

Private Sector Interests and Incentives Tool

Private Sector Engagement Toolkit:

Purpose

To better understand the interests and incentives of private sector partners and how our development interventions interact with or affect those interests/ incentives.

Description

It is critical to understand what interests the private sector has – either as a group of businesses in a particular industry, or an individual firm – if we want to create and maintain effective private sector engagements. Understanding interests allows us to assess how well our development interventions meet, or potentially realign those interests, as well as determining if interests and incentives are not aligned or contrary. Once we have a strong understanding of the private sectors' interests, we can then compare those interests to our program and evaluate whether we will provide adequate incentives to gain and keep our partners commitment.

Understanding interests is valuable at many engagement stages and can change for a specific firm over the lifecycle of engagement. Interest and incentive assessment is not a one-time activity, but may be necessary when there are notable changes in the external environment, our strategy or development interventions. Each private sector partner may be motivated by different elements of our strategy and interventions so it becomes increasingly important to understand incentives/ interests when working with a multitude of partners.

Engagement Stage(s) this Tool Supports

This tool is helpful at multiple stages of engagement as indicated below. Depending on the stage, different activities will be appropriate.

TOOL	ENGAGEMENT STAGE					
	Context Analysis	Assessing a Specific PSE Opportunity	Partner Assessment	Partnership Development	Engagement Agreement	Ongoing Management
Investigating Incentives	•	•	•	•		

Stage 1: Context and Pre-Positioning: broadly helps understand the types of incentives that motivate a private partner.

Stage 2: Strategic Understanding of PSE: contributes to understanding how private sector interests fit into our overall PSE strategic framework.

Stage 3: Partner Assessment: based on a defined program concept, assesses why specific private sector firms might support a partnership opportunity

Stage 4: Partnership Development: helps to deepen our relationship with a private firm

Expected Output

Private Sector Incentive Report: The exact form of this report will depend upon which stage it is being used for and the context and complexity of the assessment.

Key steps:

1. Identify the program or strategic goal and the appropriate private sector role
2. Review potential private sector interests
3. Consider the assumed interests and incentives to the private sector actor
4. Assess the actual interests and incentives from the private sector's perspective:
5. Reconcile and differences between assumed and expected interests and incentives
6. Consider relationship of incentives to the program or strategic goal
7. Analyze and report results

1. Identify the program or strategic goal and the appropriate private sector role:

If this tool is being used in later engagement stages (stage 3 or 4) or we have a funding proposal in place, then it is likely that a specific program goal or program concept has been developed and a private sector role has been defined. If so, those should be used for this activity.

If the tool is being used in an early engagement stage (stage 1 or 2), then it is possible we have not defined a specific program proposal or concept. In that instance a strategic goal should be substituted. This may be based on country plans, annual strategic roadmap or a regional value proposition. It also may be founded on strategic opportunities that have arisen outside of those planning documents. In this circumstance an appropriate private sector role may not be well defined.

Summarize the program goal or strategic goal, and the appropriate private sector role(s). (There may be more than one private sector role depending upon program complexity)

Table 1: Example: (distribution market for household solar systems)

Program Goal or Strategic Goal	Appropriate Private Sector Role
To reduce energy poverty in rural Mytopia.	<ol style="list-style-type: none"> 1. Provide financing for target customers so they can afford household solar systems. 2. Manage distribution of identified products. 3. Operate retail sales outlets and handle post-sales service

2. Review potential private sector interests

Review and understand the general reasons that the private sector engages with Mercy Corps as defined in the PSE toolkit. There are six potential private sector interests:

- 1. COMPETITIVE ADVANTAGE:** The strategic advantage a business entity has over its rival entities within its industry. Competitive advantage is gained when a firm can deliver the same benefits (products or services) as their competitor but at lower cost, or deliver benefits that exceed those of competing products. Typically it exists when a firm is much larger or efficient than its competitors, or when a firm focuses on a segment or niche of their industry and then narrows its strategy to serve the needs of that particular group.
- 2. NEW MARKET OPPORTUNITY:** When a private firm can sell their products in an entirely new market, including selling an existing product in a new geography or developing a new product.
- 3. VALUE CHAIN UPGRADING:** The process whereby a private firm increases technological capacity or improves their market linkages to become more competitive in their market or advance to higher value activities.
- 4. CORPORATE SOCIAL RESPONSIBILITY (CSR):** Activities that a firm does to add social, environmental and economic value in order to produce a positive sustainable impact for both society and for the business. Many of our private sector partners, from small local business to large multi-nationals have strong connections to their local community and are interested in supporting that community while also developing their businesses.
- 5. MENTORING OPPORTUNITY, EMPLOYEE AND MEMBER ENGAGEMENT:** Activities that support a firm’s employee development and motivation, or provide value to members of a business group such as a cooperative.
- 6. BUSINESS ENABLING ENVIRONMENT REFORM (BER):** Addresses problems, barriers, limitations and flaws in the business environment with the goal of reducing the cost of doing business, reducing risks, increasing predictability/stability, developing markets and increasing competition.

Refer to the PSE toolkit (section 2.3 Private Sector Interest, beginning on pg. 17) for more detail and program examples that illustrate each of these strategic interests.

3. Consider the assumed interests and incentives for the private sector:

Brainstorm what we assume the private sector firms' interests are relative to our engagement and what motivates their potential engagement. The goal is to answer the following question and evaluate what we *think* an effective incentive would be:

If X engages with Mercy Corps on X initiative, they will address their strategic interest of Y by receiving incentive Z? Why?

This step could be at the firm level (if we have a specific firm in mind) or could apply to all firms in a particular business sector, such as all the agriculture traders in a specific region or all electronics distributors in a capital city. Given that this activity is being completed without the direct input of a specific private partner, it is best to base it upon market observation, previous experience with the private sector in that country, and other relevant Mercy Corps team experience.

This step may be skipped if we have identified a specific private sector firm to partner with (in that case move to Step #4). However, it may be advantageous to map out what we believe a firm's interests are prior to engaging with them, to better consider how our program might meet those interests.

Document the strategic interest category, assumed interests, assumed incentives, the perceived importance of that incentive, and the logic supporting our assessment, in a manner represented by Table 2 below. Document any significant key questions that would impact the completeness or accuracy of this step for further research.

Table 2: Example: (distribution market for solar-powered lanterns)

Private Sector Interest Category	Firms' Assumed Interest <i>What do we think is their interest?</i>	Assumed Incentive <i>How do we think that interest will be satisfied?</i>	Incentive Importance High/Med/ Low	Reasoning Why did we select this benefit? Why do we think it is important?
New Market Opportunity	Grow their business	The firm will gain access to a new, profitable product line (portable solar-powered lights)	High	These are new products in the market. No one currently has them.
Competitive Advantage	Increase strength of position in the marketplace to compete effectively.	This program will give the firm a lead versus their competitor.	Med	Same rationale as above. It is a relatively complex product to sell and support - a lead in developing necessary skills that the competition does not have is valuable.
Corporate Social Responsibility	The firm wants to support the communities where they operate and be recognized for that support.	Same as above, with the addition of the publicity and marketing emphasizing the social and economic value of solar lighting.	Low	There have been local and national govt. statements encouraging support for support for the poor. There have been protests about lack of electrification.

Key Questions:

1. Will there be adequate profit margin or expansion of market on these products?
2. Do private firms have the capacity (training, technical expertise) to support the program and if not what will be necessary to overcome that?
3. How much does the political and social environment matter to these private firms?

4. Assess the actual interests and incentives from the private sector's perspective:

This is similar to Step 3. If we have a private sector partner selected then the next step is to assess what are their actual interests and what do they expect to receive from engaging in a program with Mercy Corps. In this circumstance the interest and incentive would likely be firm specific. Our goal would be to understand the

following question from the firm perspective, and from that develop an understanding as to what will motivate them:

If we (private sector firm X) partner with Mercy Corps on this program, we will address our interest Y when we receive incentive Z?

This step would likely be completed by reviewing our program concept, and meeting with private sector stakeholders and studying their business model. In-person meetings can be supported with other research including market observation, web research, and meetings with other private firms and business groups such as trade associations.

Document the strategic interest category, actual interests, expected incentives, the perceived importance of that incentive to that private partner, and the logic supporting our assessment, in a manner represented by Table 3 below. Document any significant key questions that would impact the completeness or accuracy of this step for further research.

Table 3: Example: (youth business-related skills training)

Private Sector Interest Category	Firms' Actual Interest <i>What is their actual interest?</i>	Expected Incentive <i>How do we think that interest will be satisfied?</i>	Incentive Importance High/Med/ Low	Reasoning Why did we select this benefit? Why do we think it is important?
Competitive Advantage	Need for better trained employees to improve efficiency and operations.	This program will expand the pool of skilled apprentice employees.	High	Better-trained employees will enable the firm to be more efficient. Other firms may not have access (or will have access later) to the better trained pool of potential workers.
Value Chain Upgrading	The firm sees expansion opportunities but needs a steady supply of trained workers to support that opportunity.	The program will give the firm access to a larger pool of potential employees	Med	Hiring well-trained employees has been a constraint on the business growing to meet demand. This will help reduce that constraint.

Key Questions:

1. How large will the pool of trained workers be?
2. Over what timeframe will those workers be available?
3. What additional costs will the firm have to absorb to participate in the program?

5. Reconcile differences between our assumed and expected interests and incentives.

Sometimes through this process we uncover noteworthy differences between the assumed and actual interests.

Example: We are designing an intervention to increase agriculture inputs to rural communities. We believe the private sector is interested in increasing their product sales and would be motivated by the demand created through the program. However after further discussion, we realize the firms is more interested in developing a market for an unrelated line of products, and are motivated by having an effective rural distribution channel for those products created as part of this program.

We need to reconcile these differences and ensure we understand, as much as possible, what the true interest/incentives are. This may lead us to doing further research. It may also lead to looking for an alternative partner or modifying certain program elements to align incentives. (See Step 6 below) The goal is to develop a final table of interests and incentives (combining Table 2 and Table 3 if appropriate) that we feel is as accurate as possible at that point in time.

6. Consider relationship of incentives to the program goal(s).

Compare the final list of incentives to the program activities, or program or strategic goal identified in Step 1. In some circumstances there will be good alignment between the private sectors incentive and our program activities/goal. In other cases, there may be challenges because the private sector interest will be difficult to meet or is even contrary to the activities and goal of the program.

There are a few questions that help understand this relationship:

- How well does the private sector incentive fit with the program activities, or program or strategic goals? This should be considered for the short term based on defined program funding lifecycle, and the long term considering how likely we will achieve true sustainability of the program goal.
- Are there any conflicts between benefits for the private sector and the program goal(s)? If there are, what can be done to minimize or eliminate those issues.

If it appears that the incentives are not adequate to meet the interests of the private sector actor, it may be necessary to investigate alternative partners, or explore how the program can be modified to align incentives, ensuring that the ultimate program goal adheres to Mercy Corps vision and strategy.

Document the final list of incentives (from Step 5), the type of incentive (assumed or expected) and relationship of the incentives to the program activities, program goals, or strategic goals in a form similar to Table 4.

Table 4: Example: (Reduction of energy poverty in rural Mytopia. The program will create a distribution market for solar-powered lanterns, and a key private sector partner is the distributor who operates between the importer and the rural retailers).

Incentive	Assumed or Expected	Relationship (of the incentive to the program activities or goal, or strategic goal)
The distributor will gain access to a new, profitable product line (portable solar-powered lights)	Expected: stated in interviews with distributors	Providing this incentive fits well with our program goal, assuming that market research is accurate and the solar-powered lights are both affordable and profitable and therefore the program is scalable.
The firm gains a lead versus their competitors	Assumed: not explicitly stated by distributors, but implied by their market behavior in other product lines	Providing this incentive should be supportive of our program goal if the distributor's interest is sustained and they adequately support the market as it develops. However, this incentive could be inadequate if the market does not develop as anticipated or the distributor's focus on the program diminishes.

7. Analyze and Report Results

Analyze and report results. The report form depends on the context and level of analysis, but at a minimum this should include:

- Program Goal
- Key Program Activities
- Private Sector Role
- Final table of assumed and expected incentives (Step 5)
- Incentive-to-goal relationship table (Step 6)

An executive summary, recapping the findings from this tool should accompany the results.



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