

## SUMMARY NOTES

### Multi-donor roundtable on understanding and improving the private sector's contribution to sustainable development

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On January 29<sup>th</sup> and 30<sup>th</sup>, WRI and IIED co-hosted a roundtable discussion in London with representatives from nine bilateral donor agencies and invitees from the private sector. The purpose was to explore how aid can best encourage the private sector's contribution to sustainable development and green growth.

#### What we heard – main takeaways

**Obvious mutual attraction** – Both donor and PS participants expressed a clear appetite for improved collaboration. There are strong drivers for increased donor-PS collaborations and good opportunities for improving these:

- Donor agencies are seeking to work more closely with the PS for a variety of reasons, including improving the effectiveness and efficiency of aid, leveraging PS resources (financial, technical, technological) to achieve scale, and delivering a political agenda of market-driven development.
- The PS is seeking to work more closely with donors to gain their support in understanding and navigating local politics, but would also like donors to express greater clarity of vision, policy direction and consistency.
- The interests of the public and private sector are increasingly overlapping e.g. reaching the bottom 4 billion, managing social and environmental risks, tapping emerging/developing market growth, and improving enabling conditions in developing countries (especially accountability and transparency). Both groups seek better evidence of what business models work for sustainable development.

#### **But a complicated relationship...**

- **The 'private sector' is extremely diverse;** strategies for collaboration need to be tailored to different kinds of actors. The usual suspects among the big brand multinationals are already sensitized to much of the development agenda. More difficult but no less important is to engage with SMEs – which play an important role in job creation – and the informal sector. Both present complementary development potentials but each require a very different set of approaches and tools. Engaging with the investment and financial community (from venture capitalists to institutional investors) will also be particularly important to bring about transformative change. Donors need in particular to develop a better sense of how big pools of capital (e.g. pension and hedge funds) behave. The local financial sector is crucial and must be differentiated from foreign investors. More research and guidance on collaborating the local financial sector is needed.
- **Aid is changing...** The share of ODA in financial flows to developing countries is declining, giving rise to debates about future sources of development finance 'beyond ODA'. In several countries, aid strategies are blurring with foreign affairs, trade, and security. The context of recession, fiscal austerity and increased public scrutiny of aid puts tremendous pressure on donor agencies and financial institutions (FIs) to demonstrate results and avoid risks. These pressures also make it increasingly difficult for donor agencies and FIs to justify continued engagement with emerging economies, where the PS interests may be greatest. Donors are also sensitive to public perceptions that they are creating jobs 'abroad' and building up 'foreign competition'.

- **A difficult balance between supporting and smothering** – Donors need to avoid being seen to subsidize the growth of particular businesses; and the private sector can be reluctant to cooperate with donors due to high transaction costs (small amounts of finance, slow response, high turnover of personnel). A donor should not be just a financier but a partner and driver in creating public goods. Alignment on what public goods we want to create is the big challenge. Aid should encourage a sector-wide transition, and not support individual companies. Corporates are slowly reforming themselves anyway on the incremental scale, especially in middle income countries in response to market changes – there is little need for aid here.

**Time for the big step** – Advancing sustainable development and green growth in the context of multiple accelerating pressures (e.g. resource scarcities, climate change) requires an economic transformation, a new “industrial revolution”. The donor-PS partnership will be critical to delivering results at the pace and scale needed. However, donor-PS collaborations have tended to be piecemeal, scattered and *status quo* oriented. Public Private Partnerships (PPPs), although much talked about, are still in their infancy.

- To support transformation, donors need to focus on system-wide change, focusing on institutional strengthening in developing countries and improvements in the investment climate to help build the enabling conditions that can achieve scale beyond ‘pilots’. They need to send strong policy signals to the market by demonstrating clear vision and leadership. For this they need to clearly articulate their positions, be willing to take risks, get comfortable with uncertainty, and be savvy at identifying and exploiting big levers of change (e.g. Dodd-Frank).

#### **What is holding back progress?**

- **Lack of mutual understanding between donors and PS** – donors and the PS inhabit different worlds: they are motivated by different ‘bottom-lines’ and objectives and have different strategic and operational drivers and concerns. Thus ‘success’ and ‘sustainability’ can have quite different meanings for donors and for PS. Although there are significant and growing overlapping interests, a shared language for speaking about these is lacking. A lack of clarity in the accountability relationship and mismatched mutual expectations can also breed mistrust, particularly when problems emerge. The tendency of donors to focus on ‘telling the good story’ also inhibits sober assessment and lesson learning from failed collaborations.
- **A dearth of analysis and evidence to inform better donor-PS collaboration** – There is little knowledge of what is happening (activities and impacts), what is working, what isn’t and why. This is hardly surprising given how few donor assessments of PS collaboration there have been and the lack of common metrics for tracking the impact and results of donor-PS collaborations. It appears that no such assessments have focused on sustainable development. As a result, donors are ill-equipped to responsibly handle the growth in donor-PS collaborations.
- **Donors are risk-averse and have limited experience and capabilities in handling uncertainty** – A reduced appetite for risk in an age of austerity is limiting the donors’ ability to drive transformative change. However, governments/ donors can take more risks than individual PS players, and must do so in leading the transformation they want to see and blazing a trail for the PS to follow. There is a big tension between development cooperation’s ambition in working with the PS and their increasingly straight-jacketed results and accountability frameworks, which act to constrain ambition and risk taking. Some businesses are at the leading edge of change and are ready to go further with the right signals and support from government. Beyond the landscape of risks, economic transformation involves profound uncertainties, which donors are not geared up to navigate and systematically handle.

- **There is limited coordination between donors in engaging the private sector.** The public sector is not organising at scale and there is little collaboration among donors: initiatives tend to be individual donor driven, or project driven. Scale is important. More coherence and coordination between donors – pooling risk, developing country governments and PS is called for.

### **What new ideas and opportunities emerged?**

**1. In-country and international donor-PS learning platforms** – There was clear appetite for future donor-PS ‘dating’ opportunities to gain better mutual understanding, discuss sticking points, create shared visions of success, and explore ways to better collaborate. To make future donor-PS dialogues more concrete and grounded, in-country collaborative platforms can be created that could initially be focused in a priority sector such as food/ agriculture. Such collaborations should be action-oriented and implementation-focused. Extensive grounded research is required to build the evidence base to support and guide such collaborations. Continued dialogue and exchange should build upon existing efforts: in particular, existing donor-PS collaboration platforms can offer a good way to make progress.

**2. Guidance on what works and what doesn’t in marrying commercial and sustainable development success** – There was broad interest in best practice guidance on leveraging private sector for sustainable development. The target audiences of such guides would primarily be the development assistance community, recipient country governments, and private sector, all of which are groups that currently lack access to information about where potential for effective partnerships exist. These guides could highlight key information about how to unlock potential, especially in the areas of financing and national policy and in the huge but less-well-explored areas of informality. Another area where best practice guidance would be helpful is on transparency and accountability frameworks in donor-PS collaborations.

**3. Developing shared metrics of performance and success** – There is a need for better and standardized metrics to capture the impact, benefits, value-for-money of donor-PS collaborations, and to track progress in delivering on desired outcomes. Having clear metrics will strengthen transparency and accountability, and help generate a bigger body of compatible evidence to inform continuous learning and improvement in donor-PS collaborations. Both donors and the PS should be involved in the development of these metrics.

**4. Creating space and mechanisms to encourage higher risk-reward collaborations** – The roundtable identified the need for ‘venture capitalist’ approaches and financial innovation to accelerate partnerships that can incubate big impact ideas and bring them to fruition. Cross learning and experimentation at the sector level in developing countries between donors, government, and the private sector would support this. WRI and IIED would like to continue their collaboration to undertake convening and grounded experimentation in best practice in conduct PS-donor collaboration for sustainable development, with raised ambition and ways to encourage innovation and experimentation.

**5. Capitalising on opportunities within the post-2015 development agenda to promote a more transformational donor-PS partnership.** Ongoing processes to shape a post-2015 development agenda provide important opportunities for highlighting the role of the private sector and specific areas in which PPPs could play a role in delivering desired outcomes. The idea was suggested to forge a new global compact with an integrated vision, to drive action at the international level. This could take the form of a coalition of the willing behind the 2015 Goals with common objectives and common commitments. WRI and IIED are part of a coalition of think tanks, the *Independent Research Forum on Post-2015 SD*, that aims to help embed sustainability and equity within the post-2015 development framework, which supports and is recognized by both the UN High Level Panel and the Open Working Group on the Sustainable Development Goals, and will seek to ensure that the positive role that the private sector can play is actively considered.