

# THE EFFECTIVENESS OF ENGAGING THE PRIVATE SECTOR IN DEVELOPMENT CO- OPERATION – RESULTS FROM AN EVALUATION SYNTHESIS CONDUCTED BY DEVAL

Amélie zu Eulenburg

Magdalena Orth-Rempel

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# 1. INTRODUCTION

**Private sector engagement (PSE)** is becoming **increasingly important** in German and international **development cooperation**. One of the aims for pursuing this approach is to mobilise additional resources to finance the Sustainable Development Goals (SDGs). Others see 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 met however, is not clear. The available research studies and evaluations have so far focused on specific programs, projects and (financial) instruments, rather than the effects of private sector engagement in general.

Deval has thus, included an **evaluation synthesis** (in the following referred to as ‘the Synthesis’) **on PSE** in its multi-year evaluation program 2020-22. The aim was to review the available evidence on national and international development cooperation interventions in order to identify the available evidence on the effectiveness and impact of PSE-interventions (conducted in the years 2010-2020). The Synthesis was carried out between May 2020 and December 2021 with the evaluation report being **published in March 2022**<sup>1</sup>. This paper is based on the Deval Report, hereby focusing on the evidence gauged in view of the development effectiveness agenda with a *focus on results* as well as principles related to *transparency & accountability*.

This paper is structured as follows: the methodological approach is described in **chapter 2** including the definition and selection of PSE-related evaluations and studies as well as the quality review conducted on the drawn sample. **Chapter 3** presents the results of the framework synthesis method along stakeholder groups and intervention levels. Strategic findings and recommendations are drawn in **chapter 4** with particular regard to identified interfaces with the development effectiveness agenda. Additional information and details such as the quality assessment grid, the code tree and features of the sample are included in an **Appendix** as well as selected literature references.

## 2. METHODOLOGICAL APPROACH

### 2.1 Definition of the evaluation subject and theory of change

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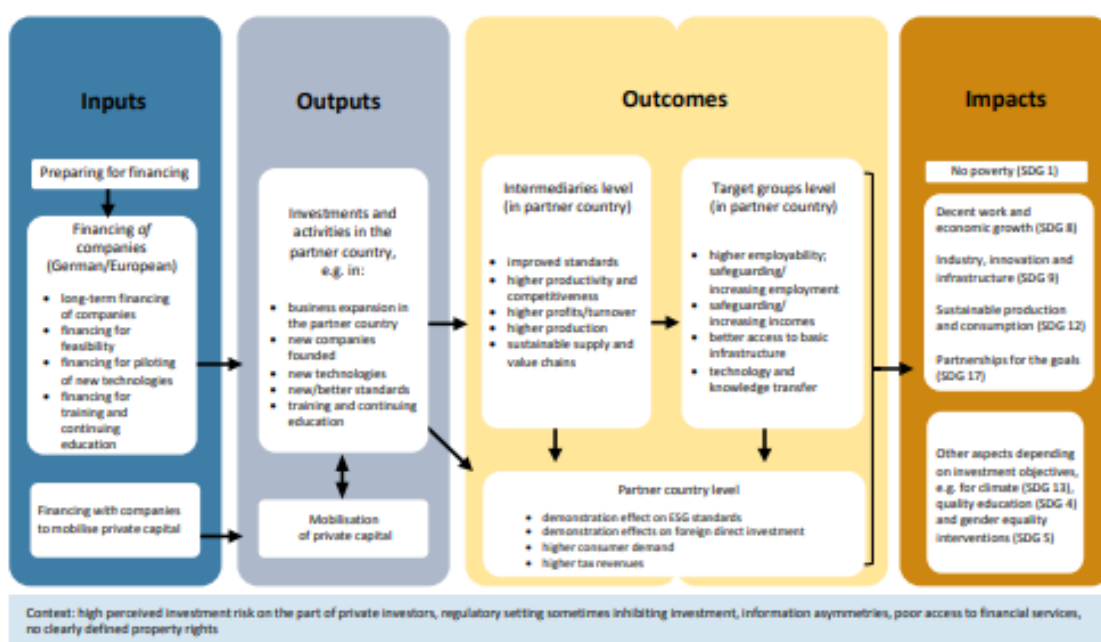
Private sector engagement (**PSE**) is understood as *the entirety of partnering measures and joint interventions of public development cooperation institutions with German, European or international private business (companies and investors) in the pursuit of the sustainable development goals* (Kaplan et al., 2018). Similarly, the literature refers to “private sector for development” (PS4D) (Byiers und Rosengren, 2012; Roloff und Finkel, 2013; Vaes und Huysel, 2015). The development community’s main expectation of private sector engagement is that it will mobilise the necessary additional resources to

<sup>1</sup> <https://www.deval.org/de/publikationen/evaluation-synthesis-private-sector-engagement>

finance the Sustainable Development Goals (SDGs). Moreover, the private sector is viewed as the engine for economic growth, since its entrepreneurial creativity and innovation encourages new investment, boosts the efficiency of markets and creates better jobs (Bilal et al., 2014).

Based on existing theories from economic and development policy<sup>2</sup>, a specific PSE-related theory of change (ToC) was reconstructed by the evaluation team (see Figure 1). At the **input level** – shown at the left hand side - the three principal types of PSE have been defined: i) “financing of companies” encompasses e.g. public-private partnerships (PPPs), matching grant approaches such as the German ‘Development Partnerships’ as well as classic debt and equity financing schemes; ii) “financing with companies” consists mainly of blended finance approaches such as (structured) funds), and iii) “preparing for financing” pertains to advisory projects, matchmaking activities for public and private investors, etc.

**Figure 1 Theory of Change**



Source: DEval, own presentation on the basis of IEG (2019)

Moving to the right sees the expected effects along the typical results’ chain of **outputs, outcomes and impacts**. More specifically, **at outcome level**, it is believed that the financing of companies, financing with companies and the preparation for financing give rise to positive effects through various channels (IEG, 2019). Private companies – be they local or international – are expected to improve their capacity and innovativeness in the partner country as a result of the investments or activities. Consequently, they are likely to increase their productivity and competitiveness, which would open up new market segments. The resulting higher profits, it is assumed, would be invested in new production processes, which for their part would boost production and thus contribute to the companies’ economic growth.

<sup>2</sup> Amongst others a theory of change developed by the International Finance Corporation (IFC) on PSE in the area of market development was taken into consideration (IEG, 2019).

Meanwhile, target groups in the partner country are assumed to benefit from newly created jobs or improved employment opportunities and from higher or more secure incomes (Bilal et al., 2014).

Overall, this is expected to lead to improved livelihoods for the target groups in the partner country **at impact level**. Added to that, investments in the partner country have various demonstration effects, such as on other foreign investors who have not yet invested in the partner country due to the perception of high risks, or investments are paired with the introduction and appropriate use of environmental social governance (ESG) standards in corporate business models. Finally, economic growth is assumed to lead to higher tax revenues, as a result of which more funding is available for state social benefits (Di Bella et al., 2013; Kindornay et al., 2014; Miyamoto and Chiofalo, 2016).

**With a view to contributions along the SDGs**, it is assumed that the PSE outcomes and impacts result in cross-sectoral effects including poverty reduction (SDG 1), broad-scale economic growth and increased employment (SDG 8), the promotion of innovation (SDG 9), sustainable production and consumption (SDG 12) and the achievement of global development partnerships (SDG 17). Depending on the objectives of the given PSE, long-term impacts are also expected in other areas such as climate change (SDG 13), education (SDG 4) and water and sanitation (SDG 6).

Based on the reconstructed theory of change, the Synthesis answers the following (selected) evaluation questions:

**Table 1 (Selected) Synthesis Evaluation Questions**

(1) To what extent is it possible to identify outcomes and development impacts which were intended contributions of PSE?
(2) To what extent can unintended (positive/negative) outcomes and development impacts be identified?
(3) What framework conditions are crucial for the achievement or non-achievement of the outcomes and development impacts?
(4) What internal conditions of the instruments were crucial for the achievement or non-achievement of the outcomes and impacts?

## 2.2 Search strategy, sampling and quality assessment

An explicit **search strategy** was elaborated in order to gauge the available evidence on PSE from German and international development cooperation as well as other relevant international research. The Synthesis is thus oriented to the guidelines for systematic reviews published by the internationally recognised Campbell Collaboration (Kugley et al., 2017). In order to identify the evaluations and academic studies in the Synthesis that are the most relevant sources for the evaluation subject, **five inclusion criteria** were defined. On the one hand, the criteria are made up of aspects relating to the evaluations and studies themselves, and on the other hand, aspects relating to the underlying projects and instruments in the sources (target groups and type of intervention).

Over 1,500 potentially relevant sources have been identified in total, either by way of searching through databases or by requesting the information from the German development cooperation institutions. To ascertain the relevance of the evaluations and studies, the team assessed their contents

manually and applied automated text mining methods. The resulting number (308 sources) was regarded as the final population from which a stratified, proportional sample was taken (71 sources) as illustrated by Table 2 overleaf.

**Table 2 Overview of distribution, by actors/actor group**

	GIZ <sup>3</sup>	KfW <sup>4</sup>	DEG <sup>5</sup>	Academia	bilateral donors <sup>6</sup>	Multilateral donors <sup>7</sup>	Total
Total of evaluations/studies identified	778 (50.7 %)	162 (10.6 %)	40 (2.6 %)	334 (21.8 %)	186 (12.1 %)	34 (2.2 %)	1.534 (100 %)
Relevant evaluations/studies (according to inclusion criteria)	85 (27.6 %)	80 (26 %)	9 (2.9 %)	65 (21.1 %)	55 (17.9 %)	14 (4.5 %)	308 (100 %)
Sample from relevant evaluations/studies	19 (26.8 %)	18 (25.4 %)	3 (4.2 %)	15 (21.1 %)	13 (18.3 %)	3 (4.2 %)	71 (100 %)
Evaluations/studies included after quality assessment	10 (19.6 %)	9 (17.6 %)	2 (3.9 %)	14 (27.5 %)	13 (25.5 %)	3 (5.9 %)	51 (100 %)

Next, the team **assessed the quality of the evaluations and studies in the sample** with the aim to identify the evidence meeting recognised evaluation standards and therefore considered reliable. For this purpose, a standardised grid based on internationally recognised evaluation standards as defined by the OECD-DAC and the German Evaluation Society (DeGEval) was used (see *Appendix 1*). The ‘quality bar’ was set at 60 per cent of the maximum points available; evaluations and studies with ratings below the threshold were omitted from the sample and redrawn (sometimes repeatedly) from the same organisation.<sup>8</sup> A discursive approach ensured that the coding of different coders was as consistent as possible. Eventually, 51 evaluations and studies from national<sup>9</sup> and international implementing agencies constituted the **final Synthesis sample** reflecting a wide range of PSE measures. *Appendix 2* provides details on PSE types and instruments, sectoral and geographic features of PSE-interventions covered by the sample.

<sup>3</sup> GIZ - Deutsche Gesellschaft für Internationale Zusammenarbeit (German governmental implementing organisation for Technical Cooperation).

<sup>4</sup> KfW- Kreditanstalt für Wiederaufbau (German governmental implementing organisation for Financial Cooperation).

<sup>5</sup> DEG - Deutsche Investitions- und Entwicklungsgesellschaft (German development finance institution).

<sup>6</sup> Including ADA, DANIDA and USAID among others.

<sup>7</sup> Including EC and IEG.

<sup>8</sup> The evaluation team noted a considerable difference in the quality shown by the academic studies and international evaluations on one side, and the evaluations of the German implementation organisations on the other. This is discussed in section 2.4. Another observation points to an increased methodological quality of evaluations and studies over time, the younger, the better an evaluation scored in the assessment.

<sup>9</sup> Regrettably, it was not possible to include evaluations of projects and instruments conducted by other Federal Ministries than the BMZ which is due to Deval’s Mandate. In particular, evaluations by the Federal Ministry for Economic Affairs and Energy (BMWi) would have been relevant in this thematic area.

### 2.3 Descriptive and content analyses

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The evidence in the final sample was evaluated using the **framework synthesis method**. This method (applied by Brunton et al., 2006; Oliver et al., 2008, among others) is a largely deductive approach i.e. it classifies findings into predefined categories in order to systematise and synthesise evidence. The categories were developed on the basis of relevant literature in the field, background materials, and particularly the PSE - theory of change mentioned above. A comprehensive **code tree** contained not only the inputs, outputs, outcomes and impacts specified in the theory of change, but also unintended effects and factors that might contribute to the occurrence or non-occurrence of the effects (see *Appendix 3*).

**The evaluation team coded both effects and effect sizes** with the help of MAXQDA software. More specifically, text items within the evaluations and studies were matched to corresponding codes and for instance recorded as an “effect”.<sup>10</sup> The coding did not differentiate between moderate and high effects because this distinction was scarcely made in the sources. However, effects were coded as “small” if the effect was smaller than expected by the project. Similarly, “no effect” was coded where the project had intended a certain effect without achieving it. In addition, if sources contained **statements on sustainability, additionality, and or relevant internal and external conditions** in relation to the coded effects, these **were also recorded**.

**The evidence obtained was interpreted descriptively** according to its quantitative distribution as well as qualitatively using content analysis. The first step was to examine the distribution of evidence with regard to regions and the three principal PSE- types in order to determine where plenty of evidence already exists and where there are evidence gaps. The second step was to carry out a descriptive analysis (known as **vote counting**) of the frequencies of the various effects as well as the different effect sizes. Furthermore, a content analysis (see for example Flick et al., 1995; Kuckartz, 2014) was performed for each effect. This involved systematic analysis, by cooperation formats and conditions, to identify the mechanisms that lead to the (non-) occurrence of a certain effect.

### 2.4 Challenges and limitations of approach

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**The evaluations and studies analysed cover the evaluation practice of the most relevant German and some international actors involved in PSE. However, the size of this sample means that it is not possible to draw conclusions about individual actors or instruments. When drawing the sample, the priority was to achieve broad coverage of the actors involved in bilateral and multilateral cooperation well beyond the German development evaluation practice. The advantage of including international evaluations and academic studies is that the available evidence covered a wide range of PSE types and perspectives. On the other hand, this approach reduced the number of evaluations that could be analysed per individual actor and possibly watered the significance of findings for the BMZ-implemented development cooperation portfolio specifically.**

Another implication arose from the decision to include evaluation work from international donors in the Synthesis: being limited by its mandate to German development cooperation, **Deval had no access**

<sup>10</sup> The term “effects” is used generically for outputs, outcomes and impacts

**to internal documents but was only able to collect published evaluations and academic studies from international actors.** It is conceivable that in some organisations, publicly available evaluations undergo more quality checks than purely internal documents, and hence that statements about the quality of evaluations by international actors may be positively biased. Moreover, it is likely that in comparison to German evaluations, the number of international evaluations is underrepresented in the sampling population, and hence also in the sample.

**The Synthesis used vote counting as the heterogeneity and the mainly qualitative approaches of the underlying evaluations and studies made statistical procedures such as meta-analyses impossible. Vote counting is criticised in the literature** primarily for not taking account of the variance between the studies. For example, the effects from small case studies that are lower in methodological quality are counted as often as the effects from large randomised studies that are higher in quality (Petticrew and Roberts, 2008). To reduce any skewing effects in this regard, the Synthesis applied a rigorous quality assessment (described above) as a means of lessening the variance in methodological quality. Secondly, the pure counting of effects was underpinned by qualitative content analysis hence, again examining the strength of the evidence.

In systematic reviews such as evaluation syntheses, there is a risk that **various forms of bias** are built into the underlying evidence and may be replicated as a result of the research (Littell and Maynard, 2014). For example, studies with positive significant findings are published more frequently than those with negative or non-significant effects (Sutton, 2009). Likewise, the (development) impacts reported in the analysed evaluations may be subject to positive bias. In the given sample these were mostly based on assumptions and estimations and only occasionally verified.<sup>11</sup>

### 3. RESULTS

As mentioned before, the coding of effects followed the ToC developed specifically for PSE. Within each of the respective stakeholder groups (investors and donors, intermediaries, partner country and target groups), identified effects were structured according to the relevant **OECD-DAC criteria**. More specifically, identified outputs and (short- and medium-term) outcomes have been associated with the criteria of “efficiency” and “**effectiveness**”, whilst longer-term outcomes or other effects and contributions to development impacts have been linked to the “**impact**” criterion. The **evidence** reported in the evaluations and studies in the sample, **decreased noticeably from the result level at the bottom (output) to the top (impact)**. For instance, the number of effects pertaining to effectiveness (429) were more than twice as often reported than development impact (196). This observation is discussed in greater detail in section 4.1.

Where the evidence shows **unintended effects**, these **tend to be negative effects only**. These most frequently concern the target groups in the partner countries - for example, when PSE interventions

<sup>11</sup> In line with good practice e.g. by conducting randomised experiments that would permit the observed outcomes and impacts to be attributed more definitely to the respective project.

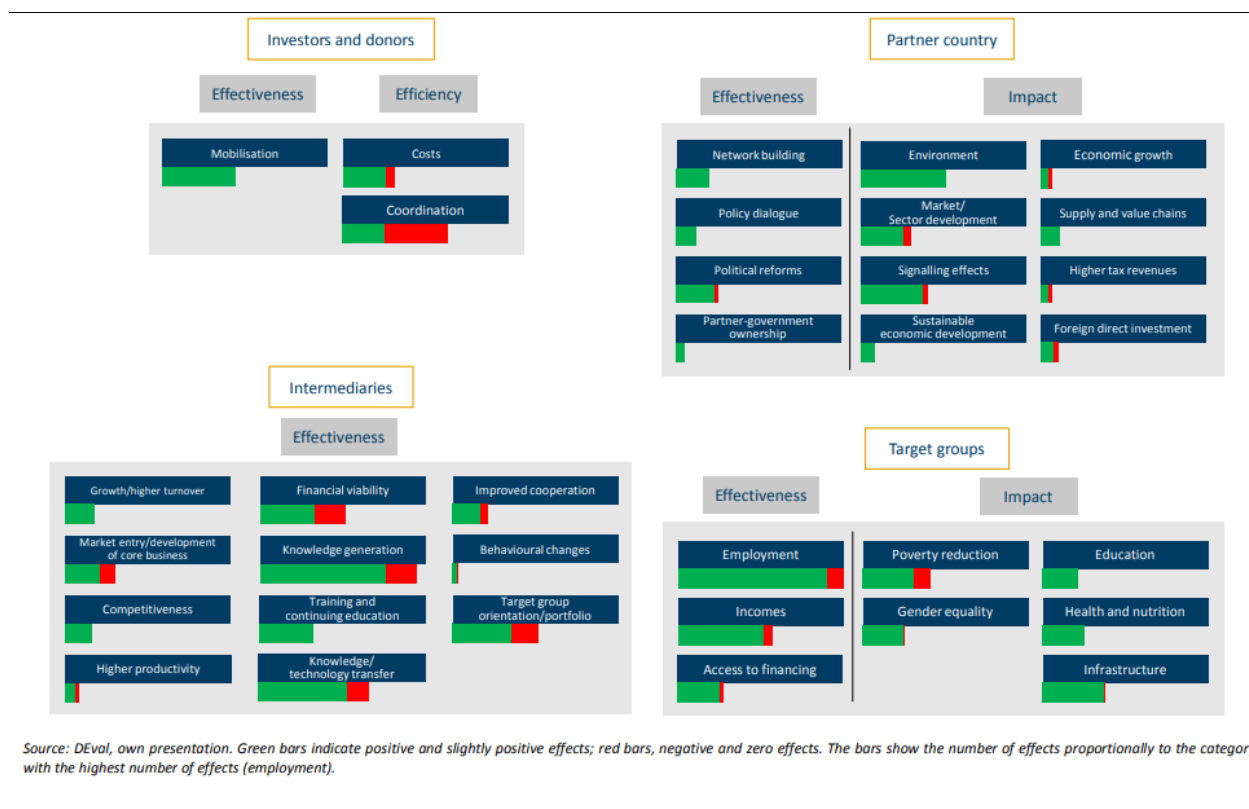


led to price increases and relationships of dependency. Other unintended effects arise when (micro)economic value is prioritised at the expense of developmental value. This sometimes raises the question of whether the private sector actors would have engaged in the same investment even without state support (deadweight effects). In addition, the underlying evaluations and studies occasionally report that non-transparent initiation and cooperation processes between private and public sector actors resulted in negative unintended effects.

Various **external factors (framework conditions) were identified** to be favourable for the achievement or non-achievement of 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 capacity and skills of 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. These are outlined in greater detail in section 4.2.

An **overview on the results** of the sample is given by Figure 2 below and discussed in greater detail in the following sub-sections for each stakeholder group/ level concerned (in clockwise order starting from above left).

**Figure 2 Effects (size and direction) shown by the evaluation sample**



### 3.1 Results at the level of investors and donors

**The mobilisation of additional financial resources** is one of the most frequently recorded outputs of all the projects and instruments examined (26 positive effects in 26 evaluations and studies). The volume of mobilised capital however, varies substantially, ranging from a few thousand to several million US dollars. Although the vast majority of this is private capital, in isolated cases it is also provided by

development banks. By its very nature, mobilisation is most frequently reported in the context of “financing *with* companies”, thus fulfilling its stated principal objective. Only two cases were reported not to have met the mobilisation targets set (two small effects in two evaluations and studies).

Reported **effects** of PSE projects and instruments on **investor and donor coordination and the use of possible synergies show a mixed picture**. Alongside many positive (albeit sometimes small) effects, there are numerous negative effects documented as well. For instance, cooperation with private sector actors often causes high transaction costs to begin with, due to complex negotiation structures and an increased need for coordination. In the long run, some costs may be reduced as a result of learning curves, building trust, common goals and cost sharing (four small effects in four evaluations and studies). Furthermore, some evaluations and studies report that projects and instruments were more cost-intensive than planned – for example, due to high contract negotiation costs or high opportunity costs (five negative effects in five evaluations and studies) (Habbel et al., 2021).

### 3.2 Results at partner country level

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With regard to outcomes, positive effects were cited in the field of **network building in the partner country**. For instance, “policy dialogue” involving exchange and cooperation with ministries and other state authorities in the partner countries were often reported to have contributed to political reforms. In terms of **partner-government ownership**, positive effects of the PSE projects and instruments were identified for instance seeing the partner governments themselves investing in a structured fund or taking responsibility for implementing advisory projects in order to foster development.

In terms of impacts, **environmental effects are by far the most commonly reported** positive effects on the partner country in the evaluations and studies. In all, 32 positive effects were identified in this area. One reason for this is that a high proportion of the underlying projects and instruments are used in the climate and environment sector. Consequently, reduced emissions of greenhouse gases and other pollutants are mostly mentioned, followed by the promotion of energy savings. Other environmental and climate aspects reported include the use of environmentally benign farming methods, the reduction of deforestation and the expansion of renewable energies

Effects in the area of “**market and sector development**” show comparatively high evidence coverage, with 19 effects identified in 15 evaluations and studies. Nine of the described effects are situated in the “renewable energies”, “agriculture”, “infrastructure” and “telecommunications” sectors, and encompass the development of new business models and products, the introduction and establishment of certification schemes, and the entry of new actors to the market (nine positive effects in seven evaluations and studies).

In addition, there are reports of positive effects on the **framework conditions of the markets and companies**. These involve the introduction and application of ESG standards, support for corporate governance, and the implementation of financial market reforms. In three other cases, evaluations and studies mention that the examined PSE projects and instruments achieved no effects on market and sector development in the partner countries. **Demonstration effects** have been seen by the evaluations and studies in the sample at both, the individual and the macroeconomic level, essentially pertaining to three areas (i) mobilisation of private capital, (ii) piloting of new projects and instruments in a new market or sector, and (iii) further development and consolidation of sectors.

Effects on **stronger economic growth and sustainable economic development** have also been observed at the level of the partner country, e.g. showing increases in production, investments and exports by individual companies (three effects in three evaluations and studies). However, it remains unclear whether these effects were achieved at the expense of other companies, possibly leading to crowding-out effects. Other examples include contributions to the development of the private sector in the partner countries, promotion of environmentally sound infrastructure, and rural development.

Adversely, **effects on higher tax revenues and foreign direct investment** have been reported in only four and six instances respectively. Three evaluations and studies only report positive effects on higher tax revenues in the partner country assuming that a boost in private sector activities would translate into increased taxing activities and resulting revenues for the partner country. In none of the cases, were such assumptions quantified explicitly or even attributed to the underlying intervention in a verifiable way (Habbel et al., 2021).

With regard to the aid effectiveness principles, the effects reported above do particularly serve the strengthening of co-ordination of donor activities, a further alignment with strategies of the partner countries and allow for capacity building at (partner) country level.

### 3.3 Results at target group level

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The **employment situation of the target group** is one of the areas of PSE in which evaluations and studies most commonly reported positive effects<sup>12</sup>. With 41 positive effects recorded in 24 evaluations and studies, this particular field is leading the other areas examined. In especially positive cases, several thousand jobs were reported to have been created. However, two caveats have to be made in this respect; the first one being that there were also numerous cases in the sample which were reporting only small or none effects.

Second, obtaining empirical evidence of net employment effects is highly research-intensive (Kluge and Stöterau, 2014). Hence, the sources seldomly **differentiate between the creation of new employment opportunities and the creation of additional employment opportunities** at the level of the labour market as a whole. Consequently, it cannot be judged with certainty whether, on aggregate, the additional jobs reported have indeed been created or whether substitution or displacement effects have merely shifted employment and eliminated employment opportunities elsewhere.

As for employment, evaluations and studies on PSE observe a large number of positive effects on **target groups' incomes**. This not only includes cases where beneficiaries take on new jobs, where they earn higher incomes than in their previous work but also cases in which the project or the instrument demonstrably secures their current incomes. Positive income effects of PSE projects and instruments can be identified **especially frequently in agriculture** (17 of the 30 positive effects in nine evaluations and studies).

**Positive intended effects on the target groups are also found in the context of “financing with companies” and occasionally “financing of companies”** (16 positive effects and one instance of no effect

<sup>12</sup> To qualify this, it should be borne in mind that neither experimental nor quasi-experimental methods were used for the evaluations and studies and their findings are not rigorous, despite the solid evidence coverage.

in eight evaluations and studies). Flanking the instrument with a complementary advisory format is another important factor for its effectiveness in many cases. Above all, higher loan volumes to smaller financial intermediaries often have a positive influence on access to financing for target groups.

With a view to **impacts**, there are a number of effects reported on poverty reduction and increased gender equality in the target groups. **Poverty reduction** exhibits an especially large overlap with effects on employment and incomes, since these effects directly influence the poverty status of vulnerable and poor final beneficiaries. Hence, the number of positive effects pertaining to poverty reduction identified in the evaluations and studies is once again high. In some cases, however, projects which had poverty reduction as a dedicated objective only gave rise to small effects or, in one case, negative effects on poverty.

**As for gender equality**, the reports feature both outcomes of activities aimed particularly at women and girls, and overarching positive impacts on equality of opportunity between the genders (15 positive effects and one instance of no effect in ten evaluations and studies). In the underlying projects and instruments, it proved especially effective to create jobs specifically for women, to raise their incomes in a targeted manner and to sensitise managers and employees in male-dominated business sectors sufficiently.

The underlying evaluations and studies also report various positive effects on **the living conditions of target groups** in areas such as **education, health and nutrition, as well as access to high quality infrastructure**. Effects in the education area varied, and include improved access to education, a reduction in the number of school dropouts, and an increase in literacy (13 positive effects in seven evaluations and studies). **Likewise, positive effects on health were identified**. These include effects pertaining to food security and improving the nutrition of the target group.

Finally, the underlying evaluations and studies show that **improvements to infrastructure** can be of particular benefit to certain target groups. Effects were pertaining to improved mobility, mobile telephony, sanitation plants, and the electricity and water supply (21 positive effects, one small and one negative effect in nine evaluations and studies). Once again, effects interlink with the socio-economic status of the target group: for example, improving road infrastructure led to greater mobility, and hence better employment and educational opportunities (Habel et al., 2021).

Regarding the aid effectiveness principles, the analysed effects overall help to recognise, share and mitigate risks for all partners and support the principle of ‘leaving no one behind’.

### 3.4 Results at the level of intermediaries

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The evaluations and studies report an especially high number of effects on increasing and safeguarding employment among the target groups, and on **generating knowledge at the intermediary level**. Overall, markedly more positive than negative effects are reported for instance in terms of increased productivity, competitiveness, financial viability and competence building through training activities as well as the transfer of knowledge and technology. The mostly negatively judged effects arising with the **coordination of investors and donors are a notable exception to the positive picture overall**.

Predominantly positive effects were also reported on the **growth of intermediaries**. This applies to both, companies entering markets in developing countries, and to financial intermediaries entering new market segments such as MSMEs and agriculture. An expansion of the core business is reported

by some evaluations, mainly for companies (not financial intermediaries). It arises when companies receive a greater number of loans as a result of the private sector's contribution, for example, or due to the introduction of new production technologies (five positive effects in five evaluations and studies).

With regard to possible **behavioural changes** resulting from the instruments and projects for PSE, a mixed picture emerges. It can be anticipated that as a result of cooperating with development actors, as well as engaging in short-term development activities, in the long-term companies might also gain a stronger awareness of development issues – such as the consequences of their activities on the population and the environment, for example.

Many evaluations and studies also consider effects on the **target group orientation of intermediaries**. These documents report many positive effects as well as numerous instances when effects did not materialise. Increasing the target group orientation of intermediaries can contribute to such outcomes as better access to finance for target groups, and hence to a variety of SDGs such as SDG 1 (No Poverty) and SDG 8 (Decent Work and Economic Growth) (Habbel et al., 2021).

## 4. FINDINGS AND RECOMMENDATIONS

### 4.1 Focus on results

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#### **FINDING 1 – Difficulties to distinguish and accurately measure outcomes and impacts of PSE interventions**

As stated above, the **difficulties to** explicitly report effects of PSE interventions **increased from the result level at the bottom (output) to the top (impact)**. Moreover, the longer-term outcomes as well as contributions to development impacts at higher level tend to be roughly estimated rather than measured. This could be explained by the fact that **PSE** measures such as co-financing activities, blended finance etc. tend to have lengthy results' chains. The longer a causal chain in development cooperation measures the harder to quantify results typically. Another reason might be that evaluators often find it **difficult to clearly distinguish between the outcome and impact**-related results categories. Indeed, there is no clear-cut transition between direct outcomes (in the medium run) and (their contributions to) overarching development impacts in the long run.

#### **RECOMMENDATIONS**

What we would recommend in light of the development effectiveness principles to ensure sufficient measuring and dissemination of sustainable development results:

- ➔ A better definition of expected results and means for measurement at the different levels, notably outcome and impact
- ➔ An improved (i.e. more rigorous) assessment of development impacts with a view to measure and report them explicitly

## 4.2 The importance of context factors

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### FINDING 2 – Context factors are crucial for the (non-)achievement of the outcomes and development impacts

Various **external factors** (framework conditions) were identified to be key for the effectiveness of PSE, including the macroeconomic, political and environmental conditions in the partner country; and the business administration and financial management skills of the actors involved. As for the **internal conditions**, the 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 (such as loan tenures and interest rates) do also play a decisive role, as these can influence the degree to which target groups are reached.

#### RECOMMENDATIONS

What we would recommend in light of the development effectiveness principles to realise sustainable development outcomes through mutual benefits:

- ➔ Consider context factors in a wholistic approach when designing and implementing PSE interventions - they could be either risks to or catalyst of the intended effects of an intervention
- ➔ Allow the maximum possible flexibility at the design stage of PSE interventions in order to pursue the longer-term objectives with an adaptive mix of instruments and activities

## 4.3 Inclusive partnership fostering

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### FINDING 3 – Definition of common goals/ reducing transaction costs

In the conception and implementation phases of projects and instruments for private sector engagement, a particularly high effort for coordination is reported for developing a reasonable joint understanding of objectives among private and public parties. This results in high transaction costs, though incurred mainly during the initiation phase – they might spill over to the course of implementation. These costs should be considered when conceptualising projects – for example, by striving for longer-term cooperation schemes between public and private sector actors.

#### RECOMMENDATIONS

What we would recommend in light of the development effectiveness principles to increase trust through inclusive dialogue and consultation and to improve the recognition, sharing and mitigation of risks for all partners:

- ➔ Focus primarily on the definition of common goals and continuously review progress during the implementation of PSE interventions
- ➔ Consider the set-up of longer-term cooperation projects between public and private parties with a view to reduce transaction costs over time

#### 4.4 Transparency & accountability

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##### **FINDING 4 – The missing concept of additionality (definition and measurement)**

It gives reason for concern that the **additionality of the underlying PSE** measure was only rarely addressed in the evaluations and studies. Coupled with the above mentioned deficits to assess impacts it is impossible to draw robust conclusions about the cost-effectiveness of funded interventions. Likewise, there is no systematically applied method to detect the occurrence of undesired effects such as windfall profits, crowding-out, deadweight effects etc. The development of a universal concept for financial and development additionality would thus, be beneficial for all parties involved in PSE. More specifically, this should be embedded into the initial planning e.g. concept phase of projects and instruments. In addition, risks and assumptions should be incorporated and tracked by means of a project monitoring system on activities and results over the course of the project.

##### **RECOMMENDATIONS**

What we would recommend in light of the development effectiveness principles to ensure sufficient measuring and dissemination of sustainable development results:

- ➔ PSE-related projects and instruments should be underpinned by a concept to define and monitor (financial and development) additionality as well as related assumptions and risks
- ➔ Additionality-related data of PSE interventions should be systematically collected by the implementing organisation and taken into account for future concepts and instruments.

## 5. ANNEX

### 5.1 Quality assessment

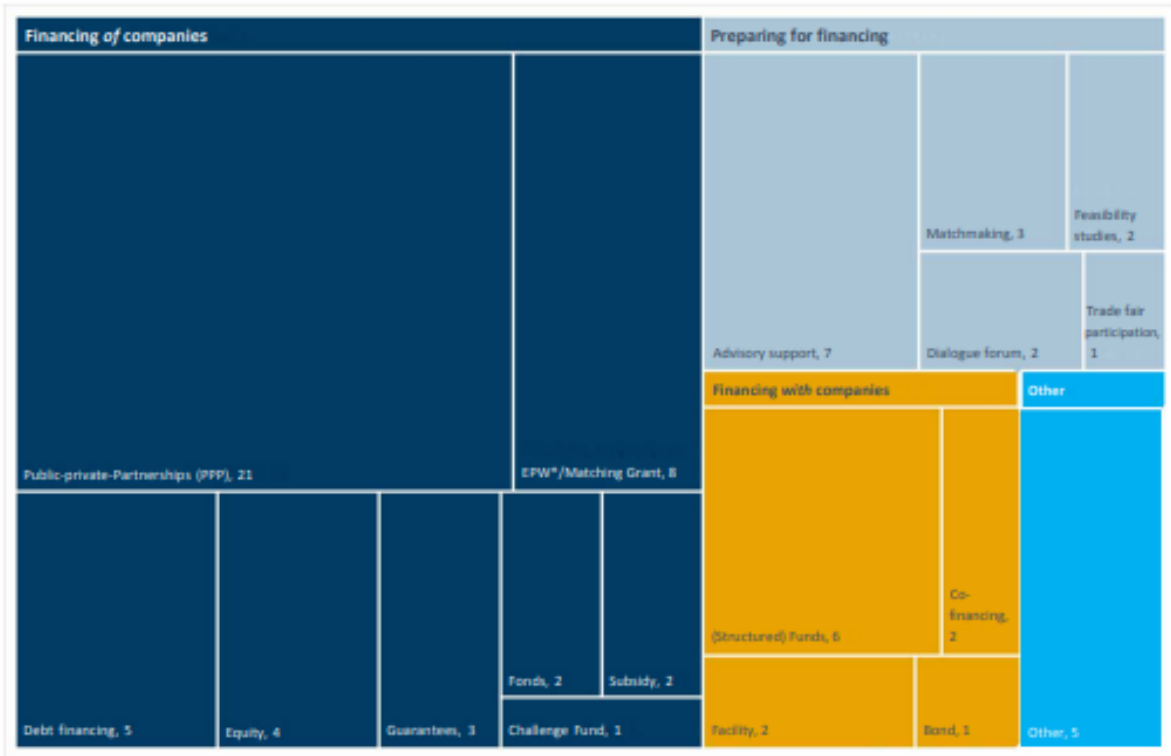
**Table 3** Quality assessment grid

Assessment criteria	The indicator is fulfilled if ...
Subject of the evaluation	1. ... 1) the objectives, 2) the target group and 3) relevant organisations (political partners and/or implementing organisations) of the development intervention are presented, and hence the object has been delimited. <sup>1</sup>
Context of the development intervention	2. ... the context of the development intervention is described. <sup>2</sup>
	3. ... the context of the development intervention is considered or assessed with regard to its influence on the results of the development intervention.. <sup>2</sup>
Causal pathways	4. ... the description of the intended results of the development intervention differentiates between different levels of results (input-output-outcome-impact), and these build logically on each other (and/or result hypotheses are formulated, as the case may be). <sup>1</sup>
Area of inquiry	5. ... the area of inquiry and/or evaluation questions are specified or concretised. <sup>1</sup>
Information sources	6. ... the sources on which information is based (documents, interviews, written questionnaires, etc.) are made transparent throughout. <sup>1</sup>
	7. ... there is a description of the different procedural steps taken in the evaluation for data collection. <sup>1</sup>
Appropriateness of methods	8. ...a rationale is in place to explain why the methods applied are appropriate to the object of the evaluation. Advantages and limitations of the methodology are discussed. <sup>1</sup>
Interpretation and conclusions	9. ... the predominant share of findings and conclusions are related to the underlying data and the data analysis in the majority of conclusions. <sup>1</sup>

### 5.2 Features of the final sample

Some features of the final sample of 51 evaluations and (academic) studies on PSE interventions conducted between 2010 and 2020 are given below. The majority can be assigned to the principal **PSE-type named “financing of companies”**. The instrument Public Private Partnerships (PPP) was the one mostly examined in this category (21 instances). Eleven evaluations and studies dealt with the cooperation format **“financing with companies”**. (Structured) funds accounted for the majority of the underlying instruments and projects (six instances). Fifteen evaluations and studies examined projects and instruments in the **“preparing for financing” category**, most commonly dealing with advisory projects (seven instances) and matchmaking approaches (three instances).





Source: DEval, own presentation; \*Development Partnerships with the Private Sector

In terms of **sector and geography the PSE interventions** most frequently pertained to the following sectors: agriculture/food/nutrition, climate/environment, financing of micro-, small and medium-sized enterprises (MSMEs) as well as infrastructure. Roughly one third of projects and instruments is of multi-sectoral nature. Likewise, about 35 per cent of the projects and instruments have a global or regional focus. These are most frequently concentrated on the African continent. Around 65 per cent of underlying interventions operated in individual countries and not on a regional basis. Of these, the highest number are active in Mozambique (five), followed by India and Indonesia (four each) (Habel et al., 2021).

### 5.3 Code-Tree

**Table 4** Code-Tree (applied in MaxQDA)

Context			Conditions				
Actor/actor groups	Type of cooperation	Context – other aspects	Influencing factors	Conditions at investors level	Conditions at intermediaries level	Conditions at target group level	Overarching conditions
<ul style="list-style-type: none"> <li>• bilateral (not German) development cooperation</li> <li>• DEG</li> <li>• GIZ</li> <li>• KfW</li> <li>• multilateral DC</li> </ul>	<ul style="list-style-type: none"> <li>• Advisory support</li> <li>• Financing <i>with</i> companies</li> <li>• Financing <i>of</i> companies</li> </ul>	<ul style="list-style-type: none"> <li>• Type of financing product/advisory format</li> <li>• Region</li> <li>• Sector</li> </ul>	<ul style="list-style-type: none"> <li>• Environmental influences</li> <li>• Financial parameters (e.g. interest rates)</li> <li>• Regulatory environment</li> <li>• Socio-economic factors</li> <li>• Political factors</li> <li>• Cultural factors</li> <li>• Policy context (guidelines, objectives, strategies of the partner country)</li> <li>• Institutional context (e.g. project executing agencies, other investors)</li> <li>• Donor strategies</li> </ul>	<ul style="list-style-type: none"> <li>• Company-specific factors (investor)</li> <li>• Risk/return ratio</li> <li>• Processes and structures</li> </ul>	<ul style="list-style-type: none"> <li>• Interest rates of the financing</li> <li>• Term of the financing/of the projects</li> <li>• Business-intermediary/FI-specific factors (investees)</li> <li>• Processes and structures</li> </ul>	<ul style="list-style-type: none"> <li>• Target-group specific factors</li> </ul>	<ul style="list-style-type: none"> <li>• Problems the project aims to address</li> <li>• Demand orientation</li> <li>• Flexibility</li> <li>• Cooperation with other projects</li> </ul>

Outputs			Outcomes and impacts			
Partner country	Investors level	Intermediaries level	Effects on target groups			Effects on intermediaries level
<ul style="list-style-type: none"> <li>• Network building</li> <li>• Knowledge building</li> <li>• Outputs at political level</li> </ul>	<ul style="list-style-type: none"> <li>• Number and PPP</li> <li>• financial sustainability</li> <li>• Knowledge building</li> <li>• Cost-saving due to private sector engagement</li> <li>• Mobilisation of additional capital</li> </ul>	<ul style="list-style-type: none"> <li>• financial sustainability</li> <li>• Funding outflow</li> <li>• Infrastructure created/improved</li> <li>• Knowledge building</li> <li>• Intermediary introduces new/better ESG standards</li> <li>• Intermediary delivers trainings/further education</li> <li>• Intermediary introduces new technology</li> <li>• Intermediary achieves market entry</li> <li>• Intermediary expands core business</li> </ul>	<ul style="list-style-type: none"> <li>• Employment effects</li> <li>• Type of jobs</li> <li>• Employability</li> <li>• Secured employment</li> <li>• Increased employment</li> </ul>	<ul style="list-style-type: none"> <li>• Improving living conditions</li> <li>• Nutrition</li> <li>• Infrastructure</li> <li>• Health</li> <li>• Education</li> </ul>	<ul style="list-style-type: none"> <li>• Other effects</li> <li>• Higher incomes</li> <li>• Secured incomes</li> <li>• Access to financing</li> <li>• Poverty reduction</li> <li>• Gender effects</li> </ul>	<ul style="list-style-type: none"> <li>• Improved cooperation</li> <li>• Portfolio adjustment</li> <li>• Higher productivity</li> <li>• Competitiveness</li> <li>• Turnover/profit grows</li> <li>• Increased target group orientation</li> <li>• Behaviour change</li> <li>• Increased activity in partner country</li> <li>• Higher tax revenues</li> </ul>
Outcomes and impacts			Unintended effects			
Effects on the partner country	Effects on the donor side	Effects on the company/FIs	Investors	Target groups	Companies	Partner country

Outputs			Outcomes and impacts			
<ul style="list-style-type: none"> <li>• Improved cooperation</li> <li>• Demonstration effect</li> <li>• Increased foreign direct investment</li> <li>• Higher tax revenues</li> <li>• Higher consumer demand</li> <li>• Stronger economic growth</li> <li>• Sustainable economic development</li> <li>• Sustainable supply and value chains</li> <li>• Effects on the environment</li> <li>• Digitalisation</li> <li>• Improved regulatory environment</li> <li>• Knowledge transfer to other companies/FIs</li> <li>• Ownership/alignment</li> </ul>	<ul style="list-style-type: none"> <li>• Cooperation /harmonisation</li> <li>• Demonstration effect</li> </ul>	<ul style="list-style-type: none"> <li>• Higher productivity</li> <li>• Competitive-ness</li> <li>• Turno-ver/profit grows</li> <li>• Increased pro-duction in partner coun-try</li> <li>• Increased tar-get group ori-entation</li> <li>• Behaviour change</li> </ul>		<ul style="list-style-type: none"> <li>• Lower production</li> <li>• Lower profits/turno-ver</li> <li>• Lower competitive-ness</li> <li>• Lower productivity</li> <li>• Violation of human rights</li> <li>• Negative effect on employment</li> <li>• Increase in poverty</li> </ul>	<ul style="list-style-type: none"> <li>• Lower productivity</li> <li>• Lower competitive-ness</li> <li>• Lower profits/turn-over</li> <li>• Lower production</li> <li>• Deadweight effects</li> </ul>	<ul style="list-style-type: none"> <li>• Market distortion</li> <li>• Crowding-out effects</li> <li>• Negative influence on the environment</li> <li>• Negative influence on climate change</li> </ul>

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