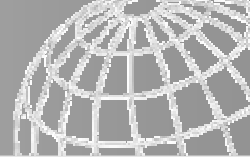


# Cooperation with the international private sector – a means for reaching higher development impacts

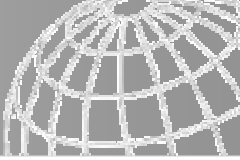
**ILO 7th Annual Seminar on Business Services: PSD: what's next?  
Chiang Mai, Thailand, 18 to 22 September 2006**

**Corinna Küsel  
German Technical Cooperation  
Div. 41 – Economic Development and Employment  
Section for Economic Policy and Private Sector Development**



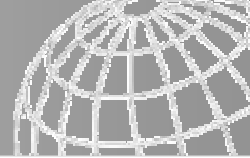
## Content

1. Why cooperate with the international private sector?
2. Cooperation instruments within GTZ – how have they evolved?
3. Potential fields of cooperation with the private sector:  
the specific case of business environment reform
4. Lessons learned so far



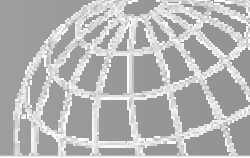
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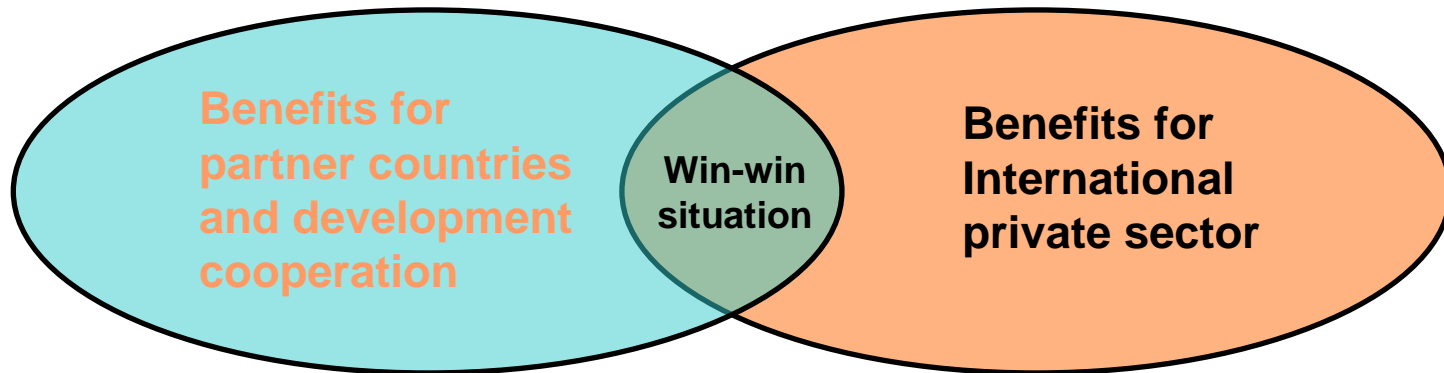


## Why cooperate with the international private sector?

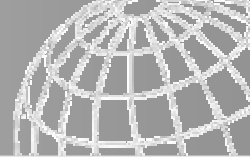
- Internationally increasing attention to contribution of private sector to development
  - Increasing role of foundations (e.g. in US)
  - Dialogue between the state, civil society, and private sector has gained importance (e.g. Johannesburg 2002)
- Cooperation with the private sector supports development objectives
  - Additional resources for development (compensate shrinking ODA)
  - Enhancement of impact and sustainability of TC projects
- Making better use of private sector know-how and market access
  - Transfer of knowledge and new technologies
  - Training of local workers
  - Creation of jobs, sources of income
  - Access to international markets and information about market requirements



## Creating win-win situations in cooperating with the international private sector

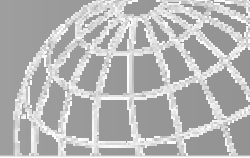


<b>Examples</b>	<ul style="list-style-type: none"> <li>▪ Access to markets and know-how</li> <li>▪ Link to requirements of international norms, e.g. quality-, environmental- and social standards, certification</li> <li>▪ Bargaining power of TNCs increases leverage for reform</li> </ul>	<ul style="list-style-type: none"> <li>▪ Improved supply chain, better quality and reliability of local suppliers</li> <li>▪ Ecologically and socially sustainable production has increasingly become a key factor for marketing</li> <li>▪ Link to international donor- and expert networks and contacts to government and public administration officials</li> </ul>
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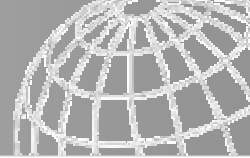
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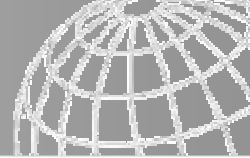
## Development Partnerships with the private sector in German Development Cooperation

- Development partnerships with the private sector are projects that are jointly planned, financed, implemented & evaluated with private partners
  - (International) private sector refers to German (or non-German) companies with international activities
  - in Germany this is often referred to as Public Private Partnerships (PPP): German Development Cooperation/GTZ = public partner)
- Characteristics
  - All kinds of private enterprises can participate
  - Projects are possible in newly industrializing-, transition-, and developing countries and in (almost) all sectors and fields
  - Projects have to be in line with the objectives of the German Government's development policies and sector focus
- Funding
  - Private partners should contribute at least 50% of project costs
  - 50% of costs may be contributed by DC, based on strict criteria
  - No subsidies: PPP is not a tool for foreign trade promotion!



## Forms of cooperation with the private sector

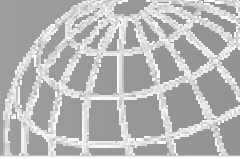
<b>PPP Special Funding Facility</b>	<b>Integrated Partner- ships</b>	<b>„Light houses“</b>	<b>Strategic alliances</b>	<b>Private sector as client</b>
Funding of individual projects for testing, building confidence and establishing partnerships	Cooperation with private sector embedded in TC projects to better reach project objectives	Programs planned as one big development partnership	One issue pursued jointly in several countries Strategic partnerships aimed at structural changes	GTZ may also implement projects for the private sector



## Development of the PPP program in GTZ since 1999

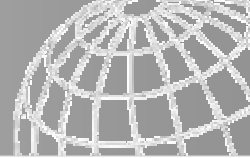


- Initially many small projects (funded by special facility) to test this new cooperation instrument
  - Initiated by companies
  - GTZ contributed mainly funds
  - Results mainly at micro level
- Partnerships increasingly linked to TC projects
  - Initiated by both sides
  - GTZ contributed funding, advice and contacts
- Increasing mainstreaming of PPP in TC programmes
  - Increasing larger and more strategic approaches (e.g. international strategic alliances & programmes)
  - Majority initiated by GTZ as a means to enhance impacts
  - Results/impacts at meso and increasingly at macro level

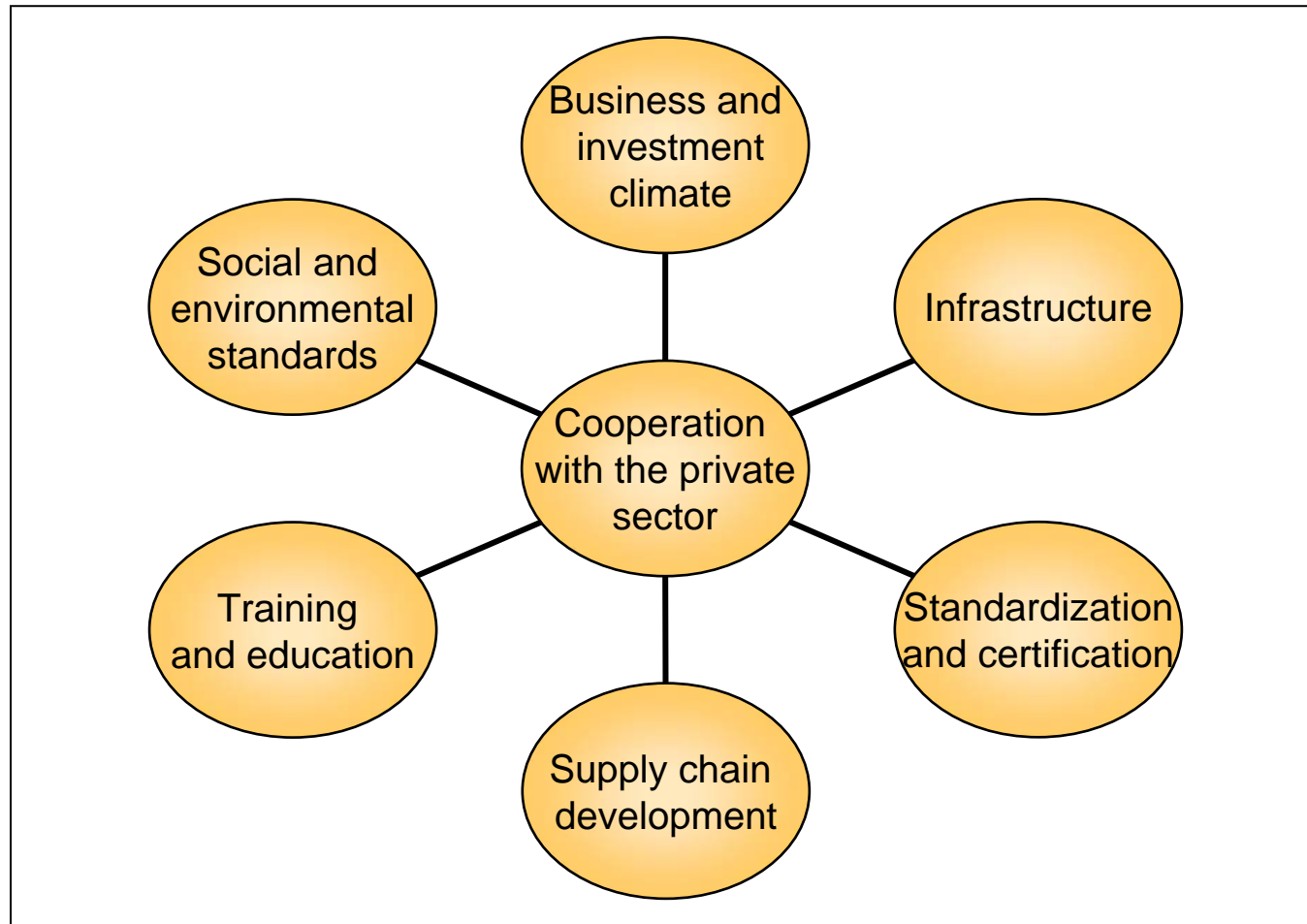


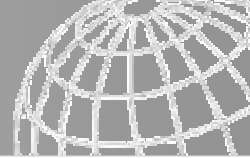
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## Main fields of cooperation with the private sector in enterprise development





## Improving the business and investment climate in cooperation with the private sector

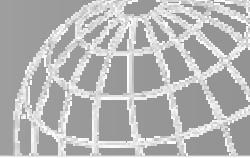
### *Benefits for the private sector*

### *Benefits for development cooperation*

- Access to complementary know-how, understanding of specific factors
- Additional leverage by joining forces

- Improvement of investment climate and business legislation
- Reduction of bureaucratic and regulatory obstacles
- Empowerment of business associations
- Opening up of new markets for international businesses
- Creation of a “level playing field”

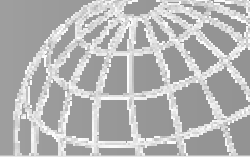
- Sector-specific knowledge of TNCs
- Private sector has first-hand experience with the local business environment
- Bargaining power of TNCs and access to political leaders can speed up reforms
- Investment of lead firms can initiate reforms of the business environment



## Improving the business and investment climate

### Key areas and instruments for cooperation with the private sector in improving the business and investment climate:

1. Policy advice to improve the business environment
2. Promotion of public private dialogue (i.e. round tables)
3. Monitoring of business and investment climate; use of international business climate ratings
4. Capacity building: Development of investment-, trade-, and local development institutions
5. Promotion of foreign direct investment (FDI)



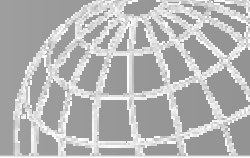
## Improving the business and investment climate

### 1. Policy advice to improve the business environment

- GTZ contribution: Short- and long-term advisors provide sector-specific knowledge, experience, and contacts
- Private sector contribution:
  - Political influence and bargaining power to lobby for business environment reforms
  - First-hand experiences with bureaucratic obstacles
- Example: GTZ-EuroCham cooperation, Vietnam

### 2. Strengthening public-private dialogue

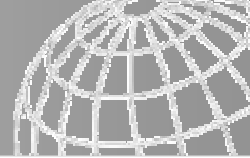
- Supporting public-private sector round tables
- Involving the international private sector in the Govt dialogue; linkage with local industries, chambers of commerce and administrations
- Use leverage of international private sector for increased quality and speed of business environment reform process
- Eg: Business Forum in Vietnam, Laos (national and provincial level)



## Improving the business and investment climate

### 3. Monitoring of business and investment climate

- GTZ: Methodology, networking, and training of local partners
- Private sector: Business surveys in target industries
- Potential new cooperation partner: International rating agencies
  - Country ratings influence the business environment
  - Rating agencies, local administration, private sector, and int. donors can cooperate to improve the business environment
- Examples:
  - Doing Business reports
  - GTZ-DIHK (German association of foreign trade chambers) business climate survey, SADC
  - *Provincial Competitiveness Index* in Vietnam as a benchmark to increase pressure for reform and to identify regional weaknesses



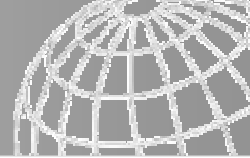
## Improving the business and investment climate

### 4. Capacity building

- Integration of the local and int. private sector in the development of investment, trade, and local development institutions
- Result: Local and international private sector benefits from more efficient service structure

### 5. Promotion of foreign direct investment (FDI)

- Active development of business cases with investment banking methods in combination with aspects of developmental politics (Potential for cooperation with international investment banks and consultancies)
- Attracting FDIs of lead firms is likely to be followed by further investments in the same or related sectors
- Example: Investment of Continental AG in Romania in cooperation with GTZ advisors



## Case: Policy advice for business legislation in Vietnam in cooperation with EuroCham (European Chamber of Commerce)

### Contributions

GTZ: Expert advice, training of local partners, methodology, and contacts

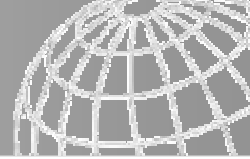
EuroCham: ‚In kind‘ resources, know-how, contacts, and organization

### Activities

- Joint organization of workshops
- Integration of international investors in public private dialogue
- Cooperation with international experts to analyze and comment new business legislation

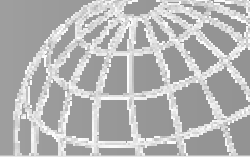
### Impact

- Institutionalization of public private dialogue
- Integration of sector-specific knowledge and needs of TNCs in the legislation process
- Contributions to a state of the art business legislation



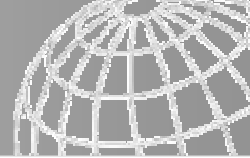
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## Key lessons learned - overall

- Partnering with the international private sector is gaining increasing importance for development cooperation (in the context of globalization; to compensate shrinking ODA)
- However, isolated cooperation activities may have been successful at the micro level, but had limited development impact
- Over time, GTZ has increasingly integrated cooperation activities with the private sector into its overall programs, with a view to using private sector know-how and leverage as a means for strengthening impacts
- Thus, the cooperation with the private sector has increasingly become oriented towards more long-term and strategic cooperation and towards inducing structural changes and policy reforms



## Key lessons learned – in enterprise development

- Highest potential for successful cooperation exists in the fields of improving the business and investment climate, strengthening global and local value chains, and standardization and certification
- Involvement of the private sector can significantly enhance the impact of policy reform initiatives by using leverage and strengthening the ownership of the private sector
- The private sector has a genuine self-interest in assuming responsibility in development cooperation (e.g. social marketing, corporate social responsibility)
- Challenges include potential conflicts of interest between development objectives and overall private sector interests versus the interests of individual companies