

4th Informal Donor Dialogue on Engaging the Private Sector in Development

Summary

23rd June 2014, Brussels

Objectives

Objectives of the platform:

- To provide a platform for open, informal discussion and knowledge exchanges based on personal rather than institutional positions.
- To concretely address issues considered most relevant by participants, in order to identify common concerns and specific policy/analysis gaps.
- To remain demand driven and flexible to participants requests and priorities.
- To add value to already existing *fora*, thus ensuring that there is no duplication with other platforms.

Objectives of the 4th Informal Donor Dialogue on Engaging the Private Sector in Development:

- The intent of the 4th meeting was to provide a follow-up discussion on the EC Communication "[A Stronger Role of the Private Sector in Achieving Inclusive and Sustainable Growth in Developing Countries](#)".
- Questions to be discussed during the day included:
 - a. What role the Communication can play for the different **EU Member States**, e.g. is the ambition level appropriately aligned to their on-going work, how do donors currently address the 7 principles provided, and is there a real demand for a coherent EU level Private Sector Development Strategy?
 - b. How does the Communication relate to **European Private Sector** investing in developing countries? Is this document relevant/supportive for firms developing social business practices and models?
 - c. To what degree can and should the EC and/or Member States go **beyond** promoting to ensuring that businesses not only follow **global voluntary CSR** guidelines but also reform their core business practices to greater benefit the investment regions?
 - d. How can the different activities outlined in the Communication be implemented, and what is the **division of labour** between the EC and the Member States?
- The morning session invited private sector representatives to give their views on the Communication and the role it could play for their business practices.
- The afternoon focused on the implementation challenges of the Communication for donors in light of the discussion in the morning.

Session 1: Private Sector Reactions to the EC

Key Points:

- An overview presentation of the communication highlighted the principles, actions and tools that are included in the Communication which are “proposed for the member states if they want to use them”. It was presented and discussed as representing a balancing act between pushing the agenda forward in-house in the EC and reflecting the changing broader agenda as reflected by other leading donors in this area.
- In general the Communication was reported to have been well received by member states with the only negative reactions principally from some CSOs who fear a wholesale switch from targeting the social sectors to financing private sector activities.
- Key points from the private sector representatives present included that i) the Communication is good for dialogue but clearly a public sector/bureaucratic document and not aimed at the private sector itself; ii) a lot of development related and CSR activities are already undertaken by the private sector regardless of donor policy; iii) in order for the Communication to be useful it is vital that no new obstacles and bureaucratic complexities are added;
- It was also noted that financing rarely is the key problem. According to this point of view, the focus should rather be on the need for donors to engage in dialogue with partners, including the international private sector to ensure selection of sufficiently good projects to support. Although dialogue is highlighted in the Communication, this could be more focused on ensuring a pipeline of good quality projects with a economic and development impact.
- On the other hand, it was also acknowledged that sometimes it is necessary to engage with the so-called ‘baddies’ (i.e. companies or sectors that historically have a poor performance in terms of CSR and development impact). This is particularly relevant in cases when these ‘baddies’ have a large market share and significant impact on economic activities and on local communities, thus affecting their development, if only to limit their negative impact and induce them to behave better – this aspect is less present in the Communication.
- Discussions also touched on the challenge of supporting smaller firms and local producers; these projects are often associated with high risks and low yields while the transaction costs of supervision etc. are equal to larger, less risky projects. The above statement that financing is not the core problem is less accurate for projects at the lower scale or income levels – this then underlines the focus in the Communication on the need for differentiation between working with different elements of the private sector.
- There is an underlying need to encourage deeper understanding by donors of the different risks involved in different private sector investment projects, and how to manage and balance these risks effectively while providing public support and ensuring development impact.
- At the operational level, challenges may arise relating to the internal mechanisms of the partners as partnerships often have to deal with different positions between partners but also within the involved private firms and donor agencies.
- Two main gaps in the Communication were highlighted. The first refers to procurement procedures, where the current regulations often make it difficult for donors to utilise all the available instruments and engage with specific, more development oriented businesses. The second was the lack of reference to ODA definitions and need for discussion on which instruments should be classified as ODA and which fall outside the definition.
- There is mention in the Communication of the need for better diagnostics of constraints to investment and private sector development, raising questions for some about who should carry out such diagnostics and on what basis.

- Impact measurement remains a critical area and is given prominence in the Communication. But questions are pending regarding the most appropriate indicators, impact levels and types, reporting systems etc., particularly given that different impacts are likely to occur through time, while there are also growing demands for measurement of the cumulative impact of interventions in the private sector. It was generally perceived that there is a need for a more systematic approach, with common measurement obligations for all relevant (European) actors, and a complementary approach to reporting between donors and companies, taking into account the costs involved in impact measurement.
- As it is not clear from the Communication, the question was raised whether the EU Delegations, which could play a important role in engaging private sector for development, have sufficient mandate, buy-in and knowledge to implement the directives in an efficient and sustainable manner.

Session 2: Closed door session with donor group on the implications of the Communication in the context of the morning's discussion

The afternoon session aimed to try and bring discussions to a more concrete level about the implications of trying to implement the communication

Key Points:

- There is a general demand for more dialogue and experience sharing on engaging the private sector, raising discussions about how to build on or improve existing platforms, or the need for new initiatives. These dialogues and/or platforms should try to promote a stronger and more accurate private sector representation, so that private sector development (PSD) policies to a greater extent can be guided by private sector inputs.
- Invitees presented a forthcoming Inclusive Business Action Network as one example for an open collective action approach and platform to collaborate with the private sector addressing global development challenges. Cooperating with multiple stakeholders such as donors, investors and other existing networks and initiatives it will act as "industry facilitator" for scaling and replicating inclusive business models.
- Some suggested taking pan-European PSD strategies and/or coordination further by i) agreeing on common principles (which the Communication does as a first step); ii) defining a single results framework to address the challenge that all donors are facing in defining impact; and iii) enhancing communication and transparency on experiences as well as available instruments.
- Comments were made regarding the feasibility of the criteria in the Communication "Measurable Development Impact". As many reports and evaluations show, it is very difficult to measure development impact, in particular at the aggregate level due to the complexity of attribution – relatively weak impact measurement to date also relates to the nature of required reporting on ODA or to parliaments where development impact is not the key concern.
- It was suggested that measurement criteria and principles should be differentiated depending on the size of the project, and that focus should be on comparative rather than baseline approaches.
- Attention should also be paid to the risk of overburdening the private partners with too heavy and rigid M&E requirements. As was noted in the morning, there is a clear request from the private sector to keep administrative requirements at a minimum.
- A related challenge is that of data collection: it was noted by several participants that it is difficult to collect sensitive data if there is no clear demand from partners.

- As the EU is taking an increasing interest in the PSD agenda, it is important to further enhance cooperation within the Commission and between EU institutions, fostering a more structural approach towards private partners by all institutions concerned and between them so as to achieve a coordinated approach.
- The importance of not confusing private sector development activities with engaging the private sector for development was highlighted. While some donors are pleased to see that the EU is strengthening its efforts towards the promotion of enabling business environment, questions were also raised on whether there is such a thing as a “European private sector” willing to engage at the European level through EU institutions. Doubts were voiced over whether greater European PSD coordination would not counter EU Member States wishes to safe-guard their own businesses and thus to what degree the Member States would be eager to coordinate their PSD strategies to the EC. Ultimately, the question boils down to the value-added of the EU level, and to which extent European businesses are to be primarily seen as competitors or interdependent agents.
- In response, the extensive intra-European trade and the EU’s mission to promote regional integration was underlined.
- The participants were reminded that FTAs do not equal business promotion, and that many country offices primarily focus on trade promotion. Thus it might be difficult to identify a clear interlocutor, which might increase the demand for a consorted European PSD approach.
- The Informal meeting of EU Development Ministers, planned by the Italian Presidency in Florence on 14-15 July, was mentioned as opportunity to further discuss the issues.

Next steps

- Discussions of a potential business networking platform will be followed up according to on-going initiatives of participants
- The concept note of the Inclusive Business Action Network will be shared with participants with the invitation to provide input and comments.
- ECDPM reported that it will be carrying out research on i) the process elements of business-CSO partnerships, ii) on using non-ODA instruments to engage the international private sector for development, iii) on how to promote value-chain strengthening as a strategy for private sector development and economic transformation, particularly related to the extractive sector; iv) on some of the key practical issues relating to CSR strategies and reporting requirements, and; v) on supporting EU-Africa relations, in particular through the use of industrial policy to promote economic transformation.
- Inputs or suggestions from participants on any of the above or others topics were welcomed as potential topics for future meetings.
- One suggestion for future discussion was on the practicalities of engaging the private sector for development within existing EU state-aid rules and the implications of this.

For more information, please contact Bruce Byiers (bby@ecdpm.org) or San Bilal (sb@ecdpm.org). The ECDPM team is most grateful to Anna Rosengren (ar@ecdpm.org) for her most active and effective role in this endeavour and wish her well with her future career outside of ECDPM.