



Comments from the Federal Ministry for Economic Cooperation and Development on the DEval Evaluation Report Evaluation Synthesis – Private Sector Engagement

The Federal Ministry for Economic Cooperation and Development (BMZ) welcomes the report Evaluation Synthesis – Private Sector Engagement submitted by the German Institute for Development Evaluation (DEval).

In recent years, the German government has been attaching increasing importance to engaging with the private sector. This has been based on the insight that the key global challenges posed by climate change, displacement and poverty cannot be met from public resources alone. The important role of the private sector for the achievement of the Sustainable Development Goals was already highlighted when the Addis Ababa Action Agenda was adopted in 2015. At the time, proposals were also made regarding development-oriented private sector involvement, ranging from more traditional private sector development instruments such as access to financial services and loans, and efforts to stabilize financial markets, all the way to increased cooperation between providers of public funding and private investors. Two areas are particularly important in this regard: blended finance and joint project implementation on the basis of public-private partnerships. In view of the fact that according to UN estimates, global investment requirements amount to more than 5 trillion US dollars a year, and only a fraction of that amount is provided through ODA (2020: 161 billion US dollars), there is no alternative to increased private sector engagement if the countries in the Global South are to experience developmentally beneficial economic development.

Sustained private sector engagement that delivers for development provides an opportunity to assist countries – especially countries with weak economies but good foundations for economic development – in meeting the said challenges and, thus, to contribute to the achievement of the Sustainable

Development Goals (SDGs) and the goals of the Paris Agreement.

Accordingly, sustainable economic development is a key topic in the BMZ's bilateral cooperation with most of its partner countries. This is also evident if one looks specifically at the field of private sector engagement. In the last four years alone, the budget funding available for this have been more than doubled, reaching 267 million euros (in 2021).

Relevance of the findings

In its evaluation synthesis, DEval has compiled available national and international evidence and provided an overview of the achievements and challenges in the field of private sector engagement shown by that evidence. The report finds that, so far, there have only been evaluations and studies of individual projects and instruments to determine the degree to which the goals of private sector engagement have been reached. The limitations arising from this evidence base inevitably have implications for the evidential value of the findings. With this background in view, the report provides valuable suggestions regarding the further development of the portfolio and of the available evidence for various forms of public-private cooperation both in the national and the international context.

In its report, DEval shows that private sector engagement leads to many positive effects – not only the mobilization of private capital through the deployment of public funds but also effects for the financial sustainability of investments, and the generation and/or transfer of knowledge. The report also finds that companies' portfolios have become more development oriented and more attention has been given to environmental and climate aspects. Another

aspect which should be highlighted is the training that is provided for the workers that are needed within the company in question and in the labor market in the surrounding region. Such training plays an important role for long-term stable economic development in our partner countries.

The report makes recommendations with regard to reviewing cooperation approaches and highlights intended as well as unintended impacts of the instruments used for private sector engagement. The report states that there is potential for the work of the BMZ and its implementing organizations in defining indicators and common goals, measuring and assessing impacts and additionality, and identifying projects that fall under private sector engagement.

Conclusions

The BMZ draws the following conclusions from the recommendations put forward in the Evaluation Synthesis:

1. Improving impact assessment at various levels is an important goal. In August 2020, the BMZ enacted a rule according to which implementing organizations have to use even more stringent and more specific quality standards for indicators. In parallel, efforts are under way, among other things, to develop a suitable impact framework for private sector engagement.
2. The BMZ welcomes the recommendation of DEval to broaden the identification of private sector engagement projects and instruments beyond the level at which they are currently recorded, and it will examine the feasibility of improvements.
3. DEval has recommended that financial and developmental additionality be reviewed more systematically. The BMZ is already taking this point very seriously. The Ministry generally seeks to ensure that, as part of its private sector engagement, it will not support any projects which the enterprise would also have undertaken in the absence of government funding (subsidiarity). This means that plausible reasons have to be presented why a project merits support and what developmental impacts it is intended to achieve, for instance with regard to job creation, transfer

of knowledge and technology, improvement of environmental and social standards and of the legal and business environment, and impacts on the environment, climate, and biodiversity. Another example is projects involving structured funds, for which additionality always has to be reviewed as part of the project appraisal. The BMZ will examine how to give even greater attention to additionality in the future. A reasonable balance between the extra effort involved and the extra insights gained must be ensured.

4. Defining common goals and reviewing whether they have been achieved is a standard part of BMZ project support. Development goals adopted by the BMZ, especially the global realization of human rights, the eradication of hunger and poverty, climate action and biodiversity conservation, health and education, gender equality, fair supply chains, and utilization of digital technology and technology transfer, are often also in the interest of businesses, as the achievement of these goals helps to make their investments on the ground more secure. The BMZ has also created tools for pursuing specific goals together with the private sector on a long-term basis. These tools can also involve other forms of support than funding. For funds, there are investment guidelines that focus on developmental goals. Typically, private investors join at a later point, accepting the structures and developmental goals that have already been put in place.

Private sector engagement has traditionally been a very important part of development cooperation and has to dynamically adapt to changing conditions. The initial investment needed to create new cooperation formats is indispensable and may in some cases only be recovered in the long term. While it is the BMZ's desire and practice to engage in longer-term cooperation, the Ministry seeks to support additional private sector activities on a pilot basis when companies become involved in a difficult and/or unfamiliar environment. After such a pilot phase, the idea is for the private sector activities to generate economic and social benefits without continued public support.