

How to Engage the Private Sector for Development

Engagements with the private sector for development have become a hot topic in international development policymaking circles. Members of the development community see the private sector as a key source of finance, expertise and innovation, which can be harnessed to achieve sustainable development results. As such, they are engaging the private sector through a number of monetary and non-monetary modalities.

This policy brief identifies types of private sector engagements for development. It presents findings from a systematic review of over 100 development cooperation actors' policies on the private sector, including multilateral and bilateral development agencies, development finance institutions (DFIs), international non-governmental organizations (INGOs) and development oriented-think tanks. It illustrates how development cooperation actors engage the private sector for development and suggests possibilities for further involvement.

This policy brief is part of on-going research at The North-South Institute – Investing in the Business of Development – that looks at the increasing role of the private sector in development. The brief presents findings from a longer report, *Mapping Private Sector Engagement in Development Cooperation* by the same authors. The report and the brief serve as useful sources of information for policymakers concerned with gaining a better understanding of different forms of private sector engagement for development in current and future programming.

Modalities of Private Sector Engagement

Moving beyond contractual partnerships to include monetary and non-monetary modalities, researchers identified six ways of engaging the private sector— policy dialogue, knowledge sharing, technical cooperation, capacity building, grants/donations, and finance. Based on a review of development cooperation actors' policies between February and April 2013, researchers classified and examined the roles of the private sector across the six modalities. This policy brief defines and presents each type, followed by an illustration of the extent to which different development cooperation actors are making use of each modality.

Policy dialogue

Policy dialogues are discussions among stakeholders that aim to bring about or encourage specific changes in policy or behaviour, or adopt best practices and standards. Multi-stakeholder policy dialogues are increasingly emerging to address development challenges, improve corporate practices and set industry standards. They intend to find common ground across sectors and create agendas where all parties' interests are represented in policy formulation.

The mechanisms for policy dialogue across development cooperation actors vary in their degree of formalization and institutionalization. For example, formal relations between the Organisation for Economic Co-operation and Development (OECD) and representatives of business and industry are conducted through the Business and Industry Advisory Committee to the OECD, which contributes to most areas of the OECD's work through policy dialogue and consultations. In addition to policy dialogues between individual United Nations (UN) agencies and the private sector, which are a prominent form of UN engagement, the UN Global Compact and the Business Call to Action initiatives are institutionalized policy dialogue fora. Australia supports policy dialogues with the private sector to inform its development work.

Knowledge sharing

Knowledge sharing entails interactions aimed at exchanging experiences and best practices among organizations and firms. This differs from policy dialogue in that, though such exchanges may lead to new policies or behavioural changes, their goal is learning-oriented. They are not specifically geared at changing the policies of individual actors or developing shared policy frameworks, though this does not preclude other modalities from being informed by knowledge exchanges.

Most, though not all, types of development cooperation actors feature knowledge sharing as a form of engagement with the private sector. Existing networks and knowledge institutions, many of which are supported by bilateral donors, such as Australia, the United Kingdom, Switzerland and Sweden, are increasingly generating and sharing ideas and know-how on the roles of the private sector in development. Think tanks – for which knowledge sharing is the most prominent form of their private sector engagement – are producing research and policy-relevant findings focused on informing public sector decision making and peer-learning processes.

Technical cooperation

Technical cooperation is mostly provided in the context of development finance or grants. It is assistance or expertise provided to facilitate the design or implementation of a specific project or to assist an actor in carrying out a specific function. The principal development cooperation actors participating in this modality include international financial institutions (IFIs), bilateral donors, and, to a lesser extent, DFIs.

Technical cooperation aims to enable private sector actors to effectively engage in development cooperation or improve operational capacities and effectiveness. Bilateral donors provide technical cooperation themselves or provide funding for partners to purchase consultancy services for project preparation, including feasibility studies and implementation and evaluation activities.

Capacity development

Capacity development activities – including assistance, knowledge and training – aim to enhance individual and/or organizational learning and develop the abilities of actors to perform functions, solve problems, and achieve objectives. The primary development

cooperation actors engaging in this modality are UN agencies.

In addition to capacity development activities for small and medium-sized enterprises, the UN focuses on improving the capacities of private sector actors to change or modify core business operations to be more development-friendly. Examples of this include the Joint UN Programme on HIV/AIDS – International Labour Organization initiative aimed at improving HIV prevention, treatment, care, and support services for workers. The Office of the High Commissioner for Human Rights has also begun a work stream aimed at enabling firms to implement human rights principles into their business operations.

Grants and donations

Grants and donations – transfers made in cash, goods, or services for which no repayment is required – do not necessarily imply institutionalized partnerships. In many instances, they are provided to support a specific project that reflects some area of shared interest between organizations and firms.

UN agencies, INGOs, and think tanks are the main beneficiaries of donations from the private sector. The bulk of UN agencies receive donations from the private sector, though some, such as the International Fund for Agricultural Development, provide grants to the private sector. Donations to INGOs, which make up the bulk of their engagement with the private sector, tend to be project specific. Think tanks receive institutional funding from private sector sources, as well as funding for specific research work.

Grants are provided largely by bilateral donors, typically on a 50% co-financing basis.

Many donors explicitly target core business operations as well as private sector expertise and innovation in their partnerships.

Finance

DFIs and IFIs are the main providers of finance – transfers for which payment is required – to the private sector. This includes leveraging private finance and promoting private sector investment through the provision of finance in the form of loans, private equity, guarantees, and infrastructure funds.

Bilateral donors are also engaging in finance. While they have traditionally worked with other governments and INGOs, mechanisms for direct financing from bilateral development agencies to private sector actors are emerging. For example, Denmark, France, Finland, and Sweden offer concessional credits and loans.

Illustrating Private Sector Engagement

Researchers used a simple coding method to graph the ways that each type of development cooperation actor uses to engage the private sector (see Table 1 for sample size). The following figure presents the findings from the data collected. It shows the percentage of development cooperation actors engaging in each modality. For example, 100 per cent of IFIs examined provide finance to the private sector, while less than 60 per cent engage in technical cooperation.

Table 1. Sample of development cooperation actors¹

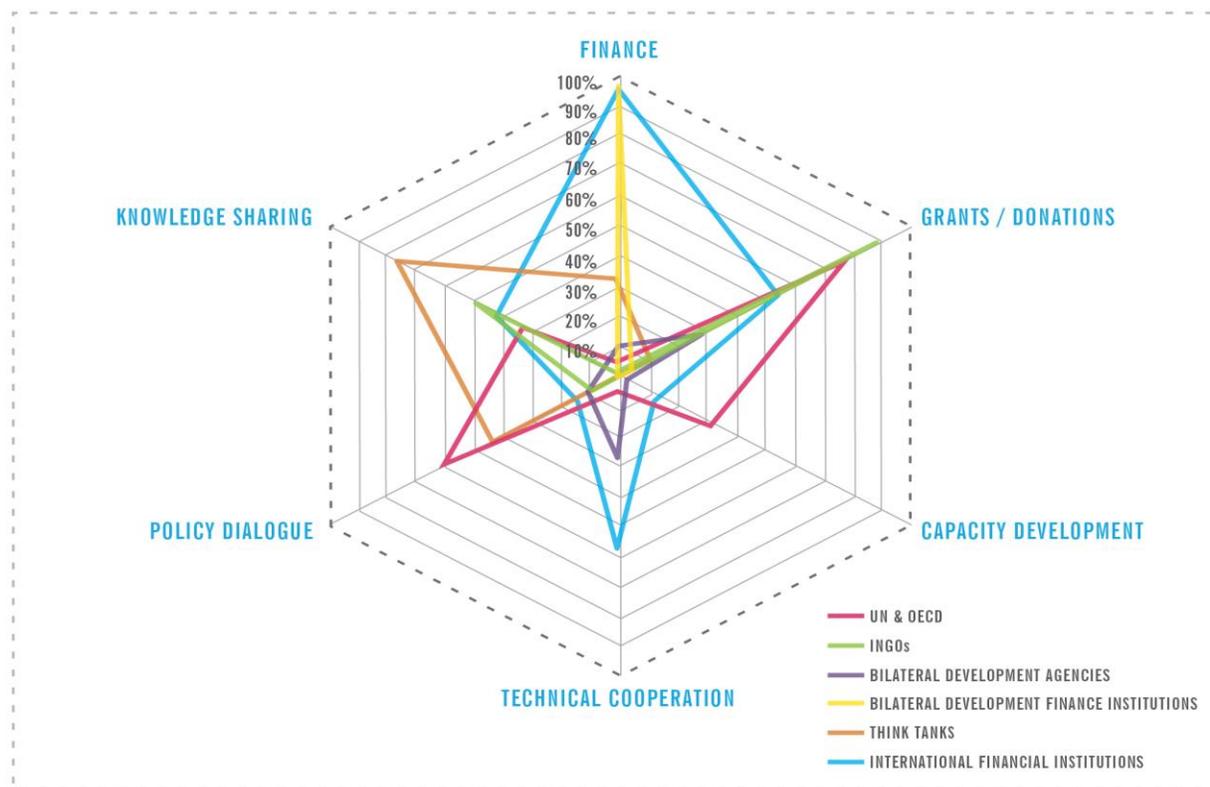
Development cooperation actor	Examined
IFIs	5
UN and OECD	27
Bilateral donors and the European Commission	16
DFIs	19
INGOs	12
Think tanks	11
TOTAL	90

The mapping exercise shows that development cooperation actors are engaging the private sector across different modalities to varying degrees, depending on their mandate and function. DFIs and IFIs, not surprisingly, engage mostly in finance. The UN engages predominantly with the private sector through policy dialogue and receiving donations. Bilateral donor engagement

focuses on the provision of grants and technical assistance. For INGOs, donations from the private sector are the primary modality, followed by knowledge sharing. The prevalence of knowledge sharing as the primary modality for think tanks is not surprising given their mandate and activities in development.

Overall, the findings show that across all development cooperation actors there is a low level of engagement in knowledge sharing, capacity development, and technical cooperation. While financial resources are key to advancing development goals and programs, strategic efforts to share knowledge and technical expertise might present new opportunities to shape business models and influence core strategies of private sector actors. At the same time, development cooperation actors can learn from the private sector.

Figure 1. Development cooperation actors' engagement with the private sector



¹See “Methodology” and “Annex 2” in *Mapping Private Sector Engagement in Development Cooperation* for a full review of how development cooperation actors were selected and a complete listing of organizations. Available at www.nsi-ins.ca.