

PRIVATE SECTOR PEER LEARNING POLICY BRIEF 2

Capacity for Private Sector Engagement in Development Co-operation

KEY MESSAGES

- Ensuring that adequate human resources are available to facilitate engagements with the private sector is a key constraint.
- There is a need for Development Assistance Committee members to invest in capacity for private sector engagement on an ongoing basis. An effective approach is the establishment of specialised units with dedicated staff to carry out capacity development activities, such as training, and provide support services to staff members responsible for implementation of private sector engagements.

INTRODUCTION

Members of the Organisation for Economic Co-operation and Development's Development Assistance Committee (DAC) are increasingly looking to partner with the private sector to realise sustainable development results across all areas of development co-operation. For many DAC member institutions, the private sector is a new partner in international development, and effective engagement requires technical and soft skills that may not exist in house. The ongoing evolution of approaches, including the emergence of new modalities, and staff turnover and rotation, have led DAC members with long histories of private sector engagement to require attention to capacity development.

with relatively longer histories of private sector engagement as well as those that are newer to private sector engagement face the challenge of ensuring that capacities are appropriate. This challenge involves ensuring that enough staff are dedicated to private sector engagement in line with the ambitions of agendas, building broad-based institutional capacities including at the headquarter and field levels, and ensuring ongoing capacity development opportunities. Moreover, new mechanisms for private sector engagement are typically developed at headquarter level, which means that embassies often need additional support to develop understanding of these mechanisms and capacities to make use of them.

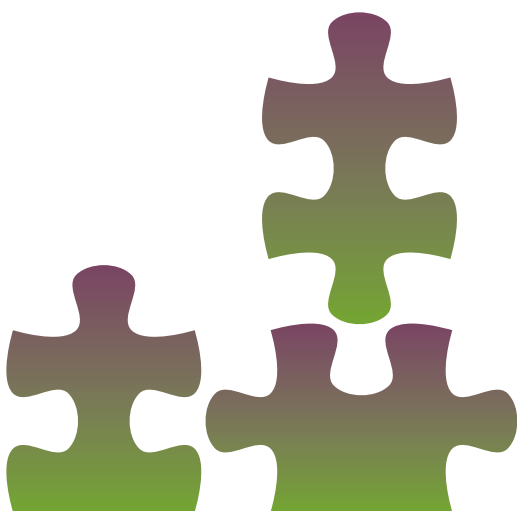
Technical skills

DAC members have introduced a range of mechanisms for private sector engagement that vary in complexity. They include support for multi-stakeholder policy dialogue, grant programmes that closely resemble regular aid ministry and agency operations, straightforward loans, mezzanine finance and guarantees. Human resource implications vary according to complexity – more complex mechanisms and partnerships require greater human resources and technical skills. Appropriate capacities are needed for conceptualising, establishing and rolling out new mechanisms. For example, the Swedish International Development Cooperation Agency's (Sida) unit for loans and guarantees

The DAC peer learning review on working with and through the private sector revealed a number of key challenges and opportunities for ensuring that capacities exist for effective private sector engagement in development co-operation.

LESSONS

Though most DAC members have dedicated staff working on private sector engagement, DAC members



plays a critical role in supporting country-level and thematic staff to identify opportunities to use guarantees and in the structuring, implementation and management of guarantees.

Soft skills

Soft skills – interpersonal skills, flexibility, adaptability, communication and resourcefulness – are critical to successful private sector engagements. In this context, staff need to be equipped to use shared terminology as the private sector and treat partnerships as relationships rather than contracts. Good relationships and relationship management are key. In the United States' experience, soft skills are important for engaging across sectors, but also in terms of relationships between headquarter and field staff and among US government institutions.

Evolution of private sector engagements

When new mechanisms and approaches are being established, growing pains result in high transaction costs at the outset. Building capacities to realise policy objectives takes time. Moreover, as approaches to private sector engagement evolve over time, institutions learn from past experience, staff rotate, new private sector partners emerge and the nature of sustainable development challenges changes. The iterative process of private sector engagement requires ongoing reflection on and review of institutional operations and capacities.

Structure of engagement mechanisms

Capacity development may be impacted by the structure of private sector engagement mechanisms and how they are developed. Mechanisms tend to be developed at headquarter level by specialised units. Staff working at regional and thematic desks, as well as in embassies, typically need additional support to understand new mechanisms and carry out successful implementation.

Factors impacting human resources

Staff rotation

The regular rotation of staff between programme areas and between headquarters and the field presents opportunities and challenges for private sector engagement. On one hand, individuals that serve as champions for such engagement are able to bring new perspectives and capacities to different teams through rotation. On the other hand, ensuring that there are appropriate capacities across institutions means that capacity development activities need to be ongoing to ensure that staff across units have an understanding of private sector engagement mechanisms and how to pursue opportunities.

Institutional culture

Institutional culture can impact the rollout of new private sector engagement mechanisms, particularly in terms of the willingness of staff to build new skill sets and proactively make use of these mechanisms. For some institutions, the integration of private sector engagements into regular operations and development portfolios will require changes in mindset and culture. Resources and time are needed to ensure that stakeholders understand the value of private sector engagement and have shared terminology, information and expertise to recognise and pursue new opportunities. Good examples of successful private sector engagement are useful to increase openness within institutions to partnering with the private sector.

Getting incentives right

Some institutions have adopted strategies to incentivise greater private sector engagement among staff. For example, the use of overall targets is a means to incentivise private sector engagement across sectors and at country level. Though the use of targets can be an important way to facilitate and encourage the use of specific mechanisms, this approach can also create incentives to meet input targets rather than the goal of maximising development impacts. As such, target setting in relation to leverage ratios or the number of private sector engagement activities that will be carried out by institutions should be used in conjunction with a clear focus on development results.

In the case of Sweden, the absence of a specific budget for working with and through the private sector provides incentives for Sida staff to work with the private sector only when it is the most effective partner in delivering results. To be effective, this approach also requires capacity across all units responsible for programming to engage the private sector and an organisational culture open to private sector engagement.

GOOD PRACTICE

There are a number of strategies to ensure that institutions are appropriately equipped to engage the private sector.

Directly recruit and second

Institutions can recruit directly from the private sector as a means to improve capacities for engagement. In addition, the use of secondments from and to the private sector creates opportunities for cross-sector learning and practical skills development.

Invest in capacity development systems

Some institutions have introduced systems for continued training and skills development to build internal capacity. An effective approach in this regard, and one used by both Sweden and the United States (Box 1), is the use of dedicated focal points or units and resources to provide support and training to other units to ensure that all staff have the ability to identify opportunities, understand when interests with the private sector are aligned, and know what tools are available for partnership.

Box 1. Equipping staff to effectively engage the private sector: Swedish and US approaches

As private sector engagement became an increasing priority for Sweden, Sida developed specific training programmes and introduced secondments of junior experts to embassies to build capacities for private sector engagement. Sida and embassy staff received training in planning and implementation of private sector engagement activities as well as creating and developing dialogue with the local private sector and other relevant actors. Capacity development programmes made use of international training packages and e-learning. In 2012, Sida invested in a programme to second junior experts to embassies in developing countries for periods of two to three years. Their role was to educate embassy staff on private sector engagement and work with them to identify opportunities.

The US Agency for International Development has recruited directly from the private sector, developed systems for ongoing training and skills development and established a dedicated focal point and resources that provide support and training to other units. In addition, the agency has worked to build a community of practice on private sector engagement. The agency has a biennial private sector engagement forum that brings together people from this community and links staff working in the field with those at headquarters.

Include private sector engagement experts in planning processes

It is important to develop operational approaches that promote the integration of private sector engagement across institutions. Strategic planning processes do not always include inputs from units responsible for

such engagement. The inclusion of these units in the establishment of sectoral, bilateral and regional development co-operation plans offers a means to further integrate private sector engagement across development portfolios.

Provide clear entry points for support

Well-resourced focal points that provide support to programming units facilitate private sector engagement. For mechanisms developed at headquarters and those that are centrally managed, it is important to provide entry points for embassy staff to ask for advice, identify opportunities and ensure effective co-ordination. For example, the Netherlands has developed a system of private sector focal points at headquarter level to support embassy staff.

Harness the comparative advantages of different implementing partners

In addition to building in-house capacities, DAC members should consider the full range of government institutions that are involved in development co-operation when establishing private sector engagement mechanisms. The management of mechanisms should be determined by institutions' existing networks, expertise and experience. For example, bilateral development finance institutions and international financial institutions have significant experience in engaging the private sector, particularly in terms of providing loans, guarantees, equity, risk insurance and technical assistance. On the other hand, aid ministries and agencies have expertise in working with other kinds of implementing partners and partner country governments as well as supporting enabling environments for private sector investment in partner countries. To ensure efficiency in private sector engagements and draw on existing capacities, the comparative advantages of implementing partners should inform private sector engagement strategies and activities.

Learn from others

Institutions can also build capacities by working with other like-minded DAC members' institutions. Multi-donor initiatives provide opportunities for DAC members to learn from one another. There are a number of blueprints, tools and innovations for how to work best with the private sector. DAC members can gain efficiencies in the development of new mechanisms and build capacities by exploring and adopting best practices from other members' institutions.

CONCLUSION

DAC members have made private sector engagement a priority to varying degrees and use a variety of approaches. Despite variation among them, the peer learning review showed that there is a clear need for DAC members to invest in capacity for private sector engagement. The nature of investments will differ across members depending on the structures of their engagement mechanisms and ambitions for private sector engagement. With this understanding, this policy brief has offered a number of concrete approaches to capacity development from which DAC members can draw.

For DAC members that aim to consolidate and expand private sector engagement in their development co-operation portfolios, good practice suggests that there may be a need to establish specialised units to promote private sector engagement as well as provide training and technical support to staff in other programming units at headquarters and in the field. Dedicated efforts are needed given the complexity of private sector mechanisms and the need for generalist and specialist staff to understand the private sector, identify opportunities and engage effectively with the private sector through partnerships.

