

# Discussion Paper: Private Sector Engagement Provided by Emerging Economies

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## Executive Summary

The promise and potential of private sector engagement (PSE) in activities supported by development cooperation has garnered significant interest and importance. This recent salience mirrors the broad recognition that key international agreements - such as the 2030 Agenda - necessitate efforts and contributions beyond what governments alone can provide. Nonetheless, PSE through development co-operation provided by emerging powers has had a long and rich history; one that has been characterised by complex cooperation modalities that are driven by a number of objectives. However, despite this long-established practice there exists a clear lack of evidence on, and understanding of, PSE supported by emerging economies. In addressing this gap, the purpose of this paper is threefold. First, it proposes a typological framework to conceptualise how emerging economies support PSE in partner countries through development co-operation. Second, it explores how stakeholders regard issues related to the effectiveness of PSE at the country level. Third, based on the framework and these findings, it concludes with a set of key issue areas that are pertinent concerning the effectiveness and impact of PSE by emerging economies.

The typological framework proposed in this paper is structured around four conceptual dimensions. The framework firstly characterises PSE through examining coordination arrangements that are in place, here classified as the degree of centralisation that is present. Second, the framework characterises PSE through the actors that are engaged, whether they be provider or partner governments, creditor institutions, other non-state actors and so-on. Third, the framework determines the objectives of PSE efforts, on whether these objectives are commercial, developmental, foreign policy, or mixed (a combination of several objectives). Fourth, the framework categorises PSE engagements by emerging economies based upon the supporting mechanisms/instruments utilised. This final dimension delves into the specific modalities of finance, knowledge sharing, technical assistance, and instruments used to engage the private sector. Based upon a synthesised analysis of the suggestive findings of the country case studies explored by this paper (China, Turkey, and Indonesia) - and despite heterogeneity among the cases - this paper proposes five key areas that require attention in the context of the notes

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effectiveness of PSE provided by emerging economies:

- Recognising that PSE supported by emerging economies is characterised by the pursuit of multiple goals, the paper suggests the need to explore policy coherence as a tool to integrate the different dimensions of sustainable development through PSE engagement.
- Given the lack of clarity on the extent to which PSE provided by emerging economies is owned and driven by host countries, the paper suggests the need to explore the factors that determine successful and demand driven inclusive national ownership.
- The paper thirdly advances a need to develop better understandings of the underlying incentives of the private sector to the end of ensuring a focus on least developed countries in PSE of emerging economies.
- Finding that many PSEs provided emerging economies - and SSC writ large - are bilateral in nature and scope, the paper fourthly suggests an exploration of how best to leverage the benefits of cooperation, such as through the promotion of triangular cooperation.

With a view to scaling up and replicating the outcomes of successful PSE, the paper argues for the need to explore how to ensure that PSE produces the results that it intended.

Given the opportunity presented by the Second UN Conference on South South Cooperation, this paper invites stakeholders to engage and reflect upon these substantive issues in order to scale-up opportunities and to address the challenges in achieving effective and impactful PSE. The findings also inform ongoing work on shaping principles and guidelines for effective private sector engagement through development co-operation.<sup>2</sup>

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<sup>2</sup>For more information, see: <http://effectivecooperation.org/our-work/2017-2018-programme-of-work/private-sector-engagement-through-development-co-operation/>

## 1. Introduction

The engagement of private sector actors<sup>3</sup> in activities supported by development co-operation has increasingly gained importance. It is well-recognised that governments alone are not able to address sustainable development challenges. Rather, partnership arrangements that can leverage the comparative advantages of each stakeholder to fill implementation gaps of the SDGs and other international agreements are needed. Here the private sector, with its ability to bring market-based solutions to sustainable development challenges, is an attractive partner for stakeholders from the global north and south alike.

Many bi- and multilateral development co-operation partners are establishing new approaches (finance windows, instruments and modalities) with a vision to realise shared value<sup>4</sup>. These approaches are often expected to find profitable solutions to sustainable development challenges and to provide incentives in the form of risk sharing, financial assistance, capacity building and the like to the private sector. Similarly, South South Co-operation (SSC) partners - especially emerging economies<sup>5</sup> - that support south-south and triangular development co-operation activities often engage the private sector to generate mutual benefit for business and development, and they are using instruments and modalities that include the private sector for delivering their development assistance (Kindornay and Reilly-King, 2013).

Historically, the principles guiding emerging economies in the context of South-South technical co-operation are set out by the Buenos Aires Plan of Action (BAPA - 1978). Here, the role of the private sector in achieving impactful technical co-operation was stated (see recommendation 12). Thirty years after Buenos Aires, at the High-Level United Nations Conference on South-South Cooperation, member states embraced a multi-stakeholder approach to south-south co-operation, asserting the need of mobilizing the private sector to meet “development challenges and objectives in line with national development strategies and plans” (A/RES/64/222). The 2019 Second High-level United Nations Conference on South-South Cooperation will provide the international community with the opportunity to review trends, assess progress to date in furthering development, review lessons learned in south-south and triangular co-operation and identify new opportunities offered by those modalities of cooperation to achieve the 2030 Agenda and other internationally agreed development goals (UNOSSC, 2018).

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<sup>3</sup> Private sector actors are privately-owned, for-profit actors. They include micro-, small- and medium-sized enterprises (MSMEs), multinational and domestic corporations.

<sup>4</sup> According to Porter and Kramer (2011), “shared value involves creating economic value in a way that also creates value for society” (e.g. positive environmental and social impact).

<sup>5</sup> Whermann (2018) states that depending on the definition considered, different countries are classified as emerging ‘markets’ or ‘developing economies’ (International Monetary Fund, 2015); similar to studies focussing on “emerging economies”, the countries considered differ. The countries referred to in studies on emerging economies depend very much on the research questions investigated. As a consequence, in some cases, even the distinction between the concepts of emerging and developing countries (and economies) is set aside “for practical purposes” (Hardy, 2013, p. 55).

With this watershed opportunity in mind, it is worth noting that there is a deficit of evidence and understanding on PSE practices supported by emerging economies. In redressing this lack, this paper will: (i) provide a proposal for how to conceptualise how emerging economies support PSE through development co-operation<sup>6</sup> in their partner countries; (ii) explore how stakeholders see issues related to effectiveness of private sector engagement at the country level based on a literature review and semi-structured expert interviews; and (iii) provide a synthesis of findings emerging from individual emerging economies' experiences. It concludes with a set of questions drawing on commonalities and differences of approaches between different development co-operation providers. Based on a synthesis of the suggested findings of initial country analysis presented in this paper (China, Turkey, and Indonesia), five issue areas are advanced to guide discussions and action in making PSE more impactful:

1. How to ensure **coherent** private sector engagement where mixed (economic, development, foreign policy, etc.) agendas and policies do not conflict but mutually reinforce each other?
2. What factors determine successful **inclusive national ownership** that is demand-driven, strengthens local capacities and encourages self-reliance over PSE by emerging economies?
3. What incentive mechanisms ensure that impactful PSE efforts that deliver on development and commercial goals alike happen **more frequently in Least Developed Countries, fragile contexts and conflict-affected countries**?
4. How can we leverage **multi-stakeholder partnerships and triangular co-operation** in the context of PSE provided by emerging economies?
5. How to ensure PSE through development co-operation provided by emerging economies **delivers the results that it intended**?

The remainder of the paper is structured as follows: Section 2 introduces key concepts and suggests a conceptual framework on PSE provided by emerging economies. Section 3 summarises the findings from a literature review on PSE in China, Turkey, and Indonesia. Finally, Section 4 provides a synthesis of findings and concludes with proposed next steps.

## 2. Conceptualising Private Sector Engagement Provided by Emerging Economies

Among emerging economies, the promotion of PSE through development cooperation is a cross-cutting issue. Very often it includes agents from different governmental branches, ranging from foreign policy and development co-operation to trade and investment finance, as well as the private sector itself. Partnership arrangements by emerging economies with the private sector can be classified around the following

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<sup>6</sup> There is no agreed definition of South-South development co-operation. This paper focuses on the assessment of all support mechanisms related to PSE emerging economies use that involve resource transfers as described in table 2.



dimensions: (1) coordination arrangements; (2) actors; (3) objectives; and (4) support mechanisms/instruments (Table 1). The articulation of a classification framework can assist in understanding and providing orientation in what is otherwise a complex and variegated field of actors, modalities and practice.

<b>Table 1. Proposal for a Classification Framework for PSE provided by Emerging Economies</b>	
<b>Component</b>	<b>Description</b>
(1) Coordination Systems	Mechanisms through which actions of and interactions between actors are governed in PSE provided by emerging economies. Categories include centralised, de-centralised, multi-track and double-track coordination arrangements.
(2) Actors	Actors include provider and partner governments, creditor institutions such as Eximbanks and national development banks, partner countries and transnational private sector as well as other non state actors such as civil society and trade unions. Every actor can play different roles (coordination, financing or implementation) while supporting the PSE.
(3) Objectives	Commercial objectives, development objectives, foreign policy goals, mixed objectives.
(4) Support mechanisms / instruments	Modalities of finance, knowledge sharing, technical assistance, and capacity development used to engage the private sector. They include grants, debt instruments, equity and shares in collective investment vehicles, and hybrid instruments. Instruments include specific mechanisms and channels through which partnership between emerging economies and the private sector are supported through ODA-like and OOF-type financing.

### **(1) Coordination arrangements**

Examining coordination mechanisms put in place by different emerging economies helps to understand preferences and the orientation of PSE related activities. This paper classifies coordination mechanisms adopted by different emerging economies by the degree of centralization. Classification by the degree of centralization may reveal how different instruments are mobilized to support PSE. Categories of coordination

arrangements by centralisation include centralised, de-centralised, multi-track and double-track coordination arrangements.

- **Centralised coordination arrangements:** This coordination arrangement incorporates actors with development and commercial objectives under a single structure. Under a centralised coordination mechanism, the extent to which a PSE in SSC activity is development - versus commercially- oriented depends on the institution assuming the coordination role. **Example:** China
- **De-centralised coordination arrangements:** De-centralized coordination arrangements are based on multi-sectoral coordination mechanisms. Under de-centralized arrangements, different branches of the government may enjoy some degrees of autonomy. **Examples:** India, Indonesia
- **Multi-track coordination arrangements:** This coordination arrangement is largely grounded in activities such as international peacemaking and statebuilding and has strong focus on stakeholder coordination. Each stakeholder group assumes the responsibility of delivering either development or commercial objectives of development co-operation, with the private sector largely assuming the role of delivering economic development and commercial objectives. The coordination among each track of stakeholders are expected to contribute to the overarching foreign policy priorities of the provider country. **Example:** Turkey
- **Double-track coordination arrangements:** This coordination mechanism considers development and commercially oriented PSE activities on separate tracks. Under a double track coordination arrangement, private sector programmes do not include traditional trade and investment tools and, very often, consist only of support mechanisms with development objective. **Example:** Brazil

## **(2) Actors**

Depending on the institutional set-up, governments of emerging economies engage a variety of agents from development, trade and/or investment finance in PSE efforts. As mentioned, the promotion of PSE among emerging economies is cross-cutting and includes a variety of agents. Among emerging economies, actors mandated to foster the private sector engagement include ministries of foreign affairs, ministries of commerce, development agencies or departments, Eximbanks (or other export credit agencies) and national development banks. The roles played by different actors differ across jurisdictions depending on the type of coordination system in place. Generally speaking, actors commonly mandated to carry out trade and investment policies may operate under development co-operation agencies or departments, making trade and investment tools available for meeting development purposes. Eximbanks and national development banks are exemplary cases. Eximbanks' primary focus is on trade finance, providing lines of export credits, insurance, and guarantees. Among emerging economies these banks may also support investments abroad for development purposes generating lines of credit managed by emerging economies. National development banks focus on domestic agendas and only subsidiarity on

investments abroad. Nevertheless, their international activities are not only growing but have been increasingly integrated into development arrangements. On the partner country side, relevant national and local government agencies, ministries and domestic private sector actors engage in PSE arrangements provided by emerging economies based on the principle of horizontality, where development partnership between actors from the global south is seen as an alliance of mutual benefit and equality.

### **(3) Objectives**

Emerging economies have a number of objectives (commercial, developmental or foreign policy goals) to realise when engaging the private sector through their development co-operation. A starting point for assessing PSE's developmental impacts beyond profit is addressing its orientation. More centralised coordination favours the integration between commercial and development instruments, and its orientation depends on the institution mandated to coordinate these activities. Weak centralisation in coordination can indicate either loose ties between different policies and mixed objectives or even that these objectives are kept apart.

### **(4) Support Mechanisms/Instruments**

A wide range of different instruments are being used in PSE provided by emerging economies. They both affect and are affected by the coordination mechanisms in place and the actors engaged. They exist in the form of partnership agreements with resource transfers that create contractual obligations when used. This includes grants, debt instruments, equity and shares in collective investment vehicles, and hybrid instruments. Table 2 provides an overview of such instruments adopted by emerging economies when engaging the private sector.

<b>Table 2. Support mechanisms – PSE provided by emerging economies</b>		
<b>Orientation</b>	<b>Instrument</b>	<b>Type</b>
Instruments with development objectives	<i>Concessional loans:</i> Medium and long-term, low interest rate credit operated by official banks or funds. Concessional loans may fund either manufacturing and infrastructure or social development projects. Furthermore, they may finance the procurement of lender's goods and services by borrowing countries.	Debt instruments
	<i>Grant programmes:</i> Transfers made in cash, goods or services for which no repayment is required.	Grants
	<i>Capacity development:</i> includes institutional development, human	Grants

	resources development, cooperation and skills upgrade.	
	<i>Policy dialogue:</i> Dialogues with the objective of developing policy agendas and frameworks at international, national and local levels that reflect all parties' interests. Change behaviour such as through improvements in corporate practices and industry standard-setting (OECD, n.d.).	Grants
	<i>Technical assistance:</i> Activities with impact at a given point in time on operational capacities and effective functioning of stakeholders and institutions.	Grants
	<i>Knowledge sharing:</i> Advancing solutions by sharing new methods, tools and innovative approaches to addressing development challenges (OECD, n.d..)	Grants
Instruments with commercial objectives (trade and investment tools)	<i>Export credits:</i> Loans for the purpose of trade which are not represented by a negotiable instrument.	Debt instruments
	<i>Preferential export buyers' credits:</i> Subsidized credits provided to foreign borrowers, supporting the imports of goods. May have a concessional component, defined case by case.	Debt instruments
	<i>Export sellers' credits:</i> Preferential loans provided to companies abroad in order to support exports and helping to earn foreign exchange currency.	Debt instruments
	<i>Natural resource backed loans:</i> Countries asked to use their natural resources to guarantee a loan with better terms and conditions than those available from traditional commercial banks.	Debt instruments
	<i>Equity programmes:</i> A share in the ownership of a corporation that gives the owner claims on the residual value of the corporation after creditors' claims have been met.	Equity and shares in collective investment vehicles

Instruments with mixed objectives (both development and commercial)	<i>Foreign aid joint ventures:</i> Blending between official and corporate funds (among emerging economies), enabling the establishment of joint ventures. Foreign Aid Joint Ventures may involve taking equity stakes in companies in partner countries (Zhou 2017).	Hybrid instruments
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### ***Applying the proposed assessment framework: An example***

Table 4 provides an example of how the classification system works in practice. It draws from one partnership example supported by China Development Bank engaging the Chinese private sector in Bangladesh.<sup>7</sup>

<b>Table 4. Classifying PSE provided by emerging economies – putting the proposal in practice</b>	
<b>Axiata (Bangladesh) Limited</b>	
<b>Description</b>	In June 2010, Axiata (Bangladesh) Ltd, a telecommunication company (operating in Bangladesh under the brand name Robi), signed a MoU with China Development Bank (CDB) and Huawei Technologies (Bangladesh) Ltd., to expand its telecom network across the country. CDB would loan \$100 million to Robi, who would in turn purchase machinery/infrastructure from Huawei.
<b>Institutional coordination arrangement</b>	Centralised institutional coordination arrangement
<b>Actors</b>	China Development Bank, Transnational private sector (China), Domestic private sector (Bangladesh)
<b>Objectives</b>	Mixed (both financial and developmental)
<b>PSE support mechanism</b>	Debt instrument, preferential export buyers' credit.

### **3. Illustrative Country Findings:**

This section will summarise key aspects of the illustrative country findings on PSE provided by China, Turkey, and Indonesia. For more detailed analysis conducted by this paper, please refer to the annex.

<sup>7</sup> This example is drawn from <http://aiddata.org/data/chinese-global-official-finance-dataset>.

### **3.1. China**

- The Chinese business sector, including both state and privately-owned enterprises, is seen as a key partner in achieving the domestic strategy of “going global”, adopted in the early 2000s, but also in realising national priorities related to implementing international agreements such as the 2030 Agenda or the Paris Accord. As such, businesses are intrinsic partners of Chinese development co-operation.
- During the last 20 years, the Chinese business sector has not only been playing a role as financier, but also as implementer of Chinese development co-operation.
- PSE projects with China are usually proposed by host country governments through Chinese embassies. This ensures that development co-operation activities are truly demand-driven and in alignment with partner countries’ national development priorities.
- PSE provided by China mainly focuses on hard infrastructure, industrialisation and agriculture. Recently, government officials stated at the China's White Paper on Foreign Aid (2014) their interest and commitment towards social sectors, mainly human development and environment.
- China's Belt and Road Initiative (BRI) is arguably the world's largest attempted private sector engagement programme. While different in nature, both BRI and the 2030 Agenda have sustainable development as the overarching goal.
- The regional focus of PSE provided by China is primarily determined by the factor corporate ownership, with state-owned enterprises enjoying higher risk sharing provided by the Chinese government.
- As will be explored, there is a strong incentive among the Chinese government and the business sector to operate in LDC, hard and fragile contexts.
- Local stakeholder participation, including from NGOs, local communities and business/industry associations, is limited in PSE provided by China.
- There is an insufficient knowledge of some sustainable development practices such as circular economy and corporate citizenship, largely due to gaps in communication between Chinese public and private actors. Internal factors or the governmental procedures rather than expectations of local stakeholders and communities play a role in CSR activities.
- A growing number of Chinese companies “going global” have come to realise the value of social impact assessments on the sustainability of their overseas projects. However, there are gaps in implementing social impact assessment.

### **3.2. Turkey**

- The private sector is seen as a key stakeholder group in achieving visions outlined in key international agreements such as Paris Accord and the Agenda 2030 as well as the foreign policy of the Turkish government.
- Policy frameworks point to the diverse roles the private sector can play in achieving sustainable development. These include financing, implementation, and monitoring/reporting progress.



- In Turkey, both state as well as non-state actors are actively engaged in shaping and implementing national development co-operation projects (multi-track approach). This influences how the Turkish private sector is engaged in development co-operation activities provided by Turkey.
- The multi-track approach creates opportunities and risks for the engagement of the Turkish private sector in partner countries. This ranges from possibilities for a more holistic engagement to blurring the boundaries between using official aid as public resources and promoting Turkish business interests abroad.
- Turkey co-established several multi-stakeholder initiatives and dialogue platforms with international partners to facilitate exchange of experiences on issues around PSE, in line with the very objectives of south-south co-operation.
- PSE provided by Turkish development co-operation is broad in its geographical scope, with least developed countries comprising by far the largest recipient country group.
- PSE provided by Turkey is characterised by the respect for partner country ownership, alignment with national priorities and plans, and empowerment of the national and local leadership, which respects the principles of horizontality, equality and solidarity of SSC.
- Lack of systematic assessments of demand for support and limited participation of local actors are gaps in making the implementation of PSE projects more effective.
- There are strong incentives among the Turkish government and the private sector to operate in LDCs, hard and fragile contexts.
- Turkish firms engaging in development co-operation do not reference global sustainability standards enough, such as those developed by the UN Global Compact or the UN Guiding Principles on Business and Human Rights. Stakeholder coordination and coordination with other donors at the country level tends to be on an ad hoc basis. It is unclear how these coordination meetings would guide or inform the priority actions of PSE provided by Turkey.
- PSE provided by Turkey is largely informed by economic co-operation rather than development co-operation.
- There are gaps in reviews and evaluations of PSE projects; the local actors mostly seem to leave it to the Turkish side to do monitoring and evaluation, and to define the conditions for exit strategies and handing over the ownership of local stakeholders

### **3.3. Indonesia**

- The private sector is an integral part of Indonesia's governance structure around development cooperation. In 2010, a National Coordination Team (NCT) for South-South Co-operation was established to facilitate the coordination among different government bodies. The NCT has three layers of authorities: a steering team, technical committee and working groups. The representation of the private sector in the governance structure of the NTC is under the Steering Team, and normally by Indonesian Chamber of Commerce (Kadin).

- A comprehensive national strategy for engaging non state actors such as the civil society and the private sector in development cooperation is yet to be built in Indonesia.
- Indonesia's SSTC plans to achieve greater private sector engagement to attract funding from the private sector to finance SSTC activities and to ensure market expansion for Indonesian products and investments in partner countries.
- The channel of delivery of Indonesia's SSTC (South-South and Triangular Co-operation) has so far been the government. The engagement of other actors, including the private sector was rather sporadic and largely restricted to being invitees of SSTC activities.
- Historically, creating business opportunities was not an objective occupying a central position in Indonesia's SSTC and it seems less important than for other providers of SSC. However, there is a growing attention to Indonesian business expansion.
- Emphasis on soft modalities of SSTC such as knowledge sharing and technical co-operation where there are few opportunities for private sector to realise commercial gains were seen as main reasons for the low degree of private sector engagement so far.

#### **4. Synthesis and Conclusion**

This section proposes a set of questions for further attention in PSE provided by emerging economies. The questions are based on a synthesis of the propositions set out by the conceptual framework and the illustrative country findings from China, Turkey and Indonesia. The assessment also benefits from the findings of an online survey on issue areas that emerged from country-level analysis on PSE through development co-operation.

The synthesis is based on commonalities and differences across the three countries, structured around the elements of the conceptual framework. Five main areas of relevance to scale up the opportunities and address the challenges to achieving impactful PSE by emerging economies are proposed: Policy coherence; Inclusive national ownership; A focus on least developed countries; Leveraging the benefits of co-operation; and Demonstrating impact of PSE provided by emerging economies.

The questions concluding each sub-section in this chapter are offered for consideration and as a basis for discussion only. They are based on sole experience from China, Indonesia, and Turkey, and it would be useful to broaden the discussion by reflecting on the experiences of PSE in other emerging economies.

##### **a. Policy Coherence**

The conceptual framework argues that private sector engagement supported by emerging economies is characterised by a development-investment-trade nexus in which the objectives of a PSE activity are grounded in achieving both commercial and development targets. This multiplicity of objectives comes with both optimism and concerns.

On the one hand, a private sector engagement programme defined by hybrid objectives (commercial and development) carries the opportunity to provide the right incentives for the private sector to engage with development actors in pursuit of maximising social welfare in addition to commercial profit. In other words, co-existence of both development and commercial objectives can lead to innovative implementation packages that ensure not only realising development outcomes but also profit generation for the private sector. “New development partners (...) actively leverage their aid with trade, investment and other forms of economic co-operation. The total package of economic relations may be much more significant than just the aid levels would indicate” (Kharas 2011, p.15). The Indonesian case indicates that in the absence of a policy framework that governs commercial objectives, the scale and scope of private sector engagement are bound to be limited (NCT and JICA, 2012). Therefore, co-existence of multiple objectives ranging from commercial to development can, *ceteris paribus*, potentially ensure factoring in a clear business case for zero engagement of the private sector and long-term sustainability of private sector partnerships.

On the other hand, the pursuit of multiple goals can result in the incoherent implementation of policies that govern private sector engagement provided by emerging economies. Policy coherence is a tool for integrating the different dimensions of sustainable development (economic, social, environmental, governance etc.) at all stages of domestic and international policy making. Interview results and the literature on China and Turkey suggest that there are concerns about whether private sector engagement undermines policy coherence under development goals, and puts more emphasis on economic interests. An interviewee from Turkey noted that PSE provided by Turkey can be classified as economic co-operation rather than development co-operation, and can undermine the development priorities to be achieved (December 2019). Similarly, several studies point out that the engagement of Chinese businesses, especially in Africa, is driven by natural resource exploitation with PSE being heavily rooted in Chinese economic interests and failing to ensure social and developmental transformation needed in host/partner countries (Kaplinsky and Morris, 2009). As the table below shows, the coordination mechanism and its institutional set-up may intervene on the ability to achieve development impact.

**Table 5: Coordination mechanisms and objectives**

Coordination/objectives	Commercial	Development	Foreign Policy	Mixed
Centralized	China			
Decentralized				Indonesia.
Multi-Track	Turkey*			

*\*Depending on the project*

In light of these opportunities and challenges associated with development-investment-trade nexus, the following question appears to require attention:

***How to ensure coherent private sector engagement where mixed agendas and policies do not conflict but mutually reinforce each other?***

**b. Inclusive National Ownership**

The notion of ownership is rooted in the recognition that communities have the right to make decisions about their own future and actively take part in identifying development challenges and implementing solutions. At the centre of the concept of inclusive national ownership is the anticipation that SSC needs to be demand-driven (involve projects aligned with partner countries and local communities' needs) and include local stakeholders as not only recipients but also the drivers of development initiatives (RIOS, 2017).

Trends show that there are efforts under way to ensure PSE provided by emerging economies is owned and driven by the host countries. First, both Chinese and Turkish cases point to the demand-driven nature of PSE (Cheng et al., 2012; Achilles 2015), meaning that priority regions and sectors are determined on demand by the partner countries. In addition, the case studies show that there is an alignment of private sector engagement activities with partner country priorities. Moreover, Chinese, Indonesian and Turkish cases suggest that there is an emphasis on building capacities of local stakeholders and ensuring that transfer of technology, expertise and know-how through private sector engagement is addressed.

However, several challenges to realising inclusive national ownership are also present. Interview results indicate that it seems unclear how the demand assessment is conducted and there might be gaps in systematically identifying the priorities of private sector engagement (December, 2018). Informal co-operation requests or ties also tend to be a determinant of the priority regions and sectors of PSE. In addition, interviews and literature review results indicate that the participation of local stakeholders such as civil society, trade unions, and philanthropy other than governments and the private sector was limited (interviewee, December 2018; CAITEC and UNDP, 2015). Although not every PSE project requires the participation of diverse stakeholders, as complex partnerships come with their own challenges, very limited participation of other nonstate actors may suggest implementation gaps regarding the SSC concept of people-centred inclusivity. Overall, there are concerns over to what extent local stakeholders actually drive PSE projects supported by emerging economies.

In light of these optimisms and concerns around inclusive national ownership over PSE provided by emerging economies, the following question appears to require attention:

***What key factors determine successful inclusive national ownership that is demand-driven, strengthens local capacities and encourages self-reliance over PSE by emerging economies?***

**c. Focus on the Least Developed Countries**

Sangaré and Hos (2017) show that private sector resources mobilised by North-South co-operation tend to largely happen in upper middle income countries. This largely reflects

the high systemic risks associated with the least developed and low income countries as well as fragile and conflict-affected contexts. Mirroring this observation, the Indonesia case study stresses that the lack of financial incentive mechanisms for the least developed countries due to risk avoidance hinder private sector engagement.

In contrast, Chinese and Turkish cases suggest that PSE can also happen in the least developed countries and conflict-affected regions. For example, the priority regions of PSE provided by Turkey include, among others, Somalia and Afghanistan. However, the Chinese case study also indicates that such an engagement by the private sector could also be as a result of poor local political governance inducing a space for circumventing high transaction cost of engagement. That is why, as the Chinese case demonstrates, the establishment of guidelines in line with international ESG standards for the business sector engagement abroad is so important. With such guidelines, the PSE provided by emerging economies may contribute to the 2030 agenda's ambition to 'leave no one behind' and to strengthen countries' systems for socio-environmental protection. Better understanding the underlying incentives of the private sector or the support mechanisms provided by emerging economies would contribute to understanding what drives the engagement of the private sector in risky and conflict-affected contexts. Therefore, the following question appears to require attention:

***What incentive mechanisms ensure that impactful PSE can deliver on development and commercial goals can happen in LDCs, fragile contexts and conflict-affected countries?***

#### **d. Leveraging the Benefits of Co-operation**

A strength of development co-operation is that a wide range of stakeholders such as governments, parliamentarians, the private sector, international organisations, civil society organisations and trade unions participate in development co-operation activities. Harnessing the contributions of these diverse actors is an important role that development co-operation can play in the context of PSE (GPEDC, 2018).

However, the current literature and the case studies suggest an emphasis on bilateralism in PSE provided by emerging economies. SSC in general and PSE in the context of SSC in particular tend to mostly be grounded in bilateral governmental agreements. However, a global survey conducted by the Global Partnership on the issue areas emerged from the analytical work in the context of private sector engagement through development co-operation shows that stakeholders from emerging economies find incentivising partnerships and investments through the promotion of collaboration across sectors, such as multi-stakeholder initiatives either important or very important.

In addition, triangular co-operation has great potential to be harnessed in the context of PSE provided by emerging economies. Emerging economies as providers of SSC can use the existing outreach of the partners from the North or international organisations to bring the southern expertise to the otherwise inaccessible regions. Although all case studies indicate that emerging economies see the value of Triangular co-operation, interview results suggest that the usage of this modality was limited in private sector

engagement.

In view of the potential that co-operating with wider stakeholders with wider modalities would bring, the next question appears to require attention:

***How can the comparative advantages of development co-operation be better harnessed in PSE provided by emerging economies, including through South-South and Triangular Co-operation arrangements?***

#### **e. Tracking Results and Demonstrating Impact**

Tracking the results of private sector engagement projects and demonstrating impact is key to scale and replicate the outcomes of PSE projects. Structured monitoring, oversight and evaluation can ensure better analysis and assessment of the impact of PSE.

The cases of Turkey and China largely suggest that monitoring and evaluation of private sector engagement projects were to date limited or absent. For the case of Turkey, an example from PSE in Somalia indicates that monitoring and evaluation practices were replaced by ad hoc reporting (Sucuoglu and Stearns, 2016). Mirroring this, an interviewee from Turkey argues that there are significant gaps in oversight and assessment of development co-operation activities of Turkey and private sector engagement is not also immune to this. In China, a survey conducted by CAITEC and UNDP (2015) suggests that the importance and value of the impact of PSE among Chinese private sector has only recently started to gain importance.

In the absence of demonstrating impact, not only replicating the results and, hence, scaling impact but also convincing and incentivising stakeholders for future engagement become a challenge. Whermann (2018) states that “when considering the engagement of private-sector actors from the South, an interviewee explained ... by recalling the example of a Mexican foundation that only agreed to engage in a MAP (multi-actor partnership) dedicated to sustainable development under the condition that this MAP be coordinated under the auspices of the Inter-American Development Bank (IDB) and not by the Mexican government. Mirroring the significance of the degree of institutionalisation that researchers pointed out as determining the effectiveness of MAPs, in this example the IDB was believed to be providing additional securities in order to collaborate with non-governmental partners with regards to its institutional oversight.”

In light of this discussion, the following question appears to be important:

***How to ensure PSE provided by emerging economies delivers the results it intended?***



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## Annex 1: Detailed Analysis of PSE Provided by China

### *Policy Framework, Key Trends, and Drivers of PSE*

As a member of the BRICS and rapidly growing economy with global reach, China plays an important role – both as a partner and as a source of development knowledge and experiences – to many low-income countries.<sup>8</sup> Several international and domestic agreements and roadmaps shape the face of China's development co-operation efforts.<sup>9</sup> On the one hand, China is committed to key global development agendas such as the 2030 Agenda and the Paris Accord. On the other hand, the country adopted the strategy of “going global” in the early 2000s and leads on a key domestically-driven international initiative, the belt and road initiative, a platform for enhancing regional and global trade, connectivity, and accelerating the delivery of the Sustainable Development Goals set by the 2030 Agenda (UNDP, 2017) (see Box 1). **The business sector<sup>10</sup> including both state and privately-owned enterprises, is seen as a key stakeholder group in achieving these visions.**

#### **Box 1. China's Belt and Road Initiative**

Rooted in 2013, China's Belt and Road Initiative (BRI) aims at exploring the interlinkages within the Eurasian supercontinent by land and by sea “Silk Roads,” using infrastructure and industry and led, at least initially, by Chinese official financing. BRI appears to be a decades-long effort involving dozens of countries and with a cost in the trillions of U.S. dollars.

BRI represents a shift away from standard development models that underscore policy and institutional issues (and often accompanying conditionalities), towards a more investment-driven approach focusing on infrastructure, trade and jobs creation. It involves multiple sources of finance from the public and private sectors. While others are also looking at blended approaches involving public-private finance, BRI is by far the most ambitious. BRI responds to a strong interest in countries for more attention to infrastructure and economic development.

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<sup>8</sup> OECD (2018) suggest that “China's total concessional finance for development reached USD 3.1 billion in 2015, compared to USD 3.4 billion in 2014 (OECD estimates based on Government of China, 2015; and websites of multilateral organisations). In 2015, China channelled USD 233 million through multilateral organisations. The second White Paper on China's Foreign Aid includes information on the overall geographical and sectoral distribution of the Chinese programme between 2010 and 2012 (Government of China, 2014).”

<sup>9</sup> Eight Principles for Economic Aid and Technical Assistance to Other Countries set out the principles China's international development co-operation (Government of China, 1964).

<sup>10</sup> It should be noted that Chinese private sector engagement influences and is influenced by the state-owned enterprises in development co-operation. Therefore, this chapter also considers state-owned enterprises' role as commercial actors in the development sphere. This is in line with the approaches such as the OECD Blended Finance positing that both the private sector and other commercial actors' (including state-owned enterprises') resources to be mobilised to achieve the SDGs. See, <http://www.oecd.org/development/financing-sustainable-development/development-finance-topics/blended-finance.htm>.

An undertaking of this magnitude has potentially large benefits as well as risks. Success will ultimately rest on whether Belt and Road projects can ensure buy-in from local stakeholders in the partner countries, and whether China's initial funding will stimulate creditworthy projects that attract private sector finance. Seen in this way, **the BRI is arguably the world's largest attempted private sector engagement programme. While different in nature, both BRI and the Agenda 2030 have sustainable development as the overarching goal.**

Source: S&P Global (2018) and Rosellini (2017)

In general, “going global” Chinese enterprises have become, to some extent, a contributing part of the socio-economic development in host countries (CAITEC and UNDP, 2015). Internationalisation of enterprises by far represents China’s economic integration into the global economy. In this process, enterprises have come to understand international market rules and embrace diverse cultures and values. Their support for well-balanced development of economy, society and the environment in host countries has honoured their commitment to sustainable development, while further efforts are still desirable.

Over the last decade, **Chinese government has published a number of policies and guidelines to facilitate the engagement of Chinese companies overseas that respects the sustainable development of host companies.** A study by CAITEC and UNDP (2015) presents 33 policy guidelines in that regard. These include not only the policies regarding security and risk management precautions to support the Chinese private sector overseas but also to develop a corporate culture in line with the creating social value and corporate social responsibility, and promote environment-friendly business activities including protecting and sustaining overseas natural resources in the host countries (see Box 2.).

#### **Box 2. Environmental Policies for Chinese Companies Overseas**

“To join hands with host countries in overcoming environmental challenges, offer guidance on environmental protection measures to Chinese companies in the process of internationalisation, and promote the sustainability of overseas investment and cooperation, the Chinese government has adopted a series of policies concerning environmental protection in overseas investment. For example, on 27 August 2007, the Ministry of Commerce joined the State Forestry Administration in releasing the *Guidelines on Sustainable Forest Cultivation for Chinese Enterprises Overseas*, which is the first industry standards and self-regulatory guidelines for Chinese companies engaged in forest cultivation overseas. On 31 March 2009, the two ministries jointly released the *Guidelines on Sustainable Operation and Utilisation of Overseas Forests by Chinese Enterprises*, helping and regulating Chinese companies with regard to overseas resource development and timber processing and utilisation. The Guidelines help Chinese companies to better profit from, use, and protect overseas forest resources and strengthen self-regulation.”

Source: CAITEC and UNDP (2015)



Brautigam (2011) points to a number of key trends and reforms regarding the increased role of business in China's international development co-operation: (1) the creation of new support mechanisms to link development assistance, trade and investment (such as the creation of three policy banks – China Development Bank (CDB), China EximBank, and Agricultural Development Bank of China (ADBC) – in 1994, and the new system of concessional assistance loans launched in 1995); (2) the creation of regional organisations to support programmes that link development assistance and economic cooperation; (3) the refinement of tools for domestic restructuring through the offshoring of 'sunset' industries, especially through the establishment of special economic cooperation zones abroad. As such, **the business sector has been playing not only a financier but also an implementation role in Chinese development co-operation.**

In fact, Cheng et al. (2012) mention the role of the business sector in China's development co-operation from the perspective of division of labour as follows: (i) **development co-operation projects are proposed by the hosting partner country governments in coordination with Chinese embassies in the field to ensure that development co-operation activity is demand-driven and in alignment with partner country priorities;** (ii) feasibility activities are conducted by the China's Ministry of Commerce (MOFCOM), other relevant ministries, or the business sector; (iii) project is financed by the financing institutions mentioned above; and (iv) the project is implemented by the business sector.

Along the BRI, Chinese PSE mainly focuses on **hard infrastructure and economic sectors** such as trade (S&P, 2018). Rosellini (2017) claims that by 2016, Chinese investment in BRI countries totalled RMB 51.1 billion, whilst in 2015 bilateral trade volumes exceeded RMB 1 trillion and RMB 100 million for infrastructure investment by the business sector actors with the aim of facilitating jump start economic development in many BRI countries. Though the current priority of the Chinese PSE are economic sectors, the government officials from China and other partner countries participating in the BRI stated the strong **commitment towards social sectors, mainly human development and environment** at the Belt and Road Forum for International Cooperation in June 2017. Several international organisations, including the UNDP have signed agreements with the Chinese officials to provide direct support to stimulate progress in the BRI towards the SDGs (Rosellini, 2017).

**As Amighini et al. (2013) argue, the regional focus of the PSE provided by China is primarily determined by the factor of corporate ownership.** Using disaggregated data by country and sector and distinguishing between state and privately-owned enterprises, they find that private firms are attracted by large markets and host-country strategic assets and are averse to political risks when choosing locations for engagement in developing countries. However, state-owned enterprises' engagement follows a pattern that is more in line with the strategic priorities set out by the Chinese international development co-operation, being largely indifferent to the political and economic conditions in the host partner countries.

Several myths regarding regional and sectoral targeting of Chinese private sector engagement exist. For example, in Africa, where China is arguably the largest provider

of PSE provided by emerging economies<sup>11</sup>, several studies point out to the fact that private sector engagement provided by China specifically targets countries with poor political governance (property rights, rule of law and the like), which makes the resources prone to easier exploitation. Chen et al. (2016) debunk the popular myths by finding that the engagement of Chinese private sector in the African continent is relatively more concentrated in skill-intensive sectors within skill-abundant countries but in capital-intensive sectors in capital scarce countries. These patterns suggest **strong incentives to provide PSE in tougher environments and fragile contexts**. Chen et al. (2016) also argues that an important incentive for Chinese private investments in Africa is **the search of new markets**.

In a survey conducted among Chinese private enterprises in Africa by Gu (2009), it was found that an effective mechanism bridging the gap between China's Africa Policy and its implementation in terms of private sector engagement is lacking. This was evident in the **lack of knowledge about Chinese government policies across the private firms surveyed**. In mitigation, however, to help explain this, the speed with which the Chinese private sector has expanded in Africa since 2000 and the fact that the operations of these companies (numbering more than 88% of the total of Chinese companies in Africa) are so numerous, widespread and relatively small in their operations helps to explain this gap.

### ***Discussion on PSE at the Partner Country Level***

Chen et al. (2016) argues that in the Pew Global Attitudes Survey for 2015, the majority of respondents in surveyed developing world had a positive view of China (70% with favourable view in Africa, 57% in Asia, and 57% in Latin America), likely reflecting the positive impact of Chinese engagement in the global stage. At the sometime, several controversies are present when it comes to the engagement of the Chinese private sector in the host countries.

As mentioned, the Chinese Government has set out a policy framework to promote the sustainable engagement of the private sector in the host countries mentioned and there has been progress. However, several challenges are present. Although there is an overall alignment between the hosting country priorities and the PSE provided by China at the policy level, evidence presented by CAITEC and UNDP (2015) suggests that **local stakeholder participation including NGOs, local communities and business/industry associations were limited**. Despite this, several champions among the Chinese private sector emerged in implementing systematic stakeholder engagement mechanisms into their business models.

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<sup>11</sup> This claim stems from the fact that China is the biggest trade partner of Africa (Chen et al., 2016). As stated in Section 2, it should be noted that South-South Co-operation Partners including China use mixed modalities of private sector engagement where trade, investment, and development objectives are unified under one single agenda.

Chinese enterprises are troubled by **insufficient knowledge of sustainable development practices such as circular economy and corporate citizenship (CAITEC and UNDP, 2015).**<sup>12</sup> Only a handful of companies integrated sustainability into their core business strategies. Indeed, the charity view of corporate social responsibility (CSR) seem to be the common understanding among the Chinese private sector. In addition, a **majority of companies surveyed by CAITEC and UNDP in 2015 state that internal factors or the government rather than expectations of local stakeholders and communities play a role in CSR activities**, though there is heterogeneity across sectors and regions.

According to the same survey, **a growing number of Chinese companies “going global” have come to realise the value of social impact assessments on the sustainability of their overseas projects.** About 51% of these companies are now inviting a third party to conduct a social impact assessment on a project before its initiation. **However, the implementation of the recommendations** from these assessment reports **needs to be strengthened.**

Rosellini (2017) argues that “it is important to highlight that many negative perceptions stem from past issues. Previously, Chinese engagement abroad primarily focused on the extractive industries, building supply chains with recipient countries to secure natural resources for China’s industry. This naturally led to questioning of the sustainable conduct of Chinese actors engaging abroad, and these negative perceptions have become mainstream in criticisms of Chinese overseas investment.

Currently, Chinese foreign engagement is taking a very different form, focused on international cooperation, developing infrastructure, stimulating manufacturing industries and promoting economic development in partner countries. These are all areas where active engagement can ensure mutual benefits, but again certain uncertainties around China’s goals and intentions could hamper effective cooperation.”

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<sup>12</sup> This finding mirrors a survey conducted by Gu (2009) on Chinese private enterprises in Africa, suggesting that there is a lack knowledge about Chinese government policies across the private firms surveyed.

## Annex 2: Detailed Analysis of PSE Provided by Turkey

### *Policy Framework, Key Trends, and Drivers of PSE*

In recent years, Turkey has been gaining importance in development co-operation owing to the magnitude of the Turkish development assistance<sup>13</sup> - reaching to nearly USD \$5.1 billion in 2015 (TİKA, 2015). This trend also resonates well with the increased engagement of the Turkish private sector in developing countries, where private sector actors not only engage on implementation role of delivering official ODA-type development assistance, but they also engage in private investments.

It should be noted that Turkey cannot be neatly classified as a South-South Co-operation Partner (Sucuoglu and Stearns, 2016). While key policy documents shaping the development and economic co-operation efforts of Turkey put emphasis on SSC as an important element<sup>14</sup>, the country does not classify itself as a member of the global South<sup>15</sup>. An interviewee also noted that there is a tendency among other South-South Co-operation Partners to disregard Turkey as an actor of South-South Co-operation. Instead the country is a founding member of NATO and OECD member, and an EU candidate, with close ties to the global North. In fact, Turkey fulfils the DAC membership criteria and has been repeatedly invited by DAC to become a member (Hausmann and Lundsgaarde, 2015). However, it sees no political desire for DAC membership. Turkey has own experiences as an aid recipient and its development policies have commonalities with SSC donors, such as preference towards development assistance through bilateralism rather than multilateralism, rejection of conditionality, and its yet-to-mature strategic coordination. Therefore, this section attempts to understand Turkey's PSE approaches not solely within the context of South-South Co-operation but alongside its own approach to development co-operation.

Several key international and domestic visions shape the face of PSE efforts provided by Turkey. Although there is no central national policy framework that govern the PSE provided by Turkey, a comprehensive review of policy frameworks from Turkish Cooperation and Coordination Agency (TİKA), Turkish Ministry of Foreign Affairs, Turkish Ministry of Development, and Voluntary 2016 National Review of High-Level Political Forum on Sustainable Development provide insights on the visions, roles and drivers of PSE provided by Turkey.

To begin with, policy frameworks reflect the importance of the private sector in delivering the key international sustainable development agendas such as the Agenda 2030 and Istanbul Plan of Action. In particular, **the role of the private sector in financing and supporting monitoring/reporting the implementation of sustainable development priorities** are given place in strategic documents outlining the Turkish

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<sup>13</sup> For a more detailed discussion on what constitutes Turkish development assistance, see [here](#).

<sup>14</sup> Republic of Turkey, Ministry of Foreign Affairs, „Turkey's development cooperation“, *op. cit.*

<sup>15</sup> One decisive point here is that unlike many countries from the global South, Turkey has never been a colony.

Development Co-operation priorities. (Turkish Ministry of Foreign Affairs, n.d., Turkish Ministry of Development, 2016). At the national level, the policy framework documents governing the activities of Turkish private sector engagement recognise the private sector as: a key stakeholder for realising the strategic objectives of Turkish multidimensional foreign policy agenda; its efforts to develop Turkey's identity as a global peace mediator in conflicted-affected contexts; its bilateral co-operation, and; implementing the principles of south-south co-operation such as horizontality and mutual benefit. 2017 Annual Report of TİKA **recognises the importance of building partnerships with the private sector in delivering development assistance** with key priority given to making sure that projects implemented in developing countries also support Turkish private sector actors as much as possible.

Several studies point out the diverse approaches adopted by Turkish development co-operation when engaging the private sector. Achilles et al. (2015) posits that the engagement of Turkish non-state actors including non-governmental organisations and the private sector in development co-operation is seen as part of a multi-track approach that draws on both state and civilian capacities, and where different stakeholders shape and implement the priorities of Turkish development assistance. Under its multi-track approach, government agencies, NGOs and the private sector play a role in the coordination, diffusion and implementation of Turkish development assistance. Turkey's multi-track approach results in realising development and commercial objectives at the same time and aims to complement its economic interests for the mutual benefit of both Turkey and the partner country. Özerdem (2018) argues with an example highlighting the positioning of the Turkish private sector under a multi-track coordination arrangement that “Whenever Turkey starts to work in a particular developing or conflict affected country, Turkish Airlines is also likely to set up flight connections in tandem. Such a multi-track and multi-stakeholder approach is probably one of the most visible characteristics of the Turkish response, bringing with it greater opportunities for wider and more effective impact”. As such, a **multi-track approach creates possibilities for a more holistic engagement by the Turkish private sector in partner countries, yet it also carries the risk of undermining the boundaries between official aid and promoting Turkish business interests abroad.**

In addition to the multi-track approach that govern the implementation of PSE objectives on the ground, one important aspect of PSE provided by Turkey is the multi-stakeholder initiatives and dialogue platforms that the Turkish government co-established with international stakeholders to facilitate exchange of experiences on issues around PSE, in line with the very objectives of south-south co-operation. For example, several technical co-operation opportunities supported by the African Development Bank and the Turkish Eximbank within the context of ‘Turkey-Africa Joint Implementation Plan 2019’ exist to facilitate transfer of the economic and social development experience of Turkey to Africa. In addition, the Turkish Foreign Economic Relations Council established business councils with many Sub-Saharan African countries. Turkey has also signed Trade and Economic Cooperation Agreements with 38 African countries in line with its efforts to establish a sound contractual basis for mutual economic relations (AFD, n.d.). At the global level, The Istanbul International Centre for Private Sector in Development - a joint initiative between the Turkish government and

the UNDP - focus on advocacy, knowledge sharing and research within the context of private sector engagement (see Box 3). Given that Turkey is the main recipient country of private sector engagement through development co-operation by multilateral organisations and DAC donors (Sangaré and Hos, 2017), it is well placed to share its own experiences as a recipient of PSE with other developing countries of the Global South. Such initiatives and platforms can serve to this end.

### **Box 3. Istanbul International Centre for Private Sector in Development**

In March 2011, the United Nations Development Programme officially partnered with the Government of Turkey to establish the Istanbul International Centre for Private Sector in Development, focused on advocacy, knowledge sharing and research. The establishment of the Centre for the Private Sector in Development in Istanbul demonstrates Turkey's engagement and commitment to advance knowledge and share good practice on the role of the private sector in inclusive development.

The Centre works on finding innovative solutions to development challenges by tapping into the expertise offered by the private sector. It places a special emphasis on how business can help strengthen markets in least developed countries (LDCs). The Centre hosts four global initiatives: Business Call to Action, SDG Philanthropy Forum, Global Islamic Finance and Impact Investing Platform, and Connecting Business Initiative.

Source: UNDP (2013)

Although to date there is not a comprehensive assessment on the regional and sectoral target of private flows within Turkish development assistance, anecdotal evidence and given the multi-track approach that drive the PSE provided by Turkish development co-operation suggest that **PSE provided by Turkish development co-operation is broad in its geographical scope, with least developed countries comprising by far the largest recipients.** Among them are conflict-affected and fragile contexts such as Syria, Somalia, and Afghanistan, as well as other muslim majority countries in the MENA and Central Asia (Hausmann and Lundsgaarde, 2015). A study on the distribution and determinants of Turkey's FDI positions in Africa finds that both a common religion and the availability of commercial consulates in host countries are found to be decisive in where the Turkey's FDI flows are directed. In contrast, factors such as the availability of natural resources and the level of rule of law – of which usually determine the direction of private outflows by northern development co-operation providers - seem to be irrelevant for Turkey's FDI (Aman and Kaplan, 2017). This can suggest that resources mobilised from the private sector by Turkish development co-operation indeed goes to conflict-affected areas and fragile states where political governance is undermined. Given the regional focus, the majority of the private sector engagement activities provided by Turkish development co-operation is expected to have peace and state building, emergency response, humanitarian assistance and market building (economic infrastructure such as construction, energy and transportation) as the sectoral focus. Complementing this inference, a case study on Turkish development assistance in Somalia concludes that the promotion of Turkish investment and business interests complements Turkey's political, developmental and humanitarian programmes.



## ***Opportunities and Challenges to Impactful PSE Provided by Turkey***

### ***Country ownership and capacity development***

Several country level studies that analyse the engagement of Turkey in its priority regions provide interesting insights on the impactful implementation of PSE. They posit that **the most evident feature of the PSE provided by Turkey is the respect for partner country ownership, alignment with national priorities and plans, and empowerment of the national and local leadership, which respects the principles of horizontality, equality and solidarity of SSC.** For instance, many stakeholders interviewed by Achilles et al. (2015) in Somalia voiced support for the multi-track approach that draws commercial ties in addition to aid as means of catalysing development.

Sucuoglu and Stearns (2016) evaluate the multi-track approach of Turkey in Somalia. They find through stakeholder interviews that the multi-track approach governing the PSE provided by Turkish development assistance emerge in consultation with local population and on need-based scheme. This shows an alignment with the strategic priorities of Turkish development co-operation and its demand-driven nature. They also argue that projects are largely implemented in partnership with Somalia's federal government ministries, local authorities' private sector actors and sometimes Somali NGOs. Alternatively, **an interviewee suggested that the concept of demand-driven Private Sector Engagement or development co-operation in general is not well-understood and applied in Turkish development co-operation (December 2018). Demand-driven development assistance often emerges as a result of informal talks between Turkish and partner country parties. A systematic demand assessment informing the PSE programmes are often lacking. In the absence of such an assessment, it is hard to set project's development targets based on actual needs of the recipients and local stakeholders.**<sup>16</sup>

One of the most important purposes of SSC is to reduce external dependency through a steady increase in local capacity, rather than relying on in-kind and monetary aid. **Several anecdotal evidence at the partner country level suggest that Turkish private companies engage regularly in training and employing local personnel** in Somalia (Sucuoglu and Stearns, 2016; Achielles et al. 2015). Several business-to-business programmes supported by TİKA also aim at transferring the know-how of the Turkish private sector to local private sector actors. For example, in the context of Sri Lanka, local businesses producing electronic products receive training on improving after-sale

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<sup>16</sup> On the other hand, Sucuoglu and Stearns (2016) mention for Turkish PSE in Somalia that "Most of the assessment and planning processes predominantly involve national and local government authorities, on which Turks depend to understand community priorities."

technical services, which ensures both the penetration of Turkish products in the Sri Lanka market and contributes to the capacity building of the local business.

In contrast several studies outline the need to further capacitate the local stakeholders. Capacity constraints faced by local stakeholders and partner countries are generally considered as one of the key determinants for not realising country or local ownership (GPEDC, 2018). For example, within the context of Somalia, capacity constraints undermine the engagement of Somali and Turkish private sector actors on equal footing, with the former lacking professionalism and the latter being highly organised. This is especially when it comes to business-to-business programmes (Sanei, 2013).

Another point around the capacity-related challenges the Turkish PSE faces is as follows: Several capacity building activities (in the context of entrepreneurship and private sector development programmes) are supported by TIKA (interviewee, December 2018). These programmes often involve partnership arrangements between Turkish and local private sector actors with the aim of seeking avenues of collaboration that facilitate the transfer of Turkish technology and expertise. However, an impact assessment with regards to how these capacity development activities reduce external dependency is to date missing.

### ***Stakeholder coordination and inclusive participation***

Identification of PSE priorities that target local development challenges needs to be coupled with leveraging the right expertise to bring solutions to those challenges. Multiplicity of donors from the global north and south create opportunities for an efficient division of labour, whereby each donor can unleash its own comparative advantage. Consequently, the helps avoid the duplication of efforts and ultimately ensure the effective use of scarce development resources to mobilise the private sector.

**With regards to the PSE provided by Turkey, an interviewee noted that Turkish officials would likely attend existing donor coordination meetings on an ad hoc basis** (December, 2018). Also, it is unclear how these coordination meetings would guide or inform the priority actions of PSE provided by Turkey. A key challenge here is the flexibility of the agendas that govern the development and economic cooperation principles. Similar to many emerging economies, PSE activities supported by Turkey generally happen in the realm of bilateral economic co-operations, which tend to undermine the multilateralism that the development cooperation would bring. As such, the donor coordination does not necessarily inform how the PSE provided by Turkey would be delivered. The interviewee noted that greater PSE through triangular co-operation emerges as an opportunity to be further tapped into.<sup>17</sup>

The engagement of the private sector through a multi-track approach gives rise to several challenges to realising inclusiveness. Although it was noted that several country

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<sup>17</sup> Examples on PSE through triangular co-operation is limited to date. An interviewee mentioned the Industrial Automation Extension Project supported by JICA and implemented in partnership with TIKA in Afghanistan (December 2018).

case studies found local support for multi-track engagement, they also point to the engagement constraints of local stakeholders with regards to planning and implementation of PSE projects. Achilles et al. (2015) argues, for the case of Somalia, that Turkey's multi-track engagement applies to only Turkish stakeholders as implementers and financiers of projects with representation from the beneficiary side often being limited. In addition, an interviewee noted that the articulation of MSMEs from Turkey in development co-operation abroad was to date limited (December, 2018). Both raising awareness of opportunities abroad among the Turkish MSMs and providing incentive-compatible ways of engagement – of which target reducing potential systemic risk and facilitate in cost sharing – were pointed out as key.

Under a multi-track approach, the engagement of the Turkish government abroad is often accompanied by both the private sector and civil society actors based in Turkey. The engagement of civil society actors in activities that could be regarded as PSE generally depend on several conditions ranging from informal ties between the government and the civil society organisation in question, political connectedness and the like (interviewee, December 2018). However, there are also private sector engagement activities led by civil society organisations, which are independent of the government. An interviewee noted that though such activities take place, especially to broker partnerships between local and the Turkish private sector, lack of financial support and sufficient number of staff often emerge as challenges.

Although there are no studies that systematically analyse the local actors engagement in PSE provided by Turkey, a case study on Somalia by Sucuoglu and Stearns (2016) note that “In the field, Turkish agencies, companies and businesses try to engage the leaders of dominant groups, village elders, religious leaders and Somali civil society to gain the support of the community for their projects. “

### ***Partnering with the Private Sector for Sustainable Development***

Working together with the private sector to create development and commercial impact is vital to deliver on the SDGs and partner countries' development priorities. Achilles et al. (2015) note that TIKA's use of commercial actors to implement development projects requires careful oversight while transparent and openly competitive processes and links to relevant international and UN risk management approaches will be very crucial to ensuring that projects are seen as fair and take into account the local social context. Specifically, commercial tenders should be conditional on contractors conducting meaningful risk assessments. Indeed, the Turkish government should make clear to Turkish companies that the principles of conflict sensitivity apply to commercial operations as much as they do to aid. Reference could be made to existing global principles, such as those developed by the UN Global Compact or the UN Guiding Principles on Business and Human Rights.

An interviewee underscored the distinction between the concepts of international and development cooperation, with the PSE provided by Turkey falling largely under the former (December 2018). This has implications on the behaviour of the private sector in terms of co-creating shared value, where the development results are achieved through

profitable commercial activities (Porter, 2011). In particular, **private sector engagement is not governed through development co-operation principles and therefore it is hard to hold private sector accountable for the unattained development outcomes.** At a minimum, PSE provided by Turkey needs to be governed in such a way that it recognises that Turkey's own economic objectives may not always be perceived as compatible with the government's stated commitment to promoting development for the benefit of all local actors.

### ***Monitoring and Evaluation***

TIKA publishes detailed annual reports of Turkey's governmental and nongovernmental development activities on its website. Several Turkish non state actors such as NGOs and private companies report on the nature, scope, personnel and budget of their projects to TIKA and the Ministry of Interior's Department of Associations, and often publish project data on their websites. Moreover, a tender process is compulsory and regulated, per Turkish legislation, for all kinds of procurement and construction work to be carried out by governmental authorities (Sucuoglu, Stearns, 2016).

An interviewee noted that beyond publishing information on key aggregated figures, **Turkish development co-operation activities in general and PSE in particular have often been considered to be lacking in transparency and accountability, and for combining government, development and business objectives** (December 2018). Governmental and non-governmental actors often conduct independent project evaluations on an ad hoc basis, but a reliable and standardised monitoring and evaluation model is lacking, sometimes leading to criticisms about transparency and allegations of corruption. For instance, Sucuoglu and Stearns (2016) argue that "due to corruption allegations regarding the direct budgetary support extended to the Somali government through a 'cash through courier' system, the programme had to be suspended in 2013. A member of the Somali Parliament recalled that several members of Parliament also criticised bilateral agreements with Turkey for being passed without proper legislative scrutiny and oversight."

Interviews also point out to the fact that **reviews and evaluations of projects are not the norm; the local actors mostly seem to leave it to the Turkish side to do monitoring and evaluation, and to define the conditions for exit strategies and handing over the ownership of local stakeholders** (December 2018). Systematic oversight of public-private partnerships also seems insufficient. Interview results also indicate that in the absence of proper monitoring and evaluation in place, it would be hard for Turkish PSE to realise the Busan principles of development effectiveness, including transparency, accountability and focus on results, among others (December 2018).

### **Annex 3: Detailed Analysis of PSE Provided by Indonesia**

#### ***Characteristics of Indonesia's South-South and Triangular Co-operation***

Indonesia's South-South Co-operation is grounded in the Asia-Africa Conference in Bandung in 1955 as well as the emergence of Non-Aligned Movement, which became an element that shapes Indonesia's development co-operation landscape today. Its long-standing engagement in South-South Co-operation is reflected in the variety of programmes supported by diverse governmental agencies and the ministries, with almost all the ministries having components of SSC (UNDP n.d.).

Indonesia provides a large spectrum of countries with SSC and Triangular Co-operation. It has been recently reported that the majority of recipients are countries in Africa, especially, Tanzania, Namibia, the Democratic Republic of Congo, Algeria and Sudan. Indonesia is also active in surrounding Asian countries such as Laos, Nepal and Cambodia as well as other Muslim-majority Central Asian countries such as Uzbekistan and Kyrgyzstan (UNDP, n.d.). Currently it is also becoming active in the Middle East, particularly in Palestine.

Over the years, the government of Indonesia allocated considerable amounts to SSC. However, the attempts to trace the budget allocations of different governmental agencies were, until recently, limited<sup>18</sup>. In 2013, BAPPENAS, the Ministry of Finance and other line ministries collected information on the expenditures dedicated to SSC. They found that the amount the Indonesian government allocated for South-South and Technical Co-operation in 2013 was around \$5.65 million, comprising the 0.05% of Indonesia's entire state budget for that year (BAPPENAS, 2013).

A policy brief by UNDP Indonesia outlines the key modalities of South-South and Triangular Co-operation supported by Indonesia: "A large proportion of Indonesia's SSC is spent on knowledge-sharing and related activities. The delivery is largely done through trainings and exchanges, including the travel costs of trainers and training participants to Indonesia and Honoraria. This assistance is provided on a grant basis, and unlike other South-South Cooperation providers, Indonesia is not a provider of concessional loans to its partners in the Global South" (UNDP, n.d.).

In addition to SSC, triangular co-operation was also in operation in Indonesia for a number of years and it was especially supported by bi- and multilateral development co-operation agencies such as UNDP, USAID and JICA. Recently, it has evolved from ad-hoc co-operation to long-term engagements and the government of Indonesia perceives

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<sup>18</sup> UNDP (n.d.) states that "there is no regulation that compels government ministries, agencies, and sub-national governments (in cases such as sister cities) to provide information about their SSC programmes and activities. Additionally, SSC activities of a number of ministries and agencies, such as Polri and the KPK, were done in a triangular mode with the engagement of donor countries and institutions."

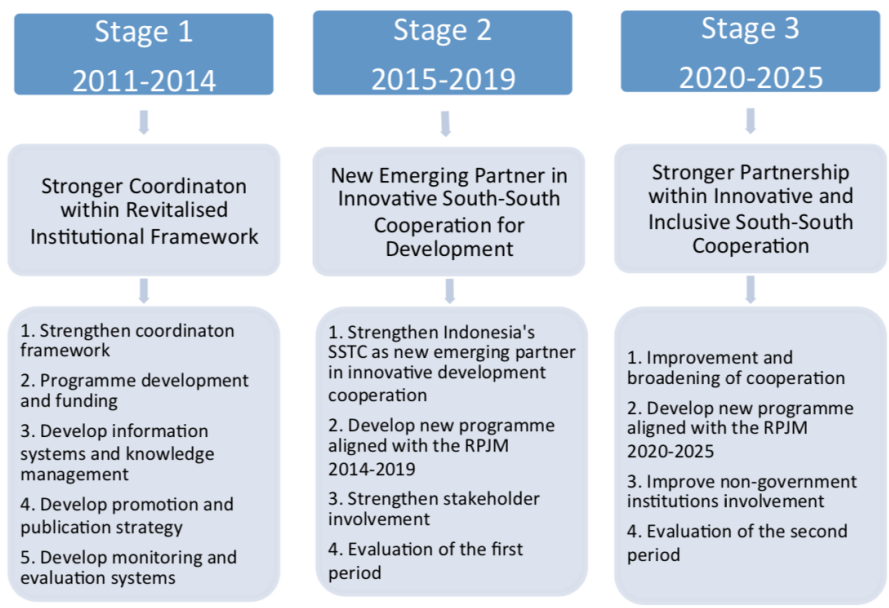
the modality of triangular co-operation as one of main modalities of its development co-operation (UNDP, n.d.).

***Institutional Approaches and Developing a Strategy for Private Sector Engagement Through South-South and Triangular Co-operation***

A strategic review of South-South and Triangular Co-operation (SSTC) by Indonesian Ministry of National Development Planning (BAPPENAS) and UNDP in 2014 highlight the key institutional arrangements and ploicy framework that shape the face of Indonesian development co-operation and private sector engagement. First, Indonesia does not have a single aid agency. Instead several ministries and government agencies, primarily BAPPENAS, the Ministry of Finance and the Ministry of foreign Affairs as well as State Secretariat play a key role in identifying the policies governing Indonesia’s SSTC activities (BAPPENAS and UNDP, 2014).

In 2010, a National Coordination Team (NCT) was established to facilitate the coordination among these different government bodies. The NTC has three layers of authorities, consisting of a steering team, technical committee and working groups. **The representation of the private sector is in the governance structure of the NTC is under the Steering Team, and normally by Indonesian Chamber of Commerce (Kadin)** (BAPPENAS and UNDP, 2014).

As a first step towards establishing a comprehensive policy framework for South-South Co-operation, the government formulated a Grand Design and Blueptint for South-South Co-operation, dividing Indonesia’s SSC into three stages from 2011 to 2025, with the intended results shown in Figure 1.



**Figure 1: Grand Design and Blueprint for Indonesia’s SSC. Source: UNDP (n.d.).**

Figure 1 highlights that **a comprehensive strategy for engaging other stakeholders (mostly non state actors such the civil society and the private sector) is to be built at Stage 2 and the actual involvement of these actors to be expected at stage 3 (the period of 2020-2025).** In fact, **the channel of delivery of Indonesia's SSTC has been so far the government. The engagement of other actors, including the private sector was rather sporadic and largely restricted to being invitees of SSTC activities (UNDP, n.d.).**

Based on Figure 1 and according to RPJMN (an acronym for national priorities) 2015-2019, **Indonesia's SSTC plans to achieve greater private sector engagement to attract funding from the private sector to finance SSTC activities and to ensure market expansion for Indonesian products and investments in partner countries.**

### ***Key Issues for Further Developing PSE in Indonesia***

UNDP (n.d.) argues that **historically, creating business opportunities was not an objective occupying a central position in Indonesia's SSTC and "it seems much less important than for other South-South Cooperation providers."** However, **there is a growing attention to Indonesian business expansion**, which is driven by the view that new international agendas such as the Agenda 2030 see development co-operation as not only the responsibility of the governments, but also the responsibility of other actors such as the private sector and civil society."

**One factor that hinders the current engagement of the private sector in SSTC activities of Indonesia was that knowledge sharing has been the predominant modality of development co-operation so far.** Honoso (2016) argues that the Indonesian private sector has been reluctant to invest in knowledge because dividends from such an investment cannot always be appropriated (with some exceptions of patents and industrial property rights). And especially when it comes to investing in the knowledge for the "bottom of the pyramid" markets, where the private sector cannot use patents to set higher prices as these will not be acceptable to customers.

Another similar bottleneck was that **the Indonesian government has so far promoted technical co-operation among developing countries over economic/financial co-operation.** A study conducted by NCT and JICA in 2012 as well as RPJMN 2015-2019 states that there is an intention to consider economic and financial co-operation in the near future. The NCT and JICA (2012) posits that it is important to find the areas that bring financial additionality to partner countries by the Indonesian private sector within the context of economic and financial co-operation. This is to ensure that the engagement of the Indonesian private sector would not result in market distortions in partner countries.

It is also important to note that there should be enough incentives for the private sector to engage in the activities of SSTC. The strategic utilisation of EximBank to mobilise the private sector is one way to achieve this and it requires the Indonesian government to have clear policy and adequate funding. EximBank has both a commercial wing and an

ODA wing with the intention of expanding development assistance (ODA-like) business by supporting government programs in the long run. However, as a commercial organisation, EximBank is not equipped with mechanisms facilitating risk-taking associated with giving out concessional loans to partner countries with high country risks (NCT and JICA 2012). A private sector engagement that targets least income countries, fragile contexts and conflict-affected regions (or, leave no one behind agenda, in general) may require further thinking on how to best equip existing support institutions and mechanisms with risk-sharing or de-risking tools.