

Concept Paper on Effective Partnerships with the Private Sector

Development Cooperation has traditionally focused on working predominantly with the public sector (e.g. ministries or local governments) and civil society. Cooperating with them tends to come more naturally, as their development objectives correspond more with ours. This is not always the case with the private sector, which puts financial targets first. Nevertheless the private sector allows us to tap into new resources and reach more people in our fight against poverty and exclusion – if we succeed in engaging with it effectively. After all, development is possible without development cooperation – most high income countries never received official development aid – but there is no development without the private sector.

Global trends

Over the last decades, aid flows as a proportion of total financial flows have decreased significantly, while trade and non-aid flows like foreign direct investment and remittances have grown exponentially. This trend has been reinforced by the recent financial crisis, which led several countries to reduce their aid budgets now trying to turn to the private sector to bridge the gaps. However, development is a multi-stakeholder affair and it is important to understand the different roles of the actors in it. Private sector cannot cover for all the roles and functions of the public sector. Nevertheless, by associating more and new players and finding alternative modes of collaboration, we want to improve the outreach and impact of development cooperation. These points are also debated in the elaboration of the post-2015 new global framework for sustainable development, which indicate a greater role for the private sector. While most agree that the private sector can contribute to poverty reduction, inclusiveness and the sustainability of development intervention with private sector cooperation remain a key concern.

Within e+i programs working with the private sector is nothing new. Vocational Skills Development (VSD) is only successful if it prepares people for the world of work, which is to a large extent in the private sector. Financial institutions form part of a country's private sector and are thus partners and/or beneficiaries in Financial Sector Development (FSD). The same counts for Private Sector Development (PSD).

Gains on partnering with the private sector

Knowledge and expertise

The private sector supplies the markets with goods and services, knows how to produce them and thus has an idea of what people want, how to reach them and their willingness to pay for it. Thus, if we want

Public Private Development Partnership (PPDP)

A PPDP is an alliance with the private sector based on mutual commitments. Each partner represents his interests in a context of shared objectives and needs to agree with a set of common principles. A PPDP is only one way – or form of modality – of partnering with the private sector.

markets for the poor and inclusive finance we need to tap into the private sector's knowledge to learn more about our target groups and how to reach them, apart from the fact that our experiences are of interest to the private sector as well (e.g. on how to reach the bottom of the pyramid). With respect to *labor markets*, the private sector

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is on the demand side, looking for trained employees. Thus, in order to come up with effective vocational education offers the private sector needs to communicate its needs – and ideally helps training people accordingly.

Outreach, leverage and sustainability

The private sector is an important engine for advancing and distributing innovation. Partnering with it may allow us to come up with smart and affordable business solutions for poor households. Thus, if we manage to contribute to inclusive businesses and systems in our partner countries we can leverage resources, reach more people and make our impact more sustainable. Development cooperation projects eventually end, the private sector persists. Again, this counts for consumer markets – including financial products – as well as for skills development.

Obviously, a qualified work force is essential in sustaining a business in a competitive market. Also, if businesses can count on a vocational education system that trains people according to their needs, they are more likely to employ its graduates and invest into the system. Again, this leads to sustainability, allows the system to leverage resources and reaches out to potential trainees. It may also lead to having vocational education skills offered by private training providers, making it a business in itself.

Just to keep magnitudes and numbers in mind
100-150 billion USD yearly is the amount of money that flows into official development aid worldwide. The amount annually spent by Switzerland is 2-3 billion USD employing a few hundred staff directly and a few thousands indirectly. In contrast, 100 billion USD turnovers and 150 billion USD in assets are annually spent by Nestlé, a Swiss multinational firm, which employs 300'000 staff. While, Firmenich, a smaller family owned business in Geneva, still has a turnover of 3 billion USD and employs 6'000 people.

Private Sector Development

In general we have an interest in a growing private sector that provides people with employment and income. Therefore, PSD is one of our network's three domains where the private sector is usually a *beneficiary*. However, this is to be differentiated from *partnering* with the private sector. When partnering with the private sector we look the private sectors becomes an actor, a collaborator that is endowed with financial and human resources, as well as expertise, which can be leveraged for development cooperation.

Position and define the role of the private sector in society

The private sector bears responsibility and accountability towards society, whereby it can contribute to sustainable development, poverty reduction and inclusion in a broader sense. It can play a key part by respecting human rights, creating decent employment and working actively to end corruption, for example. Moreover, it can make the changes needed for sustainable production patterns, effective use of resources and integrating sustainability into business models and operations. In general, this is not a question of the private sector's goodwill, but it is in its own long term interest: Poverty reduction increases markets, while inclusion improves stability and thus reduces risks. Moreover, a responsible and sustainable use of resources ensures their availability in the future. Thus, a society's development targets can converge with private sector's objectives, even if the main objectives may diverge. Unfortunately, not all business have long-term planning horizons, but let short term benefits guide their activities. Thus, there is an increasing need

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for all actors – the private sector, government and civil society – to work together in pursuing development goals. We can contribute to this process by facilitating a dialogue that defines the role and responsibilities of the private sector in sustainable development. Ideally, we can influence business models of private companies so that the positive social, economic and environmental impacts of their activities are maximized and negative effects are kept as low as possible, e.g. shifting procurement of a transnational company to smallholders allowing them to increase their income and employment.

Partnering with the Private Sector in SDC's VSD projects

In VSD the private sector demands skills, i.e. businesses are looking for trained and qualified workers to increase and improve their production and services. Without involving the private sector, VSD projects risk imparting competencies which are either in the wrong economic sectors and/or vocational fields or, which do not meet the qualitative expectations of future employers. Therefore, within the Swiss dual vocational and education training system the private sector is an indispensable actor. While adapting Switzerland's key success factors to the local content, the private sector becomes an important partner in our projects - in particular, in the light of increasingly demand-driven VSD. Ideally the private sector is involved in different forms when planning and organizing VSD. Firstly, it should be recognized as a provider of expertise and thus participate in the VSD governance and in curriculum development. Practically this allows businesses to express what skills and competencies they need and expect from a future employee. Secondly, by hosting training processes, businesses can further contribute to the practical relevance of vocational skills programs and thus, – thirdly – be involved as an in-kind co-financer. In addition, and fourthly, the effects of such an involvement are underpinned, if decision-making power is devolved to the private sector. It increases the likelihood of partnerships with the private sector in general and the acceptance of specific tools such as training funds. However, a closer involvement of the private sector in VSD is a complex goal to achieve, especially in countries where VSD has traditionally been supply driven and there is no or only limited formal/informal exchange between VSD providers and employers. Thus, traditions cannot be changed overnight and a relationship of respect and trust needs to be developed first, which is particularly challenging if the private sector is not organized. Building on existing local organizations and supporting associations helps the private sector in becoming an equal VSD partner – and a voice in a countries political decision making.

The private sector

There is not *one* private sector, but a range of diverse actors. However the usual reference is with respect to the “for-profit-sector”, which raises questions of eligibility and additionally for any kind of partnerships with it. Apart from the actor's core business and sector of regular engagement, a company's size – large or small – matters. Moreover, “cooperating with the private sector” can refer to partnerships with multinational companies or working with local, privately owned entities. In the latter case, these actors are often part of – or at least act in – an informal economy.

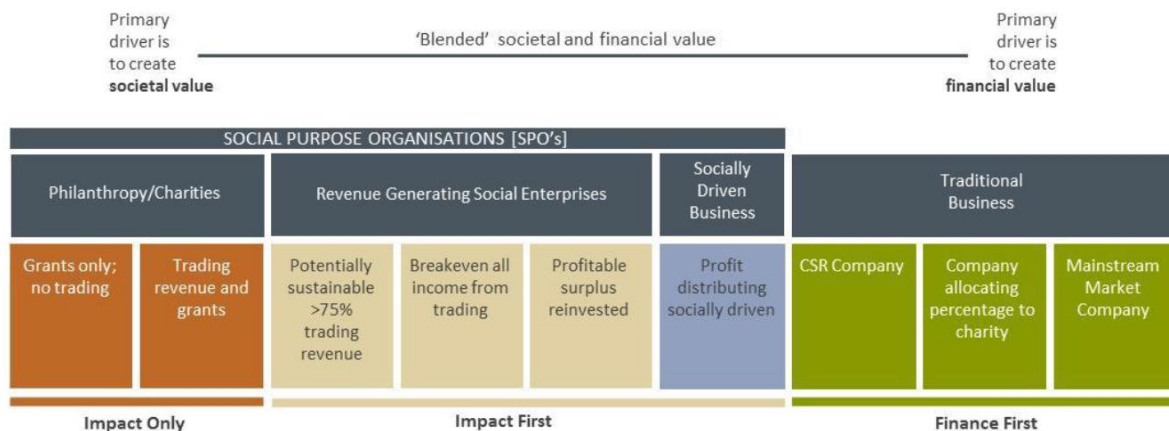
Partnering with the private sector in SDC's PSD and FSD projects

Traditionally the private sector has been a direct or indirect beneficiary in SDC's PSD and FSD interventions. However, the role of the private sector has evolved in the past decades. This has become particu-

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larily obvious in microfinance. The industry used to be dominated by NGOs and actor of the public sector, who provided low income households and mini enterprises access to formal finance. Today, micro-credits and micro-insurances can be profitable business: Private sector actors manage billions of USD of assets and invest into microfinance institutions worldwide which demonstrates that the private sector can develop business models that serve development cooperation. This is not to imply, that there is no need and potential for collaboration with the NGOs or the public sector in microfinance – or any other sector – anymore, but shows the private sector’s power in development cooperation. It also raises questions, e.g. on whom to partner with.

The following graph lists some (new) actors of the private sector by impact orientation. As with most attempts to reflect and categorize a complex reality, the graph does not claim to give a complete view. However, it indicates the range of possibilities of partners and hints at some modes of collaboration.



Source: Wilson, K.E. (2014), “New Investment Approaches for Addressing Social and Economic Challenges”, OECD Science, Technology and Industry Policy Papers, No. 15, OECD Publishing

Traditional financially oriented local companies and multinationals with effective distribution channels are a natural ally in our attempt to reach out to low income households to integrate them into a market system. The attractiveness lies in the prospect of a systemic change with a long term impact and a sustainability that goes beyond a project’s limited scope in time and outreach. However, this kind of collaboration may be complex and time consuming. It requires a lot of human resources (on both sides) and capacity building to understand each other’s languages, procedures and underlying concepts. The poverty reduction, inclusiveness and impact first orientation cannot be automatically expected from traditional businesses. Working with more impact oriented partners from the private sector (on the left side of the graph above), may be easier, as their main objectives are aligned with ours. Moreover, they are usually highly engaged change-makers and policy influencing. Unfortunately though, socially oriented entrepreneurs and businesses are still the exception and not the rule. In addition, they tend to be small and thus a lot of effort is needed to bring their impact to scale.

The case of partnering with a large mainstream market company vs. working with a social entrepreneur provides just two examples of possible categories of private sector actors and modes of collaboration. In reality, there are as many actors and modes of collaboration as contexts. Therefore, openness and creativity are necessary in order to make collaboration with the private sector effective.