

Concept Note

Rationale

1. With a cost estimated of at least \$2.5 trillion a year over the next 13 years, the 2030 Agenda for Sustainable Development requires a massive step-up in resource mobilisation and collective efforts for development impact. The Addis Ababa Action Agenda (AAAA) reiterates the importance of improving the effectiveness and impact of development cooperation to achieve the goals set out in Agenda 2030. It also urges developed countries to meet their commitment to allocate 0.7% of ODA/GNI to developing countries and 0.15% to 0.2% of ODA/GNI to least developed countries.
2. **The 2030 Agenda “acknowledges the role of the diverse private sector in the implementation of the new Agenda”** and “calls on all businesses to apply their creativity and innovation to solving sustainable development challenges”. Today, businesses provide 60% of Gross Domestic Product, 80% of capital flows and 90% of jobs in developing countries (OECD 2015). More than 50 per cent of the financing needed to achieve the SDGs could therefore be expected to be mobilized through the private sector.
3. **The expectation that private sector will engage with the SDGs is based on the “Shared Value Model”**. Shared value focuses company leaders on maximizing the competitive value of solving social problems of new customers and in new markets, cost savings, talent retention, and more. The assumption is that with the help of governments, non-governmental organisations and other stakeholders, business has the power to bring solutions to scale and create real change on monumental social problems (Porter and Marker 2011). Yet, a recent survey paints a sobering picture of business engagement with the SDGs: in the US only 37% of corporate respondents said they were planning to engage with them (Corporate Citizenship 2017). Getting business to understand that this is about new markets, new business opportunities, and new business models — instead of charity or the mandate of the development agencies, governments or NGOs — is a fundamental shift that can be empowering (Shared Value Initiative 2015). One assessment suggests that the SDGs present a significant opportunity for the private sector – at least \$12 trillion in terms of market value (BSDC 2016).
4. **The development co-operation community is adapting its policies and practices to further PSE through development co-operation.** Several bi- and multilateral development co-operation partners are establishing new financing windows and instruments, building new capacities and skills to manage PSE and create an environment supportive of PSE. These windows and instruments, largely made available by Development Finance Institutions, aim to create incentives and mitigate risks to attract private investment, including from commercial finance providers, through blended finance, debt instruments, guarantees, equity stakes and other capital market instruments. They also support a range of public-private platforms to build markets and facilitate PSE. South-South cooperation partners are also increasingly using tools which include the private sector for delivering their development assistance, such as the ["development compact"](#) or [mixed modalities](#).

5. **There are various drivers behind private sector engagement (PSE) in development co-operation.** These include complementing traditional development co-operation with private sector know-how and investment in view of pressures on aid budgets (OECD 2016b). Development partners aim to harness market based solutions to create jobs, improve service delivery – in particular for the poorest and most marginalized – and improve tax revenues (World Bank 2009, IFC 2013), thereby realising shared value for development and private sector partners (Lucci 2012).
6. **The push towards PSE is also based on the realisation that developing country markets are essential to the future of businesses seeking international opportunities.** Emerging markets account for two-thirds of global GDP growth over the past decade (IMF 2017a) and about 40% of current global output (IMF 2017b). An increasing number of businesses recognize that their sustained growth will come from emerging markets and non-traditional consumers and, as such, need to develop business practices that build and sustain the markets they need for their own success (Chakravorti et al. 2014). This is another motivation for many OECD countries and Southern partners to promote private sector through development co-operation. The promotion of domestic commercial interests is one of the most contentious issues in PSE (CAFOD 2013, OECD 2016b).
7. **For businesses and development actors alike, the innovative shared value model requires a shift in mindset.** For a long time, positive societal or environmental impact and positive financial results have been considered two separate things. It has been generally accepted that you could have one or the other, but not both. Creating Shared Value (CSV) is about having both. CSV is a synergy of positive social and environmental impact and positive financial results (Shared Value Initiative 2015).
8. In line with this new business model, developing country governments and development partners must now consider not only development outcomes from their joint investments, but also the viability and business case for private partners. Governments, private partners, and civil society organisations have begun to adapt existing or adopt new policies and practices to address this dual objective by using different PSE tools to mobilise resources and tap into know-how and capacity. They are also developing skills and collecting experience to support multi-stakeholder partnerships (OECD 2016b), changing ways of working together.
9. **Good practices are emerging from in-country efforts to bring together public and private investment through partnerships in line with national development strategies.** Governments and their development partners are sharing risks and reducing costs in new ways to leverage private finance for sustainable development. At the global level, international guidelines have been developed to enhance private investment in the SDGs (UNCTAD 2015), and partnerships exist to mobilise public and private finance for specific sectors¹. The potential for official development finance to leverage private investment for the SDGs is evident². Yet, despite global calls for action, the promise to leverage development co-operation as a catalyst for private investment and innovative public-private partnerships for sustainable development is far from achieved. The state of development coopera-

¹ For example, the *Sustainable Development Investment Partnership*, with partners that include the USAID, the OECD, the World Economic Forum and the Swedish International Development Co-operation Agency, aims to mobilise USD 100 billion in private financing over five years for infrastructure projects in developing countries in support of the SDGs.

² A 2016 survey identified USD 81 billion in private investment mobilized by official development finance (ODF) from 2012 to 2015 through blended finance. In addition, the survey data showed the amount mobilized in 2015 nearly twice as large as it was in 2012 (OECD 2016a).

tion instruments and mind-set, the lack of evidence on the outcomes and impacts of PSE on livelihoods, and a range of genuine concerns still prevent PSE from happening on a larger scale and at a faster pace. These concerns include:

- (i) **Meeting the commitment to leave no one behind:** Evidence shows that the bulk of non-developmental finance mobilised through blended finance has taken place in middle income countries and has mainly targeted the finance and infrastructure sectors (OECD 2017). There is also a need to ensure that PSE is not used as a substitute for commercial finance. Development cooperation remains a critical financing option for least developed countries and fragile states with limited capacity to access other forms of financial flows. Co-engagement of government and development partners can help to reduce risks, overcome structural constraints and sustain the business model as targeted areas move to sustainability. Partnerships can also be used to move away from industry-wide competition to collaboration/aggregation that creates opportunities to grow inclusive business and public benefits (Chakravorti et al. 2014).
- (ii) **Mitigating risks of unfair competition for domestic Small and Medium Sized Enterprises:** The SDGs emphasise the role of micro, small and medium sized enterprises (SMEs) as a driver of job creation and inclusive growth in developing countries. SMEs provide the livelihood to most people in developing countries – they represent 90% of total employment when taking into account formal firms and the large share of SMEs operating in the informal sector (Bamber et al. 2013). Evidence shows that it can be difficult for SMEs in partner countries to access finance and other resources, including from development co-operation partners, owing to limited capacities, lack of knowledge on existing opportunities, limited support in-country and inability to meet eligibility criteria, including meeting international human rights and voluntary standards (OECD, 2016b; Heinrich, 2017).
- (iii) **Guaranteeing transparency, fairness and accountability in PSE through development co-operation:** Evidence shows that transparency on due diligence and accountability around public-private contracts and across global value chains, partnership criteria and project approval processes, taxation aspects and collective bargaining opportunities are lacking (Kindornay and Reilly King 2013, Eurodad 2014 and 2015, Action Aid et al. 2015, OECD 2016b,). To address this criticism and justify the use of public funds as an incentive for PSE, a proactive approach to public accountability and transparency is needed.
- (iv) **Measuring and reporting on the outcomes of PSE through development co-operation:** While there has been a significant rise in PSE activities, research has shown that development partners have not focused sufficiently on development results, and in particular, monitoring impacts (Heinrich 2017, Tewes-Gradl et al. 2014, OECD 2016b). Though PSE programmes and partnerships outline development objectives, they do not generally specify desired development impacts in terms of poverty reduction, inequality, gender equality and environmental sustainability. There is also limited evidence of evaluations of PSE programmes and partnerships (Oxfam 2017). Reviews of blended finance have also found limited evidence of impact, leading some to suggest caution in expanding and scaling up blended financing until the evidence base has improved (Eurodad 2013, Tew and Caio 2016). This calls for new ways of measuring and reporting on the extent to which PSE through development co-operation delivers on its promise to bring benefits for people and sustainable development.

- (v) **Ensuring ownership and capacity development:** The extent to which PSE supports country ownership and aligns to national priorities and strategies has been a longstanding question in the field of PSE (Kindornay and Reilly-King 2013, ECDPM 2014, OECD-WEF 2015, ITUC & CPDE 2016, Eurodad 2017, OECD 2017, Oxfam 2017) In addition, the use of centrally managed, demand-driven PSE – which appears to be increasingly popular among DAC members – may limit possibilities to include partner countries in PSE (OECD 2016b). Though examples of partner country engagement in PSE exist, good practice with respect to national ownership does not appear to be consistent across development co-operation actors. PSE through development co-operation should support national governments to build capacity and engage private companies in partnerships that realise benefits for companies and development results.
- (vi) **Engaging the private sector on the SDGs:** Finally, despite strong business cases in some areas (BSDC 2016), surveys show that the SDGs are not a driving factor for many private sector actors. The perceived lack of tangible business action on the SDGs is causing a trust problem among consumers, particularly so-called millennials (Corporate Citizenship 2015). Many businesses are reluctant to partner with the development co-operation community because of its perceived cumbersome procedures, risking high transaction costs in achieving their performance objectives without clear advantages for their businesses. Development partners do not speak the language of the private sector and often are not seen as understanding business needs.

10. Developing and developed countries and business partners must work with trade unions (as negotiating partners for working conditions and salaries), civil society organisations (as implementing partners and watchdogs), parliaments (as principal institutions of legislation and oversight), foundations (as innovators and partners in multi-stakeholder initiatives) and other stakeholders to ensure that PSE through development co-operation deliver results for those most in need. Addressing common concerns, such as ensuring that PSE through development co-operation benefits those most in need, supports SMEs at the national and regional levels and meets development effectiveness commitments, will be vital to fully unlock the potential of PSE.

The Global Partnership and PSE: Objectives, Outputs & Approach

- 11. **Overarching goal:** In line with Agenda 2030, the Global Partnership in its 2016 mandate committed to help development actors lever more effectively development co-operation to attract business investments. To deliver in a changed development landscape, the overarching goal of the Global Partnership is to impart a new vision that re-galvanizes collaboration by all actors and furthers the interplay of traditional development assistance with Southern development actors and private investment to support development results at scale.
- 12. The potential for development finance to leverage private investment for the SDGs is evidenced by successful cases of public-private partnerships that contribute to development goals. Bilateral and multilateral development partners are sharpening PSE instruments and policies to bring these arrangements to scale. Yet, this development cooperation modality must be supported by adapted approaches and measurement frameworks that ensure that PSE through development co-operation

effectively delivers on promised outcomes, meeting results, ownership, transparency, fairness and accountability requirements.

13. Against this backdrop, the Global Partnership conducted a **review** of almost 70 major multi-stakeholder platforms promoting PSE in development, operating at global, regional and sectoral levels (see Annexes 1-3). The findings show that:
 - Only about **25% of PSE platforms have partner country governments as their members**. Even fewer of them strategically engage civil society, trade unions and parliamentarians. SMEs also lack access to these multi-stakeholder platforms.
 - Only about **10% of PSE platforms examine the effectiveness**, results and private sector benefits of PSE instruments.
 - About **70% of them do not play a monitoring and accountability function** for the PSE efforts they support (the ones that do are mostly sectoral platforms).
14. **The Global Partnership aims at leveraging its multi-stakeholder platform** which brings together the representatives of developing and developed countries, multilateral and bilateral institutions, civil society, and private, parliamentary, local and regional organisations to facilitate an inclusive stakeholder dialogue on PSE policies and instruments.
15. **The objective is to inform the work of governments, businesses, and the international development community on PSE** by:
 - (i) Generating evidence on the conditions under which PSE through development co-operation delivers shared value for the people most in need and the private sector;
 - (ii) Facilitating evidence-based and inclusive dialogues between stakeholders and private sector representatives on the drivers of effective PSE through development co-operation, with a view to setting the scene for high-level commitments to scale up PSE through development cooperation, meeting results, ownership, transparency, fairness and accountability requirements.
16. **Expected outputs:** The Global Partnership will deliver four sets of outputs to further effective PSE through development cooperation:
 - Evidence based analysis on effective PSE, informed by a deep-dive analysis in selected developing countries. This will include analysis on issues such as the policy frameworks needed to enable country-owned PSE, the effectiveness of PSE at country level, lessons learned, monitoring and accountability in PSE. It will take into account independent research.
 - Inclusive consultations through a series of specialised policy dialogues to converge towards inclusive guidance for effective PSE through development cooperation. Country level evidence will i) inform knowledge exchanges on the enablers and constraints to be addressed to scale up PSE through development cooperation; ii) create a common understanding of developing countries' expectations and concerns, and iii) inform guidance to scale up PSE through development cooperation.

- Inclusive Guidance to ensure that PSE policies and instruments deliver results for the people based on a shared value model.³
- Inputs to the ongoing adaptation of the Global Partnership monitoring framework to the 2030 Agenda challenges. Evidence and data generated in this work stream will inform ongoing efforts to adapt the Global Partnership monitoring to the 2030 Agenda challenges, looking at how to measure the effectiveness of PSE through development co-operation.

17. **Approach:** The Global Partnership will use a series of engagement methods to ensure that this work is relevant to guide the work of public and private stakeholders and the international development community at large on PSE through the following efforts:

- A time bound Business Leader Caucus, composed of leaders from diverse companies, sectors and regions, interest groups and experts, will provide strategic advice, policy guidance and advocacy to secure private sector leadership and engagement in the work stream, with a view to champion effective PSE through development co-operation.
- Consultations and specialised policy dialogues will be organised to mobilise relevant communities of policy makers, experts and practitioners, pooling the comparative advantages of all relevant actors and ensuring their feedback informs the analytical work as it progresses.
- Analytical work on PSE through development co-operation provided by Southern partners to identify perspectives and address concerns of Southern Partners on PSE through development co-operation.
- Regular consultation with a Working Group on PSE, composed of Steering Committee members and their experts, including from developed and developing countries, private sector organisations, multilateral organisations, civil society, trade unions, parliamentarians, foundations and others. The Working Group serves as a regular sounding board to ensure high quality of work.
- Results of the PSE work will be regularly presented to the Global Partnership Steering Committee for guidance and endorsement.
- Political moment: It is expected that the final outputs will be presented to the international community in the margins of the 2019 High-Level Political Forum on Sustainable Development.

Linkages between the four main inter-related and mutually reinforcing substantive strategic priorities under the Global Partnership work programme for 2017-2018 – country-level implementation, monitoring, knowledge sharing and private sector engagement – will be continuously explored.

³ Based on initial exchanges, topics could include, e.g., how to apply blended finance principles and/or the MDB's Cascade approach at country level; how to engage hard-to-reach SMEs and women-owned businesses and support their transitioning from the informal to the formal sector; how to improve procurement rules and practices and the untying of aid; how to make global value chains more sustainable; how to strengthen social dialogue through development co-operation, etc.

Proposed Activities

This concept note has been prepared based on a series of consultations with the Working Group on PSE and experts (see Annex 5) from July to September 2017. The tentative list of activities proposed below, to be carried out from October 2017 to December 2018, will be updated and amended, in particular in view of consultations with Steering Committee members. A budget proposal will be discussed at the Steering Committee meeting.

Activities	Objective
Working Group and expert consultations	To provide guidance and support implementation of work (ongoing)
14th Steering Committee Meeting	To agree on approach and way forward
Set up of Business Leaders Caucus	To provide strategic advice and secure private sector leadership and engagement
Country Analysis and Consultations	To conduct a deep-dive analysis in up to five countries, informed by multi-stakeholder consultations to identify country-specific issues and solutions
Evidence-based analysis of PSE opportunities and challenges in emerging economies	To compile analysis of PSE through development co-operation in emerging economies (with the BRICS Policy Center)
Draft Guidance on Effective PSE at Country Level for stakeholders consultation	<i>Themes for draft guidelines to be identified through country level work</i>
Consultations with Steering Committee	To provide continued guidance on implementation
Specialised policy dialogues on specific issues	To facilitate inclusive policy dialogues on aspects of PSE effectiveness to deliver agreed outputs
Key event in the margins of the 2019 HLPF	To present findings and outputs to the international development community with strong private sector buy-in

Annexes

[Annex 1 – Principles guiding PSE in development co-operation](#)

[Annex 2 – Mapping – Overview of platforms, initiatives, partnerships examined](#)

[Annex 3 – Mapping – Platform, partnership and initiatives Review Framework & Results](#)

[Annex 4 – Risks and Opportunities](#)

[Annex 5 – Contributing Partners](#)

Room Document – A Proposal for Case Study Countries

Room Document – Terms of Reference for the Business Leaders Caucus

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