

## Private Sector Engagement Working Group Meeting Geneva, 20 June 2023 Minutes

12 October 2023

### Participants

1. Katie Garcia, USAID (Co-Chair)
2. Tobias Zeller, GIZ (Co-Chair)
3. Gottfried Traxler, ADA
4. Nirosha Gaminiratne, FCDO
5. Tom Sanderson, FCDO
6. Mika Vehnamaki, Finland MoFA
7. Mei Saito, JICA
8. Naoki Nakayama, JICA
9. Annie van Klaveren, ILO
11. Ernstine Kornelis, Luxembourg MoFA
12. Zenda Ofir, MasterCard Foundation
13. Zoe Rouwhorst, NL MoFA
14. Alexander Otgaar, NL MoFA
15. Rens Twijnstra, NL MoFA
16. Daan van der Meer, NL MoFA
17. Helene Ystantes Føyen, Norad
18. Peter Beez, SDC
19. Luca Etter, SDC
20. Liliana de Sá Kirchknopf, SECO
21. Stefan Brantschen, SECO (for part of the time)
22. Dominika Dor-Skrobot, UNIDO
23. Keith Dokho, USAID
24. Holger Grundel, DCED Secretariat
25. Melina Heinrich-Fernandes, DCED Secretariat

### Welcome by the Co-Chairs and round of introductions

Katie Garcia and Tobias Zeller welcomed participants to the PSE WG meeting, the first in-person meeting since the pandemic. Participants then introduced themselves.

### Lessons learnt from recent PSE portfolio evaluations

Several agencies have recently conducted portfolio reviews or evaluations of, or implicitly related to, their PSE work. This session featured an informal panel discussion with agency representatives sharing insights from

- evaluations at SDC (Luca Etter), SECO (Liliana de Sá), NL MoFA (Zoe Rouwhorst and Alexander Otgaar) and USAID (Katie Garcia); and
- an international evaluation synthesis by the German Institute for Development Evaluation as well as an internal review and strategy process in GIZ (Tobias Zeller).<sup>1</sup>

This was followed by an interactive exchange with all participants. The discussion was structured around three themes; selected key insights are summarised below:

#### 1) Factors driving/ undermining PSE effectiveness, including at project implementation and organisational level

- *Key drivers of PSE effectiveness at organisational level identified in several evaluations include: a clear internal definition of PSE (and PSD), clear internal leadership on PSE (e.g.,*

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<sup>1</sup> All evaluations are can be accessed on the DCED PSE web page [here](#).

SDC competency centre), formalising processes for engaging the private sector and developing associated guidance for staff (including on legal and financial aspects), creating internal mechanisms/ networks for coordinating PSE efforts in an agile manner, and investing in training and introductory workshops for staff.

- *Conversely, factors undermining PSE effectiveness at organisational level include:* high staff turnover, limited ability of staff to speak businesses' language and reservations by staff about talking to the private sector, as well as a negative perception of workload, in the sense that PSE is sometimes perceived as 'yet another thing' for staff to consider when designing projects.
- *Key drivers of PSE effectiveness and project implementation level include:* Some agencies have had positive experiences with a flexible budget line for PSE as well as flexible project durations, given that private sector partnerships often take longer than traditional projects (e.g., to make the business case for improving working conditions and thus creating sustained ownership by private sector partners). Some panellists also noted that it is important to focus on scaling existing initiatives, rather than starting new major private sector partnerships every year. At a practical level, some agencies seek to select partners through competitive processes, while others recommend conducting sector assessments to identify suitable partners. Working repeatedly with 'trusted' large/ multinational partner companies is also increasingly common.
- *Among the factors undermining PSE effectiveness at implementation level,* some panellists cautioned that few instruments have so far been able to effectively achieve both business benefits and development results. There is also still potential for forging greater synergies between donors and DFIs and ensuring a continuum of small-scale and short-term capital to longer-term finance for scaling projects. Greater clarity is also still needed on the best roles for donors compared to DFIs and other finance providers (e.g., with ODA focused on higher-risk projects than DFIs and others would take on).

## **2) Current practices and areas for improvement regarding the measurement and communication of PSE impacts**

- *Panellists and participants pointed out several areas of improvement in results measurement:* Adequate results measurement requires appropriate funding from the start, which has often not been the case in PSE initiatives. As a result, actual development impacts have often not been measured, with the amount of funds leveraged as the only indicator of success. In addition, few PSE projects have been able to clearly articulate and track how a partnership leads to behavioural changes by the partner company. It has therefore been difficult to generate deeper learning, on the economic conditions and factors that facilitate success in PSE. Going forward, there was broad agreement on the need to enhance results measurement in PSE; this may also include more efforts by donors to build business capacity in results measurement.

- *Panellists also highlighted a number of ongoing initiatives to enhance results measurement and communication in PSE: Putting better results measurement systems in place is an ongoing process in several agencies.*
  - GIZ, for example, seeks to establish an M&E system for their entire PSE portfolio, based on an overarching theory of change, with 5% of the PSE budget dedicated to M&E. A clear ambition is to make the system practical and not too complex for users.
  - Some agencies recommended developing theories of change jointly with business as a useful way to get mutual agreement on project activities, desired results and their measurement.
  - SDC has created an online tool to track resource mobilisation, i.e., how much the private sector spends on a partnership; the tool has however been complex to set up and use, partly because it is often difficult to clearly distinguish a PSE project from 'regular' business of the partner company.
  - SDC has also found it useful to commission 'impact deep dives' to be better able to communicate the impact of PSE projects in the supply chain, such as customers of partner companies.

### **3) Overall experience of the evaluation process: Lessons for other agencies on how to ensure a good quality evaluation of PSE portfolios**

- Panellists highlighted two important conditions for an evaluation to be of best use for the agency: 1) The agency needs to have a clear definition of PSE in place; and 2) The timing of the evaluation should ideally be before a PSE strategy (and possibly an organisational restructuring) process.
- A key part of the evaluation process is articulating the agency's theory of change in PSE, if that hasn't happened before. This includes openly discussing assumptions and dilemmas in PSE, as well as different objectives of PSE, and making them explicit. Developing a theory of change has also been instrumental in helping agency staff think through key issues including ownership, commitment and capacity to sustain the work initiated by a PSE project. More fundamentally, agencies have found that the theory of change has been an important tool for informing organisational structures and processes in PSE.
- Some panellists have found it useful to include private sector and NGO perspectives in the evaluation process.
- Commissioning an independent evaluation (instead of an internal review), while linking it to internal strategy processes, was recommended by some panellists.
- Panellists highlighted that it can be challenging to find a good team of consultants experienced in PSE and conducting evaluations. Participants wondered whether joint efforts by donors could help address these capacity concerns, including exchange on draft ToRs; sharing names of suitable consultants; approaching networks of evaluators; drawing on the expertise of in-house evaluation teams (which may have PSE expertise in some agencies but not in others); and conducting joint evaluations or including a peer review element in evaluations. For syntheses of existing evaluations, FCDO has made good experiences with commissioning 3ie for systematic reviews.

Another objective of this session was to **agree on key elements of the ToR for a potential consultancy assignment to synthesise lessons learnt of PSE portfolio evaluations** in a short summary document. Participants confirmed that they would like to commission a consultant to produce the synthesis of evaluations, as foreseen in the PSE WG work plan. It was suggested that the following key issues be included in the ToR:

- The synthesis should cover PSE definitions used by different agencies.
- The synthesis should make a clear distinction between lessons learnt on success factors at organisational level, and on success factors at implementation level. The inclusion of do's and don'ts in PSE in these two categories should be explored.
- The synthesis could usefully compare agencies' different overarching theories of change on how PSE leads to development results. Actual theories of change in use could be included in an annex. This would include comparing the types of PSE approaches used by agencies to achieve different overarching or intermediary objectives (e.g., private capital mobilisation, increased income for poor beneficiaries).
- In addition to a synthesis of cross-cutting lessons learnt, it would be useful to highlight examples of good practice and case studies demonstrating positive development results achieved through PSE.
- The synthesis should also include insights into what practical next steps members have undertaken to act on evaluation recommendations.

The Secretariat will proceed to draft ToR for review and approval by the group by September/October.

### **Update of the DCED additionality guidelines**

The [DCED guidelines on demonstrating additionality](#) were published in 2014 to document experiences of donor-funded challenge funds and similar modalities in assessing additionality ex-ante. The PSE WG agreed last year to launch a process for updating the guidelines, to reflect on new practices, practical examples and lessons learnt. By June 2023, this had included an updated literature review and interviews with four member agencies (SDC, SECO, GIZ's DeveloPPP programme, USAID) as well as one evaluation institute (DeVAL).

Given that relatively few interviews have materialised so far and that they have not yet indicated substantially different practices compared to 2014, the purpose of this session was twofold: (1) to understand better the factors potentially holding back progress and (2) to discuss how an updated version of the DCED guidelines could best address these.

Key comments and feedback by members are summarised below:

- Members agreed with the interview finding that an updated version of the guidelines could usefully explore ways to assess and achieve additionality for a broader range of instruments (e.g., challenge funds awarding cost-shared grants; partnership facilities that involve co-designing partnership activities; or payment by results initiatives). There may also be possibilities to distinguish between different types of target regions, e.g., LDCs and MICs.

- Members also agreed with the interview finding that it would be useful to articulate possible dimensions of development additionality and how to achieve it more explicitly (e.g., by creating networks, building linkages with other players, providing advice, facilitating government actions etc).
- Overall, members preferred any guidelines to be pragmatic and not too prescriptive, in order to leave room for agencies to adapt them to their own needs. There may also opportunities for indicating pathways to different degrees of additionality (from low to high).
- Members also suggested that it may be useful to introduce other relevant concepts and how they relate to additionality in more detail, including subsidiarity and complementarity, and resource 'mobilisation'.
- Some members suggested that it may be interesting to explore creating a companion piece to the guidelines in the future, which would serve to communicate to companies what additionality means to donor agencies.

Several members volunteered for a follow-up conversation on their agency experiences, including Luxembourg MoFA, Norad (Helene Ystantes Føyn), SDC (Peter Beez), SECO (Liliana de Sa). It was further suggested that Sida may have interesting insights into assessing additionality for guarantee instruments, and that the evaluation 'Partners in Development' by the Netherlands MoFA includes relevant pointers on ex-ante additionality assessments.

The Secretariat will therefore get in touch with these agencies in the autumn and continue to work on the update of the guidelines in line with the suggestions made during the meeting.

### **Responsible Business Conduct and PSE**

The purpose of this session was to narrow down key questions for a possible future meeting on the topic, following the publication of a [DCED scoping paper](#) in 2022 and given members' continued interest in the theme.

The session started with a short summary of the paper and potential issues for further discussion among donors that had emerged during the research, for example:

- How can PSE donors/units best navigate the growing complexity of RBC legislation, e.g. where RBC criteria are used for due diligence & partner selection?
- With consumer and investor pressure being critical drivers for the adoption of RBC, what more could donors do to raise RBC awareness among these groups, incl. PSE donor support to investors?
- What is the experience among members when it comes to creating partnerships with companies specifically to promote RBC, e.g., by building the capacity of developing country suppliers to help them comply with growing legislative requirements in the EU and elsewhere.

While members did not identify any single question as particularly relevant for a follow-up exchange, several of them highlighted the continued relevance of RBC considerations for PSE and their agencies more widely. The following information and suggestions were shared:

- **Terminology:** Not all agencies use the term RBC to describe responsible business practices, but it is still considered as central for their work with the private sector (e.g., USAID, SECO). Some agencies highlighted the need to work towards a common narrative on RBC/ ESG.
- **Country-specific experiences in promoting the adoption of RBC and due diligence legislation:**
  - The German Supply Chains Due Diligence Act has entered into force; so far, there has been no backlash from companies, probably because there are no specific requirements other than the need to put in place a process to deal with RBC considerations. German businesses also draw a lot on advice from the German government, with demand for advisory services by the dedicated helpdesk increasing.
  - In the UK, FCDO tries to shift the narrative on RBC among companies by highlighting the business benefits of RBC, and has commissioned an [evidence report](#) on the topic.
  - ILO highlighted the growing need for coordination, for example to address the risk of a proliferation of helpdesks, to facilitate advice on specific sectors and themes, and to address the lack of funding for access to remedy.
  - In terms of sector-specific advice, members noted that there is still relatively little knowledge on RBC in the service industry (as opposed to, for example, agricultural sectors).

## AOB

Helene Ystantes Føyen wondered if other members are interested in PSE in Ukraine. Tobias Zeller and Katie Garcia highlighted two relevant initiatives, pointing to potential for further exchange. They include GIZ's Leverist matchmaking platform, and USAID's Agri-Ukraine programme, which promotes agricultural resilience in Ukraine.

## Next meeting

A teleconference will be organised most likely in October, probably focusing on one of the peer exchange topics identified for the PSE WG work plan as well as next steps regarding the synthesis of PSE portfolio evaluations.

## Agency updates

At the end of the meeting, members were invited to share important updates on PSE in their agencies, with a focus on one key innovation or novelty.

## ADA

- ADA is currently working on its management response to the 2021 evaluation of its Business Partnerships programme. Key findings from the evaluation include that private sector participants found the programme overly bureaucratic and that some companies were not able to comply with all of ADA's requirements, e.g. on responsible business conduct (RBC).

## **BMZ/GIZ**

- Germany's Investment and Development Agency (DEG) operates a helpdesk on business & human rights. DEG also supports the creation of similar help desks in other European and developing countries and would be happy to share insights from this experience with WG members.

## **FCDO**

- Responding to the lack of high quality and globally comparable sustainability information/metrics for use by capital markets (particularly the 'S' of ESG), the International Sustainability Standards Board (ISSB), established at CoP 26 with financial support from the UK, plan to develop a comprehensive global baseline of sustainability disclosures for use by capital markets. FCDO are feeding into the technical aspects of this work.
- The UK's British Investment Partnership (BIP) represents a new hybrid financing approach that brings together development finance, technical knowledge, and capital markets to co-invest in projects for greater development scale/impact. British Investment International (BII), part of the BIP toolkit, recently signed an [MoU with Shell Foundation](#) to increase access to finance to fund clean energy businesses in sub-Saharan Africa and South Asia. The partnership is expected to address financial barriers that exist for early to mid-stage businesses in sectors such as renewable energy, e-mobility, and agri-tech.

## **Finland MFA**

- Finland has published two reports in 2018 and 2022, setting out results achieved through its development programme. For the 2022 report, a new online system was used to aggregate all the results entered by project leads. This has dramatically reduced the time required to collate data and present aggregated results across the portfolio.

## **ILO**

- The International Labour Conference has recently adopted conclusions on how to achieve a Just Transition. They highlight the importance of incorporating a gender perspective, integrating strong voices from LDCs and the private sector, and ensuring a well-funded public sector for a Just Transition.

## **JICA**

- PSE has gradually increased in importance within JICA. There is also growing interest in impact investment. JICA's business partnership programme programme has been operating for over ten years, supporting more than 1,400 projects. It is now being restructured to become more of a co-creation platform. JICA is considering how to best set up KPIs and measure the impact of businesses, especially as companies often find it challenging to collect data.

## **Luxembourg MoFA & LuxDev**

- The Business Partnerships Facility will now be able to provide direct funding to companies in the Global South, not just European companies.

- Luxembourg's focus on RBC continues with capacity building for companies in the Global South and tying disbursements to partner companies to their RBC performance.

#### **Netherlands MoFA**

- Following the evaluation of Government's approach to integrating trade and development, MoFA is now focusing on 14 countries (mainly in Africa) to implement its new policy memorandum on foreign trade and development cooperation. This encourages ministry staff working on economic development and development cooperation to coordinate more closely, and to identify 'win-win' opportunities for greater integration of the two agendas while also recognising that in some cases this is not practical.

#### **Norad**

- NORAD is working on a new state-backed guarantee mechanism for renewable energy investments. An inter-ministerial task force is currently considering what this might look like in practice and NORAD is keen to work with other donors, MDBs and national governments to reduce the (perceived) risks of such a mechanism.

#### **SDC**

- SDC has significantly expanded its work on impact-linked finance. Having started on a small-scale in Latin America, SDC's total budget is now around SFR50-60 million; covering a variety of sectors, geographies and partners (including ADA, KfW, USAID and the Ikea Foundation). It is a very flexible mechanism and SDC is keen to cooperate with other members of the WG.

#### **SECO**

- The first call for proposals for window 1 of the Impact Finance Initiative, a public-private partnership between SECO, SDC, the UBS Optimus foundation, and Credit Suisse Foundation, attracted more than 70 proposals, mostly focused on Africa. The call focused on innovative solutions to addressing jobs, education and climate change. The second call covering additional SDGs including gender and water & sanitation has just closed. Preparations are underway for window 2 which will focus on 'scaling solutions'. Window 3 will eventually focus on building the ecosystem for impact investment. An Advisory Board for the Impact Finance Initiative will be put in place shortly.

#### **UNIDO**

- UNIDO has launched a new approach to sustainable supply chains. Services will be offered at macro-, meso-, and micro-levels. The service offering will be integrated across UNIDO - which is a first for the agency. The methodology for this new approach will be ready shortly.

#### **USAID**

- USAID's new agency-wide CRM will launch soon. To encourage adoption, the focus will be on simplicity and showing value to staff from the beginning. USAID is planning to use the new system to influence the private sector more strategically. Until now, it has relied on



internal online knowledge exchange networks which have worked well as regular informal opportunities for staff to exchange insights and contacts.