Harnessing the power of business for development impact: towards the fourth generation

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Collectively, the speakers and participants in the BAA-DFID-ODI meetings series on business and development have made an inspiring and convincing case:

- First, that there are strong synergies between business and development – in other words, that there are ways of doing business that benefit local communities and national economies, that are also good for business profitability and sustainability.
- Second, that such benefits can be measured, using a mixture of quantitative and qualitative measures.
- And third, that governments and donors have a role to play in kick-starting and incentivising best practice.

In addition, however, the meetings have shown:

- Fourth, that scaling up remains a major challenge.

And, to my mind:

- Fifth, that the debate could benefit from stronger connections to other development topics.

I want to concentrate on the public policy implications of the wider debate, and on the action points which follow. By way of introduction, however, a word on the first four points.

The evidence that there are strong synergies has come from the business community and organisations that support business, with endorsement from NGOs and Governments. Speakers have come from sectors as diverse as natural resource extraction, travel, retail, telecommunications, and finance, working in a variety of country contexts, including fragile states and conflict-affected environments. Most businesses represented have been international, although with strong links to local enterprises.

The distinguishing feature linking the stories presented has been doing business differently – new products, sourcing arrangements, distribution networks, health packages, community outreach programmes, or business partnerships. Examples have included new ways of transferring money through mobile phones, contracting small farmers to produce barley for beer-making, helping women to establish local distribution businesses for soft drinks, setting up HIV/AIDS control programmes, supporting community development programmes, and establishing partnerships to create new enterprises. Originally badged as 'corporate social responsibility' (CSR), and sometimes successful because seed-funded by csr programmes, many of these initiatives have moved to the boardroom and the core business.

It is worth pausing to note, however, that there are 'apples and pears' in the success stories on offer. There is a difference between spotting and developing a new market, say, and running a community-based health progamme. A sensible discussion will need to disaggregate.

Why do any of this? Partly because it is good business: creating new markets, lowering costs or guaranteeing the long-term sustainability of supply chains. But also because engaging in development is good public relations, helping to secure a 'licence to operate' in local environments, and also good for staff morale, recruitment and retention.

And does it work? The evaluations suggest that there are significant economic, social and environmental benefits. Different evaluation methods have been used, some internal to companies and some independent: local assessments looking at livelihood impacts; value chain 'footprinting'; economic modelling; and scorecard reporting. Each has a role. Business speakers emphasised particularly the value of tools which could be used to bring about further improvements: 'improving, not (just) proving'. Good stories are important as well, however: the farmer cooperative supplying local hotels in St Lucia; the hotel in Mexico encouraging guests to offset the carbon cost of their holiday; the women managing distribution of soft drinks by handcart; the 590,000 people with new, 'low income' bank accounts; the 13,000 farmers producing sorghum and cassava for new kinds of beer; the 100 communities engaged in a cocoa partnership; and so on.

Scaling up remains a problem in many sectors, a question of organisational learning and transformation, but also, in many cases a result of market failure. Hence the need for Government or donor support, through challenge funds like the Financial Deepening Challenge Fund or the Business Linkages Challenge Fund. Investment in infrastructure and 'aid for trade' are common themes. Hence also the need for NGO and private sector intermediaries with expertise in brokering and supporting new partnerships and initiatives. Public campaigning also has a role to play, as with conflict diamonds or fair trade. 'Making markets work' is the title of the DFID policy paper, with a commitment both to work with business and support Governments.

So far, so good. Business has further to travel, but a good story to tell and the commitment to do more. The support structure is in place.

Can we do more? As a thought experiment, I would suggest starting not with business and what it can or should do differently, but with development needs and how business can meet them. This leads to seven sets of questions.

First, it is worth recognising that the private sector is the main provider of livelihoods in developing countries – in small- and large-scale agriculture, the urban informal sector, small and medium enterprises, large-scale manufacturing, and services. All these 'businesses' are embedded in different ways in local societies and economies, generating livelihoods up and down the supply chain as well as tax revenues and foreign exchange, and also contributing environmental externalities, positive or negative. Can the frameworks developed to measure the impact of largely foreign-owned 'business' be adapted to measure the impact of the private sector more widely?

Second, if a generic framework can be designed, would it enable some comparative analysis to be carried out? For example, there was a debate in the series about whether developing new products to meet the perceived needs of 'bottom of the pyramid' consumers would displace local artisanal production (e.g. of cleaning products or beer). And would it matter if artisans were displaced? Or, another example, would it be possible to disaggregate further – picking up the earlier point about apples and pears, or looking more systematically at the experience in different sectors?

Third, what is the long-term context for private sector development? For example, UN population projections imply a frighteningly large need for employment and new livelihoods over the next forty years – an increase in the working age population in developing countries of 1.2 billion people by 2050. That is equivalent to 300 million new jobs a year. Most of those will have to be created in urban areas, since almost all the population increase expected to 2050 will take place in towns and cities in poor countries. And jobs will be needed which accommodate climate change, with large-scale reduction in the carbon intensity of output, and large-scale investment in adaptation.

Fourth, and related, will globalisation provide a favourable or unfavourable context for job creation and economic development? The global financial crisis has triggered a fevered debate about economic policy. On the one hand, the official position of the G-20 is that 'we believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions'. On the other hand, the recently-published report of the Stiglitz Commission argues that 'the origins of the problem are deeper, and cannot be addressed simply by repairing the 'plumbing' of the financial sector.' It criticises what is it says is a misplaced belief that markets are efficient and stable and able to absorb shocks, and argues that growing interdependence of the world economy is leading to an increase in vulnerability. The role of business will surely differ according to which of these models prevails.

Fifth, what is the role of business partnerships in the overall industrialisation process? UNIDO published an important industrial development report earlier in 2009. It made the point that manufacturing offers the only possibility of explosive growth in employment and rapid reductions in poverty – but is lumpy in products, space and time, and therefore a difficult option for the poorest countries. What does 'lumpy' mean? That manufacturing is increasingly broken down into different tasks, rather than being vertically integrated, so that different components are made in different places (lumpy in products). That manufacturing enterprises are attracted into clusters, which offer firms external economies (lumpy in space). And that manufacturing is difficult for late-comers who cannot immediately capture the benefits of existing agglomerations and clusters (lumpy in time). This poses a challenge to the 'bottom billion' countries who find it hard to overcome barriers to entry in manufacturing; and a challenge to middle income countries, which need constantly to upgrade. What is the role of business in meeting this challenge?

Sixth, what should be the policy stance towards business, nationally and internationally? In general terms, a debate continues about whether or not to protect 'infant industries' (see the newly-published exchange in Development Policy Review, between Justin Lin, the Chief Economist of the World Bank, and Ha-Joon Chang, author of 'Kicking Away the Ladder'). There is a good deal of current work on industrial policy, competition policy and innovation, for example looking at 'spillovers' from foreign firms to national firms in technology, management practices or skill formation. The UNIDO Report recommends Special Economic Zones to provide a boost to industrial clusters, as well as aid for trade, investment in education and skills, and support for technology. Should business support this list, and be judged on its practical support? UNCTAD, writing about the implications of the crisis, argue that 'developing countries need to continue to address income inequality and to invest more in education, training, trade-adjustment assistance, health care, community development and tax policy. The role of the state in promoting development has increased in light of the crisis, and there is a need to reflect on how this role can be effectively articulated.' There are many choices to be explored in this list, too, especially at a time when public debt remains high and public expenditure is likely to be constrained. Governments will not want to 'pick winners', but they will certainly want to encourage them. Is business investment and practice supportive of and supported by policy? Should the business contribution to development be formalised and even regulated? Should public tenders require bidders to specify development benefits, in a kind of competitive 'planning gain' exercise ('development gain')?

Finally, seventh, does business have a role in supplying global public goods? In April 2008, I wrote an ODI Opinion piece suggesting four levels of business engagement in development, of which this was the fourth: 'Water is a good example, where food companies, in particular, are working together on frameworks for managing shortage. Biofuels is another example, where energy producers and users work together on second, third and fourth generation technologies, and on how to change tariffs that block low-cost suppliers, such as Brazil, from access to EU markets'. There are other examples, like the agriculture and food partnerships of the World Economic Forum. Are businesses taking this aspect of their contribution to development as seriously as they should?

These are big questions, I know, and take the conversation away from the very practical discussion of businesses managing their supply chains better or investing in health programmes 'outside the fence'. Let me try and answer some of the questions and make a link to a possible next generation work programme on business and development.

Start with some propositions about the future:

- Poverty reduction in the poorest countries requires growth, but climate-adjusted and therefore both less carbon-intensive and more resilient in the face of shocks.
- Agriculture will play a part in creating new livelihoods, but the main source of growth will be manufacturing and services.
- Rural areas will grow, but urban growth will be faster.
- Large businesses will play a part, but the main driver of employment and growth will be small and medium enterprises.
- Governments will not retreat from globalisation, but will be anxious to reduce risk and provide more 'policy space' for themselves.
- They will also want to and be driven to play an active role in re-shaping economies, not necessarily through dirigiste policies, but certainly reviewing the incentive and regulatory framework, and supporting transformational change through public expenditure, the fiscal squeeze permitting.

In this context, business will be judged by how well it contributes to innovation and transformational change. Klaus Schwab of the World Economic Forum has framed this as global corporate citizenship. Building on the examples presented in the meeting series, but responding also to the wider development agenda, business may want to report on and be held accountable for:

- Continuing to engage in charitable activities;
- Committing to the UN Global Compact and maintaining, for example, good labour standards;
- Designing and delivering products which benefit the poor and the environment;
- Reworking the supply chain to increase the participation of the poor and benefit the environment;
- Widening the range and deepening the impact of spill-over effects – technology, skills, management practices, legal and accounting standards – perhaps working with industry associations or chambers of commerce;
- In general, contributing to innovation and transformation, as economies recover from the financial crisis and confront new challenges posed by urbanisation and climate change.
- Engaging in equitable partnerships which change power relationships in the value chain, perhaps using frameworks developed by the Fair Trade movement or the proposed Good for Development Initiative;
- Contributing to national policy-making, through industry associations and otherwise (but being careful to avoid regulatory capture or rent-seeking, for example by supporting open and participatory policy processes);
- Contributing to the production of national, regional and global public goods, through research, participation in global fora;

It is not difficult to imagine how this agenda could play out in practice, and indeed it is an agenda derived from current practice. A large business is sourcing a primary product from a large number of smallholders, in a sector characterised by poor access to input and output markets, low productivity, highly variable prices, high rural-urban migration, and high international competition. We could add water scarcity, security threats, and rent-seeking up and down the value chain. It is clear that social investment and modest investments in technical support will not be sufficient. A thorough-going transformation is required to create a globally competitive industry over a 10-20 year time-frame. This can only happen as a result of a policy redesign and of combined public and private investment, probably with donor support. Action will also be needed at international level, to develop new technologies and create the right trading environment (tariffs, rules of origin, quality standards . . .). The business which deserves the most accolades, and which in the process secures its own future, will be the one which commits wholeheartedly to this kind of long-term engagement and partnership.

Research and policy work is needed to underpin a new approach. Options for a next generation work programme include:

- Further work collecting case studies and measuring impact – a standardised database of examples;
- Developing methods to undertake comparative work as between foreign and national firms, and as between sectors;
- Defining best practice standards and incorporating these in new initiatives like the proposed 'Good for Development' label;
- Working with Governments on how to write public competition rules which encourage 'development gain';
- Sector studies in developing countries, to learn about business engagement in transformational change;
- Country studies, to enable cross-sectoral comparisons and learning;
- Support to Government and business on the global policy debate, esp in the recovery phase from the financial crisis;
- Topic studies in contentious global (and local) areas ('managing water shortage'; 'next generation biofuels'; 'sustainable air travel'; many others);
- Working with the 'support group' of NGOs and consultancies that support business engagement;
- Institutionalising the community of practice that works on these topics.

The first generation of business engagement in development mainly consisted of social investment under the heading of csr, the second with the acknowledgement of minimum labour standards and other norms embodied in the UN Global Compact. The third generation has seen companies engage in new ways with supply chains especially, but also with customers and other stake-holders. The fourth generation will see something new again: genuine and deep engagement in transformative economic and social change.

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