DCED
The Donor Committee for Enterprise Development

Private Sector Engagement Working Group (PSE WG)

Geneva, 17 June 2025

Minutes

Participating agencies

1. GIZ (Chair)
2. ADA
3. FAO
4. Global Affairs Canada
5. IDRC
6. ITC
7. JICA
8. MoFA
9. LuxDev
10. Netherlands MoFA
11. SDC
12. SECO
13. UNIDO
14. Sida
15. World Bank

Melina Heinrich-Fernandes, Holger Grundel (DCED Secretariat)

Presenters:
Magdalena Orth, DEval
Anil Thota, Andrea Floridi, 3ie

Agenda Items

1. **An update on categories, instruments and lessons on effectiveness in PSE: Presentation and discussion with the German Institute for Development Evaluation (DEval)**
2. **Taking stock of PSE evidence – Presentation and discussion of 3ie's forthcoming, global PSE Evidence and Gap Map**
3. **Important member updates**
4. **Opportunity to discuss other work plan elements for the next year**
5. **Towards a shared Theory of Change on PSE – including ways to capture domestic benefits of PSE for donor countries (joint session with the Results Measurement WG)**

1. An update on categories, instruments and lessons on effectiveness in PSE: Presentation and discussion with the German Institute for Development Evaluation (DEval)

Magdalena Orth from the German Development Evaluation Institute (DEval) summarised key insights from DEVal's recent Focus Report on Private Sector Engagement. The report covers a definition and typology of PSE, a high-level theory of change on PSE, as well as lessons from evaluations on PSE effectiveness. The presentation was followed by small group exchanges on how different agencies engage the private sector and categorise these efforts.

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Overall, DEval found a generally positive picture for PSE with the caveats that:

- Coordination costs tend to be high especially for relatively short initiatives
- Data on jobs does not capture (a) quality of employment and (b) whether the jobs continued beyond the life of the project/PSE initiative
- Evidence of PSE impacts is not very strong

Regarding PSE effectiveness, DEval's research suggests the need for caution around political expectations around leverage (which is typically only around 1:1), and awareness of high coordination needs and associated transaction costs for short PSE programmes, which diminish in longer-term PSE programmes.

Selected points of discussion are listed below:

- DEval has revised its earlier definition of PSE to include capacity development and TA (i.e. not just financing).
- Should collaboration with private foundations be part of PSE? No consensus in the room. A point was made that with traditional donor budgets shrinking, the roles private foundations play are likely to grow.
- On 'domestic benefits', participants emphasized that balancing these with development impacts is likely to be challenging. How do we justify the use of ODA if the focus on development impacts is eroded?
- DEval shared that they are currently running a 'macro-quantitative' analysis on domestic benefits from ODA.
- SDC cautioned not to overestimate the effectiveness of raising capital through development spending. Their own analysis points to a ratio not higher than 1:1.This is important to (a) be accurate/realistic, (b) manage the public's (and politicians') expectations and (c) direct ODA funds where these are most needed rather than where they generate the most resources from the private sector.

2. Taking stock of PSE evidence – Presentation and discussion of 3ie's forthcoming, global PSE Evidence and Gap Map

Anil Thoda and Andrea Floridi from 3ie presented their ongoing work to develop an evidence gap map on PSE (the presentation can be shared with members on request). The evidence gap map identified 322 relevant studies, and will be published shortly on 3ie's website.

One area with a lot of available evidence is PSE in technical and vocational training. However, in response to a question, the 3ie team confirmed that their Evidence Gap Map does not enable us to draw conclusions on the effectiveness of specific intervention types. They are planning 1 or 2 more detailed systematic reviews (based on findings from the EGM) which should provide a clearer sense of the efficacy of specific intervention types. The discussion further revolved around 3ie's definition of the private sector and PSE approaches. 3ie further is further seeking members' feedback on a forthcoming analysis of systematic reviews of PSE, and members preferred focus area.

3. Important member updates

Not all members provided detailed updates. Selected updates are summarized below

BMZ/GIZ

- Several member states (e.g., Denmark, Austria, Finland, Germany) are exploring how to collaborate more at EU-level around their individual PPP initiatives. This is a conversation that first started on the margins of the PSE WG.
- Tobias Zeller encouraged PSE WG members to put themselves forward as WG co-chair to work alongside him.

ADA

- The recent call for proposals under ADA's Business Partnerships Facility attracted more interest than anticipated. A further call is likely to be issued next year. The first call made clear that companies need support with both project preparation and implementation.
- There is growing collaboration at EU-level between member governments with business partnerships facilities.
- ADA is launching a new training facility with the Austrian Chamber of Commerce and universities to mobilise Austrian companies for participation in development cooperation.

Finland MoFA

- The Ministry is finalising the mechanism for the Finland-Ukraine Investment Facility. This will support Ukrainian public sector institutions as 'project owners' with Finnish expertise, equipment etc. It is effectively tied aid because at least 33% of the value has to accrue to Finnish companies. The initial call for proposals has received a very strong response with proposals totalling more than EUR700 million having been submitted against an available budget of EUR50 million (which may be increased further in next few months). The Ministry is delighted to see such an enthusiastic response from the Finnish private sector.

Luxembourg

- The main PSE priorities for Luxembourg's business partnerships facility are:
    - Encouraging LUX missions to use the facility more systematically for effective in-country PSE (rather than just a mechanism for ad-hoc initiatives and quick disbursement of funds).
    - Working more closely with impact funds to integrate national companies into impact finance portfolios. This is likely to be a long journey.

SDC

- SDC has created a new online knowledge platform for PSE and is also updating its PSE handbook by the end of 2025.
- Two new PSE programmes in the water sector are under development, including a new investment in the 'Water Access Acceleration Fund'.
- SDC is planning new investments under its 'investment credits' mechanism which works to de-risk private sector and DFI investments in frontier markets.
- A call for proposals to support gender-inclusive fintech for migrants is currently open.

- SDC is scoping out PSE / investment opportunities for climate-linked finance.

SECO

- SECO have developed a new mechanism to work with Swiss companies for reconstruction efforts in Ukraine. A first call for proposals targeting Swiss companies that are already operating in Ukraine has been issued.

4. Opportunity to discuss other work plan elements for the next year

The group briefly discussed the work plan for FY25-26 previously approved. A few comments were made:

- SDC noted that there is a growing number of topics that cut across several DCED WGs and wondered what this might mean for the DCED as a whole and the PSE WG in particular? Melina responded that the Secretariat has been encouraging and facilitating WGs for the past few years to collaborate more. In addition, the Secretariat is currently in discussion with the DCED ExCo whether the existing DCED structures and ways of working are still appropriate and how new, cross-cutting membera priorities may be tackled more effectively.
- In response to a question about the work item on donor-DFI relationships, Melina clarified that the task team needs to meet again to resolve outstanding questions and finalise the ToR. Members also suggested the need for a wider stock-take of what's already out there, with CGAP (for example) having worked on a study on financial inclusion which is likely to cover similar issues. Finally, should a new finance WG be formed under the DCED (as suggested in a separate meeting on 16 June), there would be a need to coordinate next steps with this group.

5. Towards a shared Theory of Change on PSE – including ways to capture domestic benefits of PSE for donor countries (joint session with the Results Measurement WG)

This session was designed as a first joint discussion between the RM WG and the Private Sector Engagement (PSE) Working Group on their collaborative work item to develop an overarching Theory of Change on PSE, and broadening it to serve as a framework for capturing domestic benefits for donor country partner businesses and economies.

Melina Heinrich-Fernandes (DCED) presented an initial draft of an overarching Theory of Change on PSE developed by the Secretariat, which built on the PSE WG's operational framework. This framework distinguishes between intervention strategies to engage directly with (donor country) businesses to enhance their development impact, and strategies to engage with financial sector actors to mobilise private finance. Alongside development results expected from these interventions, the draft Theory of Change also highlights different categories of domestic benefits that may arise from PSE, at output, outcome and impact level (see the slides shared alongside these Minutes).

Representatives from three agencies then shared current political trends and ongoing efforts in their own agencies to capture short- and longer-term domestic benefits arising from PSE (more details can be shared with participants over email).

- In agency A, a new unit bringing together trade, PSD and green growth objectives was created two years ago; however, as of this year any activity funded by this unit needs to show benefits for domestic 'earning capacity'. As such private sector engagement is no longer seen as just a means to achieve development outcomes, but also to generate domestic benefits.

- In agency B, international programming used to be quite separate, including very distinct indicators of success. This is changing. Embassies now have to show what domestic benefits they can generate through their work. Another new initiative refers to 'growth compacts' with specific countries that should generate economic benefits for both sides. Field offices in ODA countries have been carrying out 'inclusive growth diagnostics' to show how these countries can grow with development assistance, with a particular focus on the eight priority sectors. In addition to priority sectors, a new classification has been developed to prioritise partner countries, based on their strategic importance for the donor country. ODA-eligible countries are prioritised further based on strategic priorities such as migration, security and climate change.
- In agency C, the incoming government specifies that an integrated approach to development cooperation will be pursued which also explicitly promotes domestic interests; these focus on strategic priorities such as economic cooperation, securing access, securing access to raw materials, combating the causes of migration, and cooperation in the energy sector. Direct benefits for national and European companies are sought.

In each case, discussions on how to capture or measure domestic benefits are still ongoing, but different approaches seem to be emerging.

- Agency A seeks to define specific indicators of domestic benefits but discussions are on this are at an early stage, and current practice is to capture benefits on a case-by-case basis. For example, earning capacity could refer to security of supply or acting as a trading partners.
- In the case of agency B, the focus is likely to be on developing narrative around domestic benefits – to complement, rather than change, existing M&E frameworks.
- Agency C has also opted against indicators of domestic benefits in their M&E systems, and will instead focus on certain 'project markers' in their project database. Broadly speaking, these markers serve to identify whether
  - whether a partner company is registered in the donor country(or Europe);
  - whether a shareholder or owner of a local company in the target country is a person or company from the donor country;
  - the project serves the securing of raw materials for donor country companies (or European companies); and
  - whether a significant proportion of core components (e.g., technology, know how) comes from the donor country.

In all countries, questions remain on the specific definitions of markers and possible indicators as well as their implications, for example how to define a 'domestic company' in a global economy and how to reconcile mutual benefits with EU state aid rules. During the discussions, participants also cautioned that overplaying 'domestic benefits' may entail the risk of eventually losing the case for ODA altogether. Instead, it may be helpful to emphasize that prosperity in Africa/the global south will matter to us all in the long run.

Action item: *Further consultations on a shared Theory of Change on PSE, including key categories of domestic benefits expected to arise from PSE, will be organised with both Working Groups in the months ahead before publication. Members also expressed their interest in continuing to discuss, and potentially document, specific markers and/ or indicators being used or under discussion to communicate different types of domestic benefits.*