Summary of key insights from the e+i discussion on "Effective Partnership with the Private Sector" – Week 1: March 2nd until March 9th 2015

Dear colleagues, practitioners, active contributors and active readers of this discussion cycle

The summary of key insights will give a brief overview of the discussed topics. It cannot take up every element, argument or perspective posted during the discussion; nor can it focus on a specific example (we heard from around 36 cases, within more than 130 posts).

The final synthesis of the discussion cycle shall be more comprehensive and provide guidance for the forth-coming face-to-face meeting in Thun (April 2015).

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The initial question to you had three main elements:

1. Why do you engage with the private sector – what is your motivation?
2. With whom from the private sector do you engage? (including: the right partner)
3. And was the engagement successful?

The summary is structured around these three questions.

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1. **Why do we work with the private sector?**

The drivers (the motivation) for most development programs are quite similar, and can be summarised in two elements:

The private sector……allows for **outreach** and **sustainability**!

Outreach or scale refers to the number of target group reached, for instance farmers having access to inputs, advice, extension services or access to markets for selling their produce. Or the number of companies that participate in the tourism market, or the number of enterprises having access to financial services or products.

Sustainability refers to the continuity of the induced changes, products and services. For instance financial services: they must be market based and market driven; therefore development programs need to partner with the private sector.

With another term often used, the private sector offers **leverage.** Leverage for change, scale, sustainability, increasing incomes of poor people, in capacity building, and for market stability.

The collaboration with the private sector becomes even more evident when the public sector (government, state) is not functioning how it should.

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2. The private sector as partner of development programs

The different example show that development programs partner with small, medium sized and large enterprises, even multinational companies. While the size matters in some cases, in other cases there is simply no choice because not many enterprises work in a specific region or with the target population of the intervention program.

=> SIZE

In general terms (with a series of opposite examples) the participants describe the **Medium Size Company** as most suited, because they tend to be "doers", result oriented, and have the means for risk taking and investing into new endeavours; they also have the capacity for reaching a high number of "beneficiaries" and taking into consideration social and environmental criteria.

Small or very small companies have a strategic advantage when it comes to testing or piloting new ideas; without distorting markets or changing market mechanisms before an idea is well tested. However, when it comes to outreach, risk-taking and investment into new game changing processes, small enterprises have their natural limits.

Big, inter- or multinational companies have certainly a big advantage when it comes to outreach (for instance through contract farming; technical advice and other embedded services), investment potential, and inclusion of environmental and social criteria. However, the big companies are not always interested or well equipped for working with (a large number of) small scale farmers and/or in remote areas.

=> CRITERIA for CHOOSING

As size might be a criterion, it is usually not the most important one. Following criteria had been mentioned most often during the discussion as being important for a successful partnership:

- Potential for **leverage** to reach scale (see also first part of this summary)
- Common **interests** (i.e. like-minded managers when it comes to business ventures, social or environmental issues)
- Existing **will** (motivation) and **skills** of the partner
- Potential and interest in **innovation** (i.e. trying out new ideas, testing new products or services)
- Capacity and readiness to **invest** (co-investment into any joint collaboration is key)
- **Social** and **environmental** concerns
- Minimized **risks** (compliance with "good business" criteria)
- …. others

=> HOW to CHOOSE the right partner?

Two approaches emerged from the discussion: the '**tender approach'** and the '**search approach'** for finding the right partner. Both approaches have their pros and cons – and there is no universal form of defining the most appropriate approach, this depends highly on the context, need and capacity of the development program – as well as on the existing companies in the field of work.

FINDING the RIGHT Partner, was the most disputed element during week 1. Because everything depends on the motivation, incentive and interest of the (private) partner. If its engagement stops or changes, our efforts might have been in vain.

Several different, complementary approaches were taken for increasing the potential of choosing the right partner:

- **Piloting/testing**: Start with small partners, or only a few partners; when it shows its potential partner up with more or bigger companies.
- **Due diligence**. Checking the history, motivation and incentive of the private company.
- **Market analysis**. Conduct a serious and in-depth analysis of existing market players, their networks, interests and potential areas of conflict.
- **Mutual understanding**. Invest sufficient time for assuring that interests, motivation, needs, expectations and goals from both parties are well understood.
- **Ownership**. Engage very early with private companies and create a new product or service with them, this increases the ownership of the joint venture.
- **Co-investment**. The private partner should be willing to co-invest (for what is considered private interest).
- ....others

=> What if there is NOBODY to choose from?

Several colleagues drew our attention to situations where there is no choice of existing private enterprises. For instance because no micro-insurance company exists; or because the existing companies have no intention in developing services for small scale farmers; or no trading company is interested in changing the way they have been working for generations.

While most participants seem to agree that it is more promising to collaborate with existing companies or networks; some have to "create" enterprises or entrepreneurial spirit, through:

- Financing **start-ups**
- Creating **evidence** for a potential business model
- **Bridging** (financing) a pre-commercial gap
- **Capacity**/skill building
- Testing and piloting of **innovative ideas**, products or services
- ....other

Specific **incentives** for creating new business opportunities are acceptable, if there is no other possible way. A great **danger** with regard to sustainability and/or market **distortion** was also discussed: if enterprises only react to donor-incentives, or if they depend on donor support, then any sustainability is at stake. Subsidized services can create great market distortions and drive existing companies out of a market; this can even lead to long-term harm of a whole market system.

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3. (Un)-successful partnerships

As mentioned earlier, finding the RIGHT PARTNER is key for success. Once the right partner is found, the basis for good collaboration is transparent communication, joint-definition and understanding of interests, motivation, needs, demands and goals (see also previous chapters).

I will now list a series of elements that were **challenging** – not necessarily elements that led to failure, though:

- **Language**. Terminology and understanding of business ventures might differ from a private company perspective and a development program perspective.
- **Time scale** for results or economic gains. The private sector often has visions for the long term (sustainability) but needs to see short term financial results.
- **Flexibility.** Development programs sometimes are not well equipped for flexible and dynamic decision making; private companies need to act and react to market-contexts and this might not fit donor plans.
- **Project mode.** While the private sector needs to assure long-term commitments, development programs often work only for a few years.
- **Comfort zone.** Many private companies (and often also development programs) are not keen on new ventures, new products or services lines, they prefer to stay in the "known", i.e. their comfort-zone.
- **Good governance.** Development programs seek a multitude of converging elements, besides the scale and outreach, they also seek joint interests in social and environmental elements; this might be hindering factors, because negotiations become complex.

10.03.2015. For the summary: Daniel Roduner & Marcus Jenal