

PRIVATE SECTOR PEER LEARNING POLICY BRIEF 1

The Holistic Toolbox for Private Sector Engagement in Development Co-operation

KEY MESSAGES

- Grounded in overarching development co-operation objectives, a holistic approach to private sector engagement makes use of modalities including knowledge and information sharing, policy dialogue, technical assistance, capacity development and finance, harnesses synergies and linkages between modalities and includes a wide range of partners.
- Good practice when establishing a toolbox for private sector engagement includes ensuring that mechanisms are available to support inclusive multi-stakeholder initiatives as well as individual partnerships, use of centralised and decentralised engagement mechanisms, integration of responsible business conduct into private sector engagements as an objective of specific initiatives and a criterion for partnership, and working with other Development Assistance Committee members and multilaterally where possible to harmonise efforts, reduce duplication, share risk and realise scale.

INTRODUCTION

Members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC) make use of a wide range of modalities for private sector engagement in development co-operation. In addition to the provision of finance, they work with partner countries to, among other things, create an enabling environment for private investment, engage in dialogue with companies on responsible business conduct, provide technical assistance for project feasibility studies and business advisory services, and support capacity development in the private sector.

The DAC peer learning review on working with and through the private sector offered an opportunity to reflect on what a holistic toolbox for private sector engagement might include. For DAC members, it provided insight into key considerations for establishing a portfolio of private sector engagement opportunities.

LESSONS

Consider the development result

Private sector engagement is a means to an end. Development objectives and desired results, in particular the realisation of the Sustainable Development Goals, should thus underpin private sector engagement portfolios. Engagement mechanisms should be aligned to overall development co-operation priorities in terms of themes, sectors and countries of focus. Also, the decision to partner with the private sector should be rooted in a theory of change that establishes whether and how the private sector is best placed to help realise specific development results.

Moreover, how private sector engagement occurs should be informed by good development practice. Principles for effective development co-operation should thus be integrated into private sector engagement strategies and mechanisms to ensure country ownership, alignment, harmonisation, value



for money, transparency and accountability, and establish inclusive partnerships. Importantly, private sector engagements must do no harm and work to maximise positive development results. As such, engagements should be informed by clear criteria for partnership that consider responsible business conduct, due diligence procedures and consideration of economic, social and environmental impacts and risks.

Consider the roles for different partners

A holistic toolbox for private sector engagement considers the roles of various development actors and, depending on overall objectives, identifies appropriate entry points for each actor.

Partner countries

Partner country governments facilitate the overall enabling environment for private sector engagement in country. There is a need to ensure that they are included in country-level private sector engagement activities, particularly in terms of providing perspective and direction on activities. This approach is critical for ownership and local buy-in, possibilities for systemic change and scale-up, and supporting country-level capacity to engage with the private sector.

DAC members

DAC members provide finance, expertise and access to local networks, act as facilitators of multi-stakeholder initiatives, and promote responsible business conduct. They also have legitimacy and credibility in development co-operation that make them desirable partners for the private sector and others. When engaging the private sector, DAC members should rely on their comparative advantages and be clear about what the public sector offers. A focus on cross-cutting issues such as gender, human rights, the environment and anti-corruption is part of the value added that government (and implementing partners) brings to partnerships with the private sector.

Private sector

The opportunities for private sector engagement differ according to the results sought in development co-operation and the capacities of different private sector partners. Moreover, the needs of small and medium-sized enterprises differ from those of multinational companies, as do those of companies

domiciled in partner countries from foreign companies. Offering a range of mechanisms that recognise the different capacities and needs of private sector actors is an important way to facilitate engagement with a diverse range of partners.

In addition to companies, the peer learning review revealed that there is a range of opportunities for engaging chambers of commerce and business associations in policy dialogue to promote private sector engagement opportunities with member companies and through direct partnerships in order to, for instance, support the establishment of similar organisations in partner countries.

Other development partners

Private foundations are working with DAC members to support multi-stakeholder initiatives, test innovations and scale successful market-based approaches to realising development results.

Universities and research institutions – knowledge partners – conduct research and develop innovations that can be taken to market or used to inform private sector engagement activities. Moreover, they carrying out research on effective partnerships, assess the impacts of private sector engagements, and can contribute to improved transparency and accountability in engagements.

Civil society organisations (CSOs) bring value to private sector engagements as representatives of specific communities or issue areas, watchdogs, experts and implementing partners. DAC members are supporting multi-stakeholder initiatives with CSOs, including policy dialogue and partnerships, allocating funding to CSOs to implement projects in partnership with companies and provide capacity development to local businesses, including local co-operatives and small and medium-sized enterprises, and providing support for CSOs to carry out their watchdog function and hold the private sector and government to account. CSOs are also active in the field of social business and entrepreneurship. The peer learning review revealed the importance of respecting the role of CSOs and ensuring that there is space in terms of policy dialogue and funding to facilitate CSO engagement in addressing complex development challenges alongside government and the private sector.

Finally, multilateral organisations and development finance institutions leverage private sector finance, implement projects, and facilitate multi-stakeholder policy dialogue and standard-setting initiatives.

THE TOOLBOX

Figure 1 provides an overview of a holistic toolbox for private sector engagement. The extent to which the components outlined below will feature in DAC members' approaches will vary depending on overall development objectives, the range of government institutions involved in private sector engagement in development co-operation and their mandates, and context-specific factors in DAC member and partner countries.

The toolbox is situated within the context of enabling environments for private sector engagement at the global and national levels. As DAC members pursue private sector engagements, continued attention to enabling environment conditions should be part of their strategies. Where sound business-enabling environments exist, there is less need for government support to the private sector.

The toolbox also includes reference to different partners that support private sector engagements and provides examples of the types of mechanisms that could be used in the establishment of an inclusive approach.

Key considerations

There are a number of key considerations that inform the private sector engagement toolbox.

Multi-stakeholder initiatives and individual partnerships

There should be opportunities for multi-stakeholder partnerships that address complex issues and support systemic change as well as for individual partnerships with different types of companies that address local challenges and leverage private sector innovations, market-based solutions and finance.

Synergies and linkages

Synergies and linkages between mechanisms in the toolbox are important. In this context, DAC members should consider how support for policy dialogue, for instance, can be linked to concrete initiatives.

Responsible business conduct

Responsible business conduct is a cross-cutting theme in the private sector engagement toolbox.

The holistic toolbox includes elements that promote responsible business conduct, such as through policy dialogue and standard-setting initiatives, capacity development activities aimed at improving business practices, and support to watchdogs such as CSOs and trade unions to hold the private sector and government to account. Responsible business conduct can also be included as a criterion for partnership by stipulating that companies must have environmental, social and governance standards and pay taxes when operating abroad.

Centralisation of engagement mechanisms

The question of how centralised or decentralised the private sector engagement toolbox is also matters. There are benefits to providing staff in partner countries with the space and capacity to establish and facilitate private sector engagement mechanisms at the country level. Grounded in local context and networks, this approach can facilitate alignment and country ownership and allow for greater flexibility and range in terms of mechanisms offered, as well as engagement with like-minded DAC members and other stakeholders in country. Some forms of private sector engagement require a centralised approach and headquarter leadership, such as global initiatives aimed at policy dialogue with the private sector on standard setting.

Harmonisation and adding value

It is also important for DAC members to consider how they can best fill national and global gaps in terms of private sector engagement. Filling gaps involves examining how other government institutions engage the private sector to ensure that mechanisms in the context of development co-operation add value in relation to other opportunities provided by government to the private sector.

In addition, there is a wide range of multilateral and DAC member initiatives that engage the private sector. Working through multilateral channels and with other DAC members are effective ways to harmonise with and learn from other DAC members, reduce duplication of efforts, share risk and realise scale. A balanced toolbox for private sector engagement includes multilateral and DAC member-specific private sector engagement mechanisms, which are grounded in an examination of existing mechanisms and where individual DAC members can add the most value and realise overarching development co-operation objectives.

Figure 1. A holistic toolbox for private sector engagement in development co-operation

Enabling environment

- Support to partner countries to establish favourable investment climates for the private sector, set and enforce regulatory standards for responsible business conduct, and develop local capacities for private sector engagement.
- Multi-stakeholder policy dialogue and standard-setting initiatives at the global and national levels that aim to improve the positive impacts of private sector operations on development results.
- Support for systems of transparency and accountability, notably with respect to the role of CSOs and trade unions as participants in policy dialogue processes, as watchdogs and whistle-blowers on business conduct and the impacts of private sector engagements, and the enforcement of economic, social and environmental standards by partner country governments and DAC members.

KNOWLEDGE AND INFORMATION SHARING	<ul style="list-style-type: none"> • Objectives: Advance solutions by sharing new methods, tools and innovative approaches to addressing development challenges. Address information asymmetries to promote private investment. • Partners: All, though with a prominent role for knowledge partners in carrying out research and facilitating learning opportunities • Mechanisms: Multi-stakeholder networks, learning platforms, conferences, seminars, workshops, other events, funding for research
POLICY DIALOGUE	<ul style="list-style-type: none"> • Objectives: Develop policy agendas and frameworks at international, national and local levels that reflect all parties' interests. Change behaviour such as through improvements in corporate practices and industry standard-setting. • Partners: All • Mechanisms: Multi-stakeholder networks and platforms, cross-sector roundtables, specialised hubs or institutions, institutionalised dialogues
TECHNICAL ASSISTANCE	<ul style="list-style-type: none"> • Objectives: Enable private sector actors to effectively engage in development co-operation such as through support for project design. Improve private sector actors' operational capacities and effectiveness. • Partners: DAC members, private sector (companies and associations) • Mechanisms: Business advisory services, feasibility studies
CAPACITY DEVELOPMENT	<ul style="list-style-type: none"> • Objectives: Improve capacities of private sector actors to contribute to development results. Change or modify business operations. • Partners: DAC members, private sector (companies and associations), multilateral and CSO implementing partners • Mechanisms: Training activities and other forms of capacity development programming, professional exchanges and secondments
FINANCE	<ul style="list-style-type: none"> • Objectives: 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 and corporate social responsibility. Harness private sector expertise and market-based solutions to development challenges. • Partners: All, with particular emphasis on the private sector (companies) • Mechanisms: Private sector instruments including grants, debt instruments, mezzanine finance instruments, equity and shares in collective investment vehicles, guarantees and other unfunded liabilities

KEY CONSIDERATIONS

- Availability of mechanisms that support inclusive multi-stakeholder partnerships to address complex development challenges and harness the development contributions of different types of private sector partners (small and medium-sized enterprises, multinational companies and business associations) as well as foundations, knowledge partners, CSOs and multilateral organisations and development finance institutions.
- Opportunities for synergies and linkages between modalities and mechanisms.
- Integration of responsible business conduct across all modalities for private sector engagement.
- Availability of centralised and decentralised private sector engagement mechanisms.
- Examination of how mechanisms fill gaps in existing support mechanisms provided by other government institutions and harness multilateral initiatives for private sector engagement in development co-operation.