



Effective private sector engagement through development co-operation



Global Partnership
for Effective Development
Co-operation

Issues Paper: Background for Consultations

Partnerships with the private sector, especially with small- and medium-sized companies, have shown effective results in promoting growth.

(A voice of a development partner)

Often projects engaging the private sector are created without local populations at the table. These projects are bound to face challenges in implementation.

(A voice from a partner government)

Projects engaging the private sector need to target the most marginalised. Strong government leadership is needed for greater transparency and accountability, especially around the social and environmental impact of projects.

(A voice from civil society)

The local knowledge that the development community brings is a significant incentive to engage in projects.

(A voice from the private sector)

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Executive Summary

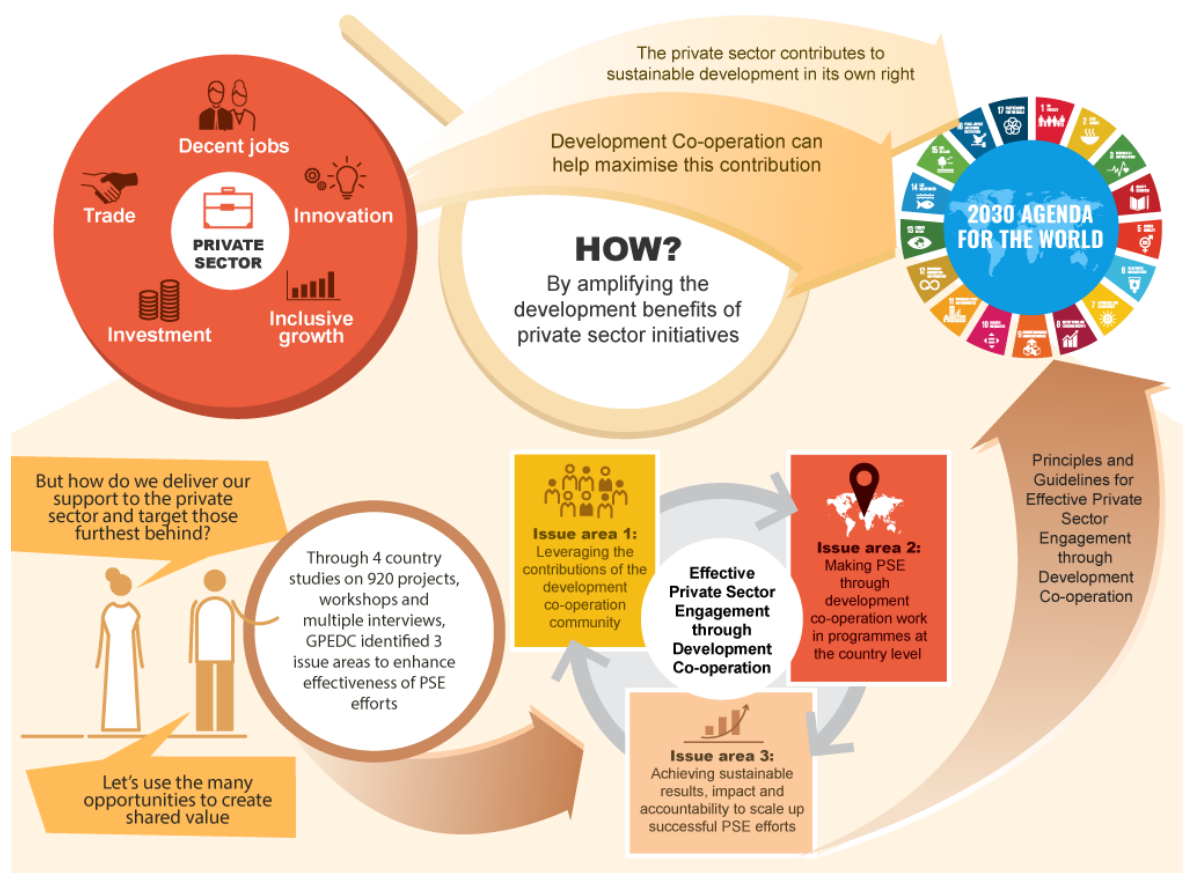
This paper summarises issue areas emerging from country-specific analysis and consultations with stakeholders on concerns, challenges and opportunities in making private sector engagement (PSE), mobilised through development co-operation, more effective. Going forward, the paper will serve as the basis for inclusive consultations and dialogue to forge consensus around principles and guidelines in this policy area. This effort is grounded in the agreement reached at the 2016 High-Level Meeting of the Global Partnership for Effective Development Co-operation (GPEDC) to explore the effectiveness of PSE through development co-operation and to promote tracking of progress and the adaptation of practices and instruments for effective partnering with the business sector.

The scope and ambition of the 2030 Agenda for Sustainable Development call for the diverse private sector to apply its creativity, resources and potential to innovate to solve sustainable development challenges. Private sector actors are increasingly adopting approaches and business models that focus on profitable solutions to sustainable development challenges by targeting new markets and customers, redefining productivity and creating positive outcomes for the communities in which they work and for employees and customers. With this, the private sector has tremendous potential to contribute to sustainable development in its own right.

Development partners are providing new windows of support to engage the private sector through development co-operation. This is done on different levels – by providing support to creating enabling conditions, addressing market failures and harnessing creative solutions. This has led to a remarkable shift in how development co-operation is perceived and conducted. However, making best use of the opportunities of PSE through development co-operation requires an honest debate about how to harness its full potential and address underlying challenges and concerns raised by partner country governments, the private sector, civil society organisations and some development partners. For instance, development co-operation to the private sector is a subsidy and raises concerns about market distortions. The potential harmful effects of the private sector, a lack of safeguards, insufficient attention to results and impact, particularly for those furthest behind, and the potential for de facto tied aid are other recurring concerns. To ensure that scarce public resources are provided transparently and as effectively and efficiently as possible, principles and guidelines for effective PSE through development co-operation are needed.

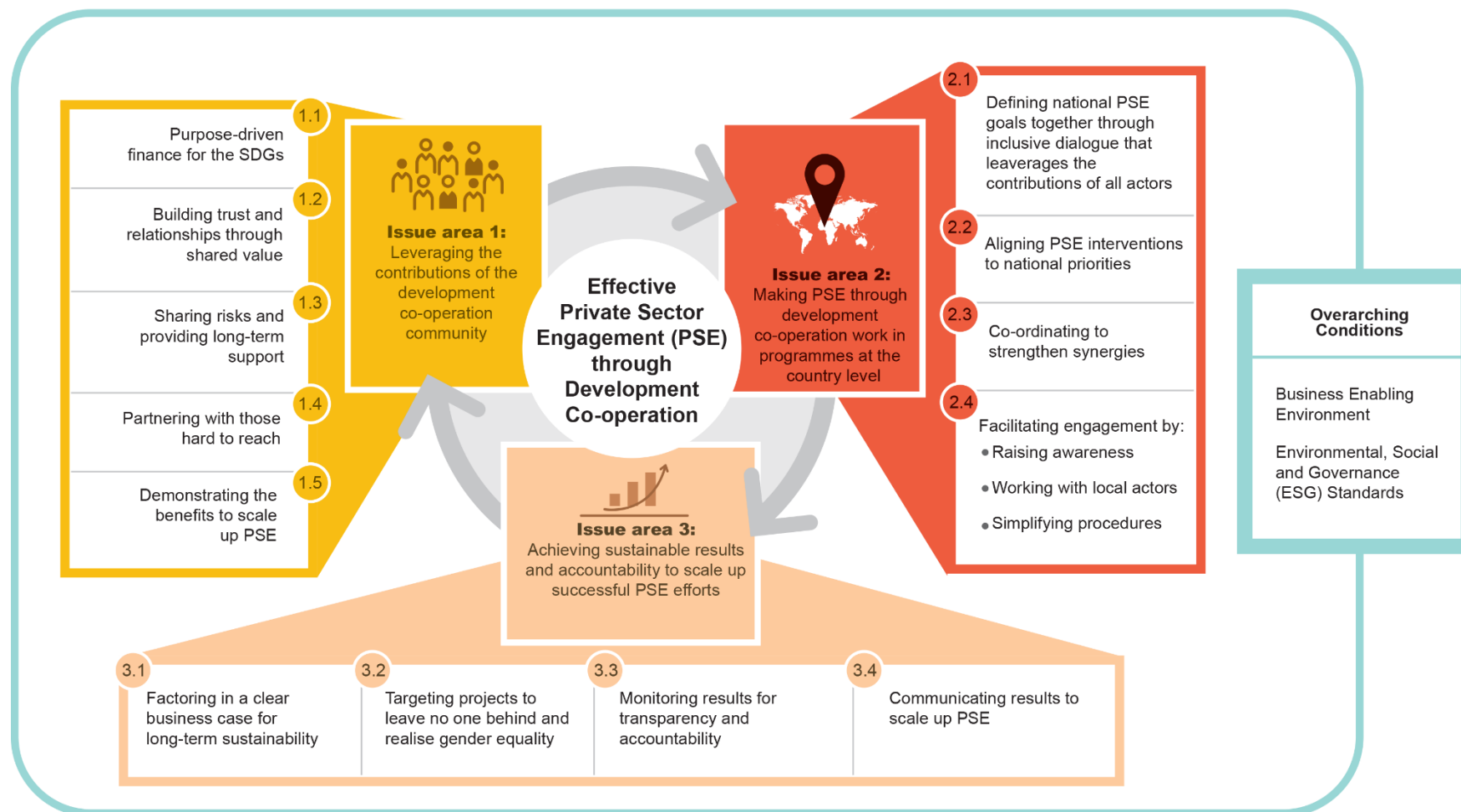
Through the Global Partnership, a multi-stakeholder platform to advance the effectiveness of all types of development co-operation, an inclusive alliance of partners started analytical work in 2017 to evaluate the challenges, concerns and views of stakeholders involved in PSE through development co-operation through an explicit ‘development co-operation lens’. This group and the associated stakeholders undertook four country case studies in Bangladesh, Egypt, El Salvador and Uganda.

Global Partnership for Effective Development Co-operation (GPEDC) - Private Sector Engagement (PSE) through Development Co-operation



Led by the OECD-UNDP Joint Support Team of the Global Partnership, the analytical work for the four case studies aimed to better understand stakeholder views on PSE through development co-operation at the country level. The case studies were based on an extensive literature review, a detailed mapping of 919 PSE projects through development co-operation and interviews and workshops in the four countries, reflecting the multi-stakeholder nature of the Global Partnership.

The case studies identified three inter-related and mutually reinforcing issue areas, as presented below. These focus on the implementation of PSE projects through development co-operation at the country level. The issue areas have a particular focus on the finance modality, characterised by a direct transfer of resources by development partners to projects supported by the private sector; however, they have relevance for all modalities of PSE through development co-operation. They also aim to complement existing principles, such as those for blended finance and by the United Nations Global Compact. The issues are embedded in a range of framing conditions that are considered critical for effective PSE and are informed by and leverage contributions from ongoing policy debates in other forums. While the issue areas are distinct, they should be understood holistically and as mutually reinforcing.



Issue area 1: Leveraging the contributions of the development co-operation community

Development finance is **purpose-driven**, geared towards attaining sustainable development and helping achieve the 2030 Agenda and the Sustainable Development Goals (SDGs). In this context, development finance can help ensure that PSE activities provide positive contributions from private sector actors. It has the potential to **build relationships and trust** within a diverse and large community of actors, active across sectors and regions, who are willing to jointly leverage resources and capacities to address challenges in ways that no one actor can alone.

Development finance provides unique incentives through **risk sharing** and the provision of **longer-term exit strategies** compared to other forms of finance, such as finance provided by commercial lenders. The development co-operation community can **partner with those who are hard to reach or underserved by the market**, including by working with micro, small and medium-sized enterprises (MSMEs). The development co-operation community has a role to play in **demonstrating the value of PSE through development co-operation** to those that have concerns and mobilising support from taxpayers. At the country level, development partners do not appear to adequately harness these respective strengths of development co-operation. Going forward, development partners should seek to build trust and incentives for effective partnerships and to demonstrate the value of PSE through development co-operation.

Issue area 2: Making PSE through development co-operation work in programmes at the country level

At the country level, a range of framing conditions repeatedly came up in the country case studies. There is a need for governments to lead in **establishing national goals** for PSE through development co-operation to support national development priorities and the SDGs. This should be done in **an inclusive manner** around which development partners can **align and co-ordinate their efforts**, clarify their roles and priorities, and strengthen synergies. This also points to the need for ongoing, inclusive public-private policy dialogue at country level, including social dialogue. Development co-operation can play a matchmaking and bridge-building role in this regard.

Development partners and partner countries can facilitate greater PSE by **raising awareness** among businesses of the specific opportunities and benefits, but also the **distinct challenges** of PSE through development co-operation at the country level. They can also **tailor engagement opportunities** to the needs and capacities of the private sector; and **respect differences** between various types of private sector partners, such as small versus larger companies.

Issue area 3: Achieving sustainable results and accountability to scale up successful PSE efforts

PSE through development co-operation should consistently be rooted in the ambition to generate development outcomes and business profits (**shared value**). This will ensure efforts in PSE projects are focused on realising sustainable development outcomes through profitable solutions. Alongside a clear development rationale, development partners should also ensure that the PSE projects they support are grounded in a clear business case for the private sector to **ensure success and long-term sustainability**.

In defining development results, there is a need to examine how and when to **target the most marginalised and those furthest behind** – actors in the informal sector, women and youth for example. **Generating and communicating evidence on results achieved** through cost-effective, nimble and balanced monitoring and evaluation that addresses development and commercial goals is needed to increase transparency and accountability on the use of public money, promote learning, build trust, demonstrate the value of PSE through development co-operation and scale up effective projects.

This paper presents a detailed description of these issue areas as a basis for inclusive consultations and policy dialogue with the private sector, national governments, development partners, civil society, trade unions and others going forward. Consultations will help to build trust, identify interests, sharpen a common agenda among public, private and civil society partners and inform the creation of principles and guidelines for effective PSE through development co-operation.¹

Definitions

Development co-operation: Major social, political and financial changes over the past decade mean that thinking on development co-operation has evolved. Official development assistance is one form of assistance within a much broader palette of development co-operation approaches and instruments. These include non-concessional finance, South-South and triangular co-operation, climate finance, co-operation among governments on non-aid policies, and co-operation with and among non-governmental actors, such as businesses and civil society.² Development co-operation is also being defined by some (Alonso and Glennie, 2016) as an activity that: (1) Aims explicitly to support national or international development priorities; (2) Is not driven by profit; (3) Discriminates in favour of developing countries; and (4) Is based on co-operative relationships that seek to enhance developing country ownership.

Development partners: Refers to the range of national and international organisations that partner with countries that receive development co-operation to realise national sustainable development priorities and the SDGs. These include governments that provide different types of development co-operation, multilateral organisations such as United Nations' agencies and programmes, international financial institutions such as the World Bank, bilateral development finance institutions, parliamentary organisations, civil society organisations, trade unions and philanthropic organisations.

Partner countries: Refers to countries that receive development co-operation.

Private sector: Organisations that engage in profit-seeking activities and have a majority private ownership (i.e. are not owned or operated by a government). This term includes financial institutions and intermediaries, multinational companies, micro, small and medium-sized enterprises, co-operatives, individual entrepreneurs and farmers who operate in the formal and informal sectors. It excludes actors with a non-profit focus, such as private foundations and civil society organisations (excerpt from OECD, 2016).

Private sector engagement through development co-operation: In 2016, the OECD defined private sector engagement (PSE) in development co-operation as “an activity that aims to engage the private sector for development results, which involves the active participation of the private sector” (OECD, 2016). The definition is broad and includes all modalities (finance, policy dialogue, capacity development, technical assistance, knowledge sharing and research [see Annex 1]) for engaging the private sector in development co-operation from informal collaborations to more formalised (OECD, 2016) and encompasses all sectors (e.g. health, education, private sector development, renewable energy, governance, etc.). The aim of PSE through development co-operation is to leverage the innovation potential of and additional finance from the private sector to achieve development objectives while at the same time recognising the need for financial return for the private sector.

¹ See <http://effectivecooperation.org/our-work/2017-2018-programme-of-work/private-sector-engagement-through-development-co-operation/> for details.

² <http://www.oecd.org/dac/effectiveness/aideffectivenessglossary.htm>

1. Introduction

With a set of 17 Sustainable Development Goals (SDGs) and 169 targets, and an estimated investment gap of at least USD 2.5 trillion a year from now until 2030 (BSDC, 2017), **the scope and ambition of the 2030 Agenda go well beyond what the public sector can achieve alone.** The 2030 Agenda requires a collective effort to step-up all types of resource mobilisation and innovative solutions for development impact. While governments have primary responsibility for implementing the 2030 Agenda, efforts are needed by all stakeholders in society – governments, civil society organisations (CSOs), academia and the private sector. Businesses, which provide an estimated 60% of Gross Domestic Product, 80% of capital flows and 90% of jobs in developing countries (OECD, 2015), have an important role to play. Along with all other members of society, the 2030 Agenda calls for the diverse private sector to apply its creativity, investments and innovation to solve sustainable development challenges (UN General Assembly, 2015).

Historically, many efforts to generate positive development impact and business profits were carried out in isolation. More recently, the innovative strategies of firms to target new markets and customers, redefine productivity in the value chain and create positive synergies in the local environment in which they operate have given rise to the vision of shared value. According to Porter and Kramer (2011), “shared value involves creating economic value in a way that also creates value for society” (e.g. positive environmental and social impact).

Shared value focuses company leaders on **maximising the business value of solving social problems while acquiring new customers and expanding in new markets.** The increasing emergence of social enterprises, purpose-driven businesses and non-profit organisations adopting for-profit strategies is giving rise to the fourth sector, a term used to refer to organisations that combine the private sector’s market-based approach with the purpose-driven goals of public and non-profit sectors.³ At the same time, there are many businesses that have yet to adopt a shared value approach.

In the development context, **common examples of shared value creation include inclusive businesses targeting poor people at the base of the pyramid** as customers, distributors, employees, producers and business owners through the expansion of goods and services and/or income-generating opportunities (UNDP, 2014). Shared value business models differ from mainstream business models through their effort to profitably address social challenges.

Shared value occurs within the continuum between commercial and social entrepreneurship (i.e. business models that improve social outcomes) (Daoood and Menghwar, 2017). Drawing on Daoood and Menghwar, a continuum (Figure 1) exists in terms of the impact of the private sector on development. At one end of the continuum there are companies that operate without respect for legal, ethical and environmental standards. Rather than realising shared value and ensuring they do no harm, these companies turn a profit while employing irresponsible business practices that contribute to climate change, increased inequalities and human rights violations. At the next point on the continuum are companies that operate through mainstream business models that create jobs and tax revenues, and do no harm by following appropriate laws and regulations. However, such businesses do not necessarily explicitly address development challenges through profitable solutions. The continuum then moves through companies in which Corporate Social Responsibility (CSR) positively contributes to financial returns to fully established shared value business models, where addressing social challenges is at the core of the business model (Daoood and Menghwar, 2017).

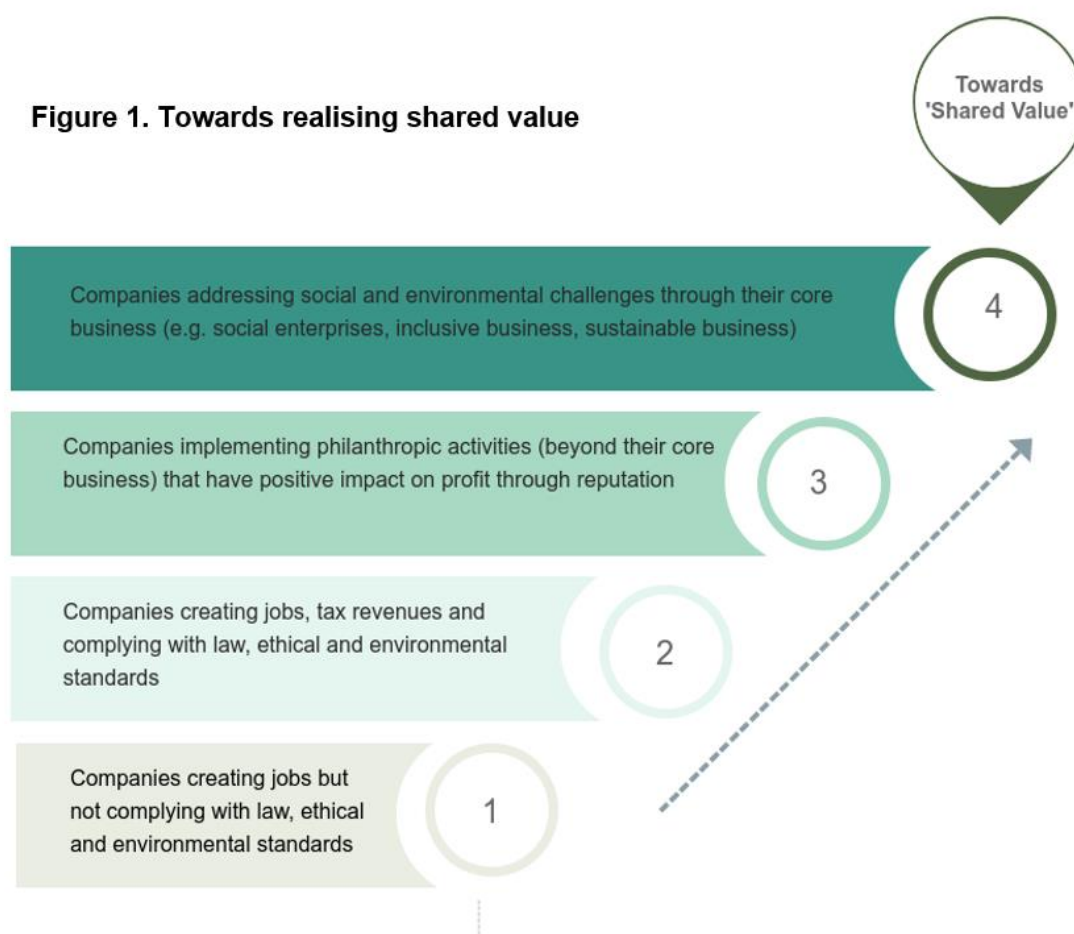
The continuum illustrates the range of private sector actors that exist and their potential contributions (both positive and negative) to sustainable development. **In this context, development partners are increasingly interested in engaging with a range of private sector actors through development co-operation.** They are looking to use their development co-operation budgets to support improved business practices and leverage private sector investment and know-how to create jobs, improve service delivery – in particular for the poorest

³ For example, see <https://www.weforum.org/agenda/2017/09/fourth-sector-chance-to-build-new-economic-model/>.

and most marginalised – and improve tax revenues (World Bank, 2009; IFC, 2013). Through these efforts, they aim to realise shared value for development and private sector partners and improved cost effectiveness and value for money (see e.g. OECD, 2016; Lucci, 2012). Also, since partner countries in Africa, Asia and Latin America are key market and investment sites for companies and investors, some development partners are working with the private sector with the aim of simultaneously promoting development and the interests of companies from development partner countries (OECD, 2016).

At the same time, criticism of how public resources are being spent exists, particularly in terms of concerns about the creation of new forms of tied aid and the use of development institutions to support private interests over development priorities (see, for example, Mawdsley et al., 2017; Meeks, 2018).

Figure 1. Towards realising shared value



Source: adapted from Daood and Menghar 2017

Shared value creation requires new and heightened forms of collaboration (Porter and Kramer, 2011). PSE through development co-operation is becoming an increasingly relevant part of inclusive business strategies for companies seeking to realise shared value. Collaboration is emerging in the form of multi-stakeholder initiatives, policy dialogue through roundtable processes, partnerships between civil society organisations and the private sector supported by development partners, and direct partnerships between development partners and the private sector that seek to address shared challenges through a shared vision, risk sharing and joint implementation.

Development partners assist the private sector in facilitating partnerships and identifying unmet social needs and underserved populations. Emerging forms of collaboration present a number of benefits to private companies, including information to help them operate successfully in underserved markets in partner countries; for example, technological know-how, cultural context awareness, market data and knowledge of local capacity

and unmet needs (UNDP, 2014). The private sector also benefits from incentives and investment to launch new ventures in high-potential but challenging low-income markets. Development partners also support the efforts of partner countries to improve the business-enabling environment, which impacts the environment in which shared value strategies operate.

To create shared value, social impacts – and the way they are linked to business outcomes – should be measured (and monitored) to ensure that partnerships are successful in meeting the objectives of both development partners and private companies. Development partners can assist in measuring and showcasing the social impacts of business operations.

Development partners and partner countries are scaling up shared value for businesses and development to fast-track attainment of the SDGs. To support the creation of partnerships rooted in shared value, they are setting up new ways to leverage and work with the private sector for sustainable development. Partner countries are increasingly looking to the private sector as a partner in achieving national sustainable development priorities, including through public-private partnerships and increased private sector investment.

Within this context, **development partners and partner countries are adapting their policies, procedures and funding frameworks to partner with the private sector for sustainable development results.** They also aim to tap into private sector know-how and capacity while at the same time bringing benefits for businesses (co-creating shared value) (Donor Committee for Enterprise Development [DCED], 2018).

Development partners are deploying a growing amount of development finance through an increasingly diverse set of tools (new financing windows and other modalities), de-risking mechanisms and financing instruments depending on demand and context (see Annex 1) and with various objectives in mind.⁴ A number of challenges have arisen in this context. For example, a 2018 OECD report on blended finance notes that there is a need for development partners to better ensure that blended finance meets the needs of the SDGs, particularly by mobilising private resources that are not currently supporting sustainable development, and by improving monitoring and evaluation (OECD, 2018).

Development partners' PSE portfolios include the promotion of responsible business, based on a recognition that not all businesses respect laws and regulations, including in terms of paying taxes, respecting workers' rights and reducing negative impacts on the environment. Through this work, they promote the adoption of higher economic, social and governance standards through policy dialogue and responsible business initiatives, as well as by making adherence to standards a condition for partnership. Working with partner countries, development partners are making efforts to reduce tax avoidance and evasion, ensure companies respect human rights and environmental standards, facilitate social dialogue and help businesses to shift from the informal to the formal sector.

Development partners, partner countries, civil society organisations and private sector actors are developing skills and collecting experience to support multi-stakeholder partnerships (OECD, 2016), changing ways of working together. The different modalities used by development partners, such as finance, capacity building, dialogue and knowledge sharing, can all contribute to mobilising private finance, spurring innovative development solutions, and promoting private sector development and responsible business, including supporting businesses to shift towards shared value business models. South-South co-operation partners, especially from the Asian region, often engage their own companies when delivering co-operation in line with the mutual benefit principle that informs their approach, and are increasingly using tools that include the private sector for delivering their development assistance (Kindornay and Reilly-King, 2013).

⁴ The main objectives are (i) to support an enabling operating environment for private sector development; (ii) to foster responsible business practices; (iii) to finance private investment and mobilise commercial finance; and (iv) to combine resources, skills and expertise in private sector partnerships to more effectively achieve development outcomes. PSE occurs at various levels, ranging from informal collaboration to more formal partnerships (OECD, 2016).

Despite the important growth in private development finance mobilised through official development assistance (ODA) in recent years,⁵ the scale and level of needs associated with the SDGs points to the need for further growth in private sector contributions. Building effective partnerships between the private sector and development co-operation actors that address societal needs in partner countries through the creation of business opportunities requires mutual understanding and respect of the incentives for engagement of each partner.

Harnessing and scaling the opportunities presented by PSE through development cooperation requires addressing underlying challenges and concerns raised by some development partners and partner country governments, and by civil society organisations (CSOs), including trade unions. These concerns serve as the basis for the remainder of this paper. The main sources of debate include:

- **The potential harmful effects of the private sector** – on the environment, on marginalised groups, etc. – and insufficient attention to economic, social and governance safeguards as a criteria for partner selection and in the deployment of activities under private sector partnerships;
- **Insufficient safeguards on the use of public resources** to leverage the private sector to limit market distortions (crowding out effects), target the most vulnerable, ensure appropriate risk sharing and avoid moral hazard, and use cost-benefit and risk analysis to establish whether a private sector partnership is the best solution to a sustainable development challenge;
- **Insufficient attention to results and impact**, including in terms of outcomes for businesses and the populations that are meant to benefit from private sector partnerships;
- **Lack of transparency** on the nature of private sector partnerships, including partner selection, monitoring frameworks, key stakeholders, financial and non-financial resources and the activities involved;
- **Limited accountability** for the outcomes of private sector partnerships, including with respect to redress for potential negative impacts;
- Privileging private interests⁶ and **diverting public resources for private motives** or tying aid⁷ for the benefit of private sector in partner countries;⁸ and
- **Supply-driven finance** which results in supporting projects that are almost commercially viable, therefore reducing efficiency (and distorting markets).

The private sector, in turn, raises concerns about being seen as financier or recipient of PSE through development co-operation support, rather than as a true partner. It also challenges the cumbersome procedures and practices for engagement used by governments and other actors, which bring high transaction costs to partnerships without clear advantages for business. **Creating shared value in development co-operation is not automatic but requires dedicated modalities, institutional capacity and approaches to ensure that partnerships are conducive to sustainable and inclusive development.**

⁵ A 2016 survey identified USD 81 billion in private investment mobilised between 2012-15 through official development finance interventions in the form of guarantees, syndicated loans, shares in collective investment vehicles, credit lines and direct investment in companies. In addition, the survey data showed the amount mobilised in 2015 was nearly twice as large as in 2012 (Benn et al., 2017).

⁶ e.g. Kwakkenbos (2012).

⁷ e.g. Meeks (2018).

⁸ e.g. OECD (2016).

Despite progress in elaborating principles at global, regional and sectoral level,⁹ initiatives promoting PSE through development co-operation still place limited focus on systematically assessing ways to effectively and transparently use development partners' resources when realising projects with the private sector on the ground. The SDG monitoring framework is a case in point: the SDG target 17.17 "Encourage and promote effective public, public-private and civil society partnerships, building on the experience and resourcing strategies of partnerships" is measured by "Indicator 17.17.1: Amount of USD committed to public-private and civil society partnerships". It does not explicitly focus on the effectiveness of PSE through development co-operation. Moreover, existing multi-stakeholder platforms, partnerships and initiatives do not sufficiently focus on the effectiveness of PSE, and on the role of development co-operation specifically.

A mapping of 66 platforms, partnerships and initiatives mandated to engage the private sector with the intent of achieving the SDGs found **limited focus on effectiveness issues**.¹⁰ Only four of the 66 platforms focus on effectiveness issues (inclusiveness, country ownership, impact, transparency/accountability) related to PSE through development co-operation.¹¹ Only 10% of these platforms examine the effectiveness, results and private sector benefits of PSE instruments and a majority (68%) do not monitor the activities of their members, nor do they have accountability systems in place. In addition, the inclusiveness of stakeholders in existing platforms is low. Roughly 25% of PSE platforms have partner country governments as their members and even fewer of them strategically engage civil society, trade unions and parliamentarians. Small and medium-sized enterprises also lack access to these multi-stakeholder platforms.

⁹ For instance the blended finance principles. See <https://www.oecd.org/dac/financing-sustainable-development/development-finance-topics/OECD-Blended-Finance-Principles.pdf>.

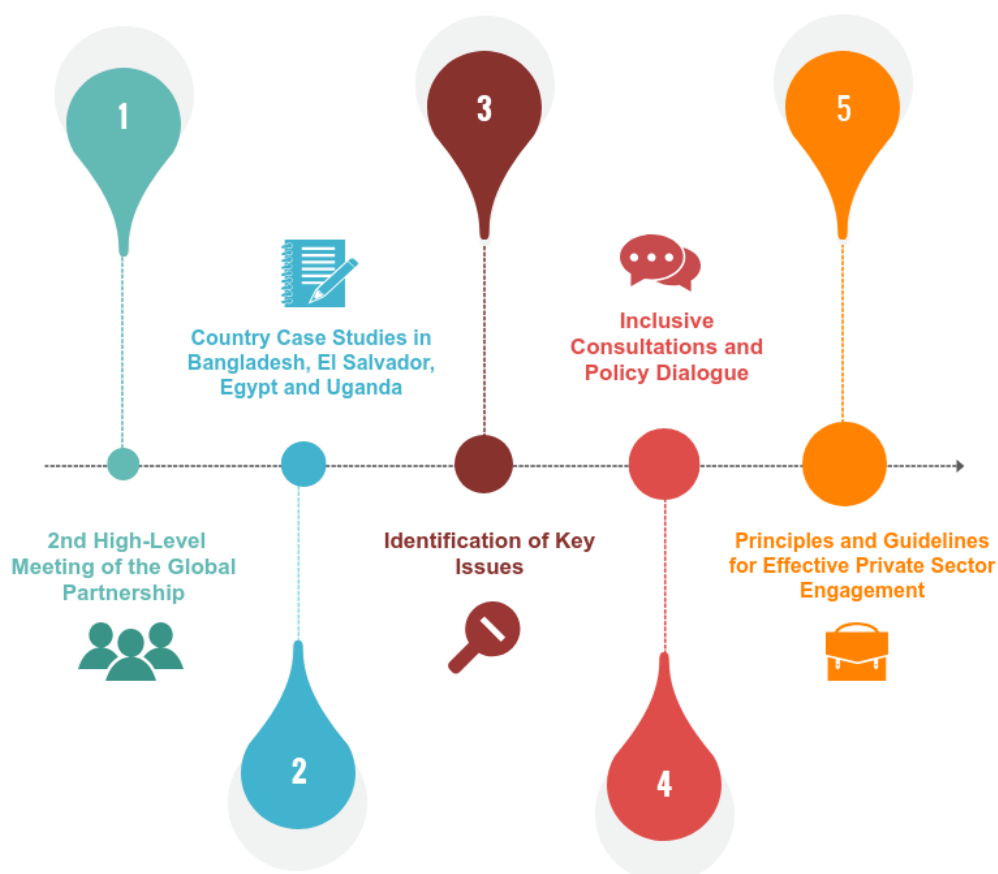
¹⁰ Only a handful of platforms work in the realm of development co-operation and effectiveness, but focus on specific actors, modalities or sectors only, and/or do not provide inclusive dialogue opportunities. For a list of the mapped platforms and the mapping findings, see <http://www.oecd.org/dac/effectiveness/Mapping-Private-sector-engagement-initiatives.pdf>.

¹¹ These are: OECD Blended Finance, MDB Principles to Support Sustainable Private Sector Operations, Guidelines for Effective Philanthropic Engagement, The Global Impact investing Network.

2. Objectives and Methodology

As a multi-stakeholder platform mandated to promote the effectiveness of development co-operation, the Global Partnership is well placed to address the existing gap in inclusive multi-stakeholder dialogue focused on improving the effectiveness of PSE through development co-operation, specifically in its implementation at the country level. It fills a niche not covered by others, and explores synergies to avoid duplication of work¹².

Figure 2. The Road towards PSE Principles and Guidelines



At the Second High-Level Meeting of the Global Partnership in Nairobi in November 2016, governments, civil society and the private sector called for a **dedicated analysis of the effectiveness of PSE efforts supported by development co-operation** in light of the challenges and concerns noted above (Figure 2).¹³ The Global Partnership's Programme of Work¹⁴ includes efforts to produce **mutually agreed principles for PSE through development co-operation**. An alliance of like-minded partners, led by Germany and supported by the OECD-UNDP Joint Support Team, started analytical work in 2017 to better understand the challenges, concerns and different views of stakeholders involved in PSE through development co-operation. The Global Partnership can facilitate inclusive policy dialogue on these issues by leveraging the multi-stakeholder platform that brings

¹² For more information on the scope of the work stream see: <http://www.oecd.org/dac/effectiveness/Private-Sector-Engagement-Concept%20Note.pdf>

¹³ The Nairobi Outcome Document included a range of references (see [here](#)) to the private sector and commitments by all development partners in this regard.

¹⁴ See <http://effectivecooperation.org/wp-content/uploads/2017/05/2017-18-Global-Partnership-Work-Programme.pdf>.

together the representatives of governments, multilateral and bilateral institutions, civil society and private, philanthropic, parliamentary, local and regional organisations.

Inclusive dialogue is vital to identify areas of shared concern and common denominators between the private sector, national governments, development partners (including South-South co-operation partners), civil society organisations, trade unions and others. It is a tool to **build trust, identify and align interests and facilitate a common language and agenda**, with appropriate policy space for all public, private and civil society actors with a stake in development. The inclusive dialogue process is an opportunity to convey to stakeholders in the private sector the genuine interest in listening to them and learning from them about the challenges and opportunities they see in working with the development community.

The dialogue will inform the creation of mutually agreed guidelines and principles on the effectiveness of PSE through development co-operation.¹⁵ In turn, these aim to inform the ongoing adaptation of the Global Partnership monitoring to the 2030 Agenda, guiding the future integration of measurement approaches on the effectiveness of PSE through development co-operation.¹⁶

The OECD-UNDP Joint Support Team carried out four country case studies to better understand the **views of different stakeholders and the country-level challenges and concerns with PSE through development co-operation**. The case studies – carried out in Bangladesh, Egypt, El Salvador and Uganda¹⁷ – were based on an extensive literature review, a detailed mapping of 919 PSE through development co-operation projects¹⁸ and over 50 interviews in the four countries, reflecting the multi-stakeholder nature of the Global Partnership.¹⁹ Report findings were shared with a wide range of stakeholders for feedback and validation in all four countries.²⁰ The case studies encompassed a range of issues related to PSE through development co-operation and confirmed key challenges and concerns that had surfaced in different policy debates.²¹

The findings provided the substantive basis for the three issue areas discussed in the next section. Each issue area sets out critical opportunities and challenges for scaling up and harnessing the full potential of PSE through development co-operation.

The draft issue areas provide the basis for **online and face-to-face consultation processes** from September 2018 through to early 2019, including stakeholder meetings and a survey. Analysis of the effectiveness of PSE mobilised through development co-operation provided by Southern partners may provide complementary evidence. This will serve to engage relevant communities – private sector partners, policy makers, experts and practitioners – and ensure their feedback informs the work as it progresses. A **specialised policy dialogue** will be organised in January 2019 as part of the OECD Private Finance for Sustainable Development Week with a view to elaborating guidelines for effective PSE through development co-operation.

Regular consultation with a **Working Group on PSE** – composed of members of the Global Partnership Steering Committee and their experts, including representatives from developed and developing countries,

¹⁵ See <http://effectivecooperation.org/our-work/2017-2018-programme-of-work/private-sector-engagement-through-development-co-operation/> for details.

¹⁶ The current monitoring framework includes an indicator on public-private dialogue but not the effectiveness of private sector engagement. See <http://effectivecooperation.org/wp-content/uploads/2015/05/GPEDC-Monitoring-Framework-10-Indicators.pdf>.

¹⁷ For methodology of country case studies see: <http://www.oecd.org/dac/effectiveness/TORs-country-case-studies.pdf>

¹⁸ Of which 277 were in Egypt, 271 in Uganda, 240 in Bangladesh and 131 in El Salvador. The 919 projects reviewed included 54 projects supported by providers of South-South Co-operation

¹⁹ Over 49 organisations were interviewed across the country studies reflecting the multi-stakeholder nature of the Global Partnership. Interviewees included parliamentarians (3) and representatives from government (5), the private sector (businesses and business associations, 12), development partners (16), South-South Co-operation (SSC) providers (2), civil society (7), trade unions (5), foundations (1) and research institutions (2). The project mapping included a review of over 120 development partners including Development Assistance Committee members (13), SSC providers (23), bilateral (20) and multilateral (15) development finance institutions, United Nations agencies (8), foundations (19) and CSOs (23), yielding a total of 919 PSE projects across the four case study countries.

²⁰ Validation workshops were carried out in each of the four case study countries: 4-5 February 2018 in Bangladesh; 9 August 2018 in Egypt; 2 October 2018 in Uganda; and 18 October 2018 in El Salvador. Workshops included participants from government, development partners, civil society and the private sector.

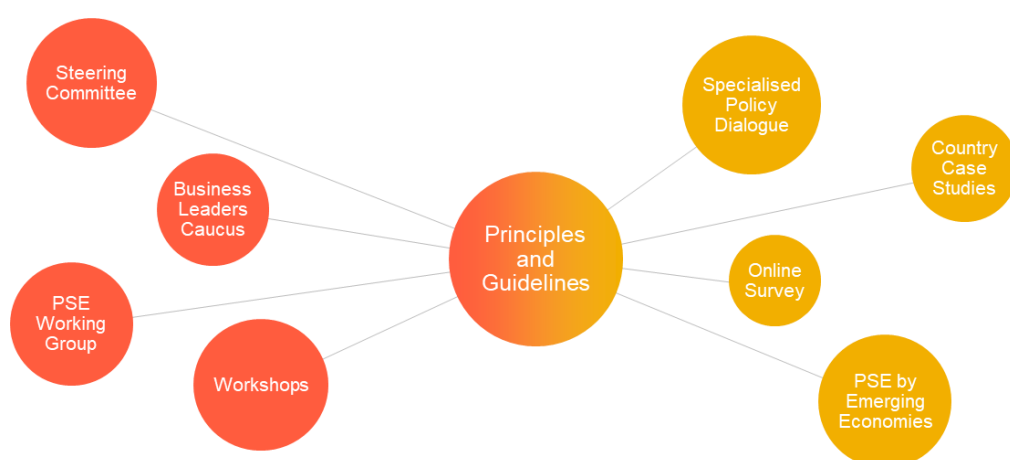
²¹ See <http://effectivecooperation.org/wp-content/uploads/2018/01/Private-Sector-Engagement-Concept-Note.pdf>

parliamentarians, private sector organisations, multilateral organisations, civil society, trade unions, foundations and others – will guide and ensure the quality of the work.

A time bound **Business Leaders Caucus**,²² composed of leaders from diverse companies, sectors, regions and interest groups, also provides strategic advice, policy guidance and advocacy to secure private sector leadership and engagement in the work stream, with a view to championing effective PSE through development co-operation.

Interim results of the PSE through development co-operation work will be regularly presented to the Global Partnership Steering Committee for guidance and endorsement. Based on the completed work and the results of consultations (Figure 3), the Global Partnership will develop and present principles and guidelines for effective PSE through development co-operation in its Senior-Level Meeting, which will take place during the 2019 UN High-Level Political Forum on Sustainable Development.

Figure 3. Contributing to PSE principles and guidelines



²² The Business Leaders Caucus is a senior level advisory group, consisting of 12 business leaders from all regions and representing different private sector actors. Its purpose is to provide strategic advice and policy guidance on how to apply, and make better use of, development effectiveness principles – ownership, results, inclusive partnerships, accountability – when leveraging PSE through development co-operation.

3. Issue Areas

The issue areas outlined below focus on the **implementation** of PSE efforts through development co-operation **at the country level** through the prism of the diverse sets of relevant actors. The issue areas seek to elucidate the various incentives available to different actors to encourage their participation in PSE through development co-operation – governments, development partners, civil society, parliaments, trade unions and the diverse private sector, in particular micro, small and medium-sized enterprises (MSMEs) given the challenges they face and their potential to contribute to leaving no one behind.

Like the development effectiveness agenda overall, the issue areas reflect a multi-stakeholder setting and are geared towards facilitating more effective partnering, bringing the development co-operation and business communities together. They should therefore be perceived as an effort to shape an **agenda of shared responsibility** for all these actors. At the same time, the findings of the case studies point to the particularly important role of development partners, as the providers of development finance, in enhancing the effectiveness of PSE.

Notwithstanding the importance of all modalities of PSE through development co-operation, the issue areas have a **particular focus on the finance modality**, characterised by a direct transfer of resources from development partners to projects supported by the private sector. This focus is the result of two main factors. First, the case study findings reflect the fact that finance is the most prevalent modality: 83% of the 919 PSE project examined through the four country case studies included financing. Only a limited number of the projects provided examples of the other modalities.²³ Second, the concerns of members of the development community have focused primarily on issues related to financial modalities of PSE through development co-operation. Despite the focus on finance, the issues outlined below could have **relevance for all modalities of PSE through development co-operation**, the effectiveness of which is critical for improving the use of public resources in this context.

The issue areas have been prepared with the aim of **complementing existing principles**, such as those for **blended finance** and the United Nations Global Compact. They also move beyond available standards and frameworks related to the private sector in development by focusing on PSE through development co-operation specifically at the country level.

The issue areas are distinct but should be understood holistically and as mutually reinforcing. Progress on one issue area will contribute to progress in others. The challenges raised should be addressed in tandem to accelerate, in a holistic manner, the effectiveness of PSE through development co-operation. Figure 4 provides an illustration of the three issue areas and highlights the links between them.

The issue areas focus on where the Global Partnership can add most value, including on tangible aspects of effective partnering between the business and development communities at the country level. The issue areas refer to the importance of the business-enabling environment as the overarching condition in which PSE through development co-operation occurs. They do not speak directly to actions that aim to improve the business-enabling environment, as other platforms, such as the Donor Committee for Enterprise Development, have a long track record of research and support efforts to improve the business-enabling environment, and more specifically, private sector development.²⁴

In the same vein, compliance with environmental, social and governance (ESG) standards is also part of the overarching conditions in which PSE through development co-operation occurs. The creation of specific standards relevant for PSE through development co-operation is led by the International Labour Organization, international financial institutions, the United Nations Global Compact and the Office of the High Commissioner

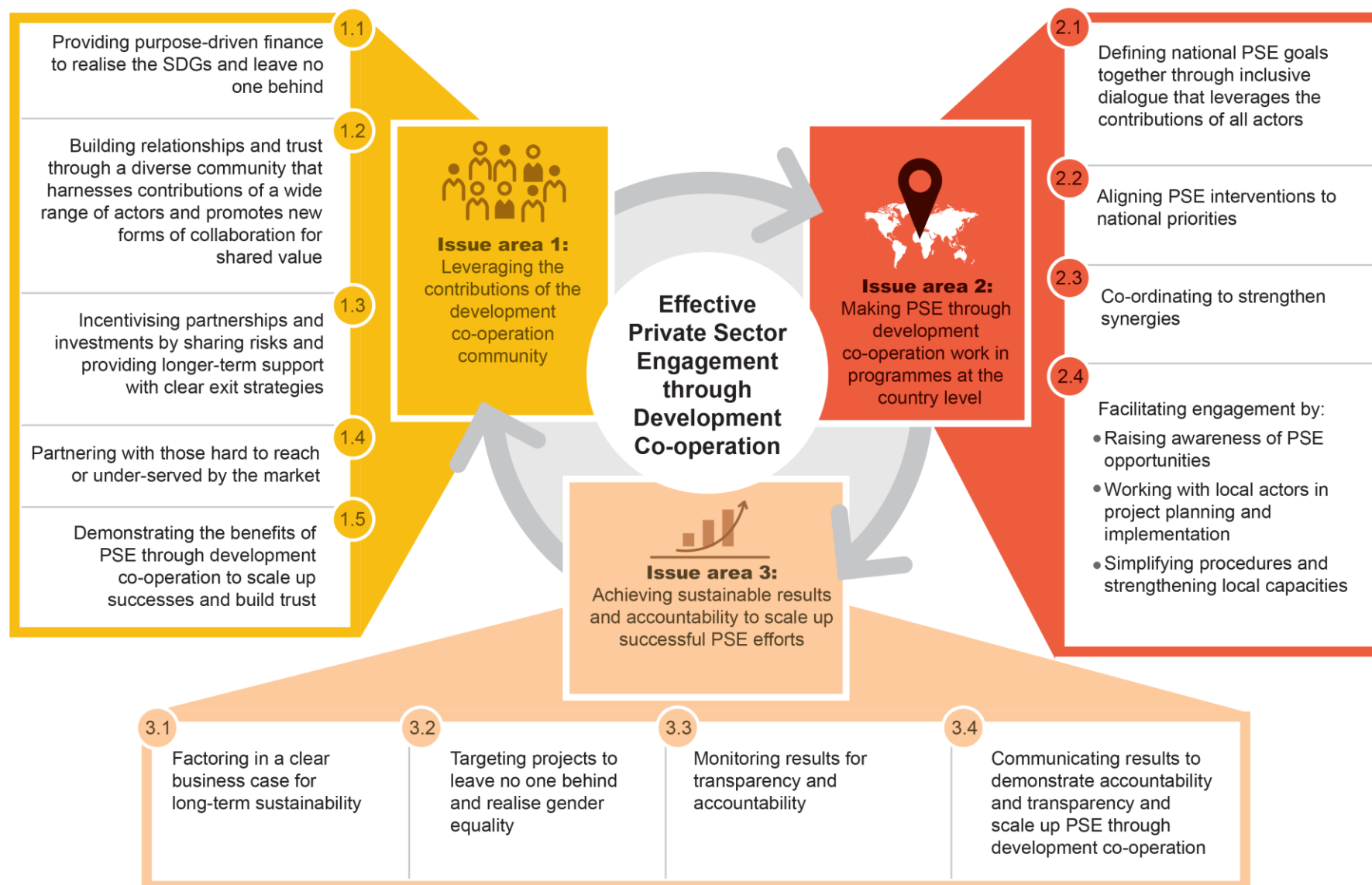
²³ Across the 919 projects examined, 19.6% included capacity development, 4.5% technical assistance, 2.6% research, 2.3% knowledge sharing and 2% policy dialogue.

²⁴ See <https://www.enterprise-development.org/>.

for Human Rights at the United Nations. It is understood throughout the following discussion of the issue areas that compliance with ESG standards²⁵ is a critical pre-requisite for effective PSE through development co-operation. While this paper does not deal with the content or form that ESG standards might take, it notes that high ESG standards should be a part of how PSE through development co-operation is deployed.

²⁵ Such as, the UN Guiding Principles on Business and Human Rights, International Labour Organization declarations and conventions, OECD Guidelines for Multinational Enterprises and OECD Due Diligence Guidelines.

Figure 4. Private Sector Engagement Through Development Co-operation: The Issue Areas

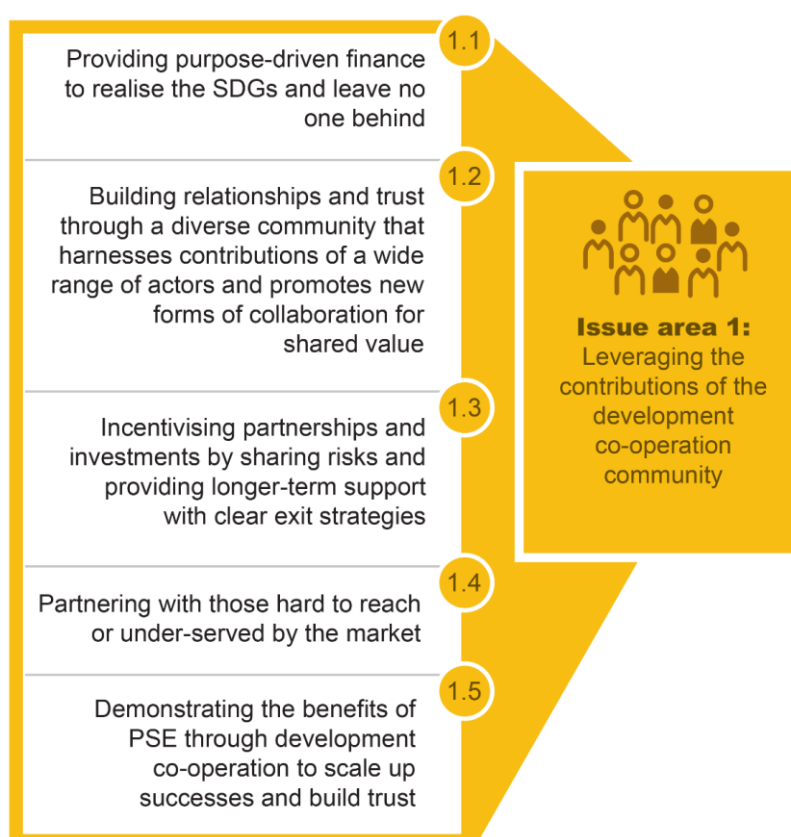


Issue area 1: Leveraging the contribution of the development co-operation community

Development finance is **purpose-driven**, geared towards attaining sustainable development and helping achieve the 2030 Agenda and the Sustainable Development Goals (SDGs). In this context, development finance can help ensure that PSE activities provide positive contributions from private sector actors. It has the potential to **build relationships and trust** within a diverse and large community of actors, active across sectors and regions, who are willing to jointly leverage resources and capacities to address challenges in ways that no single actor can alone.

Development finance provides unique incentives through risk sharing and the provision of **longer-term exit strategies** compared to other forms of finance, such as that provided by commercial lenders. The development co-operation community can **partner with those who are hard to reach or underserved by the market**, including by working with MSMEs. The development co-operation community has a role to play in **demonstrating the value of PSE through development co-operation** to those who have concerns and in mobilising support from taxpayers.

At the country level, development partners do not appear to adequately harness the respective strengths of development co-operation. Going forward, development partners should seek to build trust and incentives for effective partnerships and to demonstrate the value of PSE through development co-operation.



1.1. Providing purpose-driven finance to realise the SDGs and leave no one behind

Development co-operation is characterised by activities that explicitly aim to realise national and/or international sustainable development goals. It is purpose-driven in nature, aiming to **maximise welfare in terms of economic, social and environmental well-being**. The 2030 Agenda, including its focus on leaving no one behind, is the overarching framework that guides the development co-operation community's efforts. Even with the rise in more socially conscious forms of finance, development co-operation continues to play an important role in engaging the private sector through the provision of purpose-driven financing. However, the extent to which PSE through development co-operation projects explicitly target the SDGs and leaving no one behind is unclear. For example, 11% of projects reviewed specifically referred to rural, remote or underserved locations while 5% explicitly targeted poor or low-income people. Only 4% specifically referred to benefiting women.

Another unique characteristic of development co-operation pertains to how it is delivered. Development partners are expected to provide development co-operation **in accordance with high ESG standards** in all partnerships that they pursue, including with the private sector. In PSE through development co-operation, attention to such standards should be a pre-requisite when partnering with businesses and should inform how activities are carried out. When using taxpayers' money, the development community has a responsibility to ensure ESG standards as a minimum criterion for PSE through development co-operation. This translates into the use of appropriate mechanisms to assess risk on social, environmental, economic and governance levels and, for projects that are deemed acceptable based on this analysis, to mitigate and monitor risks.

In addition to working with responsible companies, efforts to align private finance and activities with the 2030 Agenda include identifying ways to **influence non-compliant companies to improve their performance** in terms of the environment, social impacts and governance. In this sense, development partners can both work with compliant companies and advocate for standards to expand the community of ESG-compliant companies.

1.2. Building relationships and trust through a diverse community that harnesses contributions of a wide range of actors and promotes new forms of collaboration for shared value

A strength of the development co-operation community is that it is **multilateral in nature** and includes a wide range of stakeholders, such as governments, parliamentarians, the private sector, international institutions, civil society organisations (CSOs) and trade unions. At the country level, **harnessing the contributions of this range of development actors** is an important role that development co-operation can play in the context of PSE. The value of development co-operation is realised when a range of actors address specific development challenges in ways that no individual organisation can address on its own.

In this spirit, the creation of shared value involves **new and heightened forms of collaboration**, drawing on advantages and skills across different segments of society, to realise the ambitions of the 2030 Agenda.²⁶ The development co-operation community is uniquely positioned to boost shared value creation in two key ways. First, it can harness the contributions of a wide range of actors. Second, PSE through development co-operation can be used to support efforts to build relationships and trust across sectors as a means to promote greater co-operation and the adoption of shared value approaches. In facilitating such relationships and partnerships, it is critical for development partners to be aware of the power dynamics within and across sectors as these can impact the ability of stakeholders to contribute effectively and, ultimately, the inclusivity and effectiveness of the partnerships that emerge.

The country case studies revealed **limited participation in PSE through development co-operation for a range of actors**. Of 919 projects evaluated, government was listed as a partner in 13% of the projects; CSOs were partners in 9% and business associations in 5%. Trade unions were not listed as partners in any of the projects examined. The review of projects supported by providers of South-South Co-operation in the four case study countries demonstrated that these providers tended to partner with local stakeholders more often: of the 54 projects supported by providers of South-South Co-operation, 13 included partner country governments and 6 included CSOs as partners.

Not all PSE through development co-operation projects should involve all development actors, nor is it desirable that they do – **more complicated partnership structures also come with their own challenges**. For example, experience from multi-stakeholder partnerships suggests that it can be difficult to ensure inclusivity, shared responsibilities and accountability if expectations and challenges are not clearly stated at the outset. Nevertheless, it could be explored whether scope exists for development partners to better engage with a wider range of domestic stakeholders in their PSE through development co-operation efforts. The inclusion of domestic stakeholders in projects promotes sustainability by ensuring wider ownership and buy-in at the country level and greater collaboration on shared priorities across sectors.

PSE through development co-operation can also be used to support efforts to **build relationships and trust across sectors** as a means of promoting greater PSE through development co-operation and the adoption of shared values.²⁷ Mistrust between different actors, such as government, development partners, private sector, civil society and beneficiaries, was identified as a major challenge across the four case study countries. In Uganda, rural communities were reluctant to join financial inclusion projects due to their lack of trust in the

²⁶ Reference Porter and Kramer, 2011

²⁷ This is relevant both in the context of planning cycles for finance-based PSE projects as well as other modalities of PSE through development co-operation such as policy dialogue and knowledge sharing.

banking system. In El Salvador, mistrust and friction between the private and public sectors, as well as between the private sector and civil society, hampered inclusive dialogue on PSE.

Experiences documented in the case studies point to the important role that development partners can play in bringing together stakeholders that may not have otherwise engaged with one another as a result of (historically) antagonistic relationships and limited trust. Development co-operation actors can support the creation of opportunities for public-private dialogue, including social dialogue, and for collaboration to contribute to building relationships and trust across sectors at the country level.

1.3 Incentivising partnerships and investments by sharing risks and providing long term support with clear exit strategies

A number of incentives exist to encourage the private sector to partner with the development co-operation community, including **access to finance, knowledge, global expertise and national and international networks**. Development co-operation has much to offer in de-risking partnerships and investments that deliver development results. In turn, the prospect of achieving such results represents the benefits for development partners that justify the use of public resources, and the provision of long-term support where it is not provided by others, to compensate for some of the financial risks that private service providers may face in targeting riskier customer groups or regions. At the same time, risks are inherent to business and there is a need to strike an ongoing balance and avoid taxpayers' money shouldering a disproportionate share of risk compared with the private partners. After all, public and private partners have a shared interest in achieving sustainable development.

The private sector and government in all four case study countries pointed to a lack of predictable, long-term financing and engagement by development partners. Of the 344 projects that provided full information on project duration across the four countries, 43% (147) had financing terms of 5 years and greater. Some actors also noted that there was insufficient attention to capacity development through partnerships. This is an important component of exit strategies and risk mitigation to ensure ongoing sustainability. In Egypt, it was noted that a medium-term financing horizon of three to five years still tended to be short for start-ups. Stakeholders in Bangladesh noted that partnerships with development partners did not always consider how the partner would access financing for the growth of the business at later stages.

Compared to what other stakeholders are prepared to provide, development finance has the potential advantage of shouldering and committing to higher risk and longer-term support. However, the provision of such support, with clear exit strategies rooted in partners' ongoing needs and capacities, is currently lacking. These findings suggest a need for development providers and private sector partners to **discuss and agree on investment plans and exit strategies as part of up-front partnership negotiations**.

1.4 Partnering with those hard to reach or underserved by the market

Development partners have more flexibility in choosing their partners and beneficiaries than other financial providers do. This is due to the different factors determining the development partners' cost-benefit analysis, which allow them to take on risks that other financiers, operating solely on a financial profit logic, would not. This flexibility is an important element of the role of development co-operation in de-risking private investment and partnerships. This higher risk tolerance – in theory – enables development partners to support partners that others are unable or unwilling to work with, particularly those that are underserved or not served in existing markets, such as MSMEs. In this context, development co-operation can be complementary to market finance and can, for example, promote innovations and investments that bring goods and services to underserved

locations or support the creation of products that benefit the poorest and most marginalised in the SDG spirit of leaving no one behind.²⁸

MSMEs play a critical role in the economies of partner countries, serving as the primary employer. They contribute to the leave no one behind agenda through the employment of significant portions of vulnerable segments of the population, such as women and youth.²⁹ In rural and underserved locations, MSMEs are sometimes the only source of employment and also contribute significantly to service delivery in health, education, sanitation and energy, filling gaps in public sector reach. Yet, as is well documented, **MSMEs tend to face significant challenges in terms of accessing affordable finance to support and grow their business.**

While 42% of the projects examined across the four country case studies specifically targeted MSMEs, often through on-lending mechanisms, interviewees and workshop participants argued that there was room for development partners to better engage with and reach a variety of MSMEs in their efforts. An advantage of development co-operation when compared with other forms of finance is its **greater flexibility in terms of the partnerships and investments supported.** An opportunity exists for development partners to partner with, engage and support a wider range of MSMEs at the country level to provide access to affordable finance, manage their debt burden and bolster their contributions to leaving no one behind.

1.5 Demonstrating the benefits of PSE through development co-operation to scale up successes and build trust

Mindful of the urgent need to scale up PSE through development co-operation to deliver on the 2030 Agenda, the development co-operation community can serve as an advocate for its effectiveness. Development partners and partner countries have a vested interest in replicating and scaling up success, not only to enhance development outcomes but also to encourage the private sector to further engage with development actors and take its own **positive action towards shared value.** However, awareness and evidence of successful partnerships between development partners and the private sector are scarce at the country (and global) level and limit the willingness of businesses to engage in new partnerships. There is a need for development partners to demonstrate that successful partnerships are possible and to showcase the impacts of PSE through development co-operation in terms of results for communities and businesses. Such efforts can also contribute to building trust across sectors by demonstrating accountability for impacts.

²⁸ Porter and Kramer (2011) highlights that there are three key ways through which companies can create shared value opportunities, which are: 1) by reconceiving products and markets; 2) by redefining productivity in the value chain; and 3) by enabling local cluster development.

²⁹ <http://www.un.org/en/events/smallbusinessday/>

Issue area 2: Making PSE through development co-operation work in programmes at the country level



At the country level, a range of overarching conditions repeatedly came up in the country case studies. There is a need for governments to lead in **establishing national goals** for PSE through development co-operation to support national development priorities and the SDGs. This should be done in an **inclusive manner** around which development partners can **align and co-ordinate their efforts**, clarify their roles and priorities, and strengthen synergies. This also points to the need for ongoing, inclusive public-private policy dialogue at country level, including social dialogue.

Development co-operation can play a **matchmaking and bridge-building role** in this regard. Development partners and partner countries can facilitate greater PSE by **raising awareness** among businesses of the specific opportunities and benefits, but also the distinct challenges of PSE through development co-operation at the country level. They can also **tailor engagement opportunities** to the needs and capacities of the private sector; and **respect differences** between various types of private sector partners, such as smaller versus larger companies.

2.1 Defining national PSE goals together through inclusive dialogue that leverages the contributions of all actors

The case studies highlighted the **need for a shared vision** for how the private sector can contribute to the SDGs and national development priorities in a specific country. A shared vision can offer avenues for partnerships to improve welfare and reach sustainable development objectives and set an overarching direction that private actors can work towards on their own. Importantly, the development of a shared vision can contribute to the reinforcement of minimum ESG standards, offer an opportunity for stakeholders to assess the risks of market distortions, and ensure that PSE through development co-operation is included in broader efforts to improve the business-enabling environment.

Private sector actors and others noted that overarching priorities were sometimes unclear, making it difficult for a range of actors to align their efforts. There may be scope for national governments, working with relevant stakeholders, to **identify overarching priorities** for how PSE through development co-operation can contribute to addressing national development priorities, including priorities for key sectors and populations, particularly to target those furthest behind. Determining priorities through inclusive public-private dialogue that includes a range of businesses, business associations, CSOs, trade unions and local communities, contributes to building trust across sectors and to identifying shared challenges and solutions. Social dialogue can also make an important contribution in this context.

While ensuring inclusivity and arriving at consensus can be a challenge, national priorities and the targets in the 2030 Agenda provide common overarching frameworks that stakeholders can use to arrive at a vision for PSE through development co-operation. Moreover, such discussions can highlight when and where PSE through development co-operation is a more appropriate response to sustainable development challenges than other solutions, such as public-private partnerships between national government and businesses and traditional public procurement. Where PSE partnerships make sense, a common vision can also indicate the potential benefits of PSE through development co-operation.

Companies consulted through the country case studies noted that the benefits of PSE through development co-operation remained unclear in terms of how they could benefit from adopting shared value business models and partnerships. While it is not the role of development partners or governments to show businesses how to make a profit, showcasing the concrete advantages and benefits that arise from partnerships, such as supporting the sustainability of business models and addressing the needs of local populations and businesses, can help raise awareness of, and interest in, opportunities for engagement by the private sector in support of the SDGs.

2.2. Aligning PSE interventions to national priorities

Very few of the PSE through development co-operation projects examined actually noted if and how they supported national priorities, the SDGs, leaving no one behind and realising gender equality. However, interviews showed that development partners tended to take national strategies into account.³⁰

It is unclear from the country studies how much development partners build on existing national PSE through development co-operation efforts. Once country-level PSE goals have been defined, there may be scope for a wide range of stakeholders – government institutions and development partners – to **strategically contribute and align their efforts around national priorities**. This may require an assessment of existing PSE through development co-operation portfolios to identify where they align with national priorities and the 2030 Agenda and, based on this assessment, the establishment of investments and partnerships that are strategically aligned to reinforce priorities and to fill gaps.

2.3 Co-ordinating to strengthen synergies

Understanding the roles that various actors beyond the private sector can and do play, and ensuring **effective co-ordination across sectors** is important for maximising the positive outcomes of PSE through development co-operation. The case studies highlighted a number of critical roles:

- The government is critical for initiating, accompanying and otherwise supporting PSE through development co-operation projects in light of business-enabling environment constraints and ongoing government initiatives that offer potential to harness synergies and scale efforts.
- Parliamentarians interact with the private sector, set priorities for PSE through development co-operation, establish legal and regulatory frameworks affecting the private sector, and have a role to play in ensuring accountability for PSE through development co-operation.
- CSOs are important implementing partners in PSE through development co-operation, and have the advantage of being closer to communities and able to articulate local needs. They also act as a watchdog on, and an advocate for, good corporate and development partner behaviour and accountability.
- Business associations are critical for organising the private sector, developing and advocating policy priorities, and providing support services to members.
- Trade unions, which were not listed as partners in any of the projects examined across the four country case studies, work to improve business-employee relations, represent employees' interests in social dialogue, and support the use of higher standards within companies. In these ways, trade unions

³⁰ It was beyond the scope of the research to systematically examine the extent to which development partners target their PSE to align with national priorities and specific sectoral policies, including national implementation of regional and global sustainable development agendas such as Agenda 2063 and the 2030 Agenda.

contribute to PSE through development co-operation efforts to identify priorities for shared value approaches in light of employee needs and concerns, and promote responsible business practices.

In practice, the contributions that various stakeholders can make to PSE engagement through development co-operation are not always clear. Some level of co-ordination is needed at the country level to clarify roles and promote synergies across efforts.

The case studies showed a need to look more closely at how to **co-ordinate different actors** engaged in PSE through development co-operation at a country level, in particular, the development partners. Although some co-ordination mechanisms exist among development partners, they do not necessarily focus on PSE through development co-operation and, where they do, they tend to serve more as an information-sharing mechanism than as an incentive to spur joint initiatives.

A lack of co-ordination can lead to the duplication of effort and missed opportunities for joint initiatives with the private sector. In some countries, larger, well-established companies tend to benefit more often from PSE opportunities, engaging separately with different development partners without any awareness or co-ordination among those development partners. Co-ordination across government is also a challenge.

Finally, co-ordination of the private sector was also highlighted as an issue. Business associations do not consistently have the capacity to organise members of the private sector, develop policy positions and advocate for the needs of the private sector in terms of PSE through development co-operation.

The creation of **country-level goals** for PSE through development co-operation provides an entry point around which a wide range of stakeholders can **identify their roles and align and co-ordinate their efforts**.

2.4 Facilitating engagement at country-level

The country case studies revealed that private sector partners are often **unaware of engagement opportunities through development co-operation**. There can be limited engagement with local actors, including impacted communities, in project planning and implementation. This undermines the extent to which projects cater to local needs and build on synergies with other ongoing work. The partnering process can be complex for the private sector to negotiate and opportunities are not catered to a range of private sector partners with different needs and capacities. In this context, development partners and partner country governments need to ensure that partnering procedures and institutional capacities exist to facilitate effective business engagement.

Experience in the four countries points to a specific role for business associations and existing dialogue and platforms to **share information on PSE through development co-operation opportunities** more widely and systematically. Stakeholders at the country level noted that, in addition to limited awareness of the overarching priorities and benefits of PSE through development co-operation, there is a lack of information and awareness of individual opportunities provided by government and, in particular, development partners. Development partners and the government have not made sufficient use of mechanisms to communicate opportunities and benefits to the private sector. This undermines transparency in opportunities. While not all actors, in particular the wide range of MSMEs that exist, can be fully informed, there is scope to better communicate available opportunities to a broader set of private sector actors.

Some stakeholders in the country case studies noted that governments and development partners did not adequately ensure inclusive consultation and sustainable contributions by local actors in preparing and implementing PSE through development co-operation projects. This included businesses, CSOs, trade unions and business associations.

In Bangladesh and Uganda, evidence confirmed that PSE through development co-operation projects were often **not catered to local needs**. In Uganda, members of the private sector highlighted the importance of a consultative approach in identifying priority areas for engagement to ensure that projects arising out of partnerships were sustainable in the long run and made a lasting difference. They pointed out that partnerships with predefined aims that did not take into account local context were bound to face challenges during implementation.

Limited consultation with local stakeholders has led to projects that are **unsuitable for the local context**, with limited ownership and buy-in. This includes projects that are intended to improve the lives of local stakeholders. It is also linked to limited opportunities to harness synergies arising from efforts across sectors. Local businesses, in particular MSMEs, do not feel engaged or valued for their expertise as true partners. Bigger companies with a track record of collaboration with development partners are often preferred.

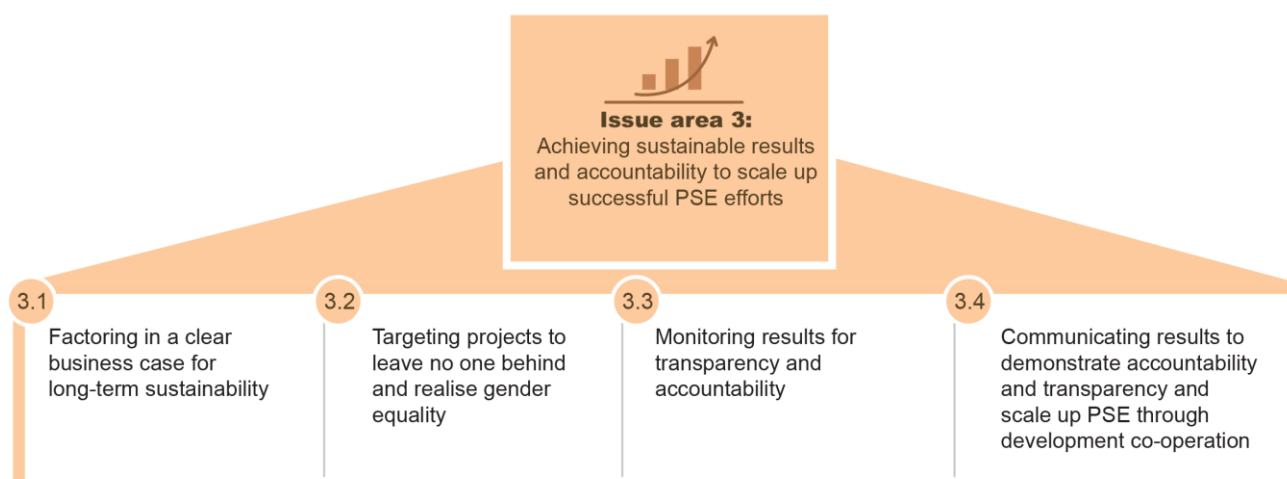
Ensuring that opportunities for PSE through development co-operation are accessible and needs based is an issue at the country level. Making opportunities for PSE through development co-operation accessible means that **all companies, regardless of their nationality, should be eligible to partner**. However, some development partners have established PSE mechanisms that restrict the companies that can benefit from partnership (OECD, 2016); this has raised concerns about tied aid (Meeks, 2018).

In addition to eligibility criteria and complex application and contracting processes, rigid rules on how and what type of support is provided can be a challenge. Private sector stakeholders in Bangladesh, Egypt and Uganda noted the need for development partners to **simplify their procedures** (e.g., application processes, contracting, tendering, procurement, etc.) to make partnerships more attractive. In Egypt, government and development partner procedures were seen as a major disincentive for the private sector to engage, particularly for smaller companies with less capacity and resources to devote to engagement.

Stakeholders in Bangladesh, Egypt and Uganda also noted that the type of support provided should be more in line with the needs of businesses. For example, there is often a need to combine financial modalities with capacity development and technical assistance to ensure the success of PSE through development co-operation projects. At the same time, efforts to simplify procedures must not compromise high ESG standards in terms of the delivery of development co-operation. Respect for human rights, the environment and good governance remain crucial for effective PSE through development co-operation that supports improved welfare and sustainable development.

In light of these challenges, **institutional capacity is critical** to engage the private sector. Interviewees in Bangladesh, Egypt and Uganda suggested that appropriate skills and capacities within government were important determinants of the success of PSE through development co-operation projects, particularly as they interface with the business-enabling environment. In El Salvador, interviewees pointed out that the government had very limited resources to invest in better and more effective PSE through development co-operation and lacked leadership and co-ordination capacity. The institutional capacity of development partners is also critical, including in terms of ensuring local ownership, long-term sustainability and effective partnering in the context of private sector projects (e.g. OECD, 2016).

Issue area 3: Achieving sustainable results and accountability to scale up successful PSE efforts



PSE through development co-operation should consistently be rooted in the ambition to generate development outcomes and business profits (**shared value**). This will ensure efforts in PSE projects are focused on realising sustainable development outcomes through profitable solutions. Alongside a clear development rationale, development partners should also ensure that the PSE projects they support are grounded in a clear business case for the private sector to **ensure success and long-term sustainability**.

In defining development results, there is a need to examine how and when to **target the most marginalised and those furthest behind** – actors in the informal sector, such as women and youth. **Gathering and communicating evidence** through cost-effective, nimble and balanced monitoring and evaluation that addresses development and commercial goals is needed to increase transparency and accountability on the use of public money, promote learning, build trust, demonstrate the value of PSE through development co-operation and scale up effective projects.

This issue area highlights the importance of monitoring and evaluation of projects to ensure transparency and accountability of results. However, it does not discuss what constitutes robust monitoring and evaluation at programme and project level, recognising that this is a topic for experts in the results, monitoring and evaluation communities to explore further going forward.

3.1 Factoring in a clear business case for long-term sustainability

Shared value is about the creation of profitable solutions to development challenges. As such, **the business case is integral to successful PSE through development co-operation**. In addition to realising development outcomes, profit generation ensures the long-term sustainability of activities and further incentivises the private sector to replicate and scale up success, both individually and in partnership with others.

Shared value promises a win for businesses, development partners and the people they aim to benefit. However, in Uganda, private sector partners noted that **development partners did not always sufficiently respect their business case when establishing partnerships**. While examples of shared value were showcased through a number of the projects examined, feedback from interviewees at the country level suggested that there is a need for development partners to take greater steps to ensure that the projects they support are grounded in the business case of private partners.

It is important to recognise that **not all development challenges require a private sector response where no business case exists or where other solutions can be more effective**. To maximise welfare and sustainable development outcomes, investment choices must be underpinned by consideration for efficiency, equity and innovation. Costs and benefits arising from private sector-inspired solutions are important. In some

cases, forms of PSE through development co-operation, such as public-private partnerships, can present more risks to the public sector than, for example, traditional procurement. Focusing on the business case also means assessing whether a market-based solution is the right answer to a development challenge or whether other forms of investment or development co-operation partnerships may be better suited to realising development results.

3.2 Targeting projects to leave no one behind and realise gender equality

The PSE through development co-operation projects analysed through the four country case studies indicate **limited targeting of beneficiaries**. Across the 919 projects examined, publicly available information showed that 11% of projects explicitly focused on rural communities, 4% on the poor and 5% on women. Moreover, where results data was available, it was rarely gender disaggregated.

While these findings do not mean that other PSE through development co-operation projects do not benefit those furthest behind, including women and girls, they do suggest that there may be a need for development partners to reconsider how their portfolios target specific groups and communities to leave no one behind when compared with other projects that have positive development outcomes but may not explicitly target those furthest behind. CSOs and partner country governments expressed concern that, without explicit targeting, **PSE through development co-operation projects often benefit those in society who are already relatively better off**.

There is a perceived lack of guidance on how development partners can strike a balance between specifically targeted interventions and other opportunities for PSE through development co-operation. Given the aim of the 2030 Agenda to leave no one behind and reduce inequalities, it is critical to identify how and when PSE through development co-operation can best contribute going forward.

3.3 Monitoring results for transparency and accountability

The formulation of **monitoring frameworks** that address, in a balanced way, commercial and developmental goals enables partners to assess their progress towards **realising shared value** and demonstrate results, transparency and accountability. Only 12% of PSE through development co-operation projects had a results framework. Project-specific information on monitoring and evaluation provisions was also limited. While more than half of the projects referred to monitoring frameworks, 39% were in the form of general institutional monitoring frameworks that were not project specific while 17% pointed to project-specific frameworks. Very few of the projects provided actual preliminary or final results, limiting transparency with respect to the partnership.

From the perspective of the private sector, stakeholders in Bangladesh noted the importance of **monitoring quantitative and qualitative outcomes** with development partners, more often favouring quantitative results. Private sector stakeholders in Egypt noted that one of the challenges with respect to engaging development partners was the variety of monitoring and evaluation requirements across partners.

Reporting periodicity is also an issue. While development partners usually monitor the implementation of projects every 6 to 12 months, many companies need to report results to their shareholders quarterly. Ensuring that monitoring provisions are not too burdensome on private partners on one hand, and that they meet the needs of all stakeholders and ensure transparency and accountability on the other, is an important consideration in this context.

These findings suggest there is **scope for partners to collaboratively develop appropriate mechanisms for monitoring results that improve transparency and accountability**, clearly outline responsibilities, and ensure that the burden of reporting does not hinder the ability to carry out project activities. Successful collaborations need to be data driven, linked to clearly defined outcomes, well connected to the goals of all stakeholders, and tracked with clear metrics (Porter and Kramer 2011).

3.4 Communicating results to demonstrate accountability and transparency and scale up PSE through development co-operation

The concept of accountability includes **communicating outcomes, both positive and negative**. Effective accountability systems should demonstrate how partners in PSE projects, including the private sector, are accountable for their actions and results, particularly in terms of contributing to maximising welfare and the 2030 Agenda. Development partners have an obligation to report on the use of public resources for PSE through development co-operation. This is important to justify expenditure, inform potential future investments and ensure transparency and accountability. Effective communication of results is also key to promoting greater PSE through development co-operation by scaling and replicating successes and demonstrating its value to the private sector.

Across the four country case studies, only 16% of the PSE through development co-operation projects reviewed provided information on actual results, while 38% showcased expected results.³¹ Communication of actual results demonstrates the value of the project, particularly to partners' respective constituencies – whether they be taxpayers, citizens, board members or consumers. Demonstrating accountability for results also offers reputational gains for partners that can ultimately lead to opportunities to benefit from further engagements. From the perspective of private sector stakeholders, the availability of information on projects and their results affects decision-making on whether to engage. Private sector stakeholders in Bangladesh called for examples of successful projects as a means to showcase the possibilities that arise from PSE through development co-operation.

³¹ The results reported vary, including completion of project activities and figures on number of beneficiaries reached, for example. Commercial results are not regularly communicated. However, given the competitive nature of private operations confidentiality is unsurprising in this regard.

The Way Forward

This paper presents three issue areas for improving the effectiveness of PSE through development co-operation based on evidence from four country studies, a literature review and country level consultations, and discussions with the PSE Working Group and the Business Leaders Caucus to date. It serves as basis for inclusive consultation and policy debate with a view to developing principles and guidelines for effective PSE through development co-operation.

A wide range of actors will be encouraged to discuss the issues, through an online survey and other consultations, including a Specialised Policy Dialogue on PSE on 16-17 January 2019 in Paris. Building on this and further consultations in 2019, a set of mutually agreed principles and guidelines will be developed for the next Senior Level Meeting of the Global Partnership in July 2019 (see Figures 3 and 4).

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Annex 1: Typology of private sector engagement modalities used by development partners³²

Modality	Objectives	Mechanisms
Research, knowledge and information sharing	<ul style="list-style-type: none"> Advance solutions by sharing new methods, tools and innovative approaches to address development challenges 	<ul style="list-style-type: none"> Multi-stakeholder networks Learning platforms Conferences, seminars, etc. Funding for research (specifically on private sector engagement in development co-operation)
Policy dialogue and support	<ul style="list-style-type: none"> Develop policy agendas and frameworks Change behaviour through corporate practices, standard setting, guidelines and principles 	<ul style="list-style-type: none"> Multi-stakeholder networks and platforms Cross-sector roundtables Specialised hubs or institutions Institutionalised dialogues
Technical assistance	<ul style="list-style-type: none"> Enable private sector actors to effectively engage in development co-operation, such as through support for project design 	<ul style="list-style-type: none"> Business advisory services Feasibility studies
Capacity development	<ul style="list-style-type: none"> Improve capacities of private sector actors to contribute to development results Change or modify business operations Improve private sector actors' operational capacities and effectiveness 	<ul style="list-style-type: none"> Training activities and other forms of capacity development programming Professional exchanges and secondments
Finance	<ul style="list-style-type: none"> Leverage or raise private sector finance and investment promotion Test innovation and scale success Monetise development results (e.g. output-based mechanisms) Support expansion of more and better business, including through the promotion of business-to-business partnerships, inclusive business, responsible business conduct and corporate social responsibility Harness private sector expertise and market-based solutions to development challenges 	<ul style="list-style-type: none"> Private sector instruments, including grants, debt instruments, mezzanine finance instruments, equity and shares in collective investment vehicles, guarantees and other unfunded liabilities Includes the range of instruments captured under innovative finance

³² Drawn from Peer Learning PS Table 4.1. See www.oecd.org/dac/peer-reviews/1-Holistic-Toolbox-for-Private-Sector-Engagement-in-Development-Co-operation.pdf.

Annex 2: Case study country findings

This annex provides an overview of the select aggregate findings across the four country case studies.³³ It includes information on partners in private sector engagement (PSE) projects through development co-operation, results and monitoring efforts. Executive summaries for each of the four case studies follow.

Partners in PSE projects through development co-operation

Out of 919 projects, government was listed as a partner 13% of the time. Civil society organisations were partners on 9% of projects, and business associations on 5%. Trade unions were not listed as partners in any of the projects examined. Table 1 shows that government was listed as a partner in a greater number of projects in Egypt and El Salvador³⁴ than in Bangladesh and Uganda.

Stakeholder	Bangladesh (240)	Egypt (277)	El Salvador (131)	Uganda (271)	All 4 countries (919)
Government	9%	18%	20%	10%	14%
Civil society	10%	9%	15%	6%	9%
Trade unions	0%	0%	0%	0%	0%
Business associations	1%	5%	9%	6%	5%

Monitoring results

Only 16% of the 919 projects provided information on actual results, while 38% provided information on expected results (Table 2). Despite the existence of monitoring frameworks applying to 56% of the projects examined, intermediate results were generally unavailable. The results presented (actual or expected) were often in the form of project outputs and development outcomes (though not necessarily impacts), and few projects included qualitative results alongside quantitative. Across the 919 PSE projects through development co-operation examined, publicly available information showed that 11% of projects explicitly focused on rural communities, 4% on the poor, and 5% on women. Moreover, where results data were available, they were rarely gender disaggregated.

Country	Monitoring			Results		
	Institutional	Project-specific	Total	Expected	Actual	Total
Bangladesh	53%	13%	66%	45%	13%	58%
Egypt	25%	31%	56%	43%	10%	53%
El Salvador	36%	14%	50%	28%	13%	41%
Uganda	44%	7%	51%	32%	26%	52%
All 4 countries	39%	17%	56%	38%	16%	52%

³³ All four case studies are accessible here: <http://www.oecd.org/dac/effectiveness/private-sector-engagement-through-development-co-operation.htm>

³⁴ This likely reflects that both governments provided a range of projects for consideration in the study.

Only 12% of projects included information on their results framework, which means that the articulation of an overarching theory of change for PSE projects was generally absent.³⁵ Some examples of robust results frameworks did emerge from the mapping, however. For example, results frameworks available for Asian Development Bank PSE projects in Bangladesh and those of the UK Department for International Development in Uganda included expected impacts, outcomes and outputs, matched with performance targets and indicators, and information on data sources and risks.

As noted above, 56% of projects referred to monitoring frameworks. However, 39% were in the form of overall institutional frameworks for project monitoring, with information on the monitoring of specific projects rarely provided. Only 17% of projects included project-specific information on monitoring. Monitoring was typically in the form of annual reporting by project proponents, and in more limited instances site visits. In this context, the monitoring of private sector adherence to good environmental, social and governance provisions was prominent, particularly for development finance institutions (DFIs).

1. Bangladesh

The first case study was undertaken to identify opportunities and challenges for PSE supported by development co-operation in Bangladesh. It generated unique country-specific evidence through a mapping of 240 PSE projects, a review of existing literature, interviews with various stakeholders, and a multi-stakeholder workshop held in February 2018.

Private investment is recognised as an important tool to reach development priorities in Bangladesh. The business community is vibrant and the government has proactively invested in public-private partnerships (PPPs) since the late 1990s. Public-private dialogue platforms also exist.

Micro-, small and medium-sized enterprises (MSMEs) play a crucial role in the country's economy. SMEs account for over 99% of industrial establishments and provide employment to 70-80% of workers outside the agricultural sector. Yet national business associations tend to be populated by larger companies with little representation from MSMEs.

Challenges persist in improving the business enabling environment, including through better regulatory frameworks, access to finance and infrastructure. The country also has high levels of informality in the private sector and does not have a legal framework for corporate social responsibility (CSR), despite the existence of a wide range of these activities supported by development partners.

The full report offers an in-depth review of the PSE projects in the country and a wide range of recommendations for development co-operation stakeholders.³⁶ Here, you will find the key findings and recommendations arising from this case study.

Bangladesh: Key findings

PSE mobilised through development co-operation in Bangladesh largely comes from Development Assistance Committee (DAC) donors (37%) and their implementing agencies. Based on a review of 240 PSE projects, DAC donors are followed by multilateral DFIs (33%) and bilateral DFIs (25%).

Activities supported by PSE projects tend to focus on private sector development. They include improving access to finance for SMEs; specific sector, technology or research related interventions on agriculture; and financing company operations, including expansion activities and upgrades.

³⁵ 34% of projects included information on institutional approaches to results framework.

³⁶ www.oecd.org/dac/effectiveness/Bangladesh_Country_Report_FINAL.pdf

Finance, in particular debt financing, is the main modality of focus of PSE projects. It underpins 71% of the projects examined, with debt financing supporting 42% of projects overall. Other non-financial modalities of PSE, including policy dialogue, knowledge sharing, capacity development and research, are equally important and require further attention.

SMEs are important beneficiaries of PSE projects in Bangladesh. They receive support in terms of access to finance, capacity development, value chain development and efforts to improve environmental, social and governance standards. However, SMEs need additional support to engage in business associations and opportunities for public-private dialogue. They also require special attention in terms of awareness of opportunities in development co-operation.

A limited number of the examined PSE projects (12%) explicitly target the poor or people living in underserved or rural locations, and only 4% explicitly target women. While other examined projects may still benefit those left behind and women, these findings suggest that PSE projects do not sufficiently purposefully target the most marginalised. There is an opportunity for the government and development partners to make greater use of PSE through development co-operation to address social challenges.

There is limited information in terms of results and evaluations of individual PSE projects. Therefore, it is not possible based on the project mapping to make an assessment of the key development results and factors for promoting successful PSE projects. Likewise, the absence of information on private sector contributions makes it impossible to provide full figures on the total size of public or private contributions for the PSE projects.

Bangladesh: Key recommendations

All actors could:

- ✓ **Allocate greater resources to capacity development for PSE** including through programmes that sensitise stakeholders on the opportunities for PSE through development co-operation and build the necessary skills to access resources and establish and maintain partnerships.
- ✓ **Allocate part of PSE financing to quantitative and qualitative monitoring and evaluation**, making them obligatory, while considering the reporting burden to be carried by the development partners, notably implementing agencies and in particular SMEs.
- ✓ **Collect evidence on the impact of different modalities of PSE through development co-operation** on people left furthest behind, SMEs and scalability. Compile best practices and resources on PSE in Bangladesh to promote greater understanding of PSE and examples others can replicate.
- ✓ **Make publicly available basic information on PSE projects.** This includes information on project duration, monitoring, results frameworks, results and evaluations.

The national government could:

- ✓ **Promote greater awareness and country ownership of the Sustainable Development Goals (SDGs) through more structured public-private dialogue** that engages all relevant actors for mutual learning and to drive meaningful partnership action that engages the business sector more systematically, including SMEs.
- ✓ **Establish a national CEO Caucus on PSE through development co-operation** to provide momentum on SDG implementation, including through the promotion of best practices and results-based efforts by the private sector and development partners that support the SDGs and work to leave no one behind. This should build on existing efforts of the Prime Minister's Office and include representatives from SMEs.

- ✓ **In consultation with stakeholders, develop national legal and policy frameworks to promote PSE**, including national guidelines for PSE and a legal framework for CSR that clearly defines CSR and articulates expectations for businesses, government institutions, development partners and other stakeholders with reference to supporting CSR.

The national parliament could:

- ✓ **Establish a non-partisan caucus on PSE**, taking advantage of the existing composition of MPs which includes a majority of members with experience from the private sector.

Development partners could:

- ✓ **Invest more in capacity development for government, civil society, trade unions, parliamentarians and others to participate in PSE** and to ensure sustainability and availability of necessary skills and resources to scale successes.
- ✓ **Provide awareness raising and capacity support for stakeholders to engage in PSE** and on broader enabling environment issues.
- ✓ **Work in a more systematic manner with the government** to fully align efforts and support them in providing an enabling, well-regulated business environment and championing private partners.
- ✓ **Act as interlocutors to foster multi-stakeholder partnerships across sectors** building on their capacity to finance and convene development co-operation actors. This role requires building capacity in terms of knowing the local context and key players that can contribute through PSE.

The private sector could:

- ✓ **Comply with national and international standards to ensure that business operations minimise negative impacts on people and the environment**, and where possible, maximise benefits.
- ✓ **Strengthen the organisational capacity of private sector coordination bodies** for effective engagement with local and national governments, development partners and other stakeholders.

2. Egypt

The second case study was undertaken to identify opportunities and challenges for PSE supported by development co-operation in Egypt. It generated unique country-specific evidence based on a mapping of 277 PSE projects, a review of existing literature, interviews with various stakeholders, and a multi-stakeholder workshop held in August 2018.

The government recognises the vital role of the private sector in realising national development priorities and the SDGs. The government has carried out a reform programme since 2015 aimed at improving the business enabling environment. PPPs remain an important element for future engagement.

The majority of businesses in Egypt (91%) are micro enterprises. They account for 58% of the labour force and tend to have limited capacity and operate informally. Micro, small and medium-sized enterprises (MSMEs) receive support through a dedicated government agency that provides financial and non-financial assistance, focusing in particular on remote locations. MSMEs face the challenge of effectively engaging in public-private dialogue.

While the reform programme has contributed to an improved business enabling environment, further efforts are needed, including allocating sufficient resources to ensure successful implementation of the reform

programme, establishing a regulatory framework to promote CSR, and improving social dialogue mechanisms for labour-management relations.

The full report offers an in-depth review of the PSE projects in the country and a wide range of recommendations for development co-operation stakeholders.³⁷ Here, you will find the key findings and recommendations arising from this case study.

Egypt: Key findings

PSE through development co-operation largely comes from multilateral DFIs (52.7%). Of the 84 development partners examined, multilateral DFIs are followed by DAC donors (23.5%) and bilateral DFIs (15.5%).

The main sectors of focus across the PSE projects include finance, energy, manufacturing and agriculture, with activities tending to focus on improving access to finance for MSMEs; construction of new facilities in the energy and manufacturing sectors; and support for expansion of existing business operations in manufacturing and agriculture.

Finance represents the most common modality of PSE, with 90.8% of projects including financing. Capacity development was the next most prominent modality of engagement at 15.4% (42 projects), followed by technical assistance at 9.2% (25 projects).

MSMEs receive support in terms of access to finance and capacity development from development partners largely through intermediaries. In addition to programmes aimed at benefiting MSMEs, the MSME Development Agency coordinates national MSME development policies and provides direct MSME support. Further support is needed to ensure MSME coordination and engagement on issues of relevance to national sustainable development.

A limited number of the examined PSE projects (13.4%) explicitly target rural, remote or underserved locations. Only 4.3% explicitly of them target women. While other examined projects may still benefit those left behind and women, these findings suggest that the PSE portfolios of development partners do not sufficiently purposefully target the most marginalised.

There is limited information in terms of results and evaluations of individual PSE projects. Therefore, it is not possible based on the project mapping to make an assessment of the key development results and factors for promoting successful PSE projects. Likewise, the absence of information on private sector contributions makes it impossible to provide full figures on the total size of public or private contributions for the PSE projects.

Egypt: Key recommendations

All actors could:

- ✓ **Make publicly available basic information on PSE projects.** This includes information on project duration, monitoring, results frameworks, results and evaluations.
- ✓ **Allocate part of PSE financing to monitoring and evaluation,** making them obligatory, with a special emphasis on the development outcomes from PSE. They could also work towards more robust reporting on the sustainable development impacts of PSE.

³⁷ www.oecd.org/dac/effectiveness/PSE-case-study-Egypt.pdf

- ✓ **Engage in opportunities for public-private dialogue on PSE and the SDGs**, recognising the importance of such opportunities for building relationships, establishing trust, identifying shared priorities and providing the basis for partnerships.
- ✓ **Showcase successes and best practice in PSE** as a means to further promote PSE and demonstrate its value.

The national government could:

- ✓ **Spearhead a policy process to promote greater PSE through development co-operation and beyond.** The process should clearly lay out objectives of PSE, benefits to all relevant stakeholders, opportunities for engagement and conditions of engagement (such as monitoring, evaluation and results reporting). Establishing priorities and a long term agenda for PPPs, and taking a stronger role in the promotion of CSR as a core business practice, are also needed. Finally, the government could **formulate a strategy at the central level to encourage private investments in remote areas.**
- ✓ **Establish institutionalised mechanisms for public-private dialogue** that include a wide range of stakeholders and are grounded in a recognition of the capacity constraints particular stakeholders have to engagement, notably MSMEs.
- ✓ **Continue to support MSMEs in remote locations**, working in partnership with local partners including non-governmental organisations.
- ✓ **Develop clear lines of accountability with all stakeholders for project performance** when participating in PSE projects.

Development partners could:

- ✓ **Invest more in capacity development** for government, civil society, trade unions, business associations and others to participate in PSE.
- ✓ **Establish coordination over issues around PSE** to fill gaps in existing approaches to PSE.
- ✓ **Broker partnerships across sectors recognising the important role of development partners as interlocutors and neutral convenors.** Such efforts should include a focus on brokering inclusive multi-stakeholder partnerships with a range of stakeholders where appropriate.
- ✓ **Streamline and simplify procedures to make partnerships with the private sector more attractive.** Give special consideration to the constraints faced by MSMEs to ensure they are able to access opportunities for financing and risk mitigation.
- ✓ **Ensure a balanced distribution of PSE portfolios, supporting not only large companies but also small enterprises and firms located in underserved regions.** Development partners can play a role in identifying the most marginalised people in the communities which companies are interested in supporting. Development partners can also provide business support to MSMEs that work in remote areas.

The private sector could:

- ✓ **Articulate where support by development partners and the government is most needed** and identify specific opportunities for engagement across sectors.

- ✓ **Take efforts to involve local communities and civil society organisations in designing and implementing projects** to increase their sense of ownership and improve the sustainability and impact of projects.
- ✓ **Engage in CSR initiatives that explicitly target the SDGs**, working in partnership with others, helping to make CSR and corporate citizenship part of core business practices.
- ✓ **Comply with national and international standards** to ensure that business operations minimise negative impacts on people and the environment, and where possible, maximise benefits.

Civil society actors could:

- ✓ **Put greater emphasis on ensuring that multinational companies in Egypt adhere to standards.**

3. Uganda

The third case study was undertaken to identify opportunities and challenges for PSE through development co-operation in Uganda. It generated unique country-specific evidence through a mapping of 271 PSE projects, a review of existing literature, interviews with various stakeholders, and a multi-stakeholder workshop held in September 2018.

The Government of Uganda sees the private sector as playing a key role in realising its second National Development Plan and achieving the SDGs. The domestic private sector is fairly young, with the majority of businesses (90%) being MSMEs operating in the informal sector.

The government has developed a National Private Sector Development Strategy to improve the business enabling environment. It is supporting MSMEs through an MSME policy that includes a range of activities such as enhanced business support, access to finance, and technical and business skills. MSMEs are less well represented by business associations and lack a common forum to effectively engage in policy dialogue. A PPP scheme also exists. The government is prioritising PPPs in infrastructure and energy under the second National Development Plan.

Despite having a historically stable macroeconomic environment and sustained high levels of growth, the country is experiencing the lowest growth rate in over two decades at 4.5% annual average since 2012. Challenges in the business enabling environment include access to electricity, informality, the cost of finance and infrastructure, land acquisition and reform, and cumbersome procedures to start and run a business.

Shared value approaches are nascent in Uganda. Overall, firms, large and small, have yet to adopt strategies for social impact that focus on inclusive business practices and partnerships across sectors to realise development and commercial outcomes.

The full report offers an in-depth review of the PSE projects in the country and a wide range of recommendations for development co-operation stakeholders.³⁸ Here, you will find the key findings and recommendations arising from this case study.

³⁸www.oecd.org/dac/effectiveness/Private-Sector-Engagement-through-Development-Co-operation-in-Uganda.pdf

Uganda: Key findings

PSE mobilised through development co-operation in Uganda is largely provided by DAC donors (34%) and their implementing agencies. Bilateral DFIs represented 29% of the 271 PSE projects examined, while multilateral DFIs represented 22%.

The main sectors supported by PSE projects include finance, energy and agriculture, with activities aimed at improving access to finance for MSMEs; constructing new facilities in the energy sector and renewable energy provision; and capacity development in agriculture.

For 78% of the projects examined, private sector partners were recipients of finance (28.7% of projects included debt finance). Large domestic private sector actors were the most prominent partners (57%). Domestic small and medium-sized enterprises accounted for 16%.

While the domestic private sector is well represented in PSE projects, there is a lack of information on PSE opportunities from government and development partners. Participation by other local stakeholder in PSE projects is limited. The use of multi-stakeholder partnerships to address development challenges is not common.

Very few PSE projects target the leave no one behind agenda. Only 12% of projects explicitly target rural, remote or underserved locations. Nearly 4% of projects target poor or vulnerable people, while only 1.5% explicitly target women. These findings suggest that PSE projects do not sufficiently purposefully target the most marginalised.

Over half (51%) of the PSE projects have some monitoring system in place, and results frameworks are available for the majority of projects. However, **information could be made more readily available on intermediate and actual results.** Actual results were provided for 25.8% of examined projects. Only 8.5% of the projects provided information on the results of evaluations.

The private sector is represented on Uganda's SDG National Task Force by the Private Sector Foundation Uganda and engaged in some SDG related projects. Nevertheless, there is a need to raise further awareness of the SDGs across stakeholders in Uganda, including and beyond the private sector, to make clear the business opportunities presented by the SDGs.

Uganda: Key recommendations

All actors could:

- ✓ **Allocate greater resources to capacity development for PSE for local stakeholders in the private sector and beyond,** including through programmes that sensitise stakeholders on the opportunities for PSE through development co-operation and build the necessary skills to access resources and establish and maintain partnerships.
- ✓ **Allocate part of PSE financing to monitoring and evaluation,** making them obligatory, with a special emphasis on the development outcomes from PSE.
- ✓ **Collect evidence and report on the impact of different modalities of PSE through development co-operation** on people left furthest behind, MSMEs and scalability.
- ✓ **Engage in opportunities for public-private dialogue on PSE and the SDGs,** recognising the importance of such opportunities for building relationships, establishing trust, identifying shared priorities and providing the basis for partnerships. Public-private dialogues should be problem focused with opportunities for discussions focusing on particular sectors.

The national government could:

- ✓ **Strengthen national legal and policy frameworks to promote PSE** through an inclusive consultation process that leads to the creation of a national policy framework for PSE in development co-operation and beyond, and clearly lays out objectives of PSE, benefits to different stakeholders (notably the private sector), government roles and responsibilities, opportunities for engagement and conditions of engagement (such as monitoring, evaluation and results reporting).
- ✓ **Identify and pursue ways to better leverage domestic resources to participate in opportunities presented by PSE through development co-operation.**
- ✓ **Prioritise implementation of the MSME policy** ensuring that initiatives and programmes are backed by sufficient resources, including by working in partnership with development partners.
- ✓ **Invest in the poorest and most marginalised neighbourhoods** to crowd in the private sector, which can provide goods and services.

Development partners could:

- ✓ **Support government institutions to implement existing policies aimed at improving the enabling environment and establishing PPPs, and to establish leadership on PSE.**
- ✓ **Support business associations to better organise MSMEs and present their common position** in policy discussions.
- ✓ **Streamline and simplify procedures to make partnerships with the private sector more attractive.** Special consideration should also be given to the constraints faced by MSMEs to ensure they are able to access opportunities.
- ✓ **Mitigate financial risks and minimise the costs for the private sector to engage in activities that leave no one behind.**
- ✓ **Support greater partnerships between the private sector and civil society** that aim to address the needs of the poorest and most marginalised.

The private sector could:

- ✓ **Take advantage of the range of PSE modalities available**, including technical expertise and knowledge transfer, recognising the value of PSE modalities beyond finance.
- ✓ With the support of business associations, **identify further key opportunities and challenges to PSE through development co-operation**, including through structured dialogue with development partners, the government and other stakeholders.
- ✓ **Engage in CSR initiatives that explicitly target the SDGs**, working in partnership with others.

4. El Salvador

The fourth case study was undertaken to identify opportunities and challenges for PSE through development co-operation in El Salvador. It generated unique country-specific evidence through a mapping of 131 PSE projects, a review of existing literature, interviews with various stakeholders, and a multi-stakeholder workshop held in October 2018.

El Salvador's Five-Year Development Plan (2014-2019) emphasises the private sector's role as an "engine of productive development" and a source of alternative resources. Successive governments have committed to strengthening private business in El Salvador. Low levels of growth have contributed to high levels of poverty, though the country has seen progress in reducing inequality. El Salvador also faces challenges pertaining to a potential decline in remittances and reducing violence, which is estimated to cost the country 16% of its gross domestic product per year.

Legal reforms to establish provisions for the use of **PPPs** have not been without controversy and concerns by civil society over the privatisation of social services. Despite its modern legislation enacted in 2013, El Salvador has not been able to establish a PPP project.

MSMEs represent the majority of the private sector in El Salvador, operating largely in the informal sector. **Business associations have a high level of political influence; however, there are currently no sustained formal public-private dialogue mechanisms.** The public and the private sector regularly disagree on public priorities and investments.

CSR is widespread in El Salvador, but **sustainability of core business practices is uncommon.**

There is a need to develop more meaningful social dialogue in the country, and the relationship between civil society and the business sector requires further strengthening. Civil society could play a stronger role in holding the private sector accountable for public resources it uses.

The full report offers an in-depth review of the PSE projects in the country and a wide range of recommendations for development co-operation stakeholders.³⁹ Here, you will find the key findings and recommendations arising from this case study.

El Salvador: Key findings

PSE mobilised through development co-operation in El Salvador comes largely from multilateral DFIs (41%). Multilateral DFIs are followed by DAC members at 28% of the 131 projects, and South-South co-operation partners at 9%.

Finance (40%) and agriculture (11%) are the main sectors of focus in the examined PSE projects. These sectors of focus do not align with overall official development assistance flows to El Salvador, nearly half of which were allocated to social infrastructure (education, 25%) and other social infrastructure (28%) on average over 2015-2016.

Finance was the most common modality of PSE, with 77% (or 101) of projects including finance. Seventy-three projects (56%) were identified as blended finance projects. Capacity development was the next most prominent modality, featured in 28% (or 36) of projects.

MSMEs, and micro enterprises in particular, have limited access to public-private dialogue and PSE project opportunities. MSMEs receive support in terms of access to finance and capacity development from development partners largely through intermediaries.

The relationship between the government and the private sector is often polarised and depends in part on the political affiliation of the party in power, which negatively impacts channels for dialogue and mutual trust. As a result, government ownership and convening power with the private sector is limited. **Even though the government is aware of the important role of the private sector, it currently makes limited resources**

³⁹ www.oecd.org/dac/effectiveness/estudio-de-caso-El-Salvador.pdf (in Spanish)

available to invest in better and more effective PSE. The same is true, to a lesser extent, for development partners.

A limited number of the examined PSE projects (18%) explicitly target rural or underserved locations or markets. An additional 2% explicitly targeted poor or low-income people. Only 8% explicitly target women. These findings suggest that PSE projects do not sufficiently purposefully target the most marginalised.

Information on results, monitoring and evaluations for specific projects is limited. Roughly 14% of projects provide information on project-level monitoring systems in place and only 5% of projects have project-specific results frameworks in place. While 13% of projects provide actual results, roughly 7% of projects have evaluations available.

To date, the private sector has little involvement on the SDGs. A key challenge is socialising the private sector on the economic benefits of supporting the SDGs, and clarifying expectations and incentives among government, development partners, civil society and the private sector on how to work together to reach them.

El Salvador: Key recommendations

All actors could:

- ✓ **Focus on the poorest and most marginalised** as active partners in the economic system, with equal rights, rather than as labour objects or receivers of subsidies.
- ✓ **Make publicly available basic information on PSE projects.** This includes information on project duration, monitoring, results frameworks, results and evaluations.
- ✓ **Engage in opportunities for public-private dialogue on PSE and the SDGs,** recognising the importance of such opportunities for building relationships, establishing trust, identifying shared priorities and providing the basis for partnerships. Showcasing best practice and successes can also help to further promote PSE through development co-operation.

The national government could:

- ✓ **Strengthen a national policy framework around PSE in development co-operation in line with the existing legal framework** that lays out PSE objectives, benefits to different actors (notably the private sector), government roles and responsibilities, engagement opportunities and conditions (such as monitoring and results reporting).
- ✓ **Work with private sector champions to show how to move beyond CSR to creating shared value and placing sustainability at the centre of business practices.**
- ✓ **Offer incentives for the private sector to tackle development challenges for the poorest and most marginalised** such as through the use of tax and financial schemes.
- ✓ **Develop clear lines of accountability with all stakeholders for project performance** when participating in PSE projects.

Development partners could:

- ✓ **Improve coordination on PSE** with a focus on engaging the government around its national priorities and filling gaps in existing approaches to PSE through development co-operation.
- ✓ **Invest more in capacity development** for local stakeholders to participate in PSE.

- ✓ **Broker partnerships across sectors.** Such efforts should include fostering dedicated engagement and dialogue between the private sector, government and other actors.
- ✓ **Proactively support MSMEs to engage in public-private dialogue.**
- ✓ Explore ways to **harmonise and streamline PSE monitoring and evaluation processes** with other development partners to reduce the reporting burden on private partners.

The private sector could:

- ✓ **Articulate where support by development partners and the government is most needed** and identify opportunities for engagement across sectors.
- ✓ **Engage civil society** as strategic allies to develop sustainable business practices.
- ✓ **Work with trade unions** to promote and advocate for shared value approaches and inclusive and sustainable business models.
- ✓ **Develop and showcase business models that move beyond CSR to inclusive and sustainable business models that support the SDGs**, working in partnership with others to realise shared value.
- ✓ **Identify champions and good practices** of sustainability in business and contributions to SDG achievement to show the way, for a broader base of companies, in the transition towards shared value approaches that benefit business and society.

Civil society could:

- ✓ Find concrete and pragmatic ways to **leverage existing contacts and relationships with the private sector**, especially at the local level, in order to **make the case vis-à-vis the private sector that engagement around the SDGs makes business sense**.
- ✓ **Strengthen harmonisation and coordination** across different civil society organisations in order to boost the capacity for assuming a strong watchdog role in PSE.