's hungry. The responsiveness of employment to growth in a region plagued by underemployment is disconcerting. A large number of children are still out of school in many countries in the region and the quality of much education is poor. Achievements in health relative to the MDGs are disappointing in many areas. And as the middle class in these countries grows richer and turns more consumerist, the corresponding expansion in production occurs in ways that make some countries the worst polluters and places them among those who damage the environment most.

Thus, the unfinished MDG agenda and the new challenges that have to be addressed in the post-2015 period are multifarious in Asia and the Pacific. The region needs more growth in output and employment, but must find ways of realizing that in ways that are sustainable and also deliver more equally distributed welfare and social benefits. The challenge here is not just the design of appropriate strategies and projects to achieve this end, but of putting to work all actors (including the all-important private sector) and finding ways of financing investments that must combine other developmental and sustainability objectives with growth and profitability goals.

Asia and the Pacific has an advantage as a region when it comes to financing investments and expenditures required as part of a sustainable development agenda. As ESCAP (2014) notes, the region has over $7 trillion in foreign exchange reserves, more than $2.5 trillion in sovereign wealth funds and about $7.4 trillion as private savings. These countries are also beneficiaries of incomes earned abroad. The top three recipients of two-fifths of the $414 billion received by developing countries in 2013 as remittances from migrants, were India ($71 billion), the PRC ($60 billion), and the Philippines ($26 billion) (World Bank 2013). That accounts for close to two-fifths of the total. Pakistan, Bangladesh, and Viet Nam are also large recipients from the region.

Thus, shortfalls in infrastructural investment and expenditure on projects that could have finished the MDG agenda are not because of a lack of the financial means to command the real resources to do so, but because of the absence of innovative resource mobilization initiatives that take hold of those resources and channel them to the agents who can appropriately deliver achievements on one or the other goal or target.

The for-profit private sector is a major and in many countries the dominant investor, producer of goods and services and provider of jobs and means of livelihood. It is involved in extracting and using mineral and other natural resources and generates a range of emissions and effluents. So whether or not it is seen or sees itself as a development agent, the fact is it is, and contributes both positively and negatively to the realization of developmental goals.

But recognizing the private sector as a development partner implies that the private sector's contribution and success should be assessed not only in terms of volume of activity, efficiency of operation and profit but also in terms of the impact its activities has on equitable and sustainable development.

That contribution has gained in relevance because a combination of tax forbearance and fiscal consolidation combined with tax avoidance and evasion is eroding the tax base of the government. This, in turn, is limiting the role that governments can play in realizing a set of binding development goals that are universal. This erosion of state capacity needs to be directly addressed, by enhancing the taxes that the private sector pays to sustain the government's developmental role.

However, to the extent that there is a redistribution of surpluses commanded in favor of the private sector, it must be required to directly contribute a share of the resources devoted to realizing various developmental goals. In the case of private individuals in the higher income brackets and corporate entities with large profits, the direct contribution of the private sector tends to include philanthropic contributions made through foundations established for charitable purposes or directly to public or private agencies. It is, however, necessary to distinguish between individuals and households, on the one hand, and corporate organizations on the other. The capacity to contribute and the multiplicity of ways in which they can contribute are much higher in the case of the latter.

The private sector also contributes through its savings out of profits, wages, salaries and interest and rental incomes, which are then intermediated by financial institutions and channeled to projects that in various ways contribute to the development agenda. There are signs that increasingly some of these investors are taking into account sustainability objectives and social inclusion requirements, besides profit potential, when deciding on the projects they would invest in or support.

As of now, a large part of the private sector is focused on short term profits, and does not even meet sustainability or social standards set as part of domestic regulatory requirements, or nonstatutory, nationally or globally prescribed norms. The first step in the transition to development partnership is greater adherence by the private sector to environmental regulations and labor standards. This was the focus of the UN Global Compact, which delineated “ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption.”

There are many reasons why hitherto the private sector may have been treated as a marginal player in the pursuit of a human development agenda. First, the long-term evidence does suggest that the level, direction and form of private investment have been driven by near- or medium-term profitability considerations, with little attention to longer-term sustainability or developmental objectives. In fact, much of state regulation has been concerned with statutorily requiring the private sector to adhere to benchmarks, such as labor or environmental standards (set locally, nationally or as part of international conventions or treaties), for example, so as to maximize the social benefit it delivers.

Second, the “efficiency” of the private sector is in considerable measure attributed to competition or rivalry. This implies that even if individual firms or managers are keen on pursuing objectives other than profit, they may be thwarted by the competitive struggle in which they are forced to match up to those aiming to keep short run costs the lowest, despite adverse developmental or sustainability implications. This not only affects operations in individual nations but also results in corporations choosing locations that are lowest cost because of poor labor conditions, low wages and weak environmental standards and laws. Thus a social compact on standards, with a mutually agreed upon monitoring and enforcement mechanism seems unavoidable, at least at the present stage.

Finally, the above noted features of the private sector, which are seen as limiting its effectiveness as an agent contributing majorly to either human development advance or sustainability are seen to have been magnified by the turn to more liberal, market-friendly development strategies in recent decades, which have intensified rivalry and competition while diluting regulation.

These features do not imply that the search for opportunities to move beyond (while retaining) measures that cajole, persuade, or pressure the private sector into taking the right steps should not be taken up. In a world where the private sector does and will continue to play a role, the effort to get it to overcome the structural limitations to its taking on a role as development partner and transcend its conventional behavior should be pursued with vigor.

This requires moving beyond Corporate Social Responsibility (or CSR) as adopted by the private sector for reputational reasons, defined for provision of tax benefits or often even mandated by law. Rather it is the contribution firms make through “actions that appear to further some social good, beyond the interests of the firm and that which is required by law.” A firm must see itself as being, besides a profit-seeking entity, an agent contributing to socially just and sustainable development.

This understanding of the role of the private sector goes beyond treating private agents as potential implementers of government programmes. The private sector must design the programme and raise the resources required to finance the activity delivering developmental results, though there are no barriers to it doing so within a for-profit framework. One of the reasons why the private sector needs to be brought in to further the development agenda is that it adds to the resources available for the purpose. It is this net addition to the financing of development that is crucial.

There are two sources from which the private sector’s desire to be a development partner can emerge. One is from within, when profit-seeking private agents increasingly recognize that they too in the medium and long-term would benefit directly or indirectly (through goodwill, employee satisfaction, social support and government approbation) from not just adhering to but helping advance socially agreed developmental norms and goals. The other is when, as noted earlier, the private sector is cajoled (with incentives), persuaded or pressured into behaving in socially acceptable ways.

Given the essentially profit-seeking character of the private sector, with the pursuit of profit providing its principal raison d'être, its journey to social responsibility and transformation into a development partner are more likely to begin with the second of these influences. As its behavior changes under such influence, and the benefits of socially responsible behavior are recognized, it is indeed possible (as is happening even now in some cases) that the private sector (or much of it) would internalize those objectives and turn into a development partner.

But regulation does not always consist of principles or rules imposed on the private sector "from outside" or above, by the state. Most regulations have evolved out of a consultative process between the private sector, the state and sections that see themselves as affected by the operations of the private sector. Labor legislation, for example, was an important instance of a tripartite "settlement" between workers (often organized in movements), the State and the private sector, and signaled the possibility of a social compact.

Regulation works in altering private sector behavior and the transition from enforced to voluntary compliance is facilitated when private actions are monitored and their outcomes compared with benchmarks specified by official or outside agencies. Here the role of the media and civil society organizations can be quite crucial.

The flip side of being motivated by media scrutiny and pressure is the concern that corporations have for the reputation of their firms and brands, and industry organizations have for their industry. Reputation is crucial for winning the support of a range of stakeholders.

In some instances, often as a result of civil society activism, shareholders or consumers themselves become activist hubs. While environmental issues seem to play an important role in socially responsible investor strategies, the overall thrust is to invest in companies that share the moral, ethical, social and political views of the investor. Socially responsible investors screen companies to establish their adherence to social responsibility objectives, seek to influence the strategies of companies in which they have a stake, and often support community investment in needy areas.

Pressure comes not merely from stakeholders directly engaged with private sector actors, but also from the governments that decide on making the for-profit private sector contribute to development. Thus, besides instances of voluntary resort to activities reflective of "corporate social responsibility" financed out of the profits of the private sector, the government may induce such activities with tax concessions or may statutorily require a certain share of profits to be allocated in that direction. A recent and remarkable example of the latter is the Indian government's decision to mandate companies of a specified size to spend at least 2% of their average net profit over the preceding three financial years on CSR activities in areas such as livelihood enhancement, rural development, improvement of the status of socially and economically backward groups and establishing homes and hostels for orphans and women.

The government may also choose to "employ" the private sector to produce certain goods or deliver a set of services, the profit-inclusive costs of which are financed with resources mobilized by the government. A common example is in the health services sector where government contracts private providers to offer services to patients covered under public health schemes and national insurance schemes.

However, instances where the private sector seeks to partner with the public sector, contributing both in terms of technical assistance and financial resources, either in order to earn goodwill or because of a genuine desire to make a social contribution are the kind of public–private partnerships that should be encouraged and promoted in the effort to make the private sector a full-fledged development partner.

A crucial contribution that the private sector can make is through harnessing technology to advance the post-2015 agenda. This issue must be addressed carefully. It is in the nature of technological advance in any one sector that it is associated with an increase in labor productivity, which provides the basis for both improved standards of living and the generation of higher surpluses to finance investment. But the flip side of this is that in sectors characterized by rapid productivity advance the responsiveness of employment to increases in income is low.

Since employment growth is likely to be central to the post-2015 agenda, the potential tradeoff between productivity advance and employment growth has to be addressed by harnessing technology to diversify production, enlarging the production and services base of the economy by producing a wider range of goods and services, widening the domestic value added chain by entering into new areas of export production and expanding demand through product innovation. In fact, two areas are likely to be crucial to employment growth in these contexts: one is the expansion of much needed services in areas such as health, education and water supply and sanitation, which directly advance human development while creating new employment opportunities; and the second is the expansion of the manufacturing and services base in these economies.

Financing Issues

Given the multiple ways in which the post-2015 development agenda would be pursued, the projects involved would earn returns of varying magnitudes. This obviously needs to be taken into account when planning financing strategies. To start with, it is necessary to distinguish between projects which need to be financed that are unlikely to yield any direct returns (primary schooling in remote areas, for example) and others in which full user charges or partial user charges supplemented by means such as government subventions can deliver revenues and net returns to the private sector.

Once this distinction is made, the mode of mobilization of resources and, therefore, the private sector's contribution to it, would be influenced by the decision as to whether a public sector agency or the private sector is vested with the mandate to implement the project or scheme. Even when it is the private sector that is the implementing agency, the nature of financing would differ depending on whether the resources required are being mobilized by the private sector or are being provided in full or partially by the government.

Even if it is the private sector that is providing the resources, the mode of financing would vary depending on whether the activity is being undertaken as a philanthropic or charitable activity by the private sector or is being undertaken by the private sector on a for profit basis (with or without some emphasis on sustainability and social inclusion objectives).

In areas where it is the government that is undertaking or financing the activity (fully or partially), and does not receive a return, it needs to mobilize resources from outside the project space. The principal form of resource mobilization by the government for such purposes is tax revenue.

As of now in most developing countries activities that have to be financed out of the government's own revenues dominate interventions that favor development. But performance in the Asia and Pacific region in mobilizing revenues through taxation is on average below potential, "with most developing countries of the region collecting taxes amounting to far less than the 25 per cent to 35 per cent of GDP commonly used as a benchmark for development" (ESCAP 2014, 17).

According to ESCAP (2014, 17): "The Asia-Pacific region is the least successful at collecting tax of all global regions—averaging only 12.3 per cent of GDP in 2011, compared to an average of 14.6 per cent of GDP in Latin America and the Caribbean, and 17.2 per cent in sub-Saharan Africa. In 2011, only seven countries collected tax revenues of more than 20 per cent of GDP—and some had tax-to-GDP ratios in the single figures."

On equity considerations linked to the development agenda private sector contributions to the governments revenues must be through direct taxes. Unfortunately, during the period 1980 to 2000, while the share of direct taxes in total tax revenues in developing countries stagnated in the 27%–29% range, the share of indirect taxes (other than taxes on trade) rose from 29% to 40%. This trend needs to be arrested and partially reversed.

In practice, the private sector in many developing (and developed) economies does not adhere in full to existing tax regulations and deliver revenues due under the existing tax structure. Tax evasion, amounting to the deliberate and illegal failure to pay tax liabilities, and tax avoidance, or the effort to use loopholes in the law to legally avoid paying taxes due, is rife. This must change.

Financing Schemes

Besides tax revenues, what are required are innovative measures that attract and/or channel a part of private savings into the desired avenues. One set of such measures would be that of identifying the appropriate institutions and instruments to bridge the separation of those who earn in excess of their desired current expenditures and those requiring resources in excess of the "own capital" they have access to. These measures must also be designed to address the very different combination of returns, risk and liquidity expected by savers of different kinds. Measures must also be devised to divert "exceptional" earnings from nonreproducible resources, especially exhaustible resources, and from windfall gains of various kinds to projects that serve long term sustainable development and equity objectives.

An important institutional innovation in many late-industrializing developing countries was the creation of what are broadly called "development banks", which most often, but not always, are public or joint sector institutions. Development banks are mandated to provide credit at terms that render industrial, agricultural and infrastructural investment viable. They tend to lend not only for working capital purposes, but to finance long-term investment as well, including in capital-intensive sectors. They also invest in the equity of the enterprises concerned. For these purposes, in many countries, the development finance institutions were provided resources either directly from the government's budget or the central bank, whereas in others the main sources of funding were bonds issued either to the banking system or in the "open market."

One common financial endeavor across Asia and the Pacific is to develop the bond market as a means of mobilizing savings for long term, less liquid investments, such as in infrastructure. Bonds and securitized instruments are considered to have better risk sharing characteristics and as facilitating the diversification of risk. The Asian Bond Market Initiative was launched by ASEAN+3 (the People's Republic of China, Japan, and the Republic of Korea) in 2003 and has since been strengthened. Important measures under the initiative are a Credit Guarantee and Investment Facility (CGIF), the dissemination of market information, and strengthening the regional bond market infrastructure, through the creation of a Regional Settlement Intermediary, for example. This initiative has to be strengthened and taken forward, while guarding against sources of fragility.

Three among many other measures being adopted to strengthen access to long term financing via the bond market are worth noting. One is to provide bond guarantees that reduce the risk associated with long-term exposure, while simultaneously increasing liquidity and therefore the possibility of exit from bond markets. An example is the Credit Guarantee and Investment Facility (CGIF) referred to earlier, set up as a trust by ASEAN+3 and the Asian Development Bank (ADB) in 2010, which provides guarantees for bonds issued by firms facing constraints in securing long-term funding from the local bond market. The second is to strengthen the mutual fund infrastructure, providing smaller savers with the option of buying into liquid mutual funds that in turn invest in debt securities. And the third is to address with new instruments the lack of adequate savings options for sections of the middle class emerging from the process of rising per capita incomes.

Sustainable development goals are advanced when populations at the bottom of the income pyramid are able to engage in economic activities that deliver reasonable earnings. Establishing a presence in such activities and growing to viability is substantially facilitated by access to credit. However, since these borrowers have small loan requirements, are dispersed and often based in remote locations, the formal financing infrastructure does not reach them or cater to their needs. Moreover, when they do have access, the high transaction costs associated with such lending, results in interest rates that are too high to support much productive activity.

Thus, the effort at financial inclusion, or reaching finance to small enterprises and poor borrowers, has had to experiment with innovations of various kinds. Some are obvious, such as the use of business correspondents and banking facilitators as conduits for credit in locations where it does not make sense to establish brick-and-mortar banking facilities. Being local, these agents are better informed about their clients and more capable of gathering the information needed for viable lending. These agents deliver loans to the primary borrowers, and are, in turn, supported with lines of credit from the banks, which reach credit to small borrowers in the process. Loans are not only for productive purposes but are used to finance some consumption expenditures or special needs such as emergency health expenditures.

Getting upper middle class investors to park their savings in financial assets that finance developmental projects requires designing special instruments that assure them of a reasonable (even if imperfect) hedge against inflation, while providing them a relative return that more than compensates for any possible risk relative to deposits. One instrument experimented with is an inflation-indexed bond. But with much uncertainty about inflation, the burden of such financing is too unpredictable to serve as the basis for stable long-term funding.

The above features seem to hold in the case of remittance flows to Asian developing countries as well. A substantial share of routine remittance flows often go to meet the consumption expenditures of the families of temporary migrants who stay back in the home country. A part of surplus incomes are transferred to finance housing investments. But even when the lump sum required for the purpose is being accumulated or remitters choose to hold additional savings in the home country, the first port of call are bank deposits, especially foreign currency deposits that offer higher rates of interest than available internationally and insure the depositor against any exchange rate risk.

Some developing countries also generate surpluses in the form of windfall gains that result from the availability of and price increases in exhaustible and nonreproducible resources. These gains are "windfall" in nature for this double reason that they are not available forever, and tend to be high during periods when special circumstances result in a spike in prices. Given these characteristics it is essential that the countries concerned, especially when they are otherwise poor, must husband these resources and when exploiting them use them to advance to the maximum extent possible sustainable development goals.

Countries with the advantage of such access to a significant export revenue-earning sector, must ensure that the functioning of that sector does not lead to early exhaustion of the available resources, does not burden the rest of the economy with an overvalued exchange rate that undermines the competitiveness of other tradable sectors, and does not have damaging ecological consequences that impinge on the livelihoods of the rest of the population. Secondly, since most low-income exporters rely significantly on the extractive industries, the social ownership and common property nature of those resources need to be respected and the proceeds from export success used to strengthen the rest of the economy. Public ownership by a democratically accountable state or taxation of net revenues, to finance investment in productivity enhancement and economic diversification and provide for adequate social expenditures, is a must. Third, when this is done the investment made should focus on sectors such as infrastructure the inadequacy of which constrains development in poor countries, but in which the private sector is unlikely to show adequate interest.

When the gains are windfall in nature, they by definition would be of a magnitude where a country may not be able to productively absorb all of it immediately for sustainable development purposes. So, transferring them into a fund that is invested in ways that protects the value and purchasing power of those resources is crucial. One way in which this is done is through the medium of sovereign wealth funds. Conventionally, such assets were invested in safe, guilt edged securities of countries with strong currencies, such as US government Treasury bills. But given the low yield of those assets and the dangers of excess exposure to just a few instruments, countries holding large volumes of such assets are looking to diversify their investment targets. This has raised the question as to why such assets should not be invested (directly or indirectly) in developmental initiatives such as infrastructural projects.

An important method to get agents in the private sector to undertake activities that self-consciously or otherwise advance one or the other development goal is a public–private partnership in which the government and the private sector share responsibilities, risks and the financing burden. Based on a contract specifying the roles and responsibilities of the governmental and private parties, a PPP provides for risk sharing between the two and links financial returns to be earned by the private entity to the delivery of a set of specified outputs. Where mobilizing finance, besides other capabilities of the private sector is the motive, the government should design the partnership in ways in which it can incentivize private investment as well as facilitate the mobilization of finance in the form of equity and debt by the private partner. This requires finding innovative means of financing these projects, setting prices at levels that generate adequate revenues and/or providing for transfers that allow the private player to balance the social costs that the government may impose on them.

In instances where the government wants the private sector to set prices below what is warranted by normatively assessed costs and a reasonable return, it must be in a position to either finance part of the capital cost with a grant (viability gap funding) or provide a subsidy to cover the difference. However, government support cannot be such that the government carries all the risk of project failure: by guaranteeing purchases at predetermined prices by public utilities independent of market demand; by guaranteeing debt and taking over exchange rate risks on foreign borrowing; or, by promising to reimburse private partners if demand is below a certain level.

To quote the World Bank (2014): "PPPs are not a panacea. The literature points to the negative effects on public budgets because of contingent liabilities not being adequately assessed, insufficiently reported, or accounted for off-balance sheet. Furthermore, PPPs are generally considered to be more expensive than purely public financing due to higher private sector borrowing costs and high transaction costs in general. Moreover, PPPs are likely to produce inadequate risk allocation due to lack of competition during bidding and be subject to renegotiations which may put the public sector in a weak position and subsequently lead it to accept undue risks."

Philanthropy on the part of corporates and the wealthy who own them has been an abiding feature of capitalism, and has gained strength over the last century. But when Warren Buffet decided to bequeath much of his near $60 billion in wealth to the already well-endowed Bill and Melinda Gates Foundation, and Buffet and Gates together decided to persuade other wealthy individuals to join a "Giving Pledge," the nature and impact of private sector philanthropy was seen as changing. While there are limitations to the data available on philanthropic giving, funding through philanthropic organizations to development-related activities is estimated to have grown significantly: conservative estimates point to an increase from $3 billion in 2000 to $7 billion–$9.5 billion in 2009 (UN 2013).

Thus, the United Nations' Development Cooperation Forum Special Policy Dialogue held in April 2013 noted: "With the discussions on a post-2015 development agenda taking centre stage, and implications of a changed development landscape becoming more apparent, exploring the role of philanthropic organizations in international development cooperation is timely and critical. New ways to collaborate and build cross-sector capacity and networks among philanthropic organizations, member States and other stakeholders will be vital to promote innovation and strengthen partnerships to address development challenges."

Private philanthropic organizations are seen as contributing to both financing and operational innovation, facilitated by their financial independence and consequent ability to take risks, and applying principles and practices adopted in corporate activity. They are therefore seen as capable of investing in projects using new approaches and technologies, and as being willing to support scientific research.

Enhancing the role of the private sector in furthering the post-2015 development agenda does not absolve the international community of its responsibilities that would now only be shared. There are four important tasks international cooperation at a global and regional level must pursue: setting benchmarks that are global, whether they are to do with labor conditions or environmental standards; enhancing the global compact so that the private sector is not just called upon to internalize existing treaties and conventions but become a true development partner, contributing resources, technology, effort and expertise; develop global and regional monitoring and regulatory mechanisms; make, intergovernmental organizations the hub to strengthen cooperation that does away with wasteful replication and fosters mutual respect and trust between governments, the private sector, the NGO community and the intelligentsia, so that a truly meaningful development partnership can be forged.

1. INTRODUCTION: THE PRIVATE SECTOR IN A NEW "DEVELOPMENT PARTNERSHIP"

The global community is in the midst of assessing the achievements and shortfalls of nations with respect to the millennium development goals (MDGs) and targets (for 2015) they had set for themselves. While considerable success has been achieved in progress towards the MDGs, even in crucial areas such as hunger, poverty, sanitation, and health there are targets that remain unmet. That assessment and the new challenges that have emerged since the 1990s are expected to shape the future developmental agenda for the post-2015 world, and influence the strategies that would be adopted to realize the new goals and targets that would be set.

The regional MDGs report for 2012–2013 (ESCAP, ADB, and UNDP 2013) sought to define a set of core principles that should define the post-2015 agenda. It argued that the new framework should cover the three pillars—economic, social, and environmental—of sustainable development, and promote not just inclusive growth but one embedded in equity. This would permit the realization of a range of goals including, zero income poverty, zero hunger and malnutrition, substantial gender equality, decent jobs for everyone of working age, health and quality education for all, improved access to safe and sustainable drinking water, sanitation, and basic energy services for all, protection of critical ecosystems, reduction of resource use intensity and avoidance of overexploitation of natural capital, and progress towards addressing climate change trends.

Realizing these ambitious goals requires moving forward in a number of areas such as economic diversification, connectivity, food and energy security, water resources management and environmental protection. This, in turn, would require investment and spending on infrastructure (roads, power plants and piped water supply to hospitals and schools, for example), new technologies (to raise productivity and address issues such as environmental damage and climate change by curbing or reducing effluents and emissions), balanced and broad-based output growth (that generates jobs and improves livelihoods), skill development (to better protect forests and biodiversity and improve health delivery and the quality of education), and so on. The challenge, though partly met in the years to 2015, is still immense.

While seeking to realize this agenda the instruments that would prove crucial are: financing, the harnessing of science and technology, capacity building, reform of governance, and a widening and strengthening of the development partnership (ESCAP 2014). This background paper is concerned specifically with enhancing the private sector's role in the development partnership in order to strengthen these elements, especially the effort to secure the financing required to implement the post-2015 agenda.

If the post-2015 Development Agenda now under discussion commits to not merely finish the MDG agenda but go beyond it, it would have to establish more ambitious, credible and monitorable goals, and find new ways to achieve them within a definite time frame (Olson et al. 2013). As an important step in that direction The United Nations' High Level Panel of Eminent Persons (United Nations 2013) on the Post-2015 Development Agenda went through an elaborate consultative process and prepared a report titled *A New Global Partnership: Eradicate Poverty and Transform Economies through Sustainable Development*.

The panel defined the new global partnership "based on equity, sustainability, solidarity, respect for humanist and shared responsibilities in accordance with respective capabilities" as being one which brings together "the many groups in the world concerned with economic, social and environmental progress: people living in poverty, young people, people with disabilities, indigenous and local communities, marginalized groups, multilateral institutions, local and national governments, business, civil society and private philanthropists, scientists and other academics." (p. 3)

Thus, among the constituents of the new global partnership that the panel envisaged was an enhanced role for the private sector, both directly as the "business community" and through the philanthropy that its profits sustain. Though not completely new, this attention to the private sector does signal a change in emphasis. When in September 2000 world leaders adopted the United Nations Millennium Declaration (2000), while they committed themselves to developing "strong partnerships with the private sector and with civil society organizations in pursuit of development and poverty eradication," concrete ways in which this could be done were not elaborated. The only exception perhaps was the resolve "to encourage the pharmaceutical industry to make essential drugs more widely available and affordable by all who need them in developing countries."

As ESCAP (2014) put it, Goal 8, dealing with development partnerships in the MDGs was "weakly formulated, hard to track and was only partially monitored."

That past experience notwithstanding, the potential role that the private sector can play in Asia and the Pacific is immense. While the unusually remarkable growth experience in the Asia region since the 1960s, affecting a numerically significant number of countries, has been well recognized, what is often less emphasized is that this has been substantially led by the private sector (including in the People's Republic of China [PRC]). Moreover, while large family based conglomerates have played an important role in that dynamism, so have the small and medium-sized enterprises (SMEs) and self-employed individuals. The private sector's contribution, "institutionally" speaking, has been wide-ranging.

The results are there for all to see. The Asian continent today accounts for 28% of global GDP and its three largest economies—the PRC, Japan and India—account for 28% of the global economy when measured in purchasing power parity GDP. Competition in a more globalized world, rising wages (especially in the PRC), and the danger of being displaced from the global value chain by countries in Africa and elsewhere have pushed and are pushing firms long used to a substantial dose of protection and state support to adapt to rivalry.

On the other hand, evidence that that growth has not delivered enough in terms of poverty reduction and human development advance, in individual countries and across the region, is substantial. More than 700 million people in the region live on less than $1.25 a day and it hosts 60% of the world's hungry. The responsiveness of employment to growth in a region plagued by underemployment is disconcerting. A large number of children are still out of school in many countries in the region and the quality of much education is poor. Achievements in health relative to the MDGs are disappointing in many areas. And as the middle class in these countries grows richer and turns more consumerist, the corresponding expansion in production occurs in ways that make some countries the worst polluters and places them among those who damage the environment most. This is despite the fact that Asia and the Pacific is home to many countries that are threatened the most by the fallout of climate change and the accompanying rise in sea levels.

Thus, the unfinished MDG agenda and the new challenges that have to be addressed in the post-2015 period are multifarious in the Asia and Pacific region. The region needs more growth in output and employment, but must find ways of realizing that in ways that are sustainable and also deliver more equally distributed welfare and social benefits. The challenge here is not just the design of appropriate strategies and projects to achieve this end, but of putting to work all actors (including the all-important private sector) and finding ways of financing investments that must combine other developmental and sustainability objectives with growth and profitability goals.

1.1 Financing: The Asia and Pacific Region Advantage

In a fundamental sense, Asia and the Pacific has an advantage as a region when it comes to financing investments and expenditures required as part of a sustainable development agenda. As ESCAP (2014) notes, the region has over $7 trillion in foreign exchange reserves, more than $2.5 trillion in sovereign wealth funds and about $7.4 trillion as private savings. These countries are also beneficiaries of incomes earned abroad. The top three recipients of the $414 billion received by developing countries in 2013 as remittances from migrants, were India ($71 billion), the PRC ($60 billion) and the Philippines ($26 billion) (World Bank 2013). That accounts for close to two-fifths of the total. Other large recipients from the region include Pakistan, Bangladesh, and Viet Nam.

Thus, if there are shortfalls in infrastructural investment and expenditure on projects that could have finished the MDG agenda it is not because of a lack of the financial means to command the real resources to do so, but because of the absence of innovative resource mobilization initiatives that take hold of those resources and channel them to the agents who can appropriately deliver achievements on one or the other goal or target. These financial resources are of course in the hands of a diverse set of entities varying from households earning incomes or receiving remittances, corporates earning profits, governments mobilizing tax and nontax revenues and sovereign wealth funds to whom resources are channeled by policy. Finding ways to persuade these entities to move resources in the appropriate direction is a challenge. The challenges at a regional level are even greater because the resources named above are concentrated with a few countries but the problems to be addressed are more generalized and particularly intense in some countries that do not command the required resources in the first instance. This makes the task of financing a development agenda across countries that much more difficult. Partnership is required not just within countries, but across the region and globally.

1.2 Why Private Sector?

There are obvious reasons why the private sector should be made a partner in development whether it voluntarily chooses to do so or needs to be made to do so through regulation or persuasion. The for-profit private sector is a major and in many countries the dominant investor, producer of goods and services and provider of jobs and means of livelihood. It is involved in extracting and using mineral and other natural resources and generates a range of emissions and effluents. So whether or not it is seen or sees itself as a development agent, the fact is it is, and contributes both positively and negatively to the realization of developmental goals. So getting all actors and stakeholders to recognize this reality and work to maximize the positive fallout for development of private sector activity is the only way to go.

1.2.1 Fallout of Developments Following Deregulation and Global Integration

More recently, this reason for bringing the private sector to the table has only strengthened. An essential feature of economic transformation over the last quarter of a century or more has been an expansion of the economic space occupied by the private sector, the reduction of the role of the public sector as investor and producer and the transformation of government from being predominantly a driver, monitor and regulator of economic activity to one of being a facilitator.

One implication of this transformation is that the implicit or explicitly recognized role of the private sector in realizing the development agenda has increased substantially in practice. In as much as those goals are part of the social compact on which modern and democratic societies are built, it becomes necessary to make clear the responsibility that the private sector bears to itself and society at large by virtue of the position it increasingly holds.

Such explicit recognition which sets off the drive to make the private sector a development partner implies that the private sector's contribution and success should be assessed not only in terms of volume of activity, efficiency of operation and profit but also in terms of the impact its activities has on equitable and sustainable development. On the part of the private sector that would require recognizing that it too has a stake in developmental advance, both as corporate citizen as well as an entity securing sustainable opportunities for profit in the long run.

1.2.2 Financial Constraints in the State Budget

Besides the changing relative roles of the private and the public sectors, there is also a resource issue that matters. A combination of tax forbearance and fiscal consolidation combined with tax avoidance and evasion is eroding the tax base of the government. This, in turn, is limiting the role that governments can play in realizing a set of binding development goals that are universal. This erosion of state capacity needs to be directly addressed, by enhancing the taxes that the private sector pays to sustain the government's developmental role.

However, to the extent that there is a redistribution of surpluses commanded in favor of the private sector, it must be required to contribute a share of the resources devoted to realizing various developmental goals. Inasmuch as the activities of the private sector (consisting of individuals, household enterprises, and firms) directly deliver on those goals and objectives, the private sector is a contributor through its investments. It also contributes when it chooses to provide or is required to provide a set of employment-related benefits such as pension, healthcare support, housing, etc. But, as noted, the private sector also contributes through the direct taxes it pays to the government. In fact, public relations firms and industry lobbyists routinely refer to the tax contribution made by particular firms or industries to establish the social contribution the concerned entity is making.[1]

In the case of private individuals in the higher income brackets and corporate entities with large profits, the direct contribution of the private sector tends to include philanthropic contributions made through foundations established for charitable purposes or directly to public or private agencies. It is, however, necessary to distinguish between individuals and households, on the one hand, and corporate organizations on the other. The capacity to contribute and the multiplicity of ways in which they can contribute is much higher in the case of the latter.

The private sector also contributes through its savings out of profits, wages, salaries and interest and rental incomes, which are then intermediated by financial institutions and channeled to projects that in various ways contribute to the development agenda. There are signs that increasingly some of these

[1] Needless to say, this contribution comes also from entities like household enterprises and individuals, whose share in total tax contribution can be significant. Thus, the "contributing" private sector here is much broader than merely the corporate sector.

investors are taking into account sustainability objectives and social inclusion requirements, besides profit potential, when deciding on the projects they would invest in or support.

As governments find their own resources inadequate to meet the requirements of a development agenda and choose to fiscally consolidate because of a conviction (right or wrong) that their public debt levels are too high, the importance of expanding these private sources of funding that are, consciously or otherwise, allocated to meet one or other development priority cannot be overemphasized. Increasingly, the private sector must not merely consciously allocate a larger share of funding for this purpose, but must cooperate with and contribute to the government's effort to mobilize resources to meet development goals. An important element of this is the generation of public–private partnerships in which the balance must shift from one where the government provides much of the resources and the private sector implements the project on a for-profit basis, to one where the private sector contributes a large part of the resources and collaborates with the government in delivering social benefits, while earning profits as well.

1.2.3 Adherence to the Principles on Which Relevant Development Goals are Framed

However, it needs to be recognized that, as of now, a large part of the private sector is focused on short term profits, and does not even meet sustainability or social standards set as part of domestic regulatory requirements, or nonstatutory, nationally or globally prescribed norms. The first step in the transition to development partnership is greater adherence by the private sector to environmental regulations and labor standards. This was the focus of the UN Global Compact which delineated "ten universally accepted principles in the areas of human rights, labor, environment and anti-corruption," by adhering to which, "business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere" (See United Nations, *Global Compact*, http://www.unglobalcompact.org/AboutTheGC/index.html, accessed 1 June 2014).

Labor Standards

Labor standards vary from guidelines on minimum wages, employment of child labor, tenure and length of the working day, to rules pertaining to hazardous industries and required social security arrangements. While initially conditions are determined by pressure from organized labor and the relative strengths of workers and employers, in time these standards at the national level are set as part of a compact arrived at through tripartite negotiations involving employers, workers and the state. But given the role of relative levels of development and the level of unemployment or underemployment, conditions vary significantly across countries. Through the 20th century, the process of setting minimal global standards has evolved, with the International Labour Organisation playing an important role in setting standards and monitoring progress. But global harmonization is a distant goal because of developmental inequalities. Yet, getting employers to even adhere to national guidelines and not move production facilities to locations where labor laws and regulations are less stringent is a challenge.

Environmental Regulations

Environmental regulations specify technical standards, procedures to be adopted or other requirements to be met in processes that impinge on air and water quality, atmospheric conditions, forest cover and the like. Most countries have nationally specified standards that vary, resulting in tendencies towards regulatory arbitrage. With the growing realization that national activities can affect international conditions, especially in areas related to emissions and climate change and river and ocean contamination, governments are being required to sign international agreements or treaties that set international standards. For the private sector, meeting these standards and guidelines involves costs that can affect short-term profits. So bringing the private sector into the consultations that lead to standard setting that gives them a sense of ownership, without diluting public benefit or intergenerational equity requirements, is the challenge.

1.2.4 Cooperation with Governments and State Actors in Creating an Ambience for Mutually Beneficial Development

Given the reasons why the private sector is required to play the role of development partner, one major requirement while specifying the post-2015 development agenda is to find ways in which the private sector can be brought to the table, and persuaded to engage in a dialogue, recognize its responsibilities and find ways of serving its role in an efficient and cost effective manner.

1.3 The Experience Thus Far

In fact, one limitation of the MDG process launched with the Millennium Declaration was that it was centered on the United Nations, having originated largely from intergovernmental discussions and UN summits and making the UN itself the primary driving body. This was reflected in the language of the declaration, which stated, for example, the United Nation's resolve "*to give* greater opportunities to the private sector, nongovernmental organizations and civil society, in general, to contribute to the realization of the Organization's goals and programmes." (*emphasis added*) In practice, not much effort was made to involve the private sector, even though civil society organizations won for themselves some role in monitoring progress and even contributing to the realization of some of the goals.

In one sense, the private sector, by being a source of employment for the majority in most countries, cannot but be part of a development agenda. But in the past this was inadequately recognized and resulted in a limited role for the private sector in the pursuit of social benefit, besides private profit. There are many reasons why hitherto the private sector may have been treated as a marginal player in the pursuit of a human development agenda. First, the long-term evidence does suggest that the level, direction and form of private investment have been driven by near- or medium-term profitability considerations, with little attention to longer-term sustainability or developmental objectives. In fact, much of state regulation has been concerned with statutorily requiring the private sector to adhere to benchmarks, such as labor or environmental standards (set locally, nationally or as part of international conventions or treaties), for example, so as to maximize the social benefit it delivers. The fact of the matter is that despite progress towards increased social responsibility in the private sector, violations of statutory guidelines and standards in areas where they exist and visible transgressions that adversely affect large populations where standards are yet to be specified are common occurrences.

Second, the "efficiency" of the private sector is in considerable measure attributed to competition or rivalry. Even in oligopolistic markets, which are a negation of free competition, intense and oftentimes violent rivalry is seen as providing the engine for innovation, prudent decision making and the diligent marshalling and deployment of costly resources. This implies that even if individual firms or managers are keen on pursuing objectives other than profit, they may be thwarted by the competitive struggle in which they are forced to match up to those aiming to keep short run costs the lowest, despite adverse developmental or sustainability implications. The spontaneous tendencies generated by atomistic competition lean towards underplaying or even subverting human development and sustainability objectives. They also discourage firms from providing nonwage benefits to their employees. These factors not only affect operations in individual nations but also result in corporations choosing locations that are lowest cost because of poor labor conditions, low wages and weak environmental standards and laws. Thus a social compact on standards, with a mutually agreed upon monitoring and enforcement mechanism seems unavoidable, at least at the present stage.

Third, in recent years evidence has accumulated which suggests that the adoption of less labor-using technologies even in low cost locations has reduced the responsiveness of employment to increases in output, or the elasticity of employment with respect to output. A corollary has been job-poor growth. In the event, even the direct effect on jobs, incomes and wellbeing of a lot of private sector activity, sometimes even in the services sector, is seen as limited. This requires the achievement of relatively high rates of growth, with attendant external effects on employment, for private sector driven growth to contribute effectively to human development advance. Though this can partly be dealt with by using proactive fiscal policies, the response has been to attribute different goals to the private and public sectors, with the former held principally responsible for driving growth, and the latter being required to increasingly focus on measures to advance human development and render growth sustainable. Overemphasizing that division of labor also tends to partly absolve the private sector of the responsibility of ensuring socially just and sustainable development.

Finally, the above noted features of the private sector, which are seen as limiting its effectiveness as an agent contributing majorly to either human development advance or sustainability are seen to have been magnified by the turn to more liberal, market-friendly development strategies in recent decades, which have intensified rivalry and competition while diluting regulation.

In all probability, some combination of these arguments influenced the international community, so that despite some important initiatives discussed later, and despite being a source of paid work, a growth agent and a factor that impacts the development agenda, the private sector, unlike the NGO community, has not been brought or come to the table as a development partner. There is no reason to deny the importance of these arguments and the challenge they pose. But that does not mean that the search for opportunities to move beyond (while retaining) measures that cajole, persuade, or pressure the private sector into taking the right steps should not be taken up. In a world where the private sector does and will continue to play a role, the effort to get it to overcome the structural limitations to its taking on a role as development partner and transcend its conventional behavior should be pursued with vigor.

Breaking from that past, the High Level Panel has while calling "for a quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods," emphasized the need for "a rapid shift to sustainable patterns of consumption and production—harnessing innovation, technology, and the potential of private business to create more value and drive sustainable and inclusive growth." (*Executive Summary*) Thus, there is an explicit recognition of the role that the private sector can play as a development partner in ensuring "sustainable and inclusive growth" that does mark a departure. The panel almost sees that as imperative: "The powerful in today's world can no longer expect to set the rules and go unchallenged. People everywhere expect businesses and governments to be open, accountable and responsive to their needs." (p. 4).

1.4 What Role for the Private Sector?

What is at issue here is not formal Corporate Social Responsibility (or CSR) as adopted by the private sector for reputational reasons, defined for provision of tax benefits or often even mandated by law. Rather it is the contribution firms make through "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams and Siegel 2001, 117).

Defined in this way there are four forms in which corporate responsibility or lack of it can be manifested. One is the impact that a firm's actions can have when it just pursues its own interests and adheres to principles prescribed by the law. Thus, it is possible that "a firm operating within the law and focusing only on its short term economic profit does not engage in CSR, but nonetheless through its operations will have both positive and negative effects on its various stakeholders. For example, a manufacturing firm operating, but not engaging in any kind of CSR, might have both positive and negative effects on its nearby communities by providing employment opportunities, while at the same time polluting within its legally allowed limits (externalities)" (Zyglidopoulos et al. 2012, 162). The former would be considered an unintended contribution to the developmental agenda, and the latter an adverse fall out for that agenda.

Second, a firm generating negative external effects (pollution, for example), even to an extent permitted under the law, may still choose to invest in decreasing or reducing those effects. It could adopt technologies that neutralize toxic effluents or reduce emissions, so as to improve its relations with the community that resides in its neighborhood, sometimes with its own long-term interests in mind. This can be seen as an attempt to contribute to the development agenda by addressing the adverse consequences of a firm's profit-seeking activity, even when the latter remains within the limits of the law.

Third, given the fact that it draws its labor force from its neighborhood and benefits from the infrastructure that local governments may be providing, a firm for public relations or reputational reasons may voluntarily choose to support local schools, hospitals and the like, contributing in the process to the quality of life of the local community.

Finally, as an evolution of the third form of corporate responsibility or independent of it, a firm may see itself as being, besides a profit-seeking entity, an agent contributing to socially just and sustainable development. It may identify programmes, schemes and partners that it can support, or design and implement new programmes or schemes of its own. Larger firms may voluntarily choose to contribute to or launch programmes and projects whose effects go even beyond its neighboring communities and regions.

When seeking to graduate the private sector from conventional "corporate responsibility" to development partnership, it is the last of the tendencies that is crucial. Building on the EU's (2001) definition of corporate responsibility as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis," Grayson (2009) argues that: "A responsible business is one that has built-in to its purpose and strategy a commitment to deliver sustainable value to society at large, as well as to shareholders, and has open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment." True development partnership can be realized only when profit-seeking behavior is voluntarily circumscribed by an ethical frame of this kind.

As of now that may appear to be too much to demand, but it provides the goalpost and defines the direction in which the private sector needs to move.

Grayson and Hodges (2004) take this forward pragmatically when they emphasis the role that new activities can play in facilitating such movement. They speak of the need to identify "corporate social opportunities" or commercially attractive opportunities that also advance environmental or social sustainability. These could involve:

- "new products and services
- serving new or under-served markets, and
- the development of new business models in R&D, financing, marketing and distribution—typically involving partnerships with community organizations, campaigning nongovernmental groups, or even the public sector."

It is to this larger notion of corporate responsibility that one has to appeal when seeking to make the private sector a full-fledged development partner. One form this has taken is the notion of *social business* favored by Muhammad Yunus (2010), who sees the theory that human beings engaged in business are one-dimensional creatures "whose only mission is to maximize profit" as fundamentally flawed. According to him, once that flaw is corrected and humans are seen as not only selfish beings (which they are), but selfless beings too, there can be two kinds of businesses: one with the objective of maximizing profits for owners, and another in which everything is for the benefit of others and nothing is for the owners. The latter, termed social business, is a business inasmuch as it is economically viable and self-sustaining, selling priced products and services. But its activity and operations are such that it addresses a social problem and/or delivers social benefits. It could and does record profits. But the company is dedicated to its social cause and the owner earns no personal profit. The owner can only take back over a period of time the sum invested. Failure to recognize this possibility has, according to Yunus, led to a situation where much effort is put into encouraging the creation and growing the businesses of profit-making companies, but little effort has been put into getting the private sector to establish and grow *social businesses*.

An example of such a *social business* Yunus gives is a company he helped set up in partnership with the French dairy major Danone, to produce and market fortified yogurt in Bangladesh as a way of addressing malnutrition. Inasmuch as the activity must be self-sustaining and recoup capital for the investor, it must adopt business methods that keep costs under control, appropriately price the product and generate a market for the product so that capacity can be of economic size and be utilized to the optimum extent. But to the extent that it is a social business it must ensure offtake of the product (in this case, fortified yogurt) by those who need it most so that the social goal of combatting malnutrition is addressed.

In the case of Grameen Danone, creating a market was a problem because the product had to be redesigned to address the taste distortions that fortifying ingredients resulted in. They also brought football player Zinedine Zidane, a hero to football-loving Bangladeshis, to launch the product. The methods are that of private business, the objectives are social.

Often the move towards sustainable and socially responsible business practices does not occur as a result of mobilization (by Yunus and Grameen in Danone's case), but is the result of voluntary decisions based on motivations beyond profit. This can even take on the character of a movement as illustrated by trends such as the b-corporation (or benefit corporation) movement (www.bcorporation.net). This has reached a stage where individual states in the United States have legislated to register benefit corporations as a separate corporate form, with distinct features that identify them as committed to socially shared prosperity. The B Corp movement currently claims to have certified under the nonprofit B Lab as many as 1,020 companies in 34 countries and 60 industries. The B Corp declaration states: "We envision a new sector of the economy which harnesses the power of private enterprise to create public benefit. This sector is comprised of a new type of corporation—the B Corporation—which is purpose-driven, and creates benefit for all stakeholders, not just shareholders.

> "As members of this emerging sector and as entrepreneurs and investors in B Corporations,
> We hold these truths to be self-evident:
> That we must be the change we seek in the world.
> That all business ought to be conducted as if people and place mattered.
> That, through their products, practices and profits, business should aspire to do no harm and benefit all.
> To do so, requires that we act with the understanding that we are each dependent upon another and thus responsible for each other and future generations."

Companies that are part of the movement notch up a B score, which must be at least 80 out of a maximum of 200, that is based on marks obtained for performance in areas such as employee relations, community benefit, governance and environmental footprint. It is difficult and even impossible to believe that B Corp-type firms would be the rule in the private sector. But even a few can make a difference.

It must be noted that this understanding of the role of the private sector goes beyond treating private agents as potential implementers of government programmes. Implicit in the discussion here is that the private sector designs the program and that the resources required to finance the activity delivering developmental results are mobilized and outlaid by the private sector, though there are no barriers to it doing so within a for-profit framework. This is relevant because one of the reasons why the private sector needs to be brought in to further the development agenda is that it adds to the resources available for the purpose, rather than placing the burden solely on governments and donor agencies. It is this net addition to the financing of development that is crucial. However, contributions by the private sector as an implementing agency with either full or part financing by the state (in versions of public–private partnerships) are and would remain important.

1.5 What Could Motivate the Private Sector to Contribute?

1.5.1 Demands for Greater Social Responsibility

As the global community and the world's citizens recognize the urgency of ensuring not just adequate, but more importantly inclusive and sustainable, development, the demands on the private sector to be more socially responsible have increased. This does not just take the form of a negative list of things that the private sector must refrain from doing (polluting the air, seas and rivers, or relying on sweatshop labor for profit, for example), but also of a call for the private sector to join the campaign for sustainable and just development, to allocate resources to activities and measures that ensure that its commercial activity does not violate the norms of justice and sustainability, and to devote a part of its profits for the pursuit of the common good in an act of solidarity with those who directly or indirectly contribute to those profits but do not share in them.

There are two sources from which the private sector's desire to be a development partner can emerge. One is from within, when profit-seeking private agents increasingly recognize that they too in the medium and long term would benefit directly or indirectly (through goodwill, employee satisfaction, social support, and government approbation) from not just adhering to but helping advance socially agreed developmental norms and goals. The other is when, as noted earlier, the private sector is cajoled (with incentives), persuaded or pressured into behaving in socially acceptable ways.

Given the essentially profit-seeking character of the private sector, with the pursuit of profit providing its principal raison d'être, its journey to social responsibility and transformation into a development partner are more likely to begin with the second of these influences. As its behavior changes under such influence, and the benefits of socially responsible behavior are recognized, it is indeed possible (as is happening even now in some cases) that the private sector (or much of it) would internalize those objectives and turn into a development partner. Normally, such transitions occur in individual nations. But as a result of global collaboration and strengthened development partnerships, which take the form of global initiatives like ILO's Charter, the Finance Initiative of the United Nations Environmental Programme (UNEP), the Equator Principles, and the United Nations' Global Compact, this movement is taking on a global character.

1.5.2 Effect of Government Regulation

The original factor altering private sector behavior is, of course, government regulation aimed at reducing the adverse external effects of purely profit-seeking private actions. Governments opt for regulation in a wide variety of circumstances. An early form of regulation of the private sector was the definition of labor standards and the enactment of legislation, such as the Factory Acts of the 19th century in England that limited the working day and week, regulated child labor, and the like.

But regulation does not stop here. One important area to which it has spread is environmental protection that has now taken on a new kind of urgency because unregulated human activity is resulting in global warming and climate change that threaten long-term sustainability. Of equal importance is regulation for health safety, aimed at restricting disease besides reducing health costs and expenditures. It extends to situations, for example, where oligopolies or cartels resort to predatory pricing, especially in areas (like pharmaceuticals) that have larger societal or economy-wide effects. Governments intervene to cap or set prices. They also do so when transnational firms resort to practices like transfer pricing in order to make concealed transfers of profit from high tax to low tax locations or to tax havens. Such transfers, besides raising prices by inflating costs, also deprive governments of tax revenues that can be used to finance both growth and social welfare expenditures. Over time the list of areas where governments have stepped in to regulate the private sector and prevent its profit-seeking behavior from unfairly affecting the interests or "rights" of other sections of the community has grown considerably.

But regulation does not always consist of principles or rules imposed on the private sector "from outside" or above, by the state. Most regulations have evolved out of a consultative process between the private sector, the State and sections that see themselves as affected by the operations of the private sector. Labor legislation, for example, was an important instance of a tripartite "settlement" between workers (often organized in movements), the state and the private sector, and signaled the possibility of a social compact.

As the private sector's involvement as a partner in new areas of social development such as human development and sustainability is sought to be increased, this process of arriving at a social compact becomes crucial. Over time, the standards set as part of that social compact do not remain restricted to the national level, but take the form of harmonized global standards. There are examples of rather remarkable successes in global harmonization, besides the MDGs themselves. The Finance Initiative of the United Nations Environmental Programme (UNEP), for example, seeks to partner with more than 160 financial institutions across the world and persuade them to take environmental and sustainability concerns on board when deciding on project funding. To that end a set of Principles of Responsible Investment (PRI) and a Global Reporting Initiative (GRI) have been framed. Along similar lines (in 2003), ten leading banks together with the International Finance Corporation (the private sector financing wing of the IMF) declared adherence to the Equator Principles, which are voluntary guidelines for categorizing, assessing and managing environmental risks when providing project finance in excess of $10 million. The Equator Principles are reportedly based on the International Finance Corporation's (IFC) Performance Standards on Environmental and Social Sustainability, and on the World Bank Group's Environmental, Health and Safety Guidelines. These, among others, are instances where the private sector is being made a voluntary and willing partner in social development at a global level, rather than an agent being forced to meet standards in various areas that it will not voluntarily comply with.

1.5.3 Media Exposure and Social Scrutiny

Regulation works in altering private sector behavior and the transition from enforced to voluntary compliance is facilitated when private actions are monitored and their outcomes compared with benchmarks specified by official or outside agencies. Here the role of the media and civil society organizations can be quite crucial. We need to distinguish between media coverage of corporate "irresponsibility" (or actions that generate results or outcomes that implicitly or openly violate the law or official guidelines), coverage of behavior that points to individual corporations behaving responsibly in innovative ways, and coverage of corporations or their leaders donating to good causes or launching large projects (such as the malaria elimination intervention of the Gates Foundation) that can deliver much social good. In practice it is the first and last of these three types of stories that get most of the media coverage. The first, because they are newsy and are often brought to the media by social activists. The third, because they are the typical feel good stories of philanthropy, again brought to the media by communication experts. The second, which requires more painstaking reporting on innovative initiatives, and may take too much space for the readership or viewership they attract, receive far less attention.

This is not to say that the first is not important. There are far too many instances of gross violations of environmental standards and regulations, disregard of health and safety precautions and the like for the media not to track and expose them. Unless more of the private sector is made to behave responsibly and within the law, the transformation of the private sector into a development partner can only be a vision. On the other hand, as some corporations begin to identify and exploit corporate social opportunities voluntarily, recognizing and publicizing their achievements may be crucial to preparing the private sector to take on the role of development partner.

Associated with this are two different ways in which the media can influence corporate governance and behavior. It could do so indirectly by informing politicians and government officials of ways in which equity and sustainability objectives are being eroded and what could or needs to be done, resulting in legislation or the framing of rules that address these issues. It could do so indirectly by focusing on acts of commission or omission that have adverse implications for equity and/or sustainability. The evidence suggests that these can have significant effects. Dyck and Zingales (2002) found that "countries with a more important press have better environmental responsiveness on average. This is true even after controlling for the importance of environmental regulation, the availability of information on environmental outcomes, and the level of economic development, measured as GDP per capita. The effect is also economically significant. One standard deviation increase in the diffusion of the press increases the environmental index by 15 percentage points, equal to 28% of its standard deviation." Moreover, the press not only pressures managers to act in the interest of shareholders, but in keeping with societal norms.

It is not only the media that can and does play this role. So can civil society organizations. Dyck and Zingales (2002) note that when aggregating information available after the Pollution Prevention Act of 1999 made disclosure of chemical releases by factories mandatory, environmental groups prepared and delivered to the media lists such as "The Toxic 500," winning broadcast and print journalist attention. This is a classic instance were legislators, civil society activists and the media acted in tandem to ensure results. But for civil society too, time and resources are such that even the effort at uncovering and campaigning against the most egregious violations is never complete, leaving little time to identify, publicize, and seek to replicate good practices of private agents "exploiting" corporate social opportunities.

1.5.4 Reputational Benefits

The flip side of being motivated by media scrutiny and pressure is the concern that corporations have for the reputation of their firms and brands and industry organizations have for their industry. Reputation is crucial for winning the support of a range of stakeholders. With increased information access and growing social consciousness of individuals as citizens, a firm's reputation with respect to adherence to or improvement of developmental indicators such as environmental or labor standards, is crucial to obtaining the support and cooperation of a number of stakeholders.

Hiring, motivating, and retaining young, technically qualified staff is easier if the firm is seen as meeting or exceeding performance benchmarks with regard to development outcomes that they value. Increasingly shareholders, who were seen as concerned with share values and dividends, are applying social yardsticks to value their investments, wanting to avoid engaging with firms that have a bad environmental record or social reputation. Moreover, some analysts argue that a firm's market share is also influenced by reputation, so much so that, according to Marconi (1996, xiv), firms' reputations are "of as much concern to their banks as marketing plans and their business plans." This is because of the competitive advantage that the goodwill that comes from good reputation gives a firm. In sum, to quote Beder (2002, 61), "People's perceptions of a company influence how they buy, sell, invest and who they work for" (Table 1). It makes sound business sense to have a good reputation.

Table: Reputational Benefits across Stakeholders

Stakeholders	Impact
Customers	Sales, prices that can be charged, loyalty
Suppliers, clients	Business, loyalty, prices
Investors	Shareholder value higher, more stable
Government	Regulation, license to operate,
Neighbors	Support, avoids protests and complaints
Employees, current and potential	Attract talented staff, morale, loyalty

Source: Beder (2002, 62).

Building a reputation takes effort. While corporate philanthropy and "cause-related" marketing were important in the past, increasingly evidence of social and environmental responsibility is becoming a requirement. Such evidence needs to be communicated as well. According to Beder (2002, 64), "Today a company needs to demonstrate its good intentions with codes of conduct audited by their accountants and endorsed by NGOs and by joining in coalitions with accredited environmental, labor and human rights groups to gain credibility." But building a reputation as a development partner or agent makes sound business sense.

1.5.5 Shareholder Pressure and Consumer Mobilization

As should be clear, the media and other reputational influences often impact on governance and in favor of social responsibility and sustainability by acting on shareholders or consumers who then mobilize in various ways. In some instances, often as a result of civil society activism, these shareholders or consumers themselves become activist hubs. When in the late 1980s the killing of dolphins by trawlers fishing for tuna became a controversy in the US, civil society organizations like Greenpeace called for a boycott of tuna. This influenced consumer choice and restaurant chains took tuna off the menu, forcing large private fisheries businesses to make tuna fishing dolphin-safe.

For some years now, activist shareholders with sustainability and social objectives have begun influencing company policy. In 2008, for example, shareholders in Exxon Mobil Corp., comprised of Rockefeller descendants, pension funds and asset management companies, came together and demanded splitting the posts of chairman and chief executive officer, on the grounds that an independent chairman would correct the company's poor record in addressing climate change issues (Donovan n.d.).

While environmental issues seem to play an important role in socially responsible investor strategies, the overall thrust is to invest in companies that share the moral, ethical, social and political views of the investor. This implies that many social inclusion agendas have been taken up as well. Socially responsible investors screen companies to establish their adherence to social responsibility objectives, seek to influence the strategies of companies in which they have a stake, and often support community investment in needy areas. There is now a wide range of resources that socially responsible investors can use. Examples of these include www.lightgreen.com, www.greenmoney.com, www.srinvest.com, and www.moneyandvalues.com.

As the socially responsible investing movement gathers momentum, private sector involvement in the developmental agenda would take the form of backing the campaign for responsible business with financial contributions, which would have a more powerful impact that just good governance initiatives.

1.5.6 Governmental Requests, Demands, and Impositions

Pressure comes not merely from stakeholders directly engaged with private sector actors, but also from the governments that decide on making the for-profit private sector contribute to development. One obvious way this is done is by taxing away a part of the private sector's surpluses through direct taxes and special cesses and surcharges to finance development programmes. This is a way in which the private sector has for much of history, involuntarily, contributed to the financing of development.

Secondly, the government may require the private sector to directly use its surpluses for activities that contribute to development. Thus, besides instances of voluntary resort to activities reflective of "corporate social responsibility" financed out of the profits of the private sector, the government may induce such activities with tax concessions or may statutorily require a certain share of profits to be allocated in that direction. A recent and remarkable example of the latter is India. In August 2013, the Companies Act of 1956 was replaced by a new act, according to Section 135 of which, with effect from April 2014, all public and private companies with net worth of Rs5 billion or turnover of Rs10 billion or net profit of Rs50 million have to spend at least 2% of their average net profit over the preceding three financial years on CSR activities in specified areas such as livelihood enhancement, rural development, improvement of the status of socially and economically backward groups and establishing homes and hostels for orphans and women. This is a unique though still controversial initiative, with companies reportedly lobbying for tax benefits against such mandated expenditure. But if implemented well it could deliver significant benefits.

Third, some governments also intervene with price and production controls to make the private sector contribute financially to the developmental effort. This can take the form of capping prices of essential drugs or necessities such as food products and cloth, which reduces the net returns garnered by the private sector engaged in producing these commodities, while making commodities contributing to human development advance (such as medicines and nutritious food) and improvement in the quality of life affordable. Since the imposition of price controls may encourage the private sector to reduce production of such less profitable commodities and diversify into other areas, the government may set production quotas to ensure adequate availability of developmentally essential goods and services.

Fourth, the government may choose to "employ" the private sector to produce certain goods or deliver a set of services, the profit-inclusive costs of which are financed with resources mobilized by the government. A common example is in the health services sector where government contracts private providers to offer services to patients covered under public health schemes and national insurance schemes. Most often these services are in addition to services directly provided by public institutions, and are aimed at supplementing overstretched government facilities, contracting out speciality or super-speciality medical services and giving the government the room to focus on services for the poor or for those without access to insurance schemes. However, an important requirement of schemes of private provision under implicit or explicit public–private partnerships is that the government has to not only negotiate the price it pays for the many forms of out-patient and in-patient services that it contracts out, but also monitor and regulate the quality of the services offered.

Other areas where private services can be employed are the management of disaster/emergency operations, or programmes like grains procurement and public distribution of food, involving procurement, packaging, freighting by multiple modes, storage, and dispersed delivery. It needs to be noted that in all of this PPPs are more a form of public procurement, with "many hybrid approaches that blur the lines between them and conventional procurement methods" (Grimsey and Lewis 2007). Instead of a road, hospital building or school, the private player provides "a flow of infrastructure services over time."

There are many reasons why the private sector is often called upon to play this kind of role. One is because of the experience it may have accumulated and the technical resources it possesses or may be capable of mobilizing in installing the facilities and infrastructure needed to deliver select services and efficiently operating those facilities. Typically "public–private partnerships" in which the private sector is called upon to "build-operate-transfer" to the government infrastructural facilities required for the delivery of a range of services is predicated on this idea. The private sector is seen as having skills to install the facility, to commercially operate them for a period at a mutually agreed price so as to recoup a part of the costs, with the balance coming from the government, and then of handing over a finished facility to the state. The partnership is one where some resources from the state, some skills and capabilities from the private sector and some returns from user charges are combined to deliver results. Often the participation of the private sector is expected to encourage innovation that reduces costs and improves the quality of services. There have been successes in this area, but many failures as well. And it is not in all situations that the contribution that the private sector can make that provides the motivation for the use of its services. One extreme instance of the use of the private sector largely as an "implementing agent" or even "contractor" is when governments prefer not to employ regular employees to deliver certain public services given the large salary, benefits and pension costs involved and prefer to "outsource" the delivery of these services to the private sector.

Finally, there could be instances where the private sector seeks to partner with the public sector, contributing both in terms of technical assistance and financial resources, either in order to earn goodwill or because of a genuine desire to make a social contribution. This is the kind of public–private partnership that should be encouraged and promoted in the effort to make the private sector a full-fledged development partner.

1.5.7 Commercial Dividends

Besides all these factors that would motivate the private sector to take on the role of development partner, there is a most obvious one: profit. How important this would be in relative terms would be determined by the degree to which integrating into the developmental agenda increases or reduces the opportunities for and the size of the profit earned by the private sector. In instances where the private sector is employed as agent or "contractor" to implement the government's development programmes, its avenues for profit are enhanced and the size of profit is a matter of negotiation. But where the private sector is required to and is subjected to regulation to contribute to or adhere to requirements set by the development agenda, or when it voluntarily chooses to do so, short-term profits may be lower than may otherwise be the case, even if long-term gains are significant. In such cases it would not be pure profit that motivates the private sector, but factors of the kind discussed above.

One consequence of the differential profit that can be garnered from different kinds of projects could be a bias in project selection under the PPP mode. "Hard" infrastructure such as power plants, roads and ports, rather than "soft," social infrastructure such as educational, health and sanitation facilities tend to be preferred by the private sector, because the returns available from the former are higher and easier to appropriate. This bias needs to be corrected with state action. But that may necessitate a higher proportion of state financing that needs to be backed with appropriate taxation policies. Further, monitoring and regulation of the quality of services are more difficult to undertake in the case of social infrastructure, and require greater governmental attention.

1.6 The Private Sector's Special Contribution

It hardly needs stressing that expecting development partnership of the private sector implies that it is brought in not just to supplement or substitute for a constrained public sector. While those are useful contributions, the partnership cannot end with them. Rather, what needs to be looked to is the additional or incremental contribution that the private sector can bring, which other players like government agencies may not be able to deliver. These must be in the form of technological or financial resources that can increase the extent, accelerate the pace, and improve the quality of developmental achievement. There are two major areas in which these can be expected: in the innovative design of schemes and instruments that can deliver and advance the goals of that agenda, and in the financing of developmental programmes.

1.6.1 Innovation and Finance

Redesigning Developmental Intervention

Among the important lessons to be learnt from the MDG experience is that innovative solutions are required for goal realization. Despite the commitments made by world leaders, the efforts conducted in campaign mode by national governments, civil society actors and the international community, and the resources that were outlaid for the purpose, targets were not realized in a number of contexts and the agenda remains unfinished. One reason is that the potential impact of the efforts made was not fully realized because of shortfalls in the design of schemes, inadequate use of innovative instruments of delivery, particularly of a technological kind and management failures. Given its wide-ranging managerial expertise acquired through specialized and on-the-job training and experience, the private sector's contribution in the form of managerial resources to improve the implementation of schemes and programmes would indeed be immense. But private players can be particularly important when it comes to innovative design of schemes, use of technology and the mobilization of financial resources.

Harnessing Technology for the 2015 Agenda

A crucial contribution that the private sector can make is through harnessing technology to advance the post-2015 agenda. This issue must be addressed carefully. It is in the nature of technological advance in any one sector that it is associated with an increase in labor productivity, which provides the basis for both improved standards of living and the generation of higher surpluses to finance investment. But the flip side of this is that in sectors characterized by rapid productivity advance the responsiveness of employment to increases in income is low.

But employment growth is likely to be central to the post-2015 agenda. To partly address the tradeoff between productivity advance and employment growth it is necessary to harness technology to diversify production, enlarging the production and services base of the economy by producing a wider range of goods and services, widening the domestic value added chain by entering into new areas of export production and expanding demand through product innovation. In fact, two areas are likely to be crucial to employment growth in these contexts: one is the expansion of much needed services in areas such as health, education and water supply and sanitation, which directly advance human development while creating new employment opportunities; and the second is the expansion of the manufacturing and services base in these economies. The role of manufacturing growth in expanding employment has been amply demonstrated in Southeast Asia, with some countries like the Republic of Korea and the PRC exploiting innovation to drive that expansion by establishing a presence in global markets. But in other contexts like India, knowledge intensive services, such as information technology services have played an important role.

Development goals like reducing hunger and ensuring food security are also technology dependent. While controversy surrounds genetically modified foods, there is no denying that biotechnological advances are likely to be central to raising yields and adapting plant life to climatic changes.

Technology is crucial also for the wider and more efficient delivery of services such as health, education and a range of communication, administrative, agricultural extension, and financial services.

No single innovation demonstrates the difference that technology can make than the ubiquitous cellular telephone that plays a role in information transfer, education, banking, ecommerce and other services. But technologies in the form of innovative transportation services, data collection and transmission devices (such as the tablet to collect and centralize health information), and new medical equipment can make a substantial difference to the quality of life.

Finally, technological innovation is crucial to achieving sustainable development through environmental protection. Whether it is emission reduction, renewable energy sources, reduction of air and water pollution or prevention of deforestation and promotion of afforestation, “green technology” is central and would define developmental success in the future.

Mobilizing Financial Resources for Advancing Development Goals

Finally, it must be noted that all of these potential contributions would come to naught if the requisite financial resources required to prepare and implement the appropriate schemes are not available. It is true that in the final analysis development is not constrained by finance in the sense of money, but by the inability to set aside and mobilize the real resources required to invest in and advance development and welfare. But even when such resources are identified and seen as available, placing them in the hands of the agents who are mandated to design, execute, and manage those programmes, would require providing them with the financial resources required to command the necessary manpower and physical resources. This requires innovative means of mobilizing financial resources, diverting them to those mandated for the purpose at hand and finding ways of ensuring that they can, in turn, generate the financial surpluses needed to meet any service commitments associated with the use of those resources. It is to this that we now turn in detail.

2. MOBILIZING PRIVATE RESOURCES FOR SOCIAL DEVELOPMENT

Given the multiple ways in which the post-2015 development agenda would be pursued, the projects involved would earn returns of varying magnitudes. This obviously needs to be taken into account when planning financing strategies. To start with, it is necessary to distinguish between projects which need to be financed that are unlikely to yield any direct returns (primary schooling in remote areas, for example) and others in which full user charges or partial user charges supplemented by means such as government subventions can deliver revenues and net returns to the private sector. The latter returns must cover the post-interest profit expectations of the for-profit private sector and the implicit or actually paid interest on the funds outlaid.

Once this distinction is made, the mode of mobilization of resources and, therefore, the private sector’s contribution to it, would be influenced by the decision as to whether a public sector agency or the private sector is vested with the mandate to implement the project or scheme. Even when it is the private sector that is the implementing agency, the nature of financing would differ depending on whether the resources required are being mobilized by the private sector or are being provided in full or partially by the government.

Finally, even when it is the private sector that is providing the resources, the mode of financing would vary depending on whether the activity is being undertaken as a philanthropic or charitable activity by the private sector or is being undertaken by the private sector on a for profit basis (with or without some emphasis on sustainability and social inclusion objectives).

2.1 The Tax Compact

In areas where it is the government that is undertaking or financing the activity (fully or partially), and does not receive a return, it needs to mobilize resources from outside the project space. The principal form of resource mobilization by the government for such purposes is tax revenue. While nontax revenues can also be used for the purpose, this form of implicit subsidization of one activity with revenues from others is limited by the fact that the weight of activities in the government's portfolio that need "outside" financing tends to be larger than those that are self-financing and yield a surplus. Further, even if the government chooses in the short run to finance such expenditures with market borrowing, it must turn to tax revenues to meet the costs of servicing that debt. It is true that in exceptional circumstances the government can sell assets it holds to finance these expenditures. But inasmuch as the expenditures involved are perpetual, this does not constitute a viable long-term solution, since there are finite assets that can be disposed of at prices that are economically rational. So tax revenues are crucial to finance activities which are essential for development and welfare improvement, but which do not yield a return, which the government seeks to either directly undertake or finance with the private sector as implementing agency.

As of now in most developing countries activities that have to be financed out of the government's own revenues dominate interventions that favor development. This makes the mobilization of tax revenues critical for the financing of the post-2015 development agenda. But performance in the Asia and Pacific region in mobilizing revenues through taxation is on average below potential, "with most developing countries of the region collecting taxes amounting to far less than the 25% to 35% of GDP commonly used as a benchmark for development" (ESCAP 2014, 17).

According to ESCAP (2014, 17): "The Asia-Pacific region is the least successful at collecting tax of all global regions—averaging only 12.3 per cent of GDP in 2011, compared to an average of 14.6 per cent of GDP in Latin America and the Caribbean, and 17.2 per cent in sub-Saharan Africa. In 2011, only seven countries collected tax revenues of more than 20 per cent of GDP—and some had tax-to-GDP ratios in the single figures."

One difficulty is that trade liberalization, which involves tariff reduction besides removal of quantitative restrictions, has reduced the revenues from taxes imposed on trade. Thus, during the years of intensified globalization between 1980 and 2000, the share of taxes on international trade in the total tax revenues of developing countries fell from 31% to 19%. So the required tax revenues need to be garnered from impositions on the domestic private sector (institutional and individual) in the form of direct and indirect taxes.

Thus, if the private sector sees for itself a role in advancing developmental goals, it must be willing to share a part of its revenues and incomes with the State for the purpose. While these taxes will be mobilized through direct and indirect taxation measures, on equity considerations linked to the development agenda the emphasis must be on direct taxes garnered through a progressive tax regime. Unfortunately, during the period 1980 to 2000, while the share of direct taxes in total tax revenues in developing countries stagnated in the 27%–29% range, the share of indirect taxes (other than taxes on trade) rose from 29% to 40%. This trend needs to be arrested and partially reversed. That requires the private sector as development partner to shift focus from constant lobbying for tax reductions to one of entering into a dialogue to find an appropriate tax structure that permits the government to adequately shoulder its development responsibilities, while safeguarding the socially legitimate profit requirements of the private sector (Bahl and Bird 2008).

Moreover, innovative fiscal measures are also called for, that broaden the tax base (by bringing in hitherto omitted services incomes into the tax net, for example), reduce tax loopholes and unnecessary concessions, rationalize tax rates to minimize welfare losses, improve the collection and reduce the cost of collection of taxes, and find better ways of taxing capital gains. With the huge growth of the financial sector in many developing countries in Asia and the Pacific and the growing role of speculative transactions in secondary markets, a securities transaction tax is an instrument that has been successfully experimented with in some countries in the Asia and Pacific region such as India. All these need to be accompanied by special efforts to tackle tax evasion and avoidance.

2.1.1 Abjuring Tax Evasion and Reducing Tax Avoidance

In practice, the private sector in many developing (and developed) economies does not adhere in full to existing tax regulations and deliver revenues due under the existing tax structure. Tax evasion, amounting to the deliberate and illegal failure to pay tax liabilities, and tax avoidance, or the effort to use loopholes in the law to legally avoid paying taxes due, is rife. Moreover, the boundaries between the two are extremely difficult to define (Simser 2008).

While reliable estimates of the extent of revenue loss are difficult to come by, a range of studies relating to different developing countries have pointed to the large size of the shadow economy, the capital, income and transactions of which are by definition concealed from the tax authorities. A significant part of this wealth and income is transferred abroad to tax havens with secrecy laws, resulting in a drain of wealth from the economy, and not just a loss of income to the exchequer. Sometimes corporations engage in “transfer pricing” or the overinvoicing of imports into and underinvoicing of exports out of developing countries to conceal profits that are transferred to lower tax jurisdictions resulting in revenue losses to the countries concerned (Fuest and Riedel 2009).

A number of measures are required to address these revenue losses, with some to be adopted at the national level and others by the international community. These should include:

- Better tax administration and investigation with stringent penalties when fraud is detected.
- A clampdown on the illegal activities and the corruption that expand the shadow economy.
- Stringent regulation of accounting practices adopted by multinational companies.
- Information sharing and the abolition of tax havens at the international level to prevent illegal capital flight and money laundering.

2.2 Innovative Means of Resource Mobilization for Projects Advancing Developmental Objectives

Besides tax revenues, there can be innovative ways of financing developmental expenditures. As noted at the beginning of this discussion, a lack of domestic savings is not what constrains development spending in developing countries, especially in Asia and the Pacific. What are required are innovative measures that attract and/or channel a part of these savings into the desired avenues. One set of such measures would be that of identifying the appropriate institutions and instruments to bridge the gap between those who earn in excess of their desired current expenditures and those requiring resources in excess of the “own capital” they have access to. These measures must also be designed to address the very different combination of returns, risk and liquidity expected by savers of different kinds—high net worth individuals, middle class households, corporates and temporary migrants seeking to repatriate to their home country surpluses they hope to use for housing investments and post-return expenditures, for example. Finally, measures must be devised to divert "exceptional" earnings from nonreproducible resources, especially exhaustible resources, and from windfall gains of various kinds to projects that serve long term sustainable development and equity objectives.

2.2.1 Development Banks

An important institutional innovation in many late-industrializing developing countries was the creation of what are broadly called "development banks," which most often, but not always, are public or joint sector institutions. Development banks are mandated to provide credit at terms that render industrial, agricultural and infrastructural investment viable. They tend to lend not only for working capital purposes, but to finance long-term investment as well, including in capital-intensive sectors. They also invest in the equity of the enterprises concerned.

Given their role as equity investors, development banks provide merchant banking services to firms they lend to, taking firms to market to mobilize equity capital by underwriting equity issues. If the issue is not fully subscribed the shares would devolve on the underwriter, increasing the equity exposure of the bank. Firms using these services benefit from the reputation of the development bank and from the trust that comes from the belief of individual and small investors that the banks would safeguard their investment by monitoring the firms concerned on their behalf as well. On the other hand, the development bank can help monitor corporate governance and performance on behalf of all stakeholders.

Developing countries soon realized that development banking of the kind described above was not in itself adequate to deal with their needs. This is because the financial structure must not only contribute to growth by directing investment to crucial investment projects, but it must render development broad-based by delivering credit to sectors that may otherwise be ignored by the financial sector. Some development banks, for example, are mandated to focus on specific sectors such as agriculture or small-scale industries, providing them with long-term finance and working capital at subsidized interest rates with longer grace periods, as well as offering training and technical assistance in areas like marketing. A typical example of this is small peasant farming. Credit to support agricultural operations that are seasonal in delivery of produce and subject to much volatility is crucial. But providing credit in small volumes to dispersed and often remotely located borrowers increases transaction costs substantially. Further, the volatility of production, especially in rain-fed agriculture, often results in costly restructuring or large scale defaults. This implies that the risk premia associated with such lending would also be high.

If these transaction costs and risk premia are to be reflected in interest rates charged on loans, rates could be so high that the loans concerned cannot be used for productive purposes. This implies that returns on lending to sectors such as these would be significantly lower than normal. This would require the government to support the development banks engaged in policy lending. For this and other reasons, in many countries, the development finance institutions (DFIs) were provided resources either directly from the government's budget or the central bank, whereas in others the main sources of funding were bonds issued either to the banking system or in the "open market."

Most countries have found that it is best to create separate development banks to provide long-term capital at near-commercial rates and "policy banks" to provide credit to special areas such as agriculture or the small scale sector where interest rates have to be subsidized and grace periods have to be longer. This allows different criteria to be applied to the evaluation of the performance of these banks, with profitability a more important consideration in the case of the former.

A study by Nicholas Bruck (1998), estimated that there were over 550 development banks worldwide, of which 32 were in the nature of international, regional and subregional development banks, leaving around 520 national development banks (NDBs) in 185 countries, or an average of about 2.8 per country. A more recent survey conducted by the World Bank in 2009 with support from the World Federation of Development Financing institutions (Luna-Martinez and Vicente 2012), which covered 90 DFIs, found that 39% of them had been established between 1990 and 2011. This suggests that despite the change in policy orientation after 1990 in most developing countries, governments continued to rely on DFIs, which in this instance were defined as "financial institutions with at least 30% state-owned equity," with "an explicit legal mandate to reach socioeconomic goals in a region, sector or particular market segment." Around 5% of these were mega-banks with assets greater than $100 billion, which included institutions like China Development Bank, Brazil's BNDES, and Germany's Kreditanstalt für Wiederaufbau (KfW) that were bigger than the World Bank. Interestingly, 53% of the institutions surveyed had specific policy mandates, having been "established to support the agriculture sector (13% of all DBs), SMEs through their lending, guarantee or advisory services (12%), export and import activities (9%), housing (6%), infrastructure projects (4%), local governments (3%), and other sectors (6%)" (p. 12).

While there was substantial variation in funding sources, DFIs by and large depended on nondepository resources. Though 41% of the institutions surveyed by the World Bank reported taking deposits, 89% were borrowing from other financial institutions or issuing debt in local markets, 40% had obtained budgetary transfers from the government,[2] and 64% had benefited from government guarantees of the debt they issued. Access to government support allowed development banks to offer credit at subsidized interest rates. Half of the development banks surveyed reported that practice, two-thirds of which claimed to finance those subsidies with transfers from government. Some reported financing subsidies through cross-subsidization.

Some Examples from Asia and the Pacific

It is generally accepted that the most successful instance of late-industrialization to occur since the 1960s was that of the Republic of Korea. It would, therefore, be useful to examine the role that development banking played in the Republic of Korea's transition from developing to developed country status. In 1954, the government decided to set up the Korea Development Bank (KDB, initially called the Korean Reconstruction Bank) with the primary objective of granting medium and long-term loans to industry. Wholly owned by the government and built on the assets and facilities of the pre-existing Industrial Bank, the KDB came to account by the end of 1955 for over 40% of total bank lending. At one point, it accounted for 70% of the equipment loans and 10% of working capital loans made by all financial institutions (Sakong and Koh 2010). These loans were not based on deposits—about a third of the loans were supported by aid counterpart funds and two thirds with financing from the Bank of Korea and the government.

Subsequently, the KDB's charter was revised to allow it to borrow funds from abroad and guarantee foreign borrowing by Korean enterprises. In fact, an interesting feature of industrial finance in the Republic of Korea was the guarantee system, created largely to privilege borrowing abroad over

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[2] Eighteen percent of the institutions that received transfers declared that if transfers were withdrawn, they would not be able to operate.

attracting foreign investment, to keep Japanese capital at bay. Firms wishing to borrow from abroad obtained approval from the Economic Planning Board, which was ratified by the National Assembly. Once that was done, the Bank of Korea (BOK) (or later the Korea Exchange Bank) issued a guarantee to the foreign lender and the KDB issued one to the Bank of Korea. So, while the borrower was committed to repay the loan and carry the exchange risk, that commitment was underwritten by the KDB and BOK, which by guaranteeing against default were ensuring access to foreign borrowing.

A. The Indian Experience

The other country that conducted a remarkable experiment with development banking was India. That experiment began immediately after Independence with the establishment of the Industrial Finance Corporation of India (IFCI) in July 1948. In January 1955, the Industrial Credit and Investment Corporation of India (ICICI), the first development finance institution in the private sector, came to be established, with encouragement and support of the World Bank in the form of a long-term foreign exchange loan and backed by a similar loan from the US government financed out of PL 480 counterpart funds.[3] In 1964, the Industrial Development Bank of India was established as an apex development banking institution, marking the end of the phase of creation and consolidation of a large development-financing infrastructure.

That the development banks were special institutions was reflected in the role the central bank had in the development-financing infrastructure. An Industrial Finance Department (IFD) was established in 1957 within the Reserve Bank of India (RBI) and the central bank began administering a credit guarantee scheme for small-scale industries from July 1960. With a view to supporting various term-financing institutions, the RBI set up the National Industrial Credit (Long-Term Operations) Fund from the year 1964–1965.

Between 1964 and the middle of the 1990s the role of the DFIs gained in importance, with the assistance disbursed by them amounting to 10.3% of Gross Capital Formation in 1990–1991 and 15.2% in 1993–1994. But, after 1993–1994, the importance of development banking declined with the decline being particularly sharp after 2000–2001, as liberalization resulted in the conversion of some development banking institutions into commercial banks. By 2011–2012, assistance disbursed by the DFIs amounted to just 3.2% of Gross Capital Formation. This reversal differentiates the Indian experience from that of most other emerging markets (Chandrasekhar 2014).

B. The People's Republic of China: A Different Trajectory

Among the development banks in Asia that are spoken of today, one that receives special attention because of its large size and asset base as well as its growing global presence is the China Development Bank (CDB). Development banking came late to the People's Republic of China (PRC), and was the product of two trends. The first was the PRC's economic reform that created an environment in which firms and agents large and small had to find resources for investment from sources other than the government, central or local. The second was the early 1990's decision of the party and government in the Deng Xiao Ping era to accelerate investment and growth in the PRC.

[3] Public Law 480 enacted in 1954 in the US allowed for the use of surplus agricultural produce (especially wheat) from the US as food aid to developing countries through sale at concessional terms including payment in local currency, with the local currency funds being used for US diplomatic and development expenditures in the country concerned.

In the years prior to 1993, it was difficult to separate development banking from "normal" or commercial banking in the PRC. Long-term investments were financed either directly from the state budget or through directing credit to the enterprise sector. This system was put to test when in the early 1990s the PRC government decided to accelerate growth within the framework of an increasingly liberalized economy. With the mandate to raise investment and a promise of rewards if they did, provincial leaders went on a spending spree. They were helped by the fact that provincial governments substantially influenced appointments to and the operations of regional bank branches, including branches of the central bank. The result was a borrowing and spending spree, to finance not just infrastructure but large "prestige projects," which were not revenue earning. The inflationary spiral that followed and the evidence that provincial governments were finding it difficult to service the debts they had accumulated to finance these projects, led the central government to ban borrowing by provincial governments in 1994.

Meanwhile, the banking sector was being transformed, with the separation of policy lending from commercial lending. The responsibility for policy lending to the state-owned enterprises and for large development projects was restricted to just three policy banks, viz., the State Development Bank, the Export Import Bank and the Agricultural Development Bank (ADBC). In the urban areas, small and medium-sized banks, such as city commercial banks, were established with responsibilities for lending to small and medium-sized enterprises (SMEs). This created a shortfall in the resources available to the provincial governments and the public sector to finance the long-term investments that were crucial to accelerate economic growth.

The CDB was established in this context in 1994. It was therefore, unlike in India, a product of reform rather than a victim of the same. Established at a time when banks were being restrained from lending to projects that were either capital intensive in nature, with long gestation lags, or were in the infrastructural area, the CDB found itself a niche that it could occupy, during a time when the PRC was pursuing a high-investment growth strategy. Much of the investment to meet the huge demands for infrastructure was being undertaken by provincial governments that did not have the tax revenues needed to finance those expenditures and could not borrow to finance the same because of the 1994 ban. To circumvent the ban they established special local government financing vehicles that became important clients of CDB.

CDB was privileged because of the source of its capital. Unlike the banks, CDB was not a deposit taking institution, which was limited by liquidity mismatches from investing in capital intensive projects that would yield returns only in the long run, if at all. Rather the bank mobilized resources by issuing bonds that were subscribed to by banks that saw these instruments as being safe despite yielding higher returns. In fact, the presumption was that these bonds carried a sovereign guarantee, even though there was no formal commitment. This was also suggested by the fact that these bonds carried a zero risk weight for capital adequacy purposes.

Over time, CDB has seen a dramatic expansion of its asset base. That process was accelerated in 2008–2009, when CDB became a leading vehicle to finance the government's gigantic stimulus package adopted in response to the global financial crisis. By 2011, the assets of CDB were estimated at $991 billion, as compared with $545 billion for the World Bank group (consisting of IBRD, IDA, and IFC), $306 billion for BNDES (2010) and $132 billion for the Korea Development Bank (Sanderson and Forsythe 2013).

Thus, even though financial reform across the developing world has limited the degree to which governments can directly finance or subsidize lending undertaken by the development banks, these institutions have evolved in many contexts to remain important means of financing long term investments, including in developmentally important sectors. They have relied increasingly on bond finance, overcoming the weaknesses of bond markets because of the implicit (even if not explicit) sovereign guarantee that is perceived to back their borrowing.

2.3 Innovative Instruments to Finance Development

With governments, public agencies and institutions like development banks, besides the private sector, needing to mobilize a part of the large savings in Asia and the Pacific that can finance investments, the search has been on for new markets, intermediaries and instruments to achieve this purpose. This task has been facilitated by financial liberalization that has expanded and diversified financial markets, encouraged the entry of new institutions and permitted the creation of new kinds of instruments. This has permitted the mobilization of private finance for socially relevant, public infrastructural services.

2.3.1 Developing Bond Markets for Long-Term Finance

One common endeavor across the Asia and Pacific region is to develop the bond market as a means of mobilizing savings for long term, less liquid investments, such as in infrastructure. Before the 1997 financial crisis, financial systems in Asia tended to be bank based, with government-owned or controlled banks required to divert resources to target investments. But once the crisis revealed the dangers involved in the form of maturity and, after deregulation, currency mismatches, greater emphasis was placed on developing bond markets. Bonds and securitized instruments are considered to have better risk sharing characteristics and as facilitating the diversification of risk. The Asian Bond Market Initiative was launched by ASEAN+3 (the PRC, Japan, and the Republic of Korea) in 2003 and has since been strengthened. Important measures under the initiative are a Credit Guarantee and Investment Facility (CGIF), the dissemination of market information, and strengthening the regional bond market infrastructure, through the creation of a Regional Settlement Intermediary, for example.

But, the development of the bond market has been highly uneven across the region. Moreover, even where bond markets existed in significant measure, government securities seem to account for a substantial share of all securities issued in the domestic market. There were differences in the relative shares of the corporate bond market in the incremental growth of these markets, but just as banking dominates the financial sector, government securities still dominate bond markets in many contexts. It was only in the Republic of Korea that the corporate local currency bond market exceeded the government bond market in size.

However, with the substantial infusion of liquidity into global markets, especially after the global financial crisis of 2008, the corporate bond market in Asia has boomed. According to Deutsche Bank Research (2014): “Corporate bond market capitalization reached 24.2% of the region’s GDP by 2012 from just 16.7% in 2008. In value terms, the stock of outstanding corporate bonds amounted to \$3.2 trillion by Q3 2013—almost triple the value recorded at the end of 2008.” Differences persist. Markets in newly industrialized economies such as Hong Kong, China; Singapore; and the Republic of Korea are more developed and liquid, than markets in the PRC, India, Indonesia, and Thailand, which are still at early stages of development. Moreover, to use this development to finance projects in infrastructure, market innovation is called for.

Three among many other measures being adopted to strengthen access to long term financing via the bond market are worth noting. One is to provide bond guarantees that reduce the risk associated with long-term exposure, while simultaneously increasing liquidity and therefore the possibility of exit from bond markets. An example is the Credit Guarantee and Investment Facility (CGIF) referred to earlier, set up as a trust by ASEAN+3 and the Asian Development Bank (ADB) in 2010, which provides guarantees for bonds issued by firms facing constraints in securing long-term funding from the local bond market. The second is to strengthen the mutual fund infrastructure, providing smaller savers with the option of buying into liquid mutual funds that in turn invest in debt securities. And the third is to address with new instruments the lack of adequate savings options for sections of the middle class emerging from the process of rising per capita incomes. They then turn to such instruments as a means of increasing exposure to equity or debt markets. However, an examination of the allocation of financial savings suggests that this has not proceeded far enough.

An example of using guarantees to help catalyze the long term financing market for infrastructure is a credit enhancement scheme that provides a partial credit guarantee (PCG) to enhance the rating of the instrument and make it an eligible investment for subscription by entities required to invest in highly rated bonds. Thus when a special purpose vehicle (SPV) operating an eligible infrastructural project issues a bond, an eligible FI provides a first loss guarantee raising the bonds rating (to AA say). The FI has access to the security of the underlying project assets and imposes a guarantee fee depending on project risk (Vivek Rao 2014; Rastogi and Rao 2011). The project is able to attract funding. It is possible to device stronger guarantee schemes depending on the source of finance for the guarantor to expand this form of funding.

Another example of how bond financing of infrastructure can be furthered is the Urban Infrastructure Development Programme in the state of Tamil Nadu, India (Hartig 2008). The executing agency, the Tamil Nadu Urban Development Fund (TNUDF), a public–private partnership between the government of Tamil Nadu and three private banks, obtained a EUR65 million loan from the German Finance Corporation to finance urban infrastructure investments in 2008. In addition it obtained an additional EUR10 million to support capital market financing of such projects. The latter sum served as capital for a special purpose vehicle—the Master Finance Indenture (MFI). The MFI provides loans to finance infrastructure, pools them and issues bonds that can be sold on the capital market to private and institutional investors. This reduces transaction costs and diversifies risk. The GFC loan is used to finance the subordinate tranche (35%) of the bond issue to make the bonds more attractive. Together with the first loss tranche or equity of 10%, this provides a substantial cushion against loan losses for the senior 55%.

However, bond financing is not always an option for borrowers with relatively small requirements, such as small urban local bodies (ULBs) seeking to strengthen their infrastructure, such as water supply and sewerage infrastructure. Such bodies are often not creditworthy and the transaction costs involved are high. A financing mechanism used to overcome these problems is pooled financing, which enables a number of borrowers with small requirements to come together and pool their projects and access financing with a single pooled bond issue backed by the cash flows from the underlying projects. The process delivers the benefits of scale as well as credit enhancement based on revenue sources such as property taxes credited to an escrow account that attracts a good rating and institutional investor interest (Sahasranaman and Kapur n.d.).

Innovative mechanisms like these are crucial to attract private finance into public infrastructural services delivered directly or through a public–private partnership.

2.3.2 Promoting Financial Inclusion

Sustainable development goals are advanced when populations at the bottom of the income pyramid are able to engage in economic activities that deliver reasonable earnings. Establishing a presence in such activities and growing to viability is substantially facilitated by access to credit. However, since these borrowers have small loan requirements, are dispersed and often based in remote locations, the formal financing infrastructure does not reach them or cater adequately to their needs. Moreover, when they do have access, the high transaction costs associated with such lending, results in interest rates that are too high to support much productive activity.

Thus, the effort at financial inclusion, or reaching finance to small enterprises, marginal farmers and poor borrowers, has had to experiment with innovations of various kinds. Some are obvious, such as the use of business correspondents and banking facilitators as conduits for credit in locations where it does not make sense to establish brick-and-mortar banking facilities. Being local, these agents are better informed about their clients and more capable of gathering the information needed for viable lending. These agents deliver loans to the primary borrowers, and are, in turn, supported with lines of credit from the banks, which reach credit to small borrowers in the process. Loans are not only for productive purposes but are used to finance some consumption expenditures or special needs such as emergency health expenditures.

For the banks this is a for-profit activity, with the local agents often even providing for guarantees against losses of up to a prespecified proportion of the loans. The banks risk exposure is, therefore, only to large-scale default. This is not the only way in which banks protect themselves. In the microfinance world, group lending or the joint-liability mechanism provides an implicit loan guarantee and promises high recovery. Banks lend directly to these groups or do so through the intermediation of a microfinance institution (MFI). Having formed itself through self-selection, the group tends to be more capable (as a collective) of assessing the probability of default on borrowing by individual borrowers. In addition, peer pressure driven by the fact that individual defaults affect the credibility of the group as a whole ensures higher rates of recovery.

These institutional innovations have been backed up with "pure" financial innovations such as securitization drawn from the world of "macrofinance." This helps enlarge the volume of credit that can be profitably delivered to those who need to be financially included. Securitization, as elsewhere, involves the transfer of a bundled set of microfinance loans off the balance sheet of the originator (the MFI) to a vehicle constituted for the purpose (a special purpose vehicle or SPV) and then to a buyer willing to be exposed to this market and benefit from the cash flows that would accrue over time. Implicit in the process is the understanding that sine the bundle consists of loans to different groups of borrowers with varying characteristics, a large volume of simultaneous defaults are unlikely. This reduces the risks associated with the instrument, earns it a good rating and makes it an acceptable investment for investors expected to exercise due diligence. To boot, when marketing these securities, MFIs offer additional guarantees to make them attractive. For example, they offer to themselves hold a bunch of securities that will absorb the first defaults, or make some provision to cover any initial losses.
The combination of institutional and financial innovation has made microfinance extremely successful in many contexts. In India, for example, according to one estimate as much as Rs8.7 trillion of such securities were sold in 2009/10.[4] The success of securitization of microfinance loans in India is partly explained by the fact that banks, which are required to meet priority sector (agriculture, small industry,

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[4] See "The Securitization of Microfinance Assets." http://www.aboutmicrofinance.com/the-securitization-of-microfinance-assets

etc.) lending targets specified as a percentage of their advances, were allowed to invest in such securities in lieu of such lending. Since this rule offered a way to circumvent having to undertake such lending themselves, it resulted in a huge demand for such securitized assets.

However, there is one major difference between microfinance lending and, therefore, the securitization of such loans, and what occurs in the formal and organized credit market. As Daniel Rozas and Vineet Kothari (2011) note, instruments created through securitization are considered safe and qualify for top ratings only when "the transfer of the asset from its originating entity separates the asset from the default risk of the originator." Such separation, in their view, permits the holder of the security to outsource such servicing to a third party. However, microfinance is an instance where the relationship that the originating institution has with the borrower is crucial to ensure the repayment of the loan with interest. Moreover, it is difficult in this case to separate origination from the "servicing"—or subsequent interaction with the borrower for collection, information gathering or problem resolution—of the asset. The fact that the MFI is a crucial link in the debt recovery chain and therefore cannot exit the debt contract fully is what makes the risk associated with microfinance loan backed securities greater than in other cases, and requires the MFI to provide some collateral that can be utilized to offset nonperforming loans.

These features of microfinance loan backed securities is particularly significant because such loans are more prone to default, given the economic condition of many microborrowers, and the evidence that borrowers take on loans from multiple MFIs and/or use loans from one to pay off dues to the other. The fact that microloans are often based on "group credit" structures that are expected to minimize defaults does not help resolve the problem. There have been instances where conflicts between lenders and borrowers trigger borrower revolt and a generalized refusal to pay that result in large-scale default. Finally, the structure collapses if the MFI itself fails, which is a possibility. While such risks may be unavoidable and small, they become relevant when the volume of securitized transactions increases hugely as is happening in India.

2.4 Personal and Household Savings

While high net worth individuals with large surpluses have become direct investors in equity or investors in varied financial instruments, many developing countries in Asia and the Pacific have still to persuade a growing and richer middle class to allocate a larger share of savings to financial investments. Barring periods when unusual factors trigger a stock market boom, retail investors are shy when it comes to investing in equity instruments or even in mutual funds that are dominantly exposed to equity. This is even truer when it comes to primary market offerings of medium-sized enterprises. What is more the reticence to divert savings in favor of financial assets is visible even when it comes to debt instruments, with the exception being government small savings schemes that are linked to tax benefits.

Wanting to invest in safe assets that are also a hedge against inflation, and offer the benefit of liquidity, these sections still tend to hold much of their savings in term deposits with banks or invest them in assets like gold. In India, for example, huge investment in gold which is imported from abroad resulted in a situation where imports of gold rose from $28.6 billion in 2009–2010 to $40.5 billion in 2010–2011 and $56.3 billion in 2011–2012 (when it amounted to 11% of merchandise imports and 30% of the trade deficit). Even in 2012–2013, gold imports remained at the extremely high level of $53.7 billion. It was only when the government hiked import duties on gold from 2% to 10% and imposed quantitative restrictions that imports fell sharply and the current account imbalance was redressed.

This indicates that getting upper middle class investors to park their savings in financial assets that finance developmental projects requires designing special instruments that assure them of a reasonable (even if imperfect) hedge against inflation, while providing them a relative return that more than compensates for any possible risk relative to deposits. One instrument experimented with is an inflation-indexed bond. But with much uncertainty about inflation, the burden of such financing is too unpredictable to serve as the basis for stable long-term funding.

2.5 Diverting Remittance Flows to Financing Development

The above features seem to hold in the case of remittance flows to Asian developing countries as well. A substantial share of routine remittance flows often go to meet the consumption expenditures of the families of temporary migrants who stay back in the home country. A part of surplus incomes are transferred to finance housing investments. But even when the lump sum required for the purpose is being accumulated or remitters choose to hold additional savings in the home country, the first port of call are bank deposits, especially foreign currency deposits that offer higher rates of interest than available internationally and insure the depositor against any exchange rate risk.

According to the World Bank (2013), migration and remittance costs are high. But: “The international migration community is considering the goal of reducing migration costs (including costs of recruitment, visa, passport and residency permit) as a possible candidate for the post-2015 agenda. If this goal received the kind of attention that G20 has paid to reducing remittance costs, far larger development impacts could be expected” (World Bank 2013, 9). If this happens and there is a growing proportion of skilled short term migrants, as happens to be the case in India with its flow of IT workers with H1-B visas, for example, then remittances can emerge as a source of surplus for investment, besides a source of livelihood and cause of improved standard of living.

2.6 Managing the Use of Windfall Gains

Some developing countries also generate surpluses in the form of windfall gains that result from the availability of and price increases in exhaustible and nonreproducible resources. These gains are “windfall” in nature for this double reason that they are not available forever, and tend to be high during periods when special circumstances result in a spike in prices. Given these characteristics it is essential that the countries concerned, especially when they are otherwise poor, must husband these resources and when exploiting them use them to advance to the maximum extent possible sustainable development goals.

A mineral exporter, for example, must, while investing to derive benefits from this source of demand and foreign exchange, seek to diversify away from dependence on minerals by using the advantage to finance diversification that strengthens food security and builds manufacturing capability, to both render growth sustainable as well as to diversify export revenues in the medium term. There are many instances of the so-called resources curse where countries are neither able to mobilize for social benefit the full value of the gains, that are often illegally captured by a corrupt elite and transferred abroad, nor are able to show the developmental results warranted by their wealth.

Thus in the case of a significant number of the LDCs, exports can serve as an important driver of growth as well as a source of foreign exchange that allows access to goods needed to enhance investment and cover crucial shortages. The availability of large volumes of foreign exchange, which is a fully fungible asset, allows imports to cover any crucial supply shortfalls as well to obtain access to the technology and capital equipment needed to diversify into new, more productive activities. The task here is to ensure that foreign exchange receipts are used in the national interest, are targeted at growth promoting and employment enhancing activities, and are deployed in ways that are not inequalizing. If this is ensured, the stimulus derived from servicing external demand can serve as the basis for domestic market expansion, which in turn can facilitate internal structural change with positive implications for the volume and quality of employment.

There are a number of issues that this coexistence of access to external markets and foreign exchange and a poorly diversified economic structure raises. One is that being an exporter need not necessarily be an advantage. Even exporting countries could be dependent on sectors that are experiencing a deceleration in global demand and are at the losing end of the shifting terms of exchange in international trade. Such sectors typically also produce traditional commodities for which productivity is relatively low. These are normally areas where world demand is not growing too fast, competition from other similarly placed and traditional-exports-dependent developing countries is high and international prices of exports and the terms of trade vis-à-vis imports move adversely. The net result is that foreign exchange earnings are inadequate to even meet the demands of a poor and slowly growing country.

The second is that in both dominant and minor LDC exporters, one or a couple of commodity groups account for a very large share of merchandise exports. Depending on the commodities involved this can result in increased vulnerability rather than provide the base for economic diversification. Countries are prone to fluctuations in the demand for and the prices for those commodities, which can be large in amplitude. These resources are also nonrenewable and subject to rapid depletion if overexploited.

The third is that even when export sectors are successful this could act as a curse. Large foreign exchange inflows result in an appreciation of the currency that adversely affects export competitiveness and encourages imports that are cheap in domestic currency terms resulting in limited industrialization or even deindustrialization. To the extent the exportable resources and sectors are controlled by a few, they turn extremely powerful and are in a position to stall efforts to tax away a part of the revenues to finance economic diversification and social development.

Finally, there is the straight forward fact that the features that make a country poor may itself set supply and demand side constraints to economic diversification, despite access to export revenues. Poor infrastructure, weak connectivity, low incomes, productivity and savings rates outside of the export sector and geographical location and terrain, could all combine to hinder diversification even when the foreign exchange required for the purpose is available.

All that having been said, these factors that constrain the use of foreign exchange to raise investment and ensure dynamic diversification, only make a case for the use of appropriate policies to overcome them and ensure growth that also generates employment. To start with, countries with the advantage of access to a significant export revenue-earning sector, must ensure that the functioning of that sector does not lead to early exhaustion of the available resources, does not burden the rest of the economy with an overvalued exchange rate that undermines the competitiveness of other tradable sectors, and does not have damaging ecological consequences that impinge on the livelihoods of the rest of the population. Secondly, since most low-income exporters rely significantly on the extractive industries, the social ownership and common property nature of those resources need to be respected and the proceeds from export success used to strengthen the rest of the economy. Public ownership by a democratically accountable state or taxation of net revenues, to finance investment in productivity enhancement and economic diversification and provide for adequate social expenditures, is a must. Third, when this is done the investment made should focus on sectors such as infrastructure the inadequacy of which constrains development in poor countries, but in which the private sector is unlikely to show adequate interest. Finally, the pace and pattern of economic diversification must be planned and ensured in a manner conducive to realizing the goal not just of productivity increase but also employment generation.

2.6.1 Sovereign Wealth Funds

When the gains are windfall in nature, they by definition would be of a magnitude where a country may not be able to productively absorb all of it immediately for sustainable development purposes. So, transferring them into a fund that is invested in ways that protects the value and purchasing power of those resources is crucial. One way in which this is done is through the medium of sovereign wealth funds.

A Sovereign Wealth Fund (SWF) is a vehicle (structured as a fund, pool, or corporation) chosen by governments or central banks to hold foreign exchange assets generated through balance of payments surpluses yielded by commodity exports, other sources of net trade inflows or capital inflow in excess of the current account deficit that needs to be financed. These surpluses need to be held in forms that preserve the value of these assets and yield a return. Conventionally, such assets were invested in safe, guilt edged securities of countries with strong currencies, such as US government Treasury bills. But given the low yield of those assets and the dangers of excess exposure to just a few instruments, countries holding large volumes of such assets are looking to diversify their investment targets. This requires turning to instruments such as stocks, bonds or real estate in appropriately chosen countries abroad. Inasmuch as these are countries with strong currencies, the investment itself provides a hedge against foreign exchange risk. What matters then is the yield. On the other hand, countries can choose to carry some foreign exchange risk and invest in securities expected to yield high returns. Sovereign Wealth Funds are seen as vehicles that make those decisions.

The diversion of foreign exchange assets to investments like these has raised the question as to why such assets should not be invested (directly or indirectly) in developmental initiatives such as infrastructural projects. Doing so most often implies subjecting the investment to foreign exchange risk. Developmental initiatives, even if they yield a return, are investment targets in which the capital is held and the income derived in local currency units. In addition, many of these initiatives are in the nature of low yield projects. If, then, a country decides to derive the social benefits that can flow from such utilization of surplus foreign exchange receipts, there must be systems in place that ensure that the best possible choices are made.

It is necessary here to distinguish between two sources of accumulation of foreign exchange assets. One is when those assets have been accumulated out of a country's foreign exchange "earnings," reflected in current account surpluses. The other is when they are "borrowed," in the sense that they are the result of net capital receipts that have associated with them future commitments in terms of periodic payments and amortization. It is the former that is suitable for diversion to investments that are likely to be long-term in nature and have associated with them various degrees of liquidity. The latter, often resulting from capital inflows that are short-term in nature and geared to earning returns in the form of capital gains, are less suitable for the purpose, since investors are likely to look for opportunities to book profits and exit. Investing the funds in assets that yield returns in local currency, have relatively longer maturities and are relatively illiquid carries considerable risk.

Some poor, developing countries endowed with exportable, exhaustible resources and obtaining windfall gains from the same have invested them successfully in sovereign wealth funds. An example is the Petroleum Fund of Timor-Leste established by law in 2005 (Gomes and Rajivan 2011). Timor-Leste became an exporter of oil in 2004, and by 2010 petroleum accounted for three-quarters of its GDP. To avoid the “resource curse” of wasteful spending and corruption, which is often experienced when countries strike sudden wealth from nonrenewable natural resources, the government passed the Petroleum Fund Law, the objective of which was to manage petroleum resources “for the benefit of both current and future generations,” and do so “in a fair and equitable manner”, with transparency in management. In December 2012, the assets of the petroleum fund amounted to $11.8 billion or around $10,700 per person in the country.

To meet the stated objectives the government was required to invest 90% of the corpus in investment-grade US dollar debt instruments, with the remaining 10% eligible for investment in instruments that were issued abroad, and were liquid, transparent and traded in markets of the highest regulatory standard. Further, the use of the fund was to be based on an estimated sustainable income (ESI) formula, which specified the maximum amount the government could draw from the fund for budgetary purposes so as to ensure that it would be available for many generations after oil and gas reserves are exhausted.

At first, the ESI was set at 3%, but that was raised over time and exceeded 7% by 2012. Only in 2011 was an amendment made that allowed as much as 50% of the fund to be invested in equities, including up to 5% in other forms of investments. While there is debate on the correctness of this decision and on the adequacy of withdrawals from the fund in a poor country, there is broad consensus that the fund has been managed well and that this is an experiment with generating resources for development that can be improved upon and replicated.

2.7 Bringing in the Private Sector

Given the motivation of bringing in the private sector as a full-fledged development partner it is not enough if resource mobilization initiatives to pursue the post-2015 development agenda are restricted to garnering resources for public expenditures. Rather agents in the private sector, be they corporate entities or civil society organizations, who are seeking to undertake activities that self-consciously or otherwise advance one or the other development goal should allow be encouraged to seek new ways of financing their plans.

2.7.1 The PPP Route

Since in many cases the pursuit of development goals requires going beyond and even modifying the profit maximization criterion, private entities may be reticent or unwilling to take on developmental responsibilities on an adequate scale. This may even be because of their inability to gauge the long run rewards and benefits that would accrue to them. To wean them into this activity, a useful route is a public–private partnership in which the government and the private sector share responsibilities, risks and the financing burden.

Based on a contract specifying the roles and responsibilities of the governmental and private parties, a PPP provides for risk sharing between the two and links financial returns to be earned by the private entity to the delivery of a set of specified outputs. Clarity in defining the contract is essential because the search for profit dominates the incentive structure of the private sector, whereas the state is driven substantially by developmental objectives. The PPP route is adopted predominantly in the infrastructural area, where the financing costs are high, the gestation periods long and the risks considerably more than elsewhere. According to the World Bank, over the 10 years ending 2013, private capital has contributed between 15% and 20% of total investment in infrastructure.

Risks are of many kinds. They could be technical because of possible design and engineering failures. There are operational risks associated with any large-scale project that can result in higher costs of production. There are revenue risks, especially because such projects require a long-term revenue stream, and governments are under pressure to keep the prices of essential infrastructural services down. There are financial risks because of inadequate hedging of costs, expected revenues or foreign exchange exposure over the life of the project.

One role of a public–private partnership is to allocate these risks to the agent that can manage them best. Private agents with the required engineering and operations and financial management skills are brought in to mitigate the risks associated with those aspects of the project. This implies that the private partner in a PPP is not the source of financing per se. However, one of the reasons governments want to bring the private sector into areas such as infrastructure is the shortfall in budgetary resources relative to investment needs.

Where mobilizing finance, besides other capabilities of the private sector is the motive, the government should design the partnership in ways in which it can incentivize private investment as well as facilitate the mobilization of finance in the form of equity and debt by the private partner. In fact, most PPP projects tend to be highly leveraged, winning financing support because of the backing of the government. So revenues for the implementing vehicle must cover operating costs and the costs of debt, besides providing the risk capital involved a desirable return. This requires finding innovative means of financing these projects, setting prices at levels that generate adequate revenues and/or providing for transfers that allow the private player to balance the social costs that the government may impose on them. All of these require both assessing and limiting costs (so that private efficiency benefits are not neutralized by hidden profits transfers), assessing the risk involved and pricing to cover it, and providing for the margin that covers financing costs.

In instances where the government wants the private sector to set prices below what is warranted by normatively assessed costs and a reasonable return, it must be in a position to either finance part of the capital cost with a grant (viability gap funding) or provide a subsidy to cover the difference. However, government support cannot be such that the government carries all the risk of project failure: by guaranteeing purchases at predetermined prices by public utilities independent of market demand; by guaranteeing debt and taking over exchange rate risks on foreign borrowing; or, by promising to reimburse private partners if demand is below a certain level.

Besides the fact that these kinds of conditions undermines the objective with which private partnership is sought in these crucial areas, it also damages private incentive to choose projects that are financially sound and operate them in a cost efficient manner. It also leads to practices such as "gold-plating," where capital costs are inflated by the private implementing partner to boost profits at the expense of the exchequer.

There are also instances where the services delivered by a project may reduce costs to the consumer to a degree where she is willing to pay the price that renders the project viable. An example sometimes quoted is the Bandra-Worli sea link toll road in the city of Mumbai, which was expected to cut travel time and reduce fuel consumption so much that consumers would be willing to pay the price required to deliver the concessionaire the cost and profit. However, recent reports suggest that the project has not been able to draw as much traffic as projected, partly because other extensions of the link such as Haji Ali to Worli and Bandra to Versova have not taken off.

The fundamental factors favoring the PPP route are the flexibility, the diverse financing possibilities and the technological expertise and experience that private players possess. Given the concern here with financing projects with developmental benefits, the kind of PPP projects that are of interest are those involving a build-operate-transfer (to government) or build-operate-own model, in which the government provides some guarantee that during the period in which the project is functioning in PPP mode the private partner receives revenues that recoup capital costs and earn a reasonable return. There are monitoring requirements involved here, since keeping in mind the user charges imposed on consumers or the subsidies being paid out of the budget, the government will have to ensure that the private player adequately justifies the reported capital and operating costs of the project.

The experience has been mixed. To quote the World Bank (2014): "PPPs are not a panacea. The literature points to the negative effects on public budgets because of contingent liabilities not being adequately assessed, insufficiently reported, or accounted for off-balance sheet. Furthermore, PPPs are generally considered to be more expensive than purely public financing due to higher private sector borrowing costs and high transaction costs in general. Moreover, PPPs are likely to produce inadequate risk allocation due to lack of competition during bidding and be subject to renegotiations which may put the public sector in a weak position and subsequently lead it to accept undue risks."

2.7.2 Voluntary Private Participation

But as noted earlier the private sector is increasingly willing (and needs to be further persuaded) to become a full-fledged development partner by contributing voluntarily and on the basis of its own resources and strategies to the advance of broader developmental goals than the pursuit of profit alone. There are two broad forms that this may take. One is where the private sector acknowledges that independent of and over and above its indirect contribution to social expenditure through the tax revenues it is required to pay under the financial laws of each country, it must keep aside a share of its profits to directly finance and engage in socially beneficial projects either under its oversight or even directly under its management. Voluntary corporate social responsibility (CSR) activities fall in this category. The second is when social benefit objectives are added to private profit concerns when deciding on the direction and form of investment, as is sought to be institutionalized in the B-corp movement described earlier. The financing of such ventures can come from the own capital of promoters or by mobilizing resources from holders of investible surpluses who are looking to realize social objectives they value when making their investments.

Corporate Philanthropy and Corporate Social Responsibility

Philanthropy on the part of corporates and the wealthy who own them has been an abiding feature of capitalism, and has gained strength over the last century. But when Warren Buffet decided to bequeath much of his near $60 billion in wealth to the already well-endowed Bill and Melinda Gates Foundation, and Buffet and Gates together decided to persuade other wealthy individuals to join a "Giving Pledge," the nature and impact of private sector philanthropy was seen as changing. However, the base on which growth occurs is yet small. For example, around 2005, when Official Development Assistance (ODA) in the form of bilateral and multilateral aid from donor countries was estimated at more than $100 billion, a rough estimate of grant-making by charitable foundations was placed at around $4.5 billion.

While there are limitations to the data available on philanthropic giving, funding through philanthropic organizations to development-related activities is estimated to have grown significantly: conservative estimates point to an increase from $3 billion in 2000 to $7 billion to $9.5 billion in 2009 (UN 2013). This points in two directions. First, the sums involved in private philanthropy are getting larger at a time when many donor nations are increasingly overtaken by aid fatigue and cutting aid budgets as part of fiscal consolidation. Second, the world is entering a phase were some of the most successful business leaders are choosing to directly plan and oversee the projects financed out of their wealth.

Not surprisingly, leading development agencies, including the UN have decided to incorporate the initiatives led by corporate philanthropy into their development agendas. Thus, at the 2012 Development Cooperation Forum (DCF), development actors agreed that private philanthropy is a vital source of financing for development, which must be better leveraged through new partnerships in the common effort to achieve the millennium development goals (Leisinger and Schmitt 2011).

The Background Note (United Nations, Economic and Social Council 2013) for the Development Cooperation Forum Special Policy Dialogue held in April 2013 noted: "With the discussions on a post-2015 development agenda taking center stage, and implications of a changed development landscape becoming more apparent, exploring the role of philanthropic organizations in international development cooperation is timely and critical. New ways to collaborate and build cross-sector capacity and networks among philanthropic organizations, member states and other stakeholders will be vital to promote innovation and strengthen partnerships to address development challenges."

A. The Private Sector Difference

What this suggests is that corporate funding in the form of conventional social responsibility funding is only one form of corporate participation in development. The issue here is not the emergence of just one more actor in the development practice field. Rather, private philanthropic organizations are seen as contributing to both financing and operational innovation, facilitated by their financial independence and consequent ability to take risks, and applying principles and practices adopted in corporate activity. They are therefore seen as capable of investing in projects using new approaches and technologies, and as being willing to support scientific research.

In the financing area many of them are experimenting with "venture philanthropy," providing seed money to leverage additional financing from other sources, for example. In the process, a broad range of instruments, such as loans, equity investments and social bonds are being used to mobilize resources for development. This in turn necessitates monitoring progress through mutually agreed performance measurement indicators increasing in the process the social impact of the projects concerned. Examples of this are so-called "impact investments" by philanthropic organizations that are structured to realize measurable social and environmental outcomes. They are also often designed to get market players to take into account environmental and social objectives.

Crowd-sourcing

Innovation for mobilizing resources from small "donors" or investors is also growing, facilitated by technologies that make it easier to donate. People can, for example, donate small amounts for development projects via mobile phone through so-called crowd funding. This makes it possible to pool funds from small investors who may even be promised a financial return, besides evidence of developmental impact. An example is CrowdMission, a venture capital fund mobilizing money for social businesses (Seager 2014). As Chief Executive Karen Derby puts it: "There's a change coming now through social entrepreneurship. I think currently people have an early appetite to get involved and so the sector is progressing positively. Over the years I've been judging many startup competitions and I've seen many more young people coming through from universities and employment who are wanting to start up their own businesses which also have a social purpose at the core." According to her, crowd funding "opens its doors to the public to invest in exciting social businesses. What's changing now is that instead of just giving money to charity, you can become an impact investor and put money into a business where you can magnify your impact by reinvesting that same money rather than spending it. And crowd funding is essentially bringing the crowd to impact investing."

3. HOW DEVELOPMENT COOPERATION (GLOBAL/REGIONAL) CAN MATTER

3.1 A Case for Caution

A feature that the above discussion underplays is the substantial differences in the structures and levels of development of countries in the Asia and Pacific region, with a few developed economies, a significant number of middle income countries, and a host of poor economies and economies with special characteristics like the small, island and landlocked economies. Much of what has been said about making the private sector a development partner is of obvious importance for the developed economies.

But even at the level of the middle income countries, there are special issues or dilemmas that arise. One is the perennial debate on the sequencing of emphasis on growth, distribution and sustainability issues. Should these countries focus on promoting growth now, and wait for the generation of adequate surpluses before thinking of emphasizing distribution, human development and sustainability? Implicit in that question is the failure to recognize relationships that are empirically well established. One is the relationship between human development advance and growth, on the one hand, and growth and sustainability, on the other. The second is the element of path dependence associated with unsustainable development trajectories. There are some aspects of environmental damage or even deprivation that are either irreversible or costly to reverse. Yet, the issue of sequencing, keeps recurring because of fears about a middle income trap, to avoid which, it is argued, countries in the middle income league should push growth at all costs, and even at the expense of human development advance and sustainability. There is enough evidence of the costs and limits of such strategies that challenge the credibility of that argument.

The special issues, dilemmas, and challenges are more visible when we turn attention to the poorest countries and those with special characteristics and needs, such as the island economies. Here the private sector is a small presence and, often, extremely weak. Its ability to contribute significant tax revenues to the government's resource pool or to undertake expenditures on its own is limited. The opportunities for diversification are also limited, and challenges to implementation large. While this does not absolve the responsibility of governments in these countries to raise the level of investment and domestic savings, the time frame within which this can be reasonably achieved is too long to address the urgency of the problems at hand. It is here that international cooperation has the largest role to play, by supporting governmental efforts at pushing growth while ensuring sustainability.

3.2 A Role for International Cooperation

Overall, enhancing the role of the private sector in furthering the post-2015 development agenda does not absolve the international community of its responsibilities that would now only be shared. There are four important tasks international cooperation at a global and regional level must pursue.

The first is that of setting benchmarks that are global, whether they are to do with labor conditions or environmental standards. This would prevent individual governments from setting standards too low. It would also prevent regulatory arbitrage.

The second is that of enhancing the global compact so that the private sector is not just called upon to internalize existing treaties and conventions on human rights, labor, the environment and fighting corruption, but go beyond that to make the private sector a true development partner, contributing resources, technology, effort, and expertise.

The third is to develop global and regional monitoring and regulatory mechanisms, as well as strengthen information collecting and sharing practices so that a truly international community committed to advancing an ambitious development agenda is forged.

Finally, intergovernmental organizations must become the hub to help strengthen cooperation that does away with wasteful replication and fosters mutual respect and trust between governments, the private sector, the NGO community and the intelligentsia, so that a truly meaningful development partnership can be forged.

If that is achieved, even if some have to suffer short-term losses, long-term net gains can be ensured for all, guaranteeing greater success with the post-2015 agenda.

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Potential and Prospects for Private Sector Contribution to Post-2015 Development Goals: How can Development Cooperation Strengthen Engagement and Results?

The challenge of financing a post-2015 development agenda makes it imperative that the private sector becomes a true development partner. This study examines why and what it takes to achieve that goal.

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