

Engaging the private sector in development co-operation: Learning from peers

Official development assistance is increasingly being delivered with and through the private sector. Valuable lessons are emerging from these experiences. The OECD's Development Assistance Committee (DAC) has recently launched a survey and peer learning exercise with its member countries to tap into these experiences and identify good practice. Many insights are emerging already from the survey and the first three reviews – of Germany, the Netherlands and Sweden. These include the value of private sector partnerships beyond their financial contribution, and the critical importance of investing in in-house capacities and expertise to successfully develop and manage partnerships with the private sector. The final synthesis report will identify best practices and lessons to help all DAC members refine their engagements with the private sector, including appropriate tools and partnerships to leverage private sector resources and enhance development impact; and measuring and evaluating results, impact, additionality and the catalytic effect of private sector engagements.

There is a long history of private sector engagement in development co-operation. The OECD's Development Assistance Committee (DAC) member countries are increasingly developing partnerships with the private sector to leverage private capital, expertise, innovation and core business to benefit sustainable development. To learn from this experience and how it applies to development co-operation strategies and practices, the DAC has introduced an in-depth, thematic, peer-to-peer learning process on working with and through the private sector to complement the DAC Peer Reviews.¹ The peer learning exercise – which began in April 2015 – aims to identify good practice and lessons in private sector engagement. While a range of policy and academic literature has emerged on the role of the private sector in development co-operation in recent years,² the unique advantage of the peer learning exercise is that it is rooted in the current practice of DAC members as they transition towards greater and stronger private sector engagement.

The peer learning exercise was launched with a survey of all 29 DAC members and selected non-members to take stock of, and understand better, current priorities and practices. Twenty-seven responses were received. Following the survey, the OECD organised an inception workshop, convening private sector focal points from member country governments to share lessons and to refine the analytical scope and desired outcomes of the peer learning exercise.

Four DAC members – Germany, the Netherlands, Sweden and the United States – volunteered to be reviewed. The Netherlands and Sweden were reviewed in November 2015, Germany in February 2016 and the United States will follow later in 2016. In addition, two “spotlight” workshops will be held to explore key areas of interest to DAC members, namely innovative financial and non-financial instruments for private sector engagement, and development and financial additionality.³

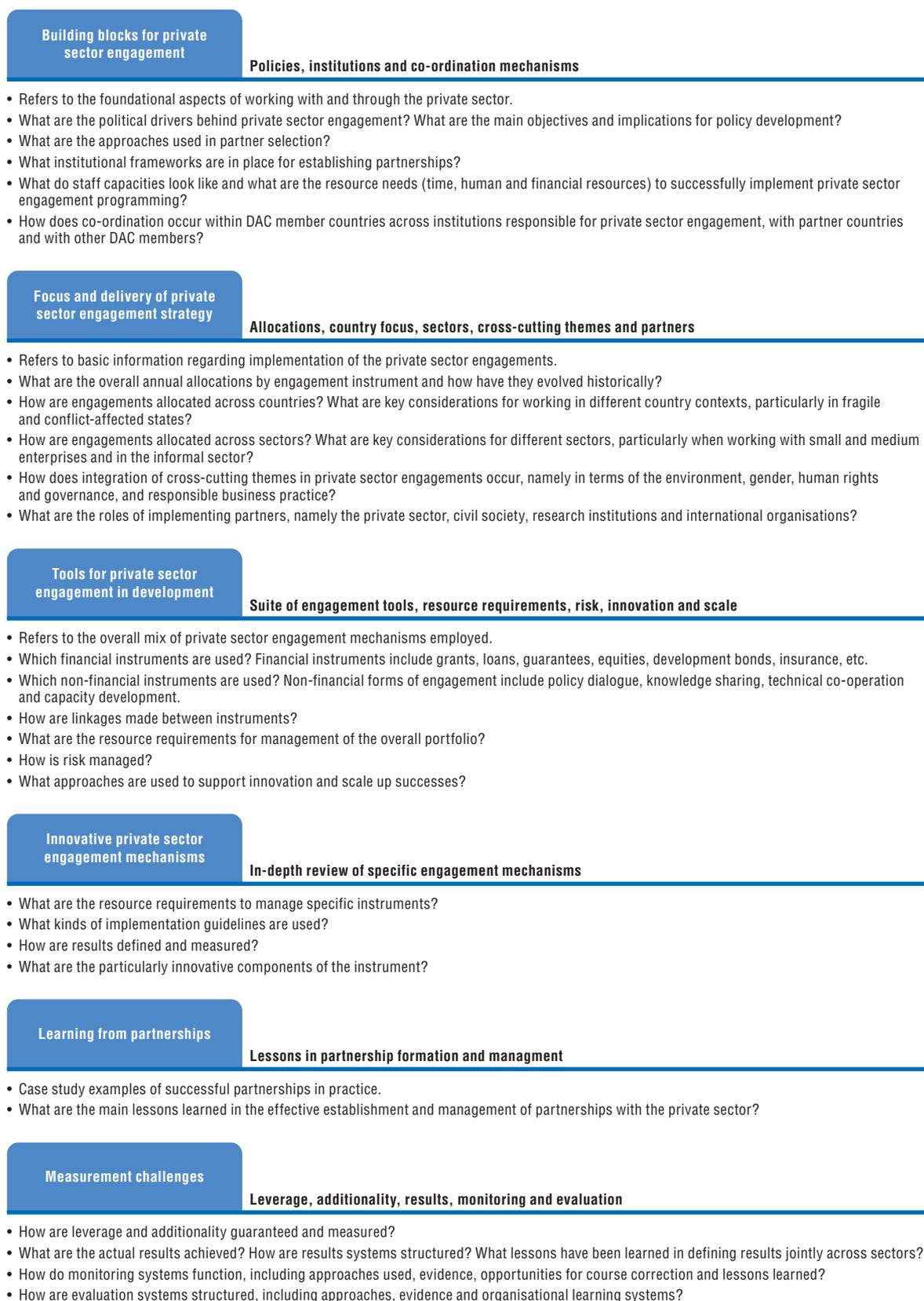
This chapter describes the analytical framework for the peer learning exercise, summarises the main insights from the survey and brings together key lessons emerging from the reviews of Germany, the Netherlands and Sweden.

An analytical framework guides the peer learning exercise

The peer learning exercise focuses specifically on the role of the private sector as a partner for development. Private sector development is already an important sector for DAC members. It includes interventions aimed at establishing an enabling environment for business; addressing market failures; and supporting businesses and individuals to participate effectively in the local, regional and global economy. While the exercise includes partnership approaches in this context, it also looks more broadly at private sector engagement in all sectors in which DAC members provide support, from health, education, and peace and security, to the environment.

An analytical framework sets out the scope for the peer learning exercise (Figure 7.1). It aims to establish broad parameters and questions to enable comparison among DAC members. This is complemented by deep reviews of specific instruments and partnerships. The framework includes an examination of the building blocks of private sector engagement – policies, institutions and co-ordination mechanisms. It looks at the focus of private sector engagement activities, in terms of resource allocations by sector, region and partners. In this context, special attention is paid to

Figure 7.1. Peer learning analytical framework



cross-cutting themes: gender equality, the environment and climate change, and human rights and governance. The framework also looks at private sector engagements at three levels:

1. The overall portfolio: the suite of private sector engagement tools used by a DAC member is examined, including financial and non-financial tools. In this context, the resources required to manage the overall portfolio, and strategies for mitigating risk and scaling innovation, are examined. In the analytical framework (Figure 7.1), this is captured under “tools for private sector engagement”.
2. Instruments: specific instruments that have been developed by DAC members – such as guarantee programmes or policy dialogue mechanisms – are showcased, and lessons emerging from the use of specific instruments are gathered. Referred to as “innovative private sector engagement mechanisms” in the analytical framework.
3. Partnerships: the analytical framework draws out lessons on establishing and managing successful partnerships with the private sector. Referred to as “learning from partnerships” in the analytical framework.

The final component of the analytical framework – measurement challenges – examines how DAC members measure leverage and ensure additionality in their engagements with the private sector. It also includes a review of results management systems, and systems for monitoring and evaluation.

Initial findings contain valuable lessons for private sector engagement

The survey revealed that members seek to harness private sector contributions to development – such as finance, innovation and know-how – by capitalising on the alignment of development and commercial objectives. Respondents identified three main objectives for working with the private sector: 1) leveraging private sector funds towards development-oriented investments; 2) priming collaboration between domestic and developing country private sector actors; and 3) enabling private sector development in developing countries. As shown in Figure 7.2, a number of approaches are taken by DAC members to realise these objectives, supported by a large variety of mechanisms and instruments.

Figure 7.2. **Survey results: Main objectives of private sector engagement**

Leveraging private sector funds towards development-oriented investments	Priming collaboration between domestic and partner country private sector actors	Enabling private sector development in partner countries
<ul style="list-style-type: none"> • Encouraging direct investments, such as in trade and domestic value chains • Using development funds and mechanisms which target the private sector to address development challenges, and sometimes include third-party implementing partners 	<ul style="list-style-type: none"> • Supporting direct collaborations and joint ventures • Supporting partner country private sector while boosting domestic entrepreneurial activity • Focusing on corporate social responsibility, for example in global value chains 	<ul style="list-style-type: none"> • Promoting a sound business environment • Addressing barriers to trade and market failures • Supporting small and medium enterprises

Approaches must be tailored to different country contexts

Countries tend to take two main approaches to the geographic focus of their private sector engagement activities – instruments are either open to all ODA-eligible countries,⁴ or targeted at focus countries. Many survey respondents tend to prioritise countries in Africa. Some respondents also noted that least developed countries, low-income countries and fragile states are a priority.

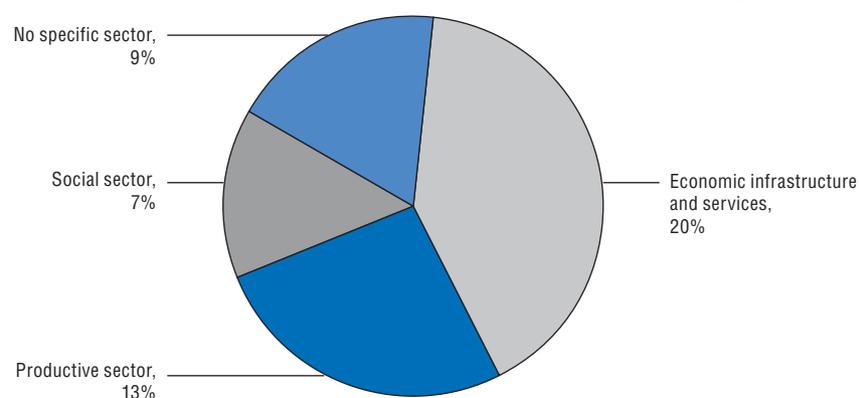
Differentiated approaches and a willingness to take greater risks are key when engaging with the private sector in fragile states.

Initial findings from the review of Sweden suggest that there is significant potential for greater engagement with the private sector in fragile and conflict-affected states, for example, by working with organisations such as the African Enterprise Challenge Fund. While weak institutions can make it challenging for the private sector to operate, space often exists to try new initiatives; local private sector partners can help fill gaps, serving as strong partners. If well-grounded in conflict analysis, private sector partnerships can contribute to market development, crowd in investments and improve development outcomes. Moreover, successful private sector engagement in fragile and conflict-affected states shows that it is possible to move beyond humanitarian, transition and grant-based aid, though aid continues to play a critical role. For DAC members seeking to work with the private sector in fragile and conflict-affected states, differentiated approaches and a willingness to take on a greater level of risk are key. This means developing specific mechanisms, incentives and criteria to attract private sector partners.

Private sector collaboration is possible in all sectors

Most survey respondents (20) noted that their interventions are largely concentrated in the sector of economic infrastructure and services, in particular energy generation and supply (many respondents indicated investment in green energy technologies) and other infrastructure (Figure 7.3). The productive sector (particularly interventions in agriculture), and the social sector – health and education notably – were also highlighted. Nine respondents indicated that their interventions do not target specific sectors.

Figure 7.3. **Countries' sectoral focus for private sector engagements**



Private sector collaboration is possible in all sectors. For Sweden, the private sector is a partner not only in traditional sectors for engagement, such as private sector development, energy and infrastructure, but also in the environment, health and governance sectors. This is the result of a deliberate choice by Sweden to use horizontal, non sector-specific instruments, when relevant, to achieve the goals of a particular strategy. On the other hand, as shown by the review of the Netherlands, benefits exist from focusing activities on specific sectors where a comparative advantage exists. This enables the development of in-house expertise to facilitate partnerships and investments. Private sector engagements tend to fall into three main areas in the Netherlands: infrastructure, food security and water. Its existing experience also ensures that the DAC member can be a useful partner, bringing finance, sector expertise and knowledge of local contexts. In the German

context, private sector partners are now actively seeking to partner with GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), an important government implementing partner in German development co-operation, owing to its expertise and local networks.

Multiple objectives require diverse approaches and tools

A large variety of mechanisms and instruments for private sector engagement exists. Their use depends on the objectives sought. The main tools used for the three policy objectives identified in Figure 7.2 are outlined below. The groupings are not mutually exclusive and many DAC members use a mix of modalities to achieve multiple objectives.

To leverage private funds, members make use of loans, guarantees, equity positions and funds, blended concessional and non-concessional finance, and grants (see Chapter 4). These instruments are very often used by the development finance institutions of DAC member countries, but some bilateral providers of development co-operation have also established specific programmes for a number of interventions, including in energy, transport and social infrastructure, climate change, and support to micro, small and medium enterprises. DAC members are establishing public-private partnerships to mobilise finance, technology and expertise. A number of members have also established innovation or challenge funds. These funds tend to work on a competitive basis, inviting applicants to identify solutions to particular development challenges. Once proposals are assessed, grants are typically awarded to projects which are most likely to meet development objectives.

Challenge funds invite applicants to identify solutions to particular development challenges.

In their efforts to establish direct collaboration between domestic and local private sectors, DAC members encourage domestic firms to invest abroad and to focus on the specific needs of developing countries. These activities – often dubbed business-to-business or match-making initiatives – are funded through grants, loans and equity participation. Typically, they couple firms in member countries with firms in developing countries in order to transfer skills and technologies, include local firms in the international value chain, improve social and environmental standards, and develop pro-poor products and services. Private firms contribute to financing the costs of the projects, with the share of the contribution varying according to the programme. In addition to funding direct project activities, DAC members also support feasibility studies, often as a precursor to project funding.

To promote developing country private sector development, interventions can be aimed at improving the business environment, addressing market failures and barriers to trade, and supporting small and medium enterprises through technical assistance, capacity development and the provision of finance. DAC members continue to have a role in helping to improve the enabling environment for private sector engagement in development. The Swedish review found that private sector partners welcome greater collaboration, as well as the ongoing role of development co-operation in building the enabling environment, such as supporting a level playing field for all private sector actors, strengthening institutions and fighting corruption. Similarly, the German and Dutch reviews showed that it is useful to establish clear links between private sector engagement and private sector development activities. Germany strategically links its expertise in vocational and technical education to direct partnerships with companies and business associations. In addition to direct investments in countries to support job creation, technology transfer and domestic resource mobilisation through taxation, the Netherlands structures its engagement mechanisms to improve the enabling environment, for example by improving access to finance and helping local businesses to integrate into global value chains.

Experiences from Germany, the Netherlands and Sweden highlight the importance of developing a mix of financial and non-financial tools that work together. Financial mechanisms should be complemented by a suite of non-financial tools – such as technical assistance, capacity development and knowledge sharing – to maximise their impact. Brainstorming across sectors – with government playing a convening role – is important for identifying shared solutions between governments and international and domestic private sector actors. In this context, dialogue is an effective tool for promoting sustainable business practices and developing partnerships. Moreover, backing up dialogue with a willingness to commit financial resources ensures that concrete actions ensue. For example, some providers of development assistance have supported roundtables aimed at developing policies and standards for particular industry challenges, such as improving social and environmental outcomes in the textile industry. These efforts have been backed up by funding for concrete initiatives and partnerships aimed at realising the outcomes from policy dialogue.

It is also important to ensure some flexibility in how the suite of engagement tools is implemented. German and Swedish engagement mechanisms can be tailored to partnership type and the local context, for example.

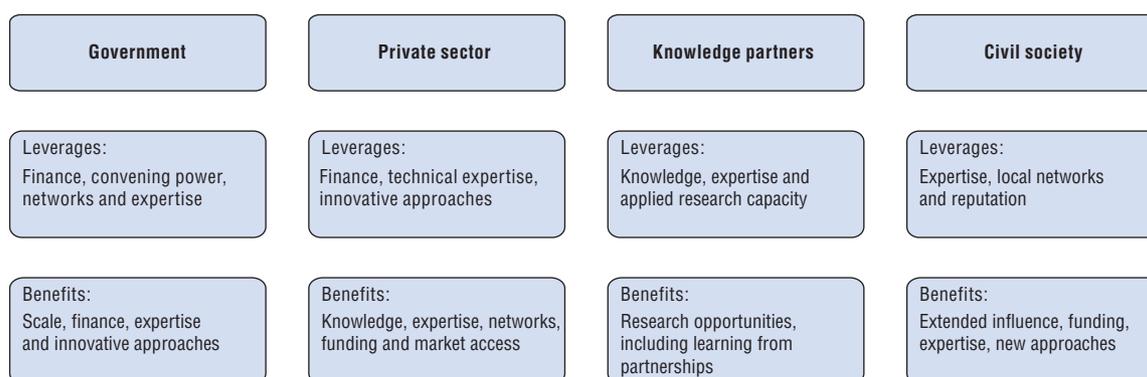
Backing up dialogue with a willingness to commit financial resources ensures concrete actions.

Country reviews show that as DAC members and others establish and expand their private sector engagement tools, it will be important to factor in time and resource requirements. More complex engagement mechanisms require greater human resources, often in terms of staff numbers and skills. The introduction of new instruments and approaches should be matched by corresponding capacity and skill requirements to ensure that policy makers can effectively respond to political demands, develop policy and manage implementation activities. For many DAC members, this may mean increasing staff numbers and bringing in new competencies in private sector engagement. Organisational cultures take time to change, including developing shared language and building trust between actors within and outside of government in order to realise policy objectives. Effective systems to ensure that institutions are fit for purpose – such as appropriate human resourcing, co-ordination mechanisms, and data and information systems – take time to establish.

Multi-stakeholder partnerships heighten impact

In developing their private sector engagements, DAC members partner with multiple stakeholders, which include domestic, local and international private sector partners; business associations and networks; governmental institutions in DAC member and developing countries; international organisations; non-profit third parties such as foundations and civil society organisations; other bilateral donors; and research/technology institutions in developing countries. In the case of the Netherlands, such multi-stakeholder partnerships are part of the “Dutch Diamond Approach” (Figure 7.4). This approach recognises the development value added when government, private sector, civil society and knowledge partners (academics and research institutions) work in partnership. Each of the four types of partners is able to leverage the skills and expertise of others in the diamond, thereby realising a number of benefits.

Survey respondents noted that multi-stakeholder schemes are good practice because they can help to diffuse risk, thereby increasing marketability, co-operation across sectors and value added from the comparative advantages across sectors. Roughly one-third of survey respondents (9) also emphasised that such approaches increase inclusiveness, bringing partners into multi-stakeholder initiatives that would otherwise have been excluded from market activity in the absence of public sector interaction.

Figure 7.4. The “Dutch Diamond Approach” to sustainable development¹

1. For more information, see: www.government.nl/topics/development-cooperation/contents/development-cooperation-partners-and-partnerships/public-private-partnerships.

The promotion of multi-stakeholder partnerships requires resources and dedicated efforts. In Germany and the Netherlands, the government plays an important convening role to facilitate partnership opportunities. The Swedish review also suggests that implementing partners – international organisations, research institutions and civil society organisations, for example – may require additional resources to engage effectively in the co-creation of partnerships, which is resource-intensive but critical. Many non-profit partners do not have a dedicated budget for participating in project development and require additional financial support in the early stages.

Ways of choosing and working with partners vary

The majority of survey respondents interact with a mix of domestic, local (from developing countries), multinational and other OECD country firms. Within this mix, the most significant private sector partners are mostly domestic firms and firms from developing countries. Several preliminary lessons on private sector partner selection have emerged from the German, Dutch and Swedish reviews.

The Swedish approach emphasises the importance of setting development objectives first and then identifying the best partners to achieve them, in accordance with the principle of untied aid. By using the development objective as the starting point and end goal, implementation staff have the flexibility to identify and explore potential partnerships with a wide range of stakeholders, and ultimately to select partners according to their ability to help achieve the development results. Germany makes use of an interesting initiative – the Lab of Tomorrow – taking a similar approach (Federal Ministry for Economic Cooperation and Development, n.d.). Through this approach, a challenge is identified and private sector partners are convened to discuss potential solutions. In this context, rather than aiming to identify solutions *a priori*, the government creates a space for critical thinking and interaction among businesses, providing support for innovative solutions that originate from the private sector.

DAC members should also consider how to make it easy for private sector partners to engage. This means being transparent with partners about desired results and entry points for engagement. It should also be easy for companies to navigate partnership opportunities. Germany has established a central contact point for all private sector engagement inquiries. The Netherlands has adopted a one-stop shop approach, housing the bulk of its private sector engagement mechanisms with one main implementing partner. This client-centric approach is appreciated by partners, who see one entry point into engagement activities (regardless of how opportunities are structured and managed internally).

In addition, different types of private sector partners require different ways of working. Engagement approaches depend on the results governments wish to achieve and the capacities of the private sector partners. Approaches to working with large companies differ from those for small businesses, as do domestic private sector partners versus those in developing countries – this was noted in both the review of the Netherlands and that of Sweden. Multinational companies have greater capacity in terms of finances and human resources, and are often able to meet partnership requirements more easily than small and medium enterprises (both at home and in developing countries), particularly corporate social responsibility requirements. Providing technical and financial support to smaller companies to adopt responsible business practices, conduct feasibility studies and engage effectively in development co-operation is one way to address this challenge. Nevertheless, transaction costs (administration and time) are often the same for larger and smaller partnerships. Engagement tools should take into consideration the needs of different types of private sector partners and be effectively communicated to ensure that all stakeholders understand the opportunities that exist.

Partnerships have a higher chance of success when all partners believe in their value for realising their objectives.

Appropriate entry points should also be matched by resources to attract the right partners. Effective marketing is important for ensuring partners understand engagement mechanisms, requirements and desired results. The integration of responsible business practices (see Chapter 6) directly into partner selection criteria, and focusing on core business and the people behind the company, are also useful approaches for attracting like-minded partners. Partnerships have a higher chance of success when all partners believe in the value of the partnership for realising their objectives.

Adding value through achieving and measuring results

The country visits to the Netherlands and Sweden both highlighted the importance of understanding the value of private sector partnerships beyond their financial contribution. Private sector partners can play an important role in generating new ideas and approaches for development policies. In addition, improvements in the quality of private sector engagement in development are as important as ensuring that public funds fill real financing gaps faced by the private sector. Efforts to promote better business practices or ensure that outcomes are better than they otherwise would have been without government intervention are important. The value added of government and implementation partners is that they push for private sector initiatives to be more inclusive and sustainable, consider issues such as gender equality and the environment, and ensure that activities are rooted in good development practice. The catalytic effect of private sector engagement should be understood in terms of both tangible and intangible impacts. For example, during the mission to Sweden, staff frequently referred to how the process of collaboration changes mind-sets in the private sector and approaches to conducting core business, which has the potential to generate long-lasting impact beyond the individual partnership. They argued that we need to think differently about what is meant by “catalytic effect”. The adoption of better business practices changes the make-up of a company. But this change can also have a lasting positive impact on communities affected by company operations.

New systems may be needed for results tracking

New and updated data management and information systems may be needed to capture the totality of private sector engagements effectively, including allocations, results and leverage. Tracking private sector engagements can be particularly challenging. Partnerships can involve a variety of

mechanisms, such as specific funding windows, and a variety of partners. For partnerships involving civil society or knowledge partners, funding is not channelled to the private sector partners, but to the implementing partners.

It is also important to adapt results frameworks to meet the needs of all partners in private sector engagements. Private companies often seek specific results through partnerships. Moreover, they often do their own rigorous evaluations or have the capacity to do so. The same is also true for government and other partners. While flexibility is needed in establishing results frameworks to meet partners' needs, where possible developing shared results indicators across private sector engagements is helpful for aggregating and communicating results.

It can also be challenging to capture and communicate the range of impacts and benefits of working with the private sector. This is particularly true in the case of policy dialogues and co-creation processes, which may lead to significant changes in business models and approaches but may not include financial disbursements or lead to concrete projects. There is a need for creative ways to report on the results of such engagements. This is important for garnering support for private sector collaboration within organisations and with traditional partners.

A number of lessons on monitoring and evaluation arose from the country reviews. For example, it is important to build a culture within DAC member agencies that values rigorous monitoring and evaluation. In the case of the Netherlands, legal and regulatory requirements – evaluation protocols – helped to increase attention to and appreciation of monitoring and evaluation. Moreover, the use of external bodies, such as academic and research institutions, to assess and feed into evaluation processes can enhance the credibility of evaluation processes inside and outside government, as well as create shared expectations for the desired results and how they should be measured.

Another useful approach identified by the review of the Netherlands is to earmark funds within projects for monitoring and evaluation. This approach alerts all partners early on to the need for monitoring and evaluation and ensures that the necessary resources are available. The Swedish review showed that additional human resources may also be needed. More complex instruments, such as guarantees and blended finance, require specific skills and systems for monitoring.

The way forward for engaging with the private sector in development co-operation

The peer learning exercise will continue in 2016. The final synthesis report will identify best practices and lessons for how members can transition towards and improve their engagements with the private sector. It will focus on how to make use of appropriate tools and partnerships to leverage private sector resources and enhance development impact, and effectively measure and evaluate results, additionality and the catalytic effect of private sector engagements.

Notes

1. For more information, see: www.oecd.org/dac/peer-reviews.
2. Recently, see for example, Chandrasekhar (2015), Vaes and Huyse (2015) and Guarnaschelli et al. (2015).
3. In the area of private sector engagement, additionality typically refers to the extent to which an outcome is additional to what otherwise would have occurred without public support.
4. See the DAC list of eligible countries at: www.oecd.org/dac/stats/documentupload/DAC%20List%20of%20ODA%20Recipients%202014%20final.pdf.

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