global public policy institute

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Engaging Business in Development

Results of an international benchmarking study

GPPi Research Paper Series No. 8 (2007)

www.gppi.net

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This report was prepared by the Global Public Policy Institute with financial support from the German Federal Ministry for Economic Cooperation and Development. The views expressed in this paper are solely those of the authors and should not be ascribed to the German Federal Ministry for Economic Cooperation and Development.

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Figures and Tables

Abbreviations

AECF	Africa Enterprise Challenge Fund
APS	Annual Program Statement
BLCF	Business Linkages Challenge Fund
BMZ	German Federal Ministry for Economic Cooperation and Development
BSOP	Basic Standard Operating Procedures
CDR	Corporate Development Responsibility
CF	Challenge Fund
CIDA	Canadian International Development Agency
CIDA-INC	Canadian Industrial Cooperation Program
CSR	Corporate Social Responsibility
Danida	Danish International Development Agency
DED	Deutscher Entwicklungsdienst (German Development Service)
DEG	Deutsche Investitions- und Entwicklungsgesellschaft mbH
DFID	UK Department for International Development
DGF	Development Grant Facility
DGIS	Dutch Directorate General for International Cooperation
DGIS	Dutch Ministry of Foreign Affairs
DGIS-PSOM	Dutch Program for Cooperation with Emerging Markets
FDCF	Financial Deepening Challenge Fund
FDI	Foreign Direct Investment
FSB	Fostering Sustainable Business
FTE	Full-Time Equivalent
GDA	Global Development Alliances
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)
IFC	International Finance Corporation
InWEnt	Internationale Weiterbildung und Entwicklung (Capacity Building International, Germany)
JV	Joint Venture
KfW	Kreditanstalt für Wiederaufbau (German Development Bank)
LDC	Least Developed Country
MDG	Millennium Development Goals
NGOs	Non-Governmental Organizations

NPV	Net Present Value
ODA	Official Development Assistance
OECD DAC	OECD Development Assistance Committee
OECD	Organization for Economic Cooperation and Development
PBO	Probing Business Opportunities
PPP	Public Private Partnerships
PSD	Private Sector Development
PSP	Private Sector Participation
R&D	Research and Development
SME	Small and Medium-Sized Enterprise
USAID	United States Agency for International Development

1. Introduction

In the past decade many bilateral and multilateral development donors have launched innovative new programs designed to engage the business community in pursuing development objectives. Today, at least 6 out of the 22[1] OECD DAC donors have established programs promoting 'public private partnerships', 'global development alliances' or other types of initiatives that are designed to leverage the resources and expertise of the private sector to global development issues. At least 4 other donors have just launched new programs or have similar schemes in the pipeline. Within the United Nations system and among the Bretton Woods institutions similar partnership programs are in place in almost 20 different organizations.[2] While these programs differ in many important aspects, they do share one key feature: they are based on a partnership model, i.e., they are based on the idea that public and private partners share costs and benefits as well as risks and opportunities.

The German Federal Ministry for Economic Cooperation and Development (BMZ) has been a trailblazer in transforming the impetus for development partnerships into actual practice, launching the BMZ PPP Program in 1999. One of the first such donor initiatives, the program goals were to foster collaborative work with business, advance development relevant FDI, and help increase the development impact of business activity in developing countries. Public private partnerships (PPP) in technical development cooperation was then a novel approach. Consequently, the program had a strong experimental character.

During the past decade a broad range of partnership projects have been launched as part of the BMZ PPP program. Many of these projects have generated notable results, as documented, for example, in many illustrative case studies.[3] After eight years of operation, the BMZ is now looking to further enhance the development impact of its partnership activities and to identify ways to integrate its partnership work more systematically into its core development activities. As a starting point for that process, BMZ commissioned a study on international partnership approaches in development, with the intent to develop a deeper understanding of and extract best practice experiences from partnership programs launched by other donor agencies.

The study (implemented by the Global Public Policy Institute, GPPi) focused on donor programs designed to foster partnerships with business in the context of technical cooperation, as the BMZ's PPP Program places prime emphasis on these (not financial cooperation).[4] The study adopted a collaborative benchmarking approach.[5]

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[1] This figure excludes the European Commission.

[2] For an overview of partnership programs in the UN system see Jan Martin Witte and Wolfgang H. Reinicke (2005). *Business UNusual: Facilitating United Nations Reform through Partnerships* (UN Global Compact/ GPPi: New York).

[3] For a review of illustrative case studies see http://www.gtz.de/de/leistungsangebote/5120.htm (accessed 22 April 2007).

[4] A study conducted by the German *Kreditanstalt für Wiederaufbau* (KfW) identifies seven levels on which donors can engage business: social sponsoring, corporate social responsibility platforms such as the Global Compact, partnerships in technical cooperation, private sector participation in infrastructure development, contracting out, private sector financing to spur FDI, and local private sector development. While that list may not be

Six donors were included in this collaborative benchmarking exercise. Some donors have more than one partnership program in place. Benchmarking partners were identified as a result of a comprehensive scoping exercise encompassing existing partnership programs in development cooperation among bilateral and multilateral donors. Only programs in technical development cooperation (not financial cooperation) were included.

The following bilateral donor programs were thus included in the benchmarking study:

Table 1: Donor programs included in the benchmarking study

DONOR	**DEVELOPMENT AGENCY**	**PPP PROGRAMS**
Canada	CIDA	Industrial Cooperation Program (CIDA-INC), Canadian Partnership Programs
Denmark	Danida	Business to Business (B2B), PPP
Germany	BMZ	PPP Facility, iPPP
The Netherlands	DGIS	Program for Cooperation with Emerging Markets (PSOM), PPP
United Kingdom	DFID	Business Linkage Challenge Fund (BLCF)
United States of America	USAID	Global Development Alliance (GDA)

On the side of multilateral donors**,** 18 organizations were identified that have development partnership programs for development in place. A comprehensive comparison across bilateral and multilateral institutions, however, would not have been very enlightening as they have different organizational set ups. Except for the World Bank Development Grant Facility (DGF), the study therefore did not include multilateral development agencies. The DGF was included because it leads the field in monitoring and evaluation - something all bilateral programs still consider a challenge. In total, the study was based on a sample of 7 donors and 11 programs.

The various partnership programs covered as part of this study differ in many important aspects, reflecting among other things the different organizational contexts in which they have developed.[6] As such, the purpose of the study is not to rate the performance of

exhaustive and some instruments are overlapping, the analysis clearly shows that partnerships between business and development agencies in technical cooperation are but one (in terms of financial significance rather small) instrument. As a consequence, 'standard' PPPs based on basic standard operating procedures (BSOP) or similar contracts familiar in the industrialized world, as well as projects with private sector participation (PSP), are not the subject of this study.

[5] Collaborative benchmarking builds a network of benchmarking partners who intend to learn from each other. The principle questions are: How are the others doing it? What are their intentions? What are the pros and cons of this approach? What are the lessons I can learn from this?

[6] For an in-depth treatment of individual donor programs please refer to Chapter 3.

programs. Instead, the objective was to attain a comprehensive overview of existing partnership schemes – the different approaches donors have developed, the different tools they use – and to identify the potential for learning and cross-fertilization.

The results of the study (conducted between October 2006 and May 2007) are based on extensive desk research, six donor workshops, and almost 70 semi-structured interviews with experts and practitioners in the area of collaboration with the private sector. As part of the study, GPPi also conducted a comprehensive stocktaking of the German BMZ program, analyzing the implementation of partnership projects by all the implementing agencies (GTZ, DEG, Sequa, InWent, and DED).

The objective of this synthesis report is to provide a concise yet analytically comprehensive summary of the key findings of the collaborative benchmarking study. It intends to stimulate enhanced donor dialogue and coordination in the area of collaboration with the private sector in development.

The remainder of the report is structured as follows: Chapter 2 develops a framework for understanding and classifying public-private partnerships in development assistance. The key results of the collaborative benchmarking exercise identifying best practices and lessons learned are discussed in depth in Chapter 3. Chapter 4 concludes with an outlook on likely advances for the partnership tool in development assistance, potential avenues for future research and possibilities for enhanced donor collaboration.

2. Engaging Business in Development – Exploring Different Partnership Models

'Engaging business in development' has turned into a popular slogan for many bilateral and multilateral donor agencies in recent years. As noted in the introduction, a large and growing number of development agencies have launched new programs with the objective of leveraging the resources and expertise of business to tackle pressing global development challenges. In 2001 the United States Agency for International Development (USAID) launched its Global Development Alliance (GDA) program with the intent to "mobilize the ideas, efforts and resources of governments, businesses and civil society by forging public-private alliances to stimulate economic growth, develop businesses and workforces, address health and environmental issues, and expand access to education and technology."[7] In a similar vein, the German Federal Ministry for Economic Cooperation and Development (BMZ) had earlier launched its PPP program in 1999, with the express purpose of building win-win partnerships between German development cooperation and the private sector.[8] During the late 1990s, the UK Department for International Development (DFID) started to experiment with new so-called 'Challenge Funds' designed "to support private sector partnerships that bring commercial benefits to the businesses that participate and help to reduce poverty in target developing countries."[9] Other donor agencies, including the Danish International Development Agency (Danida), the Dutch Ministry of Foreign Affairs, the Canadian International Development Agency (CIDA), and the World Bank, have launched similar initiatives in recent years.

All these partnership programs seek to foster collaborative ventures between the public and the private sector. They ultimately intend to generate favorable results for all involved: a positive development impact for donors and beneficiaries, and a positive business case for the participating company. Although all programs share this overall objective, they differ along various important dimensions.[10]

One difference is the degree to which programs are integrated into mainstream development operations by the respective donor agencies or whether they operate as stand-alone schemes, with separate budgets and parallel implementation structures. Partnerships with business and other relevant stakeholders are a fully integrated tool in bilateral development cooperation in USAID's GDA program. In contrast CIDA-INC operates as a stand-alone program, with separate budget and implementation arrangements. Programs also vary in the extent to which they allow for direct financial contributions to companies' core business operations. Some intend to spur on the development of products or production techniques with a positive development impact (DFID's Business Linkage Challenge Fund). Others only engage companies in non-core

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[7] See http://www.usaid.gov/our_work/global_partnerships/gda/ (accessed 22 April 2007).

[8] See http://www.bmz.de/de/themen/globalisierung/arbeitsfelder/VorOrt/PPP.html (accessed 22 April 2007).

[9] See http://www.businesslinkageschallengefund.org (accessed 22 April 2007).

[10] A more in-depth discussion of the individual programs is provided in Chapter 3.

business related areas – e.g., by forging partnerships with companies on issues like creating HIV-AIDS awareness (as promoted by BMZ's PPP Program).

This chapter provides a basic framework for understanding and classifying the different approaches donors have adopted in engaging business. A starting point for the development of such a framework is an appreciation of the changing environment for development policy that has provided the breeding ground for the emergence of the partnership paradigm. Based on that analysis, a second component of such a framework is a more detailed understanding of the key drivers bringing both the public and the private sectors to the table. Why do donors seek to engage business, and what are the objectives they pursue? Conversely, what are the drivers behind business engagement with development agencies? What does business expect to get out of it? How much scope is there for joint action, and how can it be effectively leveraged?

Thus, this chapter proceeds as follows: First, it briefly analyzes the changing global development context within which partnership programs have emerged (Section 2.1). Following that, it highlights the different sets of donor and company interests, developing a framework (the intersection-of-interests matrix) that highlights the actual scope for collaboration across the public-private divide (Section 2.2). Building on that framework, the chapter develops three ideal type partnership program models that seek to leverage existing partnership potential (Section 2.3). By way of conclusion, the chapter highlights the potential as well as the limits of these partnership models (Section 2.4).

2.1 The changing context for development policy and the emergence of the partnership paradigm

The specific motivations and circumstances behind the development of partnerships between companies and development agencies vary, but the overall trend towards engaging the private sector reflects an evolving context of development cooperation that is being reshaped by globalization.

Following the principles of liberal internationalism[11], states have deliberately deregulated and liberalized their domestic economies, opening them to international trade and capital flows, including foreign direct investment (FDI). This process has been going on for several decades but has sped up rapidly since the early 1990s, enhanced by technological innovation and political change (the breakdown of the socialist bloc in particular).[12] Companies have taken advantage of this freer business environment and spread their activities on a transnational and indeed ever more global scale. Consequently, production and consumption patterns are becoming increasingly internationalized.

While the OECD world was clearly the epicenter of globalization in the 1980s and 1990s, many developing nations have become increasingly integrated into the newly emerging web of global investment and trade in recent years. In fact, in many of these

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[11] See John G. Ruggie (1982). "International regimes, transactions, and change: embedded liberalism in the postwar economic order." *International Organization*, vol. 36, no.2.

[12] See of Wolfgang H. Reinicke (1998). *Global Public Policy: Governing without Government?* (Washington, DC: Brookings Institution), Chapter 1.

countries FDI now clearly outstrips Official Development Assistance (ODA), turning the private sector into the most significant source of influx capital.[13] In aggregate terms, foreign aid is today only the third-largest source of financial flows from the developed to the developing world, after FDI and remittances.[14]

These circumstances generate unprecedented opportunities for developing nations that are becoming incorporated into this emerging global system. Research shows that FDI serves as a powerful catalyst for sustainable local business development and offers key conduits of technology and knowledge transfer.[15] This is coupled with studies demonstrating that the ability to participate in international trade helps to open up new markets for developing nations and provides them with opportunities to sell their products and services.[16] But there are also challenges.

Integration into global chains of investment, finance and production can expose countries to the vagaries of the global marketplace and associated systemic risks, as shown by the Asian Financial Crisis in the late 1990s.[17] Additionally, not all FDI flowing into a country automatically produces a positive development impact. Quite the opposite, in some cases it may contribute to social dislocation and environmental degradation. Despite this it is widely recognized today that the biggest threat for developing nations is not usually the negative consequences of being inside the global club – but instead to be left outside or on the margins. And in fact, for many countries in the Middle East and North Africa, as well as in Sub-Saharan Africa, financial inflows from ODA are still considerably higher than FDI.

This new reality has important implications for donors. As noted above, ODA is no longer the only or even the biggest game in town for many developing countries (especially in Asia). Other sources of capital – FDI but increasingly also remittances[18] – increasingly flow into developing countries, transforming economic and social development. In many ways these developing nations have already become major participants on the global economic stage. Donors have recognized that the development relevance (positive and negative) of these other sources of capital cannot be ignored. They have therefore started to look for levers to harness the positive development potential of these capital flows or to ameliorate negative externalities.[19] Partnerships

[13] See World Bank (2006). *Global Development Finance. The Development Potential of Surging Capital Flows.* (Washington, DC: World Bank).

[14] See USAID (2005). *The Global Development Alliance: Public-Private Alliances for Transformational Development.* (Washington, DC: USAID), p.14.

[15] See for example, Jeffrey G Williamson (2002). "Winners and Losers Over Two Centuries of Globalization." *NBER Working Paper*, no. W9161; David Dollar and Aast Kraay (2002). "Growth Is Good for the Poor." *Journal of Economic Growth*, vol. 7, no. 3; Jeffrey D. Sachs and Andrew Warner (1995). "Economic Reform and the Process of Global Integration." *Brookings Papers on Economic Activity*, vol. 1995, no. 1.

[16] Jeffrey G Williamson (2002). Op. cit.

[17] On the social and other development implications of the Asian Financial Crisis see for example: Jong-Wha Lee and Changyong Rhee (1999). "Social Impacts of the Asian Financial Crisis: Policy Challenges and Lessons." *UNDP Occasional Paper*, no. 33 (New York: UNDP); Stephany Griffith-Jones, Jacques Cailloux and Stephan Pfaffenzeller (1998). *East Asian Financial Crisis: A Reflection on its Causes, Consequences and Policy Implications* (Sussex: IDS).

[18] For the development implications of remittances see for example OECD (2004). *Migration, Remittances and Development* (Paris: OECD).

[19] Externalities occur when there are physical impacts (benefits or costs) of an activity on individuals not directly involved in the activity.

between business and development agencies are one among several approaches put together by development agencies to leverage that potential.

Continuing in this vein, donors have also started to look at partnerships with business to assist developing economies in forging sustainable ties with the global economy. As indicated above, many developing nations (particularly in Asia) have successfully turned themselves into key constituent parts of the global economy, receiving significant FDI and actively participating in international trade. This is not the case for many countries in Sub-Saharan Africa, the Middle East and North Africa for example, where ODA still represents the most significant influx of capital. Here donor programs concentrate on refashioning the least developed countries into active participants on the global economic stage. Partnerships with business are one of several mechanisms developed by donors to address this challenge – to attract new investment to countries that are usually bypassed.

2.2 United we stand, divided we fall? Exploring the potential of public-private collaboration in development

Understanding the political and economic context for development policy sheds light on the broader environment within which partnership programs have emerged during the past decade. However, a more thorough understanding of the dynamics of these programs requires a good appreciation of the actual motivations that determine the potential and limits of the partnerships – both on the donor as well as the private sector side. What objectives do donors seek to pursue by launching partnership programs? What really drives business engagement? How much scope is there partnership, and how can it be effectively realized?

For donors, the basic motives behind engaging in partnerships with business have already been briefly highlighted above. In the context of their overall goal to help reduce poverty in developing countries, donors pursue partnerships with business in order to achieve two objectives. First, by building partnerships with companies, they hope to generate maximum positive development impact from private sector activity in developing countries, or to alleviate potential negative externalities. In practice, that may include collaborative alliances with business in order to raise social standards, or to introduce environmentally friendly technologies. Second, donors enter into partnerships to attract or mobilize new investments for developing countries, in particular those that have so far been sidelined by the globalization process. However, donors are not interested in fostering any type of investment. Instead, they seek to provide incentives for investments that also generate positive development effects.

An analysis of the motivations behind business engagement in partnerships with development agencies needs to be based on a realistic assessment of their basic incentive structure.[20] At the most fundamental level, it can reasonably be assumed that companies

[20] In this discussion we exclude corporate philanthropy as a potential driver behind business engagement in development partnerships. While corporate philanthropy has become more important in recent decades, and many partnerships in practice have probably been driven at least in part by philanthropic motives, the benchmarking study focused primarily on partnership programs that presuppose a positive business case on the part of the private partner. The major exception here is the USAID Global Development Alliance

will only engage in a partnership if there will be a positive return on their investment. In economic terms, it can be assumed that if the net present value (NPV) of an investment[21] in a partnership is negative, business will not engage.

As such, the key drivers behind business engagement can be broken down further along the investment process. First, companies have an interest in exploring possible partnership with development agencies if it helps them to explore or test new investment opportunities and markets. Company success depends on a constant exploration of new markets and investment potential, frequently also in developing countries. If partnerships with the public sector promise to be beneficial in the quest to identify potentially profitable opportunities, companies will have a strong interest in becoming engaged. Second, business has a strong interest in engaging in partnerships if this facilitates actual investment, e.g., as a result of direct investment support (a subsidy) provided by the donor. The support (financial or otherwise) needs to be large enough to provide an incentive for a company to invest in a product or production technique that it otherwise would have shunned. Third, companies will engage in partnerships with development agencies if the collaboration translates into an improved operating environment for their investment, and therefore demonstrably boosts their bottom-line.

In all of these instances, companies engage with donors because they expect a clear and measurable return on their investment in the partnership – either because they are able to explore new and profitable business opportunities in the developing world or because they are able to increase profit margins on their existing investments.

However, the corporate business case for engaging in development partnerships is not always straightforward. Often the return on investment in a partnership may be long-term or not easily expressed in monetary terms. Falling into that category are many partnerships driven by a desire to demonstrate corporate social responsibility (CSR). Yet it would be misleading to categorize all CSR-driven business engagement in partnerships as philanthropy, or altruistic behavior. Most CSR activities are driven by long-term concerns about issues such as corporate reputation and branding, or the so-called 'social license' to operate – clearly issues that have an impact on corporate profitability.[22]

Considering the interests of both donors and the private sector generates a simple 2 by 3 matrix that outlines the potential for partnership in an intersection-of-interests matrix (depicted below). Donor interests are highlighted on the horizontal axis, business interests on the vertical axis. In theory, partnership programs could be designed to foster partnership projects in all of these areas.

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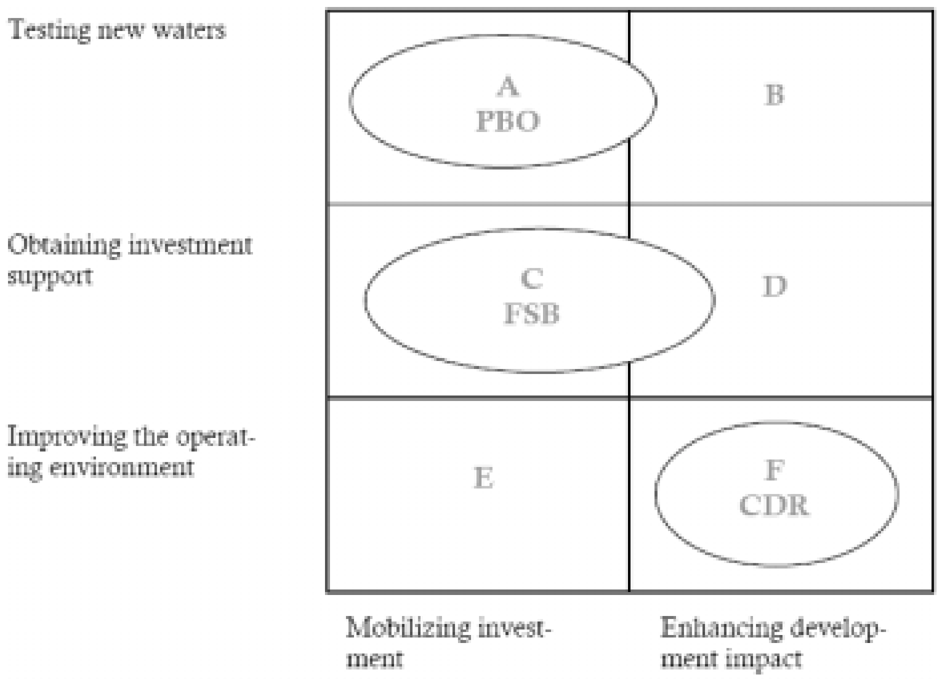
program that promotes partnerships with a broad variety of actors (not just companies) and that also accepts philanthropic donations.

[21] The net present value of an investment is the present value of future payments reduced by the present value of costs.

[22] For an authoritative review of the potential and limits of the CSR approach see David Vogel (2005). *The Market for Virtue: The Potential and Limits of Corporate Social Responsibility* (Washington, DC: Brookings Institution Press).

Figure 2.2 Intersection-of-interests matrix



Partnership programs in **Box E** would be designed to improve a firm's immediate operating environment even before an investment has taken place. It seems fair to assume, however, that companies will only have incentives to collaborate on such programs if the expected benefits from a future investment are considered to be very high, or if the investment can only be made in a specific location, or both (e.g., in natural resource extraction).

The likelihood of many partnerships emerging in **Box B** is low. In this category partnerships seek to capitalize on the overlapping interest of business to explore new business potential in developing countries (through investment studies and pilots), and that of donors to enhance the positive development impact of private sector activity. While donors have an interest in ensuring that development-relevant issues are being addressed in investment studies and pilots, their primary interest is to provide an incentive for companies to consider investing in a developing country, period. In these cases, mobilizing investment is about raising awareness. Front-loading such programs with too many additional requirements (other than to conduct a fair assessment of the business potential of an investment) would make them unattractive to business.

A similar logic applies to donor programs that fall into **Box D**. Here interests overlap when donors seek to mobilize new investments for developing countries, and companies seek to obtain direct investment support. Again, the primary objective of the donor is to provide incentives to a company to make an investment in a product or production technique that it otherwise would not have made. While donor concerns regarding the development impact of such investments are likely to be more prominent than in programs supporting investment studies and pilots, the primary objective is still to ensure that a company makes an investment.

It is thus not surprising that the empirical results of the benchmarking study (discussed in detail in Chapter 3) reveal that existing partnership programs (categorized by their primary objectives) cluster around boxes A, C and F.[23] The circles indicate the areas of intersecting interests in which partnerships can be observed. Circles touching two horizontal fields indicate that the donors pursue dual goals within one program. Based on the analysis above, as well as the categorization of existing donor programs within the matrix, three partnership models for development can be extrapolated: **Probing Business Activity - PBO (A)**, **Fostering Sustainable Business – FSB (C)** and **CDR - Corporate Development Responsibility (F)**.

2.2.1 Partnership model 1: Probing Business Opportunities

Partnerships for probing new business opportunities seek to leverage the overlapping interests of donors to selectively mobilize development relevant new investments for developing countries, and companies to identify potentially profitable business opportunities. They kick in at a point when the investment curve is not yet known to or not well understood by the investor (and the public partner). In these programs the public partner usually provides co-financing in the form of small grants to conduct studies, or larger grants to provide additional funding for a pilot project. Other forms of support (e.g., providing information about a country's investment climate) are also relevant and are often tied to co-financing arrangements. Investment studies are thus designed to describe the investment curve *ex ante*. Investment pilots, in turn, anticipate the investment curve on the basis of a small-scale venture and are useful to test the basic assumptions of an operating model.

Companies are interested in these programs because they allow them to 'test new waters', i.e., to explore opportunities for investment in products and countries that they otherwise would have not considered. It is fair to assume that companies will generally pursue the easiest route when planning an investment in a new product or a new investment destination. Key to a company's initial assessment is complete information: about the potential of markets, the investment climate, and other important factors. Significant gaps exist regarding key investment information in many developing countries. It is more difficult, and therefore more expensive, for companies to collect necessary data in developing countries, although the business climate there may be stable and favorable for a certain investment.

The donor's primary goal is to selectively mobilize additional development relevant investment through working with companies to close these information gaps by providing co-financing for investment studies or pilots. By offering more targeted funding for certain parts of investment studies (e.g., to concentrate on environmental or social aspects) donors also aim to enhance the development impact of a certain investment from the outset. Companies are unlikely to switch to environmentally friendly or socially conscious production methods later because this involves costs. By funding preliminary studies that examine the real costs and benefits of socially and ecologically sensitive investment, donors prompt companies to at least look into

[23] A detailed classification of the analyzed donor programs into the Double-I-Matrix is provided in Chapter 3.

alternative investments and weigh options which sometimes may also help to improve their business case - through greater energy efficiency, less labor disputes, etc.

From the donor perspective it is essential that projects initiated through PBO programs generate a development return on investment. There are two ways how partnership projects can generate development impact. First, investment studies may trigger an investment that has a positive impact on a country's development (e.g., by creating jobs or knowledge transfer). Second, investment pilots may have a lighthouse effect, i.e., they help to introduce a new technology or new production technique into a developing country that holds the potential for replication.

PBO programs require relatively small financial resources. Theoretically a small donor investment can translate into tremendous benefit – for example, if a company decides to make a major investment in a partner country and significant development impact is ultimately generated. At the same time, supporting investment studies and pilots is a high-risk game. Donors cannot assure that they are funding a study or pilot that otherwise would not have been carried out. Additionally, a high rate of failure is probable as the development dollars spent on studies and pilots do not necessarily lead to a further investment. If successful, PBO partnerships can have an important impact.

In light of the above, donors seeking to trigger investment in developing countries through co-financing of investment studies and pilots need to manage a number of key challenges when operating PBO programs. There are three in particular: **marketing**, **ensuring the development relevance of the project portfolio**, and **risk and reputation management**.

With regard to marketing, donors have to make adequate provisions to identify and attract suitable partners and promising projects. Identifying partners and projects is not an easy task and

DRILLING COMMUNITY HAND-PUMPED WATER WELLS IN TOGO

Donor program: CIDA-INC

Project launch: 1996

Key objective: To test the potential of the market in Togo for hand-pumped water wells.

Case Description

Initially Drawn to Togo by a single contract for 60 hand-pumped water wells, Forages Technic-Eau Inc. noted the great potential of the market there and decided to explore further business opportunities.

With support from CIDA-INC, the company carried out a viability study in 1996-1997. The positive results of this study led the company to set up a joint venture, Forages Technic-Eau Togo SARL, specialized in drilling hand-pumped water wells and providing maintenance and repair services. Forages Technic-Eau once again called on CIDA-INC to provide support for training and for the start-up of the joint venture.

Forages Technic-Eau Togo SARL is now virtually self-sufficient, with 462 hand-pumped wells drilled since the operations began in 1998. The subsidiary has approximately 30 permanent employees and, according to the contracts, can employ up to 120 people. It also helps maintain a number of jobs in Canada that would otherwise be eliminated during the winter months.

As its main centre of operations in West Africa, Forages Technic-Eau Togo SARL provides Forages Technic-Eau with a constant presence in the region, allowing them to closely follow the market and discover business opportunities, many of which are only accessible to local firms. In conjunction with the establishment of the joint venture in Togo, Forages Technic-Eau Inc. expanded its activities by establishing a subsidiary in Ghana. The work conducted in these other countries brings the total number of hand-pumped wells drilled to 998. Forages Technic-Eau also continues to work with a long-time partner in Benin.

continued on next page

significant awareness raising is required to inform companies about PBO programs. An essential component of such programs must therefore be consistent outreach strategies.

The hand-pumped wells drilled by Togo SARL are of a great importance to the communities in which they are located, and especially to women, since they eliminate the difficult and time-consuming work of fetching water from a distance. Access to clean drinking water contributes to improvements in health and hygiene in Togo.

Follow up monitoring in mid 2000 indicates that a joint venture (JV) was set up with a total investment of 10 million CFA francs, with the Canadian firm investing 7.5 million and the Togolese partner putting in 2.5 million CFAF. The average exchange rate in 1999 was around 656 FCFA for 1 euro – not much capital. The JV achieved sales of C$4.5 million in its first year of operation and more than 818 wells were drilled (with local, donor and IFI funding). 93 jobs were created.

This project was enhanced by financial support from CIDA-INC to a total value of C$445,875.

Key project data

Public contribution:	€295.000
Business contribution:	n/a
Lead Partner:	Les Forages Technic-Eau Inc.
Region:	Togo
Sector:	Water

Source: CIDA-INC website (accessed 25 April 2007)

While marketing and outreach are important, it is also important to ensure that partnership projects fulfill certain minimum quality standards - i.e., there needs to be potential for positive development impact, either as a result of the study/pilot or the investment that may follow. Here donors are confronted with a key trade-off. While their inclination is and should be to put a premium on strong development impact (e.g., by applying strict development criteria to projects), they also need to ensure that a program remains flexible enough to be attractive to business. Risk and reputation management is a third key challenge, and applies to all programs that foster partnerships with business. Reputational and other costs may be high if partnership projects fail or private partners turn out to be unsuitable or unstable. The analysis in Chapter 3 highlights best practices and lessons learned from donor efforts to effectively deal with these challenges in practice.

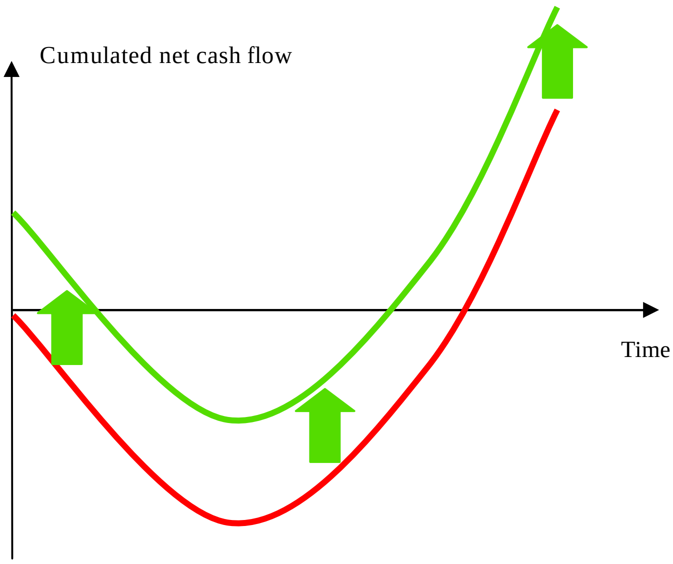
2.2.2 Partnership model 2: Fostering Sustainable Business

Fostering Sustainable Business (FSB) partnerships provide actual investment support for the private sector, seeking to enable investments with high development value that otherwise would not have taken place. These partnerships only generate results under two conditions. First, the planned private sector investment has to be rather small – or the donor support massive so that the provision of a comparatively small grant can make a difference (see discussion below). Second, the investment receiving donor support cannot have a permanent negative business case, i.e. be continuously dependent on additional financial support.

The private sector’s interest in such partnerships is to obtain support for investments that are potentially profitable but face some challenges, e.g., a long time horizon until the investment pays off or high upfront costs. Risk-averse companies would probably opt against such challenging investments without public sector support, especially in uncertain political and social environments.

The business perspective for this partnership model is summarized in the figure below:

Figure 2.2.2 Business incentive in partnerships fostering sustainable business



Basically, from a company's perspective the investment support provided by the donor results in decreased upfront investment and shorter payback time – rendering the overall investment more attractive. In other words, with added support from a donor, an investment made by a company will generate more profit faster. As with PBO partnerships, donors intend to selectively mobilize additional development relevant private sector activity through FSB partnerships. Grants are intended to 'move business attitudes to risk'[24] by shortening the time-horizon in which an investment pays off. In addition to mobilizing further investment, this partnership model may also enhance the development impact of investments. Support is often given to investments that directly profit the poor (e.g., by facilitating the provision of microfinance products, or targeting especially impoverished areas).

As a result, programs that foster sustainable investment can generally have two types of development impact. First, as with PBO partnerships, the development impact results from the direct outcome of the investment (e.g., job creation, products benefiting the poor, knowledge transfer). Under the FSB model, projects are concrete investments; as such, the outcome and subsequent development impact are potentially larger than that of studies and pilots.

[24] Justin Highstead (2006). *The African Enterprise Challenge Fund: Current Design Thinking*. Presentation, p. 11. On file.

LOCAL MANUFACTURE OF WATER TESTING EQUIPMENT IN INDIA AND BANGLADESH

Donor program:	DFID Business Linkage Challenge Fund
Project launch:	2002
Key objective:	To foster the development and manufacture of arsenic testing kits for markets in India and Bangladesh.

Case Description

25 years ago, deaths in Bangladesh from diarrhoeal disease was a quarter million per year and the vast majority of these deaths were among children and the aged, mostly caused by water borne infection. Then the advent of the tube-well, which are generally free from diarrhoeal causing bacteria, mass awareness raising and campaigns for the use simple oral saline treatment to the general public brought substantial decreases in these deaths. Today deaths from diarrhoea are less than 40,000 per year. However, about 12 years ago, the discovery of dangerous species of reduced arsenic contamination in many of the tube-wells raised new dangers for the public as ingesting this water brought on new diseases and overall health issues which were mostly unknown and unstudied anywhere in the world.

Currently Bangladesh has about 10m tube-wells; approximately 2m of which were installed by the Government of Bangladesh, Donors and NGOs, with the other 8m installed by private sector tube-well drillers (Mistris). Today, there are just over 50,000 cases of Arseconosis (the disease from drinking arsenic contaminated water) diagnosed with many more cases unrecorded. It is estimated that the number of deaths and Arsenocosis victims will increase dramatically due to the fact that 65% to 70% of all tube-wells have been installed within the past 5 years and the majority will be contaminated. The first step in dealing with the arsenic crisis in Bangladesh is identification of the contaminated drinking water sources through testing. However, this is an overwhelming task for the public sector and to date approximately 4 million tube-wells have been tested.

Generally, arsenic testing has been seen as a public service provided by government, donor agencies and NGOs who buy testing kits and conduct projects which include the testing of tube-wells. This process of testing is expensive and generally unaffordable to the rural population suffering from the problem. This BLCF Project relocated the production of testing kits to Bangladesh; thereby, reducing the cost to less than half of its cost from importation. This major step was successful and led to Wagtech dramatically increasing sales to smaller NGOs conducting mitigation projects and created public procurement in remote areas of the country which previously had no testing available. However, the interesting story is whether and how this has created a private market.

By taking on local Bangladeshi BLCF Partners, Wagtech have managed to continuously reduce the production cost of these kits, and they have also diversified to produce refill packs for the kit enabling a dealer to buy only the replacement reagents without the need to purchase a new kit, This has further reduced the unit cost for a test well below other imports available in the market.

They are now selling the kits to local village pharmacies, hand pump dealers and plumbing suppliers who are on-selling the testing facilities directly to the poor. Making arsenic testing available at the village level enables a poor family to bring a water sample from their tube-well to a local dealer for testing. The Wagtech technology allows the local dealer to conduct the test and inform the results within 20 minutes. No doubt, this service will require a significant marketing investment and effort to expand to desired levels of country- wide coverage, but a successful approach model is in place and as long as each member of the supply chain are making a profit, the willingness of the dealers and future dealers to invest is high.

In this respect, Wagtech have reduced the cost of testing to the point that it has created a private market where the poor are willing to pay to test their own wells. As a result, far more of the 8m wells that have been installed by the private sector outside of government control are now being tested. This BLCF grant has been 'market making' - creating a private market which is managing to serve the poor where previously government/donors proved incapable (to reach the majority of the 8m). Finally, it should be mentioned that as a result of the BLCF grant and 1.5 years after this project ended, the 10 + local BLCF Partners in Bangladesh have continued to thrive and invest in their businesses far beyond expectations. The project has driven a new attitude towards success … but that's a whole other success story!!

Key project data

Public contribution:	€ 250,000
Business contribution:	€1.25 million
Project lifetime:	3 years
Lead Partner:	Wagtech Ltd. (UK)
Region:	India and Bangladesh
Sector:	Healthcare/ Pharmaceuticals

Source: DFID/ Emerging Markets Group (2006), Business Linkage Challenge Fund Portfolio Overview (London: DFID/Emerging Markets Group).

Second, fostering sustainable investment can lead to the creation of markets be cause the initial investment can trigger the entry of additional market players. As a consequence, the impact of FSB programs need not remain on the micro-level. Parallel to the PBO model outlined above, donors that pursue programs along the FSB model are confronted with a number of key challenges, including the necessity to establish processes and mechanisms that ensure a high development relevance of the project portfolio. Issues surrounding quality control (i.e., ensuring high development relevance) are even more significant in this model, due to the larger scale financial contributions that need to be made for individual projects. However, there are also a number of challenges unique to FSB programs, and those include the **potential of market distortions** triggered by FSB projects, **the necessary size and corresponding suitability of grants to facilitate investment**, as well as **impact assessment**.

Investment support provided by donor agencies consists of direct financial contributions to specific investments made by companies in products or production technologies. These subsidies may be vindicated from a development impact point of view. As noted above, donors seek to only provide co-financing to projects that promise to make a substantial contribution to poverty alleviation – for example by providing the poor access to products and services they otherwise would not have had access to. However, subsidies may also result in market distortions in partner countries. For example, other business initiatives may be suppressed because of the investment support provided to one specific company. It is generally quite difficult to determine when and under what conditions FSB partnerships may cause such distortions, especially in the context of developing country markets where information is scarce or incomplete.

In addition, donors need to manage the risks and limits of grant mechanisms in FSB programs. All three partnership models share a grant mechanism as their basis. In other words, if and when donors contribute to partnerships, they do so in the form of non-repayable financial assistance.

In the case of FSB programs, grant mechanisms are confronted with a number of limitations. Most significantly, as indicated above, grants cannot fundamentally alter the business case for a certain investment. There are only two exceptions to the second limitation – when the investment at hand is very small or the grant mechanism is very large. The former is often the case when investments are undertaken by (domestic) small and medium enterprises (SMEs). Also, grants can neither turn a negative into a positive business case nor cover expenses for switching costs.[25] As a consequence, the applicability of grants to foster investment in developing countries is quite limited, and donors need to make careful choices about the ways in which they allocate scare ODA resources. They either need to invest quite heavily into large projects, thereby increasing financial risk. Or they need to fund smaller projects, thereby increasing management costs.

Finally, donors also need to make provisions for adequate impact assessment of projects that receive funding under such programs. Donors need to realize that co-funding business investment is a high-risk strategy. As in other business ventures, there will be

[25] Switching costs are expenses that occur when a company switches from one production method to another.

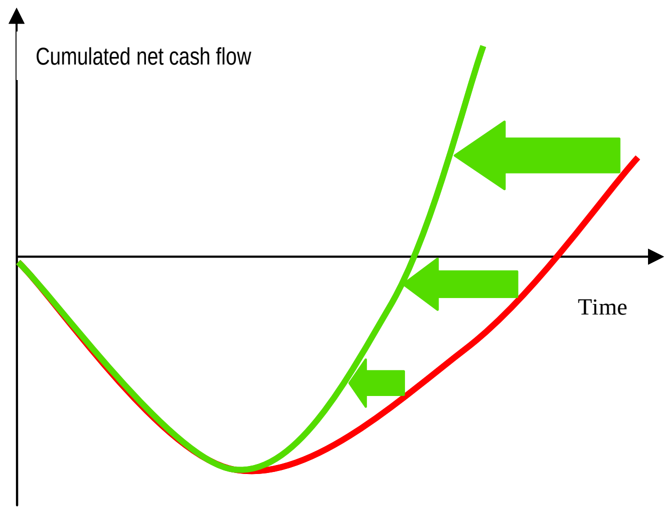
failures. Given the considerable contributions that need to be made in order to make a difference in the business planning process, clear tracking of inputs, outputs, outcomes and impacts is crucial. Proper monitoring and evaluation is particularly vital to determine the development impact of investments. Ascertaining when and under what conditions investment support schemes can deliver on development issues is needed to focus donor programs and allocate scarce resources to their most effective use.

2.2.3 Partnership model 3: Corporate Development Responsibility

Corporate Development Responsibility suggests that companies – whether foreign or domestic – live their Corporate Social Responsibility (CSR) in the context of economic and social development. CDR partnerships embrace the development relevant work of business above and beyond a company's core business activities – via worker health programs, further education, and energy-saving production processes for instance.

The business interest inherent to the CDR model is to strategically improve their immediate operating environment. CDR partnerships support companies' understanding of how this can be done effectively or they can simply lower a company's cost for such an engagement. As with activities that are related to a firm's core business, CDR programs have to be linked to a positive business case; otherwise a company will have no long run interest in such a partnership. From a business perspective, CDR activities ideally increase the investment profitability in an economically sustainable way, e.g. by reducing operating costs or increasing sales as a result of an improved market environment, as highlighted by the figure below:

Figure 2.2.3 Business incentive in corporate development partnerships



Donors become engaged in CDR partnerships in order to leverage win-win situations, i.e., instances in which the improvement of a company's immediate operating environment also results in a positive development impact. As such, by partnering with the private sector they seek to either enhance the development impact of business activity or reduce negative externalities in a sustainable way.

The strengths of CDR partnerships are obvious – they can have a very direct positive development impact. From a financial perspective these partnerships are low risk ventures as even relatively small grants – if properly managed – can make a discernable difference.

However, similar to the other partnership models briefly discussed above, the CDR model also faces a number of key challenges including **marketing**, **ensuring a high quality project portfolio**, as well as **impact assessment**.

In terms of marketing, identifying the precise overlap between business and donor interest in practice is not easy. Such matchmaking requires not only significant skills on the part of both business representatives and development practitioners, it also demands that the two sides – traditionally not closely networked – speak to each other and exchange information. In addition to informing companies about the existence of CDR programs, donors also need to ensure that there is significant brokering capacity.

MARKET ORIENTED PROMOTION OF CERTIFIED SUSTAINABLE COCOA PRODUCTION IN CÔTE D'IVOIRE

Donor program:	BMZ PPP Program
Project launch:	2005
Key objective:	To increase the economic, social and ecological benefits of small-scale cacao farmers by supplying certified cocoa beans.

Case Description

Kraft Foods GmbH, one of the leading food companies worldwide, and GTZ, the main German development implementation agency, are engaged in a joint project promoting market-oriented certified sustainable cocoa production in two pilot regions in Cote d'Ivoire. The project includes four complementary measures:

1) Education about sustainable cacao cultivation and dissemination of the relevant techniques.
2) Assessing and establishing the necessary structures and training the producers on quality standards.
3) Reducing child labour, HIV/Aids and related health issues. This is achieved by awareness raising, on the one hand, and the identification and promotion of complementary social infrastructure on the other. Kraft and GTZ also work with local NGOs that carry out capacity building workshops on the above topics.
4) Dissemination of the experience gathered through the first three measures to producers, private sector representatives and other stakeholders on the local level.

Key project data

Public contribution:	€ 200.000
Business contribution:	€ 600.000
Project lifetime:	3 years
Lead Partner:	Kraft Foods GmbH (FRG)
Region:	West Africa (Cote d'Ivoire)
Sector:	Agricultures

Source: BMZ/GTZ

Regarding quality assurance, donors' prime interest is to maximize the development impact of interventions, much like projects following the PBO or FSB models. As part of the implementation of CDR projects, companies may have to assume roles that do not correspond well to their core competencies – i.e., organizing HIV-awareness campaigns, jumpstarting community development programs, etc. Due to this donors need to either ensure that partners have the capabilities to deliver, or they must adopt other means (such as joint implementation) to ensure that project delivery performs to high-quality standards and generates impact.

Finally, CDR programs are also confronted with an impact assessment challenge. In general, individual projects should be evaluated according to the same criteria as other regular development projects. At the same time, donors need to determine whether the partnership approach as a delivery format has made any measurable difference as opposed to standard delivery mechanisms.

Overall it is important to emphasize that the management of CDR partnership projects is more difficult than PBO or FSB projects, requiring considerable coordination and investment of resources by both partners. Substantial buy-in by the public partner is necessary because CDR partnership activities go beyond the private partner's core business and thus beyond its core competencies. Thorough partner selection with respect to cooperation capabilities is essential. The joint planning (and sometimes even joint implementation) of partnership activities is time consuming – as is the identification of the sphere of overlapping interests. Although the potential for overlap is highest in CDR partnerships, its identification takes time because of the 'add-on' nature of CDR projects.

There is also a risk that CDR partnerships – much like partnerships that seek to foster sustainable investment – induce market distortions. CDR measures might bring the private partner an unfair competitive advantage, co-financed with taxpayers' money.

The analysis of the three partnership models demonstrates that each program type does not only have different spheres of intersecting interests of donors and the business community, but also encounters different trade-offs and challenges. In designing partnership programs, donors need to carefully weigh alternatives, based on a clear definition of goals that they would like to pursue. The following chapter discusses what choices donors have made – and how they have dealt with the key challenges highlighted above.

3. Comparative Analysis of Donor Programs - Best Practices and Lessons Learned

In the previous chapter, this report highlighted three basic partnership models that donors can employ to leverage the resources of business to pressing development challenges:

- Probing Business Opportunities: programs providing private sector partners with (financial and other) incentives to explore new business opportunities in developing countries through investment studies and pilots.
- Fostering Sustainable Business: programs providing private sector partners with incentives to make actual investments with a positive development impact by providing direct investment support.
- Corporate Development Responsibility: programs that embrace the development relevant work of business in developing countries above and beyond a company's core business activities.

The analysis also identified a number of key challenges donors need to successfully manage when implementing any one of these programs. This chapter highlights some of the strategies donors have employed to deal with these. Rather than providing a comprehensive description of each single program (which would result in an overly lengthy and primarily descriptive account), the discussion zooms in on some of the key lessons learned and assembled throughout the collaborative benchmarking exercise.

The goal of that analysis is not to rate the performance of individual programs. In fact, even if they do fall into one partnership model, the individual programs developed by donors are so distinct (e.g. in terms of goals, sizes, implementation routines, etc.) and are at such different stages of development, that it would be inadequate to make conclusive statements about program performance in terms of relevance, efficacy, efficiency and impact. Instead, the goal is to draw out best practices and lessons learned to assist donors as they further develop their partnership programs in the future.

The chapter proceeds in two steps: The next section briefly introduces the individual donor programs included in this benchmarking study[26], and groups them into relevant partnership models. Based on that categorization, the chapter then analyzes and discusses the best practice strategies donors have employed to successfully manage key challenges in their partnership programs.

3.1 Grouping partnership programs – birds of a feather flock together

Table 3.1 shows how the benchmarked donor programs can be sorted into the three partnership program models defined in the previous chapter. Some donor programs

[26] Appendix 1 also contains a brief review of project portfolios for most programs included in this study (number of projects, budget size, regional concentrations, sector concentrations, etc.).. These project portfolio snapshots differ substantially in terms of scope and depth across programs.

comprise of components of more than one partnership model. In these cases, the relevant program component is indicated in brackets.

Table 3.1: Classification of donor programs according to partnership models

PROBING BUSINESS OPPORTUNITIES	**FOSTERING SUSTAINABLE BUSINESS**	**CORPORATE DEVELOPMENT RESPONSIBILITY**
CIDA-INC (study support)	CIDA-INC (investment support)	BMZ PPP (PPP Facility)
DGIS PSOM (study and pilot support)	DGIS PSOM (investment support)	DGIS PPP
Danida B2B (study and pilot support)	Danida B2B (investment support)	Danida PPP
BMZ PPP (study facility)	DFID BLCF	USAID GDA
		WB DGF

3.1.1 Probing Business Opportunities and Fostering Sustainable Business: Existing donor programs

As highlighted in Table 3.1, all Probing Business Opportunities (PBO) programs are a component of larger programs that also facilitate investment support (Fostering Sustainable Business, FSB). The only program that maintains a PBO element without an FSB capability is the Study Facility within the German BMZ PPP Program.[27] The only FSB program that does not provide partnership opportunities for investment studies and pilots is the Business Linkages Challenge Fund (BLCF) of the UK Department for International Development (DFID).

As such, the study included the following donor programs in the collaborative benchmarking exercise: the CIDA-INC program of the Canadian International Development Agency (CIDA); the PSOM Program of the Dutch Directorate General for International Cooperation (DGIS); the B2B Program of the Danish International Development Agency (Danida); and the Business Linkage Challenge Fund of the UK Department for International Development (DFID).

CIDA-INC

The *Canadian International Development Agencies'* Industrial Cooperation Program (**CIDA-INC**) is CIDA's flagship program promoting partnerships between the Canadian private

[27] In that case, support for investment studies was provided until recently by the so-called *KfW Studienfazilität*, a small study fund administered by the *Kreditanstalt für Wiederaufbau* (KfW), the main German development bank. As of April 2007, the study fund is administered by the *Deutsche Entwicklungsgesellschaft* (DEG), the German equivalent to the International Finance Corporation (IFC).

sector and Canadian development cooperation. While CIDA-INC is an integral part of the larger CIDA organization, it has its own budget line approved by parliament and operates as a stand-alone department. CIDA-INC's key objective is to assist the Canadian private sector in establishing footholds in developing countries – and thereby to promote sustainable economic development.

CIDA-INC offers two partnership mechanisms targeted at industry and consultancies: The investment mechanism is designed to help prepare and kick off Canadian industry investment projects abroad. CIDA-INC covers up to 75 percent of the costs of both investment viability studies and startup investments. In the latter cases, CIDA-INC's contribution cannot exceed 25 percent of the overall investment. Canadian consultancies are supported through the professional services mechanism. CIDA-INC provides up to 75 percent of the funding for a feasibility study and up to 75 percent for implementation support.[28] Overall, the average size of CIDA-INC contributions to projects is around 200,000.

CIDA-INC is open to Canadian firms operating or intending to invest in 120 countries worldwide. This list overlaps with, but remains largely detached from the 'official' Canadian list of 24 partner countries used in CIDA's technical development assistance. CIDA-INC is a program entirely tied to Canadian companies. Development impact is an important goal, but is measured primarily by the number of jobs that are created and the tax income that is increased as a result of the investment of Canadian companies. As indicated above, the program provides funding for startup studies (study support, based on the PBO model) for Canadian firms interested in investing in developing countries and financial assistance during the actual investment phase (investment support). While providing support for studies and pilots, the primary objective of the program is to facilitate new investment in developing countries.

DGIS-PSOM

In addition to its PPP Program (discussed below), the *Dutch Directorate General for International Cooperation* (DGIS) also implements the Program for Cooperation with Emerging Markets (**DGIS PSOM**). Launched in 1998, PSOM seeks to help "alleviate poverty through co-operation between Dutch businesses and businesses in the PSOM countries with a focus on private investments."[29] Under the PSOM program, joint investments by Dutch and local businesses are eligible for co-funding. PSOM aims to finance pilot investment projects that lead to follow-up commercial investments and a lasting trade relationship between Dutch and local companies. This is seen as a means to sustainable wealth and job creation, as well as technology and knowledge transfer. PSOM is – with the exception of a select number of least developed countries (LDCs) – tied to Dutch companies. However, DGIS is currently considering to gradually untie the program. DGIS hopes that by untying its program it will be able to expend the full yearly budget, which so far was only possible in 2006.

Generally, DGIS funds 50 percent (up to a maximum of 500,000 per project) in all partner countries. In LDCs, the public co-financing share can increase to 60 percent.

[28] Implementation support may not be more than 3 percent of total international contract volume.

[29] See http://www.netherlandsembassydhaka.org/download/PSOM.pdf (accessed 24 April 2007).

Whereas most of the programs within DGIS PPP fall into the CDR model, DGIS PSOM primarily provides support for investment studies and pilots (PBO) as well as for regular investments (FSB).

Danida-B2B

The *Danish International Development Agency* (Danida) is currently implementing two development partnership programs: the **B2B program** and the **PPP program**. Both programs are integrated into Danida's overall private sector development (PSD) program. The overall objective of the B2B program is to contribute to reducing poverty by promoting economic growth and social development by promoting the establishment of long-term, sustainable partnerships between companies in Danida's program countries and Danish companies. B2B partnerships are primarily seen as a tool for more effective local business development. Through partnerships between Danish companies and companies in partner countries, Danida seeks to facilitate the transfer of know-how and technology to developing countries.

The Danida B2B program provides support during all phases leading up to an investment, including the contact phase (assistance in facilitating contacts between Danish companies and companies based in partner countries), the pilot phase (assistance for investment studies and pilots) and actual project phase (assistance for the actual investment). The maximum volume of Danida's contribution to single projects is 0.67 million throughout all project phases. Danida's share in a partnership is fixed. Through the B2B program, Danida always provides 90 percent of project costs (except for equipment, for which they only contribute 25 percent). The remaining 10 percent of costs need to be covered in cash by partner companies.

The B2B Program fund is coordinated by Danida headquarters, but the actual B2B budget is allocated across field missions. Field missions and a cooperation arrangement with a Danish industry association drive project acquisition. In B2B focus countries each field mission has a B2B coordinator who is also responsible for implementation and monitoring.

DFID-BLCF

Since the late 1990s, the UK's *Department for International Development* (DFID) has launched a number of so-called 'Challenge Funds' (CFs), including the Financial Deepening Challenge Fund (FDCF)[30] and the Business Linkages Challenge Fund (BLCF)[31]. The Challenge Funds are an integral component of DFID's Private Sector Development (PSD) work.

The most recent challenge fund implemented by DFID was the BLCF (opened in 2002 and closed in 2006). Actual program management was outsourced to Emerging Markets Group (EMG – an independent firm associated with Deloitte&Touche Tohmatsu). The BLCF's main objective was to leverage the expertise of the private sector to development for the implementation of the Millennium Development Goals (MDGs). BLCF sought to foster partnerships between companies in developing and industrialized countries (see

[30] See http://www.financialdeepening.org/ (accessed 27 April 2007).

[31] See http://www.businesslinkageschallengefund.org/ (accesssed 27 April 2007).

also case example in chapter 2). The intention was to capitalize on win-win situations: to foster new and commercially profitable business ventures while also generating development impact. Under BLCF rules, companies were able to obtain grants between 75,000 and 1.5 million (with a minimum one to one match for private sector contributions) to enhance market access, facilitate technology transfer, improve competitiveness, or address the enabling environment for business.

Primary grantees were for-profit private sector entities, or an association representing such entities, or a consortium led by such an entity. However, with a view to encouraging the submission of good concepts, applications from consortia led by other types of entities were exceptionally considered, as long as the consortium included private sector participant/s to lead the bid. After a pre-qualification exercise coordinated by the program manager EMG, project selection rested with an Independent Assessment Panel, a group of 9 individuals coming from business, banking and development backgrounds.

During the course of implementation, 58 proposals received funding. The total size of the BLCF was roughly 25 million. Based on the experiences with the BLCF, DFID is slated to launch a new Challenge Fund (the Africa Enterprise Challenge Fund, or AECF) this year (2007).

3.1.2 Corporate Development Responsibility: Existing donor programs

Four donor programs focused on promoting Corporate Development Responsibility partnerships were included in the collaborative benchmarking study: the BMZ Public Private Partnership (PPP) Program; the Danida PPP Program; USAID's Global Development Alliance (USAID-GDA) program; and the World Bank Development Grant Facility. The emerging DGIS PPP program was also considered. However, given the early stage of its development it was not studied in-depth.

Launched in 1999, the **BMZ Public-Private Partnership (PPP) Program** is the German Government's flagship initiative for promoting development partnerships with the business community. During the past eight years, a large number of partnership projects have been implemented across all relevant development sectors. There are two different implementation routines: Currently, the majority of partnerships with business are funded through a dedicated partnership facility (PPP Facility) and implemented by the *Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ)*, the *Deutsche Entwicklungsgesellschaft mbH* (DEG) and *Sequa-Partner der Wirtschaft*. So-called 'integrated partnerships' are implemented in parallel by GTZ. Integrated partnerships are a component of larger bilateral technical cooperation programs in partner countries. Between 1999 and 2006, BMZ invested roughly 150 million in partnerships through the PPP Facility. Between 2000 and 2006, BMZ also allocated approximately 27 million to integrated partnerships through its main development cooperation budget.

The main objective of all partnerships promoted under the German program is to leverage win-win situations between German development cooperation and the business community primarily focused on issues above and beyond a company's core business activities (see also case example in chapter 2). Generally speaking, BMZ contributes a maximum of 50 percent to partnership project costs. While trying to maximize the leverage factor, BMZ will also consider exemptions from the 50 percent for cases that promise considerable development impact. Under such circumstances, the public funding share may increase above 50 percent. For partnerships funded through the PPP Facility, the maximum public contribution to single projects is limited to 200,000. However, here again exemptions are possible.

While the program has until recently provided limited funding for studies and pilots (through the so-called Study Facility of the *Kreditanstalt für Wiederaufbau* (KfW)), the primary goal of the program is the facilitation of CDR partnerships.

DGIS PPP

In addition to the PSOM program, the *Dutch Directorate General for International Cooperation* (DGIS) has also launched a variety of other partnership programs. DGIS' objective is to support 'public private partnerships' above and beyond existing development efforts and private sector development programs (PSD). DGIS has developed various partnership programs for the private sector in recent years: the Health PPP Program[32], the WSSD-Partnership[33], bilateral partnerships initiated by the Dutch embassies as part of the regular bilateral development cooperation, and the PPP Call for Ideas Program[34]. For the sake of simplicity, this study subsumes these different programs under the heading **DGIS PPP** program.

Danida-PPP

Since 2004, the PPP Program complements Danida's B2B program. Its main purpose is to foster Corporate Social Responsibility (CSR) activities by Danish companies, related to their investments in developing countries. Through the PPP program, Danida promotes CDR partnerships "for better working and living conditions by advancing CSR and increasing opportunities for investments and enhanced competitiveness through innovation."[35] One staff member coordinates the program at headquarters. Actual partnership work – project development, implementation, monitoring and evaluation – is supposed to be driven by Danida field mission staff, however. While the full integration of the PPP program into field mission work is the ambition, most project ideas have so far been generated in Denmark, often with the direct involvement of the PPP Manager and representatives from Danish industry associations.

Only Danish companies in collaboration with local companies (or vice versa) can apply to the PPP program. However, in contrast to the B2B program it is also open to public sector organizations (from both Denmark and partner countries), as well as NGOs. At least one partner organization from the partner country is needed for Danish companies

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[32] The Health PPP program aims at promoting R&D for medicines, vaccines, and diagnostics in the area of HIV/AIDS, tuberculosis, and malaria.

[33] The WSSD-Partnership was established in context of the World Summit for Sustainable Development in 2002 in cooperation between the Ministry of Agriculture and the Ministry of Foreign Affairs. It aims at promoting the access of agricultural products from developing countries to European markets.

[34] In 2003/04 DGIS set up a one-time 'Call for Ideas', inviting companies to put forward PPP proposals. The call was a first step toward the harmonization of PPP activities and is the basis of the future framework for a structured Dutch PPP program.

[35] See Danida (2006), *Corporate Social Responsibility: Support Facilities in the Public-Private Partnership Program* (Copenhagen: Danida), p. 5.

to apply, but it may include a subsidiary firm in a developing country. Similar to the Danida B2B program, the maximum volume of Danida's contribution to a PPP project is 0.67 million across two phases. The Preparatory Phase facilitates feasibility studies, with a 60 percent maximum share of project costs covered by the Danida PPP program up to a limit of 47,000). During the Implementation phase the Danida PPP program takes on a 60 percent maximum share of project costs. The remainder of project related costs must be covered by partners, but their contributions can also be in-kind. The PPP program is still in an experimentation phase. The program will be evaluated in 2008 to derive lessons learned and best practice.

USAID-Global Development Alliance

The *United States International Agency for Development* (USAID) launched the Global Development Alliance (**GDA**) in 2001 as a temporary initiative with the main purpose of conceptualizing, piloting and integrating the partnership idea into USAID's bilateral development work.[36] Recently the GDA became a permanent institution within USAID, with the task of further promoting the partnership concept through, for example, training, key client relationship management and co-financing projects together with regional offices. GDA's partnerships come in all shapes and forms – USAID has an 'anything goes' policy in place: anything that has the potential to reduce poverty and lies within a broad range of development topics defined in an Annual Program Statement (APS) issued by USAID GDA is welcome.[37] As such, USAID does not just collaborate with private sector partners. GDA casts a very wide net, thereby using the GDA model to reach out not just to business but also foundations, NGOs and a broad range of other partners. In fact, NGOs are the most frequent GDA alliance implementers to date. They often propose (and design) alliance projects and bring the private partner on board. GDA projects have no fixed minimum or maximum size. In fact, USAID contributions range from large scale contributions – several hundreds of millions of Euros for the largest projects – to small projects of less than 100,000.[38]

The private contribution must be at least 25 percent of USAID resources. Therefore, at least in theory, minimum conditions would require that USAID pays 80 percent and the private sector pays 20 percent of partnership project costs. However, USAID-GDA explicitly pursues a leverage ratio of public to private share of at least 1:2. Between 1999 and 2005, USAID has committed roughly 1.47 billion to building alliances. The approach adopted by USAID and the actual projects pursued suggest that the primary goal of this program is to promote Corporate Development Responsibility (CDR) partnerships.

[36] See http://www.usaid.gov/gda (accessed 27 April 2007).

[37] For the 2007 APS see http://www.usaid.gov/our_work/global_partnerships/gda/aps_2007.pdf (accessed 27 April 2007).

[38] The 2 largest projects (1% of all projects) represent 39% of the total budget; the 21 largest projects (6% of all projects) represent 70% of the total budget and all other 375 projects (94% of all projects) represent only 31% of the total budget (analysis of 396 projects from 1999 – 2005)´.

World Bank Development Grant Facility

The World Bank's Development Grant Facility (DGF) was established in 1997 in an attempt to consolidate grant making into one key mechanism. The DGF reflects the Bank's priorities in making grants: to a) encourage innovation, b) to catalyze partnerships, and c) to broaden the scope of World Bank services. All grants that receive support from the DGF must also conform to World Bank sector and institutional priorities. Only internal proposals (i.e., proposals put forward by Bank staff) are considered for funding. The DGF Council (consisting of senior bank managers drawn from all departments) makes funding decisions annually which need to be approved by the Executive Board of the World Bank. The DGF is not strictly a mechanism that exclusively fosters partnerships between the World Bank and the private sector. However, high- partnership quality is one important selection criterion for awarding DGF funding. Roughly 20 out of 58 initiatives that received DGF funding in 2005 feature private sector participation.[39] The DGF was included in this benchmarking partner study to learn from DGF's strategy (specifically with regard to its attempts to become more selective in project choice), its program selection process, as well as the World Bank's significant experience with monitoring and evaluation mechanisms.

Based on an analysis of the incentives that drive the public and private sector to engage in partnerships, Chapter 2 has highlighted some of the key challenges donors are confronted with when setting up and implementing programs that seek to facilitate such collaboration – either focused on probing business opportunities, facilitating sustainable business or engaging companies in corporate development responsibility initiatives. What have donors done to effectively deal with these challenges? What are the best practices? What lessons have been learned?[40]

3.2 Probing Business Opportunities: key challenges and lessons learned

As noted in Chapter 2, donor programs that follow the Probing Business Opportunities (PBO) model face three key challenges in particular: to effectively market the program to business; to ensure a high development relevance within the project portfolio; and to implement effective safeguards for risk and reputation management.

3.2.1 Marketing

As discussed in Chapter 2, the main objective of PBO programs is to raise awareness in the business community for potential investment opportunities in the developing world – and to provide incentives to companies to explore that potential in more detail. Recruiting business is a challenge faced by all donor partnership programs, regardless of the model, as highlighted in the discussion further below. However, experiences from various donors show that programs of the PBO variety find it particularly difficult to

[39] Based on a review of the DGF project portfolio, see http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/EXTFININSTRUMENTS/EXTTRUSTFUNDSANDGRANTS/EXTDGF/0,,enableDHL:TRUE~menuPK:64283045~pagePK:64283090~piPK:64283077~theSitePK:458461,00.html (accessed 27 April 2007).

[40] If not indicated otherwise, all the information provided in the remainder of this chapter has been collected through interviews with officials from the donors that participated in the benchmarking study.

reach out to business. Companies do not always find it obvious why they should explore alternative investment locations in countries with potentially unstable investment climates, or for which reliable information is hard to come by.

In response, donors have adopted various strategies to make programs attractive to potential business partners. One key deciding factor whether companies engage with a PBO program or not is obviously cost. The review of existing programs reveals that public funding shares for investment studies and pilots tend to be relatively high, at least when compared to funding shares in Fostering Sustainable Business (FSB) programs or Corporate Development Responsibility (CDR) partnerships (CIDA-INC and Danida B2B cover between 75 percent and 90 percent of the costs for studies and pilots.) On the other hand, a high public share potentially limits the program's development relevance, as it leads to a lower development impact per tax dollar ratio. However, the risk of significantly lowering the development relevance is limited by the fact that in absolute terms the financial volume of these programs is rather small. Startup financing normally amounts to a maximum of 60,000 – 70,000 per project. It is important to note that none of the donors provide full cost recovery. As one donor official noted, this would send the wrong signal and provide opportunities for misuse of donor funds.

An additional factor determining program attractiveness for business is the application process. In general there are two models: donors either select business proposals on a rolling basis or by using a competitive tender process. Accepting applications on a rolling basis clearly increases the flexibility of the program since donors can respond more quickly and in non-bureaucratic ways to requests from the business community. A tender process, in contrast, enables the donor to become more selective in their decision-making process, which may potentially be useful in raising the development profile of the overall project portfolio. Both mechanisms are applied in practice. CIDA-INC and Danida B2B accept applications while DGIS PSOM has an obligatory tender process in place (deciding on applications twice a year). CIDA-INC is facing problems with under-spending, i.e. its annual budget has not been fully exhausted in recent years. CIDA-INC's budgetary problems are the consequence of a variety of other factors, including the decision to not market the program aggressively.

Danida has taken a different route towards marketing its program to business. agency pays eight Denmark-based consultants to work with Danish companies to develop projects.[41] These consultants are based in the major Danish SME industry federation and assist companies to prepare project proposals. This arrangement has helped to generate a steady flow of project proposals from the business community.

3.2.2 Development relevance of project portfolio

Attracting private partners to probe new business opportunities in developing countries is one significant challenge. For donors, however, it is not just important to attract *any* new business venture. Ideally, donors would like to engage in PBO partnerships that have some likelihood of generating a tangible positive development impact.

41 Danida pays for a total of 4,600 consultant hours per year (1 FTE=1,600).

Investment studies and pilots are only a very indirect lever to contribute to poverty reduction. Co-funding a study or a pilot may not ultimately result in an actual investment by a company. Furthermore, even if an investment follows a study or a pilot, it is not a given that it will have an overall positive development impact. CIDA-INC, Danida and DGIS are trying to ameliorate these risks by complementing their programs with supporting mechanisms, such as providing investment support after successful completion of an investment study or a pilot, or by accompanying the private partner throughout the whole project cycle, helping them for example to understand the political and regulatory context in the target country, or by facilitating contacts to local or national authorities.

One additional important element determining the overall quality of projects is related to the reliability and economic viability of private partners. Obviously, partnerships have a much higher likelihood of failure if the private partner's economic fundamentals are weak. For the purpose of checking a company's economic viability, CIDA-INC, Danida B2B and DGIS PSOM have all developed a standard list of eligibility criteria. The lists include requirements such as minimum financial performance (profit or turnover), minimum company size (e.g., measured by number of staff), minimum company lifetime, a proven track record in the company's field of activity, etc. The lists usually also include qualitative requirements such as a commitment to establishing long-term business relationships in a developing country. All donors use standard business databases and intelligence services (such as Standard&Poor's) to perform viability checks. For those that allow applications from companies in partner countries, such checks have proven to be very challenging. In fact, for that precise reason, some donors have put restrictions on company applications from partner countries.

For the purpose of assuring a positive development impact of a certain project, CIDA-INC has developed a number of standard requirements for projects to fulfill. The program demands that participating companies not only undertake economic, technical and legal assessments in their studies and pilots, but also include a Corporate Social Responsibility (CSR) plan. This plan has to address gender issues and community development affairs. It is unclear, however, how stringently these rules are applied in practice and how they are verified.

With respect to the requirements for both an economically viable private partner and development impact, the flexibility and development relevance of the program depend on how restrictively stipulations are applied. Applying them restrictively helps to ensure the development relevance of projects but decreases program flexibility.

The same holds true for the restrictions regarding partner countries or specific development sectors. The more flexible programs are, the more attractive they are to the business community. As for restricting programs to certain partner countries, the programs surveyed here have taken different approaches. Some programs, e.g., CIDA-INC, have little restrictions; however, a discussion is currently taking place to determine whether the CIDA-INC program country list should be aligned with the official CIDA country partner list. So far, though, investment studies and pilots can be co-financed in any developing country. Others, such as the Danida B2B program, restrict projects to official Danida partner countries. With respect to the restriction to certain development sectors – such as health, education, sustainable development – all donors have opted for full flexibility. None of the programs have any restriction to a certain development sector.

3.2.3 Risk and reputation management

Building new relationships always entails risks, and partnerships are no exception to that rule – quite to the contrary. For donors, these risks can be financial or, probably more importantly, reputational in nature. The financial risks emerging from programs that follow the PBO model are generally manageable. Individual co-funding contributions for investment studies or pilots are in most cases comparatively small – usually below 100,000 per project. While no reliable data for success and failure rates was available, donors know and accept that providing co-financing for studies and pilots has an unsure development return on investment. The reputation risks emerging from these partnerships may be more substantial. There is potential for damage to a donor's reputation if it partners with an 'unsuitable' company. As a result, most donors – including for example Danida – have established negative exclusionary criteria for program participation. Certain industries, such as alcohol, tobacco, and weapon producing companies, are generally not eligible to receive support from the B2B program.

In conclusion, the review of PBO programs reveals two key lessons learned: First, PBO programs are designed to raise awareness in the business community about potential business opportunities in the developing world. More than with other partnership programs, their success depends on a combination of flexible program design and coordinated outreach by the donor to the business community to stir interest in the private sector. And second, from a donor perspective, investing in PBO projects is a high-risk strategy that can, in some cases, trigger significant development impact with relatively little (financial) investment. However, there is also a high failure rate.

3.3 Fostering Sustainable Business: key challenges and lessons learned

All donors that have launched PBO programs also offer further downstream partnership opportunities with business through Fostering Sustainable Business (FSB) programs. As explained in Chapter 2, FSB programs provide actual investment support for the private sector, seeking to enable investments with high development value that otherwise would not take place.

FSB programs need to manage some of the same challenges that PBO programs are confronted with, most prominently the need to ensure high development relevance within the project portfolio. But in many ways these challenges take on a different significance in the FSB context, partly because of the larger individual project sizes and the corresponding higher donor investments that are necessary. In addition, there are three challenges unique to FSB programs that donors need to successfully address: careful project selection in light of the nature of grant mechanisms that are used to co-fund investments; potential market distortions that may be a consequence of FSB investments; and impact assessment. What are some of the lessons learned and best practices the relevant donors have developed to tackle these challenges?

3.3.1 Development relevance of project portfolio

The challenge to assure high development relevance within the project portfolio does not differ substantially between PBO and FSB programs. On the most basic level, donors need to ensure that their private partners have the ability to successfully manage the entrepreneurial and developmental aspects of the project. All donors have minimum quality criteria for private partners in place, and most conduct comprehensive business performance checks. Eligibility criteria are usually the same as for PBO partnerships.

In addition to conducting background checks on private partners, donors also need to be able to assess the economic viability of submitted proposals. However, it is not a given that development practitioners have the ability to analyze and assess business proposals. They may simply lack the expertise to provide an informed assessment. For that reason, both DFID and DGIS have invited business representatives to serve on selection committees. In the DFID BLCF case, for example, the project selection committee consists of development experts as well as private sector professionals.

Given the stand-alone nature of most FSB programs, all donors find it challenging to leverage their own in-house expertise to ensure high development relevance within FSB projects. Given its decentralized nature, the Danida B2B program facilitates consultation on project proposals on the field office level, managed by the B2B coordinator (a Danida staff member based in the partner country). DFID attempts to leverage the expertise of country offices to the selection process, soliciting input from development practitioners on submitted proposals. While in some cases this process has been quite successful, it has turned out to be quite resource-intensive.

Another way some donors are trying to enhance the development relevance of FSB projects is by opting for an open and competitive tender process. While using tender processes for PBO projects may pose significant hurdles for business (as discussed in the previous section), open and competitive tender processes may contribute to improved proposal submissions, and enable donor to judge the quality of proposals against each other. Both DFID and DGIS have such tender processes in place. Both have found that a tender process can reduce the flexibility of programs and is likely to be more effective in providing the donor with an opportunity to thoroughly check the feasibility of the proposal, plus its expected development return on investment.

A final way to enhance the development relevance of FSB project portfolios from the perspective of the donor is to restrict program operation to partner countries and priority sectors, as for example identified in national donor strategies or Poverty Reduction Strategy Papers. Similar to PBO programs, all donors are making an effort to focus their programs on partner countries. Some programs – such as Danida B2B and DFID BLCF – are focused on a subset of partner countries and to some extent also try to link FSB projects to priority development sectors.

While the Danida B2B program in principle operates in all Danida partner countries, it is promoted only in so-called “focus” countries. This is a direct outcome of the B2B program review in 2003 that recommended that the program should be focused on countries where a reasonable development potential and sensible framework conditions for business activity already exist. For these focus countries, Danish embassies prepare a "Business Development Profile" describing overall business conditions and focus areas in which a Danish company may provide a specific value added to the partner country. The B2B program is also used in non-focus countries, but it is not advertised. The poorest partner countries tend to be the non-focus countries. B2B projects do not necessarily have to be aligned with national development strategies for partner countries. However, there usually is an attempt to link B2B programs to sector priorities in partner countries. For example, in B2B focus countries, embassies attempt to advertise certain key issues. Also, new proposals are discussed with entire field mission staff. In addition, the field mission director (ambassador) needs to agree to new B2B projects. As such, there is a strong likelihood that programs will broadly fall into priority work areas of respective field missions.

One of the key findings of DFID's experience with different Challenge Funds has been that greater focus – both in terms of target countries but also priority sectors to be addressed – enhances the development impact for the program.[42] Enhanced development impact by narrowing focus is a function of several factors, including the ability to appoint CF managers that are deeply familiar with the countries and sectors that fund is targeted on; a clear positioning of the fund which improves marketability; as well as the ability to engage with DFID bilateral programs.As a consequence, the Africa Enterprise Challenge Fund that is slated to go online in 2007 will be focused on a smaller range of countries and specific industry sectors.

3.3.2 Grant mechanisms

FSB programs – parallel to the other partnership models – are built on grant mechanisms. The public contribution to a partnership usually consists of a co-financing share in the form of a grant. As discussed in Chapter 2, the investment projects under consideration either have to be small (e.g., SME projects) or the grants have to be fairly large in order to have a lasting impact. Some donors – e.g., Danida – focus much of their FSB projects on SME investments in developing countries. Others, such as DFID, allow for fairly substantial grant sizes to be allocated to single FSB projects. Overall, however, there is an unresolved debate about the question under which circumstances grants are a superior instrument to facilitate FSB investment, and under which circumstances it may be more effective (and more prudent) to revert to loan or guarantee tools in financial cooperation. Some donors, including Danida, view their partnership program as part of an overall private sector development "value chain" and are trying to synchronize their FSB projects with other tools. As such, B2B projects are increasingly seen as preparatory projects for larger private sector financing projects developed by the IFU.[43]

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[42] Justin Highstead (2006). *The African Enterprise Challenge Fund: Current Design Thinking*. Presentation, p. 19. On file.

[43] The IFU is the Danish equivalent of the IFC (see http://www.ifu.dk/). IFU provides advisory services, share capital participation, loans and guarantees on commercial terms for investments in production or service companies in developing countries.

3.3.3 Market distortions

FSB programs provide investment support based on the assumption that without adequate donor support, development relevant investments would not otherwise take place. However, providing such investment support always carries the risk of inducing market distortions in target countries, for example by providing international companies with a competitive advantage vis-à-vis local competitors. This is especially true in those cases in which programs are tied to companies from donor countries, as is the case with CIDA-INC. Donors are keenly aware of this challenge. Both DFID and Danida are trying to effectively address it by requiring that projects that do apply include at least one partner from a developing country. In both cases, these local companies cannot be subsidiaries of international companies.

3.3.4 Determine impact

As noted above, some FSB projects can take on significant financial volumes. The size of donor investments in FSB partnerships varies quite substantially though. CIDA-INC contributions range from about 75,000 to roughly 400,000 (exceptions possible); through its BLCF, DFID can provide grants to individual projects of up to 1.5 million. Thorough impact assessment of FSB projects seems prudent, given the concerns about potential market distortions. The general interest is to determine overall development impact, and the scale of investments made. For that reason, DFID commissions regular independent mid-term and final evaluations of its BLCF program. Danida B2B requires partners to report on ten indicators that track development relevance. Partners who receive funding must report on indicators until three years after the funding from Danida has expired. DGIS has conducted in-house evaluations of a handful of projects that were unsuccessful and prematurely terminated in order to generate lessons learned. After the completion of projects, CIDA-INC has been assessing project results through a follow-up process. This documentation, however, is largely descriptive and summarizes project end information obtained, for example, through interviews. CIDA-INC is currently working on further standardizing this follow-up process, including a stronger focus on intended and unintended development outcome and impact.

In conclusion, this brief review of some of the key challenges of FSB programs and the ways in which donors have dealt with them reveals three important lessons learned: First, as in the case of PBO programs, FSB programs constitute high-risk strategies for donors. Many FSB projects may either fail to become economically sustainable or fail to generate development impact – or both. At the same time, if FSB projects are successful they can generate quite significant development impact. Second, given the nature of investments made, donors need to be concerned about potential market distortions as a result of FSB interventions. Donors try to address this issue by careful review and selection of projects and a high premium on including local partners. But the discussion on the market effects of FSB projects is not yet completed. Careful *ex post* impact evaluations will be required to determine the full effects of FSB projects. And third, there is an unresolved debate about the effectiveness of grants as tools to foster sustainable business investment, and the relationship of such grant mechanisms to more standard financing approaches (loans, guarantees). The comparative advantage of either approach needs to be more carefully analyzed.

3.4 Corporate Development Responsibility: best practices and lessons learned

As the previous two sections have demonstrated, partnerships that develop under the PBO and FSB models share a number of common features. The CDR model, in contrast, adopts a very different approach to fostering partnerships between business and development agencies. As explained in Chapter 2, CDR partnerships embrace the development relevant work of business above and beyond a company's core business activities –via worker health programs, further education, and energy-saving production processes for instance. The German BMZ PPP Program is the longest-standing donor program that follows this model, while USAID's Global Development Alliance is the most significant donor program in terms of budget allocated. DGIS PPP and Danida PPP are more recent programs that have adopted the CDR model. Other donors (including development agencies from Austria and Switzerland that are not covered by this benchmarking study) are following suit. As such, it seems fair to argue that the CDR model enjoys increasing popularity among donors. Nonetheless, donors have to manage a number of key challenges in order to successfully implement CDR programs with development impact, including challenges related to marketing; issues related to project portfolio quality control; risk and reputation management issues; and finally, challenges related to impact assessment.

3.4.1 Marketing

In contrast to the PBO and FSB models, CDR programs are not designed primarily to attract new and development-relevant investment to developing countries. Instead, the core objective for donors is to engage companies that already do business in donor partner countries – and to work with them in order capitalize on existing win-win potentials. The idea is to build partnerships that contribute to development whilst simultaneously generating a positive return for the company partner. Some donors – including BMZ – even exclude engagement of business in such partnerships for purely philanthropic reasons. By insisting on a positive business case, these donors want to ensure that partnership projects can become self-sustaining over time.

While innovative, in practice this approach can pose significant communication challenges. For many companies, the notion of collaborating with donor agencies outside their own core business, while still having to generate a positive business case, is not easy to grasp. Donors therefore need to invest quite heavily in communication and outreach in order to make the case for partnerships. USAID has been quite successful in doing so. This is in part related to the significant flexibility it allows itself with regard to partner selection (which in addition to business may also include NGOs, foundations and others). However, it is also a consequence of a the flexible outreach and "key account" system that facilitates systematic partner relationship management.

Not surprisingly, none of the donors implementing CDR programs has established a competitive tender process as a selection tool. While public calls for proposals (such as the USAID APS) can raise the public profile of such programs, it is difficult to see how a competitive approach to project selection would work in practice. Most CDR partnerships are designed in collaborative fashion between donor agencies and the private sector. Accepting proposals on a rolling basis – and responding flexibly to business inquiries and ideas – enhances the attractiveness of CDR programs.

3.4.2 Development relevance of project portfolio

In contrast to the other two partnership models discussed above, CDR programs have the potential to generate projects with a more direct development impact. Yet, collaborating with business on development projects can also pose challenges. For business itself, implementing technical development projects is usually outside their own core competencies. In fact, in practice, donors have frequently found that companies have overestimated their own ability to deliver on project goals in development settings. BMZ, for example, concludes that the more closely the development implementing agencies become involved in CDR project conceptualization and implementation, the higher the likelihood of a development return on investment. The overall quality of the project portfolio is thus to some extent dependent on the direct engagement of donors in project implementation. This is a stark difference to projects that develop from the PBO or FSB models, where essentially donors provide co-investment but usually do not have any operational involvement in implementation.

Another important factor that determines the development-relevance of a CDR project portfolio from the perspective of the donor is the degree of integration with core bilateral programs. Ideally, from a development donor perspective, CDR projects should be closely integrated with, and contribute directly to, mainstream programs that are being implemented in partner countries. CDR projects should not only be restricted to partner countries and priority sectors, but ideally there should also be synergies with other existing programs.

In order to realize such synergies, both BMZ and USAID have made an effort to establish CDR partnerships as a tool in regular bilateral development assistance. BMZ's approach to integration has been based primarily on training and capacity building in regional and country offices. While there have been some success stories, so far the integration of partnerships has remained behind expectations. USAID's integration efforts, in contrast, have produced solid results. Much like BMZ; USAID started out with a dedicated fund for its CDR project, but later abandoned this model. In order to integrate the CDR approach effectively into regional offices, USAID has transformed this fund into an incentive budget worth ca. 6 million in 2005, which is exclusively used to co-finance the public part of an alliance (together with the regional USAID office). In the meantime, many partnerships that develop out of field offices draw their entire public contribution from regular field office budgets. Some USAID offices have also started to earmark part of their budget for partnerships.

One consequence of integrating CDR programs into regular programming is that projects are also restricted to partner countries and priority sectors. While most donors appear to handle this rather flexibly, the sector concentration especially creates significant challenges in reaching out to business. Donors are confronted with a clear trade-off: on the one hand, donors should have an interest in making the most of partnership opportunities with business (to be opportunistic and flexible). At the same time, donors also need to ensure that CDR programs are in line with overall development approaches.

3.4.3 Determine impact

As in both other partnership models, impact assessment is also a challenge for CDR models. For CDR projects, however, the evaluation challenge is slightly different: it is not just of interest whether a CDR project has generated development impact. In addition, donors should also be interested in finding out whether this particular delivery mechanism – the partnership – has generated added value-. Building partnerships, many donors have found, is time- and resource-intensive. These investments need to be justifiable – building partnerships for the sake of partnership alone is bad development policy.

While some donors have made some limited attempts to engage in impact assessment of their CDR partnerships, there really is a lack of an evaluative culture in this context. There is no doubt that evaluating partnerships is difficult. In most cases individual partnership project sizes are relatively small, making investments in evaluation seem out of proportion. In addition, evaluating partnership projects requires the consent and participation of all partners involved. While business should in general be interested in determining the impact of their partnerships with donors on their corporate bottom line, they may not necessarily be interested in contributing to a development impact assessment. Finally, no evaluation tools currently exist to allow donors to assess the specific added value of partnerships.

The World Bank has developed an approach to the monitoring and evaluation of their global and regional programs – many of which feature private sector participation – which other donors may be able to build on. Under rules established in 2006, every partnership funded through the Bank's Development Grant Facility must conduct independent external evaluations. The Independent Evaluation Group of the World Bank has developed a standard approach for Global Program Reviews (consisting of a set of evaluation questions, structured around key OECD evaluation criteria) that also consider partnership performance issues.[44] Each program that receives funding from the DGF is required to conduct an independent external evaluation every 3-5 years. Part of the DGF grant may be applied towards the cost of this evaluation. In addition, programs that receive or are being considered for multi-year funding endorsement should synchronize their evaluations so that new evaluations are available alongside any subsequent requests for funding.

In summary, this brief review of CDR donor programs has highlighted two important lessons learned: First, in contrast to PBO and FSB projects, CDR programs can have a direct development impact. However, practice also shows that working in collaboration with business is time- and resource-intensive. Second, integrating CDR programs as a

[44] World Bank IEG (2007), *Sourcebook for Evaluating Global and Regional Programs and Partnerships* (Washington, DC: World Bank IEG).

tool within the larger bilateral development cooperation toolbox can potentially enhance the development impact of partnerships with business. Such integration – full alignment with development priorities (countries as well as sectors) – reduces the flexibility of donors vis-à-vis business, however.

4. Conclusion

During the past decade, many bilateral and multilateral donors have launched new programs designed to leverage the resources and expertise of business to pressing global development challenges. As this study shows, six donors are already implementing such programs, and at least four others have either recently launched new initiatives or are planning to do so in the near future. Many United Nations organizations (not included in this review) also maintain partnership programs. 'Engaging business in development' has thus not remained an empty slogan but has triggered a large number of innovative programs that promote collaboration between donors and the private sector in technical development cooperation.

Rather than pursuing a single model of building partnerships with the business community, this review of different partnership programs demonstrates that donors have developed a variety of different approaches. These approaches can be grouped into three basic partnership models: **Probing Business Opportunities** (partnerships with the business community to explore, through investment studies and pilots, new business opportunities in developing countries); **Fostering Sustainable Business** (partnerships with the business community to spur private investments with a positive development impact) and **Corporate Development Responsibility** (partnerships with the business community that embrace the development relevant work of business in developing countries above and beyond a company's core business activities).

Across these three models, the term partnership is used in a broad sense, entailing all forms of public-private collaboration that build on reciprocal obligations and mutual accountability, including sharing of investments or joint partnership project development and implementation.

None of the three program models is necessarily superior to the others. Rather, each pursues quite distinctive objectives in an attempt to capitalize on different areas in which the interests of donors and companies intersect. Yet, each of the models highlighted in this report is confronted with a number of unique challenges that donors need to address in order to leverage the full potential of partnerships. The discussion in Chapter 3 shows that donors have recognized these challenges – and have taken steps to deal with them.

Considering the diversity of program models, what general conclusions can be drawn from the experiences donors have had during their attempts to engage business in technical development cooperation? And building on that, what can and should donors do to further enhance the development relevance and impact of their partnership work?

First, partnership programs that are focused on engaging business in technical development cooperation are just one of manifold ways in which development agencies can leverage the resources and expertise of the business community to global development challenges. In fact, the size (e.g., measured in terms of donor budgets committed, or number of projects launched) of the partnership programs reviewed as part of this collaborative benchmarking exercise suggests that they remain rather small so far. Other opportunities for engagement, for example through private sector participation in infrastructure development projects in developing countries, offer alternative and complementary arenas in which there is scope for public-private collaboration that should be explored.

Second, the benchmarking study reveals that partnership programs need to manage a fine balance. On the one hand, donor programs need to be designed in sufficiently flexible ways in order to enable development agencies to respond flexibly to new partnership opportunities that may arise. At the same time, partnerships with companies should ideally be closely aligned with overall donor development strategies, including a focus on a select range of partner countries and priority sectors. For most donors, managing that trade-off poses a major challenge in partnership program implementation, and is also the cause for much frustration in the business community. As donors continue to focus their development activities (e.g. by reducing the number of partner countries to reduce overlap with activities of other donors), that challenge will further rise in significance. One potential solution – albeit probably resource-intensive – is to foster collaboration between donors to ensure that the partnership potential with the business community can be leveraged to the fullest extent possible (see below).

Third, another general conclusion relates to the level of intervention at which most partnership programs operate. The general trend in bilateral development cooperation is to design programs that generate structural impacts at either the meso- or macro-levels. In other words, program interventions are increasingly focused on changing the framework conditions for development in partner countries, including legal and regulatory systems, or infrastructure development. However, the partnership programs surveyed in this benchmarking report operate primarily at the micro-level, i.e., at the level of the individual firm. That does not imply that partnership projects cannot generate second-order effects. As noted in Chapter 2, for example, successful FSB projects also have the potential to ignite the development of a new market. CDR projects – especially those in which development agencies work with groups of companies or entire industry sectors – also have the potential to trigger impact at the meso- or macro-levels. In addition, micro-level projects still have an important contribution to make, especially when they establish models that can be replicated or scaled up.

Despite this, donors need to be clear on what these partnership programs are able to accomplish, and what specific contribution they can make within their broader development toolbox. In the case of PBO and FSB programs, that means primarily that partnership programs should be closely integrated with and add to broader private sector development (PSD) strategies. Ideally, donors should have a clear understanding about what roles PBO and FSB programs play in their overall approach to private sector development in partner countries. That would include, for example, a clarification of comparative advantage vis-à-vis mechanisms in financial cooperation, such as private sector financing or guarantee instruments provided by major development banks. In the case of CDR programs, such alignment would require close integration with regular programming in development cooperation. Here again donors should have a clear understanding what role the partnership 'tool' can play in their overall development toolbox, to clarify its comparative advantage and contribution.

Fourth, and finally, while some donors have made first strides into evaluation, so far only very little is known about the development impact of partnership programs. This is a result of at least three factors: First, many of the partnership programs are of fairly recent origin. Thorough impact evaluations only make sense two or three years after projects have been completed. Second, most individual projects are fairly small in terms of budget. In most cases, the public contribution to a partnership projects remains less than 300,000. As such, building resource-intensive monitoring and evaluation frameworks may seem excessive. Finally, there are also methodological challenges, specifically with regard to CDR partnerships. In those cases, donors are not just interested in assessing impact. Perhaps more importantly, they also need to determine the specific value added by the partnership approach. Could a specific development objective be reached through alternative means in a more cost-efficient way? So far, no such tools have been developed. And yet, assessing the development impact of partnership programs will be crucial: to identify their comparative advantage and to ensure accountability vis-à-vis partners as well as beneficiaries.

One way to assist donors in tackling some of these challenges is through enhanced donor collaboration. In theory, such collaboration is possible on three different levels:

- **Exchange of lessons learned and best practice.** This could be realized through regular meetings, joint email lists or other means that would facilitate information sharing.
- **Development of joint partnership projects.** Ideally, improved information sharing could also result in identifying opportunities to collaborate on the partnership project level.
- **Development of joint partnership programs.** It may also be useful to explore the extent to which joint partnerships programs are feasible and can add value. Joint programs may be particularly useful with regard to initiation, funding and management of regional and global partnerships. Such initiatives – which in many cases already draw support from several donors – could be facilitated in a more effective way by a joint funding mechanism, building on the example of the Development Grant Facility of the World Bank.

One of the major objectives of the international benchmarking study on donor approaches to development partnerships initiated by the German Federal Ministry for Economic Cooperation and Development (BMZ) is to ignite a discussion among various development agencies about the potential for and interest in enhanced collaboration. The international donor workshop 'Engaging Business for Development' to take place on 3-4 May in Berlin (Germany) will provide a forum to discuss ideas and to chart a way forward.

5. Acknowledgments

This report is a product of excellent teamwork. The authors would like to thank Anita Hurrell and Lindsay Dahms (both GPPi) for research assistance provided throughout the study process. In addition, Wolfgang Reinicke provided feedback on drafts of the report and thereby helped to shape it in important ways. A special thank you to Olwen Atanackovic who did an excellent editing job.

The research and writing of this report would not have been possible without the input of numerous individuals from the various donor agencies who participated in the collaborative benchmarking study. Many of these people took considerable time out of their busy schedules to attend workshops, give interviews, search for data and to provide a wide range of other information and advice.

In particular we would like to thank:

Barbara Addy, USAID Global Development Alliance; Peter B. Aikat, Canadian International Development Agency (CIDA); Tilman Altenburg, German Development Institute (DIE); Axel Bäumler, The World Bank; Richard Bennett, Canadian International Development Agency (CIDA); Marc Blanchette, Canadian International Development Agency (CIDA); Francois Boutin-Dufresne, Canadian International Development Agency (CIDA); Tina Butterbach, KfW Entwicklungsbank; Katie Carrol, Development Alternatives Inc.; Bianca Denfeld, KfW Entwicklungsbank; Robert Dijsterhuis, Dutch Ministry of Foreign Affairs; Régis Domingo, Canadian International Development Agency (CIDA); Ghislain Dussault, Canadian International Development Agency (CIDA); Vivian J. Escott, Canadian International Development Agency (CIDA); Thomas Finkel, Gesellschaft für Technische Zusammenarbeit (GTZ); Rolf Gerber, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG); Dorothea Groth, German Federal Ministry for Economic Cooperation and Development; Jörg Hartmann, Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ); Hans-Joachim Hebgen, Deutsche Entwicklungsgesellschaft mbH; Justin Highstead, Department for International Development (DFID); Paul Hitschfeld, Canadian International Development Agency (CIDA); Paul Hubbard, Development Grant Facility, World Bank; Helle Johansen, Danish International Development Agency (Danida); Achim Johannsen (Bundesverband der Deutschen Industrie); Christine Johnson, Canadian International Development Agency (CIDA); Esther Kabey, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG); Lauren Kelly, The World Bank; Sue Kinn, Department for International Development (DFID); Jürgen Klenk, Gesellschaft für Technische Zusammenarbeit (GTZ); Claus Körting, Gesellschaft für Technische Zusammenarbeit (GTZ); Christoph Kohlmeyer, German Federal Ministry for Economic Cooperation and Development; Manfred Konukiewitz, German Federal Ministry for Economic Cooperation and Development; Michael Krake, German Federal Ministry for Economic Cooperation and Development; Lothar Lammers, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG); Daniele Loebel, Internationale Weiterbildung und Entwicklung (Capacity Building International); Zlatina Loudjeva, Emerging Markets Group; Bernd Lunkenheimer, Gesellschaft für Technische Zusammenarbeit (GTZ); Jean-Claude Mailhot, Canadian International

Development Agency (CIDA); DiAnne Masson-Yensen, Canadian International Development Agency (CIDA); Jean Miller, USAID Global Development Alliance; Sonja Nelles, Internationale Weiterbildung und Entwicklung (Capacity Building International); Christian Neumann, German Federal Ministry for Economic Cooperation and Development; Jack Newnham, Emerging Markets Group; Laura Nielsen, Danish International Development Agency (Danida); Norman K. Nicholson, U.S. Agency for International Development (USAID); Melanie Beth Oliviero, Development Alternatives Inc.; Peter Peters, Deutsche Investitions- und Entwicklungsgesellschaft mbH (DEG); Michel Pilote, Canadian International Development Agency (CIDA); Kristi Sagan, Development Alternatives Inc.; Raimund Riefenstahl, Gesellschaft für Technische Zusammenarbeit (GTZ); Dan Runde, USAID Global Development Alliance; Susanne Sattlegger, Sequa gGmbH Partner of German Business; Robert Jan Scheer, Dutch Ministry of Foreign Affairs; Janne Laigaard Schneider, Danish International Development Agency (Danida); Vera Scholz, Gesellschaft für Technische Zusammenarbeit (GTZ); Heiko Schwiderowski, Deutscher Industrie- und Handelskammertag; Suellen Seguin, Canadian International Development Agency (CIDA); Jyoti Shukla, The World Bank; Katja Silva-Leander, Emerging Markets Group; Franz-Michael Skjold Mellbin, Danish International Development Agency (Danida); Thom Sprenger, Dutch Ministry of Foreign Affairs; Markus Sterr, German Development Service (DED); Arora Sukhwinder, Department for International Development (DFID); Jeremy Swainson, Enterplan Limited; Margret Thalwitz, The World Bank; Jim Thompson, USAID Global Development Alliance; Arno Tomowski, Gesellschaft für Technische Zusammenarbeit (GTZ); Richard Veillette, Canadian International Development Agency (CIDA); Neera van der Geest (DGIS); Nicolaus von der Goltz, German Federal Ministry for Economic Cooperation and Development; Gebhard Weiss, Sequa gGmbH Partner of German Business; Matthias Weiter, German Federal Ministry for Economic Cooperation and Development; Carol Wilson, USAID Global Development Alliance; Helma Zeh-Gasser, Gesellschaft für Technische Zusammenarbeit (GTZ).

A special thank you to Ulrike Haupt, Helmut Fischer and Christian Widmann who entrusted us with this project and who provided critical support and intellectual stimulus along the way.

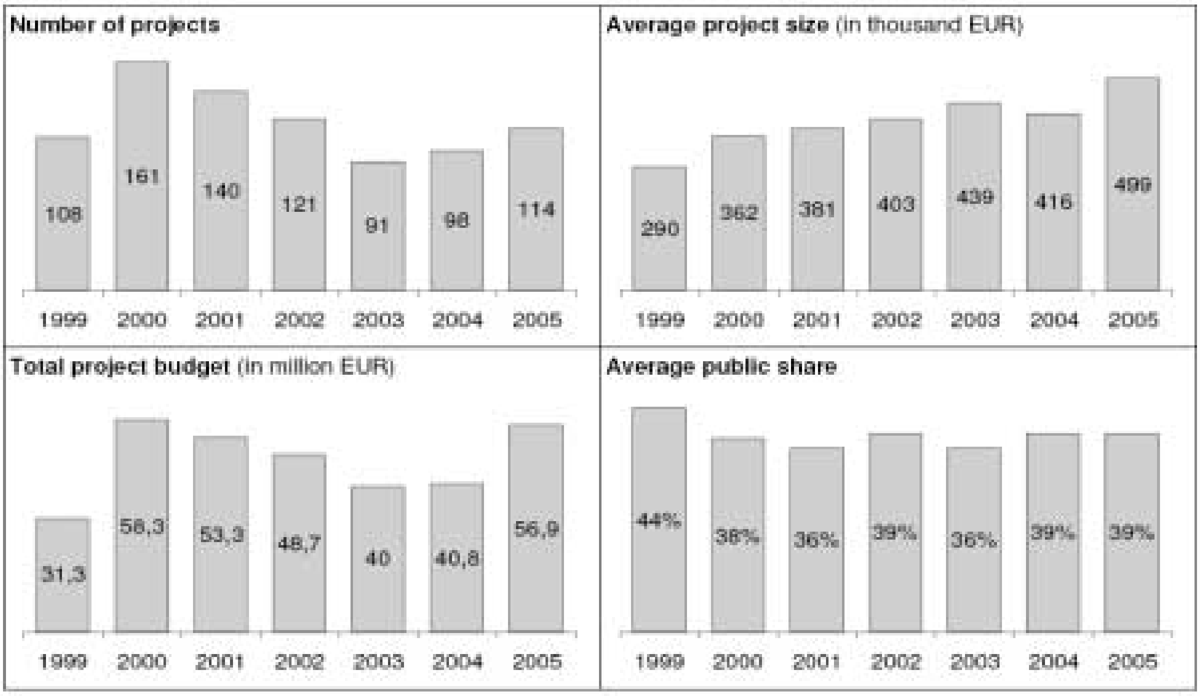
Appendix. Overview of Project Portfolios of Donor Programs

Below are brief summary overviews of the project portfolios that donor agencies manage as part of their partnership programs. The data for these portfolio overviews was provided by the donor agencies and varies greatly in breadth and scope.[45] Also, given the different nature of individual programs, these portfolios are not directly comparable. Instead, the idea is to provide the reader with a rough sense of the overall structure and composition of project portfolios, e.g., in terms of project size, public-private funding shares, regional concentrations, etc.

German Federal Ministry for Economic Cooperation and Development (BMZ) PPP Program

As discussed in Chapter 3, BMZ maintains two partnership project portfolios since there are two different funding mechanisms. Currently the larger number of partnership projects are funded through the PPP Facility. The Facility was set up in 1999 as a special budget line to promote partnerships with the private sector:

Appendix Figure 1: PPP Facility Project Portfolio Snapshot

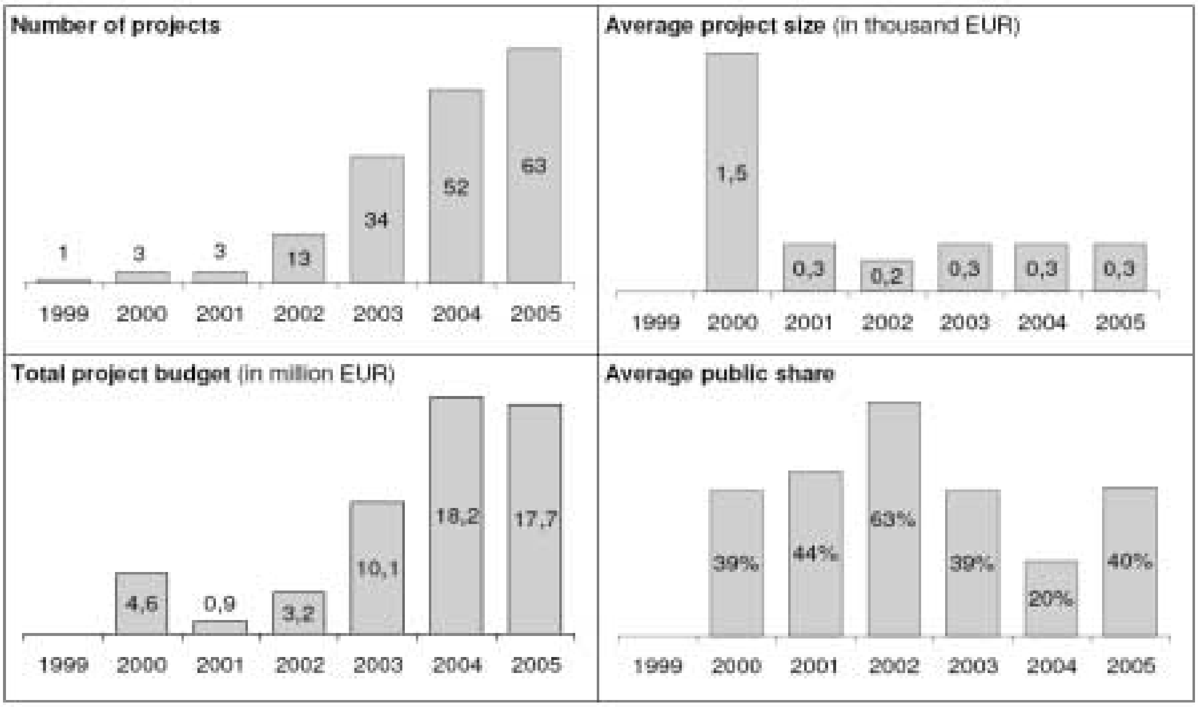


Source: BMZ/GPPi. All figures reflect newly committed project spending

In addition to partnerships funded through the PPP Facility, there are also so-called 'integrated PPP' projects within the portfolio are closely linked to core bilateral programs implemented in partner countries and funded through the main technical cooperation budget of the German government.

[45] No detailed project portfolio data was available for Danida's PPP program and the partnership program implemented by the Dutch Ministry for Development Cooperation (DGIS).

Appendix Figure 2: Integrated PPP Project Portfolio Snapshot

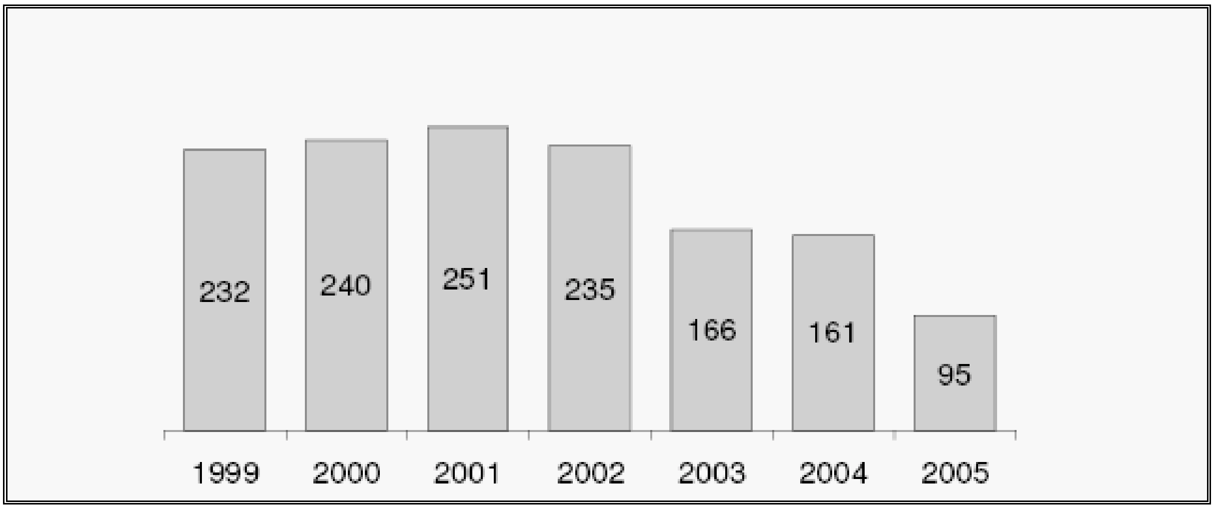


Source: BMZ/GPPi

Canadian International Development Agency-INC

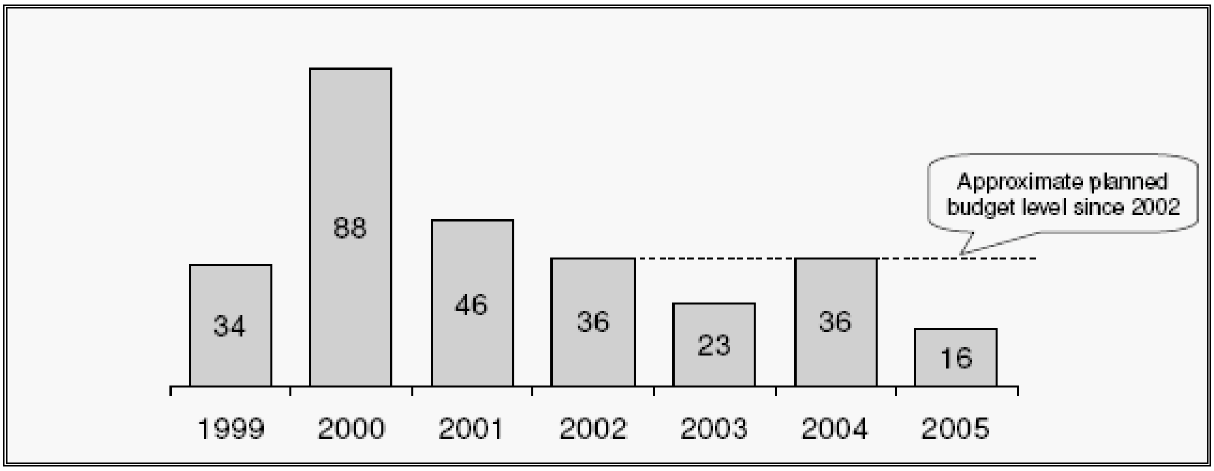
CIDA-INC is the oldest partnership program included in this benchmarking study. However, the portfolio review below only includes projects that were launched between 1999 and 2005.

Appendix Figure 3: Number of CIDA-INC projects per year



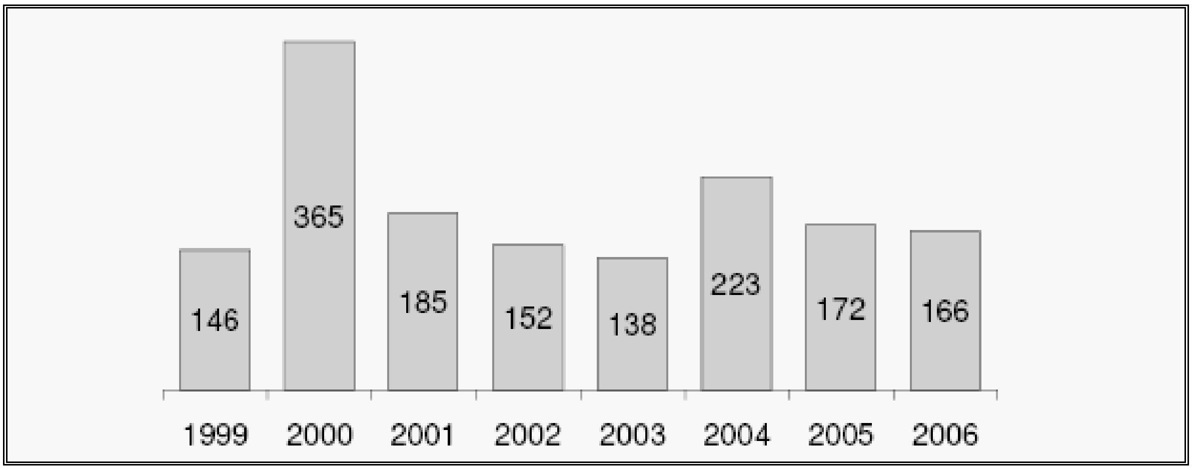
Source: CIDA-INC/GPPi

Appendix Figure 4: Total CIDA-INC project budget (actual) per year (in million EUR*)



Source: CIDA-INC/GPPi. 1 CAN$ = 0.66 (rate on 14 February 2007)

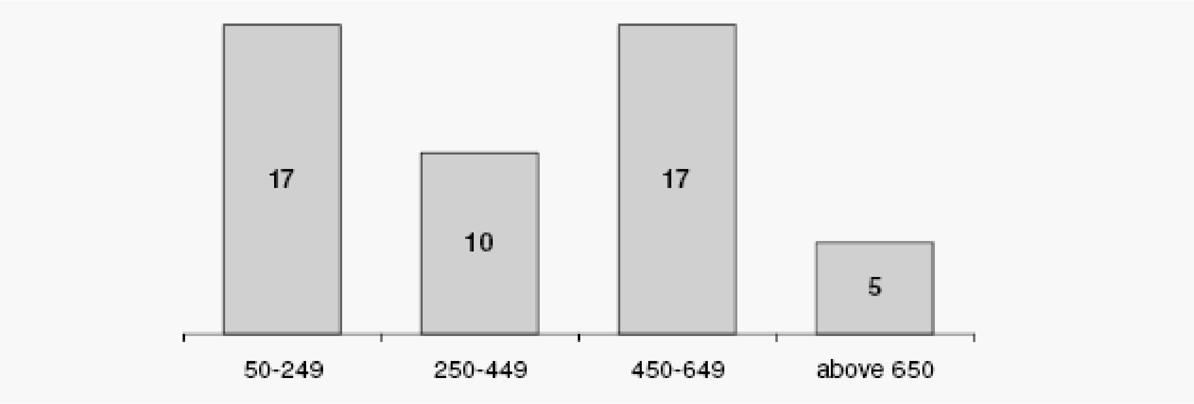
Appendix Figure 5: Average CIDA-INC project size per year (in thousand EUR)



Source: CIDA-INC/GPPi. 1 CAN$ = 0.66 (rate on 14 February 2007)´

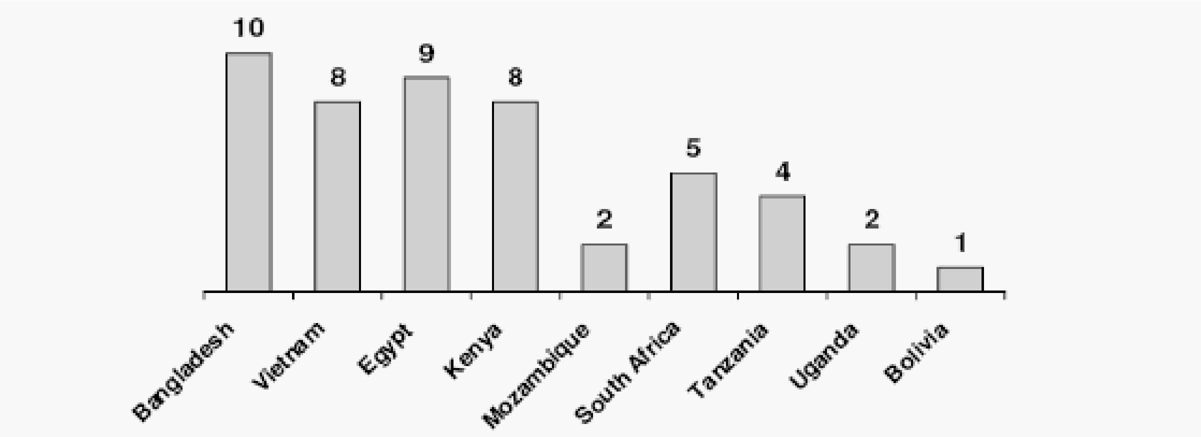
Danish International Development Agency B2B Program

Appendix Figure 6: Number of projects according to grant amount (in thousand EUR, FY 2005)



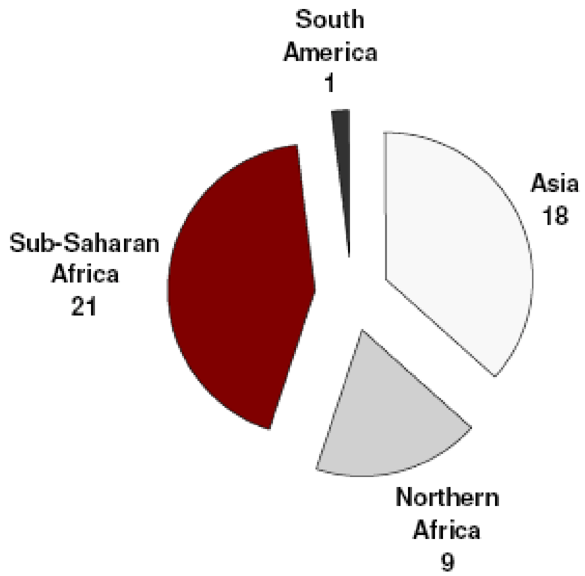
Source: Danida/GPPi. 1 Denmark Kroner = 0.134 (rate on 26 February 2007)

Appendix Figure 7: Number of projects according to country (49 total projects, FY 2005)



Source: Danida/GPPi. 1 Denmark Kroner = 0.134 (rate on 26 February 2007)

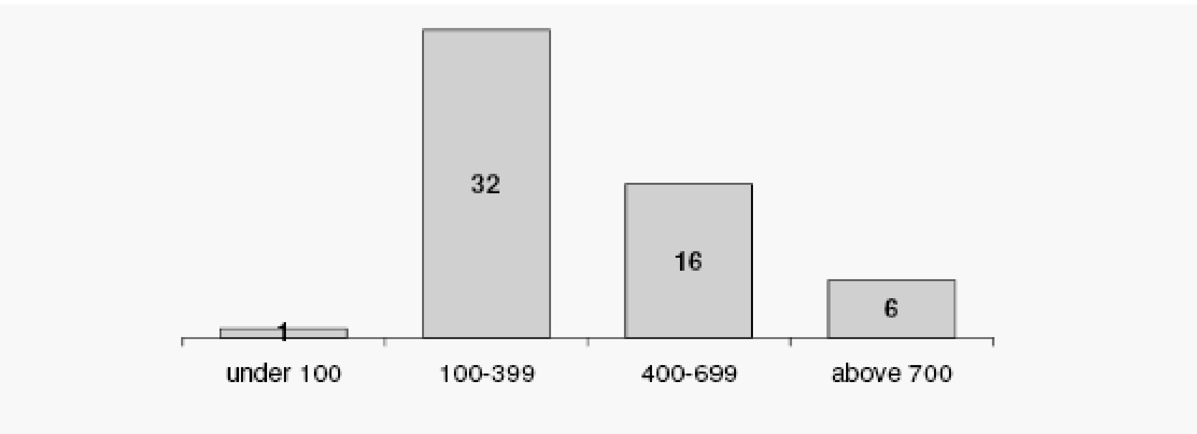
Appendix Figure 8: Number of projects according to region (49 total projects, FY 2005)



Source: Danida/GPPi. 1 Denmark Kroner = 0.134 (rate on 26 February 2007)

UK Department for International Development Business Linkage Challenge Fund

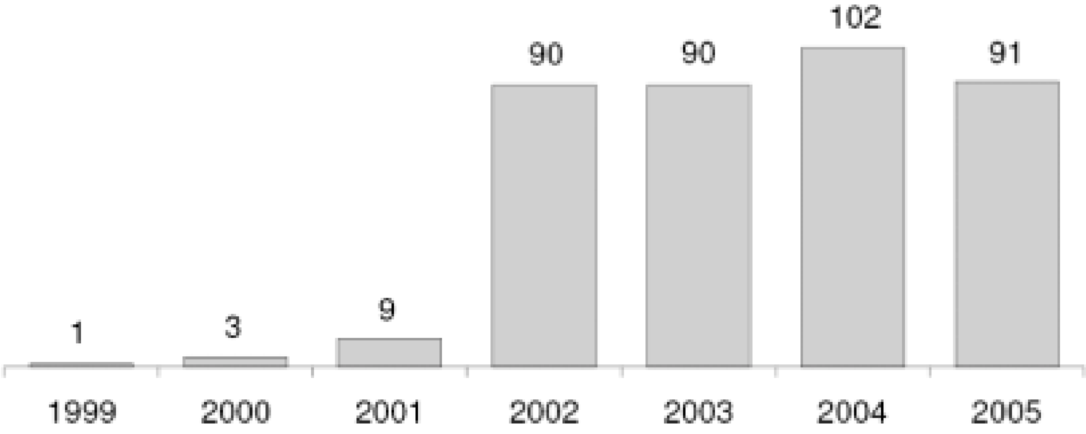
Appendix Figure 9: Number of projects according to grant amount for entire BLCF (grant amounts x-axis) in thousand EUR



Source: DFID/GPPi. Figures do not include cancelled projects. 1 UK £ = 1.48 (rate on 19 February 2007)

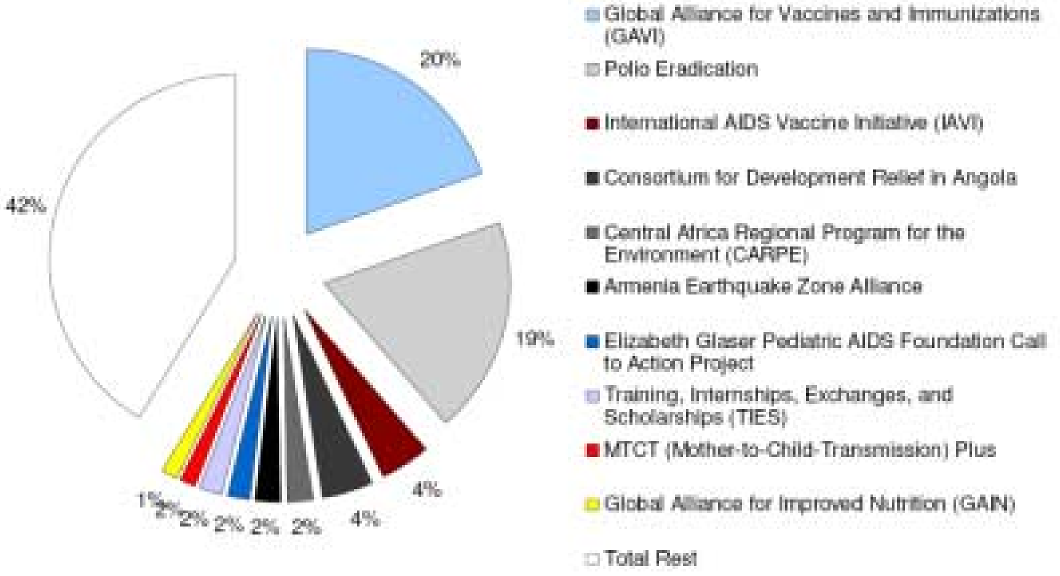
US Agency for International Development Global Development Alliance

Appendix Figure 10: Development of GDA program in number of alliance projects per year



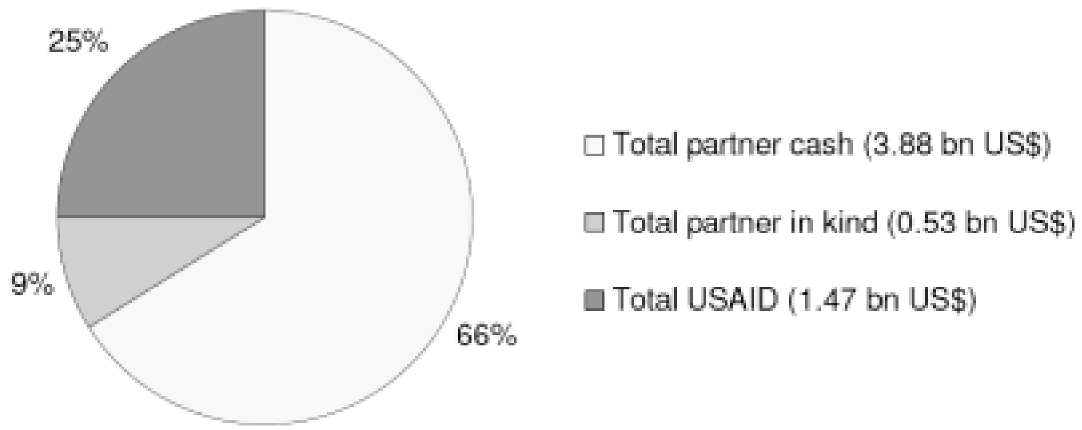
Source: USAID/BMZ/GPPi

Appendix Figure 11: Project size distribution (roughly 1999 – 2005)



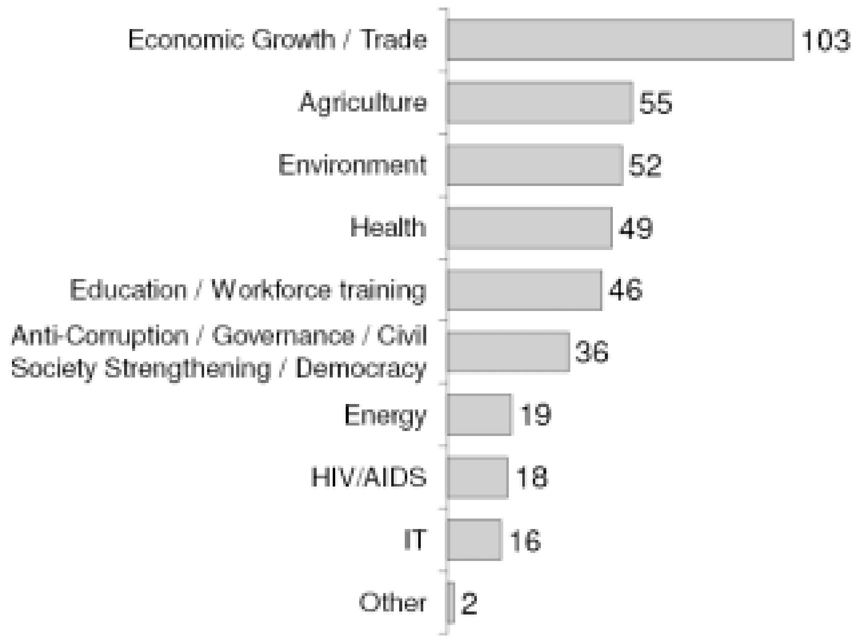
Source: USAID/BMZ/GPPi. In percent of total USAID/GDA contribution (may not add up to 100 percent due to rounding). Exact mapping to project start date not available, project size refers to proposed USAID contribution (LOP).

Appendix Figure 12: Total Alliance budget (roughly 1999 – 2005)



Source: USAID/BMZ/GPPi. 100 percent = 5.88 billion US$ (may not add up to 100 percent due to rounding). Exact mapping to project start date not available, project size refers to proposed USAID contribution (LOP).

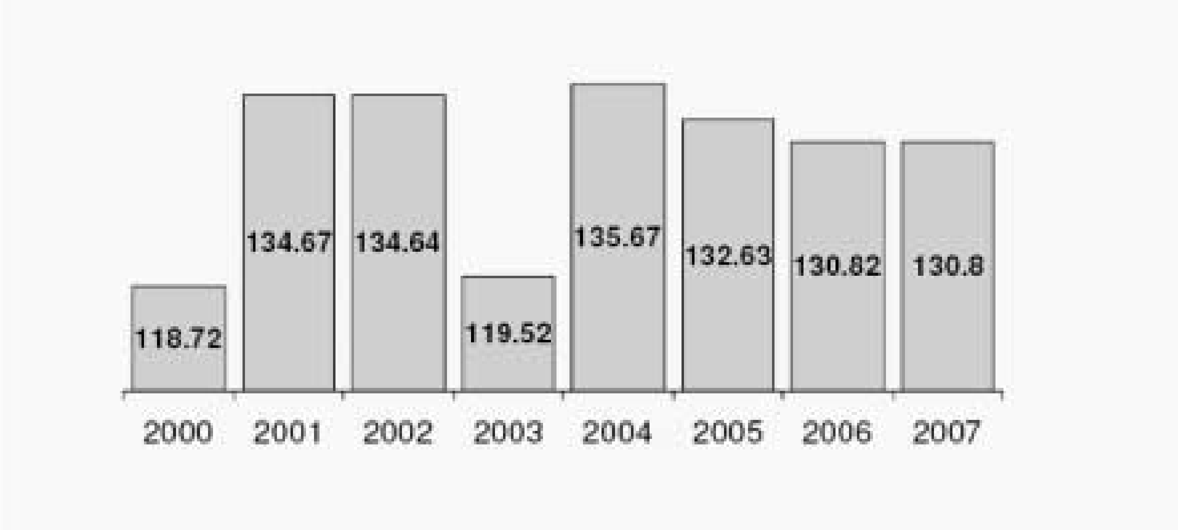
Appendix Figure 13: Project sector distribution (roughly 1999 – 2005)



Source: USAID/BMZ/GPPi. Exact mapping to project start date not available, project size refers to proposed USAID contribution (LOP).

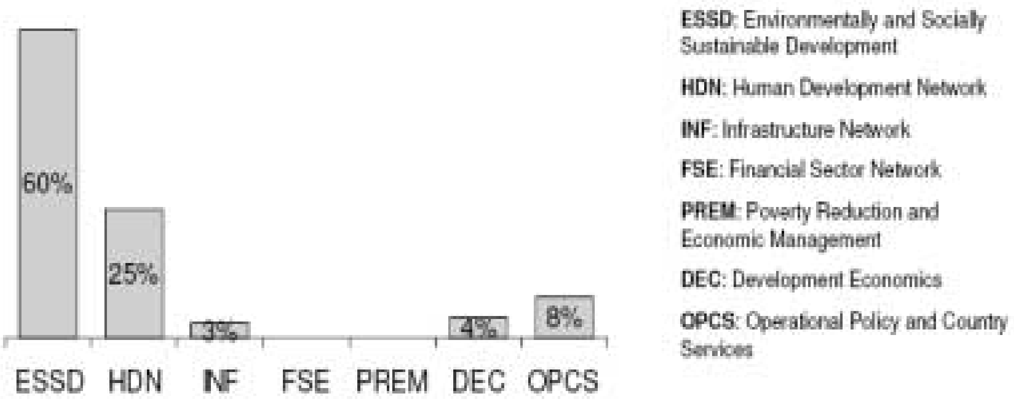
World Bank Development Grant Facility (DGF)

Appendix Figure 14: Total size of DGF Budget per year in million EUR (FY 2000 – 2007)



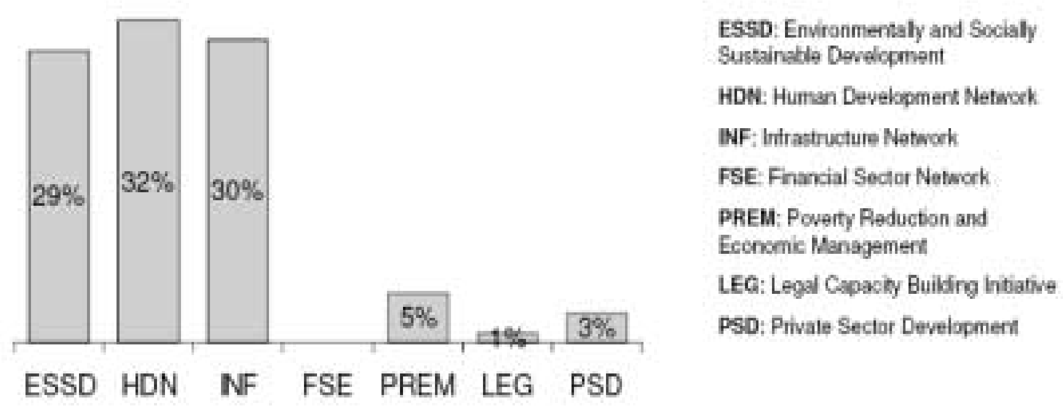
Source: World Bank/GPPi. 1 US$ = 0.76 (rate on 10 February 2007). FY07 Development Grant Facility Budget and Review of Global Programs (World Bank: Washington, DC, June 2006).

Appendix Figure 15: Window 1 by sector in FY 2007: largest portion of funding concentrated in ESSD



Source: World Bank/GPPi. FY07 Development Grant Facility Budget and Review of Global Programs (World Bank: Washington, DC, June 2006). Within ESSD, CGIAR receives almost 60 percent of funding (Consultative Group on International Agricultural Research).

Appendix Figure 16: Window 2 by sector in FY 2007



Source: World Bank/GPPi. FY07 Development Grant Facility Budget and Review of Global Programs (World Bank: Washington, DC, June 2006). Large part of Windows 2 funding goes to infrastructure programs.

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