Key Challenges with Private Sector Engagement

Private Sector Engagement Toolkit - Tip Sheet #10:

There are many challenges that can arise when engaging with the private sector. Following are the most common issues that you may face:

Goals, Objectives and Incentives

1. Goals and objectives of private sector partners may be misaligned with Mercy Corps or other program participants; (i.e. more focused on profitability rather than poverty reduction). This can lead to trade-offs between achieving long-term sustainability and maximizing impact short–term impact on the poor.
2. Our program way of thinking, with well-defined time frames and objectives, may be contrary to a private sector approach that starts small and then scales up, being limited not by specific goals but by the extent of the opportunity.
3. There can be misalignment between firms and other actors in the engagement, such as business groups, government, or program participants. This may come from long-standing distrust related to politics, history, or cultural/social disputes that can take extended time and effort to overcome.
4. Understanding the different goals and interests of PSE program actors may be challenging given our NGO experience. However it is crucial we assess and understand their interests early and frequently, as that helps us determine the most appropriate incentives that will motivate them to engage in our program.

Time and Timing

5. The private sector may not recognize the importance of building participant ownership and not appreciate the time needed to achieve community participation.
6. PSE programs require more time to reach sustainability than we and our donors are typically accustomed to. This requires shifting from a program-centric way of thinking to a business-centric way of thinking (start small and scale over an extended time) and requires educating donors about these programs' elements.
7. In response to demands for measurable returns from shareholders, the private sector may lack a long-term vision that is required for programs in some sectors, such as education and health.
8. Decision-making in the private sector can be protracted, however once a decision has been made the private sector can be impatient. They may expect implementation to happen quicker than we are capable of; in part due to their lack of understanding about project-based funding constraints.
9. MNC partners may need to communicate results before significant program progress is evident, even though they recognize that scalable, sustainable activities take extended time to develop.

Creating a Mercy Corps Private Business or Business Group

10. We may lack adequate knowledge in business management and business culture and our non-profit orientation can make it harder to identify suitable for-profit solutions.
11. We may start with incorrect market or program assumptions. Later, after increasing our experience or knowledge, we may have potentially viable solutions but then may lack sustained funding to test those alternatives.
12. Financial sustainability may be more difficult than anticipated. Our strategy may be inadequate or we may underestimate the time and resources required to achieve sustainability.
13. Our presence may influence or distort the market due to a perception that we are an international actor with "free" funds. This may also make transferring that enterprise to a private business more difficult.
14. There are often significant legal and regulatory restrictions in the countries where we work that prevent us from owning a local entity, or from mixing "business" and "social welfare" operational and legal models. This may create challenges not just for the new entity but for other Mercy Corps programs in that country.

Engagement Challenges:

15. Mercy Corps staff and the private sector might speak different languages - NGO speak vs. business speak – leading to different communication styles.
16. We typically do not have a for-profit business-frame or mindset, but obtaining a baseline

understanding on the goals, motivations, and challenges the for-profit sector faces can help avoid miscommunication. Having Mercy Corps staff with previous private sector experience can also be very valuable.

17. Once into implementation, misunderstandings can arise on how to achieve the program goals. This can lead to both sides falling back into biased positions that get in the way of the productive, open communication necessary to resolve the misunderstanding.
18. Relationship management challenges can also come if the private sector partner requires a close connection with the program they support to satisfy corporate oversight, CSR requirements, meet value chain demands like fair trade certification, or fulfill a senior executive's personal social responsibility goal.
19. Partnering with cooperatives and other beneficiary and participant groups can be more challenging because of the number of individuals involved, particularly if we overestimate the capacity of the group, underestimate the challenges of group dynamics, or minimize the challenges of forming groups.
20. Changes in a private sector partner's leadership or priorities can change their level of interest in the program or how they see the program fitting with their corporate strategies.

Funding Challenges: Funding Cycles and Sub-Grants

21. The private sector may not understand our development process and the time it takes to obtain funding. They may want to move quickly once they have made a decision to partner; however Mercy Corps often needs to obtain funding after that partnership is developed, which may take time and lack certainty.
22. The private sector may have goals to achieve scale, but not recognize that to do so would require additional resources prior to the program being deemed worthy of more funding from a donor's perspective.
23. Related to MNC partnerships, there may be funding challenges between a private sector partner in-country and their MNC headquarters. There may be a lack of coordination between the office that must provide the funding and the office that will engage in the partnership.
24. If we are primarily facilitating and not delivering services, which is common in PSE programs, it may be more challenging to get our funders to pay for all of our program expenses and to approve a program budget that is primarily staff time and has very few program costs.
25. There may be challenges surrounding sub-grants and investments that Mercy Corps may provide to for-profit partners. Some donors prohibit giving grants to for-profit entities and/or they block Mercy Corps from earning income from donor funds. There are also very strict compliance requirements about making investments in for-profit companies and private businesses.
26. Investing in a business is a highly complex area. Whenever considering making an equity investment or exploring a joint venture with a private business, it is essential to review the arrangement with Mercy Corps' Legal and Compliance Teams.
27. The time-frame and funding amount of a typical USAID grant may be insufficient to measure progress on a PSE engagement due to the need to reach scale and sustainability.

Specific challenges with multi-national corporations (MNCs)

28. Internal MNC objectives may be contradictory. For example, the headquarters might insist the in-country branch accept social programs they otherwise might not support.
29. Communication between the MNC and in-country partner may be unclear or fragmented.
30. Incentives may be different between different actors within a MNC. This is not exclusive to a MNC, but is more common in a large entity that is geographically and culturally disbursed.
31. With its considerable resources, a MNC may adopt unsustainable or unprofitable tactics to crowd out the market and make local businesses uncompetitive or put them out of business. This may not match Mercy Corps' commitment to support the long-term needs of the local communities.

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