

Note on Market-based Partnerships for Sustainable Development

This note zooms in on the concept of market-based partnerships and offers examples on how to implement such partnerships. It attempts to contribute to increased conceptual clarity and the development of a common terminology based on Denmark's practical experiences with promoting market-based partnerships that generate development impact.

Delivering on the ambition of the Sustainable Development Goals

The UN Sustainable Development Goals (SDGs) have provided a common framework for global leaders across sectors to join forces to develop and deliver sustainable solutions at scale. The SDGs present a shared purpose for the public sector, civil society and private businesses. SDG17 in particular pinpoints that no stakeholder can address the global challenges fully on their own. We need cross-sector collaboration to create sustainable development where no one is left behind. Creating development impact through market-based partnerships is an important supplement to other development cooperation modalities, albeit the percentage of ODA spent on leveraging the private sector remains relatively modest. By including and mobilising actors from all sectors of society, the potential for innovation, impact and scale is significant, particularly within certain countries and sectors where the private sector has important solutions to offer. Market-based partnerships are no panacea and they cannot solve all development challenges, but the importance of mobilising the private sector is recognised in both the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda as a necessity to increase the likelihood for successful implementation of the SDGs by 2030. For their part, more and more businesses of all sizes internalise the SDGs. The SDGs become strategic landmarks and a way to capture market development, thus ensuring long-term relevance of the business. Market-based partnerships embrace the business potential created by the SDGs as a way to mobilise more businesses as “development agents”.

What constitutes market-based partnerships?

Danida defines market-based partnerships for sustainable development as multi-stakeholder partnerships between at least one commercial and one non-commercial partner, where the business case, or the commercial potential, is the foundation for achieving the development objective. The partnership must have the potential to become commercially viable or create new commercial opportunities, within an existing or new market in the medium or long term in order to foster sustainable change. Therefore, businesses' participation in such a partnership is typically linked to their core business activities.

Some market-based partnerships can be characterised as *market-driven partnerships* as they are driven by the business case. These are partnerships where commercial and non-commercial actors co-create, finance and implement new business models, technologies or products that contribute to sustainable development. Other market-based partnerships are characterised as *market-generating partnerships* in the sense that they are not driven by immediate commercial prospects, but rather by a broader ambition and long-term commercial interest in transforming the market conditions and ultimately generating a market for more sustainable solutions. This type of partnerships aims to address system failures in the market and governance gaps, or to push innovative industry standards that can support the creation of viable markets for sustainable solutions.

AN EXAMPLE OF A MARKET-DRIVEN PARTNERSHIP

The partnership between Arla, the Danish Agriculture and Food Council and CARE aims to foster sustainable growth in the dairy value chain in Nigeria. In doing so, the partnership aims to increase milk yields and develop a market for quality dairy products based on local milk. The partnership fosters development results by increasing farmers' household income and through job creation in the dairy sector in Nigeria. From a commercial point of view, the partnership creates a stronger commercial link between local farmers and the formal market and it allows Arla to include locally produced quality dairy products as a part of their brand in Nigeria. The partnership is supported by DMDP.

Market-based partnerships supported by Danida must have the potential to bring some degree of change to the market beyond the partnership itself to ensure that the partnership benefits the local community as a whole rather than a single company only. However, the scope of such change varies between partnerships.

Market-driven partnerships often create wider effects by contributing to short to medium-term development of a specific market, while market-generating partnerships have the potential to foster longer-term transformation of key economic systems ie. system change. Public authorities or institutions with a regulatory mandate are often included as partners to promote system change.

AN EXAMPLE OF A MARKET-GENERATING PARTNERSHIP

The "Zero Emission Bus Rapid-deployment Accelerator" partnership aims to accelerate the market for electric buses in Latin America by working towards a tipping point in electric versus diesel bus pricing. It does so by shifting demand and supply simultaneously. It intends to foster demand for e-buses by getting political commitments from major cities in the region to launch a shift to e-buses. On the supply side, the partnership aims to get commitments from bus-manufacturers in the region to supply electric buses. This partnership is supported by P4G.

How do market-based partnerships deliver on the sustainable development goals?

Market-based partnerships have the potential to create significant development results by contributing to job creation, improved working conditions, inclusive economic growth and market creation/development by promoting the inclusive, green growth transition in developing and emerging economies/countries.

MARKET-BASED PARTNERSHIPS FOR SUSTAINABLE DEVELOPMENT



By engaging private companies in broad partnerships with civil society, public authorities, knowledge institutions etc., the competencies, technologies, knowledge and network of the various partners are combined to develop new approaches and solutions, which meet global challenges – oftentimes with the most severe impacts in developing countries. Through such broad partnerships, the private sectors'

activities are more likely to address development challenges either by promoting the SDGs or by laying the foundation for new markets for sustainable solutions in developing and emerging economies/countries.

Furthermore, market-based approaches can potentially lead to sustainability of development outcomes. Building on a strong business case, or commercial potential, increases the likelihood that the commercial partner – or other commercial actors - has an incentive to continue the delivery of a product or service without external support. Successful market-based partnerships may also showcase the commercial viability of a particular business model, potentially leading to scaling and replication of the business model as well as the development results.

Market-generating partnerships have the potential to influence framework conditions so they become more responsive to sustainable solutions, paving the way for future commercial solutions that deliver development results. They do so by moving supply and commercial/political demand to reach a tipping point, where the new solution is adopted by the market. Responsibly influencing regulations and standards, or obtaining commitments from essential actors or institutions such as public authorities, financial institutions, businesses, civil society, consumers are ways partnerships may lead to a change in framework conditions. This collectively aims to promote such a tipping point, thereby making the solution commercially viable in the long term.

How does the Danish MFA contribute towards implementing SDG17 specifically related to market-based partnerships as outlined in “The World 2030”

As set out in Denmark’s strategy for development cooperation and humanitarian action, The World 2030, Denmark works towards including private businesses through partnerships in order to contribute to delivering on sustainability challenges in areas such as climate, energy, water, food and health and to develop markets and promote market-driven sustainable growth and employment.

Through two initiatives – “Danida Market Development Partnerships” (DMDP) and “Partnering for Green Growth and the Global Goals” (P4G), the Danish MFA promotes partnerships to deliver on these challenges. Some SDGs are particularly relevant for private sector engagement in terms of business opportunities as well as development impact, including SDG 2, 6, 7, 8, 11 and 12. All DMDP

DANIDA MARKET DEVELOPMENT PARTNERSHIPS

Danida Market Development Partnerships currently has a partnership portfolio of 19 partnerships, which are market-driven partnerships between at least one commercial partner and one non-commercial partner. By developing and implementing a concrete project, the partnership contributes towards local market development and economic growth and employment. DMDP partnerships have the potential for scale and are required to deliver change beyond the project itself mostly through market development.

partnerships are required to promote market development, growth and employment (SDG8). In addition, the partnerships typically deliver impact on other SDGs. P4G’s main focus is on energy (SDG7), water (SDG6), food and agriculture (SDG2), cities (SDG11) and circular economy (SDG12) with the overall aim to promote green and inclusive growth.

P4G – PARTNERING FOR GREEN GROWTH AND THE GLOBAL GOALS

Denmark has launched the P4G initiative, which is a global alliance of leaders from government, business, investors and civil society, working to build and scale market-based partnerships with the aims to accelerate sustainable and inclusive growth. P4G currently has a partnership portfolio of 17 start-up partnerships (incubation) and scale-up partnerships (acceleration). P4G partnerships aim to create system change to key economic systems within one or more of P4G's five thematic areas.

Promoting market-based partnerships in this manner is relatively new and therefore, there is only timid documentation of impact. As such, we need to learn gradually from both partnership successes and failures. When Danida funds are used, it is imperative to ensure valid monitoring and evaluation at partnership and programme level to be able to document the development results of different types of market-based partnerships. For market-generating partnerships, it is furthermore challenging to determine when the tipping point of a particular solution is reached, thereby eliminating the need and justification for ODA. Valid monitoring and evaluation is a prerequisite for determining this.

Principle of additionality and theory of change

Danida's financial support for partnerships is based on the principle of additionality¹. Some market-based partnerships are already commercially viable, eliminating the possibility to provide public funding. Danish development funds are utilised only to support partnerships that would otherwise not have happened or are not yet commercially viable, or to scale and accelerate already proven partnerships that would not otherwise have been scaled. This entails cases where private sector actors are unable, or unwilling, to obtain commercial financing due to the high-risk nature of the investment or lack of short-term commercial viability of the investment.

To ensure maximum impact and innovation, it is important to allow for different theories of change behind different partnerships. Overall, and simplified, the theory of change is that one can work through the market to create development impact. Not the other way around. Specifically, when Danida supports a market-based partnership, the theory of change behind the specific partnership is assessed in detail to ensure that Danida only supports partnerships that have the potential for deep development impact. Due to the high level of complexity, it is important to allow for collective exploration and adjustments along the way in order to ensure that the partnership adapts to the context and continues to include all relevant partners. Market-based partnerships are often complex, difficult to build and challenging to sustain and scale as they entail high transaction costs related to relationship building, require extensive partnership management and new skills and mind sets in order to be effective.

Responsible Business Conduct

Danish ODA is administered by a non-commercial partner (non-profit organisations, including NGOs, business associations and trade unions) and the commercial partners must finance the costs related to their own participation. Commercial partners must be committed to responsible business conduct as

¹ In line with the Donor Committee for Enterprise Development's conceptualisation of [additionality](#).

set out in international guidelines² by integrating human rights, labour rights, environmental concerns and anti-corruption concerns into their operations and strategies.

Going forward – new multilateralism and closer alignment with embassy priorities

Considering that the two initiatives – DMDP and P4G – are both subject to reviews in 2019, refinement, adjustments and new ideas are bound to emerge and provide useful insights on how best to promote SDG17. This also includes recommendations on better alignment and leverage of embassy priorities, e.g. related to the bilateral initiatives to support local private sector development and national SDG priorities, to ensure maximum development impact on the ground.

The Danish MFA also promotes market-based partnerships through cooperation with different strategic partners. Potential synergies between the work of strategic partners such as IDH, C40, World Economic Forum, and others, related to market-based partnerships, will be explored to enhance collaboration and ensure continued learning and conceptual agreement across organisations. This aligns well with Denmark’s pursuit of “new multilateralism”.

IDH – THE SUSTAINABLE TRADE INITIATIVE

IDH is an international organisation that convenes companies, CSOs, financial institutions, governments and other stakeholders in multi-stakeholder market transformation programmes including market-based partnerships. The partnerships are based on joint design, co-funding from participating companies, prototyping and in turn scaling of innovative, economically viable approaches to realize green and inclusive growth in developing countries within 12 key commodity sectors e.g. cotton, soya, coffee, tea, cocoa etc.

Appendix A: Definitions of core concepts

System change

Large-scale transformation of key economic systems in order to foster the green growth transition, market development or other key development objectives.

Additionality

The concept by which public funding for partnerships only occurs when it is likely to facilitate partnerships that would otherwise not have happened or been successful, or to scale already proven partnerships that would not otherwise have been scaled.

Market-driven partnerships

Partnerships where commercial and non-commercial actors co-create, finance and implement new business models, technologies or products that contribute to local sustainable development, and where the business case is the key driver of the partnership.

Market-generating partnerships

Partnerships where commercial and non-commercial actors collaborate to address system failures in the market and governance gaps or to push innovative industry standards that can support the creation of viable markets for sustainable solutions. In this type of partnership, the long-term commercial interest

² UN Guiding Principles for Business and Human Rights, UN Global Compact, OECD Guidelines for Multinational Enterprises, ILO’s Decent Work Agenda.

in transforming the market conditions and ultimately generating a new market is the driver of the partnership rather than immediate commercial prospects.

Appendix B: Contributions and benefits for different actors in market-based partnerships

	CONTRIBUTION	BENEFITS
DANIDA	<ul style="list-style-type: none"> • Financing (ODA) • Knowledge about development cooperation, efficiency and scaling • Legitimacy and credibility • Presence through embassies, knowledge of local contexts and network among public authorities • Risk mitigation 	<ul style="list-style-type: none"> • Increased private investments in developing countries. • Increased development impact of private investments/new sustainable business models • Innovation, impact and scale • Increased responsible business conduct. • Sustainability of development outcomes.
LOCAL/ INTERNATIONAL PRIVATE COMPANIES	<ul style="list-style-type: none"> • Investment • Innovation capacity and technology • Commercial expertise • Private sector network (local, regional and international) 	<ul style="list-style-type: none"> • New business models • Access to new markets (geography and population) • Cost and risk sharing • Legitimacy and access in developing countries • Long-term market development • Branding • Innovation • Talent attraction
LOCAL/ INTERNATIONAL CIVIL SOCIETY	<ul style="list-style-type: none"> • Local expertise and civil society network • Implementation capacity on the ground. • Legitimacy and credibility • Innovation capacity • Watchdog 	<ul style="list-style-type: none"> • Increased development impact of private investments • Impact at larger scale • Increased responsible business conduct • Access to technology and innovation capacity • New sources of financing • Sustainability of development outcomes.
PUBLIC AUTHORITIES	<p>Local public authorities:</p> <ul style="list-style-type: none"> • Capacity to develop/change framework conditions, regulations and standards • Network among other public authorities • Political network • Priorities for local development 	<p>Local public authorities:</p> <ul style="list-style-type: none"> • Increased private investments • Access to innovative solutions for the benefit of the local population, the local environment etc. • Increased development impact of private investments for the benefit of the local population, the local environment etc.
	<p>International public authorities:</p> <ul style="list-style-type: none"> • State-of-the-art experience related to framework conditions, regulations and standards 	<p>International public authorities:</p> <ul style="list-style-type: none"> • Sharing best practice • Similar framework conditions, regulations and standards across borders