February 7-8, 2012 | Washington, DC

ENGAGING THE PRIVATE SECTOR

Presenters:

Jeanne Downing, USAID
Margaret Enis, USAID
Emiliano Duch, The Cluster Competitiveness Group
Rob Schneider, USAID
Olaf Kula, ACDI/VOCA

The session began with an introduction by the moderator, Jeanne Downing, with USAID's Office of Microenterprise Development (MD). She introduced the panelists as follows:

Margaret Enis – USAID Foreign Service Officer with over 17 years of experience in agricultural and private sector development. As the Director of the Office Markets, Partnerships and Innovation, in the USAID Bureau of Food Security, she promotes private sector engagement and partnerships, improvements in the enabling environment for agriculture, and increased trade and investment in the sector.

Emiliano Duch – Founder and President of The Cluster Competitiveness Group ("Competitiveness"), a consulting firm that designs and implements cluster-based regional competitiveness policy, which was created following Emiliano's work on cluster projects under Michael Porter at Harvard University. Emiliano has advised regional and national governments of European countries and has led more than sixty competitiveness reinforcement projects for clusters in a broad range of industry and services sectors.

Rob Schneider –Currently works in USAID's Bureau of Innovation and Development Alliances (IDEA), where he supports the creation of public-private partnerships.

Olaf Kula – As a Program Manager for ACDI/VOCA's West Africa regional office, Olaf provides technical support and intellectual leadership to ACDI/VOCA's worldwide activities and is currently responsible for programs in Ghana. Prior to joining ACDI/VOCA, he was the manager for a trading company that provided U.S and European market access for a number of African companies.

This event was hosted by USAID with funding from the Accelerated Microenterprise Advancement Project (AMAP) Knowledge and Practice II task order, implemented by ACDI/VOCA.

Each panelist opened up with a 5-10 minute overview of their work and the most current issues facing private sector engagement.

Margaret Enis provided an overview of USAID's work and interest around private sector development and highlighted several examples of successful investment models, explaining that USAID helps connect companies with resources or technologies to businesses and communities at the local level.

Emiliano Duch – Discussed the importance of having a competitiveness strategy that puts the developing country in the driver seat and allows them to choose which buyer will best further local industry competitiveness. Bringing multinational corporations (MNC) into a delicate ecosystem does have its risks. For instance, linking U.S. MNC buyers to developing country suppliers could result in short-lived supply chains if an MNC moves operations elsewhere. It is only after a local cluster has determined its own economic strategy that it will make sense to engage with a large MNC. Another issue is whether private sector engagement leads to development and what is needed to ensure developmental impacts. This can be facilitated by re-defining product and service value chains to create shared value that is anchored by local clusters.

Olaf Kula - Discussed the importance of the local private sector, and how links with a buyer are only one piece needed to make private sector engagement successful. He described global value chains as more of a web made up of buyers and sellers and the local service providers on which they depend. Value chain actors need to be supported by a system of service providers and input suppliers as well as a supportive government, enabling environment and infrastructure. Sometimes, development partners are putting the cart before the horse, by promoting private sector investment before the necessary pre-conditions are in place for it to succeed.

Rob Schneider – Commented that public-private-partnerships (PPPs) are not a panacea but require substantial investment by the host country and in the partnership itself in order to achieve developmental outcomes. PPPs are only one tool in the economic development toolbox, and we need to be more sophisticated on when and how to best use them. PPPs are also a process that requires an implementing partner; USAID can rarely effectively outsource such partnerships since implementing partners are closer to the communities on the ground and bring valuable facilitation skills to the table. If the development side is right and the business case is made, the private sector will be happy to join a PPP.

Jeanne Downing then facilitated a question and answer session with the panelists that revolved around the following topics:

Picking Winners
As development practitioners, we are in the business to influence markets and therefore it is appropriate to pick winners, as difficult as this may be. Winning partners are those that are i) most willing and able to

invest, ii) are the most able to achieve scale and iii) are willing to reach deeply for poverty reduction. One of the challenges we face is the short time horizons of our projects. In order to be successful we need the mechanisms to allow the flexibility to shift resources to other partners when deemed more appropriate. It is important to not waste resources on partnerships that don't have pre-conditions for private sector engagement. USAID often over-emphasizes global markets. It is important to get local community buy-in before you establish a PPP. The point of PPPs is to start a demonstration effect to stimulate an upgrade in a market system, not to simply accumulate project results.

Role of Development Partners

Business needs development programs to buy down the risk and navigate local markets. Development partners can wield influence over private-sector investment decisions in order to facilitate investments that benefit the poor. International market facilitation can add value at a low cost and can help accelerate the growth of indigenous industries. Maybe all the information is there, but it is really hard to see it from within your own country or market system so it is important to have an outside perspective. Development partners need to find the overlap between what businesses wants and what development wants—without a compelling case on both sides it will be hard for public-private partnerships to be effective.

Identifying Demand

Identifying the demand for private capital is very challenging. USAID has developed several alliance-building tools that can assist practitioners (http://idea.usaid.gov/gp/alliance-tools). USAID is also working with the Monitor group on several country studies to ascertain the demand (investment blueprints) and appropriateness for public-private partnerships. USAID needs to involve the private sector in identifying demand and informing development programs and tenders. The private sector plays an important litmus role test in determining demand for PPPs. Demand is critical but it needs to be managed and owned by local communities so they can anticipate where markets are moving. There should always be ways to collaborate with the private sector if one looks hard enough.

Attracting Capital

Global capital today is desperate to find useful places to invest, especially in the north. Capital in the north can be much cheaper than in the south, but a lack of management capacity by local firms is a large constraint. The source of capital is less important than getting it at a competitive price. Development partners need to empower local communities to understand value chains systemically in order to manage their need for investment capital.