



**10<sup>th</sup> International Business Forum 2005, New York**

## **The private sector and development agencies:**

### **How to form successful alliances**

Critical issues and lessons learned from leading donor programs

#### **Discussion Paper**

to the

**DIE-GDI working group: Development Agencies and the Private Sector: How to form  
successful alliances**

Tilman Altenburg

German Development Institute

Bonn, August 2005

## Introduction

Public-private partnerships are playing an increasingly important role in development cooperation, and they often develop into longer-term strategic alliances aimed at achieving a common set of development objectives. According to USAID,

*“alliance members share resources, risks and rewards in pursuit of a development objective that can be better achieved working together. An alliance achieves its development objective by leveraging significant resources, applying proven development expertise, and working jointly with new and existing partners, often using innovative approaches. To assure success, alliance members collaborate throughout design, implementation, and monitoring and evaluation.”<sup>1</sup>*

Strategic alliances in development cooperation pursue objectives in diverse fields – e.g. employment creation, education, health, or environmental protection. The private sector normally contributes technological and organizational competence as well as access to markets and its own specific dynamism, whereas development agencies bring in complementary expertise in other fields, e.g. with regard to organizing stakeholder dialogue, facilitating government contacts, or enhancing the efficiency of relevant public institutions. Financial contributions as well as project risks are shared by both partners. Some initiatives take on the form of multi-stakeholder alliances involving other actors such as NGOs, foundations, business associations, etc. Pooling their resources and combining complementary capabilities, strategic alliances are likely to have an especially sustainable impact.

On the occasion of this year's 'UN Millennium+5 Summit,' InWEnt, the Global Compact, the World Bank Institute, and Instituto Ethos have invited leaders from business, science, and public-sector organizations to participate in the 10th International Business Forum, which will be held in New York City from 11 to 13 September 2005. The topic set to be discussed during this event is “Business and the Millennium Development Goals: An Active Role for Globally Responsible Companies.”

As part of the conference, the German Development Institute has been asked to organize an information exchange for leaders of the most renowned multilateral and bilateral donor programs dedicated to supporting alliances with the private sector. The dual purpose of this meeting is to a) present the programs, with their different approaches, to the business community present at the International Business Forum and b) to compare program approaches, present lessons learned, and discuss the pros and cons of different setups. This is the first time that representatives of the leading donor programs in this field will come together to jointly showcase, compare and discuss their practical experiences.

---

<sup>1</sup> USAID/GDA, Tools for alliance builders, Washington D.C. 2002, p. 3

The aim of the present background paper is to establish a basis for discussion. It briefly recapitulates the main arguments for development agencies to cooperate with private companies in delivering public goods as well as the potential benefits for the private partners. It also elaborates on some risks and limitations of such alliances. The paper then presents an overview of seven donor programs that support public-private partnerships and strategic alliances in developing countries. Finally, the paper raises some critical issues for discussion. These will serve as a guide for the working group discussions, which, it is hoped, will result in an interesting joint learning experience.

## 1 **Why should donor agencies cooperate with private companies in delivering public goods?**<sup>2</sup>

From the standpoint of development agencies committed to achieving the Millennium Development Goals, there are four main reasons for establishing alliances with private companies:

1. The internal production efficiency of private companies is usually higher than that of public enterprises. This can both be explained theoretically and confirmed empirically. In private firms incentives for cost reduction are stronger, since private shareholders are subject to hard budget constraints and, given their own risk, willing to control more thoroughly the parameters relevant for efficiency.<sup>3</sup> Public service providers often lack customer orientation as well as incentives to improve performance, especially if they are fully publicly financed and not subject to competition (unless hierarchical governance manages to create sufficient pressure to perform).
2. Involvement of private-sector companies leverages additional capital for development financing. Private-sector capital may substitute for official development aid in countries and sectors with access to international capital markets, in this way freeing up scarce public resources that may be targeted to poor countries where markets are in many cases threatened with failure.
3. Complementarities between public and private actors may create productivity gains. On the one hand, development agencies may build on existing private initiatives, e.g. support spillovers from private investment projects; on the other hand, public action may be indispensable, or at least helpful, to render private investment possible, e.g. by insuring political risks, facilitating dialogue with governments and civil society,

---

<sup>2</sup> The following sections are based on Altenburg, T., Cooperating with the private sector in development cooperation: Strategic alliances with lead firms in production networks, in: H. Ahrens (ed.), Development cooperation – evaluation and new approaches, Berlin 2005

<sup>3</sup> Shirley, M. / P. Walsh, Public vs. private ownership. The current state of debate, World Bank Working Paper no. 2420, Washington, D.C. 2000, discuss this in detail and provide empirical evidence.

supporting improvement of the legal framework, or fostering organizational development of public and semi-public institutions.

4. Cooperation between development agencies and the private sector may contribute to mutual appreciation and learning. It may raise awareness for development issues within the private sector, while it may provide development administrations with a better understanding of the foundations of economic growth and more knowledge about certain management aspects in which the private sector is generally believed to be more efficient. Moreover, by showing that large firms in fact cooperate with development agencies, the latter hope to overcome their sometimes negative reputation of being overly bureaucratic, in this way becoming more generally accepted within the business sector and society in general.

## 2 What's in it for the private sector?

Cooperation with the private sector will only succeed if firms are willing to cooperate with the public sector on development issues. This raises the question why these firms should take any interest in strategic alliances in the first place. In fact, many companies are not willing to engage in cooperative arrangements with government institutions, pointing in particular to the high transaction costs involved. Those companies that do cooperate advance three main arguments:

1. Cost sharing. Public co-financing may cut the costs of necessary or at least desirable investments in a firm's business environment, e.g. improvements to the value chain or the health and education of the local workforce.
2. Legitimacy. The private sector (and transnational corporations in particular) is often heavily criticized for exploiting Third World countries, for paying unfair prices, repatriating profits, evading taxes, bribing politicians, crowding out local competitors, etc. Criticism is especially heavy of potentially polluting (mining, chemical, pharmaceutical) and labor-intensive industries (garment, footwear, toys, coffee). It is no coincidence that these industries are particularly engaged in corporate social responsibility, especially if they are associated with brand names. Working together with public development cooperation is seen as a mark of confidence and as increasing the legitimacy of the companies concerned.
3. Complementary specialization. Among the specific competences attributed to development agencies are their experience in dealing with governments and certain stakeholders (e.g. farmers or trade unions) and in supporting organizational development in different cultural settings.

Consequently, there appears to be considerable scope for win-win-situations: Public-private partnerships are a promising way of combining the financial resources and expertise of both parties, and both may increase their legitimacy by gaining the support of a broader

constituency. Development agencies should therefore consider such partnerships wherever the private sector is willing to take part.

### 3 The risks of public-private alliances

From the perspective of development agencies, however, entering alliances is also bound up with some risks and additional costs which need to be kept in mind.

In some cases the private partner's interest may not be in line with the public interest in the host country, e.g. firms may try to misuse their market power to prevent local firms from upgrading into strategic business fields or to crowd out local competitors. In case of such essential conflicts of interests it is obvious that there is no room for alliances. More importantly, however, some risks and limitations remain even if public and private partners pursue complementary goals, namely:

1. If obligations, cost-sharing arrangements, etc. are not well defined, public-private alliances entail risks that public resources may be misused or wasted, especially if substantial public subsidies are involved. The World Bank, for example, admits that "both in private infrastructure and contracting out of public services in general, there is a danger that the shift from public to private provision is associated with a breakdown of discipline and corruption," and goes on to note that as long as new rules of public-private coordination are ill-defined, "opportunities for abuse increase. Many private schemes have, indeed, been associated with corruption in a number of countries."<sup>4</sup> Even if corruption can be excluded, there is always a considerable risk that windfall gains will accrue to the private sector (and taxpayer' money may be wasted), i.e. if the private partners receive public support for activities which they would have performed in any case.
2. Public-private agreements require additional processes involving transaction costs, e.g. for awarding projects, negotiating services, performance indicators and tariffs, managing partnerships, and monitoring performance. These costs may in some instances exceed the benefits of public-private cooperation.

The following paragraphs deal with the question of how to avoid waste of public funds and keep transaction costs low.

To limit the risk of corruption, misuse, and private windfall gains at the expense of the public purse, responsibilities among alliance partners need to be clarified and proper risk-sharing systems defined. Agreements should specify performance or output targets for which each

---

<sup>4</sup> Klein, M.U. / B. Hadjimichael, *The private sector in development. Entrepreneurship, regulation, and competitive disciplines*, Washington, D.C. 2003, p. 101. (The World Bank)

partner can be held responsible, while partners from the private sector should be largely free to choose the method they think best for achieving the goals agreed on.

From the point of view of development agencies, partnerships with the private sector make sense only if the public contribution triggers an *additional* development impact that goes beyond the impact that the private partner – in pursuance of his own interests - would have had anyhow, or that he is legally obliged to provide. If a firm receives public financial support for activities that are not additional in this sense, this represents a *windfall profit* for the firm and a waste of public resources, taking into account the fact that the subsidy would not have been necessary to catalyze the outcome achieved – irrespective of the size and quality of this impact.

One reason why the criterion of additionality is especially relevant is that many public-private partnerships are criticized for allegedly violating this principle. Even though no public program that aims at supporting the private sector can fully rule out unnecessary transfers, it is essential to clarify prior to every support program where the border runs between what, under the given market-based framework conditions, can be expected of the companies involved in terms of their own profitability calculations and where, accordingly, it would make sense to set additional incentives to induce the private sector to assume *additional* development-related commitments. The criterion of "additionality" is, however, difficult to define, because the transitions are fluid between the enlightened long-term, possibly even philanthropically motivated, interest of companies and the core areas of public goods, where markets tend to fail. Furthermore, information is distributed asymmetrically, i.e. only the private partner knows what investments he would have made even without flanking support, and he may seek to gain as much support as possible for activities that lie in his own economic interest. In addition, public-private partnerships often give rise to interactive learning processes the concrete results, costs, and risks of which are difficult to assess *ex ante*. Here there is no choice but to work with assumptions of plausibility. This, though, should not mean that the public partner is released from his obligation to weigh the cost-benefit relation as thoroughly as possible and to justify his decisions in this light.

Finally, the aspect of transaction costs needs to be considered. Although there are some good reasons for governments and development agencies to contract out public services or enter into strategic alliances with firms, this necessarily implies a series of principal-agent problems, because public and private actors may in part pursue different interests, and the private partners (the "agents") have an incentive to maintain information asymmetries in order to negotiate favorable contract conditions, e.g. to maximize public support, to leave the expected outcomes relatively unspecific, and to externalize risks. This again highlights the need to clearly define the contractual relationship, with the services, prices, and distribution of risks etc. which this may entail, as well as to reach agreements on targets and to monitor the extent to which such targets have been met. This causes costs – precisely under the usual conditions of bounded rationality and asymmetrical information.

## **4 Who is who? An overview of leading multilateral and bilateral donor initiatives**

The following overview has been compiled on the basis of website information and other official documents, in some cases complemented by interview data and other sources. The brief descriptions have not been endorsed by the organizations named.

### **4.1 UNDP: Growing Sustainable Business (GSB)**

The objective of the Growing Sustainable Business initiative (GSB) is to facilitate business-led enterprise solutions to poverty in advancement of the Millennium Development Goals. This includes in particular promoting employment creation, business linkages, local economic development, growth of SMEs, and improvements of the enabling environment for private investments.

Investments should not only be pro-poor in design and meet the demand of local populations, they should also be commercially viable. The GSB facilitates “enterprise solutions” under which profit and incentives justify real investment and where financial sustainability is embedded in the design. GSB investments should be related to the reported and audited measures of a company’s business activities. Emphasis placed on developing new business models for the poor.

Participating companies are expected to develop investments on the basis of consultation and partnership with civil society, governments, and other development actors. The initiative leverages UNDP’s unique capacity to create a neutral “space” at country level where information can be shared, issues raised, and appropriate local partners brought together to solve a specific problem. The GSB is a very recent initiative, at present it is active in Ethiopia, Madagascar, and Tanzania, and it is under consideration in some additional countries.

<http://www.undp.org/business/gsb/about.htm>

### **4.2 UNIDO’s Business Partnership Programme**

In UNIDO’s client countries, transnational corporations (TNCs) often actively support SMEs through their global vendor and supplier development programs. UNIDO and the international business community can use partnerships to exploit the synergies between their respective activities, with positive development impacts. As potential partners, UNIDO targets TNCs that basically share the organization’s inclusive approach to development: a willingness to integrate economic, social, and environmental dimensions in their business strategies and to cooperate with other players in the development process.

UNIDO has developed the Business Partnership Programme to serve as a model for economically viable and sustainable technical assistance that focuses on the quality, efficiency, and international competitiveness of SMEs. Within the industry targeted, the

approach seeks to achieve: technological and managerial learning effects, improved domestic resource use in production, increased productive employment and incomes.

A project under the program will address problems of SMEs in specific industries in an integrated way, emphasizing the more advanced SMEs. In value chains, the focus will be on second- and third-tier suppliers - fourth-tier suppliers are likely to need a different type of support, such as small business credit schemes or advisory services, and first-tier suppliers will be strong enough not to need international assistance. Wherever economically and technically feasible, SMEs should avoid being locked into a captive relationship with a single TNC. In UNIDO's partnership projects, SMEs with more than one large business partner are normally chosen.

<http://www.unido.org>

#### **4.3 Germany: Federal Ministry for Economic Cooperation and Development (BMZ) – Public Private Partnership (PPP) facility**

In 1999 Germany's Ministry for Economic Cooperation and Development (BMZ) established a "PPP facility" to support private sector initiatives with positive expected development impact. BMZ assigned three implementing agencies (GTZ, DEG and SEQUA) the task of implementing the program. To date, about 1.600 PPP projects have been implemented in 70 countries, covering almost all areas of development cooperation; e.g. they support health-related investments, promote social and environmental standards in supply chains, clean technologies, training and capacity building, export promotion for smallholders and SMEs.

All German PPP projects need to be in line with the aims of German development policy. Support from the public partner will only be provided if the private partner(s) can not be expected to carry out the project with his/their own resources, i.e. when public goods are provided. Cost-sharing arrangements vary, depending on the expected development impact and the extent to which improvements may be appropriated by the participating firms. However, the private partners are expected to contribute at least 50% of the project cost, and projects are expected to be commercially viable. As a rule, BMZ contributions should not exceed 200.000 euros per project.

<http://www.bmz.de/themen/Handlungsfelder/ppp/>

#### **4.4 USA: USAID's Global Development Alliance (GDA)**

The Global Development Alliance (GDA) is USAID's commitment to changing the way USAID implements its assistance mandate. GDA mobilizes the ideas, efforts, and resources of governments, businesses, and civil society by forging public-private alliances to stimulate economic growth, develop businesses and workforces, address health and environmental

issues, and expand access to education and technology. It extends USAID's reach and effectiveness in meeting development objectives by combining its strengths with the resources and capabilities of other prominent actors.

Alliances mobilize significant USAID and partner resources to arrive at solutions only available through pooled efforts. The resources united are as diverse as the alliances themselves and include technology and intellectual property rights, market creation, best practices, policy influence, in-country networks, and expertise in development programs ranging from international trade to biodiversity protection. Together, the combination of complementary assets has encouraged innovative approaches, more effective problem solving, and deeper impact. Importantly, public-private sector dialogue almost always leads to a better understanding of the challenge.

In the first two years GDA supported 224 partnerships with a total of 500 million US\$. In contrast to all other programs, charity and other non-profit organizations play an important role in funding the projects, and projects need not necessarily be commercially viable. Most activities take place in Africa.

[http://www.usaid.gov/our\\_work/global\\_partnerships/gda/index.html](http://www.usaid.gov/our_work/global_partnerships/gda/index.html)

#### **4.5 United Kingdom: DFID's Business Linkages Challenge Fund (BLCF)**

The BLCF started in 2001 as a cost-sharing grant scheme, i.e. it gives grants to enterprises to achieve DFID's objective of developing commercially sustainable business linkages that bring benefits to the poor. It is a way of working in partnership with the private sector towards the goal of poverty eradication. The Fund encourages and supports the formation of business linkages by enterprises in developing countries with each other and/or with international partners.

The linkages must lead to enhanced competitiveness and generate clear benefits for the poor. The linkages involve an investment of resources by all members of the linkage – skills, technology, information, facilities, supplies, and access to markets. The linkages, in turn, bring benefits to all members and to poor people. Bidding is competitive and grants are allocated according to the degree to which bids meet BLCF criteria and objectives.

Funding comes from the UK government's Department for International Development (DFID). The BLCF offers grants of between £50,000 and £1,000,000 (larger grants may be considered in some cases if they are expected to make a special contribution to achieving the BLCF's objectives). The Fund operates in 20 countries, with a focus on Africa and the Caribbean. At least one partner must come from one of the 20 countries (which include Britain), but participation of British enterprises is not compulsory. The Fund is administered by a consultancy company (Deloitte & Touche).

<http://www.challengefunds.org/whatisblcf.htm>

#### **4.6 The Netherlands: Dutch Ministry of Economic Affairs, Agency for International Business and Cooperation (EVD) – Programme for Co-operation with Emerging Markets (PSOM)**

The Netherlands Minister for Development Co-operation has identified the private sector as the engine of economic growth and job creation. The Ministry has therefore initiated the Programme for Co-operation with Emerging Markets (PSOM) in order to share some of the initial financial risks that companies face when investing in new products and/or technologies in emerging markets in developing countries. The dual purpose of the PSOM is a) to promote lasting investment and/or trade relationships between Dutch and local companies and b) to contribute to the alleviation of poverty in the developing countries through transfer of knowledge and technology, as well as strengthening and diversifying the local private sector.

PSOM co-finances pilot projects, which are to catalyse long term investments and/or a lasting trade relation between the parties. PSOM funds are made available to consortia of Dutch companies and companies of the host country interested to undertake such an investment and trade project. The Dutch partner should be the leading partner and will be the main contractor. A typical PSOM-project involves a mix of technical assistance, hardware supply and installation, marketing, demonstration and training. PSOM projects usually try out – on a pilot scale- a new line of production or production technology to see whether it is commercially feasible in the country concerned and whether (export) quality standards can be attained. Investors are expected to observe a high standard of corporate social responsibility. PSOM aims at some 60 investments per year in 16 countries.

Projects creating substantial local employment, transferring knowledge, making extensive use of local SMEs in the supply chain, operating in geographically disadvantaged regions, generating income for a substantial group of beneficiaries and/or contributing in other ways substantially to poverty alleviation will receive priority in the selection process.

[http://www.evd.nl/start.asp?pagina=/Internationalprogrammes/ProgrammaInt\\_psm.asp?land=psm](http://www.evd.nl/start.asp?pagina=/Internationalprogrammes/ProgrammaInt_psm.asp?land=psm)

#### **4.7 Denmark: Ministry of Foreign Affairs of Denmark, DANIDA's Private Sector Development Programme**

Danida's Private Sector Development Programme (PSD) aims at developing the private sector in a range of program countries by supporting the establishment of long-term and mutually committing partnerships between Danish companies and companies in developing countries. A business cooperation might well prove to be a shortcut to attracting Danish technology and investment. By using business linkages as an instrument for economic growth, the PSD Programme seeks to improve living conditions for the people in the countries selected.

The PSD Programme makes it easier to create long-term business linkages between companies in Denmark and companies in the program countries. The PSD Programme makes funds available to support a number of elements within the activities involved in the cooperation. The business-to-business cooperation must be commercially based, and the joint partners are expected to assume all of the risks involved. The PSD Programme acts solely as a facilitator and does not function as the implementer of individual cooperation projects. To qualify for support, a partnership must have a long-term perspective and comply with Danida's development objectives. The PSD Programme is open to all sectors of business and industry, as long as it is fair to assume that the proposed business co-operation will have a genuine development impact.

<http://www.um.dk/en/menu/DevelopmentPolicy/BusinessCooperation/PrivateSectorDevelopmentProgrammes/>

## 5 Ten critical issues for discussion

The brief description of seven donor programs reveals common objectives and a shared vision of the benefits of public-private partnerships. However, each program has its own very specific setup, with differences in selection criteria, funding arrangements, numbers of stakeholders involved, program management, etc. This diversity implies an abundance of practical experiences. As a consequence it would appear very promising to systematically compare different approaches. This is the main purpose of the workshop to be held in New York. The following section discusses ten critical trade-offs for discussion at the workshop.

### *1. How can the most promising projects be selected?*

Some donor agencies (e.g. DFID) have established competitive bidding procedures and independent committees to select the most promising business ideas. Donor agencies may organize tenders with or without a certain thematic focus. A bidding process stimulates competition for good ideas, and periodic project selection rounds carried out by an independent expert panel ensure that decisions will be relatively transparent. Moreover, tenders may be designed to invite proposals for selected regions or topics.

Other agencies prefer to negotiate business proposals on a one-by-one basis. They argue that it is better to develop project ideas together with the partner – while at the same time enhancing mutual understanding and building trust – rather than selecting written proposals. Furthermore, the formal bidding process implies that most of the companies that have invested in the preparation of a proposal will be turned down, possibly leading to a certain degree of frustration with and alienation from development cooperation.

How does your agency select its candidates, and what lessons have been learned?

***2. How can unnecessary subsidies be minimized?***

Most donor programs directly or indirectly subsidize their business partners. As we have argued earlier, public financial support for these companies is justified if it induces an additional development impact that goes beyond the impact that the private partner – in pursuance of his own interests - would have had anyhow, or that he is legally obliged to provide. Moreover, this additional impact must be greater than the impact the donor agency might achieve if it used the same amount of money in a traditional program without private partners. In reality it is very difficult to judge what is additional and to calculate the opportunity costs of alliances with the private sector.

How does your donor agency deal with this problem of additionality, i.e. defining the optimal level of subsidy?

***3. Should donors promote commercially viable private-sector initiatives or focus on altruistic projects?***

Some of the donor programs explicitly select commercially viable initiatives. One of the requirements of the German PPP program is that business partners need to have a self-interest in the commercial success of the respective project and take on entrepreneurial risks. This is seen as the best guarantee for the sustainability of the project. Other programs seem to be less stringent in this regard, and rely primarily on charity organizations or business initiatives that are motivated by corporate social responsibility concerns rather than immediate business interests. As a result, cost-sharing arrangements are different.

Which criteria does your agency apply, and how are these criteria justified?

***4. How can outreach be increased?***

Stand-alone development projects rarely have significant and sustainable impacts. This is one of the most consistent lessons of past development cooperation. Development practitioners thus increasingly seek to improve policy frameworks and introduce sector-wide innovations rather than intervening at the firm level. However, most development alliances with private enterprises build on individual corporate partners and therefore tend to have relatively limited impact (with some notable exceptions), especially at the overall policy level.

In recent years, two strategies designed to increase the outreach of business alliances have emerged. First, alliances may be forged with groups of firms, especially with business associations of certain sub-sectors. In some cases, a range of civil society organizations and government institutions have joined such initiatives, giving rise to multi-stakeholder alliances that involve very diverse interest groups. Such initiatives may be able to agree on and enforce

certain standards for the whole industry (e.g. codes of conduct, social and environmental standards). However, they necessarily involve high transaction costs, and they call for someone with a high degree of perseverance to take the lead and facilitate the overall process.

Second, alliances may be built with lead firms. Lead firms are those that are in command of technologies or brand names, control access to important markets, set sector-wide (or at least chain-wide) standards and influence other barriers to entry, and select and sometimes support partner firms. If public programs involve lead firms in program design and establish partnerships with them, public support services may become better adjusted to the needs of the SME customers (because lead firms know best what is needed to achieve and sustain competitiveness) and more widely accepted and implemented (because lead firms have the market power to push through certain changes). Partnering with a lead firm may help to resolve a broad range of development issues, e.g. developing new markets for local products, establishing sector-wide labor and environmental standards, developing local suppliers, introducing new management techniques, providing infrastructure services for the poor, and raising awareness of HIV/AIDS prevention.

Does your agency pursue one of these strategies to increase outreach? What experiences have you made with multi-stakeholder alliances and with lead firms?

#### ***5. How much donor-side process management is needed in multi-stakeholder processes?***

We have argued that multi-stakeholder processes may produce better-quality outcomes than isolated local business-to-business projects, especially due to their ability to influence the overall policy environment and to reach agreement on and enforce sector-wide standards. Facilitation of such processes, however, requires someone to take the lead and facilitate the overall process, which may be quite time-consuming.

If your agency facilitates multi-stakeholder alliances, what institutional setup has proven to be successful?

#### ***6. What is the right balance between concentration of donor activities on certain focal areas and flexibility in supporting innovative private-sector approaches?***

There is a trade-off between the goals of supporting a broad array of private-sector-driven development initiatives and the general tendency toward raising aid effectiveness by concentrating on certain focal areas.

Donors undertake many efforts to streamline their development aid and concentrate on a limited number of focal issues. There is a broad consensus that concentration increases aid efficiency. Supporting development efforts of the private sector, in contrast, requires a high degree of flexibility and readiness to support innovative proposals made by business partners, even though they may not be in line with the focal issues that have been agreed upon during

government consultations. In the end, this may again result in a very heterogeneous and unstructured project portfolio.

Does your agency see this as a problem, and are you undertaking efforts to integrate PPP projects in the focal areas of cooperation agreed upon?

***7. What possibilities do partner countries have to influence PPP programs and alliances?***

If they are to assure the commitment of business partners, partnership projects need to be flexible and able to take decisions quickly and independently. Bearing in mind the fact that official negotiations with host country governments tend to be slow and burdensome, it is practically impossible to negotiate individual partnership projects with host country governments. Implementing, without the consent of partners, development projects that involve ODA is, however, an infraction of the good principles of partnership and participation.

How does your institution deal with this conflict?

***8. To what extent can monitoring and evaluation be assured?***

M&E is important to ensure that performance indicators are met and to enable donor agencies to learn and to improve their programs continuously. For several good reasons, however, companies are sometimes reluctant to accept rigorous external reviews. First, companies cannot be expected to disclose certain strategic business data; second, they do not want to be criticized for insufficient impact as long as development contributions are voluntary – external evaluations can only be demanded when the firms use public funds; third, the cost of evaluation may be unreasonably high, especially in the case of small cooperation projects beyond a threshold of, say, 250,000 US\$. On the other hand, it must be seen as problematic if private companies receive substantial government funding without any external performance measurements.

How does your agency solve this problem?

***9. What can special PPP programs do to mainstream private-sector participation in traditional government-to-government programs?***

Most donors disburse the lion's share of their aid in the traditional way, that is, through government institutions. PPP programs and business alliances are different inasmuch as they involve private-sector companies in problem-solving, and most services are delivered by the business partners. Aid efficiency could probably often be increased if this approach was mainstreamed in traditional government-to-government aid.

What is your agency doing - agency-wide - to mainstream the basic concept of private-sector participation in the delivery of development services?

### ***10. Is it acceptable to link development objectives with export promotion?***

Some programs select business partners merely on the grounds of expected development impacts, while some bilateral programs provide public support only to companies from their own country, in this way simultaneously pursuing development goals *and* seeking to improve the positioning of their own companies.

To what extent does this practice put the development outcomes of these programs at risk, and what can be done to align the approaches of bilateral programs?

## **6 Activities during the 10th International Business Forum**

This is the first time that representatives of the leading donor programs in this field will be coming together to jointly showcase, compare, and discuss their practical experiences. During the 10<sup>th</sup> international Business Forum we will have the opportunity to

1. Give a summarizing **presentation** of donor programs at the plenary session, following the launch of the Global Compact/GPPI report: "Enhanced cooperation between the UN and all relevant partners, in particular the private sector." We will briefly present our main arguments in favor of PPPs and strategic alliances as compared to traditional TC/FC donor programs and corporate social responsibility activities that some companies engage in without tapping the expertise of donor agencies. Due to time constraints, however – we have only 30 minutes – it will not be possible to present all the programs in detail.

Tuesday, 13 September, 9.50 – 10.20 a.m.

2. Have a **panel discussion** – in the form of a parallel session – that brings together managers of development programs. Following a brief introduction by the German Development Institute, each participating institution will have 5-10 minutes for a brief introduction to its private-sector program. The remaining time – approx. 30 minutes – will be used to discuss some of the critical issues mentioned in the previous section.

Tuesday, 13 September, 11.00 – 12.30 a.m.

3. Arrange an **informal meeting** where program officials may discuss the pros and cons of different approaches more thoroughly in a private and confidential atmosphere, and possibly reach agreement on future information-sharing and cooperation.

Tuesday, 13 September, 6.00 – 7.30 p.m.

Representatives of the participating donor agencies are kindly asked to

- prepare a brief presentation of their respective program for the panel discussion (with or without Powerpoint),
- to contribute to the discussion of the questions raised in Section 5 and to advance additional issues where appropriate.