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Engaging with the private sector – perspectives from the German development program

By Jonas Naguib, Kim Nguyen Van and Jonathan Pryke

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Development agencies around the world, as in Australia, are increasing focus on expanding their engagement with the private sector, and developing policies and programs to promote effective public-private partnerships for development. I (Jonathan) recently had the opportunity to talk to two experts in the field from the German development sector who were visiting Canberra as guests of DFAT. Jonas Naguib is the Jakarta-based head of the Responsible and Inclusive Business Hub for the Southeast Asian Region of GIZ, a development service provider working on behalf of the German Government. Kim Nguyen Van, also from GIZ, leads a project that advises the German Government on economic policy and development issues. Here are the highlights of our conversation.

Our discussions covered their experiences working on private sector development with GIZ, Germany's policies on Public-Private Partnerships for Development, and managing the risks posed by these partnerships.

Germany's public-private program experience

Since 1999 Germany has run a program called develoPPP.de which aims to create joint projects between private sector companies and the German development program. Basically, the program involves inviting companies to propose joint projects that meet specified development criteria; following internal evaluation, projects are eligible to receive co-funding and professional support from the German development program. Projects are normally of 2-3 years duration.

In general develoPPP.de projects are small, and around 1800 have been implemented to date. German development also cooperates with the private sector on bigger projects, through forming strategic alliances – these normally cover a whole sector, or several

companies or countries.

An example of a small project under the program would be a photovoltaic producer who wants to expand the business to a particular developing country. When the business explores the market further, it finds that there are no technicians in the country trained to install the proposed photovoltaic systems. GIZ could support the establishment of a small training school for technicians and, to ensure a public good as well as private benefit to the investor, it could negotiate for 50 technicians to be trained each year, far beyond the company's requirements of say, five. In collaborating on this project, GIZ has created a benefit for the private business, but it has also provided skills training that improve the job prospects for all trainees.

We discussed the geographic scope of develoPPP.de. The German government wants its aid program to have a strong focus on Africa so there is considerable activity there. But, given "to have private sector engagement, you need an active private sector", a lot of develoPPP.de activities are based in middle income Asia. While many projects are chosen as a result of a quarterly call for proposals, "Hubs", such as the Responsible and Inclusive Business Hub in Jakarta, also have discretion to select partners and design joint projects.

The value of development expertise to the private sector

We discussed what GIZ sees as its strengths and what it can bring to the table for German companies wanting to enter new markets and/or enhance their development impact.

The first and most obvious thing that GIZ brings is public funding to channel into joint projects. But that's not the most significant thing. Development institutions like GIZ are active on the ground, and often have been for many years, so they bring expertise on how to work in a particular context.

GIZ staff have good knowledge about political dynamics, and government systems, policies and processes, all of which companies are often interested in. They are also familiar with business organizations, chambers of commerce and civil society organizations. These broad networks in partner countries are often very useful for private investors.

Importantly, GIZ staff also often have strong technical expertise. So, for example, if a company is interested in securing its agricultural supply chain, and GIZ has an agriculture sector program in the country, it will be able to share valuable experience in working with small farmers and, for example, supporting farmer cooperatives.

Managing risks

Jonas and Kim agreed that the most glaring risks for public-private partnerships for

development is that aid funds are used to subsidize private profit and joint investments that would have happened with or without aid program assistance (the ‘additionality’ risk). I asked how GIZ manages these risks.

The key point they made was that the further away a project activity is from the core business of the company, the more likely it is to meet the additionality test, but the less likely it is to be sustainable.

Projects that are about creating inclusive businesses are close to the core interests of the company and more likely to be sustainable, but they often involve risks that companies find too high. That’s where development experts and funds come in. They can help fill in gaps for companies, for example, on how to create inclusive business or how to tweak business models to be more inclusive and so assist in creating jobs, and improving incomes and livelihoods.

Messages for the Australian aid program

We concluded by steering the conversation back to Australia. My GIZ interviewees credited Australia with already doing a lot to promote the growth of the private sector through the development program, especially development assistance to improve the policy, legal and other frameworks for business, and infrastructure investment programs.

But they thought there was room for Australia to expand its direct engagement with the private sector. Some of the big questions for the future include how much of Australian aid’s private sector engagement strategy will be left to individual country programs, and how much will be mainstreamed across the aid program. A balance between the two, in Jonas’ view, is the best solution. There would also be potential for Australia to partner with other agencies – GIZ’s Inclusive Business Hub could offer an opportunity to collaborate and extend Australia’s engagement with the private sector.

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