



EVALUATION SYNTHESIS – PRIVATE SECTOR ENGAGEMENT

Executive Summary

2021

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EXECUTIVE SUMMARY

Private sector engagement is becoming increasingly important in German and international development cooperation. The development community's main expectation is that such cooperation will mobilise additional resources to finance the Sustainable Development Goals (SDGs). It also views the private sector as an engine for economic growth, which – by driving entrepreneurial creativity and innovation – promotes new investment, boosts the efficiency of markets and creates new and better jobs (Bilal et al., 2014).

Whether these expectations are actually being met, however, has not yet been investigated by other means than evaluations and academic studies on individual projects and instruments. No significant evidence base exists on the wider effects of private sector engagement across projects, sectors and instruments. The present evaluation synthesis attempts to fill this gap by systematically analysing the available evidence on private sector engagement within German and international development cooperation.

Subject of the evaluation and evaluation questions

Private sector engagement (PSE) – sometimes also referred to as “private sector for development” (PS4D) – is the subject of this evaluation synthesis. It encompasses a range of development cooperation activities (PSE projects and instruments) which deliberately engage German, European or international companies and investors for the purpose of pursuing development goals in partner countries. PSE is thus distinct from the term “private sector development” (PSD), which refers to more general support of private sector business and related institutions in partner countries.

The underlying PSE projects and instruments included in this evaluation synthesis are structured according to three main approaches:

- financing *of* companies; for example, public-private partnerships and development partnerships with the private sector
- financing *with* companies; for example, structured funds and co-financing arrangements
- preparing for financing, by means of advisory and matchmaking activities, among others

The evaluation synthesis seeks to identify available evidence on the wider effects of PSE, such as outcomes and impacts, and to analyse the conditions under which these occur. Another aim is to identify the added value that this kind of cooperation with private companies is expected to yield. In all, seven evaluation questions have been defined in total and grouped into four areas of interest:

| Area of interest | Evaluation question |
|------------------------------|---|
| I. Quality of evaluations | 1. What methodological approach do the evaluations use to assess the contribution of private sector engagement? What conclusions can be drawn concerning the methodological quality of evaluations in the thematic area? |
| II. Effectiveness and impact | 2. To what extent is it possible to identify outcomes and development impacts which were intended contributions of private sector engagement? 3. To what extent can unintended (positive/negative) outcomes and development impacts be identified? 4. What framework conditions were crucial for the achievement or non-achievement of the outcomes and development impacts? 5. What internal conditions of the instruments were crucial for the achievement or non-achievement of the outcomes and impacts? |
| III. Sustainability | 6. To what extent can the effects of private sector engagement be considered sustainable? |

| Area of interest | Evaluation question |
|---------------------------------------|---|
| IV. Coherence of the German portfolio | 7. To what extent is there useful integration between instruments of German development cooperation in the area of private sector engagement, and how far are synergies utilised? |

Methodological approach and portfolio

The evaluation team defined a number of inclusion criteria, grouped them into five research categories and developed an explicit search strategy in order to organise the available evidence on PSE activities in a comprehensive and transparent manner. In total, 1,534 potentially relevant sources were either identified in databases or supplied by relevant governmental implementing organisations of German development cooperation. To ascertain the actual relevance of the evaluations and studies, the team then appraised them both manually and by means of an automated text mining procedure.

Given the high number of evaluations and studies identified, a stratified proportional sample was drawn, adequately reflecting the different (groups of) actors represented in both the population and the selected sample. The procedure makes it possible to synthesise the evidence taken from German and international development cooperation as well as related research, and to draw conclusions on the ways in which PSE activities work.

Next, the team assessed the quality of the evaluations and studies in the sample. A standardised grid consisting of nine indicators based on internationally recognised quality standards for evaluation was applied for this purpose. It was decided that at least 60 per cent of the maximum quality points should be scored for an evaluation or study to qualify as reliable. It should be noted that certain biases cannot be excluded (see question 1, "Quality of evaluations and studies").

As a result, 51 evaluations and studies remained in the sample and reflect the evaluation practice of a variety of German development cooperation's implementing organisations (DEG [Deutsche Investitions- und Entwicklungsgesellschaft], GIZ [Deutsche Gesellschaft für Internationale Zusammenarbeit] and KfW [KfW Development Bank]) and international (bilateral and multilateral) actors. The evaluations and studies examine a multitude of different activities involving PSE projects and instruments.

With the help of a matching scheme that was previously developed for the purpose, the team matched the evidence in the evaluations and studies with the corresponding effects and effect sizes, as well as the external and internal conditions. It then proceeded to carry out descriptive and content analysis. The analysis scheme was based partly on a theory of change for PSE that the team had reconstructed beforehand. Finally, and with a view to answering the seventh evaluation question on coherence, the team conducted a number of semi-structured interviews.

Findings

Quality of the evaluations and studies (evaluation question 1)

The quality of the analysed evidence on PSE is mixed. In general, (academic) studies scored better in terms of higher average points than (project or programme related) evaluations. The gap was most striking with regard to descriptions of causal pathways and rationales for the appropriateness of the selected methods. The latter were missing from the majority of evaluations with negative effects on the transparency and clarity of the deduced findings. One reason for the lower quality of evaluations compared to academic studies could be the lower funding available for the evaluations of individual projects. Moreover, all studies included in this synthesis had already been published and hence quality-assured by independent peer reviewers; this had not necessarily been the case for the evaluations.

The analysis revealed that effects at the "outputs" level are measured or operationalised by indicators in almost all cases. At the level of "outcomes" and especially "impact", however, effects are either not examined at all or tend to be roughly estimated rather than measured. Moreover, in many cases, the indicators or methods applied for the estimations are not described.

One reason why impacts are rarely measured is that many PSE projects and instruments rely on rather long and complex pathways to impact, which makes it harder to quantify results. As an example from the “financing *with* companies” approach, the mobilisation of private capital is a defined effect – but as an additional and later step on the causal pathway. It is generally known to be a challenge to attribute occurring effects to a given project or instrument. Another weakness identified in many of the underlying evaluations and studies is the absence of the *additionality* concept in PSE evaluations (see Box 1).

Box 1 Additionality

The Organisation for Economic Co-operation and Development (OECD) makes a distinction between financial and development additionality. An official investment is defined as financially additional when it supports a company that is unable, without public support, to obtain financing of a similar amount or on similar terms from local or international private capital markets; or when it mobilises investments from the private sector which would not otherwise have been invested (OECD, 2016). Development additionality, on the other hand, is defined as the development impact resulting from the investments which would not otherwise have occurred (OECD, 2016). Especially in relation to private sector engagement, the review of additionality is of key importance when drawing conclusions about the efficiency or cost-effectiveness of projects and instruments, since there is a risk that public funding might finance activities that the private sector would have financed anyway, even without the subsidy component.

Given the mixed quality of the evaluations and studies analysed for the synthesis, the low number of cases in which negative effects were identified (see next paragraph) and the fact that unintended effects were hardly ever examined, there is likely to be a positively distorted picture overall. The phenomenon is also known as publication bias: studies which identify (positive) effects are more likely to be published than those which identify negative or no effects. Research findings in development cooperation are no exception to this pattern; on the contrary, these are at times described as especially susceptible to systematic positive biases (Duvendack et al., 2012).

Intended effects: outcomes and development impacts (evaluation question 2)

For the purposes of this synthesis, a theory of change for PSE was reconstructed by the evaluation team, visualising the intended pathways to impact across different instruments. A theory of change is typically structured according to the different levels of expected results – from inputs via outputs and (direct) outcomes to (broader) development impacts. Effects are assumed pertaining to various stakeholder groups: investors and donors, financial intermediaries, partner countries and target groups.

With regard to investors and donors, private capital mobilisation (output level) is the expected core effect in the theory of change. More specifically, the “financing *with* companies” approach provides for public donor agents to assume part of the investment risk in order to help mobilise additional (private) capital for the achievement of development goals.

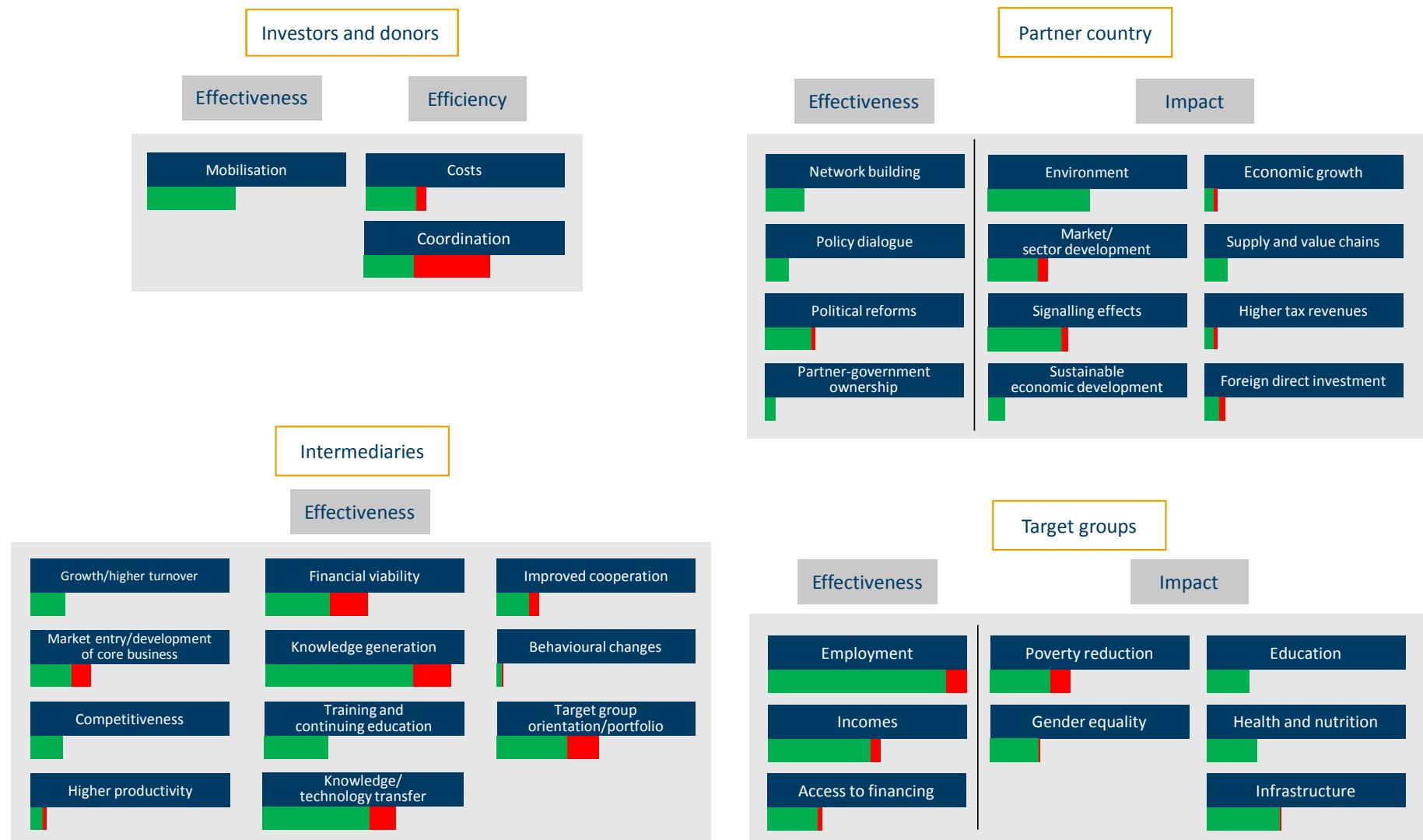
It is assumed that intermediaries, which may be either companies or financial institutions, will employ the additional capital (mobilised by “financing *of*” as well as “financing *with* companies”) for SDG-related investments in partner countries. These could consist in expanding business activities, introducing new technologies and standards, or providing training and further education for employees. At outcome level, these activities are expected to result in improved standards for production, education, environmental social governance (ESG), and to increase productivity, competitiveness, profits and production.

In respect of target groups in the partner country, it is assumed that they will benefit from effects at the intermediary level, such as the creation of new and improved employment opportunities which generate higher or more secure income. Another assumption is that introducing new technologies promotes technology transfer, which in turn improves basic infrastructure in areas such as sanitation, water and health. These outcomes are expected to contribute to improved livelihoods for the given target groups and partner country.

Investments in the partner country are further assumed to have various demonstration effects, notably on other foreign investors who have not previously invested in the partner country due to the perception that investment risks would be too high. Other demonstration effects could relate to the introduction and application of ESG standards in corporate business models (in partner countries). Finally, economic growth per se is seen to lead to higher tax revenues, which in turn increase the funding available for state social benefits.

Figure 1 shows a summary of the number of effects identified (length of bars) and the nature of the evidence (see shading of bars: green = positive effect and red = negative/no effect) in the underlying evaluations and studies. Within each of the respective groups (investors and donors, intermediaries, partner country and target groups), the identified effects were structured according to the relevant OECD-DAC criteria (effectiveness, impact and efficiency). As the figure illustrates, the total number of effects reported as pertaining to effectiveness (429) is higher than of those pertaining to development impact (196). The evaluations and studies further report an especially high number of effects pertaining to increased or secured employment among target groups, and to knowledge building at the intermediary level. Overall, there are markedly more positive than negative effects reported, the only exception being the coordination of investors and donors.

Figure 1 Overview of the number and direction of the identified effects, by levels and OECD-DAC criteria



Source: DEval, own presentation. Green bars indicate positive and slightly positive effects; red bars, negative and zero effects. The bars show the number of effects proportionally to the category with the highest number of effects (employment).

At the level of investors and donors the evidence shows a mixed picture: while the underlying studies and evaluations report numerous positive effects on the mobilisation of private capital and on cost savings, negative effects occur, for example, in respect of the coordination of private and public actors. The level of transaction costs was found to be rather high, especially in the concept phase of PSE projects and instruments.

At the intermediaries level, and with particular regard to the criterion of “effectiveness”, a large number of results are reported. Positive effects are most frequently described as knowledge and technology transfer, knowledge building, and training activities. Other effects such as increased target group orientation of intermediaries were also identified in some sources but not in others.

At partner country level also, many positive effects are stated in the underlying evaluations and studies, although only some would account for actual impacts at a higher level. Positive environmental effects are very often reported – for example, the reduction of greenhouse gas and other pollutant emissions. Demonstration effects, such as on the mobilisation of private capital and the piloting of new projects, are often noted as well. On the other hand, macroeconomic effects in the partner country were mentioned only in a few cases. Given the often low volumes of funding and small scale of activities, however, such macroeconomic effects tend not to be expected anyway. It goes without saying that the attribution of higher-level macroeconomic effects to individual PSE activities is extremely difficult in any case.

At the level of target groups, numerous medium- and long-term effects are identified. These pertain primarily to positive employment and income effects. It must be noted, however, that the underlying evaluations and studies rarely consider whether new employment opportunities have merely been displaced from elsewhere, or whether indeed new and additional jobs have resulted from PSE. Moreover, some of the evaluations and studies describe new jobs as short term or poorly paid. At impact level the evidence points to mainly positive effects on target groups pertaining to poverty reduction, gender equality and improved living conditions.

Unintended effects (evaluation question 3)

Where the evaluations and studies refer to unintended effects, these are all described as negative. Such effects most frequently concern the target groups in the partner countries – for example, when the PSE projects and instruments led to price increases and/or created dependencies. Other unintended effects arise when the microeconomic added value (e.g. entrepreneurial profit) comes at the expense of the developmental outcome. This sometimes raises the question of whether the private sector actors would have engaged in the same investment even without state support (deadweight effects). In addition, the underlying evaluations and studies report that non-transparent initiation and cooperation processes between private and public sector actors resulted in negative unintended effects.

External factors and internal conditions (evaluation questions 4 and 5)

Various external factors (framework conditions) were identified to be favourable for the achievement or non-achievement of the intended effects. These are, for instance: the alignment of the objectives of the activities with goals of donors and partner countries; macroeconomic, political and environmental conditions in the partner country; and the business administration and financial management skills of the actors involved. Likewise, a number of internal conditions were identified as being crucial for overarching effects, even if often specifically related to an individual project or instrument. Among the key factors for success, the underlying evaluations and studies point to a high degree of flexibility in the implementation of activities, as well as the implementation of accompanying measures per se. Specific financing conditions of PSE instruments do also play a decisive role, as these can influence the degree to which target groups are reached.

Sustainability (evaluation question 6)

The evaluation synthesis does not apply its own definition of sustainability, but rather accepts the inherent understanding of the term as applied within each of the underlying evaluations and studies. Only in a few cases was the criterion of “sustainability” explicitly defined, operationalised or measured. It was further

noticed that the rating awarded for sustainability referred to individual aspects of the projects only. The meta-evaluation of sustainability in German development cooperation by DEval (Noltze et al., 2018)¹ came to a similar conclusion and recommended examining how the interactions between the dimensions of sustainability might be identified and assessed in the course of evaluations. This recommendation was implemented in the BMZ's latest orientation guidelines on the evaluation criteria for German bilateral development cooperation (valid since September 2020) by formulating appropriate review questions (BMZ, 2021b).² The evaluations considered in the synthesis do not yet reflect these guidelines, as they had all been published at earlier dates. For this reason, the evaluation synthesis abstained from giving any recommendation on the evaluation of sustainability.

Given the noted disparities in the examination of sustainability, no clear picture emerges from the assessments reviewed. Overall, roughly as many positive as negative statements on the sustainability of PSE projects and instruments are found in the underlying evaluations and studies.

Coherence (evaluation question 7)

Evaluation question 7 addresses the (internal) coherence of PSE within German development cooperation. For this reason it does not include any evidence on international actors in this particular field. Because DEval's mandate is to evaluate the development cooperation portfolio financed by the BMZ only, the analysis of coherence is limited to the same. In contrast to the other evaluation questions, the assessment of coherence is solely based on interviews with various German stakeholders. Two priorities regarding coherence in PSE were identified in the interviews. Firstly, it is desirable to create a coherent contact and liaison structure for German and European companies wishing to engage in development cooperation. Secondly, it is desirable to achieve better integration between instruments and projects in the BMZ portfolio addressing PSE.

One step towards the creation of a coherent contact and liaison structure for private sector actors/businesses within German development cooperation has been the merging of various projects into the “Business Scouts for Development” programme and the founding of the Agency for Business & Economic Development (AWE). Nonetheless, the interviewees critically remarked that the actual collaboration between the two projects needs to be defined and planned more rigorously. Stronger linkages are already being forged between different projects and instruments in the BMZ portfolio in some cases; in others, there is room for further improvement.

Conclusions and recommendations

The conclusions and recommendations of this evaluation synthesis are based on the outlined findings and are addressed to the BMZ, GIZ and KfW Development Bank as the relevant implementing organisations in Germany, but might also be found to be relevant for other bilateral and multilateral actors working in the area of PSE.

Quality of the evaluations on private sector engagement

It is important to have high-quality evaluations of PSE in order to improve the evidence base in this particular thematic area. Improved evidence serves to increase the effectiveness of future projects and instruments. Particularly in light of the long and complex pathways to impact, there is a need for evaluations and studies designed to trace and attribute effects at higher levels to individual PSE activities.

¹ “The findings also show that the evaluation and assessment of sustainability has been unsystematic and inconsistent in practice so far due to the lack of a conceptual framework for a comprehensive understanding of sustainability” (Noltze et al., 2018, p. viii).

² For example, via the review question “To what extent are the participating and affected individuals, groups and organisations, partners and agencies able and willing (ownership) in institutional, personnel and financial respects to sustain the positive effects of the intervention over time (after financial support has ended)?” (BMZ, 2021b).

Recommendation 1: Measurement of impacts

GIZ, KfW and other bilateral and multilateral actors involved in private sector engagement should improve their assessment of development impacts. Especially in evaluations of high relevance, impacts should be measured and reported explicitly.³ Other evaluations may rely on theory-based approaches or estimation models, provided that these are presented transparently with a plausible, evidence-based impact hypothesis and relevant proxy indicators.

Conception of projects and instruments to enhance their evaluability

The concept phase of projects and instruments plays a major role for the quality of the subsequent evaluation. The definition of objectives, pathways to impact and monitoring indicators establishes the key parameters for the evaluability of activities and their subsequent monitoring. This applies especially to the assessment of additionality and related risks, as those need to be properly assessed over time (comparing the status ex-ante and ex-post). For cross-instrument evaluations on PSE and for effective portfolio management, it is also necessary that PSE projects and instruments can be identified unmistakably. Within the German development cooperation landscape this is currently hampered by the fact that the BMZ and the implementing organisations do not apply a uniform identifier or policy marker for this type of cooperation.⁴

The fact that additionality is only rarely considered in the underlying studies and evaluations, added to the deficits found in the assessment of development impacts. In other words, and on the basis of the available evidence, no robust conclusions can be drawn about the efficiency of public expenditures on PSE activities. Neither is it possible to confirm the actual value added (e.g. economic or developmental outcome) of such activities. Another question arises with regard to the activities' additionality: did the PSE indeed mobilise additional capital, or would such an investment have been made anyway without state support? There is a need for further and more robust analyses to investigate whether the given PSE investments might have achieved a greater impact somewhere else.

Recommendation 2: Differentiation between levels of results

When defining the indicators of projects and instruments for private sector engagement, GIZ, KfW and other relevant bilateral and multilateral actors should differentiate more precisely and explicitly between the different levels of results (outputs, outcomes and impacts).

Recommendation 3: Identification of private sector engagement

The BMZ should explore possibilities for unmistakably identifying projects and instruments for private sector engagement in German development cooperation, – for instance by using a uniform policy marker. This aims to increase transparency about the scale and role of private sector engagement and to simplify portfolio management and analysis on the part of the BMZ.

³ In implementing this recommendation, the standard indicators for impact measurement from the 2030 reform process (BMZ, 2021a) should be referred to.

⁴ Inconsistent identifiers used for PSE interventions imposed constraints on the mapping exercise (see Box 2) and hampered the identification of relevant evaluations for the evaluation synthesis (see also Section 2.2.2). A previous DEval evaluation on Cooperation with the Private Sector in Agriculture (Kaplan et al., 2018) arrived at a similar finding and recommended introducing a code for programmes involving cooperation with the private sector.

Recommendation 4: Examination of additionality and risks

During the conception, implementation and evaluation of projects and instruments for private sector engagement, GIZ, KfW and other relevant bilateral and multilateral actors should systematically examine (financial and development) additionality as well as related assumptions and risks, since the evidence base is not sufficient as yet.

Implementation notes on Recommendation 4:

- Financial and development additionality should be examined explicitly and according to clearly defined criteria during the initial planning of projects and instruments. In addition, risks and assumptions should be incorporated with a view to securing the additionality of activities over the course of the project and to detecting potential deadweight effects.
- Data on the additionality of projects and instruments and on related risks could be collected and tracked by means of a project monitoring system on the companies' activities and outputs. The monitoring should be carried out by the implementing organisations according to set milestones.

Implementation of projects and instruments for private sector engagement

The evaluation synthesis' findings on efficiency suggest that the collaboration between public and private actors in development cooperation entails relatively high coordination efforts and related transaction costs. These often pose a challenge and could at times reduce the added value of the cooperation.

Recommendation 5: Conception and implementation

In the conception and implementation phases of projects and instruments for private sector engagement, BMZ, GIZ, KfW and other relevant bilateral and multilateral actors should ensure that private and public actors develop a reasonable joint understanding of objectives and continuously review related progress. The high transaction costs, which are incurred mainly during the initiation phase but also in the course of implementation, should be considered when conceptualising projects – for example, by striving for longer-term cooperation schemes between public and private sector actors.