

# Private Sector Engagement Working Group

Presentation for the  
DCED Annual Meeting Thematic Day,  
9<sup>th</sup> June 2022



**DCED**

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The Donor Committee for Enterprise Development

**The PSE Working Group supports donor agencies in making the shift to engaging companies as strategic partners across their work. Today we will discuss three aspects of interest to other WGs and will leave time for discussion at the end.**

1. How the group works, including how it has created a safe space for peer exchange on pressing questions
2. Our main technical output in FY22 – a scoping paper on promoting socially and environmentally responsible business conduct (RBC) for PSE donors; and
3. A brief outlook on other thematic priorities for FY22/23



## 1. How the group works, including how it has created a safe space for peer exchange on pressing questions

The OECD has proposed a very broad definition of PSE as ‘an activity that aims to engage the private sector for development results and involves the active participation of the private sector’ (OECD, 2016).

The PSE Working Group was established in 2017. Per our Operational Framework developed in 2019, we focus on two specific PSE strategies:

- Engaging with, primarily large/ international, companies on equal terms to enhance the impact of their core business on the SDGs, e.g. through the joint development and financing of SDG-oriented business models or dialogue platforms on responsible business practices.
- Engaging with the financial sector, to mobilise private finance for development, e.g. through blended finance instruments.

# 1. How the group works, including how it has created a safe space for peer exchange on pressing questions

## Key Achievements:

### 1.a. Excellent resources, including:

- Engaging the private sector through multi-stakeholder platforms, 2017
- Minimising the risk of negative market distortions in PSE. A practical framework, 2018
- Donor Engagement in Innovative Finance: Opportunities & Obstacles, 2019
- Promoting Responsible Business Conduct: A scoping paper for donors supporting Private Sector Engagement, 2022


### 1.b. Flexible responses to evolving member priorities, e.g. through work items on:

- Adjusting PSE to COVID-19, in the short and long-term
- Assessing additionality; mitigating risk of negative market distortions
- Organisational changes to enable PSE, including building staff capacity and incentives

# 1. How the group works, including how it has created a safe space for peer exchange on pressing questions

1.c. Most importantly, creating a safe space for working level PSE professionals at bilateral and multilateral aid agencies and foundations to come together in person, virtually, and now hybrid to exchange ideas, make connections, and expand professional networks. The group has prioritized:

- Creating a **confidential environment** where members can share their ideas, concerns and challenges openly
- **Learning from each other** through regular, facilitated peer exchanges on topics of shared interest
- Producing a **limited number of papers** (led by Secretariat team in close consultation with members) on specific PSE challenges
- Allocating significant time during group meetings to **member agency updates and exchanges**
- **Working consultatively** to ensure the group remains responsive to member needs and challenges – important role for the Secretariat



## 2. Our main technical output in FY22 – a scoping paper on promoting socially and environmentally responsible business conduct (RBC) for PSE donors

- What are **current government efforts and controversies in this field** – e.g., regarding legislation and incentives for voluntary actions?
- What concrete **PSE instruments are being deployed** to support RBC?
- We are highlighting this here also because **RBC encompasses important environmental, social and governance issues** with relevance to other WGs





## 2.a. Background to the scoping paper on Responsible Business Conduct (RBC)

- Survey of PSE WG members showed strong interest in how to promote RBC – leading to technical meeting with experts and private sector representatives on the topic (Helsinki, Feb 2020)
- Helsinki meeting...
  - revealed a wide range of RBC concepts and initiatives and lack of a common understanding on specific implications for PSE;
  - led to agreement to develop a paper that would, among others, “clarify the concept of RBC and how it relates to PSE” and “review different instruments to promote RBC, including PSE instruments”
- Informed by first-hand experiences, especially in several areas of donor support where no or limited literature exists: Interviews conducted with 22 representatives, from 11 member agencies (Australia DFAT, GIZ, EC, FCDO, Finland MoFA, Luxembourg MoFA, Netherlands MoFA, OECD, Sida, USAID)



## 2.b. Responsible Business Conduct Scoping Paper

### Four categories of potential donor government actions to promote RBC

<b>1. LEGISLATION AND REGULATION</b> 	Reviews the use of legislative instruments to introduce mandatory requirements related to the reporting on or adherence to RBC standards – and their implications for PSE
<b>2. FACILITATION AND MOTIVATION</b> 	Reviews government (incl. donor and PSE unit) actions that lead to improved information, collaboration and/or incentives for RBC
<b>3. PARTNERSHIPS AND ENGAGEMENT</b> 	Reviews how donor PSE units advance RBC through partnerships and engagement with individual companies or private sector platforms, and by incorporating RBC criteria into partner selection
<b>4. PUBLICITY AND ENDORSEMENT</b> 	Reviews publicity and endorsement by government agencies or senior staff (incl. of donor PSE units) vis-à-vis individual companies, such as through official statements or sponsorship of awards



## 2.c. RBC Legislation and Regulation



- **Legal instruments to promote RBC, esp. in global supply chains, are gathering pace** - Strong indications that most companies will ignore negative impacts in their extended supply chains without mandatory obligations; growing demand including by vocal companies for levelling the playing field through legislation (esp. at EU level)
- **Multiple legislative due diligence and reporting initiatives** (esp. in Europe), some focusing on specific sectors or issues (e.g. conflict minerals, modern slavery) while others apply economy-wide and cover multiple OECD risks.



## 2.c. More RBC Legislation and Regulation

### Implications for PSE donors

- **Some PSE donors use their networks and expertise to help shape RBC legislation**, e.g. through involvement in cross-government coordination groups (e.g. Luxemburg, Netherlands) and consultation mechanisms with the private sector
- **For most donors, legal (and voluntary) RBC compliance is an important factor in partner selection and due diligence**, e.g. through exclusion criteria and legal compliance checks
  - Partnership criteria being updated in light of new legislation (e.g. BMZ) but growing complexity of legislation means that PSE units may require access to legal advice
- **Diverging views among donors whether active support to legal compliance of individual companies is appropriate** (esp for new RBC legislation)
  - Alternative approaches include co-funding industry initiatives designed to facilitate compliance (e.g. BMZ support to Alliance for Integrity) and government information and advisory services on legal requirements
- **Growing recognition of the need for accompanying (PSE and PSD) measures**, e.g.
  - Support to producers in developing countries (e.g. European Partnership for Responsible Minerals) – several agencies welcoming further exchange on this
  - Supporting developing country governments to design domestic RBC legislation in line with international standards (e.g. Germany)



## 2.d. Facilitation and Motivation

### 1. Setting coherent policy frameworks with regard to RBC, including:

- Overarching policies, e.g. NL RBC Policy – with a focus on ‘smart mix’ or mandatory measures and support to voluntary actions
- RBC aspects increasingly included across gov procurement, fiscal policy, trade and investment agreements, development policy – **with further opportunities to strengthen RBC elements in wider Private Sector Development efforts**
- Emergence of/ growing need for systems for improved coordination processes across gov. entities – **incl donors** (e.g. NL)

**2. Providing information, advice and training**, e.g. through National Contact Points on RBC, growing number of online tools for companies to assess and address RBC risks in their global supply chains– apparently popular and worth expanding further.

### 3. Grant funding to voluntary standards and codes of conduct (often led by donors):

- Positive anecdotal evidence on the impact of some voluntary standards on RBC
- But: Proliferation of voluntary standards in recent years led to increased compliance costs for private sector, possible confusion for consumers & investors



## 2.d. More Facilitation and Motivation

### 4. Promoting peer pressure, dialogue and other collective action among companies:

Various initiatives; two with cautiously positive evaluations suggest opportunities for future donor support:

- Voluntary RBC sector agreements in NL had a small positive impact on RBC in some sectors, thanks to a mix of knowledge sharing, peer pressure and gov. facilitation
- Benchmarking and public ranking of companies in key sectors, as done by the World Benchmarking Alliance, to increase transparency and competitive pressures



### 5. Increasing awareness on RBC among consumers and investors:

- Several donor-supported initiatives to raise consumer awareness on RBC issues (e.g. grant funding to relevant NGOs, online platforms to explain different RBC labels), and to enhance the capacity of investors to consider RBC in investment decisions

🔍 With consumer and investor pressure being critical drivers for the adoption of RBC, useful to consider expanding these initiatives, incl. PSE donor support to investors



## 2.e. Partnerships and Engagement

### 1) Incorporation of RBC criteria in partner selection and due diligence

- Done by most donors but specific approaches are diverse and still evolving (e.g. who should do and pay for due diligence and what its scope should be)
- Some new agency due diligence frameworks for PSE now emerging (e.g. SDC due diligence approach as part of 2021 PSE Handbook)
- Particular question marks and diverging approaches for dealing with large companies – e.g. developing lists of strategic, like-minded companies (FCDO) vs. detailed third-party due diligence (SDC, for certain PSE collaborations)



### 2) Partnerships with individual companies with the primary objective to promote RBC

- Experience still concentrated among relatively few donor agencies but growing interest with several dedicated partnership initiatives launched in the last 5 years; other donors primarily engage with groups of leading market actors (e.g. by convening, co-facilitating and contributing to discussions in national or sector-level platforms)

## 2.f. Publicity and Endorsement: Highlights



- Diverging views among governments and donors as to whether provide publicity to, or endorse individual companies or practices perceived as good examples
- A few governments and donor agencies sponsor awards and labels (e.g. Luxemburg, Germany); these may lead to improved recognition and market share for RBC champions, but carry reputational risks for governments
- Most widespread practice among donors is the use of light-touch publicity for positive examples of RBC practice [?](#) may be worth expanding, e.g. through more systematic thematic or sectoral case studies that illustrate companies' journey towards better RBC performance.





### 3. A brief outlook on other thematic priorities for FY23

- 3.a. Follow-up work to scoping paper on Responsible Business Conduct
- 3.b. Update of the DCED Guidelines on Demonstrating Additionality, originally published in 2014
- 3.c. Peer exchange meetings on
  - a.) Organisational aspects of PSE and
  - b.) Mobilising private finance through innovative financial instruments
- 3.d. Other elements

### 3.a. Follow-up work to scoping paper on Responsible Business Conduct

Top priority: Technical exchange between members on how to operationalise RBC considerations – including EU due diligence legislation – in PSE policy and programming

6 agencies: Sida, BMZ/GIZ, LuxDev, SECO, Finland MoFA, USAID

↳ Bring in different actors from within donors (e.g. human rights/RBC experts, business environment reform experts) and from DFIs into any follow-up exchanges

5 agencies: ADA, NL MoFA, IFC, JICA, EC

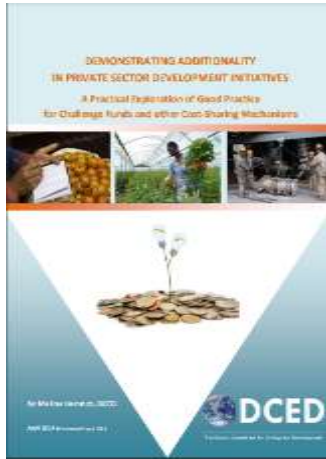


#### Other suggestions:

- Launch webinar (already part of current work plan); synthesis note (just published)
- Ensure complementarity to the OECD's work on RBC (esp. through a focus on accompanying measures for suppliers in developing countries)
- Continued member updates and exchange on new developments (e.g. presentation of FCDO study on economic case for RBC)



### 3.b. Update of the DCED Guidelines on Demonstrating Additionality, 2014



Continued priority for many member agencies, who are willing to contribute to the update by sharing internal documents and through interviews (updated literature research already completed)

At least 10 agencies: USAID, ADA, NL MoFA, SDC, SECO, GAC, DFAT, GIZ, OECD, EC; maybe Sida

### 3.c. Peer exchange meetings

**A. Organisational aspects of PSE:** how agencies hire and train staff in PSE, build the right organisational culture for PSE, organise themselves around PSE (incl. innovative finance) as a cross-cutting approach (e.g. having a dedicated PSE unit or not), and create appropriate operational systems for PSE

5 agencies:  
USAID, ADA, NL  
MoFA, SDC,  
IrishAid

Consider documenting new developments in a short public document accompanying the [2017 working paper](#) on organisational changes for PSE

**B. Mobilising private finance through innovative financial instruments** (follow-up to [2019 scoping paper](#)); various questions:

- Overview of approaches in use by different agencies and lessons learnt (e.g. how to engage with investors vs. companies)
- How to scale innovative finance projects
- Which non-grant instruments work best under what circumstances

4 agencies:  
SDC, Sida,  
LuxMoFA, GAC

### 3.d. Other work plan elements

Continued knowledge management, exchange and coordination with other relevant organisations by the Secretariat

Continued member updates on new developments and/or Secretariat to explore hosting member-led webinars on request, with tentative offers by members focusing on recent evaluation findings:

- NL MoFA (Review of integrated aid and trade agenda: synergies, trades-off and the role of PSE);
- SECO (PSE portfolio evaluation);
- Sida (strategic review of PSE work)

## Q&A and Discussion

- Do you have any general comments on the priority work items emerging from the member survey as a whole, or on the focus/scope of specific work items?
- Do you see crosscutting areas related to other Working Groups' priorities?
- What more could the PSE Working Group do to promote and support the DCED's focus as a "forum for learning about the most effective ways to create economic opportunities for the poor, based on practical experience in Private Sector Development (PSD)"?