



The Donor Committee for Enterprise Development

DCED Private Sector Engagement Working Group (PSE WG)

Impact Hub, Zurich, Switzerland, 17 January 2018

Minutes

14/02/2018

Participants:

Lars Stein, Co-Chair, SDC
Martina Biedenhader, SDC
Joanna Buckley, DFID
Jim Downey, DFAT (*by phone, in the afternoon*)
Prof. Dieter Euler, University of St Gallen (*for session on vocational training*)
Silvia Heer, BMZ
Katie Garcia, USAID
Alexis Geaneotes, IFC
Eriko Ishikawa, IFC

Anna Caroline Müller, WTO (*by phone, for session on market distortion*)
Liliana de Sá Kirchknopf, SECO
Jessica Scholl Bews, Consultant/ Endeava (*esp. for session on market distortion*)
Roman Troxler, DC dVET (*for session on vocational training*)
Marcel Vernooij, NL MFA
John Viner, Sida
Roland Widmer, SECO
Jim Tanburn, DCED Secretariat
Melina Heinrich-Fernandes, DCED Secretariat

Apologies:

Gunter Schall, Co-Chair, ADA
Jan Koepke, GIZ
Meredith Lee, MasterCard Foundation

Thomas Lammar, Luxembourg MFA
Mayumi Miyata and Gaku Funabashi, JICA
Mika Vehnamaki, Finland MFA
Henrik Vistisen, Denmark MFA

Assignment on minimising the risk of negative market distortion in private sector engagement

Lars Stein welcomed participants to the meeting, which started with a session on the work item on how to minimise the risk of negative market distortion in PSE. Its aim is to generate fresh thinking on the topic, drawing on experiences in other communities of practice with a different understanding of risks and possible solutions. Endeava has been contracted in November to implement the assignment. It comprises two main outputs:

- 1) An interim report on the types of PSE strategies and mechanisms that are at most risk of causing negative market distortion, with a specification of what types of risks exist either across strategies or specific mechanisms; and
- 2) a final report which explains options for minimising the risk of negative market distortions for different PSE strategies and mechanisms.

Jessica Scholl, who is leading the project on behalf of Endeava, presented progress towards Output 1. To find a systematic way to analyse market distortion risks, Endeava has so far implemented a first round of desk research and seven interviews with donor representatives and experts from fields such as economics and competition law. Jessica noted that she had received at times conflicting feedback from interviewees on major market distortion risks and how to mitigate them, and offered to share interview notes with working group members on request.

The current research framework (*see more details in the powerpoint presentation*) defines market distortions as the unintentional contribution of donor PSE interventions to inefficiency—the sub-optimal

allocation of resources, goods, and/or services—or inequity—socio-economic distortions (or socially unacceptable outcomes) from market activity which threaten the continued stability of market operations. Even though PSE interventions typically aim to address a market failure, such unintended negative distortions can impede overall market development, exacerbate pre-existing market weaknesses, and lead to market failure in other areas. Specifically, negative distortions could affect market institutions ('the rules of the game'); market structures ('the roles of market actors and organization of market activity'); or market mechanisms ('dynamic interaction of inputs, processes and outputs to create market outcomes'). In the first part of the assignment, Endeava plans to articulate how different types of PSE interventions (based on the [categorization](#) of PSE strategies developed by the working group) risk leading to market distortions in these three areas. To inform this part of the research, participants were invited to discuss in three groups to what extent different PSE strategies that they used in practice were likely to cause such unwanted negative distortions.

The following comments and clarifications were made:

- Overall, participants agreed that the framework was useful for thinking through market distortions that may be caused by different PSE strategies; it could, for example, be used as a tool to structure design processes in specific programmes.
- Marcel Vernooij noted that PSE strategies may not only be used to address market failure but also to build a market that did not previously exist. Jessica Scholl noted that the lack of a market is included in the 'missing' and 'incomplete' market categories of market failure.
- Some participants remarked that the framework did not consider the political dimension of PSE: PSE may be pushed for political reasons, even if it risks causing negative distortions. Jessica Scholl explained that this framework was intended as more of a tool to map risks against strategies and narrow the area of focus for the second stage of research. The political dimension of PSE will receive greater attention in Phase II of the research, during which practical solutions to the risks identified in Phase I will be sought.
- John Viner noted that Sida frames PSE not as a means to address a market failure but to achieve a development objective. Others however pointed out that these were two sides of the same coin; if no market failure was present, there would be no need to address a development problem.
- Some participants asked about the scope of the research; Jessica Scholl clarified that the focus of the research is on how to mitigate the risk of unintentional negative distortions; how to create positive distortions and positive externalities is not explicitly looked at.
- Jim Tanburn wondered if the research will answer how distortion risks differ for interventions that are currently listed under the same PSE strategy, such as competitive challenge funds or one-to-one consultations. Jessica Scholl replied that this was indeed the plan.
- Liliana de Sá asked if the document will offer conclusions about what types of PSE strategies were least prone to causing negative market distortion. Jessica Scholl confirmed that this will be the case. She also explained though that one emerging hypothesis is that the risk of causing negative market distortions often lies more in the design and implementation of specific interventions rather than in the overall strategy itself.

Suggestions/ action items for Endeava:

- Participants agreed that the framework should be simplified in order to make it less complex and time-consuming. At the same time, participants felt that the PSE strategies listed in the group's

categorisation are currently vaguely defined and that there are many ways in which each strategy could be implemented. Suggested ways of addressing these issues include:

- Narrowing down the most important PSE strategies that the research could focus on: To achieve this, Jessica Scholl will prepare a short online survey through which group members can provide feedback the most frequently used PSE strategies. It may also be possible to merge some of the overarching PSE strategies in the categorisation.
 - The final output should refer as much as possible to specific PSE interventions/ mechanisms that may be used as part of different strategies. Participants also agreed that it would be useful to have a decision tree for each PSE strategy which would illustrate types of interventions, associated market distortion risks, and ways to mitigate them.
 - It may further be helpful to simplify the areas in which market failures may occur by avoiding the distinction between market institutions, structures and mechanisms.
 - If a table format is used for the final framework, it may be useful to include the definitions of strategies and market failures in a separate document.
- Liliana de Sá further suggested that Endeava review resources by the IFC on market distortion. Jessica Scholl noted that she had already pulled many resources from the IFC website. Eriko Ishikawa offered to share further relevant information from IFC.
 - Joanna Buckley suggested that Endeava talk to implementers of market development programmes with extensive experience in the field, such as Adam Smith International. Lars Stein echoed this and offered to circulate an input document amongst SDC programme managers working through PSE approaches.
 - Some participants noted that they do not focus on core business, as suggested in the categorisation of PSE strategies of the working group. While ‘technical assistance at the pre-investment stage’ may cover engagement in areas such as corporate social responsibility (CSR) it may be useful to add a bullet point at the top to explicitly include CSR-related activities and those with potential for future core business.

Private Sector Engagement in Vocational Education and Training

Professor Dieter Euler of St Gallen University presented the findings of a recent [study on private sector engagement in vocational education and training \(VET\)](#), commissioned by the [Donor Committee for Dual Vocational Education and Training \(DC dVET\)](#) (see *powerpoint presentation shared with the Minutes*). The study examines whether and how PSE in VET can enhance the relevance, quality and attractiveness of VET. It identifies options for engagement, which can then be assessed in different national framework conditions and implemented where appropriate.

Participants noted that it would be useful to have evidence on the business rationale for engaging in VET at company level; on the economic rationale for a sector or area of operation; as well as a macroeconomic calculation on the mismatch between skills and labour demand. Findings in each area may lead to different ways to involve the private sector.

John Viner noted that Sida has experience in partnerships in VET with Swedish multinationals, including Volvo. These partnerships illustrate Sweden’s approach to PPPs, whereby no money is given directly to the private sector, but a third party (in this case UNIDO) is paid by Sida and the company to implement training programmes. Other companies can also benefit from this partnership, as trainees are not obliged to work with Volvo.

Exchange on internal capacity-building for private sector engagement

At the last teleconference, group members had expressed a need to hold further exchanges about capacity-building for PSE in their organisations. Three discussion groups were formed; selected take-aways are summarised below:

- **The first group discussed the role of PSE strategy development in internal capacity building by building a common understanding of key concepts and which instruments to use under which circumstances.** A cascade approach, such as the one developed by the World Bank Group, which applies the subsidiarity principle and considers private sector solutions as the first resort, could be helpful in providing guidance to staff. Participants also wondered how to better operationalise existing principles for PSE; some agencies have checklists but these are not enough in practice. SDC is reviewing options for PSE in each of their programmes individually, however this is also very time-consuming and resource-intensive.
- **The second group explored how capacity building efforts may need to be adapted to different organisational structures, such as in decentralised agencies.** For them, a key question is how to get desk officers in embassies to understand and use PSE strategies in their work. The lack of a central unit for PSE means however that there is often limited capacity to deliver training to embassies. USAID has developed a standardised training programme delivered by external consultants, while SDC is piloting internal training on PSE and has run a workshop on impact investment and blended finance. Pressures of embassy staff to spend money are however a disincentive for partnerships, many of which take a long time to build and don't require a lot of financial resources. Participants discussed how to change the incentive structure, for example by including the number of successful partnerships facilitated in staff appraisals. Acknowledgment by senior leadership of PSE efforts in embassies may also be helpful.
- **Some members were particularly concerned about capacity building in the markets in which they work** – i.e. building capacity beyond a partner company to crowd in other firms into the same market. Donors can typically not rely on the demonstration effect, but may need to be more proactive in sharing knowledge and lessons from partnerships with other companies and donor agencies, and in building capacity of second movers.

Exchange on risk management and do no harm in PSE

The session started with a brainstorming exercise in which participants shared their views on the most important risks in PSE as well as ideas on how to mitigate them. Melina Heinrich-Fernandes then summarised the risk assessment framework proposed by the [Impact Management Project](#) as well as the findings of a recent ARTE documentary on risks in donor partnerships with the private sector (*see powerpoint presentation shared with the Minutes; a slightly longer outline of the discussions will be shared separately by email*).

Review of work plan and next steps

Participants reviewed key activities in the work plan to rank progress and agree on future priorities.

Feedback and action items:

Overall, members identified **three priorities** for the working group: The work item on mitigating the risk of negative market distortion, internal capacity building for PSE as well as risk management.

- 1) **Categorisation of PSE strategies:** Participants welcomed the group's common categorisation of PSE strategies. Categories may still be refined and enhanced going forward.
- 2) **Mitigating the risk of negative market distortion:** While, members considered this work item a priority for the group, they felt that it was still at an early stage. Ultimately, they hope to get specific guidance on mitigating the risk of negative distortions for different PSE instruments.
- 3) **Exchange on capacity building for PSE:** Participants felt they had made good progress in identifying shared concerns in this area. There was appetite to do more on this theme, with ideas including a good practice guide, sharing in-house training materials or developing a joint training course. **The Co-Chairs and the Secretariat will discuss and propose possible ways forward.**
- 4) **Exchange on risk management in PSE:** Participants generally felt that some progress had been made but that they were not yet clear about what success for the group might look like and what they should aim to work towards. **Again, the Co-Chairs and the Secretariat will explore areas in which the group might add value and share them for further discussion.**
- 5) **Communicating the why and how of PSE:** The work plan included the idea of case studies and other materials to communicate the why and how of PSE to colleagues and the public. However, members felt that this was not a priority for the group. Instead, it may make more sense to collaborate with existing initiatives. For example, DFID plans to put together a series of case studies, and working group members could volunteer their material.
- 6) **Other themes:** At the group's meeting in Rome, other themes included how to bridge differences in rationalities and language between donors and the private sector, and the concept of shared value. No action items had been articulated at the time. Participants agreed that these themes were not currently a priority for the group; they also noted that holding working group meetings back-to-back with conferences involving public and private stakeholders (as done this time) helped in advancing their understanding of these issue

Member agency updates

Each participant presented recent developments around PSE in their agency (see [Annex 1](#) for a brief summary).

AOB: Future work on Social Impact Bonds

In the context of the [SECO conference on Social Impact Bonds](#) on 18 January, Liliana de Sá Kirchknopf asked working group member about their interest in taking up this theme within the working group. Another option might be to house discussions on Social Impact Bonds and payment by results within the Results Measurement Working Group, or to mandate a third party.

Action items:

It was agreed to raise this question at the next Annual Meeting to explore the preferences of DCED working groups and the membership as a whole.

Next meeting

The group is likely to hold a teleconference in March, in particular to review progress with the assignment on mitigating the risk of negative market distortions. In addition, initial discussions need to be held on the work plan for 2018-19, which will need to be shared with the ExCo in early May. A

physical meeting will take place back-to-back with the Annual Meeting hosted by the MasterCard Foundation in Toronto in early June.

Annex 1: Summary of member agency updates

Netherlands Ministry of Foreign Affairs

The Ministry is drafting a new policy document which will still have a focus on combining aid and trade objectives. There will however most likely be a stronger emphasis on migration and climate change. Another key issue is demonstrating that PSD is important in fragile settings while communicating that results will inevitably be smaller scale than in other contexts. The Ministry has further launched a new website on its PSD work, at <https://www.government.nl/topics/business-for-development>.

DFID

A priority in DFID has been to brief the new Minister about the importance of PSD. Three ongoing programmes are of particular relevance to the PSE WG:

- The Business Innovation Facility (BIF) – a £5 million fund which aims to engage big companies around new ideas for shared value. 5 ideas have been selected so far. A big focus for the programme is how to ensure additionality;
- A new ‘Replication Fund’, which was launched to learn from multinational companies that have rolled out shared value projects; and
- A new support facility, which is accessible to everyone in DFID who wants to engage the private sector.

IFC

IFC is developing a platform on new financing tools in the health and education sectors. An associated study on the financial ecosystem reviewed the roles of donors, foundations, impact investors and other actors in this sphere. In the next 6-8 months, discussions will be held on the structure of the platform. IFC would also like to reach out to DCED members to get their views.

The World Bank Group has published a new strategy paper on ‘[Maximising Finance for Development](#)’. It outlines the World Bank’s ‘Cascade Approach’ by which private sector solutions are always considered as the first resort. More generally, there is now a stronger focus on ex-ante assessments of impact, not just financial return. Inclusion is one of the main impact areas looked at, at project and market level.

BMZ

Coalition negotiations are still ongoing following the elections in 2017. Enhanced engagement in Africa during the last year was driven by debates on tackling root causes of migration. Now the focus will be on implementing the [G20 Compact with Africa](#) which was agreed as part of the German G20 presidency (2016-2017) and aims to promote private investment and investment in infrastructure. BMZ also supports the [Inclusive Business Action Network](#) (IBAN), which has changed its strategy to focus more on dialogue with businesses and will increasingly also engage with large local companies, rather than mainly SMEs. There are also ongoing discussions about expanding the [Alliance for](#)

[Integrity](#), business-driven, multi-stakeholder initiative seeking to promote transparency and integrity in the economic system, to more difficult contexts in Africa.

Sida

Sida does not have a dedicated unit for private sector collaboration but only a few members of staff who oversee Sida's work in this sphere. The dialogue platform '[Swedish Leadership for Sustainable Development](#)', which is made up of large Swedish export companies is now moving towards concrete actions. The platform aims to foster knowledge exchange between companies and the government and to lobby on behalf of its members in international fora. It has inspired the creation of similar local networks with local businesses or Sweden-related companies in Bosnia, Georgia, Colombia, Turkey and Zambia. These networks focus on how its members can work in more sustainable ways. Sida also has ongoing vocational training projects with Scania and Volvo. Sida has also just completed its 2030 gender strategy which includes a focus on dialogue with the private sector. As a decentralised agency, a key question for Sida is how to train staff and build in-house capacity for private sector engagement.

USAID

USAID's new Administrator has a strong interest in private sector engagement. Currently, only 2-3% of USAID aid funds are leveraged; there has been internal agreement that this should be increased to 30%, which has fundamental implications for how the organisation works. USAID had three internal working groups during the summer of 2017 to discuss implications of increased private sector engagement for USAID's 'people, policies and processes'. USAID also published a new [PSE effectiveness guide](#), for which it was useful to draw on DCED definitions. Discussions on re-organising USAID's departments are still ongoing; a key question is whether or not to have a central PSE unit.

SDC

Switzerland has a new Foreign Minister who has to cater to the political right. As a result, ODA might go down. The Swiss parliament has been engaged in the 'Strategy 2030' process which called for increased use of innovative/ blended finance instruments and co-creating solutions with the private sector. SDC is therefore collaborating with SECO on how to operationalise this. One focus has been to professionalise blended finance instruments and scale up the most effective ones. In terms of internal capacity-building for PSE, SDC is now piloting an in-house training course: The 'EPS100' workshop will be run for the first time in Tanzania this January.

DFAT

DFAT is currently completing an internal review of PSE to take stock of how the organisation has changed since the adoption of the PSE strategy in 2015. One finding was that PSE was largely focused on Private Sector Development objectives. Other lessons refer to the value of different PSE instruments: In particular, companies appreciate the credibility, technical assistance and networks that a direct relationship with DFAT brings them, rather than just financial support. DFAT is also exploring how to complement grant support with other financing mechanisms. In terms of organisational change, the review found that there is still a very limited understanding among staff of what PSE means. There are also questions around how to measure success in PSE. To build internal capacity, DFAT has piloted a half-day training course for practitioners, which has received

positive feedback. DFAT is also working on a White Paper on trade and development – the first such paper to be produced after the merger of AusAID and the Ministry of Foreign Affairs and Trade.

SECO

SECO's PSE approach has been summarised in an updated [factsheet](#) including principles and examples. There are plans to refine the approach further, in particular by defining what the principles mean in practice. SECO has also started to prepare the 2021-2024 development strategy, which will include references to PSE instruments. At the operational level, SECO has launched an open call for proposals by impact investment funds who would like to apply for technical assistance. The total budget of the fund is CHF 7 million. The selection process will take place in March and involve external experts. The Trade Division has launched a new public-private [Cocoa Platform](#) in Switzerland. In Colombia, SECO together with the IDB's MIF has launched its first [Social Impact Bond](#) which focuses on the employability of vulnerable groups.