4.2 Working with the private sector: insights from German development cooperation

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Introduction

At the turn of the millennium, as part of the Millennium Development Goals (MDGs), the international community made a commitment to halve the number of people living in poverty by 2015. At the same time, rising CO₂ levels and massive deforestation have put forests back on the international development agenda. Deforestation alone accounts for around 15% of anthropogenic greenhouse gas emissions, about the same share as the transportation sector.

The two challenges are closely related: forests can contribute both to poverty reduction and to addressing climate change through mitigation and adaptation. One billion out of the world’s 1.2 billion extreme poor depend on forest resources for part or all of their livelihoods and approximately 300–350 million people live in or adjacent to forests on which they directly rely for their subsistence and income (Chao 2012). When forests are degraded or destroyed, they lose their capacity to provide these services. Therefore, reducing deforestation is of the utmost importance.

Traditional development cooperation alone cannot overcome these challenges. Cooperation with the private sector is one way of achieving broad development policy objectives such as the MDGs and fighting climate change. Complex challenges are best solved by combining forces. Working with the private sector can substantially support the implementation of sustainable development in partner countries.

Many forms of international cooperation (IC) have emerged, involving implementing organizations for development cooperation, the public sector, civil society actors and the private sector. However, a stable environment, efficient institutions and well-functioning technical and financial resources are crucial for successful implementation. Involving the private sector in development cooperation in the forest sector and beyond allows German Development Agencies to leverage these resources.
markets — as well as access to sustainable financial services — are required in order to allow entrepreneurs to invest and an economy to grow.

Making global development sustainable and involving the private sector are key goals in German development cooperation. Various forms of cooperation are undertaken to pursue diverse objectives, such as mobilizing private capital and expertise for development-policy purposes; delivering public services in partner countries more efficiently; and supplementing state regulations with voluntary regimes by businesses. The most important factor is enriching development cooperation with private contributions (BMZ 2011a). There are six types of German development cooperation that involve the private sector:

- sponsoring and co-financing;
- multi-stakeholder dialogues and formal networks;
- development partnership;
- public-private partnerships;
- mobilization and combination of private and public capital; and
- financial and advisory services for private investment in developing countries (BMZ 2011b).

This article provides an analysis of only one form of German development cooperation involving the private sector: development partnerships. The subjects discussed are forest-related development partnerships implemented from 1999 to 2012 by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH under the framework of the developPPP.de programme. A two-step analysis was conducted:

- an analysis of quantitative data gathered from the developPPP.de programme project database (number of forest-related projects, financial volumes, project countries, company domiciles, type of financing, focus of the project activities);
- this was followed by a qualitative analysis of experiences, based on semi-structured interviews with individuals who are or have been involved in development partnerships (project partners from the private sector and GIZ project managers).

Public and private cooperation under the developPPP.de programme

The developPPP.de programme is aimed at mobilizing development cooperation by involving the private sector in a way that partners use their complementary skills and resources, and agree to share risks and benefits in a joint project (Figure 1).

The programme was founded in 1999 by the Federal Ministry for Economic Cooperation and Development (BMZ) and is executed by the German development finance institution (DEG), GIZ and sequa gGmbH (a German non-profit development organization). Approximately 1,500 development partnerships have been initiated in cooperation with German and European companies, covering a wide range of thematic issues.

Companies applying must comply with a number of requirements, e.g., annual turnover of at least €1 million, three years’ market presence and more than ten employees. Candidates must also meet five formal criteria:
all project measures must be compatible with the development goals and objectives of the German government;

- public and private contributions must complement each other so that both partners can attain their objectives more quickly, efficiently and cost-effectively;
- a public contribution will be provided only if the private partner would not carry out the project without the public partner and if the measure is not illegal;
- Competitive neutrality must be ensured. The initiative is open to all companies and is communicated transparently (i.e., information concerning the partnership is made available within GIZ and externally).
- Companies are required to make a considerable financial contribution and/or provide staff in carrying out projects; the private sector must contribute at least half of overall costs.

Figure 1.
Benefits and common goals in development partnerships

Note: between German development cooperation and the private sector

- assurance of supply chains, market entry and expansion in emerging and developing countries
- marketing of products
- canvassing/customer loyalty
- Corporate Social Responsibility (CSR)

- improvement of local economic conditions
- establishment of sustainable supply chains
- mobilization of capital and know-how
- involvement of local communities in economic cycles

Types of projects
There are two different types: development partnerships and strategic alliances.

Development partnerships
In the context of the develoPPP.de programme development partnerships are projects that are jointly planned, financed and realized by DEG, GIZ or sequa. The term of the project is three years. Interested companies may submit project proposals in a specific format; these are reviewed by the implementing organizations to assess their suitability. The best concepts and most efficient approaches are eligible for public financial support worth up to €200,000. Approaches that show extraordinary commitment or entrepreneurial creativity have the best chance of gaining support.

After the completion of a development partnership it is foreseen that the company will continue the activities independently. Therefore, it is crucial to ensure that project activities are sustainable in the long term.¹
**Strategic alliances**
Companies that are keen to get involved on a larger scale can engage in a strategic alliance; this option is offered only by GIZ. In addition to the general criteria mentioned above, companies must meet further quantitative and qualitative criteria, such as a total project volume of at least €750,000. Strategic alliances typically involve at least two private partners interested in a larger-scale transnational project. These strategic alliances deal with structural improvements in partner countries that extend far beyond a single company's scope. They require complex project planning and highly efficient management.

Due to the reputational risks and potential impact of forest-related projects on the environment and local people, companies who submit proposals must obtain special authorization from BMZ. Approval is also mandatory for projects related to biofuels, oilseeds and renewable resources.

**Forest-related development partnerships**
GIZ has managed 82 forest-related projects since the develoPPP.de programme began in 1999. The projects were grouped in two main categories based on their relationship to forests and then classified according their specific project focus.

Figure 2 shows that 32 of these projects focused on timber (e.g., promoting sustainable natural forest management (SFM), reforesting degraded land, vocational training for employees in the timber industry), while 50 projects focused on non-timber forest products (NTFPs); e.g., improving value chains of individual NTFPs.²

DeveloPPP.de mostly supports activities that focus on capacity development, technology transfer and the promotion of certification according to existing certification schemes.
Projects with a focus on timber

These projects focus on a broad range of issues, such as SFM, developing Monitoring, Reporting and Verification (MRV) systems, wood energy, forest conservation, reforestation and support for the timber industry.

Of the 32 timber-related projects, nine focused on capacity building for SFM, incorporating aspects such as certification in forestry operations. For example, a development partnership with the Forest Stewardship Council (FSC) was set up to support small- and medium-sized forest enterprises (SMFEs) in Cameroon during the certification process. The project improved the sustainable management of forests and provided access to growing international markets for sustainable/certified timber.

FSC also established a strategic alliance with GIZ to support the reform of regulatory conditions for SFM in the Amazon region, Central America, China and the Congo Basin. This was accomplished by overcoming the economic and structural shortcomings of the FSC’s National Initiatives (NIs), which promote SFM and forest certification in these pilot regions. Project activities focused on organizational restructuring, capacity building and support for institutional networking and negotiating capabilities for the NIs.

Two projects with satellite companies focused on improving MRV of forest areas, mostly through technology transfer and capacity development. One project is summarized in Box 1.

Six reforestation projects have been conducted (Figure 2). For instance, a German engineering company increased technical experience among the local population in Morocco to restore degraded soils through piloting the use of mycorrhiza for agricultural production and forestry. A cement company is rehabilitating its mining sites in Tanzania by planting trees in cooperation with GIZ.

Box 1. Supporting REDD+ MRV development in Ghana

Astrium GEO-Information Services, a leading provider of geo-information products and services, is engaged in a development partnership with GIZ as part of the develoPPP.de programme. The aim of the project is to improve national MRV capabilities, quantify deforestation and forest degradation and monitor forest resource management in Ghana. In order to achieve these objectives, the Centre for Remote Sensing at the University of Accra and the Forestry Commission of Ghana are receiving technical training in the use of radar-based remote sensing technologies. The project also provides training in the assessment of emission factors and the validation of remote sensing data based on in-situ measurements. This will support an accurate and transparent quantification of Ghana’s forest cover and will contribute to the establishment of a national REDD+ MRV system.
The six projects focusing on forest conservation worked mostly on local awareness campaigns or the development of sustainable tourism in order to help local communities to recognize the commercial value attached to their forests.

Projects with a focus on NTFPs

Most forest-related projects focused on NTFPs. The main goal was to make NTFPs more profitable by improving management and/or value chains. Working with NTFPs offers many opportunities for achieving the dual objectives of improving local livelihoods and improving forest conservation. Timber products can take a significant time to deliver economic benefits due to their slow growth rate, but NTFPs — such as cocoa, fruits and nuts and medicinal plants — can be harvested sooner.

Some NTFPs offer employment and income generating opportunities and therefore provide considerable value to poor people. Investments in training and the improvement of value chains can help to realize this potential (Box 2).

Coffee and cocoa make up the largest part of all NTFPs projects. The development of sustainable business models, e.g., by including improved processing, commercialization and collaboration with local farmers, was the focus of most of these projects.

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**Box 2. Improving value chains of vanilla from Madagascar**

Madagascar is the world’s leading vanilla producer, supplying up to 70% of the natural vanilla used in food production. The income of more than 70,000 families in the country is directly linked to vanilla production. The vanilla sector in Madagascar is characterized by low productivity and high vulnerability to climatic conditions. In addition, several periods of civil unrest and political uncertainties have disrupted production and made investment scarce. The whole value chain of vanilla needs to be supported in order to ensure a long-term sustainable supply.

In the framework of developPPP.de, GIZ and Symrise, a global supplier of fragrances, flavorings, cosmetic active ingredients and raw materials, have initiated a development partnership. It aims to introduce a sustainability baseline in the vanilla sector and improve small-scale vanilla farmers’ incomes through enhanced market competitiveness and income diversification. The partnership works with small-scale farmers and farmer cooperatives from the Diana and Sava region in northeast Madagascar. Approximately 1,000 farmers are targeted directly. Small-scale growers are trained and advised on how to improve yields and quality. The focus of the training is environmentally friendly and sustainable production methods that are in line with criteria for conservation of biological diversity.
Regional distribution of projects and partner companies

As shown in Figure 3, most of the 82 projects are located in Africa (38) and Latin America (29); fewer (11) are located in Asia. Four projects are strategic alliances and have a transnational scope.

Most partner companies (49) are based in Germany, 10 are in other European countries, 17 in Africa, 5 in Latin America and 1 in North America. The high number of German companies is due to the programme targeting German and European companies in particular. Local companies in developing and transition countries are also eligible if EU-registered companies or European citizens hold more than 25% of company shares.

The financial leverage of development partnerships

An average of eight forest-related projects have been initiated each year (Figure 4). Since 1999, forest-related investments of about €41 million have been channelled through the develoPPP.de programme. By investing €14 million, the public sector achieved financial leverage of €27 million.

Figure 3. Geographic distribution of GIZ forest-related development partnerships

Figure 4. GIZ forest-related development partnerships and strategic alliances, 1999–2012
Approximately €4 million of the €27 million in private financing was delivered via third-party contributions (other private companies, non-governmental organizations, institutes, etc., who cannot be a sole partner in a development partnership).

Figure 5 depicts the flow of investments since 1999 and illustrates the sources of finance (public/private) of new forest-related development partnerships.

**Figure 5. GIZ investments in development partnerships and strategic alliances, 1999–2012**

**Private-sector perspectives**

The authors interviewed companies who participated in development partnerships. Most companies had similar reasons for entering a partnership with GIZ:

- risk mitigation in new markets;
- access to local producers (e.g., small farmers/producers);
- a willingness to achieve positive social impacts;
- wanting a good reputation in the partner country; and
- a lack of experience in capacity development.

Companies considered GIZ an important partner, mainly because of its in-country presence — GIZ operates throughout Germany and in more than 130 countries worldwide — and expertise in capacity development. They also valued GIZ’s large network of experts and access to country governments, decision-makers and stakeholders.

The outcomes of most development partnerships fulfill and sometimes even surpass the expectation of the companies, especially regarding benefits for the company (e.g., market access, improved value chains). Although a few companies felt that their goals were too ambitious, they were generally very satisfied with the outcomes of their projects.

In most development partnerships the benefits for the project target groups (e.g., small farmers, producer groups, local communities) materialized, although many companies felt the project cycle was too short and capacity development required more time. Some companies criticized the fact that to date no systematic monitoring and evaluation tool was being used to assess the real impacts of development partnerships on local stakeholders.
Most companies rated the overall success of the development partnerships and collaboration with GIZ as very good. Some companies mentioned that communication should be improved, especially for new partner companies who require more information and capacity with regard to initiating projects. The presence of GIZ experts is considered very important; it gives the development partnerships in the countries an image of official importance.

Based on their experience, all companies would enter another development partnership with GIZ.

**Assistance and obstacles**

Companies felt that crucial factors in success were GIZ’s local presence, its contacts with politicians and organizations and its knowledge of the respective socio-cultural environment. Another important factor was the cooperation with a project partner in the partner country itself (e.g., local governments, producer associations, universities, etc.). Overall, good coordination between all project partners and members was considered to be key and good technical personnel were an important ingredient for overall success.

The two most important obstacles mentioned are linked. The burden created by bureaucracy in the project countries consumes a lot of time and energy. This made worse the perceived obstacle of the relatively short project duration of development partnerships (three years). However, companies are aware of the difficulty of synchronizing the achievement of economic objectives and that of development goals.

**Lessons learned**

Even though companies perceived some obstacles in realizing development partnerships, they described the partnerships as being goal oriented. This approach encourages direct market access and is well suited for trying out new markets while overcoming any related uncertainties with the help of an experienced partner. The partnership model is perceived as tool for risk mitigation that integrates elements of corporate social responsibility, leading to improved market access and easier market expansion for a range of private-sector actors.

However, companies wish for less bureaucracy and would appreciate greater public contributions; project budgets were considered too small. Furthermore, some companies require more support during the conceptual design phase. Most of these lessons learned are general and might apply to initiatives other than forest-related development partnerships. They could still help improve existing development partnership arrangements between the public and private sector or be useful when setting up new partnerships.

It is striking that most of the forest-related development partnerships focused on improved management of NTFPs and their associated value chains. It can be assumed that by doing this German development cooperation can deliver a substantial contribution to sustainable development, since the economy of its partner countries is often based on small-scale agricultural and forestry production systems.
Public-private development cooperation in the forest sector and beyond constitutes an attractive tool for German development agencies. It allows them to leverage technical and financial resources from the private sector in order to promote sustainable management practices, build local capacities and reduce poverty. The challenge remains to link these opportunities to local industries and community participation.

Endnotes
1. Additional information on the criteria of development partnerships can be found on the developePPP.de website. See www.developepp.de/en/index.html?PHPSESSID=ukdmkfgap60b27aujcmgfcspcfu8ni.
2. For a critical discussion of the definition of NTFPs, see Belcher 2003.
3. BMZ also established the Africa Facility, a financing instrument for the promotion of development partnerships with Africa-based companies. The Africa Facility encourages firms located in African partner countries to become involved in a sustainable development process. This explains the relatively high number of African partner companies.

References