



The Donor Committee for Enterprise Development

## DCED Donor Meeting on Private Sector Engagement,

13 June 2017, FAO, Rome

### Minutes

#### Participants

16/08/2017

Gunter Schall, ADA (Co-Chair)	Ivan Lukas, UNDP
Lars Stein, SDC (Co-Chair)	Phillipe Mores, Luxembourg MFA
Anthony Bennett, FAO	Ola Nilsmo, Sida
Maciej Chrzanowski, Poland MFA	Andrew Smith, Gatsby Foundation
Liliana de Sá Kirchknopf, SECO	Joanna Stachyra, Poland MFA
Jim Downey, DFAT	Marcos Vaena, ITC
Gaku Funabashi, JICA	Mehraz Rafat, Norad
Silvia Heer, BMZ	Mika Vehnämäki, Finland MFA
Pamela Fessenden, USAID	Johan Veul, NL MFA
Yohan Ko, KOICA	Henrik Vistisen, Danida (for part of the time)
Jan Koepke, GIZ	Paul Wade, Norad
Anne Kullman, Sida	Melina Heinrich-Fernandes, DCED Secretariat
Meredith Lee, MasterCard Foundation	Anna Caroline Mueller, WTO (by phone, for the session on competition neutrality)

As a follow-up to a [DCED donor meeting in February 2017](#), a group of 23 donor and UN agencies met on 13 June to discuss technical themes and the work plan of a new Working Group on Private Sector Engagement, for proposal to the DCED Annual Meeting. (N.B. the formation of the working group was approved by DCED members on 15 June.) The first section below summarises the key decisions agreed at the meeting. The second section provides a more detailed record of the discussions.

#### 1. Summary of key decisions and action items

- In line with the OECD definition, the working group agreed that Private Sector Engagement (PSE) is a modality or way of working that involves a direct collaboration with businesses to achieve development results. This can be used as a means to achieve the end of private sector development, but may also be used to achieve other objectives, such as health or education.
- A number of possible work items were proposed by participants (see the end of these Minutes for a full list). These included the top priorities already included in the work plan that 16 agencies had voted for in March 2017. Activities in the next months will therefore focus on these priorities; note that agencies who voted in favour of these activities are listed in brackets:
  1. A **categorisation of PSE modalities** (NL MoFA, MCF, Norad, SDC, Sida ), including as a basis for developing **communication materials** on what PSE is and what its benefits are (ADA, BMZ, Danida, DFAT, JICA, MCF, Norad, SDC and Sida)
  2. Developing **recommendations on minimising negative market distortions** for relevant modalities (ADA, BMZ, Danida, Finland, SDC, SECO), with \$20,000 requested from the DCED Trust Fund to hire a consultant
  3. **Exchanges on capacity-building for PSE**, including a) staff training/ secondments/ recruitment etc and b) guideline development on risk management (ADA, Danida, Finland, JICA, MCF, SDC)
- Progress in these areas will be discussed at the next working group meeting, proposed for November 2017 in Bern, Switzerland.

## **2. Detailed summary of presentations and discussions**

### **DCED work on private sector engagement: Overview of the process and results so far**

Following introductory words by the Co-Chairs Gunter Schall (ADA) and Lars Stein (SDC), Melina Heinrich-Fernandes of the DCED Secretariat provided a summary of the DCED's work on private sector engagement to date. Since 2011, activities have included 8 major publications, 3 policy briefs, and 2 Annual Meetings, and a recently revamped DCED knowledge page. After PSE emerged as the top priority in the DCED's 2015 member survey, repeated consultations were held to narrow down activities for a joint work plan. This included a meeting with 15 donor agencies in February 2017, and a sub-subsequent voting process. As a result, activities in the draft work plan for 2017-18 included, among others, a categorisation of different PSE strategies; exchange on experiences in building staff capacity for PSE as well as risk management tools; development of communication materials such as case studies; and the development of recommendations on minimising the risk of negative market distortions when supporting individual partners.

### **Exchange on vision and general key issues**

#### **Where will we be at in 2022?**

- Several participants noted that PSE will continue to grow in importance as a modality to achieve development results, including in private sector development, but also in areas such as environment, health and education. The private sector itself, including in emerging economies in Asia and Latin America, is also likely to take on a greater leadership role in promoting the SDGs and increased transparency.
- This will offer more entry points for donors to facilitate private sector initiatives, but will also require donors to give more space for innovation, and not to define support options too narrowly. Participants hoped that there would however be agreement among agencies on key principles and instruments, and a shared understanding of their respective benefits and pitfalls (e.g. in the form of a checklist of issues to be aware of for each instrument).
- Success stories should be used more to increase political support for PSE, and to give credit as well as incentives to companies. Private sector contributions to the SDGs should ultimately also be accounted for in UN statistics, although it was acknowledged that other fora are better placed to accelerate progress in this.

Three sub-topics were then discussed in break-out groups, including PSE concepts, key challenges for donors, and champions, i.e. practices that can act as positive drivers of PSE. These were later added to in the technical sessions on capacity-building, risk management guidelines and minimising negative market distortions (see sections below).<sup>1</sup> General issues mentioned include the following:

#### **PSE concepts**

- **The private sector:** Participants discussed different concepts of 'the private sector' in the context of PSE, which may include:
  - **Companies:** commercial companies, including local and multinational ones (incl. their local subsidiaries), SMEs as well as large corporates
  - **Investors:** Suitable financial market players, especially impact investors and long-term-oriented institutional investors like pension funds

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<sup>1</sup> Powerpoint presentations will be shared along these Minutes for a full summary of agency inputs.

- **Foundations:** Philanthropic arms of companies if these are involved in business investments with longer time-frames for profitability
- **Social Enterprises:** Social Businesses with an “impact first” rationality and viable business model, if they act as partners in achieving sustainable development results and not only as receivers of donor money
- **Defining Private Sector Engagement:** The working group developed a clear definition of “Private Sector Engagement” (PSE) differentiating it from “Private Sector Development” (PSD). In line with the OECD definition, PSE is considered as a modality whereby donors and the private sector collaborate to reach a common development goal. The objective of the collaboration can be any development goal, incl. PSD, but also in other fields such as health, water, education etc. It was also noted that the private sector is just one among several other actors (e.g. civil society, academia, governments), with whom donor agencies collaborate to achieve the SDGs.
- **Focus of DCED & the PSE landscape:** It was agreed that the DCED’s main focus should remain the objective of private sector development, while PSE is one of the approaches covered by the DCED to achieve this objective. An open question was to what extent a PSE Working Group should consider PSE for objectives other than economic development (e.g. health). Participants proposed to the DCED secretariat to explore the “landscape” of PSE-discussions with different development actors and then come up with a proposal of positioning vis-à-vis possible other working groups and work streams.
- **Formats / strategies of PSE:** The discussions also revealed that agencies see the need for a common understanding of different formats/strategies of private sector engagement (including different non-financial and financial instruments, such as grants, loans, guarantees and results-based payments; and different target groups, including businesses and private investment funds). Participants are also keen to clarify how PSE relates to other PSD approaches, in particular market systems development.
- Participants also discussed several additional open questions (see Annex 1).

### Key challenges

- **Deciding when PSE is the right tool:** Agencies felt that they were not always clear about when PSE was the most appropriate way of working, which PSE modalities to use in what contexts, and when other instruments may be more suitable. A specific question was about the right conditions for working with the local versus the international private sector; for example is foreign investment in fragile contexts always needed and likely to be sustainable?
- **Mitigating the risk of negative market distortion:** While there was agreement that donors aimed to stimulate positive ‘distortions’ in the way markets function by working with innovative partners, some participants were concerned that selecting the wrong partners or projects might lead to negative distortions. It was noted that this risk depends on programme design and context. The extent to which a programme is linked to domestic trade promotion may be another factor. Currently, donors however lack a clear framework for defining possible distortive effects as well as robust methodologies for mitigating the risk of negative distortions. On the other hand, agencies felt the need for clearer guidance on key reasons why public intervention may be needed to stimulate positive change in a market. More engagement with academics on these issues would be welcomed by donor agencies.

- A related, more specific question was how to ensure **additionality**. Several agencies pointed to the DCED's report on additionality for guiding criteria and principles as well as the importance of following the OECD-DAC definitions on additionality.
- **Trade-off between analysis and grasping opportunities:** Donors face a constant balancing act between analysing the contexts in which they operate and potential partner businesses on the one hand, and grasping partnership opportunities on the other hand.
- **Communication of PSE rationale and benefits to staff and the public:** Staff capacity and willingness to work with the private sector is still a key concern of agencies. Separately, agencies felt the need to better communicate the rationale for PSE to the public. Important elements of communication strategies would be to highlight the role of individual businesses in stimulating sector-wide development, avoid jargon, and to demonstrate results, based on better results measurement practices.

### Champions

Participants mentioned a range of practices that can favour effective engagement of the private sector, for example:

- **Developing a clear theory of change behind public support to companies.** Silvia Heer noted that this was also one of the recommendations of a recent evaluation of the DeveloPPP programme, which will be published in English shortly. A clear theory of change also requires assessing whether public support to business is likely to be additional, and how supporting an individual business is expected to stimulate system-wide changes.
- **Establishing clear selection criteria for partner businesses** (e.g. excluding start-up companies).
- **Running open competitions**, to select the most promising partners from a wide pool of applicants.
- **Ensuring that project managers can act as effective translators between the donor and private sector:** Especially where donor procedures are still relatively time-consuming and bureaucratic, project managers can make it easier for companies to understand key requirements and their implications for business.
- **Implementing regular reviews of PSE portfolio**, e.g. in 4 year review cycles.

### Technical session: Experiences in promoting staff training and cultural change

Anne Kullman (Sida) and Jim Downey (DFAT) presented their experiences in promoting staff training and cultural change for PSE in their organisations.

**Anne Kullman started with an overview of Sida's work in private sector collaboration.** Since 2010, Sida uses four key methods to engage with the private sector, including the Drivers of Change programme (which supports organisations and fora facilitating corporate sustainability work), Public-Private Development Partnerships, Challenge Funds and Innovative Financing. An evaluation of Sida's support to global challenge funds is currently ongoing. The implementation of PSE instruments required Sida to address internal resistance and capacity gaps among staff. A key selling point was to stress that the private sector is one among other development cooperation actors, rather than a substitute for traditional partners. Sida also launched, and participated in, a range of mechanisms to stimulate internal learning and capacity-building. These include, among others:

- Participation in the OECD-DAC peer learning on collaborating with the private sector, as well as government evaluations of partnership programmes;
- Creation of a Sida Private Sector Collaboration Committee, in charge of experience-sharing and methods development;
- Holding Fora on private sector collaboration for staff, with presentations from organisations which have interesting approaches and lessons to share;
- Placing advisors on private sector collaboration into each operational department, to support field staff;
- Organising workshops/ training for managers, new field staff etc; and
- Sending out monthly internal newsletters.

Sida has also engaged in public awareness raising efforts through „Development Talks“, a series of seminars open to the public, some of which have included discussions on PSE. In Sida’s experience, awareness-raising of the benefits of PSE is most effective when done through specific examples, rather than theoretical overviews of tools and approaches.

**Jim Downey then gave an overview of DFAT’s efforts to develop in-house training course on private sector engagement, a process that is still ongoing.** DFAT saw the need to develop a course that is tailored to its internal policies and procedures and the specific knowledge needs of its staff. As a result, DFAT structured the training development process into two phases:

- Phase 1: DFAT contracted a consultancy firm to develop a training curriculum based on an online survey of field and HQ staff to understand the training needs, followed by a curriculum development workshop in Canberra.
- Phase 2: The second phase will focus on developing session content behind the curriculum and piloting the courses in late 2017, before finalisation of the training package.

The training needs identified in the survey included:

- Unpacking what DFAT means by private sector engagement.
- A better understanding of what drives the private sector and of how to “speak the language” of business.
- A better understanding of the value proposition on both sides (government and business).
- A better understanding of how DFAT staff, as public servants, can use PSE to prosecute Australia’s interests and objectives.
- Being able to assess risk(s) in PSE partnerships.

The curriculum includes:

- A one-day foundational-level course targeting Senior Executives (including foreign policy, trade and aid officers);
- A three-day practitioner level course, including an introduction to PSE a new modality in development, concepts and additional sources of information; how to identify, structure, implement and monitor partnerships and communicate with businesses; and how to think and plan around concrete opportunities (stakeholder mapping, business communications, risk management, procurement and legal); and
- And a half-day optional module on impact investing.

**In discussing next steps, participants were interested in continuing to exchange on strategies for building staff capacity.** Some agencies mentioned additional practices in use, for example brown bag lunches with implementing partners (SECO), online training which staff can pursue at their own pace (USAID), or advice by HQ to embassies on request (Norad). Andrew Smith (Gatsby Foundation) questioned whether a few days of training were sufficient to expand expertise for PSE; recruiting new staff with long-term experience in working with or in the private sector may also be necessary.

Going forward, participants were particularly interested in lessons about what has and hasn't worked in hiring from the private sector, bringing together different staff cultures in practice, and facilitating cross-sector experiences among existing staff. Stimulating the training market for PSE, as suggested in the initial draft of the work plan, was not considered a priority for the DCED just now.

#### **Technical session: Agency tools for mitigating risks when working with the private sector**

**Silvia Heer (BMZ) presented BMZ's approaches to mitigating reputational and effectiveness risks, drawing on the experiences of the DeveloPPP programme** – a challenge-fund style programme which awards support in the form of technical assistance to businesses investing in developing countries. The programme considers three aspects of risk:

- **Risks of partnering with a specific company:** Criteria checked by implementing agencies relate to behavioral risks (no involvement arms trade, no corruption – as per EU sanction lists) and financial risk (no companies with less than ten employees, no nearly bankrupt companies – as per credit assessments). The programme also only partners with European companies to make it easier to do background checks. In doubt, implementing agencies can work with consultants to conduct an in-depth partner screening.
- **Risks of operating in the target country:** Projects in high-risk countries, as defined by BMZ, have to be approved by BMZ's regional department and if necessary the Foreign Office
- **Risks associated to the theme of the project:** The topic must be in line with BMZ development-policy guidelines, and projects in some sectors of political importance (e.g. textiles), and/ or of a larger size must be approved by BMZ. Implementing agencies further conduct social and environmental impact assessments and must demonstrate a clear development outcome, jointly with the partner companies.

**A key issue discussed by participants was the trade-off between rigorous project and company assessments and time burden for the company.** Many donors had received feedback from businesses that their procedures were too complicated. In some cases, partnership contracts were not signed because companies' legal departments were unsure of their implications. For donors to be perceived as attractive partners, it would be helpful to avoid development jargon and streamline the documentation involved. Meanwhile, Jan Koepke (GIZ) pointed out that it will be critical for project managers to act as 'translators' for companies and guide them through the process (see also the section on 'Champions' above). He further noted that it is critical to take enough time before signing a partnership contract (e.g. about 6 months for smaller projects under DeveloPPP) to discuss any outstanding issues, as companies often cannot change their contracts afterwards.

#### **Technical session: Minimising the risk of negative market distortions**

Liliana de Sá (SECO) and Silvia Heer (BMZ) then presented their approaches to avoiding negative market distortions when working with the private sector.

**SECO** is about to launch its first open call for proposals on private sector solutions that create jobs and reduce CO2 emissions and have the potential to generate spill-over/ demonstration effects. The call targets Swiss and international investment funds and awards grants for technical assistance which are used in combination with investments (equity, loans etc). TA grants will be awarded on a competitive basis after assessment by an evaluation committee including independent experts. A co-financing element is expected, to avoid creating dependencies. It is also critical for applicants to provide a credible theory of change and measurement framework. SECO will also focus on demonstrating the additionality of public support, although discussions are still ongoing on how best to do this.

In the case of **DeveloPPP**, all European companies can apply for support on a quarterly basis and the best project ideas (relative to the other proposals received at the same time) are selected on a competitive basis. The calls for proposals are advertised in English. The recent evaluation of the programme suggested opening it up for companies worldwide, which is now under review. Standard projects can receive up to EUR 200,000, and are therefore under the threshold for EU state aid. Large projects can receive up to EUR 500,000.

Additionality is another key criterion to avoid crowding out other actors in the market and undermining competition. In addition, the economic benefit for the developing country should exceed the commercial benefits to the private sector. In order not to subsidise activities that would anyway be implemented by the partner company, DeveloPPP also focuses on projects that fall outside the core business of the partner (e.g. training of staff). In practice, implementers have found it hard to verify additionality, which is often based on a self-assessment of the company. Internal discussions are ongoing on how to strengthen additionality assessments without disproportionately driving up the costs of comparatively small projects.

During the discussion, Andrew Smith (Gatsby Foundation) remarked that competitive bidding processes may not be the only solution to identify the most suitable partners and minimise market distortion. The Gatsby Foundation, for example, drew on lessons from commercial investors, who don't generally use calls for proposals. Instead, they have senior teams for specific sectors and geographies who engage in networking and market assessments to identify suitable investees.

**Going forward, and in line with the draft work plan, the group remains interested in developing practical recommendations on minimising the risk of negative market distortions when providing direct support to the private sector.** Gunter Schall clarified that the idea would be to focus on clear academic principles, rather than legalistic discussions around EU state aid law. Sida raised the need to distinguish between PSE-modalities that supports development programmes and those that directly support private sector partners. In the latter case Sida raised concerns that such principles could be used by agencies to pave the way for tied aid. Gunter Schall and Liliana de Sá however noted that market distortions could be caused by any kind of subsidy to the domestic, international or local private sector. It would therefore be useful to identify programme design and partner assessment options that can mitigate the risk of negative distortions, regardless of the origin of the partner business.

### Agreement on work plan and next steps

In the final session, participants were invited to name activities that they would like the working group to focus on in the next year. In total, seven activities were listed, most of which were in line with those already included in the draft work plan (see items 1,2,3,4,5 below).<sup>2</sup> The work plan includes information about which agencies were keen to support each of these work items. Two additional areas of interest (6 and 7) emerged during the wrap-up discussions, but more specific activities, and possible task teams to support them, have not yet been identified.

1. Categorisation of different PSE strategies and modalities
2. Development of communication materials on what PSE is and what its benefits are.
3. Organising additional exchanges on agency experiences with staff capacity-building for PSE, e.g. through training, recruitment, secondments
4. Organising additional exchanges on risk management guidelines, and possibly agreeing on good practice among donor agencies.
5. Exploring pragmatic donor approaches to ensuring competition neutrality when providing monetary or non-monetary benefits to individual companies. (with funds requested from the DCED Trust Fund to hire a consultant, ideally with an academic background, to support this activity).
6. Exchanging experience in bridging differences in culture between the public and private sector. (new)
7. Explore the concept of shared value and compiling evidence on the business case for shared value collaborations. (new)

The Secretariat will edit the work plan to reflect the new suggested activities. In case agencies would like to change their preferred work items (as per the previous voting process and work plan to be circulated with these Minutes), or support one of the new themes mentioned, it was agreed that they would communicate this by email after the meeting. In addition, the Secretariat was asked to draft a brief outline of how the PSE working group relates to other DCED working groups, in particular the group on market systems development.

### Next meeting

SDC and SECO agreed to explore whether they can host the meeting, e.g. back-to-back to a SECO & SDC conference on Social Impact Bonds and Social Impact Incentives, in November 2017 [*Note that the conference has been postponed to January 2018; dates for a possible teleconference before then will be agreed by email*]. Members were keen for the next meeting to include external inputs, such as from academia or businesses.

### ***Annex 1: Additional open conceptual questions raised***

- **Strategic use of PSE:** Should PSE only or mainly be used as modality for large scale systems change? Or is PSE a standard modality for everyday development work also on a smaller scale and with little ambitions for systemic change?
- **Systemic Change:** What do we mean with “systems”? Do we have a common understanding? How can we better conceptualize systems? How does “systems change” really work?

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<sup>2</sup> Note that for ease of reference, the wording of these five activities has been adapted to the wording of the original draft work plan.



- **Outcome-oriented funding & the future role of governmental actors:** How are PSE and outcome-oriented funding related? How does this change the role of governmental actors?
- **Success factors & context embeddedness of PSE:** What factors make PSE specifically successful? In which contexts does PSE suit best as modality, in which ones rather not? (see also the section on challenges)
- **Basic principles for PSE vs. ambition for behavior change:** What are basic minimum standards that private sector actors have to fulfill in order to be eligible for PSE? Do we have ambitions to change behavior / change systems of private sector actors?