

# Private Sector Engagement Through Development Cooperation (PSE)<sup>1</sup>






## What is PSE through development cooperation

Private sector is usually defined as organizations that are profit seeking, thus excluding non-profit foundations or civil society organizations. Private Sector engagement (PSE) refers to the participation of the private sector seeking development results<sup>2</sup>, while PSE through development cooperation means the intersection between development finance instruments and the private sector<sup>3</sup>.

Figure 1: PSE through development cooperation: overview



Figure 2: PSE through development cooperation: instruments

-  **Grants:** cash or in-kind transfers which do not generate debt for recipients.
  - Pakistan Economic Corridors Programme (DfID, DAI Europe, ADB, IBRD and SG Hambros): The project aims to improve transport infrastructure in Pakistan along with enhanced private sector involvement in infrastructure financing.<sup>5</sup>
-  **Debt instruments:** cash or in-kind transfers which incur in debt for the recipient.
  - Preferential export buyers' credit in Axiata Limited (Bangladesh) project, financed by China's Development Bank, in partnership with China's transnational private sector and Bangladesh's private sector.<sup>6</sup>
-  **Mezzanine finance:** transfers that incur in debt or preferred stock, as subordinated loans, preferred equity or hybrid instruments.
  - Mezzanine Finance for Climate Change (ADB): establishes a mezzanine finance facility with Clean Technology Funds (CTF funds) for co-financing high development impact mitigation projects with ADB's climate equity investment program, Asia Climate Partners (ACP).<sup>7</sup>
-  **Equity and shares in collective investment vehicles:** investment through collective mechanisms to reach regions that would not be attractive for sole or long-lasting investments.
  - CDC Programme of Support in Africa and South Asia (2015-2018), CDC encourages capital investments from other private investors by being a first mover, and by sharing risk and expertise. The additional equity from DFID will enable CDC to meet demand for capital in its target markets and allow CDC to sustain higher developmental investments in priority regions and sectors.<sup>8</sup>
-  **Guarantees and other liabilities:** risk-sharing mechanism; the guarantor pays part or the entire amount due on a loan, equity or other instrument to the lender/investor in the event of non-payment by the borrower or loss of value in case of investment.
  - Development Impact Bonds (DIBs), such as the Village Enterprise DIB: USAID and DfID are giving investors financial guarantees to stimulate investments to developing SMEs in Sub-Saharan Africa, in Partnership with the Global Development Incubator, IDinsight and Instiglio, with a budget of over 5 million dollars.<sup>9</sup>

Prepared by the authors, based on OECD (2016) and multiple sources.

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<sup>2</sup>OECD (2016). Private sector peer learning. Peer inventory 1: Private sector terminology and typology. Understanding Key Terms and Modalities for Private Sector Engagement in Development Co-operation.

<sup>3</sup>GPEDC (2018). Concept Note - Agenda 2030: Promoting effective private sector engagement through development co-operation.

<sup>4</sup>OECD (2016). Private sector peer learning. Peer inventory 1: Private sector terminology and typology. Understanding Key Terms and Modalities for Private Sector Engagement in Development Co-operation.

<sup>5</sup>Also available at: <https://www.adb.org/site/funds/funds/pakistan-economic-corridors-programme>.

<sup>6</sup>KOCAATA, Z. ESTEVES, P. Discussion Paper: Private Sector Engagement Provided by Developing Countries.

<sup>7</sup>ACP is a joint venture fund that will undertake commercially-oriented private equity investments across a variety of environmental segments, with the intention of demonstrating attractive risk-adjusted returns for investments in these areas. Available at: <http://asiacclimatepartners.com.hk/>

<sup>8</sup>Available at: <https://devtracker.dfid.gov.uk/projects/GB-1-203444>

<sup>9</sup>Available at: <https://villageenterprise.org/our-impact/development-impact-bon>



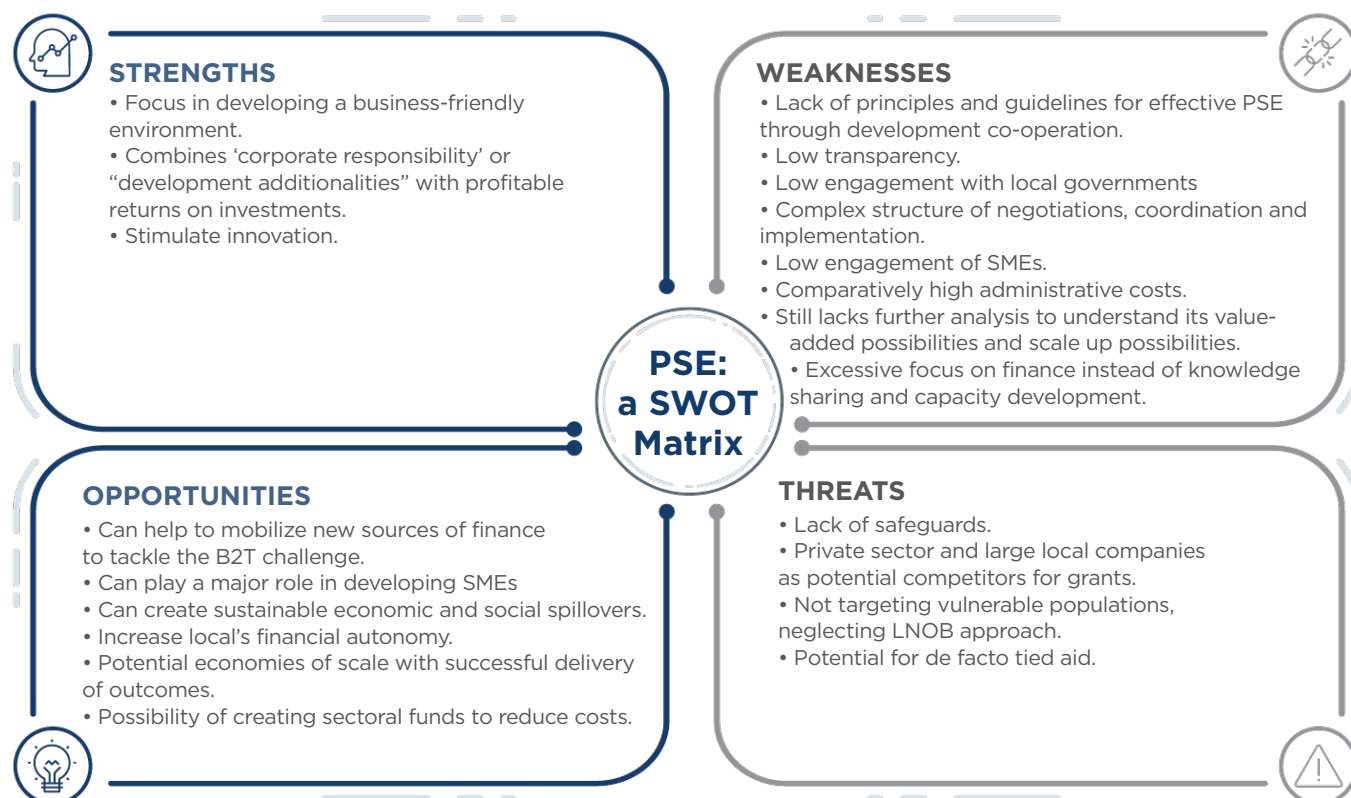
## ■ FACTS ABOUT PSE:

- Recent data shows that approximately 80 billion USD of PSE was leveraged through official flows (between 2012-15), but only 7% in LDCs.
- PSE happens mainly through the mechanism of financing, GEPDC studies on Egypt, Bangladesh, Uganda and El Salvador showed results of 71% of projects in finance, with debt financing supporting 42% of projects overall. In Egypt, 90.8% of projects include financing.
- Agriculture, energy, manufacturing and infrastructure are between the other main areas of PSE.
- While North-South PSE tend to largely happen in upper middle-income countries South-South PSE also takes place in LDCs and conflict-affected regions<sup>10</sup>.
- Chinese, Indonesian and Turkish cases suggest that South-South PSE encompasses capacity development, technology transfer and knowledge sharing through PSE<sup>11</sup>.
- PSE lacks information and transparency, what makes it impossible to map how much has been invested in PSE projects and to replicate best practices. Monitoring systems and evaluations are rarely made public. (GEPDC, 2018)<sup>12</sup>
- PSE projects do not sufficiently target marginalized populations: 11% of projects reviewed by GEPDC specifically referred to rural, remote or underserved locations while 5% explicitly targeted poor or low-income people. Only 4% specifically referred to benefiting women. (GEPDC, 2018)
- PSE is still concentrated around large domestic companies instead of SMEs (as recipients).
- PSE projects usually align with national development priorities, mainly in creating a business enabling environment, but lack local stakeholders' (either government and other non-state actors) participation in the design and implementation of the project, as shows the following table:

**Table 1. Representation of different stakeholders as a percentage of all PSE projects in each country**

Stakeholder	Bangladesh (240)	Egypt (277)	El Salvador (131)	Uganda (271)	All 4 countries (919)
Government	9%	18%	20%	10%	14%
Civil society	10%	9%	15%	6%	9%
Trade unions	0%	0%	0%	0%	0%
Business associations	1%	5%	9%	6%	5%

Source: GEPDC, 2018<sup>13</sup>



<sup>10</sup>KOCAATA, Z. ESTEVES, P. Discussion Paper: Private Sector Engagement Provided by Developing Countries. <sup>11</sup>Id ibid <sup>12</sup>GEPDC (2018), "Effective Private Sector Engagement through Development Co-operation: Issues Paper". <sup>13</sup>Id ibid.