The North-South Institute

Policy Brief

February 2013

By Shannon Kindornay

Trade-Related Private Sector Partnerships: Understanding the Models

Aid for Trade seeks to help developing countries build supply-side capacity and address trade-related infrastructure constraints to better benefit from trade. It is one of the largest areas of development cooperation programming, totalling US $40 billion in commitments in 2009 (OECD 2011, 15).

An important component of Aid for Trade is support for private firms in developing countries to establish and access international markets for their products. Increasingly, this means incorporating sustainability into their business operations to meet emerging demands for sustainably produced products in international markets.

This policy brief identifies five models of trade-related private sector partnerships for development and examines the roles that different partners play across these models.

It includes recommendations on the amenability of each of the models to replication and scaling up.

Donors are increasingly concerned with harnessing the private sector in their development programming (Kindornay and Reilly-King 2013). In trade-related development interventions, a strategy donors are adopting is partnerships with international importers, manufacturers and retailers from developed countries who source from developing country suppliers.

Private sector actors are also playing a heightened role in their own right as funders and business partners in development projects. Many are fast becoming leaders in the field of sustainable development. A number of initiatives that involve governments, private sector actors and non-profits have emerged, driven by a desire to secure the supply of key commodities, such as soy, cotton, cocoa and coffee, while also supporting development and environmental outcomes.

The North-South Institute examined 30 cases of trade-related private sector partnership for development. The research, supported by the Canadian International Development Agency and the Trade Facilitation Office of Canada, focused on projects involving the sale of products from developing countries in developed country markets (Kindornay and Higgins with Olender 2013). We identified five models of trade-related private sector partnerships. This policy brief explains these models and the roles that different partners play. It concludes by identifying the implications for donors seeking to replicate and scale-up trade-related private sector partnerships.

Identifying the Models

We established a clear set of criteria for project inclusion in the research. Projects had to have at least one development intermediary (non-governmental organization, bilateral donor, or international finance institute), buyer (usually an importer in a developed country) and seller (exporter from a developing country). The buying and selling components were key for project inclusion. This is because the research looked at projects that "make business sense" for the private sector actor (buyer), which in theory means they should continue once the development project ends.

Many companies are moving beyond altruistic approaches to engaging in development and are increasingly seeing their longevity as tied to minimizing negative environmental and societal impacts across business operations. By investing in these types of projects, buyers can implement responsible practices along their supply chains.

The business case for engagement is increasingly becoming a bigger factor than good corporate citizenship. Supply chains invariably connect developed countries to developing countries. Therefore, ensuring the longevity of a business necessitates investing in its supply chain and downstream players to ensure the continuity of supply and innovation, guarantee ethical standards and minimize negative impacts and risk management.

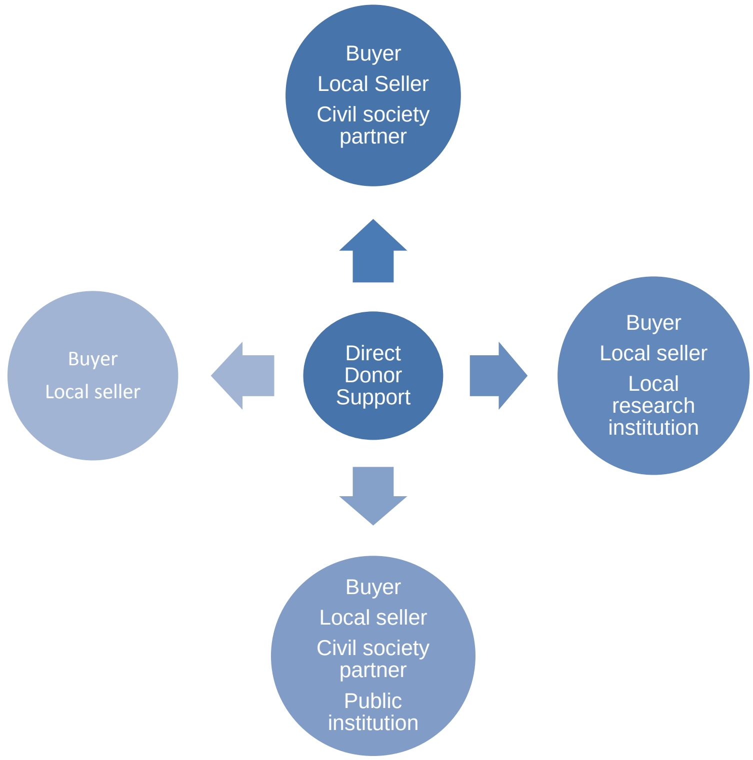
Through this research, we identified five partnership models: donor-led; coalition; company-led; NGO-business alliance; and NGO-led.

Donor-led Model

The donor-led partnership model refers to projects that are the result of bilateral donor initiatives aimed at establishing private-public partnerships (Figure 1). In most cases donors have a specific program or fund directed at leveraging private sector funds and/or innovations in development interventions. Examples include the United Kingdom's Food Retail Industry Challenge Fund (FRICH) and Germany's DeveloPPP.de program. The projects are generally carried out by private sector and other implementing partners; the donor essentially provides partial funding for the initiative. For example, FRICH is supporting Bettys & Taylors of Harrogate to create a reliable supply of tea by introducing a business model that guarantees high-quality tea, contributes to improved social and economic outcomes for producers, and leads to better environmental outcomes.

A key goal of these programs is to leverage private sector funds, expertise, and in some cases, promote innovative private sector solutions which generally have a high level of risk but whose success could mean substantial positive development outcomes and in turn, further up-scaling. Here the donor takes on part of the risk. While these funding mechanisms vary by donors in terms of their criteria for partnership, funding requirements, expected development outcomes and timelines, what links them is that they fall under a donor program of some kind. These programs do not target trade-related private sector partnerships specifically but rather private-public partnerships that have positive commercial and development outcomes more generally.

Figure 1: Donor-led Projects



Source: Adapted from Laiggard Schneider (2012)

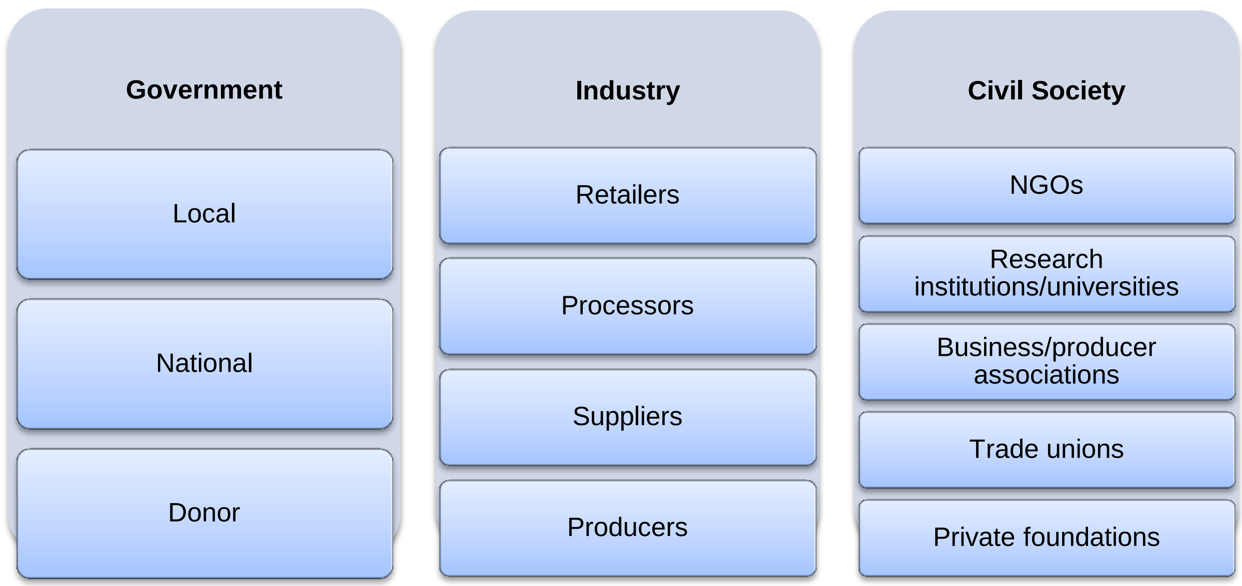
Coalition Model

The coalition partnership model refers to multi-stakeholder initiatives that often include developing country governments, donors, private sector actors from developed and developing countries, civil society organizations, research institutions and private sector associations (Figure 2).

Coalitions tend to target improvements along the entire value chain or at key levels (such as producer level) to enhance development outcomes and improve the environmental impact of business transactions. For example, the World Cocoa Foundation works with industry leaders, civil society organizations, governments and donors to promote a sustainable cocoa economy globally by encouraging responsible cocoa farming. This not only secures supply of quality cocoa, but also helps raise farmers' incomes.

Coalitions often make use of certification systems as a key indicator of change. Initiatives tend to be governed by multi-stakeholder structures, such as steering committees, which work to create and improve industry standards or certification schemes, and decide on strategic directions for programming. These initiatives are funded by contributions from the private and the public sectors under terms that aim to leverage significant private funds. One indicator of success (and sustainability) for these initiatives is increasing private sector funding contributions and/or decreasing reliance on public funding.

Figure 2: Coalition Model Projects

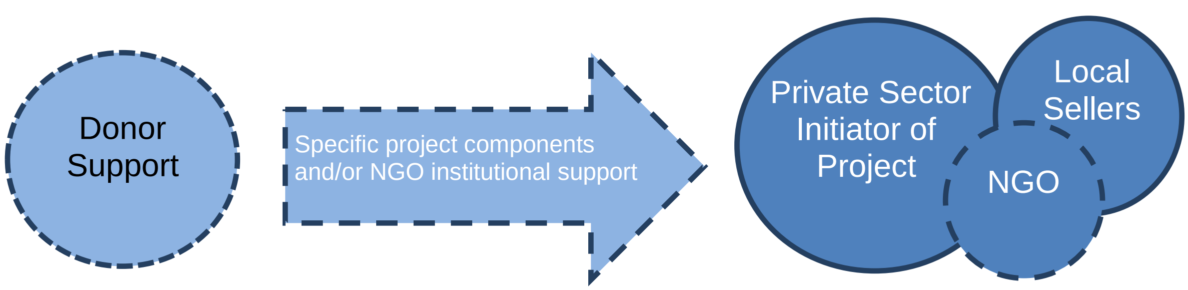


Characteristics: Value Chain Approach, Public and Private Funding, Shared Project Implementation, Multi-Stakeholder Governance and Industry Standard Setting

Company-led Model

The company-led partnership model includes partnerships and projects initiated by the private sector (Figure 3). These initiatives generally include NGO development intermediaries as implementing partners. For example, Tim Hortons' Coffee Partnership works with NGOs in Latin America to enable smallholder farmers to produce more and better quality coffee, leading to improved incomes. While foundations and donors have supported various components of the projects, donors enter the projects at different times. Projects do not necessarily have their roots in a donor initiative.

Figure 3: Company-led Projects



Business-NGO Alliance Model

The business-NGO alliance partnership model refers to cases where the private sector and NGOs partner development projects. In these cases, the NGOs may receive support for various components of the project from a bilateral donor. However the donor is not a primary motivator of the project per se. Rather, donors enter the initiative to support certain components once it has been established or provide core support to the NGO (Figure 4). CARE Bangladesh's partnership with the German clothing retailer, KikTextilien, serves as one example. The partnership aims to benefit women artisans in marginalized regions in Bangladesh by providing them with employment opportunities. The women produce products for sale in KikTextilien stores.

NGO-led Model

The NGO-led partnership model refers to NGO initiatives that lead to the creation of a viable social enterprise or for-profit company which either purchases exports from developing countries to sell in developed countries or purchases goods to export to developed countries from producers in developing countries (Figure 5). Through this research, a number of examples of the latter approach were identified, but they were not included in the study because they lacked an international buyer from the onset of the project. In the former case, only one example was found – Ten Thousand Villages – which was originally a project of the Mennonite Central Committee (MCC). It is now its own entity in the US but continues as a project of MCC in Canada.

Figure 4: Business-NGO Alliance Projects

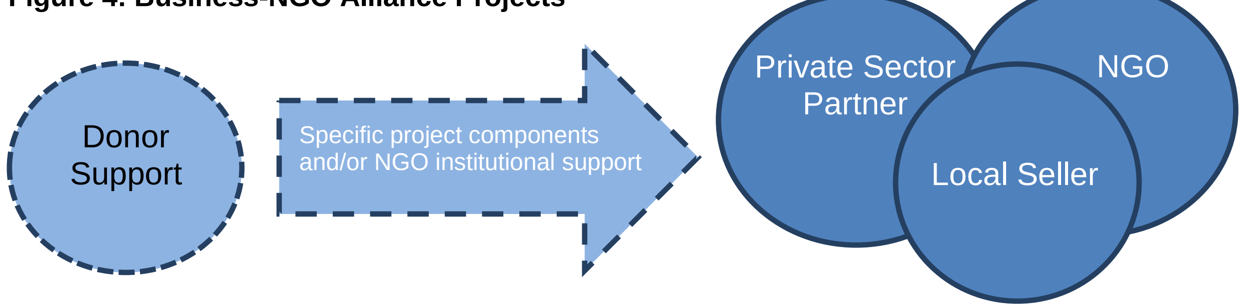
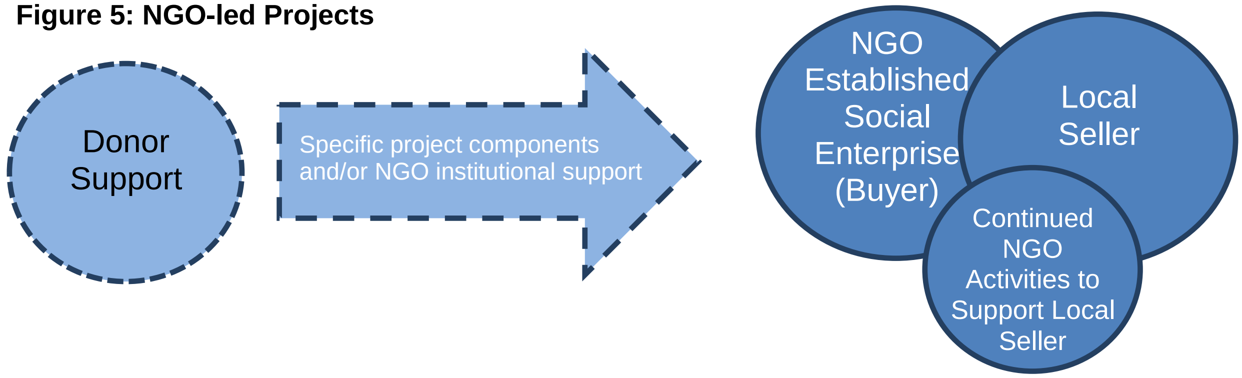


Figure 5: NGO-led Projects

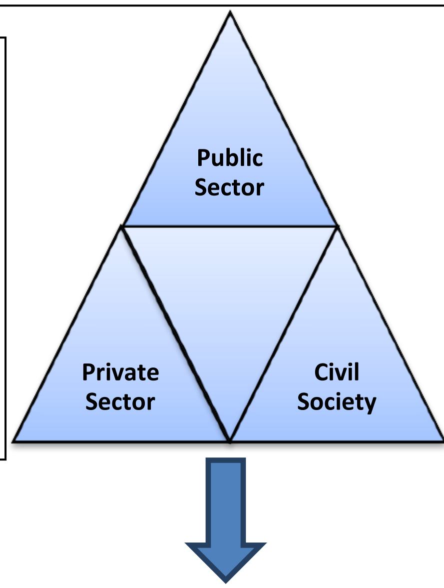


Hybrid Partnership Models of Sustainable Development

In nearly all instances, regardless of the partnership model involved, the projects examined represent a "hybrid" development model. This can be defined as bringing together public sector, private sector and civil society partners to support sustainable development (Figure 6). Sustainable development is fundamentally about recognizing the interconnections between economic development, social development and environmental protection. Poverty reduction is one goal among many. In the models that were identified, the role of each partner (civil society, private sector and public sector) varies.

Figure 6: Hybrid Model of Trade-Related Private Sector Partnerships

Public Sector Contributions:
- Direct funding for partnerships / project components
- Indirect funding through core contributions to civil society implementing partners
- Development expertise, knowledge sharing
- Facilitates networking opportunities and establishment of partnerships
- Participation in governance and standard setting mechanisms



Private Sector Contributions:
- Project funding and implementation partners
- Advocacy and promotion of industry standards
- Commercial expertise, knowledge sharing
- Facilitates market development and networking opportunities for local partners
- Participation in governing and standard setting mechanisms

Civil Society Contributions:
- Project funding and implementation partners
- Advocacy, human rights defenders, watchdogs
- Development expertise, knowledge sharing
- Facilitates community involvement
- Participation in governing and standard setting mechanisms

Sustainable Development

Economic development including improving productive capacity, incomes and livelihood opportunities

Social development including support for community initiatives, education, health care and gender equality

Environmental protection including reduced use of agricultural inputs (fertilizer, pesticides, water) and conservation efforts

Role of Partners across the Models

Across the models, the role of the private sector partners varies and includes funders, buyers, and implementing partners. Private sector partners bring important financial and human resources to partnerships. Their capacities and expertise can serve as an important complement to those of development intermediaries.

Donors also play a number of roles across partnership models. In addition to project support, donors such as the UK and Sweden offer advisory support. They also contribute expertise and promote knowledge sharing. For example, the Bill and Melinda Gates Foundation, which funds work by the World Cocoa Foundation, has created a platform for knowledge sharing. In the coalition and donor-led models, donors serve as a neutral convener and facilitator of partnerships. Bilateral donors have also played an important role in facilitating private sector partnerships through their support for supply-side and match making initiatives, including trade fairs. Donors' capacities and expertise can serve as an important complement to private sector partners.

Multi-stakeholder partnerships illuminate the different roles that partners play, as well as demonstrate the value that can come from such partnerships. They facilitate the exchange of different types of knowledge and inputs because they bring a wide variety of actors to the table. For example, initiatives under the Sustainable Trade Initiative benefit from inputs from the private sector, civil society and government partners. But multi-stakeholder partnerships also require building trust and shared understandings between participants who often come from different backgrounds. Processes of project co-creation, shared implementation and shared project management are important for developing trust and shared understanding.

Scalability and Replicability Potential of the Models

The public sector has a key role to play in scaling up and replicating innovative initiatives that have already demonstrated success. As donors look toward partnerships with the private sector, how amenable are the five models to replication and scaling up?

Projects that fit under the donor-led model have the potential to be replicated and, depending on their success, could be scaled up. This is largely because the purpose of these projects is to test innovative approaches to business relationships that have a positive impact on development. FRICH-funded projects, such as the Bettys & Taylors of Harrogate project for example, are supported by relatively small grants (approximately £200,000). If they are successful, the commercial and development outcomes should lead private sector partners to consider expansion of activities and provide a model for other interventions.

Coalition projects, by their very nature, are less conducive to replication, because they already seek to cover key stakeholders across a whole value chain. They are, however, highly conducive to scaling up. Given that coalitions are already in place for key agricultural commodities, donors interested in engaging in these sectors would be well placed to provide additional support to them, rather than seek to replicate existing work. Such initiatives can be an excellent vehicle for donors to invest in a large number of smallholders in rural areas without high transaction costs. Initiatives such as the World Cocoa Foundation's Cocoa Livelihoods Program are in the process of being scaled up through the creation of match-funding schemes, where donors match private contributions.

The company-led, business-NGO alliances and NGO-led models tend to be ad hoc in nature.

They can and most likely will be replicated in the future by private sector actors concerned with securing a sustainable supply of key inputs and/or being good corporate citizens. As aid budgets stagnate, it is also likely that NGOs will continue to seek partnerships with the private sector to meet their mandates in new and innovative ways.

This policy brief is based on a report by Shannon Kindornay and Kate Higgins with Michael Olender, Models for Trade-Related Private Sector Partnership for Development. *The full report is available at www.nsi-ins.ca.*

References

Kindornay, Shannon and Kate Higgins with Michael Olender. *Models for Trade-Related Private Sector Partnerships for Development.* Ottawa: NSI, 2013.

Kindornay, Shannon and Fraser Reilly-King. *Investing in the Business of Development.* Ottawa: NSI and Canadian Council for International Cooperation, 2013.

Laiggard Schneider, Janne. "Development Rationale for Private Sector Engagement." Presentation at *Private Sector Partnerships in International Trade Development Projects* Symposium, Department of Foreign Affairs and International Trade (Canada), Ottawa, Canada, 14-15 November, 2012.

OECD (Organisation for Economic Co-operation and Development). *Aid for Trade at a Glance 2011: Showing Results.* Paris: OECD, 2011.